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Prime Minister's Visit to Tokyo and Hakone, 18-20 July 2003: Briefing

Annex: Japan Relations Part 4

From: **David Hallam**
Date: **16 July 2003**

PRIME MINISTER

cc: **Jonathan Powell**
David Manning
Stephen Wall
Oliver Jones
William Perrin
Joanna Key
Danny Pruce

YOUR VISIT TO JAPAN: 18-20 JULY

You are visiting Japan from 18-20 July. You arrive late on the night of Friday 18 July and spend all of Saturday 19th and part of Sunday 20th in Japan. Your programme consists of:

- A business event (at your hotel) where you will deliver a major speech on the Euro and investment, meet the presidents of Toyota, Nissan and Honda, and join a reception of Japanese inward investors.
- A photo op at Pizza Express.
- Talks and dinner with Koizumi in Hakone at the foot of Mount Fuji.

You last visited Japan for the G8 summit in July 2000; your last proper bilateral visit was in January 1998. You last saw Koizumi in Evian, and before that when he visited for dinner and you both went to the Cabinet War Rooms in late April.

The objectives of the visit are to:

- encourage continued inward investment and reassure the Japanese on the Euro;
- encourage economic reform in Japan;
- engage Koizumi on key international issues;

- conclude agreements with Koizumi on the environment, science and technology and ICT.

Koizumi became Prime Minister in April 2001. He faces a leadership election in September, but has no serious challenger and his approval ratings are solid in the 40-50% range. He looks likely to call a general election this October (and he must call one before June next year).

Economic/bilateral

Koizumi will want to hear from you about Britain and the **Euro**. The Japanese media focused on the decision rather than the action plan. So you should explain the Government's commitment to the Euro and the active steps the UK is taking to achieve early entry. This is a peg to highlight how much you value Japanese **inward investment**, and recognise that, above all, economic stability is their – and your – priority. Koizumi might ask you to brief him on the **EU constitution**.

You should ask Koizumi about progress with his **economic reforms**. Key issues are the financial sector and corporate restructuring. You should also make clear the importance you attach to a **successful WTO Ministerial at Cancun**, expressing understanding for Japans' difficulties in agricultural reform, but stressing that the last thing the global economy needs is a negative message from Cancun and a failed Round.

You might mention our wish to strengthen the **bilateral defence relationship** with more joint training and exercises, and suggest that Geoff Hoon and his Japanese counterpart take this forward. This would be a way in to talk about **commercial contracts**. Japan's agreement to purchase the EH101 helicopter (after you raised this with Koizumi) was excellent news. You might welcome co-operation on the

Sakhalin 2 gas pipeline and briefly mention the environmentally friendly **Airbus A380 with Rolls-Royce Trent 900 engines** and the **RR Trent 500** for Japan's military air transport.

Three agreements are being negotiated with the Japanese for you to conclude with Koizumi: **Environment, Science and Technology, and ICT**. Each includes joint follow-up work. The one yet to be finalised is Environment, where the Japanese are insisting on reference to **Expo 2005** in Aichi. Koizumi is bound to bring this up. He will also be briefed to ask (again) that UK and Japanese officials do some joint work on **tourism**. You can readily agree to this and say that contacts are already beginning – we are helping out with the first "Visit Japan" campaign (Koizumi's initiative).

International

It might be worth asking Koizumi to brief you on **South Korea** and **China**, and where they are coming from on the major issues, especially DPRK. What does he think about President Roh and China's new leadership? Where will China be over the next ten years? For his part, Koizumi will be interested in a readout from **your visit to Washington**. The Japanese Ambassador tells me that he might want to explore the future of EU/US relations and multilateralism. He is also likely to raise **Security Council reform**, a permanent seat for Japan and deleting the 'enemy states' clauses from the UN Charter. We support on all these. Japan seems enthusiastic about the **US Proliferation Security Initiative**.

DPRK is Koizumi's main international pre-occupation – WMD and, domestically a huge issue, the abductees. Koizumi's resolve seems to have stiffened since a visit to Crawford in May, and the Japanese have finally taken action on illicit transfers with DPRK. They want multilateral talks and to be included in them.

This is a good chance to explain that we need to increase the pressure on the DPRK (e.g. through a Security Council Presidency Statement) while also pursuing the talks. You might also explore what he thinks about regime collapse. Would this be worse than a DPRK committed to keeping its nuclear weapons?

On **Iraq** you should publicly and privately appreciate Japan's efforts, including legislation now going through the Diet to enable the Self Defence Forces to go to Iraq. Koizumi will probably ask you about the **MEPP**. Like us the Japanese have a dialogue with **Iran** and have recently delivered strong messages about WMD and support for terror. They want to sign a big oil deal with Tehran, but are concerned about 1) US pressure not to sign; and 2) the contract being be snapped up by a European company if they don't sign.

A few more issues that might come up:

Burma – Japan is at last delivering some tough messages to the regime and has stopped new development aid. You should say that you hope that Burmese membership of ASEM is out of the question.

Sri Lanka – you might welcome the recent donors' conference in Tokyo and ask Koizumi about prospects for ending the impasse.

India-Pakistan – we all need to press Pakistan to curb infiltration and terrorism and India to be constructive.

DAVID HALLAM

Defence Sales – Speaking Note

As I mentioned in April, the UK has world class capabilities in defence equipment, and I see this as a promising area for increased collaboration in future. Both our industries can benefit from this.

We were delighted that you selected the Westland EH101 helicopter with Rolls Royce engines. We will give every support we can to ensure its smooth entry into operation with the Self Defence Forces.

I understand you are considering the engine requirement for your CX military transport. Patricia Hewitt has written to Mr Ishiba about this. The Rolls Royce Trent 500 engine is a modern, high technology engine which is fuel efficient, quiet, and environmentally friendly. Japanese industries and trading companies have invested in its development, and if it were selected there would be a return to Japan in revenues and industial participation.

Again, the MOD stand ready to provide any relevant advice and assistance they can.

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PRIME MINISTER'S VISIT TO JAPAN, 18-20 JULY: SCENESETTER
From: TOKYO

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No.10 for Manning, Hallam

SUMMARY

1. The Prime Minister will find Koizumi in buoyant mood. He looks sure to be re-elected as leader of the LDP in September. The economy is improving. A good platform for a likely general election in the autumn. He is using his popularity to turn the screws on the opponents to his reforms, and to take risks for the Americans on Iraq policy. He will want the Prime Minister's support on these and a good exchange on issues involving the US.

2. Bilateral relations very strong. As always, the more we put in, the more we get out.

3. MIFT offers a snapshot of Japan's new-look foreign and security policy.

DETAIL

4. The Asahi newspaper of 11 July quoted the Prime Minister's "Lucky Koizumi" remark to the Chairman of the Keidanren last week. It wondered why Koizumi's popularity was up in the aftermath of Iraq while Mr Blair's was down. Something must be wrong with Japan's democracy, it said. Koizumi's enemies in the LDP are angry too. They mutter that he is behaving "like Kim Jong Il" in his plans to launch a detailed reform manifesto in advance of the Party leadership elections. Koizumi is on a bit of a roll and the Prime Minister is likely to find him in buoyant mood.

5. After a sticky year on the economy and reform, Koizumi has been re-emboldened by the lack of credible opponents in his party. He can look forward with confidence to winning the LDP leadership contest in September. By issuing a reform manifesto in August, he aims to bind the LDP into his platform for the subsequent General Elections, probably in November. He has a Cabinet reshuffle up his sleeve. And polls suggest that the LDP could do well in the elections - but only if led by Koizumi. The Opposition is currently nowhere. All good reasons for him to be cheerful.

6. The main reason for his success is that he has shown some real leadership. Ironically, this has been more in the foreign and defence policy fields than on domestic issues. But on 11 September issues, DPRK, Iraq and Missile Defence, he has ignored the cautious advice of his officials, sensed the public mood and moved swiftly to seize the opportunities. He has removed some policy blockages in the process, and this success has persuaded many to give him the benefit of the doubt on the knottier domestic and economic issues, where he has said the right things, but found his power much weaker.

7. In his 2 years in office he has nonetheless strengthened the office of the Prime Minister. He has had to compromise, especially on budgetary and tax issues. But he has exerted his power against the party barons more than his postwar predecessors.

The public know this and like it. The LDP old guard hate it, but know that vocal opponents of Koizumi could find it very difficult to get re-elected.

8. Koizumi has plenty of problems. The Americans are pushing him to deploy more military assets to Iraq than the public will wear. Because of the risks, deployment may be delayed until after the election. The stockmarket could dive again. The DPRK could make life very difficult by offering satisfaction on the abductees but nothing on their nuclear programme, potentially peeling Japan away from the US. Over 50% of the general electorate still support no political party and some may be attracted by the Opposition's proposed manifesto (based in large part on the Democratic Party's study of the Labour Party's campaign in 1997 and the DPJ secondment to Millbank earlier this year under the Chevening Hansard Scheme).

9. Koizumi is likely to be upbeat on the economy following the recent stock market rally and mild improvements in business confidence. But the economy is only starting to get out of a rut. The banking sector is still saddled with non-performing loans; corporate restructuring and deregulation are going slowly; and government debt continues to climb. There is a danger that current mild improvements will lead to renewed complacency.

10. This year has seen the bilateral relationship getting stronger and deeper with, for example:

- Exceptional cooperation over Iraq

- The award of the EH101 Helicopter contract to Augusta-Westland

- Our successful Innovation UK campaign

- New investment: A third shift introduced, with a thousand new jobs at Toyota's Burnaston plant. The UK is holding its own against other EU countries in winning new Japanese R&D projects. We have briefed business extensively on the 9 June decision on the Euro. They still hope that the UK will join sooner rather than later.

11. There are no difficult issues on the agenda, other than the small but symbolic Aichi issue. UK stock is high. Koizumi will want a frank discussion on Iraq, North Korea and other international issues, and advice on handling the Americans. He may raise Security Council reform.

12. I hope the Prime Minister can also:

- Encourage Japan's more outward-looking engagement in foreign and security policy (see MIFT)

- Encourage Koizumi to keep up the pressure on structural and the banking reform

- Make a pitch for closer bilateral defence relations (including defence sales)

- Agree to do more on S&T and the environment on the basis of the new joint statements

- Build up the policy dialogue between PM's advisers (which is beginning to influence Japanese policy).

13. The Emperor and Empress sent a personal message of good wishes to the Prime Minister with fond memories of their visit to

the UK in 1998. The Prime Minister may wish to write to them at the end of the visit. The gesture would be appreciated.

GOMERSALL

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VISIT TO JAPAN BY THE PRIME MINISTER, THE RT. HON TONY BLAIR MP

18-20 July 2003

PRIME MINISTER'S VISIT TO JAPAN, 18-20 JULY 2003

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PRIME MINISTER'S VISIT TO JAPAN: 18-20 JULY 2003

STEERING BRIEF

The Prime Minister's last full bilateral visit to Japan was in January 1998. He also visited Japan briefly for the G8 summit in July 2000. The Prime Minister last met Koizumi at the G8 Evian summit, and before that over dinner in London on 26 April.

Following a late arrival from Washington on the evening of 18 July (Friday) and overnight at the New Otani hotel in Tokyo (where he has stayed before), the Prime Minister will have one full day in Japan on Saturday 19 July. He will deliver a speech on the EURO and meet top inward investors and business people at a reception at the New Otani hotel. After that, he will hold talks, a press conference and an informal dinner with Koizumi in Hakone, a spa region near Mt Fuji (Koizumi suggested visiting Hakone at the G8 Evian summit). After overnighting in a Japanese-style hotel, the Prime Minister will depart for Seoul late morning on Sunday 20 July.

Mrs Blair will visit the Kobokan, a community centre, on Saturday morning, will travel with the Prime Minister to Hakone, and will join him and Koizumi for dinner on Saturday evening.

UK objectives

Our overall objectives for this visit are to:

- encourage economic reform in Japan. As the world's second largest economy, Japan is key to a healthy world economy;
- engage Koizumi on key global and regional issues including Iraq, DPRK, and non-proliferation;
- encourage continued inward investment, while reassuring Japanese investors about our position on the EURO;
- conclude three agreements with Koizumi on the environment, science & technology, and information & communications technology.

Koizumi

Koizumi became Prime Minister in April 2001. His honeymoon period of overwhelming public support is long gone. But he remains his party's main electoral asset and far more popular than any opposition politician or LDP opponent. Despite question marks over his commitment to reform, continuing economic stagnation and mixed reactions to his handling of Iraq and DPRK, his approval ratings are still a solid 45-50%. He faces an LDP party leadership election this September, and looks likely to call a general election this October (he must call one before next June). But there is still no serious challenger to threaten Koizumi.

Talks with Koizumi

The Prime Minister will have 80 minutes of talks with Koizumi on Saturday evening at the Ryuguden Prince hotel in Hakone. Although Koizumi speaks conversational English, the talks will be interpreted. We have not agreed a formal agenda for the talks with Koizumi, but the following key issues will probably dominate discussion.

Iraq: The Prime Minister will want to thank Koizumi for Japan's continued support. Following their strong support for military action, the Japanese are actively engaged in phase IV and are working on encouraging Arab engagement on reconstruction. Legislation is now going through the Parliament (Diet) to enable the dispatch of Self-Defence Forces (SDF) to Iraq – this will be a major milestone in Japanese security policy. It would be helpful if the Prime Minister made clear in private and public that an SDF deployment to Iraq would be useful and welcome. The Japanese opposition has used the lack of WMD finds to make life uncomfortable for Koizumi.

DPRK: North Korea is Koizumi's biggest foreign policy preoccupation. His resolve on it has been stiffened since his Crawford visit in May. Since then, the Japanese have at long last cracked down on illicit transfers of goods and money between Japan and N Korea. But they remain cautious about adding further pressures through the UN Security Council. They worry that US hardliners are not interested in a negotiated solution. Conversely, they also worry about South Korean unreliability. They want to see a good wind for resumption of multilateral talks, and are keen to be included. But they are uncomfortably aware that the key to a solution lies primarily with the US, DPRK and China. This will be a good time to explain to Koizumi that we need to be active in increasing the pressure on North Korea, even while we ensure the talks route remains open if the North Koreans seriously want to take it.

Non-proliferation: The DPRK nuclear issue has prompted the Japanese to take a more active interest in wider non-proliferation policy. They are involved in, and seem enthusiastic about, the US Proliferation Security Initiative. They are also considering tighter national and regional counter-proliferation measures. The Prime Minister will want to underline our interest in working closely with them on post-Iraq counter-proliferation issues.

Iran: In this context, the Prime Minister will wish to exchange views on how we handle Iran's nuclear ambitions. Although the Japanese strongly support an engagement-based approach, a combination of Iran's nuclear development and pressure from the US is causing them to re-examine their position. They have recently delivered strong messages to the Iranians about WMD and support for terrorism. The Prime Minister might aim to agree with Koizumi that the G8 need to toughen their line on Iran, but that we need to dissuade the US from going too far.

Burma: In the past, the Japanese have engaged with, and taken a much more positive view of the military regime than we would like. But the events of 30 May and Daw Aung San Suu Kyi (ASSK)'s continued detention have changed this somewhat. Japan has now stopped any new development aid to Burma (Japan is Burma's biggest bilateral donor), and has repeatedly pressed the regime in both public and private to release ASSK and allow NLD political activity. Given the current situation, we now regard Burmese membership of ASEM as out of the question. The Prime Minister will wish to encourage Koizumi to maintain Japan's tough stance, and emphasise the need for strong international unity and action to deal with the latest crisis and promote progress towards democratisation.

Japan's economy: the Prime Minster will wish to offer our support for and encourage Koizumi's reform efforts. Given Japan's importance for the world economy, we would hope to see further progress on financial sector reform and corporate restructuring and an early return to robust growth.

Inward investment, the EURO: The 9 June "not yet" announcement was widely expected but still came as a disappointment. Most of the media focussed on the decision and missed the details of the action plan and the Government's strengthened commitment to join. The Prime Minister will wish to stress the importance we attach to continued high levels of Japanese investment in the UK; to reassure Koizumi about the UK's commitment to entry when the economics are right; and to explain the active steps the UK is taking to achieve early entry.

Bilateral defence relationship: The Prime Minister might underline our wish to strengthen the bilateral defence relationship with more joint training and exercising (at the moment Japan's defence relations are almost exclusively with the US). It would be helpful for the Prime Ministers to agree that Geoff Hoon and Defence Minister Ishiba should meet soon to discuss.

Commercial & defence contracts: it would be helpful if the Prime Minister could briefly mention the large civil and defence contracts we hope to secure with Japan: Airbus's A380 aircraft with Rolls-Royce Trent 900 engines, and the RR Trent 500 engines for military use. (We secured a contract for EH101 helicopters in June after the Prime Minister raised this with Koizumi in April.)

WTO/DDA: the Prime Minister will wish to underline the importance we attach to a successful outcome to the Doha Round and the September Ministerial in Cancun. In the light of EU CAP reform, we want to see progress from Japan on agriculture.

Environment: we want to engage the Japanese more to achieve global climate change goals. There is much scope for bilateral co-operation, for example on developing environmental technologies. But we have to overcome a belief that making emissions reductions will harm the Japanese economy (especially without concomitant US action) and a lingering Japanese suspicion that the UK is too radical on climate change.

Three agreements: We have prepared three draft agreements with the Japanese for the Prime Minister to conclude with Koizumi, covering the Environment, Science & Technology (S&T) and Information & Communications Technology (ICT). Each agreement sets out our common broad objectives and proposes specific joint work programmes as concrete co-operation.

What the Japanese want

UNSC reform: Koizumi will probably raise UNSC reform. The Japanese want a permanent seat and the deletion of the enemy states clauses from the UN Charter. But there is little prospect of progress on either of these issues. Despite this, we fully support Japan's wish for a permanent seat, although we see UN reform as being wider than the Security Council. Public pressure is building for reform of Japan's large UN Budget contributions (Japan pays 19.6% on a world GNP share of 14.7%). We and the Japanese should encourage Russia to make a voluntary increase in its contribution to reduce the burden on Japan (and the UK).

Working with the US: On all the above subjects, Koizumi will want to discuss engaging the US, and will want to hear about the Prime Minister's talks with Bush the previous day. Koizumi last met Bush at Crawford on 23 May. The US-Japan alliance remains the bedrock of Japan's security, and on many issues the relationship is stronger than ever. But a number of issues are irritants in the relationship: problems related to US military bases, handling DPRK and Iran, the International Criminal Court, and tackling climate change.

Aichi EXPO: Koizumi will certainly raise the Aichi EXPO. We will provide a steer on this nearer the time.

Tourism: Koizumi will also be briefed to raise bilateral co-operation on tourism, with the suggestion that officials at working level pursue this at a meeting in the UK at some future date. The Prime Minister might welcome this suggestion (we are already informally exploring possibilities following Koizumi's expression of interest on this in April), and agree that officials should work together on ideas for concrete co-operation.

Other issues

The British Embassy is running a campaign, "Innovation UK" to promote the UK's excellence in innovation and S&T. We hoped the Prime Minister would launch it but following postponement of his visit from April, Lord Sainsbury launched it instead in May with a video of the Prime Minister.

The Prime Minister will wish to be aware that Prime Minister Howard will visit Japan from 15 –17 July.

VISIT TO JAPAN BY THE PRIME MINISTER, 18-20 JULY 2003

PROGRAMME (AS AT 10 JULY)

Friday 18 July

2255 Arrive Tokyo Haneda airport

Overnight New Otani Hotel, central Tokyo

Saturday 19 July

AM Down-time

1100-1215 Business reception event, New Otani Hotel including speech on EURO, private meeting with top inward investors and other business people

↑ Presidents of Honda, Toyota & Nissan

~~One more event (likely to be meeting with three top inward investors at New Otani Hotel and/or visit to an inward investor)~~

13:00 Pizza Express photo-op

~~Later~~ 13:20 Depart for Hakone (spa area near Mt Fuji) by car

15:00 Arrive Hakone, domestic business

1700-1820 Talks with Koizumi, Ryuguden Hotel, Hakone

1830-1850 Joint press conference with Koizumi

1930- 2100 Dinner hosted by Koizumi

Overnight Ryuguden Hotel, Hakone

Sunday 20 July

AM Down-time

~~1200~~ 1120 Depart Hakone for Haneda airport by helicopter

~~12~~30 Depart for Seoul

Mr Junichiro Koizumi (60), Prime Minister of Japan

Liberal Democratic Party (LDP)

Junichiro Koizumi was born in 1942 in Yokosuka, a town well known for its large US naval base about one hour south of Tokyo. His grandfather and father were both Cabinet Ministers. In the late 1960s, Koizumi studied at the University of London but had to return to Japan in 1969 after the death of his father. After an unsuccessful candidature in 1969, he was elected to the Lower House in December 1972. He served as Health & Welfare Minister under PMs Hashimoto, Uno and Takeshita. In 1992, he was appointed as Minister of Posts & Telecommunications Services under PM Miyazawa. In July 1993 when the LDP failed to win a majority in the Lower House election, Koizumi openly told PM Miyazawa to resign and then resigned himself. Koizumi ran in three LDP Presidential races but was not successful until the third time when he became the LDP`s 20th President and Prime Minister in April 2001.

Koizumi was elected as PM on his reputation for being a maverick and for his election slogan "to change Japan by changing the LDP". Since becoming PM, Koizumi has tried to continue in his maverick style of leadership by pushing through structural reform to revitalise the downturn in the economy. He has, however, encountered considerable resistance from within his own party. Although his personal support ratings are not as high as when he was elected (over 70%), they have been steady in the 40%-50% range over the past 6 months, much higher than the LDP support ratings. Whereas Japanese politicians are known for their verboseness, Koizumi breaks the mould by being concise, brusque and speaking in a way that is easy for people to understand.

His interests include rock music, opera and karaoke and he is known for his unconventional hairstyle. Koizumi has remained single since his divorce in 1982. He has three sons. His English ability is conversational.

Koizumi last visited the UK in April 2003 to meet the Prime Minister. They later met in the margins of the G8 Evian Summit.

1960	Graduated from Yokosuka High School
1967	Graduated from the Faculty of Economics, Keio University
1970	Secretary to Takeo Fukuda, Member of the House of Representatives
1972	Elected as Member of the House of Representatives (thereafter reelected in ten consecutive elections)
1979	Parliamentary Vice-Minister of Finance
1980	Chairman of Finance Committee, Liberal Democratic Party (LDP)
1983	Deputy Secretary General, LDP
1986	Chairman, Committee on Finance, the House of Representatives
1987	Chief Deputy Chairman, Diet Affairs Committee, LDP
1988	Minister of Health and Welfare (Reshuffled Takeshita Cabinet)
1989	Minister of Health and Welfare (Uno Cabinet) Chairman, National Organization Committee, LDP Chairman, Research Commission on Fundamental Policies for Medical Care, LDP

1991	Chief Deputy Secretary-General, LDP
1992	Minister of Posts and Telecommunications (Reshuffled Miyazawa Cabinet)
1996	Minister of Health and Welfare (Second Hashimoto Cabinet)
1997	Minister of Health and Welfare (Second Reshuffled Hashimoto Cabinet) Ran for President of LDP in 1995 and 1998
2001	President of LDP Prime Minister

EVENTS

Speech and Business reception, 19 July, New Otani Hotel

Running order

10:15 – 10:45	Registration of guests
10:45	Guests seated in Tsuru West room
11:00	PM Introduced by HM Ambassador, Sir Stephen Gomersall Keynote address (title tbc)
11:30	PM adjourns to Tachibana Room Meet Key Japanese Investors ➢ List and personality notes attached Photo in Foyer of Tsuru West with Innovation UK sponsors ➢ Dr John Edwards, President BNFL ➢ Mr Mackenzie Grant, Head of Asia Pacific, Virgin Atlantic Airways ➢ Mr John Walker, Managing Director, Johnson Matthey, Japan Inc. ➢ Mr Guy Heald, Chief Executive Officer and Country Manager, HSBC ➢ Mr Colin Mason, General Manager and Representative Director, Celoxica ➢ Mr Tony Ford, Executive Officer, Oxford Instruments ➢ Dr Bryony Livesey, Executive Vice President, AEA Technology (personality notes attached)
11:45	Enter reception.
11:50	Short Kampai (toast) by Mr Okuda

	(TBC).
	Meet members of the Japanese Cabinet attending the reception (list and personality notes to follow)
	Meet small groups of other key guests (to be introduced by Embassy officials)
12:15	Depart
12:45	Reception ends.

VVIP meeting with key investors

1. **Mr Yoshiaki WATANABE. Director, YKK.**
   Zip fastener manufacturer. Their facility in Runcorn, Cheshire, was the very first Japanese manufacturing investment back in 1972.

2. **Mr Haruo NAITO, CBE. President, Eisai.**
   Pharmaceutical company with research laboratories in London and a collaborative agreement with UCL. Mr Naito received the CBE in 1999. He made a speech at the launch of the Innovation UK campaign in May in which he praised the R&D environment in the UK. Some concerns about animal rights extremists.

3. **Mr Masaharu OKUBO. Board Member, Olympus Optical.**
   Highly successful Keymed subsidiary in Southend, which employs around 1,000. Manufactures medical microscopes and acts as the sales and marketing agent for Olympus in the UK. The President of Olympus, Mr. Kikukawa (for whom Mr Okubo is substituting), was a speaker at the HMG Euro Seminar in Tokyo in June, and spoke about the favourable business environment in the UK.

4. **Mr. Fujio NISHIDA. Corporate Senior Vice President, Sony.**
   Employ around 4,000 in the UK, the majority employed at manufacturing facilities in Wales. Challenge to move these plants, which make TVs, monitors and cameras, up the value chain.

5. **Mr. Taizo NISHIMURO. Chairman, Toshiba.**
   Employ over 700 in Plymouth making TVs and VCRs, and also has research laboratories in Cambridge (semiconductors and medical equipment) and Bristol (telecommunications). Need to move the Plymouth plant into higher value-added production, and have confirmed off the record that the manufacture of plasma display panels will start there soon.

6. **Mr Itaru OZAKI. Board Member, JVC.**
   Employ around 300 in East Kilbride making TVs, plasma display panels, and VCRs. The UK subsidiary is doing well, and new investment has gone in over the past couple of years. The company is looking to move production up the value chain in order to maintain competitiveness.

7. **Mr. Masamoto TAZAKI. President, Kawasaki Heavy Industries.**
   UK subsidiary, Kawasaki Precision Machinery, employs around 200 in Plymouth manufacturing hydraulic pumps and motors for industrial use. The UK operation is going well and received a £2 million capital investment earlier this year.

8. **Mr. Tomohisa YAMAZAKI. President and Chief Operating Officer, Yamazaki Mazak.**
   Privately owned by the Yamazaki family. Their successful Worcester plant employs around 300, manufacturing machine tools for the automotive, aerospace and engineering industries.

9. **Mr Hiroshi OKUDA. Chairman, Nippon Keidanren and Toyota.** ✱
10. **Mr. Carlos GHOSN. President, Nissan.** ✱
11. **Mr Takeo FUKUI/substitute (tbc). President, Honda.** ✱
12. **Mr. Fujio CHO. President, Toyota.** ✱

} to attend private meeting/ photo op before main business reception.

Speech and business reception, 19 July, New Otani Hotel

Logistics

1. The Tsuru room is located on the basement floor of the New Otani Hotel. The speech and reception will take place in separate areas, divided by a partition screen.

2. There will be some 350-400 guests and media at the speech. There will be simultaneous interpretation from English into Japanese.

3. After the speech, the Prime Minister will move to a separate meeting room for a short meeting (around 10 minutes) with a small number of key Japanese investors in the UK. An official photographer will be present.

4. The Prime Minister will then move back to the Tsuru room. En route, he will briefly meet representatives (seven in total) of the sponsor companies of Innovation UK, for a handshake and a photo opportunity in front of an Innovation UK backdrop.

5. On entering the reception area the Prime Minister will be introduced to members of the Japanese Cabinet present and to other small groups of key guests for a total of 20 minutes.

6. Hiroshi Okuda, President of the Keidanren (whom the Prime Minister met in London on 8 July) will then give a short "kanpai" (toast). The Prime Minister will then have a further 10 minutes to meet any further key guests, should he wish to do so, before departing.

7. An official Embassy photographer will be present at the reception.

Speech and business reception, 19 July, New Otani Hotel

Meeting with Innovation UK sponsors: points to make and background

- Thank you for your generous support for Innovation UK. It is a very important initiative that I am pleased to support.

- There is a real need to raise awareness in Japan of the UK's world-class scientific and technological expertise. Pleased that we are actively tackling this.

- Excellent opportunity for the UK to raise its profile in Japan and to strengthen collaboration in science and technology.

- Unfortunately had to cancel plans to be at the launch in April. But have taken a keen interest in how the campaign has developed. Will continue to do so.

- Understand that feedback has been extremely positive so far. Glad that method of gaining feedback has been innovative – use of PDAs.

Background

1. Number of surveys show Japanese remain largely unaware of UK involvement in major technological breakthroughs. To address this, the British Embassy, Tokyo, launched Innovation UK - a year-long campaign of events aimed at raising awareness in Japan of the UK's world-class scientific and technological expertise.

2. Campaign formally launched by Lord Sainsbury in May 2003 in Tokyo. The launch event included a five-minute video message from the Prime Minister.

3. As part of the campaign, a number of events are planned. These include lectures by UK Nobel Prize Winners and other UK "Science Stars", seminars, mobile exhibitions, activities for school children and "Science in the Pub" events.

4. Attendees at all Innovation UK events have opportunity to complete a special questionnaire via wireless PDAs.

5. 93% of attendees at Innovation UK events to date have stated that the campaign has at least a positive impact on their perceptions of the UK being innovative.

6. 73% of attendees at Innovation UK events to date have stated that they are now more likely than before to consider doing business, carrying out research or to study with or in the UK.

7. There is a three-tiered supporters' package for UK companies wishing to make a financial or in-kind contribution to the campaign. There are 7 Innovation UK

sponsors. These are Virgin Atlantic and BNFL (Gold Sponsors), HSBC and Johnson Matthey (Silver Sponsors) and AEA Technology, Celoxica and Oxford Instruments (Bronze Sponsors).

Innovation UK Sponsors:

Dr. John Edwards – BNFL:
President of BNFL Japan since October 2002. Previously Project Manager for MOX fuel supply to Japan. BNFL has been active in Japan since the early 1960s. Its business in Japan encompasses all areas of the nuclear fuel cycle, engineering and associated services.

Mr. Mackenzie Grant – Virgin Atlantic
Virgin Atlantic Regional General Manager for Asia Pacific since 2001. Previously General Manager for India. Virgin Atlantic have been active in Japan since 1989.

Mr. Guy Heald – HSBC
Chief Executive Officer HSBC Japan since March 2001. Previously Chief Treasury Manager, Europe and Middle East. HSBC have a mid-size operation in Japan dealing with Treasury work and corporate banking.

Mr. John Walker – Johnson Matthey
Managing Director of Johnson Matthey Asia. Key business activity in Japan is catalytic converter technology. Johnson Matthey have several manufacturing plants in Japan and supply Toyota and Honda.

Mr. Tony Ford – Oxford Instruments
Executive Officer since early 1990s and founder of Oxford Instruments' Japanese subsidiary. Oxford Instruments involved in superconducting magnets for MRI equipment, with the number one share in the Japanese market.

Dr. Bryony Livesey - AEA Technology
Executive Vice-President of Summit AEA Corporation (joint venture established in 1997 between AEA Technology and Sumitimo Corporation of Japan) since 2002. Key activities in Japan include advanced battery technologies and environmental analysis.

Mr. Colin Mason – Celoxica
General Manager and Representative Director since Celoxica entered Japanese market in January 2001. The company develops and markets electronic design automation software used by the electronics industry for the design of electronic products.

Talks and dinner in Hakone

1. The official programme in Hakone comprises talks with Koizumi, followed by a joint press conference and then, after a short break, dinner. The schedule is:

1700-1820 Talks

1830-1850 Joint press conference

1930- Dinner

2. This note covers arrangements for the talks and dinner, as they will be held in the same location. Logistical arrangements and key points for the press conference are covered in a separate brief.

3. The talks and dinner will be held in a traditional Japanese-style room in an annex to the Ryuguden, the Japanese inn where the Prime Minister and Mrs Blair will spend the night of 19 July (see Hakone brief). The press conference will be held in a conference room at the (western-style) Hakone Prince Hotel. Transfer to and from the press conference venue is by foot (7 minutes) or by car (2 minutes), depending on the weather and the Prime Ministers' wishes.

<u>Talks</u>

4. As the Prime Ministers walk into the Ryuguden annex to begin talks, they will be filmed by a pool group of media representatives (probably four: one photographer and one TV cameraman from each side.)

5. The talks will start as a tete-a-tete or with the Prime Ministers accompanied by one official each. (In either case, there will also be a Japanese government interpreter.) Koizumi's office has suggested that this phase of the talks last **20-30 minutes**. When the Prime Ministers are ready to move to "plenary" talks, these will continue in the same room, with other officials joining from a nearby waiting room. **At the start of the "plenary" talks, there will be a short photo opportunity for the four media pool representatives.**

6. Besides Koizumi, the Japanese delegation will be four: Kosei UENO (Deputy Chief Cabinet Secretary – a politician); Ichiro KOMATSU (Director-General for Europe, MFA); Masaki ORITA (Japanese Ambassador to the UK); and Koizumi's Private Secretary Koro BESSHO. There will also be a Japanese government interpreter.

7. At the end of the talks, there will be a few minutes for the Prime Ministers to prepare for the press conference before transferring to the press conference venue. Following the press conference, the Prime Minister will have around 30 minutes to return to his room and freshen up before dinner.

Dinner

8. Dinner will be held in the same room as the talks, and with the same participation with the addition of Mrs Blair and, on the Japanese side, Mrs Orita (Koizumi is divorced). According to Koizumi's office, dress will be "casual", by which they mean, for men, **lounge suit minus the tie and possibly the jacket**. For Mrs Blair, we would correspondingly advise against anything too formal, such as an evening gown.

9. Although this is intended to be a relaxed and informal dinner, Koizumi will probably begin according to traditional Japanese etiquette. That is, once all the guests are seated and drinks have been served, he will make a short formal statement of welcome to the Prime Minister and Mrs Blair, followed by a toast. **The Prime Minister may wish to respond in kind**. Guests should then refrain from eating or drinking until Koizumi has indicated that they should do so.

10. The menu is attached.

British Embassy Tokyo
July 2003

Menu for dinner hosted by Koizumi, Hakone, Saturday 19 July 2003

Chief cook: Mr Masao Fukada

Apéritif:	Japanese plum wine
Hors d'oeuvres:	Dried white fish seasoned with mirin (sweet sake) Fried Sea bream Boiled green soybeans Tofu (bean curd) cooked with shrimp, leek, ginkgo nuts and shark fins etc. Lobster with sesame sauce
Soup:	Crab, Matsutake mushrooms with wild chervil and egg
	Tuna and Sea bream with soy sauce Sautéed turban shell Shrimp sushi Roast duck Smoked salmon with mayonnaise Tomato and tuna salad Fried shrimp balls Boiled sweet potato
Main dish:	Grilled beef, Prawns, Matsutake mushrooms and Green asparagus
	Broiled abalone with fresh vegetables Fried Shrimp, Mushrooms and Green pepper Boiled and seasoned aubergine and scallops with dried soybean casein
	Cooked rice or Soba noodles Miso soup Japanese pickles
Dessert:	Grapes and peaches

Joint Press Conference with Koizumi, 19 July

Logistics

1. Timing: The press conference will begin at around 1830 local time and follow on more or less directly from the talks with Koizumi, with a break of about 10 minutes to allow for preparation and transfer to the press conference venue, by car (2 minutes) or on foot (7 minutes) depending on the weather and the Prime Minister's wishes. It is expected to last about 20 minutes.

2. Venue: The venue is the Sagami room on the ground floor of the Hakone Prince Hotel main building. It will be set out in school room style, with desks for 104 and a camera platform at the rear, facing the podium from which the Prime Ministers will speak.

3. Order of Events: The two Prime Ministers will enter from a door at the podium end of the room and take up their positions behind lecterns. A member of Koizumi's press office will start and end the proceedings, with the two Prime Ministers regulating the flow of questions themselves.

4. Each Prime Minister will make an opening statement, with Koizumi speaking first. It will then be for the Prime Ministers to select questions.

5. Language: Simultaneous interpretation will be provided throughout, so the Prime Minister will need to wear earphones to follow the Japanese statement and questions.

Presentation/Handling

6. Attendance: most of the accompanying media party will attend, along with a strong Japanese media turnout. This will include representatives of the 6 national daily newspapers, 6 major TV stations, local wire services and English language press plus some specialised magazines and newspapers. A full list will be available nearer the time. Japanese media are likely to send several representatives each, covering foreign policy, economic policy and domestic political issues.

7. Handling: the Japanese media is orderly and respectful by international standards. They are unlikely to ask embarrassing questions of the Prime Minister. All media present will be middle-of-the-road: none of the mainstream media has any strong political leanings, with the possible exception of the right-leaning Sankei newspaper.

8. Likely areas of questioning (all of the following will be covered by subject briefing):

9. We assess that the Japanese media are most likely to focus on foreign and security policy issues, in particular Iraq and North Korea.

10. On Iraq, likely topics for questions include:

- the latest political and humanitarian situation
- WMD (as for HMG, this is a sensitive domestic issue for Koizumi and the Japanese government, who cited the Iraqi WMD threat to justify Japan's support for coalition military action)
- the possible deployment of a Japanese Self-Defence Force contingent to Iraq (for which Koizumi is now seeking Diet approval).

11. On North Korea, the Japanese media may ask about overall UK policy and the extent of our interest; latest diplomatic moves on the nuclear issue, including in the Security Council; and UK views on the DPRK's abduction of Japanese nationals (which we have condemned).

12. Other possible foreign policy topics include Burma, Iran and relations with the US (Koizumi, like the Prime Minister, is generally viewed as having strengthened his country's alliance with the US).

13. Aside from foreign and security policy issues, other likely topics for questioning are:

- the Euro (interest will have been stimulated in any event by the Prime Minister's speech earlier in the day)
- UK views of the Japanese economy and Koizumi's reform programme
- consular issues/Japanese prison conditions (in the light of a high-profile consular case earlier in the year).

Points to highlight

14. The press conference will offer the main opportunity for the Prime Minister to refer to the bilateral agreements on science and technology; information and communications technology; and (tbc) the environment which have been concluded during the visit. Copies of the agreements will be made available to the press at the conference.

15. Questions on foreign and security policy issues would offer a good opportunity for the Prime Minister to express his appreciation of Koizumi's support for a more active and hands-on Japanese contribution to international security and strategic stability.

British Embassy Tokyo
July 2003

TALKS AGENDA

Iraq

Key Messages

- Thank Koizumi for Japan's strong support during the conflict and continued active engagement on reconstruction.

- Welcome Japan's readiness to push back limits of contributions to international security issues, including draft Iraq Bill currently going through Parliament.

- Expect new Iraqi Governing Council to be established within a month (Japan has previously shown concern over the slowness of the process).

- Brief on current UK thinking on political process in Iraq.

Background - Japan

1. Following their strong support for coalition military action in Iraq, the Japanese are now actively engaged in reconstruction efforts (they attended the UN donors' conference on 24 June). Through their embassy in Baghdad (reopened in early May) and a steady flow of assessment teams, the Japanese are considering how they can best contribute to the reconstruction process. They have already committed considerable resources to the reconstruction effort including: over US$200 million in humanitarian assistance to Iraq and neighbouring countries, officials seconded to work for the Coalition Provisional Authority (CPA), assistance in dredging Umm Qasr post, projects to generate employment, a joint medical mission with Egypt, and co-operation with NGOs and international organizations operating in Iraq. They aim to work up a comprehensive package of development aid in time for the planned donors' meeting in October.

2. However, the Japanese want to see more transparency from the CPA and have said they wish to be consulted over how money is spent before they commit further funds. Japanese reconstruction efforts are being led by Fumiaki Takahashi, Ambassador in charge of assistance to Iraq. Koizumi's foreign policy adviser, Okamoto, who met Sir D Manning in London on 16 June, has also been heavily involved.

3. The current focus of Japanese activity on Iraq is legislation now going through the Parliament. Japan's Constitution and Peace-Keeping Law prohibit the dispatch overseas of the Self-Defence Forces (SDF) other than in strictly defined situations eg UN PKOs. New legislation was therefore necessary to allow SDF forces to go to Iraq. The legislation is expected to become Law in mid-July following its passage through the House of Representatives on 4 July. This would mean SDF forces deployed in Iraq in October at the earliest.

4. The draft Bill specifies that the SDF would be able to support humanitarian and reconstruction efforts, and support the maintenance of security (but not perform actual security duties). The Bill does not seek to relax constraints on rules of engagement (ie SDF personnel will be armed but only allowed to use force to protect themselves and those immediately under their command). In practice this means SDF deployment would be restricted to areas where combat operations are not expected. The Japanese will probably seek to deploy the SDF in the UK sector, based on their assessment that it is the safest. But given Japanese near-zero tolerance of casualties, they are cautious about deploying ground troops at all. They are more willing to deploy the air SDF for transport logistics and have

plans in place for this. But when Koizumi met Bush at Crawford on 23 May, Bush asked for Japanese "boots on the ground". Given Japan's Pacifist Constitution, this legislation is a major landmark in Japan's growing efforts to contribute more to international security.

5. The Japanese are concerned about the pace and progress of the political process in Iraq, especially the timing of establishing an Iraqi interim administration. Japanese bilateral aid programmes require a partner Government to donate to, so progress on an IIA is essential for future Japanese reconstruction assistance. They are working to encourage Arab engagement on Iraq to balance Japan's strong support for coalition military action, and to reduce the impression of Western occupation of Iraq. Koizumi has been personally engaged on this, including through his visit to the Middle East (Egypt and Saudi Arabia) in late May.

6. We have kept the Japanese closely informed of UK thinking throughout the Iraq crisis in London, New York and on the ground in Iraq. This has helped dampen Japan's strong discomfort at international disunity over Iraq – they see us, and particular the Prime Minister personally – as a bridge between the US and Europe. An SDF deployment to the UK sector would be the first time that UK and Japanese forces have worked together in an operational environment. This would be a significant milestone in UK-Japan security co-operation.

Background – general

7. Political Process: Many town councils and local politicians are already holding regular open meetings for people to freely select their leaders. All of Iraq's main cities, and many other towns and villages now have administrative councils. The Coalition and UN Special Representative, Vieira de Mello, have been working with many Iraqis from all over the country to speed up the route towards political responsibility for Iraqis. We expect the new Iraqi Governing Council to be established within a month, after which a process to write a new Iraqi Constitution will be launched. This will be written, debated and approved only by Iraqis. The UK's objectives are that the process should be legitimate, viable and credible in accordance with UNSCR 1483. The key interest groups in Iraq must be effectively consulted and represented, including women.

8. EU: The recent European Council Statement on Iraq commits the EU (Commission and Council Secretariat tasked to make recommendations after consulting UN) to plan further contributions to reconstruction efforts and to consider an EU security role.

9. Reconstruction: The UK has committed $400m for humanitarian assistance, while another $100m has been set aside. The UK has seconded around 90 volunteers so far to the CPA to help with the reconstruction effort and shape the transition to a representative Iraqi government. CPA is now working with 19 re-opened Iraqi Ministries. Medium and longer-term procedures are being drawn up including increased government expenditure on reconstruction and infrastructure and attracting private sector and foreign investment.

10. Security: The Coalition, as well as the international community, are devoting significant effort and resources to stabilising and rebuilding Iraq and improving quality of life for the Iraqi people. Around 20 countries will contribute forces to serve alongside UK/US, as part of the international stabilization effort. Coalition forces continue to patrol Iraq to eliminate crimes against people and property and rid populated areas of weapons, ammunition and explosives. In Baghdad, 18 Iraqi police stations and 3 Police Divisions are now operating 24 hours a day. 23 out of 42 former Iraqi police stations that have been out of service are scheduled to reopen by the end of June. There are now around 30,000 Iraqi police at work

across Iraq. In Basra, 2000 policemen are back on duty. 54 police stations have been refurbished and are open in the city. British forces have inaugurated the River Police Service, which is made up of 500 Iraqi former navy personnel, and will be the nucleus of a new Iraqi navy. A provisional police academy at Ba'qubah has opened and an additional one in Kirkut is in development. Iraqi police will now be paid almost double their previous salary under Saddam Hussein. An estimated 48 courthouses, 100 courts and 8 prison facilities have re-opened countrywide. In Baghdad, 2 courts are open to try those arrested. A criminal detention facility has been established, and a refurbished city prison was scheduled to open in late June.

11. Electricity and Fuel: Baghdad received over 1094 Mega Watts of power on 16 June. In Basra electricity is up to 18 hours a day.

12. Water: Provision in Baghdad is now back to almost 70% of the pre-conflict supply (1,600 million litres on 21 June), and work is continuing to rehabilitate water treatment plants and the distribution network. 80% of Basra now has access to running water, and 75% of the city is covered by a sewerage system.

13. Oil: All refineries are now working. There are 8 million barrels of oil in storage, ready for export (initially through Ceyhan, Turkey). An estimated 9 million litres of gasoline and 1521 tons of LPG have now been produced domestically. In addition 7 million litres of gasoline and 920 tons of LPG were imported. Oil revenues will be paid into the Iraqi Development Fund, held by the Central Bank of Iraq. The account will be supervised by an Advisory Council, comprising of international financial institutions, such as the IMF and World Bank.

14. Economy: An economic team is working hard on a number of initiatives, which will help get the economy going, and provide some much-needed jobs. 37 out of 43 banks are open. It is hoped that funds for Iraq's debt reduction will be available from a number of sources. Relieving the debt burden will mean more funds can be spent on local projects for the direct benefit of the Iraqi people.

15. Health: All 12 Baghdad hospitals have re-opened with supplies from WHO and UNICEF. Medical supplies are flowing well. 24 of 28 hospitals countrywide are now fully operational, and 15 clinics are open and stocked with appropriate drugs. An immunization programme has been facilitated, resulting in over 3,000 immunizations to date. DFID has provided $1.85 million to rehabilitate Iraq's cold chain system to ensure proper storage of vaccines.

16. Education: 98 percent of all schools have now reopened. Many have been refurbished and have a new curriculum. The CPA is working with the Iraqi Ministry of Education to ensure that children complete the school year and take their examinations. Teachers' salaries have quadrupled since the fall of Saddam's regime

17. Military Reform: The New Iraqi Army (NIA) will be formed and recruitment will start in early July. The NIA will be an important start towards achieving the future Iraqi armed forces.

18. Cultural Activity: The Iraq National Symphony Orchestra, conducted by Abdul Razzak Alazzawi, performed in public for the first time since the end of hostilities on 27 June. The orchestra was founded in 1959, and is the oldest in the Middle East. The concert programme contained pieces from both Iraqi and western composers.

DPRK

Objectives

- Encourage Japanese resolve in keeping the heat on N Korea - including in the UNSC.

- Suggest there might be sense in not pushing too hard at this stage to widen participation in multilateral talks.

Key Messages

- Essential to continue working towards a peaceful solution through multilateral dialogue.

- Support Japanese inclusion in further round of talks. But we think that continuation of the talks is more important than the format - hope you agree.

- Believe action in UN Security Council will complement, not undermine, other diplomatic efforts to find a peaceful resolution to this issue. UNSC can't remain silent indefinitely. We will consult closely with you on UNSC developments. Hope you in turn will let us know of any new Japanese initiatives.

- Understand Japanese concern to resolve the abductees issue alongside the nuclear problem.

Background

Japan/DPRK relations

1. Japan has never established diplomatic relations with North Korea. Along with the US, it is seen as an enemy by DPRK following Japan's colonisation of the Korean peninsula. Prime Minister Koizumi took the bold step of visiting Pyongyang and meeting Kim Jong Il in September 2002. This shifted the ground on many long-standing bilateral problems between the two countries. Most importantly for Japan, Kim Jong Il admitted for the first time that North Korea had abducted Japanese citizens in the 1970s and 1980s to train North Korean spies, and that eight had died in North Korea. Some of the surviving abductees were allowed to return to Japan but their families remained in North Korea. But progress has now stalled, with North Korea yielding little more, while the abductees' families and support groups are demanding full, transparent resolution of this issue, including of other suspected cases. This issue has dominated the media and public interest in Japan since Koizumi's visit. The Japanese have recently succeeded in raising the international profile of this issue, for example at CHR, where they welcomed EU sponsorship of a resolution on DPRK which mentioned abductees.

Security/nuclear

2. The Japanese government is equally concerned about security issues. In 1998 North Korea test-fired a missile over Japan into the Pacific. More recently, there

have been several incidents of North Korean spy ships entering Japanese territorial waters. In 2001 one such incident ended with the North Korean crew scuttling their ship following a shooting confrontation with the Japanese Coast Guard. After some initial uncertainty, Japan is now taking a tougher stance on handling North Korea, combining pressure and dialogue. But the policy-makers in Tokyo remain somewhat divided into those who believe in engagement and those who are pushing a tougher line. Koizumi's instincts lie with the engagement camp. Japan was relaxed about being left out of the April China-brokered talks but is now (partly at US instigation) pushing to be included in the next round of talks.

DPRK illicit activity

3. Following Koizumi's visit to Crawford in May, Japan hardened its stance on tightening the cordon around North Korea. They have enforced more rigorously existing rules including: subjecting the North Korean ferry which regularly sails between the two countries to customs and immigration inspections (the ferry is known to be a source of illegal technology and revenue to North Korea). They have also tightened the application of rules on transferring funds from Japan to North Korea. (Traditionally, North Korean sympathisers in Japan have transferred large sums of hard currency to DPRK, though it is not known how much). These measures will have impact in Pyongyang.

KEDO

Light Water Reactor – part of the 'Agreed Framework' / the original cooperation agreement signed by Clinton.

4. the Japanese agree with the US position that the LWR project will have to be publicly suspended (it will grind to a halt anyway in August). Japanese and South Korean officials met on 14 July to discuss the future of the project (further detail to follow).

Iran

Objective

- To welcome and maintain the firm Japanese stance towards Iran: we agree that critical engagement and united international pressure is the best way of encouraging reform and delivery on nuclear and other concerns.

Key Messages

- Japan and the UK should continue to work closely together to press for reform in Iran. A firm and united international position is most likely to effect the necessary change.

- Tehran is feeling the heat over its nuclear programme. Consistent message from across the international community has been key. Iranians must accept they have no alternative but to sign and fully implement an Additional Protocol. We've made EU-Iran Trade and Co-operation Agreement conditional on better Iranian performance on proliferation (and other) concerns.

Background

1. The Japanese approach to Iran is very close to our own, and we maintain a regular dialogue, which the Japanese may seek to increase. Despite her reliance on Iranian oil, Japan is committed to critical engagement, and frequently delivers tough messages on the main issues of concern, particularly proliferation, MEPP and terrorism (bilaterally, as well as through the G8).

2. Encouraged by EU oil companies defying the US Iran Libya Sanctions Act (which targets non-US companies investing more than $20m in the oil sector), Japan began in 2001 to seek major oil investment opportunities in Iran. They were finalising a $2 Billion oil deal that would give a Japanese consortium exclusive rights to develop the Iranian Azadegan field. However, as a result of heavy US pressure following the recent heightened concerns about Iran's nuclear programme, Japan appears to be stalling. But Japan is concerned that EU or other international competitors will pick up the contract in their place (Total are said to be keen; Russia and Malaysia may also be invited in by Iran). The political consequences in Japan would be heavy if the government buckled to US pressure only to see another Western power snap up the contract.

Counter-proliferation

Objective

- To ensure that the Japanese see eye-to-eye with us on counter-proliferation; and that we take concrete steps, together, to address the WMD threat.

Key Messages

- Strongly support aims of Proliferation Security Initiative. Meeting in Brisbane has helped take this issue forward. Now need to ensure that Initiative produces concrete results. As thinking firms up, hope to roll Initiative out to more countries, including – in due course – to EU states.

- Must maintain pressure on DPRK to return to multilateral talks. Has been disappointingly little progress, but China continues to play a helpful role. Believe a Security Council Presidential Statement could contribute to positive pressure on DPRK to resume talks if properly phrased. Will work with other Security Council members to try to take this forward.

- On Iran, important to continue to support IAEA fully in their efforts to resolve outstanding issues by pressing Iran to co-operate. Should also ensure IAEA does not ease off the pressure on Iran. Board members must be ready to react over summer months if necessary.

Background

1. Japan is a major player on counter-proliferation, and in general is commendably hard line. It supported the Coalition intervention in Iraq. It is playing an active part in the recently-launched Proliferation Security Initiative. Japan's main concern, however, is the threat posed by DPRK.

2. On DPRK, the US has been pushing for a Presidential statement in the UN Security Council in support of efforts to bring DPRK back to multilateral negotiations. China and, to a lesser extent, Russia have been opposing this. We argue that a properly worded Statement would express support for the talks process as well as warning of the consequences of failing to engage seriously. Japan is pressing strongly to be included in the next round of multilateral talks.

3. On Iran, the EU gave a strong statement at IAEA Board of Governors in June. The IAEA intends to maintain good momentum in its inspections programme, and visited Iran 6-10 July, to try – once again – to get access to the Kalaye Electric site (which the Iranians have so far refused). The Director General also visited Tehran during this week (8 and 9 July). We need to ensure that this momentum is maintained, and that pressure is maintained on Iran to comply with IAEA requirements for access and information. The IAEA will report again to the Board in September, or earlier if necessary. We should encourage partners who are Board members to be prepared to react promptly to events over the summer if necessary.

Burma

Objectives

- To encourage Japan to maintain their tough stance on Burma.

Key Messages

- Welcome strong messages you have given the Burmese authorities. Essential that international community works together to bring pressure to bear on the regime to reverse steps taken since 30 May, and to enter into substantive dialogue with the democratic movement. Hope you will continue to press the regime.

- Burmese membership of ASEM out of the question in current circumstances. Hope you can support.

- Welcome your further ideas on ways to bring about political change in Burma

Background

1. Japan has reacted strongly to the political crisis in Burma. In response to the continued detention of Daw Aung San Suu Kyi (ASSK) it has announced a freezing of new development assistance to Burma. Koizumi has written to Senior General Than Shwe calling for the release of ASSK and other National League for Democracy (NLD) members; and demanding an explanation to the events of 30 May. Kawaguchi wrote to the Burmese Foreign Minister on 6 June, telephoned him on 13 June, and had a bilateral on 17 June in Phnom Penh. We understand that Kawaguchi is considering a visit to Rangoon in August.

2. We want to encourage Japan to keep up their pressure on the military regime. Asian nations are key to bringing pressure to bear on the regime to reverse the steps they have taken since 30 May and to get the political process back on track. Burmese Deputy Foreign Minister Khin Maung Win visited Tokyo on 4 July as part of a diplomatic offensive to rally support for the Burmese government. We are encouraged by the tough line he received from Tokyo.

3. We need to convince Asian ASEM members that Burmese membership of ASEM out of question in the current situation. EU member states appear in agreement on this. We need to persuade the Asians to drop insistence on 'bloc' membership for Burma, Cambodia and Laos in return for membership by the accession states.

4. The EU agreed to tighten sanctions on Burma on 16 June in response to the deteriorating political situation. The visa ban and assets freeze on members of the regime and their associates were widened and the arms embargo strengthened further.

5. On 30 May 2003 ASSK and her National League for Democracy party (NLD) were attacked in northern Burma. We have credible evidence that this was a deliberate and premeditated attack carried out on the orders of Senior General Than Shwe. ASSK was placed under "protective custody" and has been seen only

once since by the international community (UN Special Envoy Razali met her on 10 June). EU and US Ambassadors in Rangoon have been denied access to her. Members of the NLD have been detained and NLD offices closed throughout Burma.

Japan Economy

Key Messages

- Strongly support Koizumi's economic reform efforts – a healthy Japanese economy is important for world growth and stability. From our perspective, resolving the banks' non-performing loans (NPLs) and associated corporate restructuring are vital. What are Koizumi's current priorities for reform?

- Recognise progress that is being made, but widespread perception is that reform has been too slow. What does Koizumi see as the main obstacles?

- Understand how difficult fundamental change can be. What can we do to help Koizumi's reform programme? UK and Japan have plenty to learn from each others' reform efforts – look forward to continued dialogue between policy advisors. Would Koizumi also welcome a pro-reform statement from the G7/G8 next year?

Background

1. Although growing, the Japanese economy remains weak, unemployment is at record levels, and deflationary pressures continue. This follows a decade of underperformance, with economic growth averaging just 1% annually. The initial cause of the slowdown was a bursting asset price bubble (mainly property and shares), but it revealed serious structural problems that successive governments have failed to tackle adequately.

2. The rigid industrial model that served Japan well as a catch-up economy is less well suited to a more mature economy facing increasing competition from the rest of Asia. Excessive debt and overcapacity remain a problem in key sectors (notably construction, retail and real estate). This has endangered the health of the banks that lent to them. As a result, growth has disappointed, unemployment has risen to record levels and deflation has become entrenched. All this has sapped confidence, further undermining growth prospects.

3. Macro-policy is supportive, but in the absence of economic reform, not very effective. Monetary policy remains ultra easy, with interest rates at virtually zero. The fiscal deficit is around 7% of GDP and the gross debt to GDP ratio is approaching 150% (the highest in the OECD).

4. There is a consensus that structural reform is necessary. On taking power in April 2001, PM Koizumi promised an ambitious programme of economic reform, but progress has been slow, held up by the weak economy and vested interests, the strongest of which are in Koizumi's own party, the LDP. It has also become clear that Koizumi himself wants reforms to proceed at a fairly gradual pace. As a result, planned privatisations and decentralisation have stalled, and deregulation has lost momentum.

5. Economic reform in Japan is important to the UK – Japan's weak economy exacerbates global imbalances increasing risks to global growth. And the fragile banking system poses risks for international financial stability. Although a Japanese banking collapse is unlikely, its impact would be significant, and as the probability of crisis grows the longer the underlying issues are left untackled.

6. We should offer to help. Dialogue between policy advisers has been useful (although not focused on economic reform) and should continue. We could also offer to promote a public statement from the G7 (finance ministers) or G8 (heads of govt) which might provide useful leverage against vested interests. The US would probably support such a move.

7. The most critical area for reform is the financial sector. Weak banks slow economic restructuring and reduce the effectiveness of monetary policy. In May, tighter audit rules provoked a government bailout of Resona, Japan's fifth largest bank. The bailout went smoothly and other banks may have to be bailed out over the next year. Bailouts give the government greater control over the banks' management, enabling them to accelerate corporate restructuring. But many fear the government will not force change, and reform will be delayed again at the taxpayers' expense.

July 2003

Japan economic datasheet

Year 2003 data	Japan	UK
Nominal GDP (billion USD)	4,305	1,795
Population (millions)	126.9	60.3
Nominal GDP per head (US$)	33,910	29,760
GDP per head ($ at PPP)	27,790	27,010
Exports of goods & services (% of GDP)	11.4	24.7
Agriculture (% of GDP)	1.4	0.9
Industry (% of GDP)	25.2	25.8
Services (% of GDP)	73.4	73.3

Source: EIU country data for 2003
Note: where actual figures are not available, we have used the latest estimates

Main trading partners (% share)
1. US (30.4)
2. China (7.9)
3. South Korea (6.2)
4. Hong Kong (5.7)

Source: EIU country data (2001)

Indicator	1997	1998	1999	2000	2001	2002	2003
GDP (% change pa)	1.8	-1.2	0.2	2.1	0.8	0.6	0.9
Budget balance (% of GDP)	-3.7	-5.5	-7.1	-7.4	-7.1	-8.6	-9.0
Exchange rate LCU:US$ (av)	121	131	114	108	122	125	116
Real exchange rate (% change)	-5.0	-1.6	13.1	7.0	-10.5	-7.3	-1.8
Inflation rate (%)	1.7	0.7	-0.3	-0.7	-0.7	-0.9	-0.9
Recorded unemployment (%)	3.4	4.1	4.7	4.7	5.0	5.4	5.4
Current account balance (% of GDP)	2.2	3.0	2.6	2.5	2.1	2.8	2.8
Inward direct investment ($m)	3,190	3,280	12,300	8,230	6,190	8,518	8,065
Deposit interest rate (%)	0.3	0.3	0.1	0.1	0.1	0.0	0.1
Budget Revenue (% of GDP)	30.0	29.3	29.1	29.4	29.8	29.2	29.3

Source: EIU country data

UK Bilateral Interests

	Amount	% of total UK	% of Japan
UK exports of goods (2001) *Source: IMF Direction of Trade Statistics*	$6,002m	2.2%	6.2%
UK stock of FDI in country (2001) *Source: ONS, MA4 tables, UNCTAD*	£1,781m	0.3%	na
UK commercial creditors liabilities (Q3 2002) *Source: BIS, Bank of England website*	$47,929m	3.5%	na

Naomi Jefferies x2675

Euro and Inward Investment

Objective

To underline UK commitment to Japanese inward investors and to joining the euro when the economics are right.

Key Messages

- UK greatly values the contribution Japanese companies make to the UK.

- Recognise that many investors want the UK to join the euro as soon as possible. We are committed to doing so when the economics are right. Now taking active steps to make Euro entry more likely.

- Euro Assessment showed that there were greater benefits than anticipated of joining at the right time.

- Know that above all, economic stability is the key issue for investors. This remains our priority.

Background

1. There are around 1000 Japanese companies based in the UK, representing more than one third of all Japanese investment in the EU. 260 are in manufacturing and 160 conducting R&D and design. 88,000 direct jobs created by Japanese manufacturers alone. Japanese investment accounts for 3% of total stock of overseas investment in the UK Japan is a strategic target for high-tech and service-related inward investment.

2. Although the UK has lost some basic manufacturing projects to Eastern Europe, the volume of Japanese automobile assembly in the UK has increased, and several major electronics manufacturers seem willing to reinvest in higher-value-added production. Component manufacture on the other hand is migrating quite rapidly to the continent, though here too we continue to attract reinvestment at the higher end. We have a few new investments in petrochemicals and pharmaceuticals. Many service-related investments have come, principally to the South-East of England. Basic semi-conductor production has gone, though software, design and wafer manufacture remain strong.

3. Companies manufacturing for export want the UK to join the Euro but there is no particular evidence that our position on the Euro has had a negative impact on Japanese investment decisions. Invest UK investment project successes are down from 60 in year 2001/2002 to 49 for year 2002/2003. The reduction reflects an overall European downturn in investment over the past year.

4. Inward investors recognise the importance of the UK government maintaining its record of macroeconomic stability. The exchange rate risk is still an important factor particularly for manufacturers who are among the most high profile

investors. But they recognise that this is only one of a number of factors in a) maintaining macroeconomic stability and b) running a successful business. The overwhelming investor view remains in favour of early EMU entry. All accept that entry is a matter for the government and people of the UK.

5. There is some disappointment among Japanese companies that the review of the five tests did not conclude that the time was right to join the Euro. An HMT/Invest UK road-show visited Japan between 19-23 June to explain the Government's decision. Consistent themes received then from the Japanese business community were:

- Questions about the process and timing;
- Acknowledgment of steps to be taken to foster convergence. But some wondered if the UK was really waiting for the eurozone to converge with the UK, with its more flexible economy;
- A growing understanding that the removal of currency risk by EMU creates other risks (potentially increased output and inflation volatility). But Japanese manufacturers continue to see the unpredictability and scale of currency risk as more undesirable than those risks.
- A strong commitment to find ways of continuing their businesses in the UK in spite of the UK staying out of the Euro for now.

6. Some facts about inward investment: the UK attracts 19.5% of all new investment into Europe. Well ahead of France with 13.5% and Germany 8% (source: Ernst & Young European Monitor). The UK attracted 709 investment projects in year 2002/2003. This was down 7% on last year. Total number of new jobs created from all this investment was 34,396 (source Invest UK). The UK attracted 49 investment projects from Japan in 2002/2003. This was down from 60 last year. Prospects for new projects are still strong with INUK dealing with over 60 active projects. The UK attracted 283 projects from the US, 73 from Canada, 50 from Germany, 45 from France, 22 from China, 20 from the Irish Republic in year 2002/2003.

UK-Japan Defence Relationship

Objective

- To encourage Japan to work more closely with the UK on regional and international security issues.

Key Messages

- Impressed by the way you are steering the development of Japan's defence and security policy. Much achieved in the last 2 years. Japan's contribution to international security operations extremely welcome. UK ready to help with Japanese deployment to Iraq if we can.

- Recent experience shows that the UK and Japan, as leading members of the international community and as close allies of the US, will find themselves working together on UN and other peace support operations. Need to do more to make sure our armed forces can operate successfully together. Would like to see more joint training and exercising.

Background

1. Japan's defence policy has moved forward at an impressive speed under the Koizumi administration. In the last two years Japan has broken the deadlock of a quarter century and created a legal framework which at last recognises that Japan might have to defend itself against external threats (the Emergency Legislation); passed Special Laws to enable Japan to make a military contribution to the fight against terrorism and, shortly, to support the coalition in Iraq; deployed the Maritime Self Defence Force to the Indian Ocean in support of Op Enduring Freedom and deployed a substantial Peacekeeping force of engineers to East Timor. Koizumi has also accelerated collaboration with the US on missile defence. Constitutional constraints remain. But the envelope is being stretched on all fronts.

2. This has been made possible by external events: 11 September, Afghanistan, Iraq and the threat from DPRK. But Koizumi has been sure-footed in gauging the public mood and seizing the opportunities. He has helped the Japanese public and body politic wake up to threats to their security and their responsibility to respond. The result has been a shift to the right of the political centre of gravity away from the post-war position of extreme pacifism. An index of this has been the Japan Communist's Party recent formal recognition of the Self Defence Forces.

3. The rationale for Japanese contribution to international security is also changing. 10 years ago it was about showing that Japan had a claim to a permanent seat on the Security Council. Now the Japanese are starting to see that they need to act overseas to protect their interests at home.

4. The UK should encourage and support this evolution. Part of it is taking Japan more into our councils as we work on the international security agenda. But we can also help the SDF learn its new tasks. We have an excellent talking relationship between the Services

and Chiefs of Staff. But we need to get the Japanese to train more with us, particularly on PKO related skills and to enagage in more joint exercising with us (and others, like the Australians). There is resistance because of the special military relationship with the US. But on many peacekeeping skills the UK has more to offer. And Japan is never likely to adopt the US approach to peacekeeping.

5. The Prime Minister may find that Koizumi is concerned about the risk of Japanese SDF casualties if they deploy to Iraq. It is a problem. The death of one Japanese peacekeeper in Cambodia virtually froze Japan's PKO contributions for over a decade. A casualty in Iraq could put Koizumi's achievements at risk. No easy answer. Japan cannot expect to avoid casualties for ever. But we must recognise that public opinion in Japan is still fragile.

Large Commercial contracts

Objective

- To encourage successful procurement of the A380/Rolls-Royce Trent 900 combination for Japan Air Lines (JAL) and All Nippon Airways (ANA), on the basis of commercial and technical considerations, in the context of a politically-level playing field.

Key Messages

- Confident that Airbus A380 aircraft equipped with Rolls-Royce Trent 900 engines will best meet ANA/JAL future needs. Hope that European bids for forthcoming procurement competitions will be given every consideration.

- A380 is the most environmentally-friendly and comfortable option for airlines and their customers.

Background

1. The combined size of the Boeing 747 component of JAL and ANA's fleets is around 115 units, though this number is expected to decline in the next few years as more 777s come on stream to replace aging 747s. Airbus projects the potential size of the A380 market in Japan to be in excess of 120 aircraft in the next 20 years. JAL has never been an Airbus customer, and if it makes a decision this year in favour of the A380, Airbus hopes that the chances of ANA also selecting the A380 may be greatly enhanced. This scenario needs to be encouraged.

2. From an environmental perspective, selection of the A380 is a positive move. Designed in collaboration with several major international airports, the A380 is the only commercial airliner designed from the outset to minimise the impact on the environment, as well as to reduce the operating costs of airlines and increase the comfort of passengers.

3. Rolls-Royce has over 50% market share worldwide of recent wide-body aero engine sales. However, the Company has achieved no aero-engine sales in Japan, despite compelling technical and commercial bids, and the fact that Japan has partner shares in Rolls-Royce's Trent engine products.

4. The next major aero-engine opportunity is likely to be the purchase of Airbus A380 aircraft by both of Japan's major airlines, JAL and ANA. No date has been set, but the competition is likely to be within the 2003-4 timescale.

5. Rolls-Royce will offer its Trent 900 in competition with US based Engine Alliance GP7200. (Engine Alliance is a joint venture between General Electric and Pratt & Whitney). A JAL engineer is working as part of the Trent 900 team in Derby.

6. The US Government applies strong political pressure on Japan to buy big- ticket capital items from USA, to help redress the huge balance of trade deficit with Japan. Strong US Government support for the US engine is a given. Rolls-Royce seeks a politically level playing field for this competition.

Other large contracts

7. Lola Cars, one of the UK's most renowned motorsport companies, won the contract to supply the chassis for all cars in the Japan Formula Nippon race series from 2003. The contract runs for at least 3 years and is worth in excess of £1m. Formula Nippon is one of the most popular and prestigious race series in Japan, and many current F1 Grand Prix drivers have raced in the series - eg Michael Schumacher, Jacques Villeneuve, Ralf Schumacher, Eddie Irvine, Ralph Firman, Mika Salo.

8. Shell is a 55% partner in Sakhalin Energy with Mitsui (25%) and Mitsubishi (20%) for the development of the Sakhalin II project. On 12 May Sakhalin Energy signed an agreement (not yet a contract) to supply Tokyo Gas with 1.1million tonnes a year of LNG (over 12% of the LNG output of the project) for 24 years, with deliveries commencing in 2007. On 19 May they announced they had agreed Tokyo Electric Power Company to supply 1.2 million tonnes/year of LNG for 22 years from 2007/8, with options for a further 800,000 tonnes.

9. Picsel Technologies of Glasgow concluded a multi-million pound contract with NTT DoCoMo to develop/license their Picsel Browser to accommodate DoCoMo's self branded sigmarion III handheld device manufactured by NEC. We expect Picsel Browser to be incorporated into DoCoMo's cellular phones in future as well.

Defence Contracts with Japan

Objective

- To acknowledge the Japanese decision to purchase EH 101 helicopters. To encourage a broader defence business engagement, in the context of a developing bilateral defence relationship.

Key Messages

- Pleased Japan is to purchase EH 101. Look forward to programme being fully implemented. Our Ministry of Defence stands ready to support.

- Rolls-Royce has a long history of involvement in Japan. Keen for this to continue. Support the Trent 500 engine currently offered.

- Look to develop the general defence business relationship, in line with greater bilateral defence dialogue and co-operation.

Background

1. The Prime Minister raised the EH 101 helicopter with PM Koizumi on 26 April. The Japanese Defence Agency (JDA) subsequently announced (on 4 June) its intention to purchase EH 101 (with Rolls Royce engines) for use in Antarctic Survey and Airborne Mine Countermeasures capacities. This should effectively mean purchase of 14 aircraft. Initial contract scheduled to be signed in February 04. Business worth circa £200 million to UK.

2. The Royal Navy has agreed to supply pilot training for the first Japanese EH 101 aircrew. MOD to JDA assistance in other EH 101 areas is anticipated. Total Japanese requirement for EH101 (in Maritime, Air and VIP capacities) could be up to 100.

3. Also on 26 April, the Prime Minister spoke in support of the RR Trent 500 engine, which is being offered to power the new Japanese Military Transport aircraft (CX) programme. Value circa £700 million to RR. There is strong US competition. A decision could be made this month (July), and the Secretary of State for Trade and Industry has written in support (July). RR has been working successfully in Japan for more than 30 years.

4. Under the terms of the Chemical Weapons Convention, Japan has assumed a responsibility to clean up weapons it abandoned in China in the 1940s. This is a specialist area in which UK has considerable experience (both at Porton Down and in Industry) and is engaged in discussions with the Japanese authorities over ways in which we might be able to help them discharge their international obligations.

WTO & Doha Development Agenda

Objectives

- Seek Japanese commitment to success of WTO Ministerial in Cancun.

- In light of CAP reform, seek Japanese commitment to significant liberalisation of domestic agriculture (esp. rice) protection as an essential step towards fulfilling the Doha Development Agenda (DDA).

Key Messages

- UK and Japan have major economic interests at stake in Doha Round. Vital that Cancun keeps Round on track. Leadership by developed world essential.

- The EU has made real progress with CAP reform. Now in a position to reach agreement at Cancun.

- Understand the sensitivity of agriculture for Japan. But essential that we make progress if we are to realise the enormous gains from the rest of the Round.

Background

1. A successful outcome to the Doha Trade Round would provide major opportunities for UK business. UK exports of goods and services contribute over £250 billion a year to our GDP, equivalent to over 25 per cent, and one in four jobs is linked to business overseas.

2. Considering that Japan is the world's second largest economy, it has contributed surprisingly little to the negotiations. It stands to gain from increased access to other countries' markets for both goods and services – this is especially important given Japan's ailing economy. Their key interests are non-agriculture market access, liberalisation of services and the Singapore issues. For there to be any hope of progress on these areas, progress on issues of importance to the developing world (ie agriculture) will need to be made.

3. Their negotiating position is hamstrung by their inability to make difficult decisions on agriculture. This position holds real risks – both to wider Japanese objectives and perhaps to the Round as a whole.

4. Agriculture: The prime concern of Japan has been to preserve its relatively small agricultural – particularly rice – sector. This is extremely expensive. Japan's method of support to farmers is trade-distorting and without reform, will be an effective block to any liberalising agreement in the WTO on agriculture. Reform of the agriculture sector is politically difficult in Japan due to the disproportionately high power of rural votes. The farmers' union is also powerful. Reform of the rice sector is underway and whilst this helps the Japanese position, it is not a root and branch reform and does not cover other protected areas such dairy or beef. Also, tariffs on agricultural goods are extremely high (many in excess of 400%). This is another area where Japan will need to move.

5. Japan has hidden behind the EU but CAP reform will now force them to confront the issue seriously. They will not want to be accused of stalling the Round and we should make sure that, now the EU has made progress, the Japanese follow suit.

Environment

Objective

- Sign agreement on Climate Change and emissions reduction with Koizumi.

Key Messages

Climate Change

- Welcome G8 initiative on Science and Technology for Sustainable Development. We want to work with you and other like-minded partners to make a reality of emissions cuts.

- Need to keep up the pressure on Russia to ratify Kyoto, so it can enter into force.

- Post-Kyoto action must deliver much deeper emissions reductions if we are to tackle climate change. Science suggests we need to cut emissions by 60% by 2050.

- Urge Japan to engage fully in Renewable Energy and Energy Efficiency Partnership. Japan world leader in many key technologies.

Illegal logging

- Indonesia would be a good starting point for closer Japan-UK cooperation.

Background

Environment Agreement

1. During the Prime Minister's meeting with Koizumi on 26 April this year, they agreed that Japan and the UK should conclude an Environment agreement aimed at following up G8 action on 'technology for sustainable development'.

2. Through the Embassy in Tokyo, we have negotiated a short document with the Government of Japan. Our proposed document has a short preamble, but focuses on a set of concrete bilateral actions to further the development and use of environment-related technology.

Climate Change

3. Japan was helpful on the G8 initiative on climate change technologies ("Science and Technology for Sustainable Development", adopted at Evian). We will work with Japan in taking measures forward in the last 6 months of the French presidency.

4. Japan ratified the Kyoto Protocol last year, but achieving Japan's Kyoto target of a 6% reduction from 1990 levels will be very difficult. As a result of

increased emissions from the domestic and transport sectors, Japanese emissions are currently about 9% above 1990 levels, making a real reduction target of c.15% from today's levels by 2008-2012. Even allowing for use of the Protocol's flexible mechanisms (CDM, JI, Sinks), Japan's target looks daunting.

5. Japanese industry, however, leads the world in several fields of climate change technology (Low-Emission Vehicles, Solar PV), with companies like Toyota and Sharp investing heavily.

6. Through the Energy White Paper the UK has committed to putting itself on a path towards a reduction in carbon dioxide emissions of some 60% from current levels by about 2050. In the medium term we need to secure Japanese commitment to a similar target. At the moment Japan is unwilling to take any further action beyond the existing Kyoto commitments without the participation of the US and the leading developing countries, China in particular.

7. Japanese officials taking part in a regional meeting on the UK-led Renewable Energy and Energy Efficiency Partnership (REEEP) in Beijing in September. We expect that the climate change and energy security benefits from renewables, plus what they can bring to the partnership on energy efficiency expertise will attract them to formally join the partnership.

Illegal Logging

8. On 24 June 2003 Japan's Minister of Foreign Affairs and Minister of Agriculture, Fisheries and Forestry signed a co-operation agreement with the Indonesian Minister of Forestry. This follows the signing of a very similar agreement between UK and Indonesia in April 2002. We are keen to co-operate further with Japan in this field, and this is reflected in the draft UK/Japan environment agreement.

Three agreements

Objective

To conclude the draft three agreements that we have prepared for the Prime Minister's visit.

Key Messages

Environment

- We agreed in April to conclude this agreement during my current visit. Much scope for our two countries to work together on tackling environmental challenges.

S&T

- UK and Japan both place a high priority on S&T contributing to their economies and quality of life. We have both chosen similar research priorities and are natural partners for improved collaboration.

- Basic science is international and we make faster progress together than if we work in isolation. By bringing complementary skills together we will increase the pace of discovery and develop joint solutions to challenges such as global climate change.

ICT

- The UK and Japan both have advanced communications networks. Our first challenge is to use those networks to offer new and better services to our citizens. Our second challenge to get citizens to use them.

- No-one has a monopoly of wisdom on how to create and grow communications markets. But I believe that a commitment to competition and openness is good a place to start.

Background

Environment

1. [Same as in Environment brief] During the Prime Minister's meeting with Koizumi on 26 April this year, they agreed that Japan and the UK should conclude an Environment agreement aimed at following up G8 action on 'technology for sustainable development'.

2. Through the Embassy in Tokyo, we have negotiated a short document with the Government of Japan. Our proposed document has a short preamble, but focuses on a set of concrete bilateral actions to further the development and use of environment-related technology.

S&T

3. Japan has invested heavily in basic R&D over the last eight years with research priorities similar to the UK. Recent initiatives are starting to trigger productive research partnerships. This statement endorses and puts added momentum behind them.

4. Because of its huge investment in R&D recently, Japan has many world-leading centres of excellence and R&D infrastructure. UK basic R&D remains strong but can still benefit by access to such facilities. Both sides then benefit by increasing the pace of world class research.

5. The first part of the S&T agreement formalises an existing informal programme to stimulate expert contact and networks. This is upgraded in the agreement to a "UK-Japan Joint Programme on Emerging Technologies" which will be under the overall supervision of the UK and Japanese Chief Scientists (or their representative). The second part undertakes to facilitate researcher exchanges. Both activities are pursued under the existing 1994 Intergovernmental S&T Agreement.

6. We have support for this project from the Research Councils (two now have special support for networking initiatives with Japan) and from the FCO's Global Opportunities Fund.

ICT

7. The ICT agreement positions the UK as Japan's European partner of choice on ICT issues. It commits us to working together on areas such as digital broadcasting with real commercial benefits for the UK, and encourages joint work to deliver the millennium development goals through the use of ICT.

8. The agreement sets out how we will work together to meet the challenges posed by new communications technologies. It focuses on four areas: Developing future technologies; E-commerce; Delivering Government services on-line; and Digital divide.

9. There is a programme of work to take the agreement forward. These include: Andrew Pinder, the e-Envoy, will visit Japan in August and do a number of events on e-government; Stephen Timms will visit Japan in November and take forward the regulatory dialogue; and British digital broadcasters, including BBC, will visit Japan in October to talk to manufacturers of receiving equipment.

UK and Japan: Tackling Environmental Challenges Together

Prime Ministers Tony Blair and Junichiro Koizumi met in [Tokyo] today. They discussed environmental issues and agreed that climate change is the greatest and most urgent environmental challenge facing mankind today.

Backing the Kyoto Protocol

The two Prime Ministers agreed that the Kyoto Protocol was an enormous achievement, and an important first step in tackling climate change. They reaffirmed their full commitment to the Protocol and the importance of its early entry into force and prompt implementation, and called upon Russia to ratify the Protocol as soon as possible.

Towards Long Term Goals on Climate Change

The two Prime Ministers stressed that in the future all countries will need to take action to reduce greenhouse gas emissions, as climate change is a serious threat that must be addressed by the whole international community. They noted the UK's own commitment to reduce emissions by 60% by 2050 and pledged to exert all possible efforts towards establishing global action based on [*common rules*][*or, alternatively 'global action within a common framework*'] in which all countries participate in tackling climate change.

The two Prime Ministers firmly believe action to tackle climate change can and should be taken in ways that help both the environment and the economy; and that the use of science and technology is the key to this process.

Taking concrete steps together: the Way Forward

The Prime Ministers welcomed the agreement, in Evian, of the G8 action plan regarding science and technology for sustainable development andcalled for further UK/Japan co-operation to stimulate continued scientific, technological and policy innovation. They agreed :

Environmental Science

- Continue joint UK-Japan collaboration in the field of climate change modelling using the Japanese 'Earth Simulator' supercomputer in Yokohama Institute for Earth Sciences of Japan Marine Science and Technology Center (JAMSTEC);
- *[Brand two of the UK's Chevening Scholarships in Japan as 'UK-Japan Green Alliance' scholarships, to provide for excellent young Japanese students to study environmental matters at UK universities]*

Emissions Reductions

- Share information concerning the practical use of the Kyoto Mechanisms (Joint Implementation (JI), Clean Development Mechanism (CDM) and International Emissions Trading), such as the measures under implementation in each country and

strategies to advance the use of the mechanisms.

- To this end the British Embassy in Tokyo will participate in METI and Environment Ministry pilot schemes to study utilisation of emissions trading.
- The British Embassy will also, as a pilot project of its own, establish greenhouse gas emissions levels and carry out an energy audit with a view to carrying out emissions reductions projects in the future.
- Hold an event in Tokyo ahead of next year's G8 Environment Minister's meeting, aimed at learning from each other's strategies for improving resource productivity (doing more with less) and sustainable production and consumption patterns;
- [*Work together to set/Exchange views on*] standards and industry targets for energy-using appliances and equipment [*such as air-conditioning, fans, pumps, digital TV and other information and communication equipment,*] at levels which will drive innovation and competition to bring forward more efficient products and create a stable environment for investment. [*Produce a consultation document on priorities, strategies and actions by April 2004 with a view to holding an international conference in June 2004*]

Renewable Energy

- Exchange information and experience, in order to better understand the challenges associated with a greater volume of renewables and embedded generation in the national grid, producing a joint report on our findings.
- Work together as members of the Renewable Energy and Energy Efficiency Partnership (REEEP) to [*consider innovative financial instruments*] to promote renewables internationally
- Explore the possible linkages between the Renewable Energy and Energy Efficiency Partnership (REEEP) and Japan's Energy Literacy Initiative.

Automotives

- Recognising the need to promote development and diffusion of clean and energy efficient vehicles in order both to improve air quality and reduce CO2 emissions, the UK will host, a joint forum of officials, scientists, industries from both countries with a view to exchanging information and providing an opportunity for seeking possible bilateral collaborations and investments in R&D for future alternative vehicles and fuels. Recognising the importance of Europe as a market for clean low-carbon vehicles, we will invite the participation of the European Commission and a limited number of experts from other countries

Illegal Logging

- Recognising the importance of preserving forests and their invaluable role as carbon sinks, both work to tackle illegal logging through AFP (Asia Forest Partnership), ITTO (International Tropical Timber Organisation) and other relevant multilateral and bilateral arrangements, particularly in Asia.

Other areas

- Endocrine Disruptors: Continue joint UK-Japanese research under the Implementing Arrangement between the UK and Japan on Research into Environmental Endocrine Disrupting, with the UK the International Symposium on Environmental Endocrine Disrupters 2003.
- [*The two Prime Ministers stressed the importance of awareness of environmental isssues on the part of the public. They looked forward to the success of the Aichi Expo in 2005*]

draft

JOINT STATEMENT ON SCIENCE AND TECHNOLOGY
JAPAN-UK SCIENCE AND TECHNOLOGY PARTNERSHIP
(8 July draft)

We, the Prime Ministers of Japan and the United Kingdom share a common aim of using science and technology to meet the challenges and opportunities which face us. We share the view that science and technology are keys in the 21st century to continuing the economic development of our countries, improving the quality of life of our people and the rest of the world, and protecting the environment.

Independently, both Japan and the United Kingdom have identified similar fields of high priority – particularly in the fields of life sciences, nanotechnology and materials, information and communication technologies, and the environment. Both Japan and the United Kingdom contain world class centres of research and development (R&D) expertise in these fields as a result of both countries' commitment to increasing spending on R&D in recent years.

We believe that, by working together on issues of international concern in the area of science and technology, Japan and the United Kingdom can further contribute to the betterment of the international community. We emphasised the importance of working together for the success of the ITER project. And we reaffirm our commitment to the G8 Action Plan on Science and Technology for Sustainable Development that was jointly announced with the other G8 leaders in Evian last month, including cooperation in Global Observation and Energy Technologies. In this context, we also reaffirm our willingness to cooperate closely for activities of the Generation IV International Forum (GIF) on the next generation nuclear energy systems. The potential for unregulated and unrestricted scientific research raises ethical, safety, environmental, and social questions which need to be addressed. The United Kingdom welcomes and supports ~~the~~ Japan's initiative of hosting a Science and Technology for Society Forum (STS Forum) to be held in Japan in November 2004.

We welcome the significant and extensive bilateral cooperation in science and technology to date between our countries. Under the Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Japan on Co-operation in Science and Technology signed in1994, there are already many examples of our scientists and researchers working together in our universities and research institutes. Companies have also developed strong links with universities in each other's country. The Joint Committee established under the Agreement has been held successfully on a regular basis. Japan particularly welcomes and acknowledges the significance of the United Kingdom's campaign, "Innovation UK" with a series of events related to science and technology throughout this year in Japan.

Today we announce collaborative initiatives in two areas in line with the existing co-operative activities under the Agreement. These are:

1. Encouraginge collaboration and networks between our leading experts

Since 2001, pilot networking projects have taken place in the fields of global

climate modelling, nanotechnology and the hydrogen economy. These have already succeeded in developing beneficial contacts between the leading experts in these fields in Japan and the United Kingdom and joint research is already proceeding as a result of this initiative. For instance, our experts in global climate modelling are working together using Japan's Earth Simulator to develop more precise predictions of climate change and its effects.

We determined to continue this initiative as a "UK-Japan Joint Programme on Emerging Technologies". To take this forward, we have decided to each appoint a senior and respected scientific figure to review our activities, to identify future potential areas of joint discussion, and to advise the Joint Committee on appropriate action. We encourage the Joint Committee to discuss the detailed role of the appointed scientists and implementation of this initiative at their next Joint Committee in the year 2004.

2. Promote the exchange of younger researchers

While the above-mentioned programme will bring together the leading experts in both countries, we believe it is also important to encourage the exchange of researchers and ideas at earlier stages of their careers. We note that there are already in place many schemes organised by the Government of Japan and of the United Kingdom and scientific societies. We encourage the Joint Committee to monitor the effectiveness of these schemes and to examine ways of minimising the adverse effects on exchanges arising from factors, such as distance and language.

In this context, the United Kingdom welcomes the measures by the Government of Japan to internationalise its research environment. These measures, which were announced in the Second Science and Technology Basic Plan adopted in 2001, include improving the environment for the excellent foreign researchers to continue their activities in Japanese public institutes. We welcome the extension of the "UK Biotechnology and Biological Sciences Research Council (BBSRC)'s Japan Partnering Awards" and the introduction of new flexible fellowship scheme "JSPS Postdoctoral Fellowship Program (Short-term) for North American and European Researchers" by the Japan Society for the Promotion of Science.

We reaffirm our commitment to strengthen the special partnership on science and technology between Japan and the United Kingdom and to increase bilateral co-operation throughout this Japan-UK Science and Technology Partnership.

Tokyo, July 19, 2003

Junichiro Koizumi
Prime Minister of Japan

Rt Hon Tony Blair
Prime Minister of the United Kingdom

DRAFT 9/7/03

(UK proposed amendments to Japan draft of 3/7/03)

Joint Statement by the Prime Ministers of Japan and the United Kingdom: working together as leading e-nations

The universal application of Information and Communication Technology (ICT) is critical to bringing about increased global prosperity in the 21st century. ICT enriches the way we live and work. It empowers individuals and organisations, and stimulates the growth of new business and employment opportunities. It contributes to better public services and increases productivity and opportunity for all our citizens.

We, the Prime Ministers of Japan and the United Kingdom, two of the most advanced knowledge-based economies in the world, reaffirm our commitment to work together in the research, development and adoption of these new technologies. We also commit ourselves to the facilitation and promotion of e-commerce and e-government. We reaffirm our goal of achieving universal access for all our citizens by the year 2005. Through our UK-Online, e-Europe and e-Japan Strategies we will enhance the efforts to tackle the barriers which discourage our citizens from getting on line and prevent our enterprises and government agencies from making the best use of ICTs for their economic and social activities.

Furthermore, our two countries will also work together to increase digital opportunities worldwide, responding in particular to the needs of developing countries.

Our ICT industries have successfully created the necessary infrastructure to deliver services such as broadband Internet access and the new generation of mobile communications which meet the needs and expectations of our citizens. However, as technology continues to evolve at a rapid pace and new ICT products and services are developed, we must ensure that our regulatory policy continues to be pro-competitive and fully responsive to the needs of our ICT industry, business users and consumers. The governments of Japan and the United Kingdom can learn much from each other's experience and we will continue to share our policy thinking in order to refine our national strategies and regulatory frameworks.

We have identified the following specific areas where Japan and the United Kingdom will cooperate:

1. Realizing a ubiquitous network society

The rapid pace of technological development means our two countries are getting closer to realising the vision of a ubiquitous network [information] society where every citizen can access information networks in any place and at any time.

Cooperation between the United Kingdom and Japan in research, development and the adoption of the most advanced technologies will help us to put in place the basic infrastructure necessary for the creation of these ubiquitous

networks.

The further development of Internet and communications technologies will create new opportunities affecting every aspect of our daily life, e-business and e-government. In particular the successful promotion of third generation (3G) mobile services and the development of the next stages of mobile communication systems are two important challenges we now face. Furthermore, the widespread transition to digital broadcasting systems will enable households to access easily and cheaply these new applications and services. We believe that cooperation amongst our world–leading ICT industries and research institutions will help us to achieve these aims. We also recognize the continuing need to encourage the take-up of seamless broadband services over both fixed and wireless networks, and to stimulate the distribution of digital content. We will continue to do this through our respective national UK Online and e-Japan programmes, and through regional initiatives such as the e-Europe broadband strategy and the Asia Broadband Program.

2. Promoting the development of e-commerce

ICT is already transforming businesses by making them more efficient, productive and competitive. We need now to focus our support and assistance for businesses on integrating ICT fully into their business processes. By doing this we will increase their potential for engaging in e-commerce and realising new market opportunities. We aim therefore to build on the aims and aspirations of the e-commerce joint announcement which our governments signed in 2001, focussing in particular on the enhancement of consumer trust and security, the promotion of personal computers (PCs) as a key entry point into broadband, supporting the harmonisation of e-commerce rules, and establishing appropriate levels of IT skills standards.

It is vital that e-commerce is fully integrated into all aspects of international trade in order to help raise global prosperity and well-being. Japan and the United Kingdom - including where appropriate through the European Union - will therefore work together in the appropriate international fora to develop multilateral rules concerning e-commerce that will underpin international trade

3. Use of ICT in government and education

As world leaders in the development of e-government, it is important that we continue to share our policy thinking and experience in delivering on line services which our citizens and businesses need and expect.

E-learning is another important area for cooperation. To achieve the maximum benefit from e-learning, we need in particular to work together to develop the e-learning environment, for example by helping to secure international agreement of the technical standards which will enable the creation, sharing and sustainability of content to support the learning process.

4. Building digital opportunities

We believe that ICT has the potential to help developing countries overcome the economic challenges facing them and to improve the lives of their most deprived citizens. We reaffirm our commitment to work together with all stakeholders and relevant international organisations to meet the challenges that developing countries face so that they can seize the digital opportunities.

We believe that the World Summit on the Information Society (WSIS) will have an important role in this regard and we aim to play our part in achieving a successful and productive summit outcome.

Prime Minister Junichiro Koizumi
Japan

Prime Minister Tony Blair
United Kingdom

Tokyo, July 2003

UN Security Council Reform

Objectives

- Reassure the Japanese of our continuing commitment to Security Council Reform, including Permanent membership for Japan.

- Agree that UK and Japan should both encourage the Russians to increase voluntarily their contribution to the UN.

Key Messages

- Fully committed to Security council reform, including Permanent membership for Japan.

- UK is looking for ways to progress Security Council Reform. Ultimately though Japan and other countries with Security Council ambitions must lead the campaign to win over the General Assembly. Does Japan have any plans for a concerted effort to achieve reform?

- Important to remember that UN reform is more than just Security Council reform. The budget, bureaucracy and overmanning also need to be addressed. We fully support the Secretary-General's programme of reform.

- We recognise the very significant financial contribution Japan makes to the UN. Your contribution could be reduced by encouraging a voluntary increase in the Russian contribution which we would also seek.

- [*If raised*] Agree that Enemy State Clauses are an anachronism and should be deleted if the necessary support among the UN membership can be achieved.

Background

1. Britain has supported Japanese permanent membership of the UNSC for many years. This issue has a high political profile in Japan and has been explicitly linked by some Parliamentarians to the continuation of Japan's large budgetary contribution to the UN (in 2002 Japan contributed 19.5% of the UN's total budget).

2. Recent interviews in the UK and Japanese press with Bill Rammell MP (Guardian article attached) have correctly highlighted Britain's continuing support for Japan and for UN reform. However, some have incorrectly drawn the conclusion that Britain will launch a campaign on Japan's and the others' behalf. The Prime Minister may be pressed on this point.

3. Currently UNSC reform is dealt with by the Open Ended Working Group at the UN. This is making slow progress. The Japanese are keen to speed up the process. During his recent visit the UN Secretary General suggested he was interested in setting up a High Level Panel to consider reform.

4. The Enemy State Clauses (no 53 and 107 of the UN Charter) allow for enforcement action to be taken against the former Axis powers without reference

to the Security Council. Japan has long wished to have them removed, although the Chinese in particular wish them to accept more responsibility for their role in the Second World War before this can be considered. Koizumi raised this issue with Bush in May and will probably do so with the Prime Minister. Bush said that his officials would look into this. We believe the clauses should be removed, however the chances of this remain low as two thirds of the members of the UN (including the P5) would need to ratify such a change.

5. Because of a Congress inspired cap on US contributions to the UN Regular Budget, other major contributors pay over their share of world GNP. Japan's contributions for next year have been provisionally assessed at 19.63% (Japan's share of world GNP is 14.7%). In 2000 the Russians voluntarily increased their contributions above the extremely low assessment they had been offered, reducing the burden on the major contributors. They may do so again and we should encourage this, preferably to a level above 1% (it is currently 0.466%). Britain's provisional assessment for next year is 6.178%, the fourth largest. If Japan seeks to impose a US style cap, it will have significant implications for UK contributions.

British move to restore UN's credibility

Patrick Wintour, chief political correspondent
Wednesday May 21, 2003
The Guardian

Britain is to work to restore the UN's "battered and bruised" credibility in the wake of the Iraq war by calling for expansion of the UN's security council and the setting up of a new UN organisation to combat weapons proliferation.

The move is intended to show that Britain does not regard the UN as a failed institution, a view increasingly adopted by Republicans in the US. Ministers insist that their willingness to fight for UN reform shows its commitment to restoring its central role in shaping a new international world order.

The move comes as the British and the US make concessions to France and Russia over the UN's role in Iraq's reconstruction. The Foreign Office plan will see Britain step up its campaign for Germany, India and Japan to be given permanent seats on the security council.

In addition, Latin America and Africa would be allowed to nominate a permanent security council member as part of a move to expand the size of the security council from 15 to 24. A larger number of permanent members would provide greater continuity and experience, the Foreign Office minister Bill Rammell argues. The Iraq crisis was bedevilled by the inexperience of some security council members.

France has already suggested that Brazil should take the Latin American seat, probably with British backing. In addition, Britain is to propose a new permanent committee to monitor the proliferation of weapons of mass destruction. It will mirror the counter-terrorism committee set up by the UN to trace the funding of terrorist groups after September 11. The parallel counter-proliferation committee would look at the progress in disarming rogue weapon states.
Mr Rammell said yesterday: "Iraq did not kill the UN. It remains relevant." But he admitted: "There is a unfair perception that the UN has stopped. Since the last major resolution on Iraq in November there has been more than 30 other resolutions, for instance, covering security ranging from Afghanistan, Ivory Coast and Congo."

But he also admitted: "The UN's reputation has been battered and bruised, and that means we have got a responsibility to ensure that it remains central to the world order. We want to give it a shot in the arm, and that means reform".

"We have got to develop a climate in which the UN sees its as one of its main roles as addressing proliferation". Mr Rammell stressed that expanding the number of permanent security council members would lead to gridlock if they were each given the right to wield a veto.

"What we need is continuity," he said. "For a number of countries who have not been there for a long time, they do not have always the experience to face up to very difficult issues. If the UN is to be serious, it has got to have the bottle to face up to some serious subjects".

He said the UN had to be more efficient, disclosing that 36,000 UN programmes have been initiated and, effectively, none has ever stopped. "They develop a life of their own, even if there is no need. We probably need sunset clauses to ensure that peacekeeping operations come to stop after a set period". Guardian Unlimited © Guardian Newspapers Limited 2003

Aichi EXPO

Brief to follow.

OTHER ISSUES

Middle East Peace Process (MEPP)

Objective

- To share thoughts on the way forward and encourage Japan to continue using its influence (especially with the PA) constructively, while assuaging Japanese sensitivities about their exclusion from the Quartet.

Key Messages

- We welcome the transfer of security responsibilities in Gaza and Bethlehem to the Palestinian Authority.

- Cease-fire announced by the armed Palestinian factions is a positive first step towards halting the cycle of violence. It can help create the conditions for an end to the occupation and security for all Israelis and Palestinians - but only if it is now implemented rigorously.

- Important that Israel and the Palestinian Authority build on this development and quickly address their outstanding obligations under Phase I of the Quartet Roadmap to end violence and restore normality to the West Bank and Gaza. International community must do all we can to maintain momentum.

- [*If raised*] When the monitoring mechanism team has begun to bed down we will be able to establish if there is a need for wider participation. The UK is ready to contribute if necessary.

Background

1. Japan holds similar views as the EU on the roadmap and its implementation. Japan is a major donor to the Palestinians and have recently donated a further $2.2m for humanitarian assistance, reform and confidence building. It is doubtful they will readily accept providing the cash during implementation of the roadmap whilst the US is seen as having complete control of the political process and locks them out of areas such political reform where they have been closely involved. They feel their political influence does not match their financial input. Ideally they would like to be a member of the Quartet. There is no early prospect of this. We are concerned that expansion of the Quartet might make it more unwieldy.

2. Koizumi visited the Middle East (Saudi Arabia and Egypt) in late May. Japanese Foreign Minister Kawaguchi visited the region from 27-30 April when she met Abu Mazen, Arafat and Shalom. The Japanese have a major aid programme to (and therefore considerable influence over) Syria.

Sri Lanka

Objectives

- Support Japan's increased role in the peace process. Find out Japan's prognosis.

Key Messages

- Welcome the outcome of the Tokyo Conference, international community needs to stay engaged.

- Welcome Japanese leadership as Conference co-chair. Working to strengthen the EU contribution as fellow co-chair. Important to get the review and monitoring mechanism right.

Background

1. The peace process is stalled (the LTTE suspended its participation in April) but the ceasefire is holding, despite violations. To date the LTTE has to rejected Government overtures to put both sides back within negotiating range. The current situation is therefore an impasse but the LTTE re-opened communication with the Norwegian facilitators at the end of June, which is a positive sign. It would be useful to have the Japanese prognosis.

2. The recent Donors' Conference in Tokyo was successful, despite the absence of the LTTE. The international community pledged US $ 4.5 billion over four years, with disbursement largely contingent on progress in the peace process. DFID's pledge was £43 million over three years, bringing the total HMG support to £45 million (£2million from GCPP). Apart from the Tokyo Donors' Conference, Japan has recently been playing an increasingly active role in the political mediation process through its Special Representative, Yasushi Akashi.

3. It is important that the international community stays engaged and continues to support the peace process during this difficult time. With its fellow co-chairs of the Donors Conference (US, EU and Norway) Japan is tasked with taking forward the modalities by which the international community will monitor and review progress in the peace process. It will be crucial to get these procedures right and we appreciate that there is some work to be done to strengthen the capacity of the EU if it is to play an effective role as co-chair. We understand that it is likely that a Development Forum (to which the co-chairs will report) will convene in Spring 2004.

India/Pakistan

Objective

- Encourage the Japanese to press Pakistan to curb cross-border infiltration and terrorist acts in Kashmir, and India to show its seriousness over its offer of dialogue on Kashmir.

Key Messages

- Saw Advani and Musharraf in London (on 16 and 17 June). Picture not encouraging. Advani supportive of peace process. But made clear Pakistan's response on infiltration and camps was not good enough.

- Despite progress on CBMs, prospects for peace process gloomy. Risk of stalemate.

- We need to persuade both sides to show more flexibility and trust. Important that the international community remains engaged.

Background

1. The new Pakistani High Commissioner arrived in Delhi on 30 June and the Indian HC is expected to take up post by mid-July. The Delhi-Lahore bus route may commence on 11 July. Discussions on the resumption of flights/over-flight rights are in the offing following a meeting of Foreign Secretaries in the margins of a South Asian Association of Regional Cooperation (SAARC) meeting in Kathmandu on 9-11 July. People-to-people contacts are deepening with parliamentary, business and student visits in recent weeks.

2. Critical to maintaining forward movement is further, and sustained, Pakistani action to curb infiltration and dismantle the infrastructure of terrorism. We believe India will open talks with Pakistan once they see signs of a strategic shift in Pakistani-support for the militants (a softening from the permanent end of cross-border terrorism they had demanded before Vajpayee's Srinagar speech). Musharraf closed two camps in "Azad" Kashmir and took some (limited) action against militant groups in the wake of the Armitage visit (7-10 May). But other camps (in NWFP and Punjab) were reactivated and infiltration continues. When the Prime Minister met Musharraf the latter was in denial about camps and infiltration, and doubted India's sincerity. The Prime Minister urged Musharraf to make further efforts, as did Bush at Camp David on 24 June (and, we believe, Schroeder and Chirac). But there no signs of a positive response – indeed activity across the Line of Control increased substantially in June.

3. The Prime Minister and Bush both pressed Musharraf on terrorism (as we believe did Schroeder and Chirac). The response was disappointing, even though the Americans offered a US$ 3 billion (economic and military) assistance package conditional on

good behaviour on AQ, WMD proliferation and Kashmiri terrorism. We believe Musharraf will continue to calibrate Pakistani support for militancy, at least until talks on Kashmir begin. But India believes infiltration increased in June (as do we) and will not agree to talks while this is the case. Moreover, a sustainable dialogue is not feasible with the current levels of distrust – and a high-profile Summit meeting could be potentially disastrous.

4. The Japanese are playing a constructive role and, after US/UK, China, Russia and France, have influence as a major bilateral donor. They have stronger influence over Pakistan which needs Japan's aid more than India does. The Indian National Security Adviser, Brajesh Mishra, visited Tokyo on 16-18 April. We are discussing collaboration on nuclear diplomacy to raise the awareness of the risks and consequences of nuclear weapons use.

Afghanistan

Key Messages

- Critical period for Afghanistan. It is essential to maintain focus, particularly on improving security in the regions.

- Grateful for Japanese efforts so far on DDR. There is an urgent requirement for rapid progress. UK has donated £2 million so far and has more to offer. But reform of the Afghan MOD remains a pre-condition for use of UK funds.

Background

1. The security situation in Afghanistan is fragile and remains a serious concern, particularly in the run-up to the Constitutional Loya Jirga (October) and the elections (June 2003). The attack on ISAF on 7 June resulted in the deaths of 4 German soldiers. The long-term solution is Security Sector Reform with the UK contributing £13 million last year and £16 million planned for this year. But we should also look at creative ways to use ISAF outside of Kabul once NATO takes up the reins.

2. Progress on Demobilisation, Disarmament and Reintegration (on which Japan is lead nation) has been slow, largely because of resistance from the Panjshiris to reform of the Defence Ministry. The Japanese are equally frustrated by the way slow reform of the Afghan Security Sector and Defence Ministry is making progress on DDR difficult.

3. Karzai has announced that pilot DDR schemes (1,000 per region) will start in Kunduz, Bamian and Gardez later this month.

Russia/Japan

Objective

- To welcome co-operation over Sakhalin and seek Japan's assessment of the negotiations over the Kurile Islands.

Key Messages

- Shell and Japanese partners proceeding with Sakhalin II project. Good for UK, Russia and Japan and important signal to other investors.

- Japanese views on prospects for Peace Treaty with Russia? Prospects for a Russian oil pipeline to Nakhodka to supply oil to Japan?

Background

1. In May, Shell and its Japanese partners (Mitsubishi, Mitsui) announced their decision to proceed with a US$ 10bn (Shell: $5.5bn) project to develop oil and gas extraction and transportation on Sakhalin Island, including a liquefied natural gas plant selling into Asian markets, including Japan. Sir Phil Watts had a good meeting with Putin during the State Visit on this and other co-operation ventures.

2. Russo-Japanese bilateral relations have improved in recent years, but are still dominated by the territorial dispute over the four Kurile Islands, occupied by Russia at the end of WWII. The dispute, over four small islands known as the Northern Territories in Japan, needs to be settled before the two countries can sign a Peace Treaty. In 2001 the two sides recognised the 1956 Declaration, which proposed the return of the smaller two of the islands, as a "basic legal document" to be used in agreeing the Peace Treaty. When Koizumi met Putin in Moscow in January, Putin made clear he believed the issue should not be frozen: this has encouraged the Japanese, although there has been little sign of any real progress since then.

3. Japan has a strategic interest in developing the oil and gas sectors in the Far East to reduce its dependence on the Middle East. A proposed US$ 5.2bn oil pipeline from Angarsk to Nakhodka on the Sea of Japan is competing against a US$ 2.5bn pipeline to Daqin in China. During Chinese President Hu's State Visit to Russia in May, agreement was announced on the Angarsk-Daqin route. Useful to know where this leaves Japanese hopes for Nakhodka.

China/Japan

Objective

- To sound out Japanese thinking on Chinese economy and the new leadership.

Key Messages

- Prospects for increase in high-level Sino-Japanese contacts following election of new leadership?

- China's economic growth impressive. Is it sustainable? Views of Japanese business?

- Your impressions of Hu following bilateral at Evian?

Background

1. Japan is the second largest foreign investor in China and Japanese companies employ 660,000 workers in China. On balance, China's economic growth has been beneficial for Japan. Koizumi is on record as saying it poses an opportunity not a threat. But it is resented by some groups, mainly those Japanese manufacturers who are being out-competed by China in the Japanese market.

2. Political relationship is uneasy. Sino-Japan relations are dominated by history and popular prejudices. China remembers what Japanese troops did to Chinese citizens during WW2 and resents what it views as a reluctance to apologise properly for it China watches Japan's security ties with the US carefully. The US security umbrella is useful in that it prevents a worse option – a nuclear capable Japan – but missile defence would alter this balance. For its part, Japan fears growing Chinese economic and military muscle, and resents China's lack of gratitude for Japan's large aid programme (which China prefers to see as war reparations).

3. The main source of friction is Koizumi's annual visits to the Yasukuni shrine. While these visits continue, China has said no visit by Koizumi. Koizumi is unlikely to back down. But he will probably attend the Bo'ao Forum meeting in November. Regular trade disputes and Japanese concerns over illegal immigration and a supposed wave of Chinese criminal activity in Japan are other irritants.

4. But Japan's policy is fundamentally one of engagement, and China too has made efforts to engage. Economic interdependence has greatly reduced the chance of political tensions getting out of hand. The 30th anniversary of diplomatic relations in September 2002 was marked by successful people-to-people celebrations. Another positive step was the visit of the Japanese Foreign Minister to China in April 2003. Premier Wen Jiabao is expected to visit Japan later this year. China has not opposed Japanese plans to provide military assistance for the action in Afghanistan, despite visceral dislike of any expanded role for the Japanese military.

International Development Issues

Objectives

- To emphasise the common ground between UK and Japan on international development, and our willingness to engage with Japan further.

- To encourage continued Japanese engagement in Africa.

- To encourage Japanese acceptance of the Millennium Development Goals (MDGs) as the central aims for the international community's development efforts.

- To seek Japanese support for the International Finance Facility (IFF).

Key Messages

- Recognise Japan's major contribution to international development, particularly in Asia. Appreciate the political and economic pressures around the aid budget.

- Japanese involvement of crucial importance in Africa, which remains the continent furthest from attaining the Millennium Development Goals (MDGs). Hope that engagement will continue.

- What opportunities might exist for UK and Japan jointly to reaffirm the importance of the Millennium Development Goals (MDGs)?

- Welcome recent progress in UK/Japan cooperation on development issues. Been very useful to improve our mutual understanding. Previously misconceptions on both sides.

- I would very much welcome your support for our proposals for an International Finance Facility, discussed at Evian in June. It is designed to deliver the resources we need, now, to meet the MDGs. Making it a reality is a matter of political will.

Background

1. Japan is the world's second largest bilateral aid donor. Japanese assistance in 2002 was $9.2bn (the UK programme was $4.7bn).

2. The Japanese government has been under strong pressure from MPs, business and sections of the media to justify its assistance programme in terms of its benefit to Japanese business or strategic interests. At the same time, many other donors – with the UK to the fore - have argued that all donors should remove the links between aid and domestic interests and implement policies such as untying and the pooling of bilateral assistance behind recipient country poverty reduction strategies (PRS). Japan has sometimes felt these arguments (most notably those about untying) were directed particularly at them and that donors, such as UK, do not understand the political constraints they face in trying to reform their aid programme, nor appreciate their continued aid contributions.

3. Japanese development assistance has fallen by at least 20% since 2000. The cuts so far have largely affected multilateral contributions and aid to China. We are worried that further cuts would fall on the bilateral programme in Africa, where Japan had a bilateral programme worth $1.1bn in 2001.

4. Although Japan signed the Millennium Declaration, it argues the Millennium Development Goals (MDGs) represent only one aspect of development assistance rather than the overarching policy framework within which donors should operate. It has also not integrated the MDGs into its strategic frameworks for development policy. More public support for MDGs would help clarify for the Japanese public the purposes of the Japanese development programme. It might also encourage other major donors, most notably the United States, to reaffirm their commitment to the Millennium Declaration.

5. Recent UK engagement with Japan has focused on addressing these concerns, emphasising our appreciation for Japanese aid contributions and those areas of Japanese experience from which we can learn. Activities have included:

- April 2003 conference between officials from DFID and the Japanese Ministry of Foreign Affairs in Tokyo successfully highlighted the common ground between the two countries' approaches;
- Action on pursuing deeper collaboration with Japan in Vietnam, including through the harmonisation of procedures. This will hopefully be a model for collaboration in other countries;
- Suma Chakrabarti (PUS, DFID) and his Japanese opposite number plan to make a joint visit in Asia later this year;
- Discussions well advanced on arranging secondments between DFID and the main Japanese development agencies later this year.

6. A message from the Prime Minister welcoming these initiatives and looking forward to further cooperation would help reinforce our work.

7. On the International Finance Facility, the Japanese Ministry of Finance have been helpful and have clearly given the proposals careful consideration but remain sceptical, particularly on the case for *more* aid rather than *more effective* aid, so it is worth reiterating the point that best estimates indicate more resources are needed and also that the IFF will have inbuilt mechanisms to encourage effectiveness. Koizumi's attitude is not known.

UK/Japan bilateral relations

Objective

- Strengthen and expand bilateral relations further.

Key Messages

- Japan is key partner for UK.
- Welcome strength and breadth of bilateral relations. Important to continue expanding and building on this.
- Underline value to us of the close, open and co-operative relationship we have with Japan.

Background

1. Overview: UK/Japan bilateral relations are thriving with a huge array of joint activity, contacts and exchanges at all levels from Government and Royal links to academic and young people's links. Relations are largely problem-free though there are a small number of thorns, including the Aichi EXPO and whaling.

2. Bilateral contacts: We have frequent, high-level contacts at Government level. In addition to the Prime Minister's visit and Koizumi's visit to the UK in April, the Foreign Secretary regularly meets and speaks on the telephone to Foreign Minister Kawaguchi. Mr Rammell, FCO Minister for Japan, visited Japan in February this year. Mrs Hewitt visits Japan almost annually. There is a regular flow of other Cabinet and junior Ministers in both directions. Their Imperial Majesties the Emperor and Empress visited the UK in 1998. The Crown Prince visited the UK in May 2001 to launch Japan 2001, a year-long festival of Japanese arts, music and culture. The Duke of York visited Japan twice in June 2002 during the World Cup. There are also regular Parliamentary visits in both directions, including seminars once every two years between the Westminster Cross Party group on Japan and its Japanese equivalent. There are strong cultural and educational links. About 100 British cultural organisations have links with Japan. About 55,000 Japanese live in Britain (the third-largest Japanese community overseas), and about 14,500 British people live in Japan. The last major cultural campaigns we have held in Japan were UK98 (which the Prime Minister launched in January 1998), and UKNOW in 2002.

3. Foreign Policy co-operation: we have an extensive programme of foreign-policy co-operation, driven by the UK-Japan Action Agenda agreed in 1999 and the Joint Work Programme agreed in July 2002. Our co-operation covers close consultation on key issues such as MEPP and DPRK, and concrete co-operation such as joint seminars on Afghanistan, and post-conflict peace-building in Sierra Leone.

4. UK-Japan 21st Century Group: This Group, made up of senior businessmen, politicians, academics, officials and others, and chaired by Peter Mandelson MP and Yasuhisa Shiozaki MP, meets annually to exchange views and advise both Governments on key issues. They have also taken forward some useful initiatives such as pressing for the introduction of a new visa category for young people to do voluntary work in Japan.

5. Innovation UK: Lord Sainsbury launched this major campaign in May 2003 to highlight UK expertise in innovation, creativity and S&T. It aims to change Japanese perceptions of the UK as a conservative, uncreative nation. A joint project of the British Embassy, British Council, VisitBritain and the British Chamber of Commerce, it will run until March 2004 and will include hundreds of events across Japan. The launch included a video message by the Prime Minister.

6. Prime Ministers' Policy advisers' dialogue: The Prime Minister and Koizumi agreed when they met in July 2001 that their policy advisers should start a regular dialogue on issues of mutual concern, focusing mainly on domestic reform issues. The third round of this dialogue was held at No 10 in March 2003. They provisionally agreed to hold the next round in Japan in autumn 2003. The dialogue has been very useful so far and has addressed issues such as the role of universities, coping with an ageing society, economic reform, and health sector reform. The last round also discussed tourism in the light of Koizumi's push to increase the number of tourists visiting Japan.

7. JET programme: This is a Government – to - Government programme between Japan and some 37 countries world-wide, to bring young overseas graduates into Japanese schools and local communities in order to foster international exchange and aid foreign language proficiency. The UK was one of the first countries to participate in the JET programme and now accounts for almost a quarter of total participation. The JET programme has for several years been the single biggest employer of British university graduates. There are over 1400 British JETs in Japan now.

8. FEPOWs: The UK Government announced on 7 November 2000 that a single ex-gratia payment of £10,000 would be made to surviving members of the British groups held prisoner by the Japanese during the Second World War or, if they had died, their surviving spouses. A public apology for the wartime sufferings of former POWs was made by then Prime Minister Murayama in 1995, and was repeated by Prime Minister Hashimoto on behalf of his Government during the visit by Mr Blair to Japan in 1998. Japanese and UK veterans paid a joint visit to North-East India in March 2001. Both the British and Japanese Governments regard the question of official compensation as having been settled under the 1951 San Francisco Peace Treaty, and support reconciliation as the way ahead. Following the ex-gratia payment, pressure from FEPOWs and press interest has fallen dramatically, but some FEPOWs still lobby the Government on this issue.

9. Visas, exchanges: Following agreement by Prime Ministers Blair and Mori in 2000, the UK-Japan Youth Exchange Scheme began in April 2001. It provides opportunities for young British people between the ages of 18 and 25 to spend up to a year in Japan and

young Japanese people to spend up to a year in Britain. During their stay, participants in either country can take work incidental to their holiday in order to supplement their travel funds. A special visa is issued to successful applicants. Following lobbying by the UK-Japan 21st Century Group, the Japanese government recently agreed to incorporate a new category, volunteer visas, into their visa regulations. This will allow young British people to do voluntary work in Japan. The new visa was launched on 1 May 2003.

10. UK Embassy in Japan: we established diplomatic relations with Japan in 1854. The Embassy occupies a prime site in central Tokyo next to the Imperial Palace. Ambassador Sir Stephen Gomersall has been in Tokyo since July 1999. The Embassy's main areas of work are trade promotion, inward investment, S&T, environment, defence, political, press and information, and consular & visa work. The UK has three other missions in Japan: a Consulate-General in Osaka, a Consulate in Nagoya and a Trade Promotion Office in Fukuoka (all these cities are in Western Japan). All four Posts work closely with the other British representative organisations in Japan – the British Council, VisitBritain, the British Chamber of Commerce in Japan, and the Regional inward investment bureaux.

UK Investment into Japan

Objective

- To register appreciation of Japanese efforts to promote foreign direct investment into Japan. Encourage further UK investment into Japan.

Key Messages

- Welcome Prime Minister Koizumi's commitment to promoting FDI into Japan. Our experience is that FDI makes a significant positive contribution to the economy through the introduction of new ideas and jobs.

- UK investment in Japan is significant – particularly in the telecoms industry. But UK companies still find investing in Japan a challenge. We are keen to work with Japanese government and with JETRO to help more UK companies set up in Japan and take full advantage of the market.

Background

1. Japan attracts low levels of foreign direct investment (FDI), despite the size and importance of its economy. In 2000 Japan had an inward FDI stock percentage of GDP of 1.1% compared to a UK percentage of 30.5% (average for all developed countries is 17.1%). The reasons are: high start-up and running costs, the heavy regulatory burden and the rarity of mergers and acquisitions. Japanese government policies to attract foreign investment are comparatively recent (JETRO have now refocused their priorities to help attract inward investment) and followed a long period of discouraging (and originally preventing) FDI. The Japan Investment Council (JIC), chaired by Koizumi, released a report on 27 March which includes 74 measures to stimulate FDI in order to achieve Koizumi's target of double current levels within 5 years.

2. The UK invested £2.4 billion in Japan between 1995-2001 and nearly 400 UK companies are now operating there. Most UK investors have established sales and marketing and other representative offices, rather than investing in manufacturing and production. UK investment share of the market (6.8% of total FDI into Japan in 1999) is below Germany and France (and the US). British retailers in Japan include HMV, Virgin and Body Shop. Tesco has recently announced a jv with a Japanese supermarket chain. Vodafone are the single largest foreign investor in Japan. Archiprisma Ltd, a London-based property developer is investing 100 billion Yen (£600 million) in a site in Atsugi, Kanagawa Prefecture, to construct a British style shopping mall with amusement facilities, office space and, possibly some housing. Construction will start in early 2004 and will be completed in 2005.

3. The British Industry Centre (BIC) in Yokohama was opened by the Prime Minister in January 1998. It is an office complex established to help SMEs make their first investment in Japan. The BIC was set up by TPUK, the British Chamber of Commerce in Japan, the City of Yokohama and Nomura. The BIC has nearly reached full capacity (82% full) with thirteen tenants many of whom are software or high-tech companies.

UK Trade with Japan

Objective

- To underline importance of Japan's status as a key trading partner. Encourage further UK trade with Japan.

Key Messages

- Japan is one of our most important trading partners. It continues to be a priority for UK business and British Trade International.

- Appreciate role of Japanese Government and JETRO in providing practical support for trade activities. Look forward to working together to develop the trading relationship still further.

- [*If raised*] Astra Zeneca/Iressa: Understand that Astra Zeneca took the initiative to bring the problem with Iressa to the attention of the Japanese Ministry of Health and Welfare and have been co-operating fully with the Ministry in investigations over the past year.

Background

1. Trade: UK trade in goods and services with Japan is worth over £6.7bn (and Japanese trade in good and services with UK is worth over £10.8 bn.) Japan is the UK's 11th largest market for goods (£3.6 billion in 2002), and 5th largest market for services (£3 billion in 2001). Our exports rose strongly in the early 1990s, fell by 25% in '98, and have been rising steadily since, to £3.7 billion in 2001. Almost 70% of our exports are industrial goods. Japanese figures show that the UK's exports of services have consistently out-performed our exports of goods in recent years. Our main export sectors are: Chemicals/pharmaceuticals, clothing, construction, interior products, power generation, automotive components, electronics components, food and drink. The UK's main competitors are the US, Germany, France and Italy. They have all been making up market share at the UK's expense.

2. Trade Promotion: Many companies still find Japan a challenging market and TPUK works hard to encourage them to take advantage of opportunities in Japan and with Japanese companies worldwide. TPUK's teams in London and Japan help companies to export to or invest in Japan. Key sectors for TPUK are: electronics, ICT, construction, healthcare, fashion and home & garden although opportunities exist across a number of other sectors. Emphasis is on provision of up-to-date market information and *practical* assistance. TPUK supports approximately 25 trade missions and 10 groups exhibiting at trade fairs in Japan each year.

3. Japan External Trade Organisation (JETRO): JETRO, supervised by the Ministry of Economy, Trade and Industry (METI), provide a range of services to promote imports and help foreign companies establish in Japan. JETRO sponsor visits to Japan by companies interested in setting up there and occasionally provide

financial support for TPUK events, particularly in Japan. They are going through a period of change and next year their status will change (JETRO will effectively become an agency). They have also refocused most of their resources on encouraging inward investment.

4. Astra Zeneca/Iressa: Iressa is a last resort anti-cancer drug. Astra Zeneca introduced it into the Japanese market in July 2002 after an accelerated approval procedure carried out by the Japanese Ministry of Health and Welfare. Japan was the first market to approve the drug. In a small number of cases Iressa has been found to have an unexpected side effect known as interstitial lung disease (ILD). Deaths from ILD have now passed 170 patients, about 2% of all patients treated. The deaths have been widely reported in the Japanese press. It is possible that the Ministry has felt some embarrassment over its role in giving the drug fast-track approval. Investigations into the mechanism of the development of ILD are ongoing, but Iressa continues to be used in Japan and has now been approved for use in the USA as a last-resort drug.

Consular issues

Objective

- Make clear our commitment to providing all appropriate assistance to UK nationals who need it.

Key Messages

- We continue to provide Nick Baker and his family with all appropriate consular assistance.

- We have raised certain aspects of his case with Japanese authorities. Our officials have also discussed with EU colleagues.

- [*If raised*] Nick Baker: Encourage all evidence to be made available to Nick's appeal.

- [*If raised*] Welcome Japan's prison reform review.

Background

1. Nick Baker, 32, was arrested in April 2002 for carrying 1kg of cocaine and 41,120 ecstasy tablets into Japan. Nick was sentenced on 12 June 2003 to 14 years imprisonment plus a five million yen fine. He lodged an appeal on 13 June. There has been a lot of press interest as there are concerns that Nick may have had an unfair trial, as evidence available from the Belgian authorities, which may be pertinent to Nick's defence, was not admitted in the trial. FCO Ministers Bill Rammell and Baroness Symons have previously raised our concerns over Nick's prolonged solitary confinement with the Vice Minister for Foreign Affairs, Mr Yano. This resulted in Nick being moved into a mixed cell.

2. Japan is currently carrying out a review of prisons. The Human Rights Committee of the UN has criticised harsh conditions in Japanese prisons and there has been recent press interest in Japan and the UK. We welcome the prison review and are having an ongoing dialogue with the Japanese Ministry of Justice and Ministry of Foreign Affairs about conditions in prisons. In particular we have raised our concerns about the inappropriate and excessive use of solitary confinement, inadequate medical facilities, and unacceptable delays in correspondence between detainees and the Embassy. We have raised these concerns with the EU who are planning an EU demarche in Tokyo on the subject.

3. In press coverage of Nick Baker's case the trials of Patrick Loughlin (convicted of the equivalent to manslaughter) and Chris Snell (convicted of drugs charges) have been mentioned. Consular Directorate is providing assistance to both these men and their families.

Press Lines

4. If asked by the Press about the Nick Baker case or other consular issues the Prime Minister should deploy the following material.

5. In addition to regular consular assistance the Embassy has liaised between Mr Baker and his family, dealt with a number of health and welfare issues, helped his family appoint a local lawyer, liaised with the Japanese authorities on his behalf and visited regularly – 9 visits in 15 months (if asked: the requirement is once a year). The Embassy has also taken up various matters of concern with the Japanese authorities. During a visit to Japan in February 2002, Mr Rammell raised Mr Baker's case with the Japanese Senior Vice-Minister for Foreign Affairs on 27 February 2003.

6. It is not for us to judge the innocence or guilt in a case – we cannot intervene in the judicial process in another sovereign state. This is a matter for Mr Baker to discuss with his lawyer.

7. We are currently engaged in a constructive dialogue with the Japanese authorities about our concerns about prison conditions.

8. Prisoner Transfer Agreement with Japan: Japan has acceded to the Council of Europe Convention on the Transfer of Sentenced Prisoners and the agreement came into effect on 1 June 2003. Several British prisoners in Japan have already submitted applications to be transferred to the UK. It is a multilateral prisoner transfer agreement which the UK signed and acceded to in 1985. 52 other countries have signed and acceded to it.

EU/Japan

Objective

- To impress on Japanese that we are working for a more outward-looking EU which can work effectively with natural allies such as Japan on the global agenda.

Key Messages

- Pleased to see increased connection between EU and Japan – on humanitarian aid (Afghanistan), peace-keeping, conflict-resolution (Sri Lanka) etc.

- Would like to see EU and Japan working more closely together on global issues of common concern eg human rights, non-proliferation, conflict prevention. Recognise that this will require work on both sides.

Background

1. The EU/ Japan Summit took place in May 2003, in Athens. Progress on the EU/ Japan Action Plan points (trade and economic issues, political and security progress and cross-culture issues) was discussed. No major issues outstanding.

2. Reasonable progress on trade issues generally, although limited constructive progress on Doha Development Agenda aims. [See separate WTO, DDA brief].

3. On the political and security front, Japan and the EU are beginning to work well together, co-chairing (and funding) recent donor conferences for Afghanistan and Sri Lanka. Against this, the Japanese are concerned by anti-US tendencies within the EU and do not find the EU architecture (especially on CFSP issues) user-friendly. They are often unimpressed by EU representation at international meetings.

4. On 'culture links', 2005 will be declared year of EU-Japan people to people links.

UK Residence Permits

Objectives

- to ensure that Koizumi is not unduly concerned about the introduction of UK Residence Permits and mandatory entry clearance for stays in the UK over six months.

Key Messages

- This is a new EU Regulation that provides a standard format document for the grant of permission to remain in a Member State for more than 6 months. It is a procedural change to be implemented in November. The Regulation applies to all non-visa nationalities.

- Its purpose is to harmonise security features across the EU to improve document security and prevent fraud.

- [*If raised*] This does not amount to a visa regime. Visitors to the UK for less than six months will not need prior entry clearance or an EU Residence Permit.

Background

1. The EU Residence Permit will come into force on 13 August for all Member States although we will not be fully implementing it until 13 November to avoid the peak travel period (at a small risk of infraction proceedings – we are informing Commission on 14 July). The purpose of the Regulation is to help prevent identity fraud.

2. All non-EU or EEA and non-visa nationals who want to stay in the UK for longer than six months will require a UKRP (an EURP is needed after three months for other Member States). This is a uniform format vignette rather than a wet stamp. The largest categories of people likely to be affected are students and work permit holders.

3. From 13 November, we will require 10 nationalities (Japan, South Korea, USA, Canada, Australia, South Africa, Malaysia, Singapore, New Zealand and Hong Kong SAR) to obtain prior entry clearance. It will be quicker and cheaper than applying for a UKRP in the UK. Prior entry clearance avoids the need to obtain a UKRP. These nationalities cover 80% of people who are likely to need a UKRP. The requirement will be phased in for all non-visa nationalities over the next two years.

4. We have concerns that the introduction of UKRPs will discourage Japanese visitors to the UK, especially students and business people. We are therefore now conducting an information campaign to decrease the negative impact this new scheme may have. We informed the Japanese Government in June.

Human Rights

Objective

- To encourage Japan to take a robust line with third countries of particular HR concern.

- To raise our concerns about the use of the death penalty.

Key Messages

- Pleased that we are working ever closer on human rights issues.

- Appreciate that Japan views engagement as the best way to deal with third country human rights problems. We believe engagement can only achieve results if backed by a willingness to impose conditions and benchmarks.

- In our interests to engage with states that are becoming more aware of importance of human rights (eg: Thailand). Before next CHR we should look at ways to encourage them to play a greater role in human rights advocacy.

- Regret that Japan continues to apply the death penalty and have concerns about the conditions under which the process occurs. As you know the UK and EU are opposed to the death penalty under any circumstances. Encourage Japan to move towards a moratorium.

Background

1. The UK and Japan have regular dialogue on third country human rights issues. In general we see eye-to-eye on HR issues, though our approaches sometimes differ. Co-operation in international fora is good (Japan supported the UK's candidacy at the CHR elections earlier this year). Japan usually supports EU initiatives in the UN. The UK and Japan work closely together on Japanese resolutions on Cambodia.

2. The Japanese approach reflects strategic priorities and their view that engagement is the best way to deal with worst offenders. They believe that criticism infuriates countries that are making hesitant first steps (such as Cuba and Sudan, with whom the Japanese have HR talks) leading to dialogue that fails to apply much pressure. Burma has in the past been a prime example of this, though the Japanese approach had toughened up, following the continued detention of ASSK.

3. Talks with worst offenders can be valuable, and there can be good output (eg: a symposium on FGM (Female Genital Mutilation) to be held in Khartoum), but we doubt they can go far without setting benchmarks. The danger remains that non-confrontational dialogue leads to pleas for understanding by the Japanese on their partner's behalf, but does not result in significant progress on the ground.

4. There are few areas of concern on Japanese human rights. The main exceptions to this are the continued use of the death penalty and prison conditions (see consular briefing).

Death Penalty (background information from Amnesty International)

5. Executions in Japan are carried out in secret. There are at least 118 people currently under death sentence in Japan. There were 41 executions in Japan between 1993 and 2002. A number of prisoners on death row have been held in solitary confinement for a decade or more, with limited contact with the outside world. Prisoners can only meet close relatives and may only correspond with those allowed to meet them.

6. According to Amnesty International, prisoners are told less than two hours before execution that they are going to be executed. Families and lawyers are never told in advance of the decision to carry out the execution.

7. The Abolition of Death Penalty Diet Members League (15% of parliamentarians are members) recently outlined a draft bill due to be submitted to the Diet. The bill proposes a 4-year moratorium on executions and a public debate on the issue. The group was planning to submit the bill during this Diet session, but this is looking increasingly unlikely due to pressures on the Diet's legislative schedule before the summer recess.

Nuclear issues

Objective

- To be generally supportive of BNFL's commercial activities in Japan.

Key Messages

- UK wants a successful BNFL. Full Government support for the company across all its operations.

- [*If raised*] BNFL Strategy Review: No change in UK Government's overriding objective in this area - safe and environmentally responsible clean up of civil public sector nuclear liabilities - nor in the strategy for achieving it: the Nuclear Decommissioning Authority (NDA). Any revised forward strategy for BNFL will be fully consistent with this policy.

Background

1. Japan's original climate change programme had centred on a large nuclear reactor building programme. However, as a result of concerns about the safety and competitiveness of nuclear power, plans for new reactors have been scaled back, but without any credible alternative being put forward. 15 of Tokyo's nuclear plants are now closed following a safety scandal. The greater Tokyo area faces possible power shortages of almost 8 GW during periods of peak summer demand. Blackouts are a possibility.

2. BNFL are very keen to sell MOX fuel from the Sellafield MOX Plant (SMP) to Japanese generators. The prospect of MOX sales to Japan formed the foundation of the economic case for SMP, but BNFL have yet to sign any contracts.

3. In her written statement to the House of Commons on 3 July, Patricia Hewitt announced that HMG would not float British Nuclear Fuels Limited (BNFL) after the Nuclear Decommissioning Authority had been formed and that HMG and the BNFL Board had agreed to jointly review BNFL's future strategy. BNFL is the major British company within the Japanese nuclear industry; the Japanese Government and nuclear utilities may be interested to know why HMG has taken this approach. The review announced by Patricia Hewitt will focus on how best to maximise shareholder value from the businesses of BNFL, including structures and strategies for them; and restructuring BNFL's position in the post NDA market for nuclear clean up services, particularly at Sellafield.

4. A shipment of High Level Waste (HLW8) is due to arrive in Japan around 22 July aboard the UK-registered Pacific Swan. Some local Japanese politicians have opposed the arrival of nuclear shipments. There is unlikely to be any opposition surrounding HLW8. However, the newly-elected Governor (Mimura) of Aomori Prefecture, the destination of HLW8, is expected to be pro-nuclear. There may be some local media attention. BNFL, along with the Japanese and French companies involved in the shipment, will make a public announcement when HLW8 arrives.

Whaling

Objectives

- To re-engage Japan in constructive debate on whaling issues (within the International Whaling Commission (IWC)).

- To express UK concerns at the scale, and continuation, of Japanese scientific whaling.

Key Messages

- Acknowledge that we disagree on whaling issues, but want to support you (Koizumi) in your approach to the IWC.

- As with climate change, multilateral co-operation is necessary for handling issues of this nature. Fully agree with your view that we need to resolve our disputes within the IWC.

- Disappointed that Japan continues to carry out, and has expanded its lethal scientific whaling programmes.

- Concerned over continuing allegations that Japan is using its overseas development aid to recruit new pro-whaling members to the IWC.

Background

1. Japan continues to strongly support a resumption of commercial whaling. But this year's IWC meeting, held in June in Berlin, went badly for Japan and its pro-whaling allies.

2. During and after the meeting, more outspoken members of the Japanese delegation threatened to secede from the IWC. They say the IWC is an organisation that was set up by whaling countries to regulate, but not to outlaw, whaling and which has been hi-jacked by conservationists. Also in June, the LDP, Koizumi's own party, passed a motion encouraging Japan to secede from the IWC (although this has not yet become Government policy). In early July, Koizumi expressed his opposition to secession, stating that disputes about whaling should be resolved *within* the IWC. We should provide Koizumi with support for his approach.

3. Japan circumvents the IWC moratorium on commercial whaling by exploiting a loophole in the Convention to conduct large-scale lethal scientific whaling in the Pacific and the Antarctic. These programmes have been criticised regularly by a majority of Contracting Parties within the IWC and its Scientific Committee but Japan has continued to issue permits to take up to 700 whales annually. The whale products from these programmes are sold on the domestic market.

4. It is widely alleged that Japan uses its overseas development aid to encourage small developing countries to join the IWC - two new members (Belize and Nicaragua) joined this year and both voted with Japan on all issues. Such allegations, if true, do not reflect well on Japan or the integrity of the IWC.

BACKGROUND

Japan domestic politics

Government

1. The ruling coalition is made up of the Liberal Democratic Party (LDP), New Komeito and New Conservative Party. The coalition has a majority in both houses of the Diet (Parliament). Junichiro Koizumi became Prime Minister on 26 April 2001. The LDP has traditionally relied on strong support in rural areas but has difficulty attracting the urban vote. The New Komeito is the second largest party in the coalition and exercises considerable influence on decisions. It has close links with the lay Buddhist organisation Soka Gakkai and a strong emphasis on social welfare. The NCP is a small centre-right party of 11 members.

Opposition

2. The Opposition consists of 4 parties: Democratic Party, Liberal Party, Social Democratic Party and New Communist Party. The main Opposition party is the "centrist" Democratic Party. Its members include both former socialists and former members of the LDP. It has benefited from anti-LDP protest votes but remains weak and disorganised and is struggling to present a credible alternative to the ruling coalition. There are deep tensions between the right and left of the party, particularly on defence policy. The Democratic Party and Liberal Party recently held talks about merging the two parties. However, the DPJ remain reluctant to commit and prefer election cooperation, which the Liberal Party will not accept. DPJ's current poll ratings stand at 9% (compared with 31% for LDP). Some 50% of those polled support no political party.

3. Disillusionment with politics and apathy is more of a problem for the Opposition than for the LDP and Komeito which have longstanding and efficient support machinery. There is also considerable opposition to Koizumi's government from within the LDP. Often this has more impact on policy than the formal objectives. The public are well aware of - and resent - this invisible influence. This is reflected in the gap between the LDP's support rate and Koizumi's personal support rate (50%).

Next Elections

4. Koizumi's immediate focus is the upcoming LDP Presidential elections to be held in September (dates yet to be confirmed). There is a possibility that candidates will stand against Koizumi but at present Koizumi is seen as the favourite. The election will most likely be followed by a Cabinet reshuffle. The timing of the next Lower House election has been a subject of discussion all year. It must be held by 25 June 2004. However, as Koizumi appears to judge that the LDP's electoral prospects will be at their best in the immediate aftermath of his successful re-election as LDP President, it looks increasingly likely that Koizumi will dissolve Parliament in October with elections in November.

Current issues

5. A considerable part of this Diet session has been taken up with security policy issues against the background of the DPRK threat. In May, the National Emergency Bills, which establish a framework for Japan's response in the event of an armed attack, were passed after lengthy negotiations with the opposition. More recently, Koizumi extended the Diet session for over one month to pass the Iraq bill to allow the dispatch of the Self-Defence Forces to help the reconstruction effort. It has been passed in the Lower House and will probably still be under debate in the Upper House when the Prime Minister visits.

6. The other focus of political and parliamentary activity is the economy and Koizumi's structural reform efforts. There is a great deal of change and reform afoot in Japan's society and economy (pensions, healthcare, education, the legal system, labour law, promoting devolution to the regions). Underpinning all is the need to bring government borrowing under control. The FY 2004 budget will be tight again and preliminary negotiations begin this month.

Hakone

Area information

1. Hakone is the venue for the talks, press conference and dinner with Koizumi on 19 July, and the Prime Minister and Mrs Blair will overnight there.

2. Hakone is one of Japan's best known summer resort areas. It is about 50 miles south-west of Tokyo, in Kanagawa Prefecture, and lies within the Fuji-Izu-Hakone National Park. Its main attractions are its mountain scenery – including, on a clear day, superb views of Mount Fuji – and its hot springs baths (*onsen*). Because Hakone is in a mountainous area (Lake Ashi, near which the PM and Mrs Blair will stay, is 725m (c 2,300ft) above sea level), it is less hot and humid in summer than the Tokyo plain, making it popular as a "hill station". (Average temperature in July is in the low 20s Celsius.)

3. The UK has a historical connection to Hakone in the form of Cyril Birnie, an Anglo-Australian businessman. Birnie lived in the town of Moto-Hakone for a number of years in the early 20th century and in 1922 erected a monument to Engelbert Kaempfer, a late 17th century German explorer who was the first westerner to write about Hakone. The monument enjoins future generations to protect Hakone's natural beauty. The local authorities hold a Kaempfer-Birnie festival each year, in which the Embassy participates.

4. The resident population of the small towns around Lake Ashi is around 18,000; this is dwarfed by the number of tourists (mostly day-trippers) who visit each year. The local economy is based on tourism and related industries (eg handicrafts).

5. The hotel where the Prime Minister and Mrs Blair will stay and the immediate neighbourhood offer a wide range of options for sightseeing/downtime. The hotel has hot springs baths and tennis courts. There are a number of shrines and other points of local interest within easy reach of the hotel; it is also possible to take a cable-car to the top of nearby Mount Komatadake. More detailed information on sightseeing or downtime possibilities will be provided on arrival.

Accommodation

6. The Prime Minister and Mrs Blair will stay in a traditional Japanese inn (*ryokan*) called the Ryuguden (pron: Ri-yoo-goo-den) by Lake Ashi. As in all *ryokans*, guests sleep not on beds but on futons which are rolled up and stored away during the day. Shoes are not worn inside the building; guests exchange their shoes for slippers in the main entrance hall. This is partly for reasons of cleanliness and partly to avoid damaging the woven reed mats, or *tatami*, which form the floor.

7. The Ryuguden building is a modern reproduction (at 1.5 scale) of a mediaeval temple in Kyoto called the Byodoin, whose image appears on the reverse of 10 Yen coins.

British Embassy Tokyo
July 2003

Country Profile - Japan

BASIC INFORMATION

Full Country Name:	Japan (Nippon, Nihon)
Area:	377,780 square kilometres (142,771 square miles)
Population:	127,100,000
Capital City:	Tokyo
People:	98.7% Japanese; 1.3 % other (mostly Korean)
Language:	Japanese
Religion(s):	80% of Japanese adhere to more than one religion: Shinto (106.2 million), Buddhism (95.8 million), Christianity (1.8 million), others (10.2 million)
Currency:	Yen ¥
Major Political Parties:	LDP - Liberal Democratic Party DPJ - Democratic Party of Japan LP – Liberal Party New Komei Party JCP - Japan Communist Party SDP - Social Democratic Party NCP -New Conservative Party
Government:	The conservative Liberal Democratic Party has been in power since 1955, apart from a year in 1993-1994. Since 1994, it has been the major party in a series of coalitions. The latest LDP coalition is with the Buddhist-linked New Komei Party and the small New Conservative Party. The main opposition party is the Democratic Party of Japan.
Head of State:	Emperor Akihito, ascended to throne 7 January 1989
Prime Minister:	Junichiro Koizumi (LDP), since 26 April 2001
Foreign Minister:	Yoriko Kawaguchi (non diet member), since 1 February 2002
Economic Information:	Despite several years of low growth, Japan still has the second largest economy in the world.

Membership of International groups/organisations: United Nations (UN), United Nations Conference on Trade and Development (UNCTD), United Nations Educational, Scientific and Cultural Organisation (UNESCO), United Nations Industrial Development Organisation (UNIDO), World Trade Organisation (WTO), International Monetary Fund (IMF), Group of 8 (G8), Organisation for Economic Cooperation and Development (OECD), European Bank for Reconstruction and Development (EBRD), International Bank for Reconstruction and Development Bank (World Bank), Inter-American Development Bank (IADB), African Development Bank (AFDB), Asia-Pacific Economic Cooperation Forum (APEC), Asia Development Bank (ADB), Food and Agricultural Organisation (FAO), International Atomic Energy Agency (IAEA), International Civil Aviation Organisation (ICAO), International Criminal Police Organisation (Interpol), International Labour Organisation (ILO), International Maritime Organisation (IMO), International Telecommunications Satellite Organisation (ITSO), International Telecommunications Union (ITU), Universal Postal Union (UPU), International

Whaling Commission (IWC), World Health Organisation (WHO), plus various others.

GEOGRAPHY

Japan consists of a chain of islands. The main ones are Kyushu, Shikoku, Honshu (where Tokyo and Osaka are situated) and Hokkaido. The land is mountainous and volcanic, and only 17% of the total area is cultivable. The highest mountain is Mount Fuji (a dormant volcano) at 3776 m

HISTORY

A centralised state has existed in Japan since the 4th century. Sophisticated culture began to flourish around the Imperial court in the 8th century. "Shoguns" (military rulers) took power in the 12th century. Contacts with European powers, which started in the 16th century, were restricted until Japan's near-isolation ended in the middle of the 19th century with the overthrow of the shogunate in the Meiji Restoration.

The new ruling elite set about developing Japan's industrial and military power, and methodically adopted much from the West. Japan's rapid rise led to a war with China in 1894-95 (and the annexation of Taiwan), a war with Russia in 1904-05, and the annexation of Korea in 1910. Japan appeared to be becoming a liberal democracy in the 1920s, but the Great Depression led to acute economic problems and military domination. Japanese military expansion in China after 1931 led to friction with Western powers and, faced with an oil blockade, Japan started the Pacific War (1941 – 1945).

The Allied occupation after WWII introduced far-reaching political, social and economic reforms before Japan regained full independence when the San Francisco Peace Treaty came into force in April 1952. By 1955, a strong co-operative arrangement was established between a dominant conservative party, the bureaucracy and business, which successfully implemented policies aimed at rapid industrial growth. This concentrated economic activity in some regions and led to policies aimed at ensuring wealth was redistributed to rural areas.

POLITICS

Japan is a democracy with a constitutional monarch (the Emperor) and a bicameral parliament, the "Diet". The Lower House (House of Representatives) has 480 members. 300 are elected in single member constituencies and the other 180 from regional blocks, through proportional representation. A Lower House election must be held at least every four years and the last was held on 25 June 2000. The Upper House (House of Councillors) has 247 members, although 5 seats will be cut in the next election which will be held in June 2004. Although the Councillors are elected for fixed 6-year terms, half of them are elected every three years with 73 from prefecture-based multimember constituencies (with one to four seats) and 48 through national proportional representation. The last Upper House election was held on 29 July 2001.

Junichiro Koizumi was elected Prime Minister on 26 April 2001. He lived up to his reputation, as a committed reformer and maverick, when he immediately appointed more women, young politicians and outside experts into his Cabinet. His fresh approach was popular with the public and, although support for the previous Cabinet, had fallen to 6.1%, support for his Cabinet soared. His public appeal helped the LDP to a decisive victory in the Upper House election on 29 July 2001. His success led to his re-election as LDP President, for a two-year term, on 10 August 2001. Koizumi's reform programme has met with resistance from within his party, as well as from others with vested interest, and economic reforms in particular have been slower than expected. Nevertheless, he continues to enjoy support of around 50%; Koizumi's popularity has been boosted by his strong stance on Iraq and on North Korea in recent months. The next LDP leadership election will be in September 03. Many predict the dissolution of the Lower House for a general election thereafter.

ECONOMY

GDP:	US$ 3,949 billion (2002)
GDP per head:	US$ 31,110 (2002)
Annual Growth:	+0.1% (2002)
Inflation:	–0.9% (2002)
Major Industries:	High-tech electronic products, motor vehicles, office machinery, chemicals.
Major trading Partners:	USA, China, Taiwan, South Korea, Germany, Hong Kong
Aid & development:	ODA disbursement in 2001 was US$9,768million
Exchange rate:	£1 = 188 Yen approx.

The post-war Japanese economy experienced miraculous growth, expanding ten-fold in the period from 1955 to 1990 allowing living standards to catch up with and surpass those in established Western economies. As a result of a number of factors, including low interest rates, banking deregulation and sudden appreciation of the yen, a stock market and real estate bubble developed in the late 80s. At the end of 1989 the bubble burst; since then stock prices have fallen 75 percent and the value of commercial land in Tokyo is down 85 percent.

The economy has since stagnated due to sluggish consumption and weak investment as excesses from the 1980s are unwound and Japan adjusts to Asian industrialisation and globalisation. A particular problem has been the non-performing loans held by the banking sector, which have been dealt with too slowly to allow the economy to recover quickly. Through the 1990s, the Government utilised huge fiscal and monetary stimulus to try to kickstart the economy. Since Prime Minister Koizumi came to power in April 2001, there has been greater focus on structural reforms in the corporate and public sectors to lift Japan out of its economic malaise. In 2003, reform of the banking sector will remain at the top of the economic agenda.

INTERNATIONAL RELATIONS

Japan is increasingly active in international diplomacy, and is a reliable and constructive partner for the UK on a wide range of issues including Iraq, the Balkans, Indonesia/East Timor, the Middle East Peace Process, and in the fight against

terrorism. Post September 11, Japan provided welcome political, economic and military support to the international coalition against terrorism. Japan gave strong support to coalition action in Iraq. Japan held the Presidency of the G8 in 2000 and hosted the Okinawa Summit in July 2000, which was regarded, domestically, as a great success. Key to Japan's foreign policies are her relationships with the United States, Russia, China and South Korea.

Japan/US: The US remains Japan's principal foreign policy and economic partner, and the security relationship is central to Japan's defence policy. The US has shown strong support for PM Koizumi's reform measures. Under the Koizumi cabinet, Japan has taken on a more active role in the security relationship. President Bush visited Japan in February 2002. PM Koizumi visited the US in September 2002 and again 23 May 2003.

Japan/Russia: The dispute over the Northern Territories, a group of islands claimed by Japan but occupied by Russia since 1945, dominates the relationship. Because of this dispute, Japan and Russia have failed to sign a post War Peace Treaty. Koizumi visited Russia in January 2003.

Japan/South Korea: Japan's relations with Korea remain soured by memories of Japanese actions on the peninsula during the colonial period, 1910-1945. Relations with the South were normalised under the Basic Treaty in 1965 and had shown signs of warming after President Kim Dae-jung, during his visit to Japan in September 1998, stated publicly that the relationship should look forwards, not back. The joint hosting of the World Cup also warmed relations – the Japanese Emperor and President Kim Dae Jung stood next to each other at the Final. President Roh of South Korea visited Japan in June 2003.

Japan/North Korea: The situation with the DPRK, with which Japan has never had diplomatic relations, is tense. Prime Minister Koizumi's bold initiative to visit Pyongyang and meet with Kim Jong Il on 17 September 2002 shifted the ground on many long- standing bilateral problems between the two countries. Most importantly for Japan, Kim admitted for the first time that North Korea had abducted Japanese citizens in the 1970's and 1980's. A shocked nation was told that 8 had died in North Korea. Japan is deeply concerned by developments since October 2002 on the DPRK's nuclear status.

Japan/China: Japan normalised relations with China in 1972 and the two countries have extremely strong, and growing, economic links. There is also considerable friction in the relationship. In China, there are still bitter memories of Japanese actions there in the pre-1945 period, which have been magnified by Koizumi's visit to the Yasukuni shrine honouring Japan's war dead. Japan worries about China's defence spending, and the rapid growth of Chinese exports to Japan in certain sectors.

Japan/Asia: The Japanese economy is by far the largest in Asia. Japan made a major contribution to help South East Asian countries affected by the Asian financial crisis. In early 2002 Prime Minister Koizumi signed a Free Trade Agreement with Singapore and presented a vision for the future development of a comprehensive Economic Partnership between Japan and ASEAN and improved co-operation and exchanges between the ASEAN+3 and Australia and New Zealand

Terrorism: The 11 September terrorist incidents killed 24 Japanese citizens. The Japanese reaction was swift. Prime Minister Koizumi presented a package of measures to the Diet that included humanitarian assistance for the countries near Afghanistan and logistical and other support from the Self Defence Forces for US and other forces involved.

Aid: Japan was the world's largest single aid donor in absolute terms for several years and is now second behind the US. Most goes to Asia and the Pacific, particularly China, Indonesia, and other ASEAN states. Japan has started reducing its aid budget in recent years, reflecting the serious state of the economy.

JAPAN'S RELATIONS WITH THE UK

Diplomatic Representation

The British Ambassador to Japan, Sir Stephen Gomersall, as been in Tokyo since August 1999. As well as the Embassy/Consulate-General in Tokyo, Britain also has a Consulate General in Osaka, a Consulate in Nagoya and a Trade Promotion Office in Fukuoka.

His Excellency Masaki Orita, Japanese Ambassador to Britain, arrived in October 2001. Japan also has a Consulate General in Edinburgh.

Visits

The scope of the bilateral relationship, both governmental and non-governmental, has expanded greatly in recent years. The Emperor and Empress visited the UK in 1998 and the Crown Prince in May 2001. British and Japanese Prime Ministers met most recently on 26 April 2003, when Koizumi made a short visit to the UK. Discussions centred around cooperation on international security matters, especially Iraq and DPRK as well as the environment and bilateral issues.
Foreign Secretary Jack Straw met Japanese Foreign Minister Kawaguchi three times in 2002 and they keep in touch through regular telephone calls. She visited the UK most recently in April 2003.

Cultural links

There are strong cultural and educational links between the two countries. Around 100 British cultural organisations – theatres, museums, orchestras – have links with Japan. 55,000 Japanese students study in the UK each year – both on full-time and short-term courses. And about 55,000 Japanese live in Britain (the third-largest Japanese community overseas), while approximately 14,500 British people live in Japan. Japan 2001 was a major year long festival in Britain,

The JET Programme

The Jet Programme is a government –to- government programme between Japan and some 37 countries world-wide, to bring young overseas graduates into Japanese

schools and local communities in order to foster international exchange and aid foreign language proficiency. The UK was one of the first countries to participate in the JET programme and now accounts for almost a quarter of total participation. The JET programme has for several years been the single biggest employer of British university graduates. There are over 1400 British JET's in Japan at present.

Youth Exchange Scheme

Following agreement by Prime Ministers Blair and Mori in summer 2000, the UK-Japan Youth Exchange Scheme began in April 2001. It provides opportunities for young British people between the ages of 18 and 25 to spend up to a year in Japan and young Japanese people to spend up to a year in Britain. During their stay, participants in either country can take work incidental to their holiday in order to supplement their travel funds. A special visa is issued to successful applicants. Applicants should contact the Japanese Embassy in London or British Embassy in Japan (see end for website address).

Volunteer Visas

The Japanese government has recently agreed to incorporate a new category into their visa regulations. This will allow young people working for voluntary organisations to travel on a volunteer visa. The new visa was launched on 1 May 2003.

Far East Prisoners of War

The British Government announced on 7 November 2000 that a single ex-gratia payment of £10,000 would be made to surviving members of the British groups held prisoner by the Japanese during the Second World War or, if they had died, their surviving spouses. Details can be obtained from the War Pensions Agency's website (see bottom of text). A public apology for the wartime sufferings of former POWs was made by then Prime Minister Murayama in 1995, and was repeated by Prime Minister Hashimoto on behalf of his Government during the visit by Mr Blair to Japan in 1998. Japanese and UK veterans paid a joint visit to North-East India in March 2001. Both the British and Japanese Governments regard the question of official compensation as having been settled under the 1951 San Francisco Peace Treaty, and support reconciliation as the way ahead.

UK/Japan Trade and Investment

Britain remains an attractive location for Japanese investment, receiving 46% of Japanese investment in the EU. More than a thousand Japanese companies operate here, of which over 270 are involved in manufacturing (providing employment for 88,000 people). There are also 160 Japanese companies carrying out research and development and design work in the UK. Japanese financial and trading firms have a substantial presence in the City of London (the second largest foreign presence). Despite the economic downturn in Japan there were 58 investments in the financial year ended March 2000 and Invest UK are monitoring about 50 live projects.

Japan is the UK's largest export market after the EU and US, and Britain is Japan's ninth largest market, with tourism (60,000 visitors per year) and financial services

bringing our balance of trade with them into surplus. The Japanese Government is the single largest employer of British graduates leaving university, with 650 people each year joining the JET programme, their scheme for English-language teaching in Japanese schools.

Main UK exports to Japan include vehicles, pharmaceuticals, electrical machinery and scientific instruments. UK companies that have made significant investments in Japan include Vodafone, Cable and Wireless, ICI, Glaxo, BP. British retailers with a presence in Japan include Virgin and the Body Shop.

The British Government is strongly committed to helping exporters. It opened the British Industry Centre in Yokohama to help businesses test the water. In 1999, the Government opened a trade promotion office in Fukuoka and upgraded the office in Nagoya to a full Consulate. British Trade International ran a record 34 trade missions to Japan in 2000.

The British and Japanese Governments work closely together on trade promotion. In addition to Japanese support for British trade promotion efforts, the two governments organise joint trade missions to third countries and encourage third country commercial collaboration.

HUMAN RIGHTS

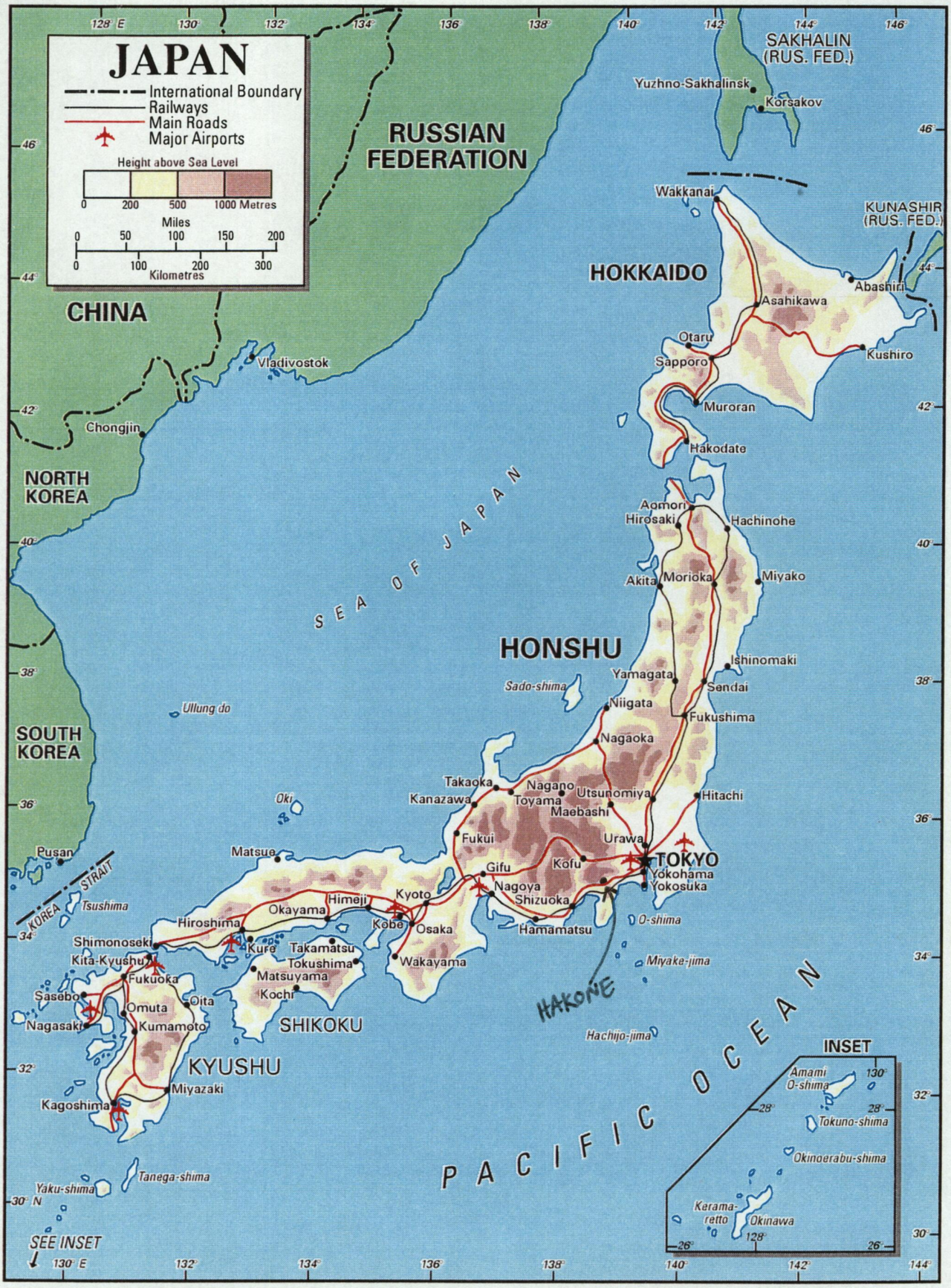
The main issues of interest to human rights activists in the past was the treatment of minorities of Japan, including "lower caste" Japanese, the Ainu race in Hokkaido, and Korean residents in Japan. With the Japanese Government having taken some action to deal with these, the focus has moved on to the rights of children and women. Legislation to counter child abuse, both in Japan and abroad, has been passed and measures are also being introduced to reduce the level of domestic violence. Japan still executes criminals found guilty of certain crimes and Britain, with EU partners, regularly takes this up with the Japanese, although there is still overwhelming support for the death penalty in Japan.

HEALTH

There are no major health problems found in Japan and, consequently, Japanese men and women enjoy the highest life expectancy in the world. However, with the Japanese population expected to age rapidly during the next 30 years, the Government is concerned about how it will finance health care for the aged in the future. Following the recent outbreak of SARS in Asia there have been a few suspected cases in Japan. However, there have been no confirmed cases.

USEFUL LINKS

UK Overseas Missions in Japan
British Embassy Japan
Japanese Embassy UK
Travel Advice for Japan
Trade Partners UK
War Pensions Agency



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A Foreign Policy to Consolidate Peace

KAWAGUCHI YORIKO

On September 5, 2001, during a visit to New York as Japan's minister of the environment I was interviewed for a piece in the *Wall Street Journal*. The windows of the office where the interview took place offered a view of the World Trade Center's twin towers, a stunning symbol of American wealth and power. It was just a few days later, on the evening of September 11, that I sat in my living room back in Japan, watching CNN. I felt a shock as though my soul was wrenched from my body as I saw the jets smash into those same towers.

More than a year has passed since then. In the meantime my job has changed from being environment minister to minister for foreign affairs, and my work and my life are very different than they were on 9-11. But the impact of that day remains as a powerful image in my mind.

THE CHANGES WROUGHT BY 9-11

The threat of terrorism is not something that raised its head for the first time in September 2001. Indeed, terrorist acts are said to be an ancient feature of human conflict. Recent times have seen many incidents of terror: The March 1995 sarin gas attack in the Tokyo subways, a case of chemical terrorism, is still fresh in our minds, and the World Trade Center had come under attack before 9-11, having been bombed in 1993.

What, then, has changed in the world since the attacks of September 2001? In short, I believe that people now have different attitudes toward international relations and national security—a changed recognition of what constitutes a threat. In the past a country's security policy was built around the need to defend against attacks or invasions from other countries. But the recent attacks have very forcefully driven home the knowledge that individual terrorists, rather than states, can also threaten the security of a nation. Handling terrorists—whose beliefs and actions we have little hope of being able to predict—is now a primary security concern. Another key task is to create a seamless network of international cooperation that allows terrorists no safe havens. And the most important task for nations today is to prevent threats to the safety of their people by keeping deadly and destructive weapons, whether chemical, biological, or nuclear, from falling into the hands of states that support terrorism or of the terrorists themselves. In these ways, the world has come to recognize international terrorism and the proliferation of weapons of mass destruction as new threats to the global order.

These new threats have in part been brought about by the advance of globalization. Terrorists themselves today use the latest communications technology to build global networks for their operations, getting access to funding and arms right under the noses of the governments that seek to stop them. It is possible to see the rise of global terrorism as the dark side of globalization.

The new threats are joined around the globe by the continued existence of more traditional threats to our security—conflict between states, civil wars, and ethnic warfare. Since the end of the Cold War, ethnic emotions and religious rivalries that had been held in check within the structure of the U.S.-Soviet confrontation have bubbled to the surface, bringing new conflict with them. There is also little prospect that the Cold War rift between North and South Korea will be healed anytime soon. Indeed, the problem of North Korea's development of nuclear weapons has cropped up again, presenting the world with the thorny problem of how to deal with Pyongyang. In the midst of these problems the international community seems to be groping for new, stable structures to replace the Cold War order.

Today threats are becoming increasingly diverse, and the security environment is undergoing constant change. Diplomacy is becoming an ever

more important tool for nations as they seek to keep their people safe and form a peaceful, stable global community. Japan's security policy has been built around three pillars: the Japan-US Security Treaty, the maintenance of an appropriate level of defense capability, and active diplomacy. These pillars must remain at the core of Japan's approach to security. In light of the changing security landscape, the nation must also strengthen its diplomatic efforts to make them more effective against the threats of terrorism and the proliferation of weapons of mass destruction. It must also improve its preparedness on the domestic front. As part of efforts to protect the people, the government will also be called on to work harder at protecting Japanese citizens in areas affected by terrorism or conflict.

The first thing to consider in bolstering our foreign policy efforts is the fact that since 9-11 the global community has come together, dealing with common problems and standing as one against threats that face us all. This unified stance has shown up clearly in moves to clamp down on terrorists' sources of funding, international aid to rebuild Afghanistan, and the grappling with the issue of Iraq's weapons development through discussions at the United Nations. For its part, Japan must continue to make positive contributions to these cooperative efforts and to align its own actions with those of international society as a whole.

The second point we must consider is the immutable fact of America's supremacy in the political, economic, military, and information spheres. The Japan-US security arrangements and the presence of US troops in Japan bring peace and stability not just to our country, but to the entire Asia-Pacific region. US engagement and leadership will continue to be essential elements in the maintenance of this peace and stability for the world. Based on the recognition that close consultation and cooperation with America are in its national interest, Japan must make the decision to direct its energy toward dialogue, harmonization of policies, and cooperation with the United States as we tackle the problems facing the world today. I believe that Japan will also have the opportunity to get its views reflected in US policy through this close bilateral communication.

JAPAN WILL CONTINUE ITS DIPLOMATIC EFFORTS TO ENSURE A SOLUTION TO THIS ISSUE THAT INCLUDES IRAQ'S FULL COMPLIANCE.

The question now, in this shifting global security environment, is how Japan can protect its people and play a role in bringing peace and security to the world. After World War II Japan parted with its militarist past and made a constitutional commitment to be a pacifist state. This means that, unlike the United States and other countries, we do not have the option of taking part directly in military operations. What role does this leave for Japan? What must our nation do for the sake of its own and the world's peace? Below I will present my views on this question, touching first on the pressing issues of Iraq and North Korea and going on to examine what our nation must do on the domestic front.

THE IRAQI WEAPONS ISSUE

More than a decade has passed since the Gulf War, a powerful symbol of the changes in the global security scene following the end of the Cold War. But Iraq continues to pose a threat to the international community. After its defeat in that conflict Iraq promised to give up its weapons of mass destruction; since then, though, it has ignored UN resolutions binding it to those promises, interfering with UN officials' inspections of its weapons capabilities or refusing to allow them into the nation at all. The inspections have been on hold since December 1998.

The 9-11 terrorist attacks brought Iraq's weapons development back into focus as a threat to global security. In November 2002 Iraq agreed to comply with UN Security Council Resolution 1441, which had been unanimously approved by that body. This resolution called for Iraq to allow inspectors from the UN and the International Atomic Energy Agency to restart their activities, which are aimed at doing away with the threat of Iraqi weapons development. This was a major step forward in ensuring global peace and security.

In the process that led up to this decision, Japan stressed that this confrontation should not be seen as one between the United States and Iraq, but between the international community and an Iraq in possession of weapons of mass destruction. The Japanese government urged a search for a truly international solution—a note that US President George W. Bush also hit in his speech to the UN General Assembly last September. Diplomacy has continued to play a major role in this process, from the steps taken by members of the Security Council and other nations to the pressure brought to bear on Iraq by the whole world, including Japan. Three veteran Japanese diplomats—Nakayama Tarō and Kōmura Masahiko, two former foreign ministers, and Senior Vice-Minister for Foreign Affairs Motegi Toshimitsu—went as special envoys of the prime minister to the Middle East, where they urged Iraq's neighbors to press Baghdad on the weapons inspection issue. Japan will continue its diplomatic efforts to ensure a solution to this issue that includes Iraq's full compliance with all relevant Security Council resolutions.

The onus is now on the Iraqi side to clear away all sus-

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picions about its weapons development. Baghdad does not seem to be throwing up barriers to the activities of the inspectors, but the international consensus is that it has not been cooperating sufficiently in the inspection process. If, despite all the efforts of the international community, including Japan, to achieve a solution through peaceful means, Iraq commits further serious violations of Security Council resolutions, and the United States, having exhausted all the diplomatic options, including Security Council deliberations, cannot avoid taking military action against Iraq, Japan will have to take action in close concert with its ally America and other members of the international community, giving thought to what is truly in its best interests.

The government, which has the responsibility to defend the Japanese people, must also prepare for any eventuality, readying itself to do everything possible to protect the lives of Japanese in and around Iraq. Japan must consider the role it should play in joint international actions and the steps it should take to bring a brighter future to the Iraqi people and stability to the Middle East. We should also take steps as required to ready our domestic institutional arrangements so as to be able to contribute to the global community in this context.

DEALING WITH NORTH KOREA

The problems involving North Korea today—its abduction of Japanese citizens and its development of nuclear weapons and ballistic missiles—pose a threat to the Northeast Asian region, including our country and South Korea. Indeed, that nation's actions are a menace to the security of the world as a whole. In September 2002 Prime Minister Koizumi Jun'ichirō traveled to Pyongyang to meet with North Korean leader Kim Jong-il. His efforts to promote a comprehensive solution to these problems led to the reopening of dialogue between the two states. The two leaders made real progress toward the solution of the thorny issues lying between Japan and North Korea with the signing of the Pyongyang Declaration at the conclusion of their meeting.

But this positive step was soon followed by a report that the North Koreans had admitted to continuing work on a uranium-enrichment program, and their nuclear weapons development once again reared its head as a troubling factor in regional relations. And North Korea's involvement in missile proliferation came to light once again when a North Korean ship was searched and found to contain missiles bound for Yemen. On top of that, after the presidential election in South Korea, which Roh Moo-hyun won on December 19, Pyongyang started a series of steps to end the freeze on the operation of its nuclear facilities under the 1994 Agreed Framework between North Korea and the United States. At a January 7 meeting of the Trilateral Coordination and Oversight Group, bringing together high-ranking officials from America, Japan, and South Korea to discuss North Korean issues, the United States stated it was prepared to open talks with Pyongyang regarding ways the North Koreans could fulfill their obligations to the international community. But Pyongyang rebuffed this overture three days later with its announcement that it would withdraw from the Nuclear Nonproliferation Treaty. Kim Jong-il is doing all he can to keep his regime in place, practicing a diplomacy of brinkmanship in an attempt to bring the United States to the table and conclude a mutual nonaggression treaty. But if this brinkmanship is taken too far, the IAEA may take the problem of the North's nuclear program to the UN Security Council.*

Japan has been stepping up its own moves to encourage North Korea to fall in line, closely coordinating its actions with those of South Korea and America and gaining the cooperation of other nations with an interest in the issue, such as China and Russia. We intend to step up these efforts toward a peaceful solution by convincing North Korea to react positively, taking swift, concrete steps to abandon its nuclear weapons program.

RESPONDING TO TERROR

If Japan is to take meaningful part in the international fight against terrorism, it must take further measures to prepare itself for the effort. After the September 2001 attacks Japan moved quickly to pass the Antiterrorism Special Measures Law. This law has allowed the nation to take active part in post–9-11 operations, dispatching Maritime Self-Defense Force vessels to the Indian Ocean, where they have helped refuel ships involved in the Afghanistan campaign, and having the Air Self-Defense Force conduct supply operations. This law is in effect for a limited time only, however, and it is only applicable to operations conducted in response to the 9-11 attacks. Meanwhile, other nations

*On February 12, the IAEA voted to refer the issue of North Korea's nuclear program to the Security Council.—Ed.

around the world continue to battle terrorism, with no idea of when this fight will end. To protect the Japanese people the Japanese government must also be willing to continue taking part in the fight.

The Islamic extremist group al Qaeda and its cohorts in the worldwide terrorist network they have constructed continue to target America and its allies. Recent bombings on Bali in Indonesia and in the Philippines show that the terrorists are stepping up their activities in Southeast Asia, and we cannot discount the possibility that the wave of violence will come to Japan, which has deep human and economic ties with this region. If the world suffers another terrorist incident to rival the 9-11 attacks, Japan must be prepared to do all that it can as part of the international community. As a foundation for this we must move swiftly to begin a national debate on preparing Japan's systems at home, including its legal framework, so that we can play that role if the time should come to do so.

Specifically, we must examine our legal system to find whether it leaves open any holes that could prevent Japan from clamping down effectively on flows of terrorist funds, arms, and biological or chemical agents. Japan is a signatory to the International Convention for the Suppression of the Financing of Terrorism, and at home it has passed laws defining penalties for providing money to support criminal acts aimed at threatening the public at large, for instance. But it has no comprehensive legal framework in place to deal with terrorist groups or actions as a whole. When the only legal recourse to deal with terrorists who in a single stroke may kill hundreds or even thousands of people is to prosecute them for murder after they have committed their acts of terror, we cannot say that the state is taking the needed steps to defend the lives of its people. Japan needs a broad legal net covering all facets of terrorist activities by groups that have already committed acts of terror and ones that are suspected of preparing to do so, including their members' entry and departure from the country, their procurement of arms, and their funding. An illustrative example here is France, which is said to have applied its antiterrorist laws before the 1998 soccer World Cup, rounding up large numbers of suspected terrorists and preventing them from carrying out their planned attacks during the tournament.

There is, of course, the problem that innocent citizens may have to give up some freedoms in the course of a severe crackdown on terrorist organizations. These potential losses range from the freedom of assembly, which may be curtailed by rules preventing people from joining violent groups, to increased restrictions on people's economic activities and property rights as terrorist funding routes are shut down and inconveniences for travelers whose baggage undergoes more thorough searches. But a look around the world shows that nations like Britain, Germany, and the United States moved quickly to strengthen their antiterrorist legislation following 9-11. Japan, too, must bolster its own legislative framework—not just to protect the Japanese people from the threat of terrorism, but to take on its fair share of the global burden of the battle against terrorist forces.

CONTRIBUTING TO GLOBAL PEACE

Conflicts continue to this day around the globe—from the fighting between India and Pakistan over Kashmir and the clashes between Israelis and Palestinians to the separatist movements in places like Sri Lanka and Indonesia. We cannot make sweeping generalizations about the ties between these conflicts and terrorism, but I believe it is possible to see a chain of violence in action. Palestinian suicide bombers and cross-border terrorist strikes over the Kashmir issue can be viewed as outbursts resulting from the hatred and hopelessness that has built up over years of confrontation and conflict. To end terrorism we must cut this chain of violence and create the conditions for people everywhere to live their lives in safety.

It goes without saying that diplomatic efforts to resolve conflicts are important. But equally important are efforts to ensure that the temporary ceasefires and spells of stability gained through peace negotiations can be extended and made permanent, preventing the outbreak of further violence. I am positioning the concept of the *consolidation of peace* at the center of Japan's diplomatic efforts—efforts that will include humanitarian and reconstruction aid in regions of conflict, along with cooperation in achieving domestic stability and public safety. This is a relatively new type of initiative for Japan, but we have been gaining experience through our aid efforts in East Timor and Afghanistan. In all these actions aimed at consolidating peace, we begin considering the forms of aid to offer at an early stage—usually when there are signs that reconciliation will be possible.

I recently traveled to Sri Lanka, where I observed the activities of international nongovernmental organizations removing land mines around Jaffna, once the site of fierce strife. This tour gave me an understanding of the extent to which the Japanese government's contribution of crusher

KYODO

Foreign Minister Kawaguchi shakes hands with Afghanistan's President Hamid Karzai at a meeting in Tokyo on February 21.

machinery to NGOs involved in the demining effort had reduced the danger and boosted the efficiency of this operation. I told the Sri Lankans that we continue to give our full support to the peace process there, promising to hold a round of negotiations in Japan in March and expressing our readiness to host a conference on Sri Lankan reconstruction in Tokyo in June. The Japanese government intends to maintain its aid to Sri Lanka, as well as to other places like Aceh in Indonesia, to help propel the peace processes there.

UN peacekeeping operations are another key element in consolidating peace. In 1992 Japan enacted the International Peace Cooperation Law, commonly called the PKO Law. Since then we have dispatched units from the Self-Defense Forces to take part in peacekeeping activities in Cambodia, Israel's Golan Heights, East Timor, and elsewhere. We have also sent election observers and civilian police officers on overseas missions. Furthermore, a late 2001 revision to the PKO Law opened the way for fuller participation by Japanese units in the activities of peacekeeping forces.*

Japan has human resources and abilities that could let it make far greater contributions in the peacekeeping field. But some problems remain in the way of an increased role for our nation. The PKO Law stipulates five conditions for Japanese involvement in operations, including the existence of a cease-fire agreement between the warring parties, the permission of the countries involved for peacekeeping forces' presence, and strict neutrality. These conditions are not always easily met, though—for example, a party to the conflict may have been so decimated or the functioning of the government may have been so impaired by the fighting (producing a "failed state") that it is hard to certify that a cease-fire has been established or to secure the official permission of the country for peacekeepers to enter. This led to the situation where Japan could offer aid to Afghan refugees who had fled to Pakistan but could do nothing for the refugees remaining in Afghanistan, where the Taliban regime had crumbled, leaving nobody in charge.

Japanese peacekeepers were previously allowed to use weapons only to defend themselves from direct attack. But the 2001 revision of the PKO Law expanded this right of defense to cover attacks threatening "those under their control" (people with the Japanese peacekeepers who are expected to follow their safety instructions), including UN and NGO personnel. Japan will need to continue reevaluating the rules governing the use of its troops' weapons based on what peacekeeping operations call for. I hope to see a wide-ranging debate over the PKO Law in Japan, with proper attention paid to the goals and the spirit of the legislation and the changes taking place in the world today.

International actions for the sake of peace are not limited to the peacekeeping operations I describe above. When violence erupted in East Timor following a referendum that saw the province's people vote overwhelmingly to separate from Indonesia, the International Force for East Timor, or INTERFET, was created to protect the people there. Another multinational corps, the International Security Assistance Force, was dispatched to Afghanistan to maintain order there after the formation of the post-Taliban interim government. These multinational forces, formed on the basis of UN resolutions, are able to respond flexibly to changes in the international security situation and take on a variety of tasks. Their importance is likely to grow in the future.

Unfortunately, Japan cannot take part in these tasks under its present PKO Law. I do not believe, however, that the Japanese Constitution should be construed as forbidding Japan's Self-Defense Forces from cooperating or participating in international forces' operations, which are carried out on the basis of UN decisions representing the international will. Japan must make an appropriate contribution to global efforts for peace; this will in the end help maintain peace for Japan itself, after all. This is another area where I hope to see broad domestic debate that touches on the constitutional issues involved.

We must not forget the role that civilians from the private sector have to play in these efforts to bring about lasting peace. The Japanese government needs to lay the

KYODO

Minister Kawaguchi receives a briefing on the removal of land mines in Jaffna during a visit to Sri Lanka on January 6.

*The revision lifted the freeze on full-scale participation by Japanese SDF units in the "main activities" of UN peacekeeping forces, such as cease-fire monitoring.—Ed.

WE WILL NEED TO DEVELOP AND IMPLEMENT OUR AID PROGRAMS IN WAYS THAT BRING HUMAN SECURITY . . . TO PEOPLE AROUND THE GLOBE.

groundwork so that the nation's doctors, nurses, election observers, and other private-sector professionals and experts can make full use of their talents and knowledge in overseas operations. This groundwork could include systems allowing workers to take leave from their jobs and ensuring their safety overseas, allowing them to participate in aid activities without fear of harm to their livelihoods or lives. It could also involve training courses and other forms of support for people who wish to contribute.

In May 2002 the government established an Advisory Group on International Cooperation for Peace, headed by former UN Undersecretary General Akashi Yasushi, now the governmental representative in charge of Japanese reconstruction efforts in Sri Lanka. The group released its report in December, making specific proposals aimed at the consolidation of peace. The government must give these proposals full consideration as it moves quickly to hammer out policies for Japanese participation in peacebuilding activities.

TIME FOR A NATIONAL DEBATE

Threats to global peace come in many forms today. Japan must prepare itself on the domestic front so it can serve as a member of the international community in actions to counter these threats. Above I have explored some topics that will need to be considered in the course of these important preparations. Some of the proposals I make will not be easy to realize over the short term. But rather than coasting along, taking stopgap steps in response to the changes that come along, it will be crucial for Japan to adopt a longer-range perspective in preparing for them. This will require us to gain a deeper understanding of the nature of these changes; only then can we judge what is truly in our national interest and work toward longer-term goals. In this way Japan will be able to formulate bold, creative foreign policy, taking the initiative in building a new international order.

In the limited space above I have kept my discussion of threats to the Japanese state and people to matters of terrorism and armed conflict. But the global community must grapple with many other problems threatening the lives and dignity of humans—poverty, environmental degradation, drug trafficking, and infectious diseases, to name just a few. Japan has in recent years been moving toward an approach to global problems that focuses on the issues affecting individual humans, and this concept of "human security" has been gaining ground internationally.

Japan's official development assistance has long served as an effective means of promoting human security. This ODA is a valuable tool for fighting terrorism and consolidating peace as well. We will need to develop and implement our aid programs in ways that bring human security to the Japanese and to people around the globe.

The Japanese people themselves must give serious thought to the issues we all face in order for Japan to defend itself and play an appropriate role in bringing security and peace to the rest of the world. There are many security-related issues that are inextricably linked to constitutional concerns in Japan. These in particular will need to be a focus of national debate. This will form one facet of the dialogue that must take place if Japan is to move forward in this shifting global environment, bolstering its systems at home so it can do its part in making the world a more secure place.

Translated from "Henka suru anzen hoshō kankyō to Nihon gaikō," in Ronza, *March 2003, pp. 180–89; slightly abridged. (Courtesy of Asahi Shimbun)*

Challenging the 'Conformist' Stereotype

Individualism and the Japanese

An Alternative Approach to Cultural Comparison

By Yamazaki Masakazu
Translated by Barbara Sugihara

Perceptions of Japanese culture, both in Japan and in the West, rely heavily on stereotypes accentuating characteristics that seem to set Japan apart from the rest of the world. Yamazaki Masakazu, a leading Japanese intellectual, argues that cultural comparison is possible only because all cultures share certain basic values and qualities. Focusing on individualism in Japanese culture—rather than the groupism commonly assumed to define it—he scrutinizes Japan's social history from an angle that illuminates the prominent role individualistic attitudes and strong personalities have played in the formation of the nation's cultural traditions.

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Robert Sutter

China and Japan: Trouble Ahead?

Future stability in East Asia depends heavily on the relationship between the region's main powers, China and Japan. After normalizing their diplomatic relations 30 years ago, these two countries downplayed their differences in favor of mutually beneficial economics and cooperation against Soviet expansion. Following the demise of the Union of Soviet Socialist Republics and its strategic influence in East Asia, Japan and China initially continued to conduct their bilateral relations amicably. Recent friction, however, has strained the balance between them.

Rivalry for Asia

A negative trend in the Sino-Japanese relationship has prompted warnings of intensified rivalry for leadership in Asia.[1] The rise of China's power and influence in Asian affairs in the 1990s and China's military assertiveness over Taiwan and the South China Sea coincided with a protracted period of lackluster Japanese economic performance and weak political leadership. The past disparity of the economic relationship between the two powers adds to ongoing differences over territorial, strategic, historical, and economic issues and has strengthened mutual wariness and antipathy.

Japanese opinion-makers have targeted China's increasing power as Japan's key long-term security concern. Many Japanese view China's size and remarkable economic growth as undercutting their country's leading economic role in Asia. Rising Japanese nationalism, generational change in Japanese leadership, and Beijing's loss of moral standing in the eyes of the Japanese have also contributed to this sentiment and diminished

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Japan's willingness to accommodate Chinese demands on historical and other issues.[2]

On the other side, long-standing Chinese concerns about Japan's impressive military capabilities have increased since 1996 as a result of U.S.-Japanese agreements broadening Japan's strategic role in Asia to include recent Japanese naval deployments in the Indian Ocean.[3] Recent plans for a Japanese-U.S.-Australian strategic dialogue have elicited repeated expressions of concern from China.[4]

Some have warned of an intensified rivalry for leadership in Asia.

Chinese leaders have appealed to nationalism and the sensibility that foreign aggressors have victimized China in the past. These feelings have largely focused on Japan, by far the most despised foreign aggressor in modern Chinese history, and have exacerbated Chinese antipathy toward Japan.[5] In this context, Chinese officials resent Japan's cuts in aid and reluctance to accommodate their country.

Heading the list of signs of increased Sino-Japanese friction in Asia are the seemingly competing proposals by China and Japan in late 2001 and early 2002 to establish free-trade agreements with the 10 members of the Association of Southeast Asian Nations (ASEAN). In addition, Japan's increased support for Taiwan and its cooperation with the Bush administration for stronger U.S. backing of Taiwan, including active dialogue by senior Japanese defense and foreign policy officials with their U.S. counterparts concerning Taiwan, have raised Chinese apprehension.[6] Chinese officials are worried that the planned Japanese-U.S.-Australian strategic dialogue may focus on Taiwan contingencies.

Other evidence of this friction includes the first significant cutbacks in Japanese aid to China since the normalization of bilateral relations and the stepped-up Japanese efforts to improve security, aid, and other cooperation with India and other nations on China's southern and western flanks. These efforts involve significant Japanese aid efforts in Pakistan and Afghanistan. In the face of China's steadily increasing economic ties with and political influence in South Korea, Japan also has made recent efforts to improve relations with Seoul.

A closer look at the two powers' recent approaches to Asia underscores China's growing influence and greater activism and Japan's relative decline. Consultations with dozens of Japanese media, academic, government, business, and other opinion leaders in four Japanese cities in May 2002 reflected a deepening anxiety over Japan's uncertain future in the face of China's continued remarkable economic growth and expanding military power and in-

fluence. Those interviewed believed that the expected continued stagnation in Japan's economic growth and a perceived "hollowing out" of Japanese manufacturing due to relocation to China means that the United States and other world powers will inevitably devote less attention to Japan and more attention to China in the future. They say they are at a loss to define an appropriate policy for Japan to deal with these adverse developments.[7]

Despite these signs of conflict, binding forces still exist. A comprehensive assessment of Sino-Japanese relations fairly quickly gets beyond expressions of angst and signs of friction to focus on strong and often growing areas of mutual interest. Strong external forces also are likely to dampen any nascent rivalry between China and Japan in Asia for some time to come.

Countervailing Factors

The most important of these factors is that both the Japanese and Chinese governments are domestically focused on the economic development of their countries. They believe that economic development requires a prolonged, peaceful, and cooperative relationship with their Asian neighbors, notably one another. China depends heavily on Japan for economic assistance, for technology and investment, and as a market for Chinese goods. Japan is increasingly dependent on China as a market, a source of imports, and an offshore manufacturing base.

Personnel exchanges between Japan and China have grown markedly. Tens of thousands of Japanese students visit or study in China each year. Government-sponsored exchange programs abound, and even if they do not always promote positive feelings, they probably do promote more realistic mutual perceptions.

Considering other external forces, no government with an interest in Asian affairs would benefit from greater Sino-Japanese friction, including the United States. The Bush administration has been careful to balance its strong pro-Japan slant by reaffirming its continued interest in closer, mutually beneficial relations with China, designed in part to sustain regional peace and stability. Meanwhile, because the United States remains such a dominant military and economic power in the region, the U.S.-Japanese alliance has resulted in a marked asymmetry in recent Japanese and Chinese perceptions of rivalry. Although Japanese elite and popular opinion focuses on China as a future concern, Chinese elite and popular opinion is much more preoccupied with the United States as a possible concern. Japan is seen as performing a secondary role, the junior partner in the U.S. alliances and security arrangements that affect Chinese interests. Given the Chinese focus on dealing with the more important concern posed by the United

States, one result that works against Sino-Japanese rivalry is that Chinese officials have at times sought to avoid disputes with Japan. In fact, they have tried to woo Japan away from close alignment with the United States and toward positions more favorable to China.[8]

The Balance between Frictional and Favorable Forces

Asia's future hangs in the balance between the growing friction in Sino-Japanese relations and the strong forces favoring continued cooperation. An antagonistic relationship between the two powers could force other Asian governments to choose sides that could split the region in ways not seen since the Sino-Soviet rivalry of the Cold War.

Fortunately, China's and Japan's recent policy and behavior in Asia show little sign of becoming seriously divisive for the foreseeable future. Neither Beijing nor Tokyo appears to give primary attention to offsetting the influence of the other in seeking their respective regional goals; they are focused on more general priorities and concerns. Although Sino-Japanese differences may flare from time to time over issues grounded in the two countries' changing power and influence in Asian and world affairs, the differences are bounded within confines that help to avoid serious disruption and to preserve regional stability and prosperity.

China

In recent years, by prioritizing domestic economic development and political stability and seeking to avoid major confrontation or controversy in foreign affairs, China's approach toward Asia has shifted toward greater engagement. The year 1997 saw the unveiling of China's "New Security Concept," emphasizing the Five Principles of Peaceful Coexistence, mutually beneficial economic contacts, and greater dialogue promoting trust and peaceful settlement of disputes. Although the concept opposed using improved Chinese relations against a third party, it took aim at the Cold War mentality seen in efforts by the United States to strengthen its alliances with NATO and Japan.[9]

Concurrently, Chinese leaders sought to establish "partnerships" or "strategic partnerships" with most of the powers along China's periphery, notably in Southeast Asia, where Japan loomed large in the 1980s and 1990s but pulled back after the Asian economic crisis of 1997–1998, and on the Korean Peninsula. They emphasized putting aside differences and seeking common ground.

Chinese political and military leaders, including Vice President Hu Jintao and other leaders expected to take leadership positions at the Chinese party

congress in the fall of 2002, also began actively meeting visitors from Asia and traveling throughout the region. These officials seem prepared to adhere to the current Chinese approach to the Asian region. They are likely to remain focused primarily on the many domestic challenges posed by economic, social, and political issues.

Regarding regional organizations, Chinese officials were instrumental in the establishment in 2000 of the Shanghai Cooperation Organization, which also includes Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan; and they have worked assiduously to improve China's relations with ASEAN, proposing an ASEAN-China Free Trade Agreement. China also worked closely with Japan, South Korea, and ASEAN in the so-called ASEAN Plus Three dialogue that emerged around the time of the Asian economic crisis.

Chinese officials resent Japan's cuts in aid and reluctance to accommodate their country.

Despite assessments that Chinese activism has recently increased because of perceptions of U.S. containment around China's periphery, rivalry with Japan, or other similar concerns, the motives of the People's Republic of China (PRC) seem more multifaceted and long-term. The multitude of new endeavors, in fact, appears to assist several of the following important Chinese objectives:

- Securing China's foreign policy environment at a time when the PRC regime is focused on sustaining economic development and political stability.
- Promoting economic exchange that assists China's internal economic development.
- Reassuring Asian neighbors through increased contact about how China will use its rising power and influence.
- Boosting China's regional and international power and influence and helping to secure a multipolar world order—Chinese leaders seem more confident of China's power and influence but they also remain wary of U.S.-led or other regional efforts to work against China.

In addition to advances in relations with Southeast Asia and Korea, China's relations with other powers around its periphery, with the possible exception of Japan, have improved. One must consider other factors as well, however, for this development. For instance, the Sino-Russian strategic partnership has served the interests of each side despite obvious limitations. President Vladimir Putin's approach to the United States following the September 11 attacks set back Chinese efforts to use improved ties

with Russia as a counterweight to the United States. The subsequent U.S.-led war against terrorism in Afghanistan markedly increased U.S. military presence and influence throughout Central and South Asia and appeared to upset Chinese efforts to use the Shanghai Cooperation Organization and other instruments to check the spread of U.S. influence along China's western flank. The antiterrorism campaign also lowered the priority of China's and India's slow but steady efforts to improve their relations with each other in recent years.

Japan

Regional military pressures, stemming from such developments as the rise of China's military power or North Korea's military posture, may lead Japan to strengthen its ties with the United States. These pressures also may lead Japan to consider a more competitive stance toward China. Yet, economic and political pressures associated with globalization position Japan to accelerate efforts toward regional economic integration. Tokyo's multidimensional approach to Asia requires some degree of finesse and compromise, especially when military security interests run up against those of economic security.

The Japanese widely perceive economic and technical leadership of a well-integrated Asia as an important advantage in global economic competition. In many Japanese quarters, the belief still holds that closer political relations, increased trade, and popular contact can harmonize relations. This "Asia first" approach emphasizes closer economic, political, and other interactions with both Southeast Asia and China in a variety of forums. One can see it most notably in the ASEAN Plus Three dialogue, which is designed to address regional problems and promote cooperation among members in the face of the perceived negative side effects of globalization. Within Japan, economic and foreign policy bureaucracies and industrial leaders and associations, along with politicians sympathetic to them, support greater Asian cooperation.[10]

Southeast Asia

This area has experienced a growth of Chinese influence, coinciding with a period of relative decline in U.S. and Japanese attention. Beijing's sometimes heavy-handed pursuit of claims in the South China Sea and China's provocative behavior in the 1995 and 1996 Taiwan Strait crisis alarmed Southeast Asian governments. Since then, Beijing's leaders have endeavored through high-level political, economic, and military contacts; attentive diplomacy; summit declarations; and bilateral and multilateral meetings to reassure regional governments and win their support. ASEAN members

tend to view the recent Chinese approach as broadly compatible with the so-called Gulliver Strategy they have been using in recent years in order to enmesh China in regional economic and security organizations. An example of this tactic is the ASEAN Regional Forum, which aims to persuade China to conform to norms that support regional stability.

China's geographic proximity to Southeast Asia gives it a special advantage in working on such projects as the Mekong Development Plan and in spreading China's influence through the use of business entrepreneurs along the Chinese border. Beijing has shown some flexibility regarding the disputed territories in the South China Sea, working constructively but slowly in the efforts with ASEAN to develop a code of conduct that would regulate tension over the disputes and avoid military clashes.

Both governments are domestically focused on developing their economy.

In contrast to China's conduct in Southeast Asia, Japanese governmental and nongovernmental leaders reacted to the Asian economic crisis by focusing more on Japanese domestic economic concerns and by reducing their exposure to the volatile markets of Southeast Asia. Given the Japanese government's financial difficulties, Japanese aid allocations were also reduced. Japanese leaders used proposals favoring regional economic and political integration to highlight Japan's leading role and worked in support of ASEAN Plus Three, as well as other initiatives designed to help the regional economies to deal with the consequences of globalization. Japanese firms' efforts to integrate with Asian economies have notably focused more closely on China than on Southeast Asia in recent years.[11]

The Chinese initiative in late 2001 calling for an ASEAN-China Free Trade Agreement appeared to catch Prime Minister Junichiro Koizumi's government unprepared. Koizumi tried to regain the political initiative during his swing through Southeast Asia in early 2002 when he offered Japanese proposals for broader regional economic cooperation and free-trade arrangements. Regional reaction was mixed, with a good deal of skepticism that Japan would be positioned to follow through with trade liberalization programs beneficial to Southeast Asia, at a time when its leaders were preoccupied with dire domestic economic conditions and strong protectionist pressures from Japanese farmers.[12] Meanwhile, Japan has incrementally boosted its military standing in the region, engaging in antipiracy and minesweeping activities, prior to the more high-profile dispatch of warships to the Indian Ocean during the antiterrorism war in Afghanistan.[13]

Korean Peninsula

After the Cold War, Beijing adjusted Chinese relations to take advantage of economic and other opportunities with South Korea, while sustaining its position as North Korea's most important foreign ally. Chinese officials have used economic aid and continued military and political exchanges to help stabilize and preserve Chinese relations with the North, while working closely with South Korea, and at times the United States, in seeking a peaceful resolution to tensions on the peninsula.

Beijing is wary of other countries perceiving it as directly challenging U.S. leadership or Japan's role in Korean affairs. It seems to judge that Chinese interests are best met with a broadly accommodating posture that allows for concurrent improvements in China's relations with both Korean governments. Encouraging economic reform and increased international outreach by the North, Beijing urges the United States and others to support the asymmetrical accommodation seen in South Korean president Kim Dae-jung's engagement policy and to avoid increased tensions. It does not make major issues of its differences with the United States over the Bush administration's tougher posture toward the North, though it is critical of the United States strengthening alliances in Asia (mainly with Japan) and U.S. missile defense plans focused on the North Korean threat. Beijing manages difficult issues related to North Koreans seeking asylum in diplomatic posts in China in ways that seek to limit the damage to China's relations both with North and South Korea.

Personnel exchanges between Japan and China have grown markedly.

Japan has had a more difficult time sustaining gains in relations with South Korea, while Pyongyang has persisted with a policy that shows less interest in improved relations with Japan than with any other major power. Differences with Seoul over Japanese history textbooks, Koizumi's visits to the Yakasuni Shrine honoring war dead (including notorious, internationally convicted war criminals from World War II), and the negative effects on South Korean exports of the relatively low value of the Japanese yen have been among issues recently marring a bilateral relationship that had improved at the initiative of the current South Korean president.

The two economies remain closely intertwined nonetheless, with Japan as South Korea's second-largest trading partner and main supplier of capital goods and components.[14] Japan is an active participant in the U.S.–South Korean–Japanese trilateral consultations over policy toward North Korea. Tokyo's more reserved stance toward the North, which repeatedly treats

Japanese concerns with disdain and contempt, is more in line with the Bush administration's policy than with South Korea's sunshine policy.

Russia

Despite the conclusion of a friendship treaty in 2001 and numerous bilateral agreements, China's and Russia's "strategic partnership" is volatile. Relations develop along three main tracks:

- Arms sales and technology transfers keep growing primarily because Russian economic difficulties and Putin's emphasis on defense industries complement China's need for advanced military equipment and technology to prepare for regional contingencies.
- Economic relations continue to move slowly.
- Russia and China pursue good neighborly relations and bilateral confidence-building measures, in principle oppose the regional and global domination of a single power, and work cooperatively against U.S. efforts they jointly perceive as unilateralist or interventionist.

Moscow and Beijing try to avoid confronting Washington in ways that would jeopardize the advantages they derive from engagement with the United States. Historical mutual suspicions and respective concerns about each other's long-term threat potential also limit Russian-Chinese political cooperation.

Japan's relations with Russia remain poor and are based on a long history of hostility. Japan has better places to invest its money and sell its goods than in Russia's poor business environment. The territorial dispute over islands north of Hokkaido curbs Japanese interest in improved economic and political ties. China's rising power, however, could draw Japan and Russia together. Both governments sustain regular contacts and discussions that leave open the option of greater cooperation.[15]

India and Central Asia

Japan is India's largest aid donor, and the two have recently improved political and defense contacts with an eye toward building a hedge against China's rising influence.[16] They have tentatively begun military-to-military cooperation. Similar activities have occurred in the context of India's "Look East" policy, which refers to its renewed efforts at improving ties with other East Asian states, including Indonesia, Singapore, Malaysia, Vietnam, and the Philippines. Indo-Japanese cooperation could become the fulcrum of a future geopolitical alignment that ties the Asian rim into a cooperative force

that could contain China if Beijing threatens to disrupt the Asian balance of power.[17]

The U.S.-led war in Afghanistan has raised Japan's profile in Central and South Asia. As a major aid donor, the host of the 2002 world donors' conference on postwar Afghanistan, and a close U.S. ally, Japan has been exerting increasing influence, especially in India, Pakistan, and Afghanistan. Following the donors' conference, Japan resumed aid to Pakistan and became a leading provider of assistance to Afghanistan.

For its part, China's leadership has worked tirelessly in recent years to ease tensions and advance Chinese influence incrementally with countries along China's South and Central Asian borders. The end of the Cold War and collapse of the Soviet Union opened opportunities to extend Chinese interests in both areas. The upswing of U.S. and allied influence in Central and South Asia since the start of the war in Afghanistan, however, has worked against Chinese efforts to exclude the United States and has dampened the priority New Delhi and others devote to improving relations with Beijing.

Implications for U.S. Leadership in Asia

Little appears to be on the horizon that will substantially change the recent balance between friction and cooperation in Sino-Japanese relations in a way that would pose serious challenges for U.S. leadership in Asia or U.S. interest in regional stability and development. The shock of the September 11 attacks on the United States along with the U.S.-led war in Afghanistan had the effect of somewhat reducing China's relative influence in Asia while providing Japan an opportunity to expand its role in South and Central Asia. Policy changes after the presidential elections in South Korea late this year could upset the delicate equilibrium on the peninsula, though few see viable alternatives to some continued South Korean engagement with the North. The Chinese leadership transition in 2002–2003 is not expected to result in significant changes in policy toward Asia, as Beijing strives to maintain a calm external environment and focuses on internal priorities. An Indo-Pakistani nuclear war, a U.S.-led attack against Iraq, a terrorist attack using weapons of mass destruction against the United States, or other conceivable international conflicts would strongly affect the United States, though the impact on Sino-Japanese friction in Asia would probably be relatively small.

Realistically, the probability is low that a Sino-Japanese entente may emerge that would seriously complicate the existing U.S. security architecture in Asia or possibly challenge the leading U.S. economic role in the region. Thus, Sino-Japanese wariness probably means that the United States

has little to worry about from ASEAN Plus Three or other Japan and China–led groups that endeavor to exclude the United States. Although increased Sino-Japanese friction could divide Asian governments, with some feeling compelled to side with Japan (and presumably the United States) and others seemingly pressed to side with China, neither Beijing nor Tokyo sees such rivalry as in its broad national interests. Both powers appear more likely to continue pursuing priorities focused on domestic issues and economic development that require broad regional cooperation and avoiding confrontation and conflict.

The probability is low that a Sino-Japanese entente may emerge.

U.S. policymakers will continue to face a variety of delicate issues in Sino-Japanese relations requiring attentive diplomacy and careful strategy. Both Tokyo and Beijing will seek U.S. support on sensitive territorial disputes, such as those over the Senkaku/Diaoyu Islands, and on trade and diplomatic disputes, notably the Sino-Japanese argument in May 2002 over Chinese police arresting North Koreans seeking refuge inside the Japanese consulate in Shenyang, China. The Bush administration should seek continued positive U.S. interchange with China to balance the strong U.S. priority on working closely with Japan and keeping China at more of a distance than President Bill Clinton's administration. Otherwise, under extreme circumstances Beijing may conclude that the United States is colluding with Japan to contain China—a long-standing fear of Chinese leaders that could conceivably push China to put aside its basically pragmatic regional approach and engage in aggressive or more assertive actions against the United States and Japan.

Some broad trends in the post–Cold War period that seem likely to persist also warrant optimism about the future of U.S. policy in Asia, including effects on Sino-Japanese relations. The war on terrorism has enhanced U.S. national power—military, economic, political, and cultural—in Asia in a way that will help entrench U.S. preeminence in the region. It will certainly remain the most sought-after economic partner and the East Asian region's ultimate security guarantor.

Even the rising powers of East Asia, notably China, will remain focused and preoccupied with wide-ranging and difficult domestic issues. Under likely circumstances, these governments will be inclined to eschew aggressive regional policies that would put them at odds with U.S. power and interests and complicate their already difficult domestic agendas.

Continued maneuvering and hedging by China, Japan, and other regional powers will not lead to substantial regional cooperation or the formation of

blocs strongly opposed to the United States. Differences between and among regional powers will block the emergence of any regional anti-U.S. front.

U.S. leaders are better positioned than at any time since the end of the Cold War to manage the sometimes disruptive U.S. domestic impulses and pressures that often negatively affect U.S. policy toward Asia. The war on terrorism has muffled heretofore-vocal U.S. critics of China who otherwise would be prone to push U.S. policy to extremes, upsetting possible equanimity in the region.

These trends add to forces limiting Sino-Japanese rivalry in Asia. Differences between Beijing and Tokyo will continue to collide with the need to cooperate for respective national interests—a policy direction generally in accord with broad U.S. regional interests involving sustained U.S. leadership, regional stability, and development.

Notes

1. See Yoichi Funabashi, "New Geopolitics Rages over Various Parts of Asia," *Asahi Shimbun*, January 15, 2002; Michael Green, "Managing Chinese Power: The View from Japan," in *Engaging China*, ed. Alastair Iain Johnston and Robert Ross (London: Routledge, 1999), pp. 170–172.
2. For a particularly articulate example of this line of thinking, see Yoshihisa Komori, "Rethinking Japan-China Relations: Beyond the History Issue" (paper presented at the Sigur Center for Asian Affairs, George Washington University, Washington, D.C., December 5, 2001). James Przystup's quarterly reviews of Sino-Japanese relations provide coverage of the history issue. See *Comparative Connections*, http://www.csis.org/pacfor/ccejournal.html.
3. For example, see Tian Peiliang, "Nationalism: China and Japan," *Foreign Affairs Journal* 63 (Beijing: Chinese People's Institute of Foreign Affairs, 2002): 63–83.
4. Robert Sutter, "Programs in Australia, May 27–30, 2002" (trip report to the U.S. Department of State Bureau of Public Diplomacy, June 2002).
5. Tian, "Nationalism: China and Japan."
6. "Tokyo-Taipei Links 'Good' Despite Damning Reports," *Asia Times*, March 29, 2002. A Bush administration official with responsibility for relations with Japan reported on the active U.S.-Japanese dialogue regarding China during a background briefing in March 2002.
7. Robert Sutter, "Programs in Japan, May 21–24, 2002" (trip report to the U.S. Department of State Bureau of Public Diplomacy, June 2002).
8. David Pilling, "China and Japan Look to Restore Relations," *Financial Times*; Kwan Weng Kim, "China-Japan Ties Lack Spontaneity," *Straits Times*.
9. Robert Sutter, "China's Recent Approach to Asia," *NBR Analysis* 13, no. 1 (March 2002): 20.
10. Kenneth Pyle and Eric Heginbotham, "Japan," in *Strategic Asia: Power and Purpose, 2001–2002*, ed. Richard J. Ellings and Aaron L. Friedberg (Seattle: National Bureau of Asian Research, 2001), pp. 76–82.

11. Ibid., p. 85.
12. Supalak Ganjanakhundee, "Koizumi Extends Hand of Cooperation to Southeast Asia," *The Nation* (Thailand), http://www.nationmultimedia.com/page.arcview.php3?clid=4&id=56283&usrsess=1 (accessed July 6, 2002).
13. Sheldon Simon, "Southeast Asia," in *Strategic Asia: Power and Purpose, 2001–2002*, ed. Richard J. Ellings and Aaron L. Friedberg (Seattle: National Bureau of Asian Research, 2001), pp. 282–283. See also Yukio Okamoto, "Japan and the United States: The Essential Alliance," *The Washington Quarterly* 25, no. 2 (spring 2002): 59–72.
14. "Japan: Pragmatism Prevails as Korea Ties Grow," *Oxford Analytica*.
15. Rajan Menon, "Russia," in *Strategic Asia: Power and Purpose, 2001–2002*, ed. Richard J. Ellings and Aaron L. Friedberg (Seattle: National Bureau of Asian Research, 2001), pp. 208–209.
16. Yoichi Funabashi, "Elephants a Bridge between Japan and India," *Asahi Shimbun*.
17. Ashley Tellis, "South Asia," in *Strategic Asia: Power and Purpose, 2001–2002*, ed. Richard J. Ellings and Aaron L. Friedberg (Seattle: National Bureau of Asian Research, 2001), p. 256.

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Japan's North Korea Initiative and U.S.-Japanese Relations

by Gilbert Rozman

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On August 27, 2002, when emissaries from the Bush administration met with Japanese prime minister Junichiro Koizumi, each side had a well-guarded secret to reveal. Koizumi informed the Americans that he was about to announce that he would visit Pyongyang in mid-September, creating the first summit between the leaders of Japan and North Korea. In turn, Deputy Secretary of State Richard Armitage announced that the United States possessed evidence that the North was secretly enriching uranium, in violation of its 1994 agreement with the United States, and despite other assurances it had discontinued all nuclear weapons development. It seems unlikely that either was happy to hear the other's news. Japanese policy makers may have found it hard to grasp that North Korea was so duplicitous; that the United States was so determined to pressure North Korea to abandon its dangerous behavior; and that Japan, as a U.S. ally, had so little leverage to conduct an independent foreign policy.

Likewise, despite earlier hints that secret talks were proceeding between Japan and North Korea, the news that Prime Minister Koizumi was discussing large-scale economic assistance to the North and would proceed with his trip also had to be disconcerting for the Bush administration, coming as it did just as Washington was launching a campaign on two fronts—the UN Security Council and the U.S. Congress—for arms inspections in Iraq and, should they fail, a war to topple Saddam Hussein. To appreciate the differences in the U.S. and Japanese perspectives, we should start with Japan's reasoning.

With a combination of bland leaders, passive diplomacy, and, since the early 1990s, the effects of a stagnant economy and a dispirited public, Japan leaves observers expecting little from its foreign policy. Observers have become accustomed to the same issues resurfacing without any resolution, be it Russo-Japanese relations, which are still troubled by a territorial dispute;

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Sino-Japanese relations, which have never been able to overcome differences in how they view history; South Korean-Japanese ties, where mutual mistrust bars close cooperation; or even the U.S-Japanese alliance, which consistently falls short of the gold standard of U.S.-British relations. Despite the abnormality of its postwar status and the volatility of its regional setting, Japan appears to be going nowhere in foreign relations except to support the United States under pressure, as after 9/11/01 and again in 2003 in the war against Iraq.

Experts inadvertently reinforce this static and passive image by arguing that Japan has few options. Since the end of the Cold War, U.S. experts have been focused on restructuring U.S.-Japan security relations and resolving concerns about inequality in the alliance, without convincing arguments that this goal can be reached or that the alliance is drifting toward danger.[1] Many have recognized some transformation of thinking in Tokyo, labeling it "realist" as the idealist left and pacifist thought have receded, but they see Japan acting reluctantly and do not expect any important change in foreign policy to result.[2] The contrast is often made between right-wing nationalists, who seek an independent foreign policy, and the mainstream, which accepts the U.S.-Japan security treaty as the cornerstone of foreign policy,[3] even as U.S. analysts dismiss the Right as being of little consequence. These views may all be one-sided: correct in foreseeing no radical shift away from ties to the United States, but neglecting persistent unease in Japan that points in a new direction.

A different image can be drawn from scrutinizing the debates inside Japan: that of a country repeatedly striving to gain an independent voice on matters of East Asian security, even if it has so far been unsuccessful in that endeavor. Reviewing Japan's quest gives us a different perspective on Japan's relations with the United States, especially since 9/11, as the United States vaunts its unrivalled power. It can also shed light on the hopes behind Koizumi's trip to Pyongyang and the potential for future diplomacy.

To those who expect little from Japan's diplomacy, Koizumi's announcement that he would go to Pyongyang to meet the North's Kim Jong Il came as a surprise. Soon, however, those who downplayed the importance of the announcement of the trip outnumbered the few observers who were either alarmed or delighted with what they saw as a rare independent move. The doubters recalled the June 2000 summit between Kim Jong Il and South Korea's then president Kim Dae Jung, when all the hoopla proved ephemeral. It had been a long time since a Japanese leader made a bold breakthrough at a summit, and after seeing Koizumi fail to deliver on much of his domestic

[1] Mike M. Mochizuki, ed., *Toward a True Alliance: Restructuring U.S.-Japan Security Relations* (Washington, D.C.: Brookings Institution Press, 1997).

[2] Michael J. Green, *Japan's Reluctant Realism: Foreign Policy Challenges in an Era of Uncertain Power* (New York: Palgrave, 2001).

[3] Inoguchi Takashi and Purnendra Jain, "Introduction: Beyond Karaoke Diplomacy?" in Inoguchi Takashi and Purnendra Jain, eds., *Japanese Foreign Policy Today* (New York: Palgrave, 2000), p. xviii.

agenda, many doubted that he would do so in the global arena. The initiative seemed to be largely in the hands of the Bush administration, which, after labeling the North part of the "axis of evil," seemed unlikely to approve a Tokyo-Pyongyang deal. Finally, they noted that the main agenda item was the return of abducted Japanese citizens, an issue of great emotional appeal inside Japan but tangential to significant security questions.

After Koizumi's September trip, an additional reason arose to discount the momentary candor of mutual apologies and pledges of future cooperation. When the United States dispatched Assistant Secretary of East Asian and Pacific Affairs James Kelly to Pyongyang two weeks later, it appeared that a coordinated approach long urged by Seoul was under way to explore just how far the North would compromise on security in order to achieve its goals for economic reform and political recognition. At the summit Kim admitted the kidnappings in the 1970s and 1980s of 13 Japanese citizens, 8 of whom were dead. As the Japanese public became absorbed in the tragic stories of the families of kidnap victims, it paid little heed to geopolitical issues. It again seemed that a Japanese leader's initiative would bring no dramatic departure from Japan's pattern of reliance on U.S. leadership. On October 29–30, when Japanese diplomats met with their North Korean counterparts in Kuala Lumpur, the same message emerged: the North rebuffed Japan's interest in discussing its nuclear weapons program. But what many observers have missed is a continuing thread in the evolution of Japan's post–Cold War foreign policy, which leads to a different conclusion about the significance of Koizumi's trip to North Korea. Looking back, we can identify a streak of failed breakout strategies aimed at giving Japan an independent voice on the global stage. Each strategy has had implications for U.S.-Japanese relations and provides us with clues about how Japan wants to reshape the overall security of East Asia. The old Left, though fading, has long dreamed of a breakout strategy. The resurgent Right has pressed for it, although often differing on how to proceed. Mainstream as well as maverick Liberal Democratic Party (LDP) leaders are tantalized by its potential impact on public opinion. The goal is shared across the political spectrum, even if no single approach has appeal.

Japan's motive for distancing itself from the United States to an important degree but not breaking the bonds of alliance lies less in any new perception of a military threat than in lingering discomfort over its absence of a strong voice in international circles. Many have a sense that, as politician Ichiro Ozawa put it, Japan is not a "normal" state.[4] So far they cannot agree on what it takes to become "normal," but each time hopes arise for a breakthrough with one or another significant foreign partner, the nation rallies around the prospect that it will finally happen. The chances are slim that Tokyo could cut

[4] Ozawa Ichiro, *Blueprint for a New Japan: The Rethinking of a Nation* (Tokyo: Kodansha International, 1994).

a deal with the outcast Pyongyang. They rise considerably, however, if Pyongyang really determines to bargain its WMD chips for a large economic payoff and recognizes the promise of multilateral diplomacy, in an age of unwelcome unilateralism. The North's choice remains an enigma, leaving Tokyo restlessly awaiting the right opportunity.

The First Set of Options

In the first years of the Gorbachev era, as the United States and the Soviet Union were advancing towards arms agreements, official Japanese thought was still focused on a strategy of becoming an equal partner in managing the Cold War in Northeast Asia. Prime Minister Yasuhiro Nakasone's famous depiction of Japan as an "unsinkable aircraft carrier" was just one of the first salvos in that strategy.[5] The bubble economy raised hopes that, without having to devote much more than 1 percent of its economy to the official military budget, Japan would easily outdistance all other U.S. allies in high-tech warfare and come to have the industrial establishment and economic wherewithal to become the indispensable ally. Located in the most dynamic but still unstable region in the world, Tokyo could expect growing parity with Washington.

To Tokyo's disappointment, this strategy lost credibility as the Cold War ended. Japan did not have the three things it most wanted: the end of a state of dependency, leverage in international relations, and a status of leadership befitting its expected continued superior economic growth. Through 1992 Japan explored three alternative strategies for putting the abnormal stage of "defeated power" behind it.

Japan-Russia. The first option was to reach a deal with Russia to return all four islands, justifying both a celebratory mood that the era of victimization was over and a great-power partnership that would increase Japan's leverage. Hints that Japan would pay handsomely (over $25 billion, according to stories early in 1991),[6] intensive wooing of Gorbachev and Yeltsin, and a flood of writings about the growing importance of economic power all reflected this option. The payoff looked promising: the world's fallen superpower would cut a deal with the aspiring superpower that symbolically, at least, would suggest that they were trading places.

Whatever the pricetag, no Kremlin leader dared to accept the offer, the symbolism of which would have stirred a nationalist outcry inside Russia. This critical test for converting economic power into political power failed with Gorbachev's belated and disappointing visit in April 1991, and again

[5] Kenneth B. Pyle, *The Japanese Question: Power and Purpose in a New Era* (Washington, D.C.: AEI Press, 1992).

[6] Edamura Sumio, "Zenchu Mosukuwa taishi no kaiso," (Reminiscences of a Former Moscow Ambassador) *Gaiko Forum*, no. 11, 1996, p. 94.

when Yeltsin cancelled his trip to Japan in September 1992. The lost islands remain a symbol of abnormality.[7]

Japan-China. The second option was to become a bridge between Beijing and Washington. After the United States imposed sanctions on China for its repression of demonstrators in June 1989, Japanese policy makers were optimistic that their greater cultural similarities with Chinese and their preference for gradual change and no open criticism would forge a lasting bond. While the United States allowed human rights concerns to shape its behavior, Japan felt that China would appreciate that it had the most to offer for its economic interests, and also trusted that China would associate itself with "Asian values" both to replace the archaic rhetoric of socialism and to assert a basis for the gradual transition away from U.S. domination.

This option faded after Emperor Akihito's visit to China in October 1992 failed to increase mutual trust. Soon China, freed from sanctions and leaping ahead economically to such an extent that it finally replaced Japan in the world's eye as the coming superpower, grew more nationalistic—exposing the futility of both cultural assumptions and economic leverage.

Japan's disappointment mounted as the Chinese leadership in 1994–95 stirred nationalist sentiments targeted at Japan. Some found it incredible that a great economic power that gave vast sums in official development assistance (ODA) and presumably had considerable discretion over funds for foreign direct investment and trade could not exert pressure on a far poorer country in great need of economic development. Finally, conservatives rallied around the goal of reducing ODA, which program had been recognized by Chinese and others as a substitute for China's forgone reparations.[8]

Economic regionalism. In its search for an international voice, Japan counted most of all on a third option: leadership over economic regionalism. The scope of the region was fluid: would it be a maritime region anchored in South Korea and Taiwan, economically dependent on Japanese firms? Or the Sea of Japan economic rim, corralling a desperate Russian Far East, cut adrift without Moscow's subsidies? Or a broader region including Southeast Asia and anchored in Indonesia, where most Japanese ODA went? Understandably, most blueprints for regionalism incorporated China, the crown jewel in Japan's plans for catching up with the EU and NAFTA. China was assumed to be an economically dependent country that would be drawn into a web of interdependency regardless of political posture.

These dreams were dashed. Economic stagnation at home, accompanied by high economic growth rates in China, left Japanese advocates of

[7] Tsuyoshi Hasegawa, *The Northern Territories Dispute and Russo Japanese Relations, Vol. 2, Neither War Nor Peace, 1985-1998* (Berkeley: University of California, International and Area Studies, Research Series, No. 97, 1998).

[8] Kamori Yoshihisa, *Niychu yuko no maboroshi* (Illusion of Japanese-Chinese Friendship) (Tokyo: Shogakkan, 2002).

economic regionalism at a loss. But the problems were not just economic. It soon became clear that Japan would also have to address security concerns—North Korea's WMD and missile programs, China's growing threat to use force against Taiwan, China's arms buildup, and the great-power balance in the region—before it could be optimistic again about economic regionalism. The "flying geese model" in which Japan stayed in the lead pulling others along had lost its credibility.

The Second Set of Options

From 1997 to 2001, growing despair about the state of its foreign relations drove Japan first to solidify its alliance with the United States and only then to look again for an independent voice. Compared to the earlier efforts, more sober calculations prevailed. Three more options presented themselves in the second stage of Japan's quest. Shaken by their nation's economic stagnation and a political impasse over domestic reforms, a succession of prime ministers sought to score foreign policy successes. Management of foreign relations shifted as each new prime minister eyed bilateral possibilities and looked within and outside of the foreign ministry for "pipes"—those who can conduct secret talks and make things happen.

The renewed search for a foreign policy breakthrough had economic motives: ensuring more secure energy lines, to reduce dependence on the Middle East, and forming free trade areas, to match those being developed in other regions of the world. But what really mattered was an outlook on security, linked to reasoning about mutual trust and questions of national identity. Japan sought acceptance as a partner and validation of its notion of normality.

Japan-Russia (part 2). The next option was to restart negotiations with the Russians, changing the tone of the talks and considering more compromise ideas. Despite excessive optimism from mid-1997 to the fall of 1998, this approach was getting nowhere until Vladimir Putin became acting president in January 2000. Then a small group of Japanese politicians and foreign ministry officials offered Russia a compromise: first, Russia would return two islands, then talks would continue about the fate of the other islands. The Japanese media would charge that this group, led by Muneo Suzuki, had only personal gain in mind, but at least some of the impetus for a compromise with Russia was undoubtedly to open a dialogue about China and, in general, to raise Japan's voice as a great power.

Koizumi and Foreign Minister Makiko Tanaka scuttled these talks when they took office, barely a month after the Irkutsk Summit of March 2001, but after Putin's foreign policy realignment in September 2001 Koizumi showed renewed interest in Russia. Japanese leaders speak carefully about the centrality of returning the Russian-held islands, and so some version of

the fourth option may still be revived.[9] But this would require a grand strategy for great-power diplomacy, something with scant support in Japan, preoccupied as it remains with its dead-end economy. Though the Koizumi-Putin summit of January 2003 concentrated on energy and North Korea, many Japanese assume that the real objective remains recovery of four islands.

Japan-South Korea. A fifth option emerged in 1998 when Kim Dae Jung agreed, in return for a written apology over Japan's conduct in the years up to 1945, to promise that Seoul would stop playing the "historical card." Japan anticipated that at last it would have a reliable regional partner and looked forward to co-hosting the World Cup in 2002 to solidify ties. As with China a decade earlier, Japan expected to send the emperor to South Korea for the first time. This would mark the opening ceremonies and would be the culmination of normalization in political and cultural ties to buttress strong economic ties. Hopes for a free trade area with the South rose to the foreground. But Japan's approval of new middle school textbooks in 2001 rekindled Korean anger over the history issue and scuttled any chance of a visit by the emperor.

Tokyo did not give up hope, however, and interpreted the goodwill generated by the successful management of the World Cup as proof of a new era.[10] In July, weeks later, when talks on a free trade area started, the Japanese media was buoyant that relations with South Korea would finally provide the first big foreign policy success. The right wing, however, remained wary, fearing that their nationalist agenda would be sacrificed for regional understanding.[11] With South Korea more focused on North Korea than on Japan, it became clear to many, if not the right wing, that diplomatic progress with the North was Japan's key to a more mature partnership with the South.

The new regionalism. While most global attention focused on Japanese-Chinese rivalry, some Japanese and Chinese strategists anticipated a new regionalism that would lock the two countries together in an economic community that could serve as a balancing force in the world. Even if eying each other nervously, China and Japan increasingly appreciate the advantages of combined regional influence. Having hesitated about regionalism through much of the 1990s, Beijing shifted its position and also adopted a "smile diplomacy" towards Japan. Both countries proceeded through ASEAN +3 and South Korea to explore regionalism. As trade grows, so do the prospects for economic regionalism, with implications for political relations and security ties.

[9] Kawaguchi Yoriko, "Nichiro kankei o arata na reberu ni: Roshia homon o mai nishite," (Toward a New Level in Japanese-Russian Relations: In Advance of the Visit to Russia) *Chuo koron*, Nov. 2002, pp. 88–94.

[10] *Mainichi shimbun*, July 10, 2002, p. 16.

[11] "Dareka ga iwanebanaranai Whai wa 'Kankoku no boso' de kegareteshimatta," (What Nobody Would Say About the World Cup that was Stained by 'Korea Running Wild') *THEMIS*, Aug. 2002, pp. 78–79.

The sixth option therefore is for Japan to pursue regionalism, engaging China. Unlike the dream of regionalism in the early 1990s, when Japan's leadership could not easily be contested, regionalism now would presumably be a union of equals.

So much attention is paid to security tensions in Northeast Asia that few foreigners who are not active in business appreciate the momentum that continues to build for regionalism. Beijing and Tokyo may go from spat to spat over economic, political, and historical issues, but they always make up. Meanwhile, they not only are rapidly becoming more integrated economically, they are also striving to stabilize these ties in a regional framework. On the occasion of the 30th anniversary of restored relations in late September 2002, many analysts wrote about the promise of capitalizing on the economic boom and creating a new framework for relations.[12] As U.S. power grows, Tokyo may join Beijing in seeing some sort of regionalism as a necessary counterweight, even if it must be framed as a part of globalization. At the ASEAN +3 summit in early November 2002, China signed a free trade agreement designed to liberalize trade within a decade.[13] Japan was scrambling to keep up.

Japan's North Korean Diplomacy: A New Option?

When President Bush threw down the gauntlet to North Korea by labeling it part of the "axis of evil" in January 2002, Japan inevitably turned to the space between the United States and the other countries of Northeast Asia in its search for a foreign policy breakthrough. Security had become the region's foremost challenge, and Japan's secret negotiations with North Korea raised its prospects for playing an independent role in this divisive atmosphere.

East Asia's security problems, an apparent throwback to the Cold War era, arise anew with China's entrance into the WTO and negotiations over free trade agreements, the war on terror, and the spread of WMD. The United States, which champions globalization, knows that East Asia stands as globalization's ultimate proving ground. The East Asian economies retain the option of a regionalism that could counter global integration and limit U.S. economic leadership more effectively than any other region could. Moreover, the great-power aspirations of China, Japan, and Russia (which must be seen as an actor in this region as well as elsewhere in Eurasia) pose a leadership test to the United States, which must enlist Japan in a joint endeavor toward globalization.

Once the Bush foreign policy team took office in 2001, all eyes turned to bilateral relations with Washington. Sino-U.S. tensions, which rose after a U.S. reconnaissance plane was detained in spring 2001, never fully calmed

[12] Kokubun Ryosei, "'1972nen taisei' o koeta Nitchu kankei o motomete," (Look for Japanese-Chinese Relations that Go Beyond the '1972 System') *Gaiko forum*, Oct. 2002, pp. 16–23.
[13] "China's Clout Worries Neighbors," *AP*, Nov. 4, 2002.

given the new U.S. posture toward Taiwan. North Korea's ties with the United States and South Korea stalled when Bush refused to revive Clinton's engagement doctrine, which had made Kim Dae Jung's "sunshine policy" possible. Instead, the new administration emphasized strengthening ties with Japan, presumably with an extension to South Korea once a new president was elected in December 2002 to replace Kim Dae Jung. (That hope died when Roh Moo Hyun was elected amid an outpouring of anti-Americanism by young Koreans.)

In a seeming reversion to Cold War patterns, Washington frequently cajoles Tokyo to draw closer, warning it of the dangerous neighborhood it inhabits. The Bush strategy for East Asia calls for Tokyo to turn the clock back twenty years, to when the Ron-Yasu talks first recognized Japan as an "unsinkable aircraft carrier." Labeling North Korea a member of the "axis of evil" harkens back to the moral struggle against the "evil empire" of the Soviet Union, when Japan embraced the moralistic view of evil Soviets more thoroughly than any other U.S. ally. Media outrage over the fall 2002 admission of the earlier abduction of Japanese citizens provoked condemnations of Pyongyang and rekindled memories of the 1998 missile test over Japanese territory. Japanese-U.S. relations were bolstered by the shared sense of indignation after 9/11 and North Korea's acknowledgment that it was developing nuclear weapons in defiance of past promises, and Japan's quiet support for the U.S. position on defending Taiwan, along Japan's vital southern sea lanes.

The Bush administration has also stated its goal of outright containing China as a military power—its *National Security Strategy* declares that the United States will counter all challenges to its military supremacy,[14] including any Chinese arms buildup that threatens U.S. superiority. Washington no doubt hopes to assure Japan that it does not have to engage in a costly arms race with China or turn to nuclear weapons as a precaution. Japan, anxious to trim huge budget deficits in difficult economic times, may welcome this affirmation of the status quo by not begrudging bases for U.S. troops—a logistical asset in times of forward deployment, and a back-up to U.S. military force that counts in the overall pressure against China. The U.S. presence reassured Japan as North Korea's tone grew more belligerent in early 2003.

The Bush administration is willing to accept adjustments in Japan's past role to reflect global and regional changes. Where economic ties with the Soviet Union were worrisome, Japanese investment in China and growing levels of trade are appropriate to a new mood of economic engagement. Humanitarian aid to North Korea by Japan is acceptable if it is limited and carefully monitored. Also, Tokyo must be careful to follow Washington's lead on Taiwan, in order not to encourage a hasty declaration of full independence that would be

[14] David E. Sanger, "Threats and Responses: Security; Bush to Outline Doctrine of Striking Foes First," *New York Times*, Sept. 20, 2002.

needlessly provocative to Beijing. Recognizing that Japan seeks a more equal alliance, the United States may find ways to pay heed to symbols of equality, although it shows little inclination to compromise on setting the agenda.

However secure Japan may have been under the U.S. umbrella in the Nakasone era, the United States would be making a mistake if it thought that Japan is inclined to replay that scene. Evidence from the 1980s onwards points to growing impatience with the high level of dependence on the United States. The above review of the often frustrating shifts in Japan's policy before 9/11 reveals a great power at a loss to expand its regional influence. Finally, the September 2002 Koizumi visit to Pyongyang, which won wide support at home and in the region, suggests a different direction for Japanese foreign policy than that preferred by the Bush administration. Through another North Korean initiative, Japan sought to revive the entire second set of options outlined above.

Japanese officials approached the September 2002 North Korea summit hopefully. Skeptical in June 2000 of Kim Dae Jung's summit in Pyongyang, they argued that the situation had changed. The North Korean regime was in a hurry to act before Saddam Hussein was removed, which might leave it first on the "axis of evil" list, and before the December 2002 South Korean elections, when a less cooperative leader was likely to emerge. The Japanese media reported that there had been a secret overture for improved relations from Pyongyang in October 2001 and suggested that its desire had intensified after Bush's 2002 state-of-the-union address.[15] Even the conservative *Yomiuri shimbun* insisted that Japan was no mere messenger but had real negotiating power and could use its "aid card" as a bargaining chip.[16] Tokyo University professor Akihiko Tanaka explained that Koizumi's visit could be comparable in significance to Nixon's 1972 visit to China. After all, if the North had changed, regional politics would change. A joint resolution on historical matters similar to that approved by Kim Dae Jung in 1998 would transform the region's historical consciousness, just as security issues were being resolved and economic cooperation expanded.[17]

Japanese initially contained their anger, then, when Kim Jong Il admitted the abduction of Japanese citizens. Some wanted to avoid looking back, while others hoped for a soft landing with the North instead of a confrontation. But the mood turned increasingly negative as Japanese worked through the shock of the human rights tragedies for the families of kidnap victims. Additional details were revealed, and the public followed closely the visits by those still alive who had been obliged to leave family members behind in North Korea. On top of these stories came news of the North's nuclear weapons program and a standoff with the United States.

[15] *Nikkei shimbun*, Sept. 8, 2002.
[16] *Yomiuri shimbun*, Aug, 31, 2002.
[17] *Mainichi shimbun*, Sept. 15, 2002, p. 3.

Again, Japanese leaders found what had appeared to be a promising option for a diplomatic breakthrough failing to materialize. Washington would not talk to Pyongyang until it stopped its flagrant violation of previous agreements, and Pyongyang refused to discuss the matter with anyone but Washington. Tokyo could only wait on the sidelines. Meanwhile, Pyongyang saw no need to make further compromises on the abduction issue if it could not expect a payoff. The Bush administration backed multilateral diplomacy to deal with the problem, appealing directly to Jiang Zemin when he visited Bush's Crawford ranch in October and to Koizumi and Kim Dae Jung when they met with Bush the next day at the APEC summit in Mexico. But even if Tokyo was unlikely to lead the way, Japan could at least see the beginnings of a diplomatic opening.

Toward a New Framework of U.S.-Japanese Relations

Japan has yet to decide the objectives for its North Korean diplomacy. Koizumi, hoping for a continued boost in the polls and recognition within the LDP, will likely want to play a special personal role in the diplomatic process. Becoming an actor in the North Korean endgame promises to boost Tokyo's standing with Seoul, Beijing, Moscow, and Washington, and make Tokyo a player who has to be consulted on other bilateral matters. With the Asian countries concerned about U.S. unilateralism, the United States eager for Japan's support, and North Korea eager to identify sources of economic assistance, Japan stands in an enviable position.

The North Korean endgame has great meaning for Japan's own quest for a symbolic end to the era begun in 1945. After all, this is the one country with which Japan has no diplomatic relations and where discussions on the legacy of the occupation are making no progress. But since the North desperately needs Japan's money, some sort of deal just may be arrived at, and it will have implications for both the region's security and economic integration and Japan's national identity.

Meanwhile, the coordination of U.S.-Japanese relations is shifting venue. Diplomats in both countries, under fire for being too soft, have been obliged to yield power to the security agencies and planners. In the United States this was attenuated by the personal aura of Secretary of State Colin Powell, at least before the onset of the Iraq war. In Japan, however, a two-year reign of accusations against the foreign ministry came close to paralyzing foreign policy making.[18] Koizumi's new cabinet has strengthened executive power over economic policy, and can be expected to do the same in foreign policy.

[18] Murata Ryohei, *Naze Gaimusho wa dame ni natta ka?* (Why has the Foreign Ministry gone Bad?) (Tokyo: Fusosha, 2002).

With the left-leaning opposition in tatters, the right wing looms as the only alternative to either a maverick or more of the musical chairs and weak leadership that preceded Koizumi. Washington should recognize the costs of confrontation with China and North Korea if it wants to see strengthened Japanese-South Korean or Russo-Japanese ties. Japan's right-wing may say that it wants to press North Korea to end communism, to support Taiwan, and to get tougher with China over its arms buildup, but its deeper goal is to free Japan of the world order that branded it a conquered rather than a liberated state in 1945 and to reduce its dependence on the United States so as to regain full sovereignty.

The North Korean nuclear crisis had deepened by the time Secretary of State Powell visited Tokyo in late February 2003, and Japanese felt more threatened than ever by it. This was a time for Japan to draw closer to the United States, Accordingly, it supported the U.S. position in the UN Security Council on Iraq. When in danger, Japan reverts to the alliance that has protected it for more than half a century. But after the war and the North Korean crisis end, we can anticipate a renewed quest for more independence.

The Japanese right wing's campaign against the foreign ministry shows no sign of letting up. It charged that the foreign ministry was failing to defend the country's sovereignty and shaming Japan before the world when Chinese police entered the Shenyang consulate in May 2002 to remove North Korean refugees, and was further inflamed when Japan's ambassador to China and other officials were only fined and not dismissed in connection with the incident.[19] In continuing to accuse North Korea, Russia, South Korea, and China of violating Japan's sovereign rights, the Right continues to undermine the professional diplomacy vital to Japan's present security.

The mainstream in Tokyo retains the upper hand, seeking to work with all the countries that the right wing is targeting. Koizumi has worked hard to repair frayed ties with China and boost ties with South Korea, though his third visit to the Yasukuni shrine in January 2003 caused a setback. His September visit to North Korea played well in those two nations, but that is not enough. Washington should be wary of encouraging Japan's right wing: its nationalism is also targeted against U.S. power.

Koizumi stands simultaneously for four approaches to security. He declared his support for the U.S. war on terror after 9/11 and remains committed to a solid alliance. Yet he is also a supporter of regionalism, as seen in his January 2002 speech in Singapore calling for an East Asian community and rejecting the image of China as a threat. Moreover, in a September 10, 2002, speech in New York City, at a time when a gap was apparent between his position and that of Bush on handling Iraq, he made a strong appeal for unity in

[19] *Sapio*, Aug. 7, 2002.

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the international community and relying on the UN.[20] Finally, Koizumi has been careful to maintain his nationalist credentials, for instance, with his visits to the Yasukuni shrine, even if the dates were chosen so as to reduce the damage in the region. We should expect more of this balancing act ahead.

Japan's quest for national identity is the key to its quest for a foreign policy option that gives it at least symbolic freedom from the U.S. global strategy. This is neither realist thinking about maximizing power in an uncertain world nor idealist thinking about achieving some principles of regional and global order. Rather, it is a perspective preoccupied with the past. While they often criticize Chinese and Koreans for dwelling on the past, it is the Japanese who may be least able to come to terms with it, as it needs to in order to "reenter Asia."

U.S.-Japanese relations are shifting emphasis from bilateral ties to regional balancing. Washington has grown more assertive in what it seeks from Tokyo, while Tokyo focuses on its neighbors in Asia as it decides how to respond. The shift can be traced in Japan's response to changing U.S. expectations in its relations with Moscow, Beijing, Taipei, Seoul, and Pyongyang. More U.S. consistency, more active U.S. pursuit of Japan, and even a clear U.S. tilt to Japan would not quench Japan's yearning for balanced ties between Asia and the West.

Japanese deference toward Washington should not obscure real differences in policy preferences. Japanese perceived Japan-bashing in Clinton's early tough trade talks and Japan-passing in the successive searches in Clinton's second term for, breakthroughs with China and North Korea; lately it has been Japan-wooing. In each case, Tokyo had reason to doubt whether Japanese and U.S. national interests coincided. Wariness persists over whether Washington distances itself too much or draws too close, and always it is assumed that U.S. policy will pose barriers to Japan's pursuit of its own national interest.

For its part, the United States cannot succeed in the long range by separating Japan from the Asian continent. Its strategy should be to work with Japan to develop Northeast Asian regionalism, promote Russo-Japanese relations, stabilize Sino-Japanese relations, and guide Japan and South Korea toward a soft landing in North Korea. The security alliance between the United States and Japan shows no sign of dimming the latter's restless search for another security framework in Asia; Washington should see it as a building block to that end, over which it is well positioned to exert its influence.

[20] "Japan and ASEAN in East Asia: A Sincere and Open Partnership," Speech by Junichiro Koizumi, Jan. 14, 2002, Singapore, http://www.mofa.go.jp/region/asia-paci/pmv0201/index.html; "Japan-U.S. Alliance in the 21st Century: Three Challenges," by Junichiro Koizumi at the Council on Foreign Relations, http://www.mofa.go.jp/region/n-america/us/alliance.html.

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What ails Japan?

ECONOMIST SURVEY OF JAPAN, APRIL 2002

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Twelve years in the economic doldrums: what does that say about the political system? It's almost impossible to reform, argues John Grimond

IMAGINE a country where the streets are clean, drugs cause few problems and muggings are almost unheard of. Imagine further that the trains run on time, most people are well dressed and many—at least to judge by the giggling girls shopping in the capital's swankiest area—are able to afford the most expensive trifles that money can buy. In such a prosperous country, life would be long, taxes modest and unemployment certainly lower than in Europe, probably even than in America. People would be polite, thrifty and unbelligerent. Rather, they would be munificent givers of foreign aid, vigorous investors abroad and profuse lenders. Such a country is Japan, and to many it might seem paradise. Yet open a newspaper and you will see that this is a country in crisis. How so?

The newspaper headlines are likely to suggest that the problem is the banks, which are undeniably in trouble. Japan has too many of them, they are chronically weak and they are burdened by duff loans. The government admits these loans stand at ¥37 trillion, about 7% of GDP, but some say the true figure is nearer ¥70 trillion-80 trillion, and the Tokyo branch of Goldman Sachs, an investment bank, takes an even gloomier view, putting the debts of all companies either bust or potentially bust at more like ¥170 trillion (in 2000, since when conditions have grown worse). Unfortunately, these non-performing loans cannot be treated like recalcitrant creatures in a circus act; they cannot simply be written off or replaced by performing substitutes, because Japan is going through a nasty bout of both recession and deflation, whose effect on the banks is to create new bad loans out of yesterday's good ones.

Behind the banks' troubles lie those of the companies they lend to. As a broad generalisation, it can be said that few companies outside the plain that extends from Tokyo to Osaka are internationally competitive, and some—notably in retailing and construction—are in particularly frail health. Property companies also require intensive care. Since 1991, commercial property prices have dropped by an average of 84% in Japan's six biggest cities.

Share prices, too, have been skidding. In February, the Nikkei 225, the most commonly used share-price index, dropped below the Dow Jones Industrial for the first time since 1957, though in the 1980s it had briefly stood at 14 times the Dow. By chance, the Nikkei had been almost equal with the Dow after the second world war. Though it rallied in February and March, at its February 1st level, the Nikkei had fallen by three-quarters since its zenith in 1989.

The bad news does not stop there. Unemployment stands at 5.3%, just below its recent post-war record of 5.6%—and the official figure, because it excludes those too discouraged to register, understates the true picture. Electronics giants such as Fujitsu, Hitachi and Toshiba have been laying off workers in droves. Supermarkets, such as the huge Mycal chain which went bust last September and even bigger Daiei which was bailed out in January, are shedding jobs all the time, as are building companies such as Aoki and Sato Kogyo, which collapsed in December and February respectively. The number of bankruptcies last year had been surpassed only once since the war, in 1984.

With America also in recession, Japan's trade surplus has plunged too (by 40% in 2001, in dollar terms). The economy is shrinking—the Bank of Japan forecasts a contraction of 0.9-1.2% this year—and, though many hope that America's recovery will start to help Japan at the end of this year, few are optimistic about the future.

The curse of price destruction

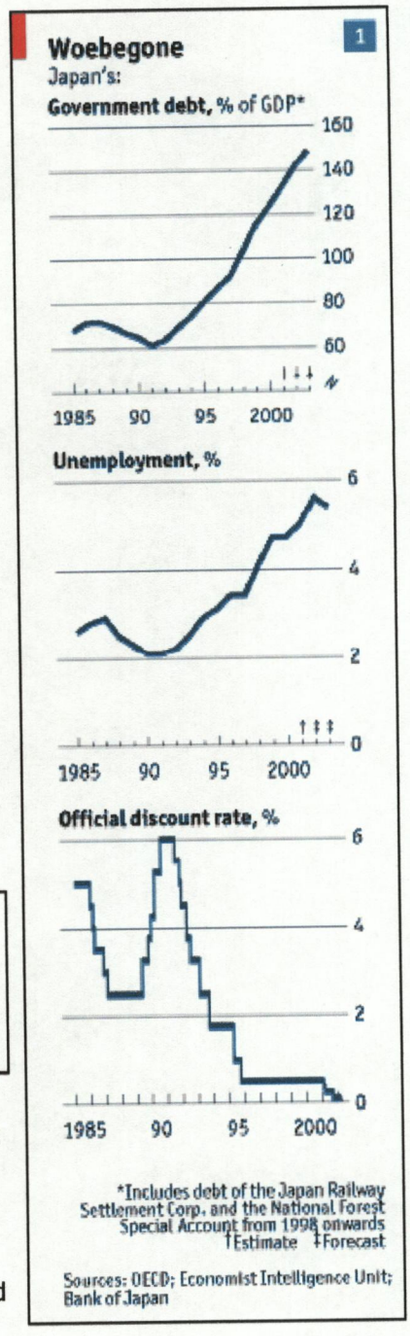
Many companies—over 2,000 of Japan's 3,700 listed businesses—are not investing but paying down their debts. Why, it may be asked, when interest rates are virtually zero? The answer is that they must clean up their balance-sheets, thrown into disarray by the fall in asset prices. Falling prices play merry hell with normal business practices, and prices are still decreasing in Japan—consumer prices by about 1% a year, as they have done since 1999 (or 1995, if your measure is the broad GDP deflator). For consumers, deflation is a delight: money grows more valuable as it rests in the purse or pocket-book. But that encourages consumers to save, not spend. For those who have borrowed, deflation is a nightmare: the burden of the debt becomes heavier simply with the passage of time. That helps to explain companies' desire to clean up their balance-sheets—and the awful problems of their creditors, the banks.

Suddenly, the idyllic, safe and prosperous Japan looks rather less attractive. Can this really be the country that little more than ten years ago was set to conquer the world? It was certainly set to buy it. In the late 1980s, after all, Japan invested $650 billion abroad, nearly half of it in the United States, where such icons as Columbia studios, Pebble Beach golf course and Rockefeller Centre in New York fell into Japanese hands. Americans had already become used to the idea of "Japan as Number One", as the title of Ezra Vogel's best-selling book put it in 1979. By the late 1980s, with companies such as Sony, Honda, Toyota and Toshiba sweeping all before them, Japan Inc truly seemed invincible.

That this was an illusion had become clear by the end of the decade, but what has been happening since? The short answer is that a succession of governments, led by 11 prime ministers since the start of 1989, has been trying to clear up after what turned out to have been a gigantic party in the 1980s. They have tried, or at least promised, more or less everything—stimulus after stimulus (the fiscal packages amounted to a grand total of ¥120 trillion between 1992 and 2000), constant restructuring, bail-outs and bankruptcies.

Now the choices are limited. If the government boosts demand with

yet more spending, or perhaps a tax cut, the national debt, which already stands at over 130% of GDP, will rise higher than Mount Fuji. If it bails out the banks, it will squander more money, probably to little avail: less than three years have passed since ¥7.5 trillion was thrown at 15 under-capitalised banks, yet the duff-loan problem persists. Interest rates can hardly be cut further from their current 0.001%. And, though the yen fell 13% against the dollar last year, any depreciation big enough to make a significant difference to exporters would probably infuriate Japan's trading partners and competitors, causing a huge row with America and setting off other devaluations in Asia.



The options boil down to a much looser monetary policy, some sort of nationalisation of the banks, or crossing fingers and hoping that Japan can continue to muddle through. Any easing of monetary policy looks improbable as long as 77-year-old Masaru Hayami remains governor of the Bank of Japan. His main concern is inflation—hence his insistence that structural reform must precede any other action. Moreover, the bank did allow an increase in the monetary base last year—of 16%—without any appreciable effect on money supply. As for nationalisation, the mere talk of it puts everyone in a spin for fear of setting off a financial crisis. The collapse of a regional bank in 1997, causing depositors to lose everything, is a painful memory for politicians, as is the failure of a big broker, Yamaichi Securities, that year, and the ensuing run on an associated savings bank.

Exchange rates
Yen, April 9th 2002

$1=	131.5	€1=	115.2
10 yuan=	158.9	100 won=	9.89

Disaster has been predicted for Japan's banks for years, and has yet to happen. That does not mean it never will, or that it is inevitable. But there is plainly a big risk, and the consequences would be severe. Japan is the world's second-biggest economy. Its fortunes are intimately tied in not just with Asia's but with America's and the rest of the world's. Exactly how convulsive a Japanese banking crisis would be would depend on the gravity of the country's current situation, which no one is really sure about. Everyone assumes that the 30 to 50 heavily indebted big companies, mostly in property and construction, would be inevitable casualties. If Goldman Sachs is right, though, almost all industries have their share of seriously rocky companies, whose collapse would be felt much more widely, both in Japan and internationally.

In the face of such a possible catastrophe, it might be thought that some corrective action would be taken. Junichiro Koizumi, who has been prime minister for a year, came to power promising reform. But even Mr Koizumi's greatest admirers admit the task may be too great for him.

All this prompts some questions. First, since Japan has lurched from recession to recession—the current one is the fourth in ten years—and since the 1990s have been called "the lost decade" for several years now, why has concerted action not been taken before? And, second, will Mr Koizumi succeed where others have failed, or, perish the thought, is the political system that delivered Japan's economic miracle with such panache after the war now incapable of seeing the economy through to its new, mature stage? These are the questions this survey will seek to answer.

Economist.com RESEARCH TOOLS SURVEYS

How did it get into this mess?

Apr 18th 2002
From The Economist print edition

Japan Inc heads for Chapter 11

Gettyone

Now they point down

IF JAPANESE politicians have shied away from trying to sort out the country's problems, that may be partly because it is so difficult to identify where one problem ends and the next begins. Anyone looking for neat separations in Japan will search in vain. Instead, academics usually refer to an "iron triangle" comprising big business, the long-ruling Liberal Democratic Party (LDP) and the bureaucracy, whose interlocking relations form a nexus of power. And as with the power-wielders, so with the activities they control: none can be said to be discretely economic, or political, or bureaucratic; they are usually all three. So if you wonder how Japan got into its current mess, it is hard to know where to begin. But a start can be made by looking at industry, business and the banks.

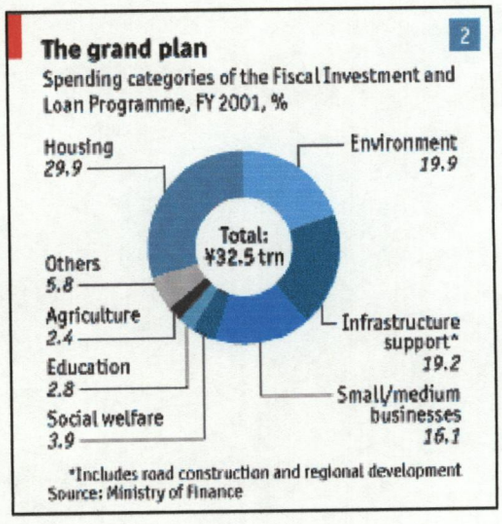
Japan's banks are not notably inefficient by international standards, but they have plainly engaged in some foolish lending. Why? One reason is that, after the Plaza currency accord in 1985 led to an appreciation of the yen, the Ministry of Finance opened the monetary throttle and lowered interest rates. That set off a borrowing binge, with much of the money flowing into property. Before long, prices—which were set not by the market but by indexes drawn up by bureaucrats to suit their own purposes—went crazy. The gardens of the Imperial Palace in central Tokyo were said to be theoretically worth as much as the entire state of California, or all of Canada. Borrowing became easy, since land was used as collateral for almost all bank loans. Share prices shot up; the Nikkei doubled between 1987 and 1989. And because Japanese banks and businesses have long had huge holdings in each other, the popping of the speculative bubble brought both of them crashing down together.

The banks had also been lending at the behest of bureaucrats—few of whom are trained economists—to companies they happened to like. This followed a "long-standing social practice", as Noriko Hama, of Mitsubishi Research Institute puts it, whereby the banks were treated as quasi-public-sector organisations to be used to get Japan's post-war business back on its feet. Next came the country's spectacular macroeconomic growth, fostered to some degree by the system of cross-shareholdings. But as the economy grew more complex, the collaborative relations between banks and businesses turned in the early 1980s to collusion and even conspiracy. As interest rates fell, the banks began to lend to poorly managed land developers and even gangsters. Then it all went wrong.

The politicians were hardly blameless in all this. They pumped money—taxpayers' money—into companies that were so inefficient that they should have been allowed to go bust. Their motives

were not all bad. In a society where work is all, especially for men, and welfare benefits limited, the politicians were desperate to avoid unemployment. They therefore used some industries, notably construction, to soak up labour laid off by other industries. Construction was also used as an instrument of regional aid. By building roads, bridges, airports, tunnels, no matter how unnecessary, they could direct money and jobs to the many parts of the country with no efficient companies.

The construction companies showed their appreciation by giving generously to their local member of the Diet (parliament) and to the "road tribe" who sat on the LDP's policymaking committees in Tokyo. Some of the money was given openly, much more probably rubbed off through rigged contracts. In any event, even today the building budget is gigantic: construction-related spending has comfortably exceeded the budget of the American Defence Department in recent years, and about 10% of Japan's workforce, some 6m people, still derive their jobs from it, far more than in other rich countries. Unsupported, about half the industry might collapse, throwing millions out of work.



Not all of Japan's industry is inefficient, though. The parts that have been exposed to foreign competition, which drove the country's post-war GNPism, are proven world-beaters. But practically all of industry has, by tradition, been to some degree influenced or controlled by non-commercial actors—if not politicians, then bureaucrats. This "administrative guidance" was given partly informally, partly through bureaucratic control of the access to capital, partly through regulation. In a heavily regulated state, the bureaucrats could and did allow the *keiretsu*—the bank-centred conglomerates that dominate the economy—to make arrangements to their own advantage. The bureaucrats' main concern was to ensure a satisfactory flow of corporation tax, and during the good years it was not difficult for them to do this by fixing the pre-tax profits of the banks.

The perfect arrangement

For years it all worked well. With their flows of capital assured, Japanese companies were able to take the long view. With the help of lifetime employment, pliant enterprise unions and a seniority system whereby labour came cheap at the outset in return for guaranteed rewards at the end, companies could invest in research and development. Productivity and profits soared, and everyone grew rich.

But the bureaucrats guiding this venture were not infallible. In particular, they chose to operate the financial and banking system as though Japan were an economy short of savings, when in reality centuries of uncertainty about the future—always likely to be punctuated by earthquakes, typhoons, tsunami and volcanic eruptions—have made the Japanese among the most thrifty of peoples. Unfortunately, their thrift now contributes to the lack of demand, which keeps the economy mired in recession. Unfortunately, too, though they are the biggest exporters of capital in the world, their savings swell the coffers of the banks, not to mention some other formidable institutions at home, thus complicating the bad-debt problem.

At least until next March, the bulk of these savings are guaranteed by the government. That is one reason why those in authority have no wish to see too much carnage among the banks. Yet they also know that any bail-out of the banks will be intensely unpopular with the voters. Unless their

own money is at risk, those voters will surely see any rescue as a lifeline for the incompetent friends of collusive politicians and bureaucrats.

But not all savings in Japan go into the banks. The most trusted institution, and certainly the largest, is the post office, whose assets stand at ¥250 trillion, excluding the postal life insurance system's ¥123 trillion. These two sources of funds, plus the social-security contributions gathered through payroll taxes, feed the Fiscal Investment and Loan Programme, the FILP. Through this programme, the Ministry of Finance lends money at subsidised rates to a variety of institutions and projects. In other words, money is distributed according to a grand plan worked out in the ministries and financed by the banks and the postal system: no wonder aspects of Japan are so often likened to the Soviet Union.

Since the bureaucrats have always lent on the basis of equality of access to cheap funds, the successful have not been rewarded and the unsuccessful punished, as economic logic would demand. In the days of high growth, that did not matter. The lending then was mostly to industrial borrowers and the system seemed to work all right, or at least its shortcomings could be hidden. Nowadays, though, the biggest borrower is the Housing Loan Corporation, which provides low-cost mortgages—undercutting private-sector competitors (just as the postal life-insurance system undercuts its private competitors) and thus contributing to the country's current economic mess. All told, the government has been providing over ¥5 trillion a year to keep the Housing Loan Corporation and other "special corporations" afloat.

Mr Koizumi wants to change all this. But why did no one try in the 1990s? The answer lies in the mysterious world encompassed by Nagatacho, Kasumigaseki and Toranomon, the homes of, respectively, the Diet, the main ministries and the special corporations.

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Economist.com RESEARCH TOOLS SURVEYS

Corruption, construction, conservatism

Apr 18th 2002
From The Economist print edition

The bureaucrats and politicians have much to answer for

Bridgeman Art Library

Even mightier armed with pens

THE bizarre FILP system did not in fact get through the 1990s wholly free from assault. Ryutaro Hashimoto, prime minister from 1996 to 1998, made a start on tackling it when he was in reform-minded mood. But look at what he was up against.

First, the bureaucrats. The people who administer the system, the heirs of those who devised it, stand to gain enormously from its perpetuation. One way they do so is through *amakudari* (descent from heaven), the practice whereby top bureaucrats on retirement land in comfortable sinecures in the industries they used to be responsible for. That is bad enough: it leads to an utterly improper relationship between the civil servants and the very people who, in a system less collusive and secretive than Japan's, they would be monitoring. But the sinecures they fill on retirement are not only in private industry, they are also in the special corporations such as the one for housing (subsidy in 2000 ¥443 billion) and the one for highways (¥306 billion).

When they come down from heaven, these bureaucrats land on their feet. Retiring in their 50s, they can hope to spend up to 30 years doing the rounds among the special corporations, and over ten years the senior ones may earn $1m or so in lump-sum fees alone, half of it tax-free. They can hardly be expected to welcome an end to such post-celestial rewards.

And bureaucrats are creatures of extraordinary power in Japan. Todays' elite are the functional descendants of the samurai, the warrior class that provided the administration in feudal Japan. After the Meiji restoration in 1868, these bureaucrats became the servants of the emperor, whose lineage supposedly came from the deities. To the prestige this gave them, the necessities of the second world war added power, notably through "the 1940 system" which put them in charge of the entire industrial economy. After the war that power grew, largely thanks to the desire of the victorious Americans to rule indirectly through the bureaucracy rather than through a political elite. Soon the latter-day samurai were involved in every aspect of control, from micromanagement of the economy to writing the laws of the land. To this day, says Stephen Church of Analytica Japan, a consultancy, "It is widely...believed to be true that the civil-servant vice-ministers meet on Mondays and Thursdays to decide the agenda to be rubber-stamped by the cabinet on Tuesdays and Fridays."

Mr Church sees three main influences on the Japanese bureaucracy: Yamato (the state that started to emerge about 1,700 years ago, introducing a tradition of obfuscation of responsibility), China (where flourished a mandarinate of superior persons) and Prussia (with its rule-bound civil

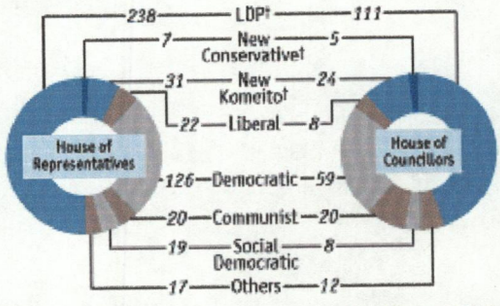
service). Masao Miyamoto, a psychiatrist and former bureaucrat himself, saw in the modern bureaucracy a microcosm of Japanese society. In "The Straitjacket Society" (1994), he enumerated its main characteristics, including control of the market through permits and regulations (hence hostility to deregulation and opening up); giving priority to producers over consumers (to promote Japan Inc); the philosophy of *messhi hoko*, self-sacrifice for the sake of the group (ie, Japan Inc, once again); and the promotion of conformity, especially through the education system (to reduce dissent). "What distinguishes Japan's 'totalitarianism'," he wrote, "is that there is no observable Big Brother figure. It is the structure itself that functions as Big brother, [which] makes it almost impossible to change the system."

Serving the people

With a caste of people exercising such enormous and deep-rooted power, Japan might be considered an oligarchy or an autocracy. It is of course a democracy, and not just in form. Indeed, in at least one respect, it is highly democratic: that is, that elected politicians dutifully serve the people, or, to be more exact, their constituents (and, no doubt, themselves). By tradition at least, they do not engage in forming policy, nor do they really have any sense of the common good. In the Japanese system, politicians chiefly act as mediators between the bureaucrats and the voters, a role they perform mainly by delivering goodies back to their districts.

Wheels within wheels 3

Diet party seats*



LDP factions, both houses‡

	Number	Cabinet posts
Hashimoto	101	2
Mori	59	3
Eto	55	1
Horiuchi	43	1
Yamasaki	23	1
Kato	15	1
Komoto	13	1
Kono	12	0
Unaffiliated	25	2

Source: *Look Japan* *As of August 1st 2001 †Governing coalition ‡As of November 2001

The main vehicle for doing this is the LDP, which has ruled, for all but a few months in 1993-94, since 1955. This makes Japan a one-party state in many respects, with some similarities to the Soviet Union (central planning, enforced conformity), more to pre-2000 Mexico (reformers and "dinosaurs" within the ruling party) and even more to pre-1990s Italy (constant changes of prime minister without any change of party control, manipulation of power from behind the scenes, an opaque faction system within the ruling party). To these characteristics could be added two more that are common to all one-party states: corruption and conservatism.

In such a system, huge quantities of money flow between government and voters. Japanese politicians are expected, for instance, to be lavish givers to their constituents when they marry, but largesse distributed by public works through politicians' *koenkai*, their personal support organisations, plays an even bigger part. This is where the construction industry comes in again. The country is littered with airports that no one uses, bridges that carry no traffic and roads that go nowhere. To give just one example, the Seto inland sea is already served by three bridges connecting the islands of Shikoku and Honshu, yet vested interests have been agitating for two more. Not for nothing is Japan known as the construction state.

Benefiting from all this are politicians not just in Tokyo but in local governments too, as well as the

building companies and, through them, at least some ordinary people. The cost is vast. Much of the money goes on projects that serve no useful purpose. Much rubs off corruptly (and brazenly: one boondoggle involving a bridge across Tokyo Bay was so huge that the politician behind it openly said he would be content with 2% rather than the usual 3%). And meanwhile the government's debt heads ever higher.

It is not hard to see why the LDP is so resistant to change. Its two main purposes—rent-seeking and self-perpetuation through electoral success—have both flourished under the status quo. Almost every interest-group imaginable is represented within its ranks, and it takes care to look after them. Farmers are treated especially well, mainly through protection of their markets. And, thanks to a gerrymandered electoral system, their votes count disproportionately in the Diet.

How does the LDP get away with it? Partly at least thanks to a supine judiciary, which is always loth to defy parliament—accepting in one instance an electoral arrangement whereby five urban votes were considered equal to a single rural one. The law, it should be noted, does not count for much in Japan. Although, or perhaps because, the country's top bureaucrats have typically graduated from Tokyo University's law department, the number of lawyers is controlled by the government. At present it stands at just over 18,000. The United States, with a population a little over double Japan's, has 891,000.

A system in which power lies in an amorphous swamp of bureaucracy and ruling party, each plumbed into the private sector, is unlikely to welcome scrutiny, and indeed secrecy is one of its notable features. Even more serious perhaps is the general lack of any sense of responsibility or accountability. Who, for instance, might take the blame for the problems of the banks, or the money squandered by the special corporations? People sometimes bow out—literally—when caught in some egregious malpractice; they may even commit suicide, if honour is considered at stake. But among bureaucrats at least, honour never seems to be at stake where the victims are mere taxpayers.

Never rock the boat

Complaisant attitudes are fortified by compliant institutions. To some extent this is a consequence of the post-war constitution, which was partly written by the Americans to ensure that Japan stayed politically and militarily weak. It has never been amended. In any event, most ministries are adept at serving their clients, and not much else. Some, it is true, have done much better than that: during its heyday, the Ministry of International Trade and Industry was a master of picking and backing winners. But that was when things were going well. When things go badly, the ministries neither propel forward any individual to take charge nor do they provide the institutional impetus needed for corrective action. Japan has no equivalent to the British Treasury's public-spending review, for instance, nor does it have any institution like America's Congressional Budget Office or its General Accounting Office. Diet members, each with only three staffers paid for by the government, are particularly poorly served. They huddle in tiny offices, looking after constituents and interest-groups and deferring to more senior figures on weightier matters.

At the apex is the prime minister. In the past ten years prime ministers have come and gone every year or so, grey old men, most of them, frequently controlled by faction leaders behind the scenes and unable anyway to do much before some scandal or failure unseated them. The factions they serve may have some modest ideological flavour, but most are vehicles for distributing party and ministerial posts; they seldom promote reform. Mr Koizumi's predecessor, Yoshiro Mori, hardly promoted anything. On some issues, the dominant Hashimoto faction—named after Ryutaro Hashimoto, but in fact the faction of Kakuei Tanaka, who came to power in 1972—simply failed to consult him at all.

The civil servants, however clever, are neither trained nor disposed to provide the prime minister with a skilful diagnosis when things go awry. They can and do offer proposals to be endorsed with little change by the LDP's policy committees, but conservatism, self-interest and the lack of accountability usually ensure that these fall far short of what is needed. In short, the status quo is a recipe for failure.

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CISCO SYSTEMS

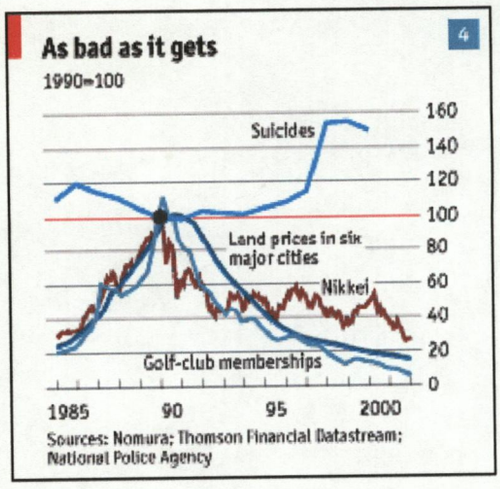
Consensus and contraction

Apr 18th 2002
From The Economist print edition

Social conventions and demography add to the sclerosis

AS IF the powers-that-be within the iron triangle had not made matters hard enough to put right, everything is made even more difficult by a concatenation of deep-rooted tradition and new circumstances. Together these provide a formidable obstacle to political change.

Japanese society is consensual. The Japanese themselves consider *wa*, harmony, to be its foundation, and though the facts may not support this belief, conflict is undoubtedly frowned upon and consensus favoured. Plenty of good consequences follow from this. Japan appears to be an exceptionally contented society. It is certainly an egalitarian one, with a huge middle class, little social envy and remarkably small income disparities, especially considering that the transition from poverty to Prada has happened so fast. In how many countries could a fall in asset values as big as that just experienced in Japan occur without huge social disruption (golf-club membership fees, an important indicator in such a golf-crazed country, fell by 93% between 1989 and 2001)?



But, as with so many aspects of Japan, the good tends to be accompanied by the bad. It is partly the desire to ensure social harmony that has led to the cosseting of rotten businesses and incompetent public-sector corporations: unemployment, even in the short term, has to be avoided at all costs. That makes any kind of restructuring difficult. Moreover, it is possible that, in the face of determined vested interests, Japan may actually need a bit of conflict. As for consensus, if no action can be taken until everyone agrees on it, then no action will be taken. A consensual system inevitably gives the power of veto to one and all. And if action is in fact taken, the person who holds out longest will get his way.

Another consequence of this cohesive egalitarianism is that it reinforces the lack of individualism. How many Japanese excel on the world stage? Akira Kurosawa (film-maker, now dead)? Sadako Ogata (former head of the UN's refugee agency)? Seiji Ozawa (conductor)? Japanese do not like to stand out in a crowd. They tend to operate in groups, and any kind of breaking away is frowned upon. This does wonders for *wa*, but it discourages risk-taking. It also militates against the creation of a culture of personal responsibility, which is necessary for a culture of accountability. And it does nothing to encourage leadership, the lack of which is so conspicuous.

The fondness for group activity means most Japanese travel in groups, a habit that is said to date back centuries to the days when they flocked from temple to temple to hear Buddhist teachers. Nowadays it means that when they go abroad, instead of meeting foreigners, they tend to talk

only to each other, and thus learn little at first hand of people beyond their shores.

Japan closes itself off from the world in other ways too. The Japanese are less ethnically homogeneous than they would like to believe, but the absence of people who are obviously of foreign descent is a striking feature of even Tokyo, let alone places beyond the capital. Contrary to what some Japanese believe—Yasuhiro Nakasone, a prime minister in the mid-1980s, once remarked that "the Japanese have done well for...2000 years because there are no foreign races in the country"—foreigners actually bring in ideas and practices that can make life better. Murray Sayle, a long-standing observer of the Japanese scene, points out that Japan's isolationism keeps out useful immigrants from, say, India's software industry, but lets in dubious "citizens" such as Peru's disgraced ex-president, Alberto Fujimori.

Impact

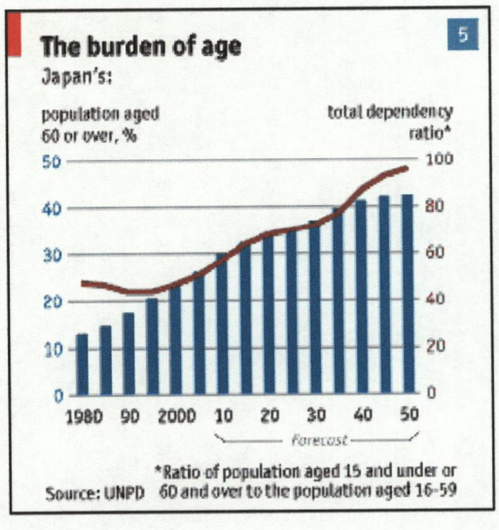
It beats being a daughter-in-law

The old, old problem

On top of all this comes another of those double-edged sabres being felt so sharply in today's Japan: the demographic consequence of decades of good health and prosperity. During the 1990s, Japan has been ageing faster than any other society in the world, meaning that the proportion of elderly is growing as the proportion of young diminishes. Between 1970 and 1994, the over-65s doubled, from 7% to 14%, thus coming to outnumber those aged 15 and under. Today almost one Japanese household in three has at least one elderly member. By 2015, over a quarter of the population will be over 65—a higher proportion than in any other country.

The ageing reflects the excellent nutrition and health of the Japanese. But the concomitant prosperity has brought different effects for the young. The most notable is their reluctance to have babies. The number of births has been declining since the 1960s, but it was not until the 1970s that the fertility rate—the average number of children born to each woman over a lifetime—fell below 2.1, the figure needed for a population to maintain its size. By the 1990s, the rate had fallen to 1.41.

There are two ways of remedying such a situation: a change in habits, or immigration. At present, young Japanese show few signs of wanting to get back to breeding. They are marrying later—men at the age of nearly 29 in 1994 (compared with 26 in 1950), women at over 26 (22 in 1950)—and therefore have babies later and in smaller numbers. In Japan, as elsewhere, marriage appears to be going out of fashion. The divorce rate rose by half between 1990 and 1998, and more and more Japanese are choosing not to marry at all.



Among the reasons for this is a peculiarly Japanese one: the wife of an eldest son in Japan is, by tradition, expected to live in the family home and look after her parents-in-law. Most unmarried sons in Japan are, these days, eldest sons, and the prospect of caring for their ever-more antique parents is not altogether enticing for an educated young Japanese woman. Far nicer to go on living rent-free with

her own parents as a "parasite single", or become a "freeter"—one who drifts from job to job rather than settling down to conventional employment. Some 10% of the 15m unmarried Japanese aged 20-34 are freeters.

The Japanese differ from their counterparts in other rich countries in one other crucial respect: though they turn up their noses at marriage, they do not have children outside it. Whereas 62% of all births in Iceland occur out of wedlock and 38% in Britain, in Japan the rate is just 1%. The stigma of illegitimacy, combined with the relative ease with which an abortion can be obtained, means that almost all Japanese children are born to married couples.

Demographers predict that by 2010 the number of Japanese aged 20 to 29 will have fallen by over 4m. If Japan wanted, it could make up numbers the way other countries do, by accepting immigrants. But in Japan foreigners are tolerated more than welcomed—and often held responsible for the country's low but rising crime rate.

That tends to make their position awkward. Of the total of about 1.7m official foreign residents (1.3% of the population), the biggest group is ethnically Korean. In most countries the Koreans would not be considered aliens, since most of them, and often their parents and grandparents, were born in Japan, the descendants of forced labourers brought over during Japan's annexation of Korea in 1910-45. But only if at least one parent was Japanese are they automatically eligible for citizenship.

The two other main groups are the 300,000 or so Chinese (a tenth of them students) and the 225,000 Brazilians (ethnic Japanese whose forebears emigrated to Brazil). In addition, 54,000 visas are granted each year to "entertainment" workers, many of them Filipinas who work as prostitutes in "hostess" bars. But, however useful such people may be—and never mind the less established "foreign visitors" who staff the nightclubs, coffee shops, love hotels and slot-machine arcades of places like the Kabukicho district of Tokyo—they will find it hard to become Japanese. Naturalisation is rare. Although one man of Finnish descent, Marutei Tsurunen, now sits in the Diet as a citizen, only about 100 westerners are naturalised each year. *Jus sanguinis*, the law of the bloodline, is the principle on which citizenship generally rests (suggesting that the leader of Britain's Conservative Party, Iain Duncan Smith, who had a Japanese great-grandmother, might be able to claim a passport, though in fact the one-Japanese-parent requirement would deny it to him).

Why does all this matter? Chiefly for economic reasons. First is the familiar problem of all ageing societies—that a dwindling band of young has to carry a swelling band of oldies. This raises problems for pensions (Japan has a pay-as-you-go system) and health care (the number of people with senile dementia is set to reach 2.6m in 2015, up from 1m in 1990). It may also affect productivity, if some people have, or choose, to work on into old age.

Japan, however, is also suffering an effect that arises from its practice of underpaying young workers as part of an implicit bargain in which, after automatic promotion, they will be overpaid when older. The "seniority" system worked well when the population was predominantly young: it meant cheap labour. Moreover, the deferred cost probably did not seem unduly high; though life expectancy had risen for men from 50 years in 1947 to 69 in the 1960s, few would have predicted that by 2000 it would have reached 78. But the expense is not just a matter of providing for pensioners. Already, as the post-war baby-boomers reach their 50s, Japan's lifetime-employers are carrying the cost of paying their senior workers over the odds in return for all the wages they forwent two or three decades ago.

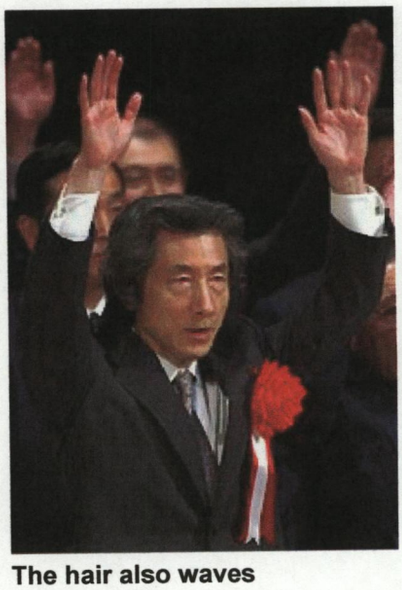
Making matters worse, at least for those who believe that Japan has to reform, are the political effects of an ageing society. Older people tend to resist change. They are loyal to old habits and old politicians. And, in Japan, they keep their savings unproductively in the post office.

Lionheart to the rescue?

Apr 18th 2002
From The Economist print edition

Saviour of his party, if of nothing else

AP



The hair also waves

TO SORT out the mess, enter, last April 26th, one Junichiro Koizumi. To some, Mr Koizumi may seem an improbable new broom. His family has been part of the system since before the war, his grandfather having served 35 years in the lower house of the Diet (some as a cabinet minister), his father having served 25 (ditto) and he himself having already clocked up 28 (and yes, he too has been a minister before).

Despite his conventional background, he is nonetheless an unusual figure in Japanese politics. A long-standing admirer of Takeo Fukuda, a prime minister (1976-78) with a reputation for reform, he is nowadays a member of no faction, and indeed has long criticised the faction system and the cosy relations among politicians and business on which it thrives. He is relatively young by the standards of Japanese politicians (60), divorced, speaks a bit of English (attended the London School of Economics for a while) and, more important, addresses his countrymen in language they can understand. Indeed, he is a master of television, the popular press (particularly sports papers) and modern media in general; his e-mail magazine *Lionheart* goes out to over 2m subscribers each week. With flamboyant wavy hair, a weakness for both opera and heavy metal, and all the appearance of a human being rather than a waxwork gerontocrat, he proved last year to be wildly popular with the Japanese voters.

The ecstatic enthusiasm he aroused swept him first to the leadership of the LDP, thus to the prime ministership, and then to triumph at the head of his party in the election for the upper house in July. Since his campaign had been based partly on criticism of that party and partly on the need for painful reform, all this seemed rather extraordinary. The party elders, who had accepted his rise to the LDP leadership only because they shared the universal view that the alternative was certain defeat, could not quite bring themselves to welcome his victory. But the LDP had had its best result since 1992.

Mr Koizumi soon showed that he had been sincere in promising change. Though the Hashimoto faction remained much the largest in the Diet, he gave it only two cabinet positions, down from five in the outgoing government of Mr Mori: merit, not faction, was what Mr Koizumi sought. He broke with tradition, too, by bringing in outsiders, giving three portfolios to non-politicians from the private sector. Bolder still, he handed five of his 17 cabinet jobs to women, one of whom, Makiko Tanaka, was almost as popular as he was, and for much the same reasons: she was seen as a straight-speaking, heterodox reformer determined to do battle with the system, even though she was the daughter of perhaps the most corrupt and manipulative of modern Japan's prime

ministers.

The new-broom effect

Mr Koizumi then lost no time in announcing an ambitious programme of reform. In his inaugural address last May, he was promising "structural reform without sanctuary"—meaning no quarter would be given to sacred cows. The next month he was unveiling programmes to transform government through privatisation and regulatory reform, to bring in a new tax system, to tackle the banks' bad debts, to liberate local governments and to control the budget deficit by issuing no more than ¥30 trillion of new bonds. In August, the cabinet adopted a budget that cut public-works spending by 10%. And in September he declared war on the special corporations.

It was all great stuff, and the pundits loved it. So did the public: Mr Koizumi's popularity ratings soared. But critics pointed out that most of what he promised to do concerned the public sector. This was certainly ripe for reform, but the action plan left the immediate problem of the banks virtually untouched. And there were, inevitably, doubts about whether Mr Koizumi, however good his intentions, would be able to achieve his ends.

As an old hand, Mr Koizumi knows the LDP well. Within the party he has had two allies, Taku Yamasaki and Koichi Kato, whose surnames' initials, along with Mr Koizumi's, form the letters YKK, by which the trio are known. The new leader made Mr Yamasaki secretary-general of the party, where he remains influential. But Mr Kato (a former secretary-general) resigned from the Diet this month amid allegations that he had misappropriated political donations; he had already been weakened by a bungled attempt to become prime minister 18 months ago.

Mr Koizumi has brought in several outsiders to offer advice: a historian, Naoki Inose, now helps him prepare the special corporations for slaughter, for instance, and an economist, Haruo Shimada, offers ideas for microeconomic reform. He also leans heavily on his chief cabinet secretary, Yasuo Fukuda, the son of his prime-ministerial mentor. But the two on whom he relies most are Heizo Takenaka, the minister for economic and fiscal policy, and Nobuteru Ishihara, the minister for administrative and regulatory reform, both considered highly capable. In so far as politicians run things in Japan, these two, and Mr Koizumi himself, are the ones who count. All three, incidentally, are graduates of Keio University, which sets them at odds with the top bureaucrats, most of whom are Tokyo University men.

What of the policymaking institutions? Mr Koizumi's aim is to remove policymaking from the clutches of the LDP tribesmen and the bureaucrats. The idea is that he and his associates should make their proposals, have them endorsed by the cabinet and, when appropriate, by the new (albeit pre-Koizumi) Council on Economic and Fiscal Policy, thus bypassing the party's Policy Research Council and the vested interests in the ministries. It is a nice idea and to some extent it works. But in some areas it does not: Japan's foreign aid, for example, is still largely dictated by interest-groups (ie, the construction lobby), and the party's tax committee remains powerful.

The clean sweep that didn't happen

In truth, the LDP's dinosaurs will not go quietly. Plenty remain in positions of influence: the deputy chairman of the Policy Research Council's subcommittee on highways is none other than Hiromu Nonaka, the power behind Mr Mori's do-nothing administration. In January, 13 highway projects that had been killed a month earlier were resurrected by the road tribe. In February, Mr Koizumi's health reforms were under threat.

This does not mean that Mr Koizumi has had no successes. Some consider it a triumph that he should even be proposing the abolition of such outfits as the highway-construction corporation, or the ending of the system of hypothecated taxes that helps to sustain their spending habits. But Mr Koizumi has made some mistakes: he caused a needless fuss last August by insisting on visiting the Yasukuni shrine, where Japan's war dead—and some war criminals—are commemorated. He was then somewhat sidetracked from domestic matters by Japan's response to September 11th. And all the while he has shown himself unwilling to take controversial action to deal with the banks' bad loans.

Doubts about the strength of his commitment to reform were reinforced in January when he proudly took the credit for the ¥420 billion bank bail-out that saved the Daiei retail chain from going under. A month earlier he had seemed to welcome the collapse of the Aoki building company, saying it was "a sign that structural reforms were making smooth progress." Of course, Mr Koizumi knew that Japan's retail industry was overcrowded and inefficient, but Daiei was a bigger company, with 50,000 employees. Next the government was intervening to help Snow Brand, a food business that had admitted to repackaging beef to enable it to receive special government subsidies. Courage seemed to be failing the Lionheart.

That was soon to be confirmed in many people's minds. On January 29th, driven to distraction by her persistent feuding, he sacked Ms Tanaka, his turbulent foreign minister. Her squabbles with her staff had often seemed pointless and petty, and she had achieved virtually nothing on the diplomatic front, but the public had liked the way she tried to defy the bureaucrats, who had now won a decisive victory over her. Mr Koizumi's popularity rating—from which he derives virtually all his strength—dropped from nearly 80% to 56%. Worse, as time went by, it was revealed that one of those with whom she had been feuding, an LDP politician of the old school called Muneo Suzuki, had been intricately and quite improperly involved in Foreign Ministry business. Accused of bid-rigging and other malpractices, Mr Suzuki was obliged to resign from the party, amid cries that Mr Koizumi had taken the side of a dinosaur of the worst kind against the virtuous Ms Tanaka. The scandal knocked another 12 points off Mr Koizumi's popularity rating, leaving his popular base as uncertain as his reformist credentials.

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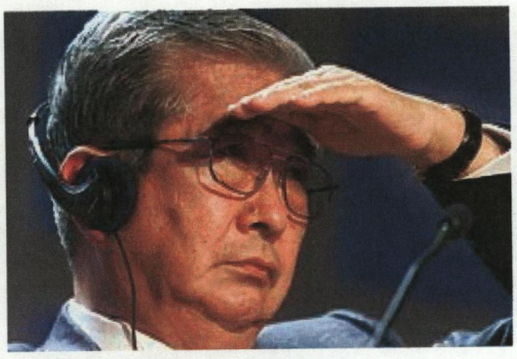
The regions that can say no

Apr 18th 2002
From The Economist print edition

Something is stirring in the prefectures

AP



Ishihara spots an American

A FEW years ago, a visitor to Japan who asked for suggestions for places to visit outside the capital could be told, "Don't bother. Everyone you need to see can be found within a mile or so of the Palace Hotel." No longer. It would be wrong to say that power has overnight been devolved to the regions, but some of the things that are happening outside Tokyo may herald bigger changes than can be delivered by any single reformer, even a lion-hearted prime minister.

Here is a tiny example: in January, Maihara, a town of 12,700 people in Shiga prefecture, held the first election in the country in which permanent foreign residents were allowed to vote. Bigger changes are happening elsewhere. In Mie prefecture, a dispute about whether to build a nuclear power plant had been running for 37 years before a new governor, Masayasu Kitagawa, broke with all tradition in 2000 by simply deciding against it. In a country that depends on nuclear power for 35% of its electricity, the consequences were felt much farther afield.

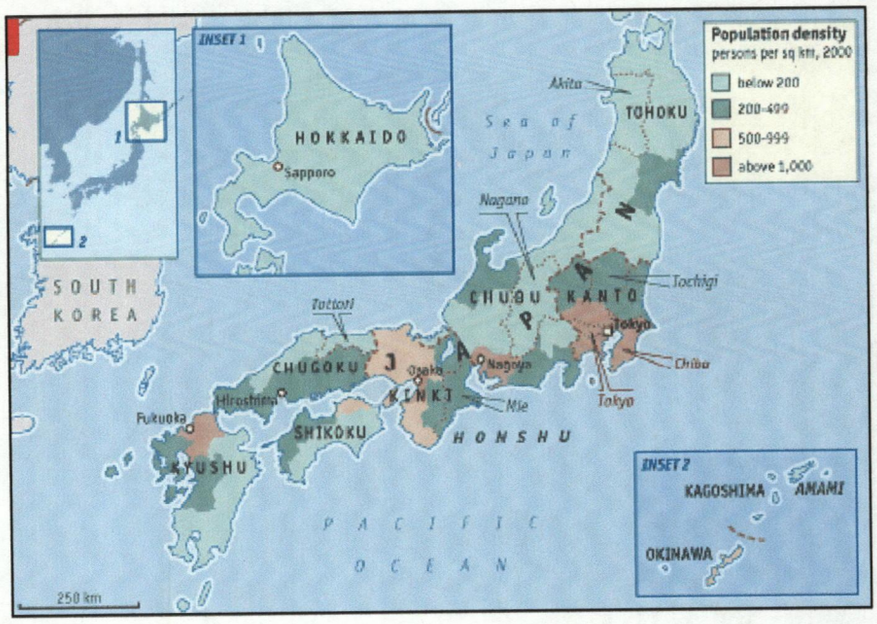
Mr Kitagawa is one of a new breed of governors—independent of party, independent of ties to business and, at least in his case, independent even of ties to ties: in a bid to save money on electricity, Mie's officials do not have to wear suits or ties to work in the summer so that the air-conditioning need not be turned on until the temperature reaches 28°C (82°F). The annual saving is ¥500,000.

Mr Kitagawa has cut about 800 budget items out of the 3,300 he inherited when he took office in 1995, but his real claim to be a reformer rests not on saving money but on his belief that the voters come first. "You must start from the demand side," he says, "not the supply side," before launching an attack on the bureaucracy, the LDP, Tokyo University, centralisation, environmental ruin and the rest.

The beauty of grass roots

The people of Mie love it. So, apparently, do the people of Akita, Chiba, Nagano, Tochigi, Tottori and Tokyo itself, in all of which places new-breed governors have been installed. In Akita, a rural prefecture in northern Honshu, the LDP candidate was trounced a year ago by the incumbent governor, Sukeshiro Terata, who ran unattached to any party. A month earlier in Chiba, which abuts Tokyo, a 68-year-old woman, Akiko Domoto, smote both the LDP and the Democratic and

Communist Parties. Miss Domoto, a former television reporter, carried the day despite having business, the trade unions and the parties all ranged against her. She started her campaign with a group of only 60 supporters.



Yasuo Tanaka, the governor of Nagano prefecture since 2000, is a playboy novelist who shows his commitment to open government by sitting behind glass walls. The new governor of Tochigi prefecture, Akio Fukuda, defeated a former bureaucrat who was supported by all the main parties. In Tottori, Yoshihiro Katayama has amazed everybody by opening the prefecture's books to one and all.

Some of the new breed may yet disappoint; indeed Mr Tanaka, in his tight leather suits, is already the butt of criticism. Much the most controversial, though, is the governor of Tokyo, Shintaro Ishihara. He has a new contempt for the establishment and a populist nose to go with it: when he learnt that many banks were paying no corporate taxes, he slapped a 3% tax (since ruled illegal) on the gross operating revenues of all banks headquartered in Tokyo. But his notoriety derives mainly from his nationalism. An early admirer of Yukio Mishima, an accomplished author who committed ritual suicide in 1970, calling for a revival of militarism, Mr Ishihara is also a successful novelist, though he is better known for his non-fiction book, "The Japan That Can Say No", an anti-American diatribe.

Whether he is dangerous or merely sinister is a matter for conjecture. He is capable of xenophobia, calling on the armed forces to be vigilant about foreigners in the event of an earthquake, and writing utter nonsense about Japan "liberating" Asia in the war. He has a gift for catching the public mood, first with his novels, especially "Season of the Sun". He also raises questions about Japan's place in the world that need to be discussed, and often are not.

Many of these governors are vigorous champions of the environment. Mr Kitagawa in Mie is a fanatical recycler. Miss Domoto wants to kill a land-reclamation project that the bureaucrats in Tokyo have been promoting for nearly 30 years. Mr Tanaka has put a stop to dam-building in Nagano, and Mr Fukuda also opposes dams in Tochigi. But the main thing these rather different governors have in common is their heterodox, confrontational style. This they share, of course, with Mr Koizumi. But he lacks one thing they have: the direct support of the voters. It is this that gives the governors much of their power.

That power is still largely latent. After all, over half the governors of Japan's 47 prefectures are still ex-bureaucrats. But the trend is clear. The regions, even some rural ones like Akita, are following the example of many towns and cities in electing outsiders—Communists, novelists, comedians, actors—in rejection of the old way of doing things. At the same time, at least until the upper-house election last July, when the Koizumi effect came into play, the LDP has been losing it appeal. The story from the provinces may not have the party's elders quaking in their boots quite yet. But they would be unwise to ignore it. The story of modern Japan begins, after all, with samurai from two southern provinces seizing the imperial palace in Kyoto and declaring the restoration of the Meiji emperor. Perhaps it could happen again.

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East, west, home's best

Apr 18th 2002
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The jolt from outside that might, but won't, come

AP

It may not frighten al-Qaeda, but it blew a hole in Article 9

IN TRUTH, the Meiji restoration that marked the end of the Tokugawa shoganate and the beginning of modern Japan came about also as result of a different event: the arrival in Japanese waters in 1853 of Commodore Matthew Perry and his four menacing black warships, which led eight months later to a treaty with the United States and thus to the opening up of a country that had been largely closed to the world for centuries. If this was the first great transformation of modern Japan, and the second world war was the second, could the third also be promoted by some foreign agent?

Two candidates present themselves. The first is the familiar one, the United States, occupier, progenitor of Japan's constitution, friend and defender, chivvier and competitor. In their ambiguous relationship, America has used Japan politically as a showcase for capitalism during the cold war, economically as the financier of its budget deficits and militarily as an unsinkable aircraft carrier in Asia. Japan has used America as a purchaser of its goods and the provider of its defence. On occasion, the link between the two countries has been called "the most important bilateral relationship in the world, bar none." Yet its history during recent decades has been one of constant friction—usually over trade, often over America's 38,000 troops in Japan and, especially during the 1990-91 Gulf war, over Japan's failure to send its armed forces abroad.

We'd love to help, but...

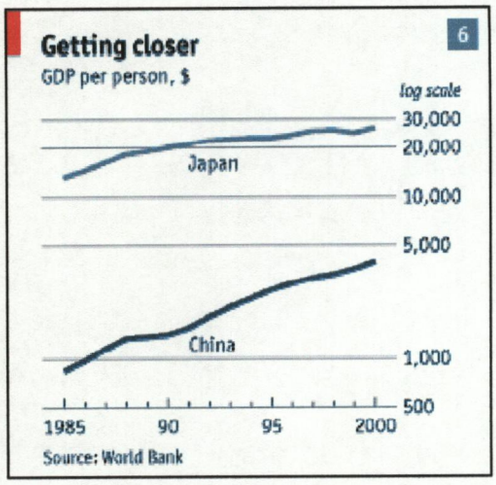
Few episodes have been as vexing as the Gulf war, and few have resulted in as much change as a result. The Americans, always conscious of their treaty obligation to defend Japan, whereas Japan has had no such duty to defend the United States, were outraged that a country that was totally dependent on imports for its oil should risk not a single soul in the war to get Saddam Hussein out of Kuwait. Japan, moreover, spent more on defence than any country except Russia and America itself. After much temporising, Japan in the end picked up a bill for ¥1.5 trillion and, four months after the war had ended, sent six minesweepers to the Gulf. Uniquely among the coalition's members, its contribution to the war effort—a sixth of the $60 billion total—necessitated a tax rise.

For this Japan got no thanks, but that was not its only complaint. If it could not send its "self-defence" forces abroad, that was because Article 9 of its constitution forbade it. And who had written Article 9? None other than General Douglas MacArthur, the American in charge of the post-war occupation, who had wanted to ensure that Japan would never again be able to intimidate

another country.

The entire episode left a nasty taste in the mouth, especially in that of a Foreign Ministry official, Yukio Okamoto, who resigned before it was over, vowing that nothing like it should happen again. Today he is an independent consultant and a special adviser to Mr Koizumi. His influence can, perhaps, be detected in the legislation that the Diet passed, with unusual dispatch, in the weeks after September 11th. By the end of October an anti-terrorism bill had become law, for the first time allowing Japanese forces to be sent to a theatre of operations for some reason other than "survey or research". True, it confined Japan's armed forces to "rear-echelon" activity (nothing violent) in non-combat areas. True, the bill was to expire after two years. Even so, by November five Japanese naval vessels had set sail for the Indian Ocean in the navy's first wartime venture abroad since 1945. By January they were refuelling British warships.

The importance of all this is not the help that Japan can bring to the fight against al-Qaeda. It is that the great taboo embodied in Article 9 is now broached; a step has been taken towards unravelling the paradox that Japan, like other countries, holds the right to collective self-defence under international law but cannot exercise it without violating its constitution. With 600 Japanese troops taking part in the UN's peacekeeping operation in East Timor, and polls suggesting that a clear majority now favour a bigger peacekeeping role for Japan, it seems that the Japanese are becoming less timid about the use of force. Yet they will need to shift a lot more if they are ever to shed their role as chequebook diplomats and instead take up a seat as a veto-wielding member of the UN Security Council, as they have long wished. Such an ambition cannot realistically, in the current state of the world, be satisfied without the repeal of Article 9, and that still seems unthinkable.



Japan will play a part on the world stage. It will hold environmental gatherings and conferences about Afghanistan, as it did in January. It will give aid generously, albeit 10% less generously this year than last. It will fret about North Korea's ability to send missiles over its territory, as it did in 1998. And it will co-operate with America on research into missile defences. But will it ever deploy them itself, and if so, would it ever fire an anti-missile missile if it saw a rocket whizzing past? That rocket might after all be heading not for Japan (in which case self-defence would allow it to fire) but for somewhere else (in which case Article 9 would forbid it). Pondering this for a few minutes would render the question academic, since the missile would be past interception.

Such issues are discussed by defence pundits in Japan, but by few others. Mr Okamoto, admittedly two months before September 11th, wrote that "there is no consensus among the Japanese about exposing their country or any of their citizens to any degree of risk." Rather, he saw "an obsessive concern to be on the safe side". In other words, Japan is not going to change dramatically as a result of pressure from the United States. Such arm-twisting has been tried often enough in the past, especially over trade, but it has seldom had much effect. The Japanese simply do not care all that much about the outside world. They have a long history of isolation, they are deeply suspicious of foreigners (Japan accepted only 22 asylum-seekers in 2000, compared with Germany's 120,000) and they usually feel at a loss abroad. They will change, but things are not so bad that they have to change quickly.

The dragon next door

They hope. The one outside power that could shake their complacency is China. The Japanese have been trading merrily with China since the 1970s, indeed they had become its biggest trading partner by 1984. But the Japanese have, understandably, seen China as a poor country, and accordingly given copious aid (despite little evidence of gratitude: China regards the aid as reparations). Now their trading partner is not looking so poor.

The Japanese have begun to notice that while their economy totters or shrinks—the average rate of growth in the 1990s was 1.4% a year—China's bounds ahead (by 7.3% in 2001, if you believe the figures). Whether you look at the change in the relative size of their GDPs, or at their respective share of the Asian economy as a whole, China is on the up while Japan is on the down. Add to that a second development, the Japanese worry that their economy is becoming "hollowed out": steel mills are closing, car plants are contracting and, worse, old export stalwarts like Isuzu are starting to import their trucks from Chongqing. One of the few stars of Japan's retail industry is Uniqlo, a chain of clothes shops whose trick is also to buy its garments from low-cost China.

The Japanese may be foolish to worry about these developments; they merely reflect the fact that Japan is a mature economy that should be turning to services and more sophisticated products—which it could sell to the Chinese, among others—rather than the clunky exports that served it so well in earlier times.

The trouble is, though, that the Japanese are not very good at many of these new activities, whereas the Chinese are showing worrying signs of proficiency. In computer software, for example, China thrives while Japan flounders. One reason may be the Japanese education system. To man its electronics factories in the 1970s and 1980s, Japan could turn out numerate workers able to read a circuit diagram. But to crack the software market you need to speak English, and this, despite learning it at school for eight years, most Japanese cannot do. Often after just three years, Chinese can.

All this has been troubling enough, but then a shock of another kind appeared: at a regional summit last November, China suddenly proposed a free-trade area with the countries of the Association of South-East Asian Nations within the next decade. This looked like a clear bid by China for the leadership of Asia. It may not have succeeded, but it evidently set some mental machinery turning. In Indonesia, the *Jakarta Post* responded that it would not be long before China displaced Japan as the engine of the South-East Asian economy.

It also set Mr Koizumi off double quick on a trip round the region. But how could he trump China's proposal? The best he could come up with was a free-trade area with just one country, tiny Singapore. And why Singapore? Because Singapore has no farmers, and Japan's protected farmers, the stoutest of the LDP's supporters, would not stand for free trade in agriculture. In such ways is Japan's foreign policy crimped by its vested interests.

Chinese-Japanese relations are less than cordial, despite the gloss the Japanese press put on Mr Koizumi's visit to Beijing last October. They have been particularly strained recently by China's refusal to let Japan raise a North Korean boat that sank in China's exclusive economic zone after an exchange of fire with Japanese coastguard cutters last December. China and Japan mistrust each other, and Mr Koizumi is regarded by many Chinese, and some Koreans too, as a nationalist. They did not like his visit to the Yasukuni shrine, and they want him to intercede in the long-running row about Japan's history textbooks, which are still less than frank about Japan's wartime behaviour. Nor do they like Japan's anti-terror legislation or, come to that, the depreciating yen. For their part, the Japanese, like most others in Asia, regard China with great wariness.

But will China force real change on Japan? One day, maybe. At present, though, the two economies look quite complementary, and Japan has no need to think that the countries of South-East Asia are eager to throw their arms round China's neck. Paradoxically, the event most likely to

make Japan do something radical, such as amending its constitution or even going nuclear (as long ago as 1978 Takeo Fukuda said Japan reserved the right to build "any type of weapon" for its defence, even a nuclear or bacteriological one), would be a falling out with America over China.

The fear that America may one day junk Japan in favour of China is an old if intermittent one among Japanese. It arose most recently when Bill Clinton went to China in 1998 and, it is said, persuaded President Jiang Zemin not to point his missiles at American targets, but neglected to ask for a similar favour for Japan. However, George Bush's administration is full of people who know Japan and are trusted by the Japanese. Having responded to September 11th so well, Japan seems unlikely to feel any exceptional heat from America in the near future.

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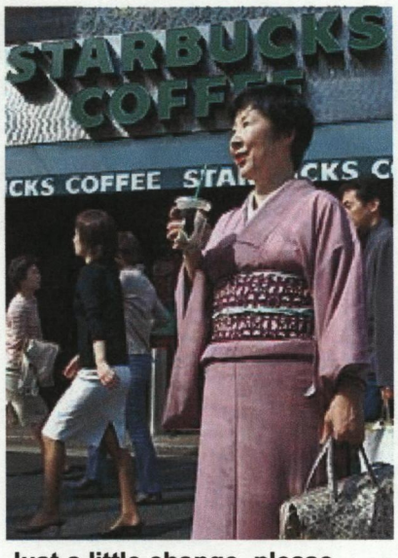
Transition, not transformation

Apr 18th 2002
From The Economist print edition

Muddling on, muddling through, with luck

Reuters



Just a little change, please

CONSERVATIVE as Japan may be, it is not a stationary society, nor even one that is blind to the need for change. All those who voted for Mr Koizumi last year must have seen the necessity of reform—painful reform, at that—even if many deluded themselves about the discomfort it would cause them personally. And in fact almost every aspect of Japanese life has been changing during the lost decade, and would have been regardless of the politicians supposedly guiding the country.

The devastation of the industrial economy is, paradoxically, evidence of such change. The winnowing of the construction companies' order books, the growth of the Chinese-supplied Uniqlo clothing chain, and the proliferation of Starbucks and other coffee shops all show that the private sector is already shifting from manufacturing to services.

Do not imagine either that the Japanese have lost their zeal for innovation. Perhaps surprisingly, deflation actually promotes new products: if a company cannot grow by increasing its prices, it has to do so by creating new ones. More important, though, is traditional research and development. In addition to the spending by private industry, which continues apace, the government spent ¥17.3 trillion on R&D in 1996-2001, much of it on superb science facilities that are now becoming ready for use. Though these are hard times, public spending on R&D is set to rise from 0.72% of GDP to 1%in the next five years.

Government, too, has changed. Much of what Mr Koizumi promises has been promised before by others, and some of it delivered. He already inherits some changes started by that great reactionary, Mr Hashimoto. If Mr Koizumi is the first prime minister to be able to take control of the budget, that is thanks to Mr Hashimoto. He can thank his predecessor too for the breaking up of the FILP, for the "big bang", however muted, that was thrust upon the financial markets in 1997-2001, and for the reorganisation of government ministries that came into effect last year. The electoral system was reformed in 1994. A programme of privatisation was pushed through by Mr Nakasone in the 1980s.

Political behaviour is changing too. Voters are breaking old habits not just in mayoral and prefectural polls, but also in those for the Diet, where anti-LDP independents are on the rise. Even the LDP members who win election are more likely now to be technocratic and policy-minded. They may also know some economics.

True, many people now do not even bother to vote: turnout in the upper-house election last July

fell two points, to just 56%. But one big change is that women are becoming more active in politics. In general women are becoming better educated and more likely to go out to work. And they are becoming more assertive: most divorces are initiated by women.

The young, too, are changing. Many reject the rigid formalities of the past, spurning suit-and-tie careers in favour of life as a freeter. Many, of both sexes, dye their hair; some dress as punks.

In time, no doubt, all these changes will be reflected in Japan's institutions. But how long will it take? Optimists say the worst is already over and Japan has weathered it well. They point to the social tranquillity of the past decade, and argue that Britain took longer to defeat its vested interests (the unions) and accomplish the move from manufacturing to services under Margaret Thatcher. As for banking crises, the savings-and-loans crisis in America involved no more than 3-5% of GDP in duff loans, yet it lasted at least five years.

Not so bad

There are other reassuring qualifications to what looks like bad news. Though the debt-to-GDP ratio looks horrible, what matters is not any particular ratio but the level that spooks the markets. Since Japan owes virtually all its debt to its own people, the markets so far seem untroubled. Comfort can be taken, too, from Japan's wage system: since bonuses, which usually form a big part of a *sarariman*'s wages, can be cut relatively easily, the system is more flexible than many think. Even the giddy number of bankruptcies, surpassed only in 1984, is in fact historically low when measured as a proportion of the total number of companies. Remember, too, that Japan has no underclass, no big drug problem and no deadweight like eastern Germany or southern Italy to drag it down.

So cheer up? Not altogether. The people say they want reform, but the system delivers, at best, adjustment. And old habits die hard. A consensus emerges, say, that Japan wins too few Nobel prizes (only nine in 100 years). So how is the problem tackled? In a very Japanese, top-down way: the government sets a goal of 30 Nobel prizes in the next 50 years, and at once invites members of the Nobel Foundation's selection committee on an all-expenses-paid trip to Japan. The stifling conformity of the system not only inhibits the emergence of prize-winners at home, it also increasingly forces enterprising Japanese abroad. Last year the Ministry of Finance sent three of its brightest to American business schools; they all stayed when their courses ended. This year the ministry is sending none.

The durability of LDP rule is further evidence of the inertia that has to be overcome. In other countries the LDP rascals would have been thrown out long since. In Japan they were once, in 1993. But the government of Morihiro Hosokawa, modern Japan's first non-LDP prime minister (though actually he was an ex-LDP man), lasted only a few months: in 1994 the LDP was back, albeit in coalition under a Socialist. Still, Mr Hosokawa got further than most other defectors, such as Ichiro Ozawa, a conservative would-be reformer who set up the New Frontier party. It is now defunct.

The LDP is undoubtedly in decline, but other parties seem unable to exploit its misfortune. The Social Democrats, who for years provided the main opposition, are in similar decline, and the Democratic Party, which has now replaced them in the role of oppsition, does not look like a party of government. Other parties crowd the scene, but none grows big. Perhaps that is because the LDP is not like a western party. Since its job is not so much to govern as to win elections and divvy up the spoils, it is not bound together by political philosophy. Accordingly, dissenters can criticise and still stay inside it. For all the talk of a realignment in which the purportedly reformist Democrats would join like-minded LDP members, no great split in the ruling party looks likely at present.

Where does that leave Mr Koizumi? Dependent, for a start, on the LDP, whose obstructionist dinosaurs may dump him when he has served his purpose; and dependent also on his conservative partners in government, the New Conservative and New Komei Parties. These two, neither of them in the vanguard of the revolution, are necessary because the LDP lacks a majority in both houses of the Diet.

Unless he can regain his early popularity among the voters, it is far from clear that his parliamentary position is strong enough to allow him to succeed in his ambitions. He is, after all, trying to impose change against a host of vested interests in the face of deep-rooted social practices. Moreover, he is in charge of a constitutionally weak-centred state. Even history is against him: the Japanese state is a fairly modern invention dating back only to the Meiji restoration. Government was never really centralised during the Tokugawa shogunate; the country, if such it was, was run with neither true central leadership nor even a general sense among the people that they belonged to a state.

Mr Koizumi has his own handicaps, too. For all his unorthodox style, he is conservative by nature and has yet to show that he is prepared to shatter the *wa* that means so much to Japanese. In particular, he is apparently unwilling to defy the paralysing tradition that says unemployment must be avoided at all costs. Any conceivable solution to Japan's economic troubles will involve higher unemployment; the only question is whether it will last for a longish time, as present policies ensure, or a shortish time, as bolder action might allow. Even now, Japan finds it hard to reconcile the generally European levels of welfare that it aspires to with its generally American levels of taxation. Higher unemployment would require much greater spending on welfare. Japan can afford it, but would Mr Koizumi dare to deliver it?

Bermuda triangle

Or could he? Could anyone? The iron triangle suggests that Japan is, like Cerberus, three-headed, but in truth it is not headed at all: it is like Tokyo, a capital without a centre. Thus it is hard to say that power resides anywhere in particular: the iron triangle is really a Bermuda triangle, within which power—and certainly responsibility—simply disappears. And that is truer than ever when the country has no common national endeavour to energise it, as the post-war goal of catching up with the West, or the 1960 plan to double personal income within a decade, did in their time.

It remains to be seen how much the Japanese mind their genteel decline. They seem to be pretty content with things the way they are, otherwise they would do more to change them. They must have noticed, for instance, that much the most successful sectors of their economy—cars and electronics—are the only ones not plugged into the political system and systematically milked by the LDP. But it is easy to escape the obvious in Japan: life is pleasant. Some people talk of Argentina, but if the comparison has any validity it is to Argentina just before the first world war, when it was one of the ten richest countries in the world in terms of income per head, not to the stricken Argentina of today.

It is possible, though, that if Mr Koizumi fails to jerk the economy out of its torpor, the voters will turn to someone else. Since there is no obvious heir-apparent, eyes inevitably wander towards another maverick: Mr Ishihara, the governor of Tokyo. This would be the Italian outcome: when the corrupt, long-ruling party of government is definitively discredited, turn to an outsider (Silvio Berlusconi, in Italy). Mr Ishihara fits this bill, though he used to sit in the Diet for the LDP. It would be an unnerving turn of events for foreigners, and perhaps for Japanese as well. A happier outcome would be if Mr Koizumi turned out to be a Japanese Mikhail Gorbachev, the decent conservative who sees the need for reform and opens the way for others to bring it in. Better still would be a Mexican solution, in which the old guard yields gracefully to a plausible opposition—but Japan has no plausible opposition.

It may all depend on whether the country is smitten by some awful financial crisis. If it is, and the possibility is real, then the effects could be profound. But the chances are surely better than even that Japan will muddle through in its own consensual way. Inexorable economic and social forces will gradually impose their alterations, and the bureaucracy and political system will adapt: they will have to, even if the aim is merely to keep everything the same. In time, if muddle-through it is, Japan will yield its position as the world's second-biggest economy, perhaps even to a huge and energetic China. It is hardly a glorious prospect, but probably not one to trouble most Japanese for a few decades yet. If they want real change, they may have to endure disaster to get it.

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(Provisional Translation)

Press Conference by Prime Minister Junichiro Koizumi at Evian Summit

3 June 2003

[Opening Statement]

Prime Minister Junichiro Koizumi: When you say "Evian," for the Japanese people it is a name best known for mineral water. Having come to Evian myself, I found out that the wonderful thing here is not just the water. It is on the shores of beautiful Lake Leman, it has beautiful scenery, it has beautiful cuisine and I have also enjoyed the heartwarming hospitality of President Jacques Chirac and the citizens of Evian and I have also enjoyed the very elaborate arrangements for security by the Swiss authorities. I would like to first express my heartfelt gratitude.

During the meetings President Chirac exercised most outstanding chairmanship and I was most impressed by that. Ahead of the Summit meeting many people pointed out that there could be confrontation over the Iraq problem and many therefore doubted whether we

would find an atmosphere for cooperation at the Summit. Once the meeting started however, we first had the dialogue between the G8 and the developing countries and emerging economies and also we had the G8 Leaders meeting and we found that temporary confrontation is not an everlasting confrontation. On the North Korean problem, the environmental problem, on international economy and on so on, we were able to share the recognition that international cooperation is very important in addressing these problems. Once again, I should like to express my respect to the most outstanding chairmanship shown by President Chirac.

For myself, this was the third G8 Summit that I attended. Through the dialogue and the conversations that I was able to have with the leaders of the G8 countries I was able to exchange views with them with a sense of closeness to all of them. I was able to express myself very candidly and I believe we had very useful and fruitful meetings in a relaxed atmosphere. We discussed the world economy, the Iraq problem, the North Korea problem, counter-terrorism, infectious diseases including SARS and the environment, the importance of the environment, these were the main matters that were discussed.

On the environment, I stressed the importance of an early entry into force of the Kyoto Protocol. The Government of Japan has been striving to ensure both the economic growth and environmental protection and we have been working very hard at that. In the past there was the view that we could sacrifice the environment to some extent in the interest of economic growth. That no longer stands today. We must make sure that both go hand-in-hand and the key to achieving both is in science and technology. These are the points that I underscored.

Japan's economic growth and revitalization and especially structural reforms were matters of great interest for other leaders. I believe that the matter of economic growth and the development of the economy is not only for the Japanese people, but it is also a matter of interest for the entire world. With that in mind, I said that we shall vigorously work at structural reforms and we shall continue to promote structural reforms so that Japan's economic revival will be able to once again contribute to the world's economic growth and development.

With regard to North Korea, many countries are more concerned about the nuclear weapons development program of North Korea. As far as Japan is concerned, whilst the nuclear issue certainly is a grave issue, the abduction issue is of paramount importance as well. We believe that the nuclear and other security issues as well as the abduction issues and others need to be dealt with comprehensively and unlike in the case of Iraq, we shall continue to pursue a diplomatic and peaceful resolution to the North Korean problem. I believe this understanding was shared among all of the G8 leaders.

I believe that this G8 started as a gathering of the most advanced countries in the world. Today we also see the participation of African countries and other emerging and developing economies. These were invited to an expanded dialogue and I believe there is shared recognition that the advanced countries and the developing countries must together cooperate with each other.

Once again, I should like to express my heartfelt gratitude to President Chirac and to the Government of France and the people of France, as well as the authorities of Switzerland

for their very kind hospitality and considerations.

[Q&A]

Q: In this Summit, Prime Minister you mentioned that the way is open for the reconstruction of international cooperation set up by Japan. What are the tangible contributions by Japan for the restoration of Iraq that may be needed? Prime Minister, you mentioned the dispatch of Self-Defense Forces to Iraq. You said that you would follow the international situation and make the decision in due course. Now the United Nations Security Council Resolution has been adopted and the preparation meeting under the auspices of the UN was decided upon. Is there any possibility for the participation of the Self-Defense Forces or for a new law?

Prime Minister Junichiro Koizumi: With regard to Iraq, Japan has not participated in combat operations, but Japan will actively cooperate with the reconstruction and the rehabilitation of Iraq. Japan, on its own initiative, I believe will be able to cooperate for Iraq's reconstruction. There is also cooperation that Japan can provide through the Office of Reconstruction and Humanitarian Assistance (ORHA) or other international organizations. If a UN resolution is adopted, than on the basis of that resolution Japan shall also be able to provide cooperation. This is what we have said, and on that basis Japan shall provide actively cooperation for Iraq's reconstruction. That policy remains unchanged.

With regard to the dispatch of Self-Defense Forces or cooperation by the Self-Defense Forces, Japan already within the confines of existing Japanese laws, has been providing support in terms of humanitarian supplies and cooperation. Upon return to Japan I shall be meeting with the leaders of the Liberal Democratic Party and other ruling parties to consider what we can do within the confines of the existing laws, such as the peacekeeping operations law and also, we will try to identify what the Iraqi people will really need, what sort of cooperation they would expect from Japan. Looking carefully at the situation on the ground, if we find that it is best to send the Self-Defense Forces then we shall dispatch them. If not, then we will not send them. So, we shall observe the overall situation, engaged in close consultations with the representatives of the ruling parties and decide on the details after returning to Japan.

Q: President Bush talked about the maintenance of a strong dollar. What sort of impact do you think the yen will receive as a result of this? Would you expect lower exchange rates for the yen?

Prime Minister Junichiro Koizumi: This is a matter that President Bush was commenting on in a meeting I had with President Bush on his ranch in Texas before the Summit meeting. At that time he stated that he goes for a strong dollar. I said that we are working on Japan's economic reform. At the time of American and British economic reforms, those countries started those reforms while their currencies were declining. Now, the situation is different for Japan today. If you look at the currency rates thirty years ago and today, the yen has tripled vis-a-vis the dollar and compared with the British currency, the Japanese currency has quintupled in value vis-a-vis the British Sterling. According to

certain credit rating agencies, they rate Japan's government bonds below Botswana's government bond. So, that rating is low. And yet, why is the yen so strong? The discussion really started from that question. President Bush said that he hopes the US dollar would be strong. I immediately responded by saying that I welcome a strong dollar. If anything, as regards the Japanese yen, I believe that it is overrated, but to what extent it should depreciate is not for me to comment on, it is up to the market to judge that point. Whether the yen appreciates or depreciates, whether the dollar appreciates or depreciates, it is not just a matter of bilateral relations between Japan and the United States. It is a question that really has a major impact on the world, so I shall not comment on how far the yen should decline. I do not think it is right for me, in fact, to comment on that point.

Q: I would like to ask you a question concerning North Korea. There is an agreement about the need for a comprehensive resolution, including the abduction issue and the nuclear development issue. Based on that, going forward in what way would you be carrying out negotiations? What is the outlook for having Japan and the Republic of Korea join the current tripartite negotiations? Furthermore, during the G8, the role to be played by China was indicated in this issue. During the US-Japan discussion, the Prime Minister mentioned "dialogue" and "pressure." But it seems that Russia and China are not quite in agreement with imposing pressure on North Korea. What would you like China to do in putting pressure on North Korea?

Prime Minister Junichiro Koizumi: As regards the response vis-a-vis North Korea, in my one-on-one meeting with President Bush on his ranch, he highly rated the role played by China. Thanks to the Chinese efforts the trilateral talks of the US, North Korea and China took place. If this trilateral format is to be repeated, and if that is to take place in the near future, it is essential that Japan and the Republic of Korea participate in those talks and I shared that recognition with President Bush.

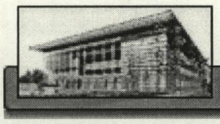
You referred to "pressures" and "dialogue." In our meeting this time, we actively discussed North Korea, especially in the free discussions that we had last evening. This question of North Korea became one of the major focal points of our discussion. President Putin of Russia and the leaders of other countries showed very strong interest and concern in North Korea, especially with the abduction question. Some of the leaders expressed that they really found it very difficult to understand the abductions. I also find it very difficult to understand the abductions. Why did they have to kidnap Japanese nationals? I certainly understand the pains and the grief of the parents who had their children abducted. It is utterly inhuman. But these acts did take place. So, there is strong interest in the Japanese people in the abduction issue and we have to take up the abduction issue and the nuclear issue at the same level in parallel and we need to have these problems resolved comprehensively. I gained very strong support for this matter from the Japanese stance from the leaders of the other G8 countries. Especially from President Putin. As a country that has friendly ties with North Korea, he shared with us very valuable remarks and advice. His perception of Chairman Kim Jong Il. He was very candid in sharing his thoughts with us.

I myself met with Chairman Kim Jong Il on 17 September 2002 and had meetings with him on that day. In the days ahead I believe that it is incumbent upon all countries to be concerned with North Korea and I believe that it will be good to open up North Korea to the international community and make sure they will not lash out. Whether you say "apply

pressure" or "work on North Korea," you can choose the expression you use, but this is not just a matter for Japan alone. We cannot deal with North Korea with just Japan, the United States and the Republic of Korea in coordination. Of course close cooperation and coordination amongst these three countries is essential, but on top of that it is very important to have the involvement and engagement of China and Russia as well. The United States and Japan, I believe are seen as enemies by North Korea. With regard to the Republic of Korea, of course they have had this war and the 38th parallel, but I am sure as ethnically they are the same people, they have a sense of affinity. And of course China and Russia have been friendly countries for North Korea. So the neighboring countries around North Korea have different attitudes and responses towards North Korea. We have different circumstances. There are different national sentiments. But there is also a common thread, and that is that we feel the nuclear threat and we have to completely dispel that nuclear threat. But we shall pursue through and through a peaceful and diplomatic resolution of the problems with North Korea. I think that is agreed upon. In the free discussions last evening the leaders of the G8 countries spoke based on their own experiences and the experience of Iraq and they exchanged their views and I think that was a very substantive exchange of views. I should like to take to heart these exchanges of views that we had as we proceed to the negotiations with the North Koreans. Through cooperation with all the countries concerned we shall persevere in our efforts to seek a peaceful and comprehensive resolution.

Q: Does Japan wish to take the North Korean problem before the United Nations Security Council with possibly the collaboration of France? Would you go to Jacques Chirac's chateau to talk about it?

Prime Minister Junichiro Koizumi: Well, the question was would we take the issue to the United Nations Security Council. The North Koreans do not want that. We have to bear that in mind. The situation is different in that respect from the Iraqi situation. The North Koreans have always sought bilateral talks with the United States and the United States has said that they will not respond to bilateral talks with North Korea. However, with the Chinese intermediation the trilateral talks took place. I believe participation by Japan and the Republic of Korea will be essential, and of course the Chinese and the Russians are also greatly concerned about this situation. Now, before such efforts take place, do we take the matter to the UN? I think it is too premature at this stage. Instead of taking the matter to the United Nations, I believe we should try our best to see to it that the North Koreans will become responsible members of the international community and that they expeditiously dismantle their nuclear programs, dispel all the concerns that the international community has vis-a-vis North Korea and also in good faith, resolve all of the concerns, the pending issues that Japan and the Republic of Korea have with North Korea. If they do that, there will be no need to take the matter to the United Nations and we shall persevere in those efforts. Whether to take the matter, the North Korean matter, to the United Nations, I think that really for the time being we should continue with our negotiations with North Korea. Thank you very much.



(Provisional Translation)

General Policy Speech by Prime Minister Junichiro Koizumi to the 156th Session of the Diet

January 31, 2003

(Opening)

His Majesty the Emperor Akihito is currently under medical treatment. I, together with the people of Japan, extend my heartfelt prayers for His Majesty's speedy recovery.

As Prime Minister of Japan, I believe that my duty at this point in time is to bring about a rebirth in the economy and society of our country. Under the basic posture that my Cabinet will advance structural reform without sanctuaries, I hereby would like to describe basic policies for the administration of our country to gain understanding and cooperation of the people of Japan.

In the midst of the socio-economic transformation in a global scale, the Japanese economy faces stagnation due to complex structural elements, not merely from cyclical changes of the economy. The presence of "negative heritage" such as non-performing loans and fiscal deficits, and the continuation of a deflationary situation which has never been experienced in the post-war period have brought about a significantly negative impact on economic activity and the lives of the people. It is through advancing bold structural reform and creating a structure befitting the 21st century that we can overcome the current situation and make it possible to realize rebirth and greater development for Japan. We will remove the inefficient segments remaining in our economy and society, establish a foundation for taking up the challenges of innovating technology and launching new enterprises, and create an environment in which people can plan for their future feeling secure. We are steadily undertaking each one of these tasks encompassing such diverse areas. I will keep advancing on the course of no growth without reform.

The reforms are on the way, and it will take some time to see that the results are clearly visible. Japan maintains a large foundation to support economic growth, such as high technological prowess, abundant personal assets and a stable society. In spite of the severe circumstances, many people, enterprises and communities are facing forward to take on the challenges that they face. I will materialize these efforts as quickly as possible through advancing reforms,

thus leading to the development of our nation.

In this session of the Diet, I will submit relevant bills in order to set the reform track that is underway, onto an even firmer course.

(Approach towards Economic Revival)

In order to revitalize the Japanese economy, it is necessary to bring in all policy measures. Therefore we will accelerate the four reforms, namely government expenditure reform, tax system reform, financial system reform and regulatory reform. The Government, together with the Bank of Japan, will put all efforts into curbing deflation.

In the formulation of the fiscal 2003 budget, under the situation that tax revenue is projected to be 42 trillion yen and there is no choice but to depend on a large amount of bond issuance of 36 trillion yen, we advanced the structural reform of expenditure and general expenditure is kept virutally below the level of fiscal 2002. Within this constraint, we have given consideration to amply establishing safety nets, and boldly have made prioritized budget allocations to areas that will lead to the creation of employment by bringing out the vitality of the private sector as well as areas that will provide the foundation for future development of our nation such as science and technology. Furthermore, we have made reviews on road-related ear-marked revenue and national treasury burdens of compulsory education costs.

We will endeavour to pass the fiscal 2003 budget early, and together with the supplementary budget for fiscal 2002, respond to the current situation in a seamless manner.

By the early part of the decade beginning 2010, we will aim to achieve a fiscal structure where the government will not rely on fresh borrowings for expenditure other than servicing the interest and principal of the past debt.

With regard to tax reform, we have continued discussions since January last year towards building a " tax system as it should be" and decided to conduct a wide range of modifications as one package. In particular, as a concrete measure to mobilize personal financial assets amounting to 1,400 trillion yen, a non-taxable ceiling will be created for donations under a new scheme encompassing inheritance and donations, making gifts of up to 35 million yen tax-exempt when they are used to acquire housing. This measure will be retroactively applied to January 1 this year. Furthermore, in order to promote effective utilization of land, the land transaction tax will be drastically alleviated. In fiscal 2003, front-loaded tax cuts of 1.8 trillion yen in net terms will be advanced, and tax revenue will be neutralized over plural fiscal years.

We will exert all our efforts to address the problem of non-performing loans, with a view to terminating the problem in fiscal 2004. We will establish a solid financial system through the steady implementation of the "Program for Financial Revival." There shall be no financial crisis.

Through the establishment of the Industrial Revitalization Corporation and a fundamental review of the Law on Special Measures for Industrial Revitalization, efforts will be made towards industrial reorganization and early revival of businesses through maximum utilization of the wisdom and vitality of the private sector.

We will strengthen safety nets, through measures such as expanded support measures for expeditious re-employment of people who are forced to leave their jobs, revision of the employment insurance system, and expansion of job-creation measures based on innovative ideas in each regional community. We will revise the system with a view to providing better matching between job offers and job applications, and allow workers to choose among wider modes of employment.

We will pay full attention to respond to issues related to the financing of small and medium enterprises (SMEs). We will strengthen support measures for SMEs with viable technologies in their business creation and challenges for new areas of operations, including the securing of financing, technological development and fostering of human resources.

With a view to accelerating a shift "from savings to investment," we will substantially lighten and simplify the financial and securities tax systems. Reform of the securities market will be advanced so that it is more accessible and trustworthy to individual investors, through measures such as making it possible to purchase securities at neighborhood financial institutions and by expanding and strengthening corporate auditing.

The Fair Trade Commission will be expanded in terms of its organizational structure and will change its status into an agency under the Cabinet Office in April, with the aim of enhancing competition policy that is a key to a fair and free economic society.

We will reform the justice system in a comprehensive and intensive manner towards realizing a society where people can have easy access to judicial services anywhere in the nation. Reform-related bills, including a bill for expeditious court proceedings with the aim of concluding the first trial within two years, will be submitted to the Diet.

("From the Public to the Private Sector" and "From the Central to the Local Government")

I have been insisting that the most important challenge in administrative and fiscal reform is reform of the public sector, where special public institutions are undertaking business through the Fiscal Investment and Loan Program funded by postal savings and public pension premiums. Harmful aspects of these systems have now become apparent as they tend to bear down on private-sector businesses and leave public burdens in the future by operating on overly optimistic demand forecasts. The fundamental policy should be to put in the hands of the private sector whatever could be done by the private sector. Under this policy, by making a unified approach to reforms of postal services, the Fiscal Investment and Loan Program and special public institutions, we will advance reform towards a simple and efficient government of good quality.

The Japan Postal Corporation will start in April. I believe that the Corporation will provide high quality services by introducing the private-sector way of management. Private enterprises will also enter into the postal service. Substantially, Japan's postal business has now made the first step towards privatization. I intend to make further reform efforts on the basis of discussions among the Japanese people.

The Fiscal Investment and Loan Program no longer has privileged access to the resources of

mandatory deposits of postal savings and public pension premiums, and organizations that have obtained loans now have to find their own methods of finance. The size of the Program has also been curtailed and the size in the initial plan for fiscal 2003 is approximately 40% smaller than the peak level of fiscal 1996.

Out of a total of 163 special public institutions and others, we already have initiated reform of 118 organizations, including the abolition of Japan National Oil Corporation. Based on thorough review of their operations, some will be abolished, another will be privatized, and the other will be converted into Independent Administrative Institutions. In addition, efforts will be made so that transparency is increased and strict evaluation is applied. Through these measures, the existing organizations will be transferred to ones befitting the new age. As a result of the policy announcement that the Housing Loan Corporation will be abolished and new housing loans provided by the corporation will be scaled back, private-sector financial institutions have come up with many new, access-friendly housing loan products.

As for the privatization of the four road-related public corporations, under the policy of basically respecting the opinions of the Promotion Committee for Privatization, efforts will be made to give concrete shape to the reform by lowering cost of construction and by making a distinction between roads to be constructed by the proposed new corporations and roads to be built by tax revenue.

We will make good use of government financial institutions for the time being to ensure smooth financing for small and medium enterprises. After scrutiny of the necessary functions as the Government while monitoring the progress in normalization of the financial functions in the private sector, we will boldly reorganize and integrate these institutions.

I believe these reforms in the public sector will facilitate reforms of the fiscal structure, the economic structure and the financial system, thus leading to the creation of substantial benefits in the future.

Reform of the Public Servant System will be materialized in order to create an environment in which government employees as the servants for the entire population can devote themselves to administration with morale and sense of mission. The entire Government will make efforts towards increasing the retirement age of the executive public servants, thus correcting the negative aspects of so-called "amakudari" personnel administration (the re-employment of retired public servants in the private sector). We will also lower retirement allowances of public servants in line with the actual circumstances at private-sector firms.

Concerning the relationship between the central and local governments, an initial step is earmarked under the fiscal 2003 budget. Based on the principle of "leaving to local governments what can be done by local governments," a reform plan in trinity for the allocation of financial resources, including state subsidies, local allocation taxes and the transfer of tax sources to local governments will be compiled by June as a targeted completion period.

We will further promote mergers of cities, towns and villages.

(People's Trust in Politics)

People's trust in politics is the very basis of reform. We take seriously the series of recent scandals related to political funds, including the court conviction of an incumbent Diet member for influence-peddling and the case of political donations accused of a violation of the Public Office Election Law. Given that in the previous regular session of the Diet, the revised law providing punishment for politicians who receive compensation for acting as go-betweens in arrangements between private parties and public officials as well as the law for the prevention of collusive bidding at the initiative of the Government agencies were passed, each and every politician should act with propriety under the law, so that he or she does not betray the trust of the people. I also intend to take a firm stance towards ensuring political neutrality of public servants.

(The Challenge Harnessing the Latent Potential of Japan)

The awarding of the Nobel Prize to Mr. Masatoshi Koshiba and Mr. Koichi Tanaka was a wonderful event that encouraged the people of Japan. Last year, there were other awards in which Japanese earned global acclaim. Mr. Sumio Iijima, who discovered the carbon nanotube, and Mr. Shuji Nakamura, who first put the blue light-emitting diode (LED) into practical use, were awarded the 2002 Benjamin Franklin Medal, often referred to as "a gateway" to the Nobel Prize. Mr. Koji Nakanishi was honoured with the 2003 King Faisal International Prize, also known as "the Arab Nobel Prize," for his research in biologically-active natural products. Mr. Tadao Ando, an architect, was the 2002 recipient of the American Institute of Architects Gold Medal, the highest honour bestowed by the Institute.

Such deeds go beyond scientific and technological fields. Under a severe business environment characterized by surging imports, three enterprises located in Imabari City, a center of towel production, were honored with grand prizes of international exhibitions held in the United States in recognition of their product planning savoir-faire. The artistic quality of the animated film "Sen to Chihiro no Kamikakushi (Spirited Away)" gained worldwide acclaim, garnering the Golden Bear for Best Film of the 2002 Berlin International Film Festival and the 2002 New York Film Critics Circle Award for Best Animated Film. Two Japanese women, Ms. Chie Imai and Ms. Fumiko Taniguchi, were crowned as Leading Women Entrepreneurs of the World. As such, Japan has been highly esteemed.

Through the efforts of the entire Government, policy directions have been shown in key areas for the rebirth of Japan, such as science and technology, biotechnology, intellectual property, information technology (IT), urban renaissance, and special zones for structural reform. We will continue to steadily support the challengers in various areas.

(Science and Technology, and Environment)

While maintaining strict curbs on general expenditure for FY2003, in order to achieve "a nation built on the platform of scientific and technological creativity," the budget for the promotion of science and technology is to be increased by 3.9% compared to the previous fiscal year and we will lend intensive support to research and development (R&D) projects such as those that will make possible individualized prevention and treatment of diseases on a genetic level. In addition, the Government will apply R&D and investment tax reductions up to the level of 1.2 trillion yen.

Support for new technologies will lead to promotion of new industries. The number of venture enterprises in the field of biotechnology has been increasing rapidly and by the end of last year their number had exceeded 300. Decoding of the rice genome was completed in December 2002 under Japanese initiative. The public and private sector will unite in developing biotechnology.

With the aim of establishing Japan as a nation built on the platform of intellectual property, we will enhance measures such as speeding up patent examinations, reform of the justice system in the area of patents, and reinforced measures against counterfeit and pirated copies.

No time should be wasted in responding to the global warming. It is imperative that central and local governments, enterprises and the people tackle structural reform towards building a "society that exits from inducing global warming". The key to this is "coexistence of environment and the economy". We will promote world-leading environmental industries by promoting the utilization of science and technology.

We will promote cultivation of healthy, diverse forests to absorb carbon dioxide emissions. "Green employment" will be promoted with the aim of creating jobs and securing personnel for forestry maintenance.

We will make utmost efforts towards the early effectuation of the Kyoto Protocol and the formulation of a set of common rules in which all countries will participate.

70% of general official vehicles will be replaced with low-emission vehicles by the end of FY2003, and by FY2004 the Government fleet will have been switched entirely to low-emission vehicles. Moreover, the Government last year adopted as official vehicles the first fuel cell vehicles in the world (FCV) to be released on the market. Usage of fuel cell vehicles will be promoted through a full review of the regulations. The world's strictest emission regulations on diesel vehicles will be implemented in FY2005. At the same time, measures will be taken to support the development and dissemination of next-generation low-emission vehicles and fuels.

Since assuming office, I have pursued the realization of a "zero waste" society. Various recycling systems for food, construction materials and vehicles have already been put in place. From now on, while showing a path towards creating a recycling society, we will take measures with the aim of eliminating illegal waste disposal. The disposal and recycling of waste will be further promoted through streamlining the system for disposing of computers, of which 3.5 million are thrown away every year. As a first-hand effort, recycling of raw garbage in canteens of Ministries and Agencies of the central government are underway. The public sector spanning from the Government will adopt environmental-friendly biomass products, such as eating utensils made from corn, with the aim of bringing them into people's daily lives.

(Rebirth of Japanese Charm)

Japan abounds with culture and traditions that are rooted deep in history, and there are talented individuals and enterprises in all corners of the country. I will reconstruct Japan, harnessing the latent potential and charm of regional communities.

While promoting 14 urban renaissance projects, we will support high-quality private sector urban development in the 44 areas around the nation designated for urgent improvement through urban renaissance. These are not restricted to large cities alone. In Wakkanai City, Hokkaido, a project is underway to make Wakkanai a city of international tourism and exchange, centering on its links to the Russian oblast of Sakhalin, while in Ishigaki City, Okinawa, town development is proceeding centered on its port. At Matsuyama City in Shikoku, a central theme of city development is the novel, "Saka no Ue no Kumo (Clouds Over The Hill)." We will support efforts that harness local wisdom and originality.

Through holding "town meetings" in all areas and in a variety of forms, we will continue to maintain active dialogue with the people.

April will herald the birth of the first of the Special Zones for Structural Reform. The second round of invitation attracted over 600 proposals from local governments and the private sector. We will enhance the system and aim to gain the participation of the private sector in hitherto regulated markets, including the participation of joint stock companies in the education field. Regulatory reform on a national scale will be advanced with the Special Zones as leverage.

The entire Government will endeavor to promote tourism. While over 16 million travelers leave Japan to go overseas every year, the number of foreign visitors to Japan is no more than about five million per year. We are aiming to double this figure by 2010.

Foreign direct investment in Japan will bring new technology and renovative management methods, and will also lead to greater employment opportunities. Rather than seeing foreign investment as a threat, we will take measures to present Japan as an attractive destination for foreign firms in the aim of doubling the cumulative amount of investment in five years.

(Human Resources Development)

It is said that the work "Self-Help" by the British writer Samuel Smiles caught the imagination of many young Japanese in the Meiji era. The aspired youth of Japan applied themselves seriously to their studies, made diligent efforts and took the central role in developing the foundation for Japan as a modern nation. In any age it is always the young people with the spirit of self-help and self-discipline, concern for others, and high aspiration who pioneer to a new era. It is people who are the engine for reform.

Whether it be a young man teaching mathematics and physics in the Republic of Malawi in Africa, or a woman employed in healthcare guidance in a village in the southern regions of Mexico, there are currently approximately 2,400 members of the Japan Overseas Cooperation Volunteers (JOCV) who, in harsh environments with different cultures and values to those of Japan, are contributing to the nation-building in developing countries.

In order to cultivate the ability to face a new era with courage, the modalities for education will

be drastically transferred from being uniform and passive, to being independent and creative. As for the revision of the Fundamental Law of Education, we will tackle the issues with firm commitment, based on nationwide discussions. We will advance reform of elementary and junior-high school education, aiming for solid academic prowess and rich minds, and the reform of universities in a manner befitting the mantel of the century of "wisdom".

"It is expected that there is no household in a village, nor anyone in any household who has not had an education." Thus it was declared in the proclamation of the Grand Council of the State in 1872, guaranteeing the opportunity for education to all the people of Japan. Today, if a person has the desire, anybody can receive an education on his or her will and responsibility. On the other hand, a new situation has emerged in which children refusing to go to school are increasing. We will endeavor to provide a wide range of educational opportunities in a manner befitting the times. Efforts will be made to enrich the scholarship system, to ensure that the human resources that bear responsibility for tomorrow do not lose their opportunity to study. In Okinawa the concept of the establishment of a Graduate School of Science and Technology, which is open to the world and undertakes educational and research activities of the highest standard will be promoted.

(Structural Reform in Lifestyle)

From the mid-1950s to the mid-1960s, washing machines, refrigerators and black and white televisions were called the "three sacred treasures" that symbolized the new lifestyle; from the mid-1960s to the mid-1970s they were automobiles, air conditioners and color televisions. Now, at the time when some are claiming "there is nothing they want", sales of products which befit the new age such as camera-equipped mobile phones, thin-shaped televisions and dishwashers are increasing. The number of people using their free time to polish their skills or take part in goodwill activities is steadily increasing. The eagerness of the people to improve their quality of life remains intact.

We will press forward with the structural reform of lifestyle to build a society that allows people to plan their future, free of worry.

We will support women as they venture into new fields of employment with a view to the formation of a society in which men and women jointly participate that is in no way inferior to other developed countries.

In order to support reconciling work and child-raising, we will continue the campaign for "a zero waiting list for nursery schools" with the goal of increasing the number of children in nursery care by a further 100,000 by FY2004. We will prepare after school clubs for elementary school children and places where child-raising parents can gather to talk and exchange information. In order to reverse the trend towards a declining birthrate, bills to bring together households, local communities and firms to support child-raising will be submitted to the Diet.

As for the pension system, we finalized a direction and points for debate last year towards deliberations on reform to be carried out in FY2004.

Concerning the medical care system, we recently undertook sweeping reform to ensure universal health insurance coverage so that the people can continue to enjoy efficient medical

care with high-quality into the future. With a view to establishing a sustainable social security system, we will continue to advance reform by squarely addressing the modalities of benefits and burdens, on the basis of open and public discussion.

Fees for high-speed Internet services in Japan have come down over the past three years from 8,000 yen per month to 2,500 yen per month, and are now at the lowest level in the world. With the high penetration of high-speed Internet and mobile phones, a variety of information services as well as lifestyle-oriented services such as remote medical care and distance education have emerged. The IT revolution is steadily filtering into people's lifestyles. We will formulate a new IT strategy that emphasizes the user's perspective and will make Japan the world's most advanced IT nation in 2005. We will move ahead with e-government and e-municipalities which will be close at hand, convenient and will allow administrative processes to be completed at one site, as well as promote digitalization of broadcasting which will become the basis of household IT.

As the legislation that serves as a foundation for the IT society, we will revise and resubmit the Bill on the Protection of Personal Information, with the aim to be approved by the Diet in this session. .

We will make utmost efforts to ensure the safety of nuclear power and work to restore confidence. At the same time, we will take appropriate measures to ensure the stability of energy supply.

We will pay full attention to ensuring food safety through establishing a structure to respond to emergencies, enacting the Basic Law on Food Product Safety and establishing a Food Safety Committee to evaluate safety on a scientific basis.

In order to accelerate reform of agriculture and rural areas, we will promote reform of rice policy and enlargement and corporatization of agricultural management, and we will intensively support "highly motivated and capable enterprises." Exchange between cities and rural communities endowed with ample natural resources will be promoted.

We aim to regain Japan's status as "the safest country in the world" by improving the worsening situation in which a large number of heinous incidents occur and a number of people are having concern about the deterioration of public safety. . Measures against organized crimes committed by foreigners living illegally in Japan and hi-tech crimes will be strengthened. While strongly promoting firefighting and disaster prevention measures for large scale earthquakes, we are fully committed to supporting victims and measures for recovery and reconstruction.

Last year, the number of fatalities from traffic accidents was down to half of about 17,000 of the worst year on record, 1970. We aim to reduce the number of traffic accident fatalities by half again over the next ten years and to make Japan the safest country in the world for road traffic.

A new human rights redress system will be established to provide effective remedy for victims of human rights violations, who are in vulnerable positions.

Measures will be taken to extend barrier-free to all areas of society - not just in buildings and

public transport but in the systems and consciousness of society as a whole - with a view to establishing a society in which people can live comfortably, regardless of age or disability.

(Crisis Management and Efforts towards Stability in the International Community)

As a member of the international community, Japan will continue to make efforts for prevention and eradication of terrorism. We will work to improve the state of preparedness against emergency situations, including incidents of unidentified armed vessels and large-scale terrorism, and aim at the passage of the emergency bills in the current session of the Diet, that have been carried over from the previous session. In order to enhance information gathering capabilities necessary for security and crisis management, we will advance final preparations towards the launch of Japan's first information-gathering satellite at the end of this fiscal year.

In order to transform the resolve for international peace into concrete actions, we will actively make efforts towards the "consolidation of peace and nation building", including the promotion of peace negotiations, assistance for refugees and removal of anti-personnel landmines, the restoration and creation of infrastructure and educational assistance. The International Conference on Reconstruction Assistance to Afghanistan that was held in Tokyo in January last year was highly evaluated by the international community. Japan will continue to contribute to peaceful nation building in various regions, including the Democratic Socialist Republic of Sri Lanka and Aceh in the Republic of Indonesia.

(Foreign Policy)

In order to ensure peace, security and prosperity of Japan, I will build relationships of mutual trust with the leaders of other countries, and proactively tackle challenges that are facing the international community. We will be active in promoting a wider knowledge of our culture and tradition in other countries, as well as cultural and intellectual exchanges, so that we will develop mutual understanding and wide-ranging cooperative relations.

Concerning North Korea, based on the Japan-DPRK Pyongyang Declaration, we will work towards the normalization of diplomatic relations. In close consultation with the United States of America and the Republic of Korea, and in cooperation also with the People's Republic of China, the Russian Federation and others as well as international organizations, we will strongly call upon North Korea to abide by the Nuclear Non-Proliferation Treaty (NPT) and to dismantle the development of nuclear weapons. Giving due consideration to the position of the abductees and their families, we will make maximum efforts towards a total resolution of the abduction issues. It is my intention to strenuously persuade North Korea that the choice that would benefit it most is to become a responsible member of the international community.

Recently I paid an official visit to the Russian Federation, with the desire to breathe new life into Japan-Russia relations. As a result, President Vladimir Putin and I agreed on the Japan-Russia Action Plan and were able to deepen our mutual trust. With the aim of concluding a peace treaty through the resolution of the issues of where the four islands, which are an integral part of Japan's sovereign territory, belong, I will develop relations with Russia in a broad range of areas, including politics, economy and culture as countries sharing the same two fundamental values of democracy and market economy.

The issue of Iraq's weapons of mass destruction is one that is a threat to the entire international

community. It is important for Iraq to cooperate totally and proactively with inspections, and to comply with the relevant resolutions of the United Nations Security Council, including the disposal of weapons of mass destruction. Japan will continue to make substantive diplomatic efforts concerning this issue.

This year marks the 150th anniversary of the arrival of the "black ships" of the United States in Uraga, led by Commodore Matthew Perry. The alliance with the United States will continue to be the basis for peace and prosperity of Japan. In addition to making efforts to elevate the credibility of the Japan-U.S. security arrangements, we will continue to have close partnership and dialogue in the political and economic as well as other areas, and will build a solid Japan-U.S. relationship. Furthermore, we will strive for the implementation of the Final Report of the Special Action Committee on Okinawa (SACO), including the relocation and return of Futenma Air Station to ease the burden on people in Okinawa. Moreover, we will provide assistance for the economic independence of Okinawa, taking advantage of its regional characteristics.

In order to further develop future-oriented, friendly relations with the Republic of Korea, which became an even closer neighbour to Japan through the success of co-hosting the FIFA World Cup Korea/Japan 2002, I will closely cooperate with the new administration of President Roh Moo Hyun that will be inaugurated in February.

This year marks the 25th anniversary of the conclusion of the Treaty of Peace and Friendship between Japan and the People's Republic of China. Based on understanding and trust between the people of the two countries, in order to realize peace, stability and prosperity for the Asian region and also for the world as a whole, we will further promote cooperative relations with China in a wide range of areas.

Japan's initiatives proposed last year in January towards a new era in Japan-Association of Southeast Asian Nations (ASEAN) relations, are coming steadily to fruition. Activities have already been implemented for the Japan-ASEAN Exchange Year 2003. Through such events as the Japan-ASEAN Commemorative Summit, planned for the end of this year for the first time in Japan, cooperative relations with the ASEAN members will be further developed.

We will build an even closer relationship in wide ranging areas with Europe, the influence of which on the international community is becoming ever greater.

In order to promote trade liberalization and strengthen the multilateral trade system that will be to the benefit of all countries including developing countries, Japan will promote the new round of trade negotiations at the World Trade Organization (WTO).

We will make active efforts towards economic partnership with the United Mexican States, ASEAN and the Republic of Korea.

Through a series of international meetings, such as the Third World Water Forum scheduled for March in the Kansai region, the G8 Evian Summit, and the Third Tokyo International Conference on African Development (TICAD III) scheduled for the end of September, Japan will play a major role towards the resolution of important issues including sustainable development, poverty and infectious diseases in developing countries.

In addition to efforts to improve the efficiency and transparency of Official Development Assistance (ODA), it will be extended strategically, with a priority on human security, including such areas as stability and growth in Asia, post-conflict consolidation of peace, and the environment.

Based on the sustainable use of marine resources founded on a scientific perspective, we will exert diplomatic efforts on global fishery issues.

(Conclusion)

Thirty years have now passed since my first election as a member of the Diet. Immediately after my first election, the Fourth Middle East War broke out, and Japan faced an age of rampant price confusion - within the space of a year commodity prices in Japan rose by more than 20 per cent. This was a period when the greatest political challenge was to control inflation.

Through the course of two oil shocks, and then the shock due to rapid appreciation of the yen, over the course of thirty years, Japan has weathered a number of crises that have shaken the economy and the lives of the people of Japan to their very core. However, Japan has leveraged these crises, to develop an even stronger and dynamic economy, through efforts by the entire society for energy conservation, as well as efforts on the part of enterprises for enhancing international competitiveness by intensive energy saving and by making their products highly value added.

In the current environment of structural stagnation, for the first time in post-war history, Japan is facing a situation called deflation. Now is the time to recall our experience in overcoming numerous crises and the vigor of Japan that has supported us on previous occasions.

What is important is not to avoid failure, but to turn today's failure into tomorrow's success. What is important in your life is, in facing difficulties, not to get discouraged, but rather to stand up and fight once again.

In the tumultuous times of the Meiji Restoration and in the confusion in the wake of defeat in the Second World War, our predecessors boldly faced adversity and created the Japan of today. New challenges will not arise from pessimism. Although we are indeed in a severe economic situation, we have within us by far abundant stock as compared to the stock in the previous times and great potential which stems from the stock.

Learning from the past, and looking forward with courage and hope, should we not now build a new Japan?

In this, I ask from my heart for the understanding and cooperation of the people of Japan and the distinguished members of the Diet.

(Provisional Translation)

Press Conference by Prime Minister Junichiro Koizumi at the Beginning of the Year 2003

January 6, 2003

[Opening Statement]

A Happy New Year to you all. I believe this year will again be one in which many things happen and many challenges come. I will exert every effort in carrying out my duties, and would like to ask you for your kind cooperation. I am open to your questions now, which could be many.

[Questions and Answers]

(Question) I would first like to ask a question concerning the economy. Although you always say that you are putting all your efforts into overcoming deflation, at the same time you are also saying that you are accelerating the disposal of non-performing loans. I believe that there are many economists pointing out that, if you accelerate the disposal of non-performing loans, the result would be that non-viable companies would fail, thus further increasing non-performing loans and increasing deflationary pressure on the economy. I would like to ask you how you intend to proceed to overcome deflation.

(Prime Minister Koizumi) Overcoming deflation and curbing deflation are both means of achieving economic revival. As you have pointed out, if we proceed with the disposal of non-performing loans, the deflationary situation will worsen. What criticisms were made at the time when we were not proceeding with the disposal of non-performing loans? I would remind you that at that time the overwhelming majority agreed with the opinion that because the disposal of non-performing loans was not proceeding, neither was the economy recovering. Now that we are actually proceeding with the disposal of non-performing loans, critics only raise the negative aspects. Something seems to be wrong with their attitude.

Could economic revival be possible without proceeding with the disposal of non-performing loans? By proceeding with the non-performing loan disposal, there could be a temporary situation whereby business bankruptcies and unemployment increase. In response, I have taken

substantive employment measures. In the supplementary budget from now, I am also resolved to see that budget implementation is seamlessly carried through, with due regard being paid to employment measures.

Given these circumstances, I am not saying that we will be immediately able to overcome deflation, nor realize economic revival. I am resolved to achieve economic revival through proceeding along the path of administrative and fiscal reform, which I have followed to date since my appointment as Prime Minister. We have been taking measures as far as possible in fiscal and monetary policies. In such circumstances, through the mobilization of all policy means such as deregulation, the disposal of non-performing loans, expenditure review, and tax reform, the Government of Japan is tackling the issue of curbing deflation together with the Bank of Japan. As for monetary policy, it would not be appropriate for me to comment in detail, given the independence of the Bank of Japan. However, I do believe that we, together with the Bank of Japan, should be taking monetary and other measures.

Also, in fiscal policy, a fundamental means, so to speak, we are taking measures to the fullest extent, heavily depending on government bonds, which are more than 40% of the total revenue. For the tax system, even under such a severe fiscal situation, during the course of the next fiscal year, we will carry out an advance tax cut of 2 trillion yen. Although extra taxes amounting to approximately 200 billion yen will be levied on liquor and tobacco, we will still achieve an advance tax cut amounting to a balance of 1.8 trillion yen. Concerning monetary policy, as you are well aware, interest rates are at zero. The Bank of Japan is dealing with monetary easing measures.

Given such circumstances, I am pressing forward with comprehensive measures for structural reform including administrative and fiscal reform, a review of regulations and expenditure, and the strengthening of the financial system. We are taking drastic measures against structural issues and without these there will be no economic revival for Japan. These are policies and measures that I have undertaken since my appointment. There will be absolutely no change whatsoever from this track. I believe that these policies and measures will lead to the future economic revival of Japan.

I am dedicated to setting a firm and unwavering reform track this year also.

(Question) I would like to ask a question about foreign affairs. This is regarding North Korea. In the end, the families of the five abductees were not able to spend this New Year together. In addition, North Korea's nuclear development is becoming the object of international criticism. What is Japan's policy towards North Korea?

(Prime Minister Koizumi) I visited North Korea on September 17, 2002 and issued the Japan-DPRK Pyongyang Declaration. I met directly with the leader of North Korea, Chairman Kim Jong-Il, and we signed the Japan-DPRK Pyongyang Declaration. Both parties will faithfully implement the Pyongyang Declaration that we signed. I believe this is what is most necessary and important.

The Japan-DPRK Pyongyang Declaration clearly stresses the importance of security issues, in addition to the issue of abductions. International law will be observed; concerns related to the nuclear issue will be dispelled. A comprehensive approach must be taken to address issues that

are intertwined with past, present and future Japan-North Korea relations. When the Japan-DPRK Pyongyang Declaration is truly faithfully implemented, the relations between our two countries will be normalized. We have to continue to pursue this.

In this regard, I believe that while the issue of abduction is an issue between Japan and North Korea, security issues and the nuclear issue, are not issues that concern only Japan and North Korea. The Republic of Korea and the United States of America, and still further the People's Republic of China and the Russian Federation, have grave concerns. So does the European Union, as well as the International Atomic Energy Agency (IAEA). These concerns about nuclear development on the part of North Korea must be eliminated in cooperation with the international community. Japan must tenaciously persuade North Korea that wiping out these concerns will bring about the largest benefit to North Korea as well.

The reason I visited North Korea and met with Chairman Kim Jong-Il last year was that I want to normalize the abnormal situation that exists between Japan and North Korea. I also wanted to emphasize that making the transition from hostile Japan-North Korea relations to cooperative relations would be most beneficial to North Korea as well. Of course, this is the case for Japan as well. Moving from hostile to cooperative relations between Japan and North Korea would mean that the degree of safety would be greatly increased on the Korean Peninsula and the world as a whole and lead to peace and stability. It was with this conviction that I approached the Summit Meeting. Even now there is absolutely no change in my thinking in this regard. In the future, as this is a negotiation, I anticipate many twists and turns. I believe that this is not just a matter of concern for Japan and North Korea, and also think that it is crucial to tenaciously stress to the North Korean side the importance of fostering cooperative relations with the United States, the Republic of Korea, surrounding countries and the international community.

Given these circumstances, I am not overly optimistic. However, I intend to somehow outline a path for normalization of relations between Japan and North Korea.

(Question) @I have a question concerning domestic issues. Expectations are now growing that the dissolution of the House of Representatives and a general election will probably take place during the course of the year. Secretary General of the Liberal Democratic Party (LDP) Taku Yamasaki has mentioned that once past June it will be no surprise whenever such a thing takes place. What are your thoughts on the dissolution of the House of Representatives and a general election?

Also, there will be the elections for the presidency of the LDP in September this year. What is your stance concerning this election?

(Prime Minister Koizumi) I recognize that there has been great interest in the dissolution of the House of Representatives since last year. It is already over two and a half years since the last general election. Since it will be three years since the last election in June this year, if you are a Diet member it would be reasonable to expect that the House of Representatives will be dissolved. I have been elected ten times over a career in the Diet that spans 30 years, meaning that there has been a general election once every three years on average. During my career there has been only one general election which was held after the Diet had run for its full elected term. There is probably just one case that an election of the House of Representatives

has happened after the full elected term during the post-war period. I imagine that Diet members start their preparations with the feeling that the next election could happen at any time, once two and a half years have passed.

For that reason, I can understand that the issue of whether the election will be held is always being raised, but I do not have the intention to dissolve the House of Representatives this year. My term of office as president of the LDP will expire in September. While I recognize that there is discussion that connects the presidential election of the LDP and the dissolution of the House of Representatives, I have not a slightest intention of connecting these two. When September comes the presidential election will take place in an orderly manner as planned. I believe that it has to take place as planned.

I was reelected on the previous occasion. What judgments will LDP party members and Diet members make about my achievements in the intervening period? What I need to do is to wait for and see their judgments. Although there are those who think that I will dissolve the House of Representatives in order to advantageously run the presidential election, I am not of this opinion at all. It is best to conduct the presidential election in a straightforward manner.

Besides, it seems that there are some LDP members of the House of Representatives who clearly say that I will not be reelected. While they are free to have such opinions, I think it better to see what happens at the time, and make a judgment based on the situation then. I believe that there will be no growth without reform. I am the President of the LDP and the Prime Minister of Japan who has emerged under this policy. I will not budge an inch from this reform track. When the time comes, it will depend on how LDP Diet members and party members evaluate the reform track that I have charted.

So, I have no intention of connecting the dissolution of the House of Representatives with the presidential election, and at this point in time I see no reason why the House of Representatives should be dissolved during the course of this year. At present the LDP alone holds more than half the seats in the House of Representatives. The members of New Komeito and the New Conservative Party which has been formed just recently have also said they will cooperate with the Koizumi Cabinet. While maintaining the three-party coalition, we will cooperate to advance the reform track. Is it not the case that it all comes down to this? I, therefore, have no intention of dissolving the House of Representatives.

(Question) I would like to ask the Prime Minister a question as follows. This year, a new Governor of the Bank of Japan must be selected. Do you have any criteria that you desire in the new Governor or have anyone who you have in mind at this point in time?

(Prime Minister Koizumi) Thinking about the economic conditions to come, I believe the decisions of the Bank of Japan will become considerably important. In regard to monetary policy, the business community has great interest in the measures taken by the Bank of Japan. In light of this, there seems to be much rumor going on about who will become the successor to Governor Masaru Hayami, whose terms ends in March 2003. Regarding the new Governor of the Bank of Japan, I believe it is desirable to have someone who is proactive about combating deflation. There is independence on the part of the Bank of Japan about monetary policy and I cannot say much, but I want to appoint someone who will actively take part in combating deflation and make appropriate judgments on measures to be taken, listening fully

to the voices from various sectors. I also expect sufficient insight on the international situation. I believe we must select an appropriate person who will fulfill these conditions. At this point in time, Governor Hayami is firmly taking upon these tasks, so I believe that this is not the time to raise specific name of his successor.

(Question) There has already been a question about North Korea, and you said that it is important that North Korea is viewed as a member of the international community in cooperative international relations. In your upcoming trip to the Russian Federation, how will you discuss the issue of North Korea with President Vladimir Putin and are you seeking a way to solve the issue through discussions?

(Prime Minister Koizumi) I will leave Japan on January 9 to visit the Russian Federation. While in Russia I will hold talks with President Putin and we will not only discuss future issues concerning Japan-Russia relations, but of course also cover the issue of North Korea. In fact, before my visit to North Korea on September 17 last year, I received a direct telephone call from President Putin. I heard his account of his meeting with Chairman Kim Jong-Il, as well as his impressions of the North Korean side. I was able to obtain advice and exchange views.

I then visited North Korea. Upon my return, I held telephone talks with President Putin again, and we talked about close cooperation concerning the North Korean issue as a part of Japan-Russia relations now and in the future..

In addition, my visit to North Korea was highly evaluated by President Putin and President Putin offered the highest encouragement, saying that the Japan-DPRK Pyongyang Declaration was the greatest result that Japan could have hoped for at that time.

Based on these circumstances I will be holding talks with President Putin. With regard to North Korea, Russia already has diplomatic relations with North Korea and maintains a friendly relationship with that country.

In August last year Chairman Kim Jong-Il paid a visit to Russia and in the talks held with President Putin, I believe that the international situation was also discussed, in addition to various Russia-North Korea issues. Japan must work on North Korean issues in partnership with Russia and China, both of whom have diplomatic relations with North Korea.

In particular, with regard to the nuclear and security issues, both Russia and China share borders with North Korea. They also have friendly relations with North Korea. When considering the current state of Russia-North Korea relations, I believe that Russia has considerable influence on North Korea. What is more, President Putin has certain perspectives on the country that Japan may not have.

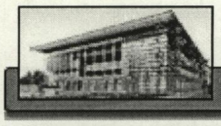
Based on such points, on my upcoming visit to Russia I will discuss the future for Japan-Russia relations. Russia has changed since the Soviet era, from a period of confrontation with the United States of America, to solidarity between Russia and the United States.

In addition, it was also decided by the G7 that Russia will participate in the Summit process as a full member.

In four years time the G8 Summit will be held in Russia. In other words, the Soviet structure has been transformed into the Russia of President Putin. The system has changed in Russia, with a move to democracy on the political front, and the adoption of market economy on the economic front, coupled with full membership of the G8 Summit process and sharing common values. Such changes in the international environment probably provide many areas in which Japan-Russia cooperation will be possible, notwithstanding the fact that certain troublesome issues still remain including the Northern Territories and the conclusion of a peace treaty. Keeping in mind the changes in international relations, I would like to make this visit to Russia and hold talks with President Putin. Of course I am also seeking to cooperate with Russia on the issue of North Korea.

(Question) There is a rumor that the United States of America may launch an attack on the Republic of Iraq. There seems to be discussions within the ruling parties about enacting a new law to provide for reconstruction assistance for Iraq at an early date. What steps will you take in this regard?

(Prime Minister Koizumi) As for this issue, currently there are inspections being conducted and the situation is that the report of those inspections will be submitted to the United Nations Security Council by late this month. We will think about what to do after we see what happens after the results of the inspections have been released and it is not appropriate to have discussions based on what has not occurred yet at this point. Since last year, we have stated that we would like to have the United States take a stance of international cooperation in tackling with the issue of Iraq. In dealing with the issue, the Government of Japan will take its own initiative based on the policy of international cooperation while taking into consideration our alliance with the United States.



Prime Minister of Japan and His Cabinet

TOP

Speeches and Statements by Prime Minister

(Provisional Translation)

New Year's Reflections by Prime Minister Junichiro Koizumi

January 1, 2003

Let me first of all wish you a Happy New Year.

One year and eight months have passed since the inauguration of the Koizumi Cabinet. During that time, based on the belief that there is "no growth without reform," I have consistently pursued structural reform. This year I am resolved to set my reform policy onto a firm course by strengthening policy measures including the acceleration of the disposal of non-performing loans, industrial revival and the curbing of deflation.

Mr. Masatoshi Koshiba and Mr. Koichi Tanaka, who became Nobel Laureates last year - the first time ever that two Japanese have been awarded a Nobel prize in the same year - stated that "Japan abounds with researchers of Nobel-prize winning caliber."

Japan is full of potential. It is reform that elicits this potential. Although tough times still lie ahead, I am resolved to put all my efforts into reform and to press forward with affairs of State with confidence and hope.

In foreign policy, I have not budged an inch from my position of ensuring that Japan takes initiative in the role that it plays based on its national interests, along with the basic policy of international cooperation.

Concerning Japan's relations with North Korea, in addition to making efforts to provide support and to clarify what actually happened based on the position of the abduction victims and their family members, I will continue to work tenaciously for peace in Northeast Asia, including resolution of the nuclear development issue, while working in partnership with the United States of America and the Republic of Korea.

As a member of the international community, Japan will continue to actively engage in diplomacy that will contribute to world peace and stability, and I am determined to ensure that the people of Japan live safely feeling secure.

What is now vital to the future development of Japan is a spirit of self-help, coupled with a spirit of self-discipline. In order to revitalize the economy and create a Japanese society that

fills us all with pride and confidence, I will continue to advance reforms with unwavering resolve this year.

I ask for understanding and support of the people of Japan in these endeavors. I hope each and everyone will have a wonderful, fruitful and fulfilling year 2003.

(Provisional Translation)

General Policy Speech by Prime Minister Junichiro Koizumi to the 155th Session of the Diet

October 18, 2002

(Opening)

Since assuming office I have not budged an inch from my posture of ceaselessly carrying out structural reforms without sanctuaries through my domestic policies, and on the diplomatic front, of ensuring that Japan takes initiative in the role that it plays based on international collaboration. In the past one and a half years, despite under a severe situation, I have made efforts to put in practice the policies of my government standing on the firm foundation of the coalition among the Liberal Democratic Party, the New Komeito and the New Conservative Party.

I recently reshuffled my Cabinet in order to further advance the structural reforms. Under this new formation, I am resolved to launch my policy of "no growth without reform" onto a firm orbit.

On September 17, I became the first Japanese Prime Minister ever to visit North Korea, where I held talks with Chairman of the National Defense Commission Kim Jong-Il. In his remarks, Chairman Kim Jong-Il admitted the involvement of North Korea in the abduction issues and clearly expressed his apologies and his resolve to prevent any recurrence of such cases. I could also perceive that he is eager to seek a comprehensive advancement in resolving security and other issues, including those of the covert operation vessels, missiles and the problem of nuclear development.

The information disclosed by North Korea regarding the fate of the abductees portrayed a truly appalling situation and I was forced to make a difficult decision. Such cases must never again be allowed to occur. That is one reason why it is essential that stable peace in the region of the Korean Peninsula be secured. Relaxing the tensions of this region will contribute to the peace and stability not only of our nation, but of the Northeast Asian region, and ultimately of the entire world. Recognizing that dispelling the grave concerns that pervade relations between Japan and North Korea through negotiations and that taking a major step forward to move from hostile relations to cooperative relations will well serve Japan's national interests, I decided to

resume the normalization talks.

"One must believe that one has made the best policy decision." These are the words of Munemitsu Mutsu, who served as Minister for Foreign Affairs in the Cabinet of the second administration of Prime Minister Hirobumi Ito in the period when the Cabinet system was first established. In other words, one should be confident that "even if anybody else were to have made the decision, there should not have been other policy options." These words, that imply that the true national interest is reached as a conclusion after having thoroughly thought through, are also mine.

The normalization talks will resume on October 29. The basic premise for these talks is that the principles and spirit of the Japan-DPRK Pyongyang Declaration are sincerely abided by. Japan, in the course of negotiations in the normalization talks, will closely coordinate with the United States, the Republic of Korea and other related countries.

My heart aches when I think of the long years of suffering experienced by the abductees and their families. The return to Japan of five of the abductees on October 15 was merely the first step toward solving this problem. Through the normalization talks, I intend to clarify what actually happened in the abductions and I will ensure that the Government undertakes to extend full support to the abductees and their families.

(Rebirth of the Japanese Economy)

The most important task for us now is the rebirth of the Japanese economy in an increasingly severe environment. In order to restore vitality to the economy, I intend to compile comprehensive response measures immediately, with a view to accelerating reforms in the coming six months.

The Government and the Bank of Japan will unite to tackle the issue of overcoming deflation in a comprehensive manner. Responding to the economic situation, we will take bold and flexible measures, thus securing the stability of the financial system and the economy.

We will substantially accelerate the disposal of non-performing loans and conclude the issue of non-performing loans during FY2004.

Regarding the payoff system, we will prepare for the introduction of the payoff system, taking systemic measures to secure the stability of settlement functions. In order to avoid concern and confusion among depositors in the course of advancing reform of the financial system, actual implementation of the payoff system will take place in April 2005, by which time the issue of non-performing loans should have been resolved. We will take measures to promote reorganization of financial institutions and others in order to strengthen their operating foundations.

As we accelerate the disposal of non-performing loans, we will pay careful attention to its effect on the employment and to the operations of small and medium enterprises, and make every effort to provide with safety nets. We will strengthen measures to support industrial reorganization, to foster rapid revival of companies and to assist with the establishment of new

businesses.

In terms of the tax system, we will implement sweeping reforms towards creation of "an appropriate tax system" that will help us realize sustained revitalization of the economy and society. In light of the current economic situation, I will carry out advanced implementation of the deepest tax cuts possible, in excess of 1 trillion yen. We will continue deliberations with a view to submitting a comprehensive bill to the next regular session of the Diet, aiming for a tax system that is fair, simple and easy-to-understand within the framework of tax revenue neutrality over several fiscal years.

The necessary steps, including those related to the tax system, will be taken for the purpose of reactivating asset markets such as the real estate and securities markets.

I will establish special zones for structural reform as one major pillar to revitalize the Japanese economy. The operating principle will be shifted from "uniform regulations throughout the country" to "regulations that fit with the specific characteristics of each region." We will implement bold regulatory reform across sectors such as education, agriculture and welfare, taking seriously the wisdom and willingness shown in the more than 400 proposals that have been put forward.

The willingness of local governments and the private sector are materializing as concrete plans in the area of urban renaissance. The 44 areas for urgent improvement through urban renaissance designated around the nation are slated to receive a total of approximately 7 trillion yen in private-sector investment, including the redevelopment building plan in front of Nagoya Station which will boast the largest floor area ratio in Japan. Calculations that factor in the synergy effect estimate a total economic effect of more than 20 trillion yen. We will utilize these projects, together with the special zones for structural reform, for activating the economy.

As for the justice system, we will conduct comprehensive and concentrated reform with a goal of, among other things, first trials being concluded within two years.

We will advance the creation, protection and application of intellectual property as a national strategy.

We will promote e-government and e-municipalities, aiming to make Japan the world's most advanced IT nation.

(Shift "From the Public to the Private Sector" and "From the Central to the Local Governments")

During the previous session of the Diet, we took a major step towards comprehensive postal reform by approving legislation that will allow private-sector entry to the postal businesses and by passing the Law on the Postal Public Corporation. Specific proposals for privatization have already been presented to the nation and I intend to advance deliberations based on those ideas. Similarly, regarding the four highway-related public corporations, the Law on the Establishment of the Promotion Committee for Privatization has been adopted and vigorous discussions on modalities for privatization are taking place among the Committee members,

who are ambitious reformers. Furthermore, laws related to reform of the medical system have also been approved. Structural reform is advancing steadily.

I will continue to work on a drastic reduction of the bloated public sector. By further accelerating the shift "from the public to the private sector" and the flow "from the central to the local governments," I intend to realize an economy and society centered on a vital private sector and unique local communities.

We will fundamentally review the way that taxes are spent and create a simple and effective government.

Based on the proposals for reform presented by Cabinet members in the Council on Economic and Fiscal Policy, I intend to engage in even deeper discussions and show the direction of reform on important issues including social security, such as pensions, agriculture, including rice, compulsory education, public works projects and earmarked fiscal resources. I will also steadily implement reform of special public institutions.

As for the relations between the central and the local governments, we will consider in trinity the modalities for the allocation of financial resources, including state subsidies, local allocation tax, and the transfer of tax resources to local governments. The outcome of those considerations will be partially reflected in the FY2003 budget. In terms of municipal mergers, currently approximately 2,500 municipalities are considering mergers and I intend to further advance these mergers more strongly.

In formulating the FY2003 budget, we will continue to severely review expenditures, while giving priorities for allocation in areas that will lead to future development.

The administrative body itself cannot proceed without "pain" either. Given the severe situation facing private-sector business, the Government will decrease the salary and retirement allowance levels of civil servants.

(Foreign Policy)

More than one year has passed since the series of terrorist attacks in the United States of September 11th. When I attended the memorial ceremony in New York I was moved by the depth of the wounds that remain. The October 12th terrorist bombing in Bali left hundreds dead and wounded. We must face the fact that the fight against terrorism will be long and difficult. The Government will do everything in its power to ensure the safety and security of the people while actively fulfilling Japan's role as a member of the international community in contributing to the peace and stability of the world.

The problem of weapons of mass destruction in Iraq is a common challenge for the international community. The announcement by Iraq that it will unconditionally accept the return of United Nations inspectors is the first step towards resolving this issue. What is important, however, is for Iraq to actually accept immediate, unconditional and unrestricted inspections and comply with all relevant United Nations Security Council Resolutions, including those calling for the disposal of weapons of mass destruction. I clearly conveyed to

President George W. Bush of the United States our view that international collaboration is vital in addressing the issue of Iraq. Japan will continue to carry out diplomatic efforts in cooperation with the international community.

Since September of this year, my participation in the World Summit on Sustainable Development in Johannesburg and the fourth Asia-Europe Meeting (ASEM) and my visit to the United States have given me opportunities to meet with world leaders and frankly exchange views on the issues facing the international community while building relations of trust. At the end of this month I will attend the APEC Economic Leaders' Meeting in Mexico and at the beginning of next month I will participate in the ASEAN + 3 (Japan, China and the Republic of Korea) Summit Meeting in Cambodia. I intend to continue to develop solid and cooperative relations with the United States and other nations around the world.

(Conclusion)

We cannot expect to achieve reform unless the people place their confidence in politics. Each and every member of my Cabinet will act with propriety, demonstrate leadership and promote reform under an appropriate allocation of roles and a cooperative relationship between statesmen and bureaucrats.

It is indeed a serious situation that a series of scandals have greatly undermined people's confidence in areas where safety is of utmost importance, including the issues related to meat, improper food labeling and misconduct concerning inspections of nuclear power plants. I intend to create a mechanism that will prevent the reoccurrence of such incidents and ensure safety based on public disclosure of information.

In this session of the Diet, I intend to give priority to bills carried over from the previous Diet Session, such as national emergency legislation and legal structures to ensure the protection of personal information, aiming for their passage. In addition, we will submit a range of bills important for advancing structural reforms.

Regarding the legislation related to "readiness" in the event of a national emergency, in light of the discussions at the previous session of the Diet, we have given consideration to individual legal structures such as the legal structure for the protection of Japanese nationals in addition to the basic framework. Through the deliberations on this bill I intend to strive to gain the understanding and cooperation of the people of Japan.

The Japanese economy is in the middle of structural reform and continues to be in a severe situation. However, there has been no fading of the latent potential amassed through the unstinting efforts of the people.

A project is underway in Higashi-Osaka City to gather several dozen local small and medium enterprises with unique technological skills and develop a compact satellite over the next three years.

In Tokyo's Ota Ward, there is a corporation which manufactures special components for a great range of applications spanning from products for daily use to rockets using the proficient skills

of its craftsmen. There is another company which uses Information Technologies to automatically manufacture molds for mobile telephones and wins contracts to supply global manufacturers, making use of its speed of development as its advantage.

There are also companies which have succeeded in epoch-making technological development in advanced sectors such as genetic research materials. Indeed, some of them enjoy sales growth of as much as six-fold over the course of two years.

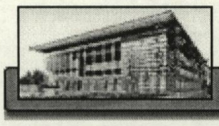
The small and medium enterprises of our nation are bravely struggling to meet the challenges they face in this severe environment.

This is the third consecutive year that the Nobel Prize has been awarded to Japanese nationals. Moreover, this year, for the first time ever, two Japanese have been selected as Nobel laureates. This will add great momentum to the promotion of science and technology in our nation. Mr Masatoshi Koshiba, who has been awarded the Nobel Prize in Physics in recognition of his unprecedented observation of neutrinos, is 76 years old, while Mr Koichi Tanaka, awarded the Nobel Prize in Chemistry in recognition of his development of analytical methods for protein, is 43 years old. The simultaneous selection of these two scientists from different generations working in different fields has shown the world the high standards and wide breadth of Japanese research. This is truly a wonderful event that has filled us with courage.

Addressing the Diet in April of this year, the President of the European Commission, Romano Prodi warned us not to be pessimistic about the future of Japan by pointing out that, "One is dazzled by the capacity of Japan, whether it be in the field of the economy, technology, science or marketing. Such assets will certainly not disappear." World leaders praise Japan's latent economic potential and have great expectations that its development will provide the driving force for greater global prosperity.

Structural reform is indeed the path that will extract Japan's latent potential. Let us be confident and hopeful in taking on challenges for reform.

In this I ask from my heart for the understanding and cooperation of the people of Japan as well as the distinguished members of the Diet.



Statement by Prime Minister Junichiro Koizumi at the 57th Session of General Assembly of the United Nations

United Nations, New York
September 13, 2002

Mr. President, Mr. Secretary-General, distinguished delegates, ladies and gentlemen,

First of all, I would like to congratulate His Excellency Mr. Jan Kavan on his assumption of the Presidency of the fifty-seventh session of the General Assembly. At the same time, I pay high tribute to His Excellency Doctor Han Seung-soo, former President of the General Assembly, for his leadership.
I am pleased on this occasion to congratulate Switzerland on becoming a UN Member State. My congratulations also go to the Democratic Republic of East Timor, which declared its independence on May 20th. Japan heartily supports its admission to the membership of the United Nations.

The Peace Bell in the garden of United Nations headquarters was presented to the United Nations in 1954 by Japanese people with a prayer for world peace. It has been rung every year for world peace. The beautiful sound of the bell, which was made from coins collected from all over the world, reminds us of what the United Nations represents.
In order to ensure world peace and prosperity, we need to harmonize a range of efforts which encompass not only military measures but also initiatives for the solution of poverty problems and the establishment of social infrastructures that will put an end to human rights violations. The United Nations should be a forum where the contributions of each and every state are consolidated and implemented in the most efficient manner. No single state or organization can accomplish this. Only the United Nations is capable of carrying out such a lofty task.
In this connection, I would like to refer to the issue of Iraq, which is of grave concern to the international community. Iraq must comply with all the relevant UN Security Council resolutions. In particular, Iraq must allow immediate and unconditional inspections and dispose of all weapons of mass destruction. It is important for the international community to continue to work together, and to engage more strenuously in diplomatic efforts through the United Nations. In doing so, we must pursue the adoption of necessary and appropriate Security Council resolutions as soon as possible.
Terrorism remains a critical issue this year. Today, in addition to terrorism, I would like to take up other major challenges which the United Nations must address, and to describe Japan's contributions in those areas, namely, the consolidation of peace and nation-building, the

environment and development, and nuclear disarmament. I will also touch upon my ideas for the realization of United Nations reform, which is essential in order for this Organization to tackle these challenges successfully.

The first challenge is the fight against terrorism. Just after the terrorist attacks on September 11, I visited Ground Zero. Seeing with my own eyes the magnitude of the destruction, I was speechless at the enormity of the terrorist attack. September 11 is a challenge not only to the United States but also to all humankind. The prevention and eradication of terrorism is an important task for the United Nations and, indeed, for all Member States.
Japan calls upon all States to conclude international conventions related to terrorism. It is important to develop international norms in this area, such as the Comprehensive Convention on International Terrorism and the International Convention for the Suppression of Acts of Nuclear Terrorism. Safe havens for terrorists cannot be allowed. Japan will further strengthen its domestic counter-terrorism measures. Consulting closely with the Counter-Terrorism Committee of the Security Council, it will share its knowledge and expertise in counter-terrorism measures with those states that are in need of it. Japan will respond to threats where weapons of mass destruction might be used in acts of terrorism by actively joining the efforts of the international community to prevent the proliferation of these weapons.

The second challenge is the consolidation of peace and nation-building. Japan attaches great importance to extending post-conflict assistance for the consolidation of peace and nation-building to prevent the recurrence of conflicts. Having developed a mechanism to enable it to cooperate effectively in broader areas, Japan has entered a new stage in its cooperation with peacekeeping operations. This positive posture is manifested in its deployment since February of six hundred and ninety Self-Defense Force personnel, mainly as an engineer group, to the PKO in East Timor. Japan will enhance its cooperation in other areas as well, such as demining, rehabilitation of infrastructure, elections and the establishment of systems for internal security.
Concerning Afghanistan, at the International Conference on Reconstruction Assistance to Afghanistan held in Tokyo in January, Japan strived to solidify the resolve of the international community. We are now preparing a program for assisting the demobilization and reintegration of former combatants, which will give form to our proposed gRegister for Peace. h My country is also contributing to regional reconstruction by developing an assistance project for the resettlement of refugees and displaced people in such areas as Kandahar.
In the Middle East, it is crucial that the vision of the peaceful coexistence of Israel and an independent Palestinian state be materialized as early as possible. Japan will assist the reform of the Palestinian Authority which is aimed at establishing a new state by the Palestinian people. We will do so particularly by providing technical assistance for democratization. Elections by the Palestinians are the first step toward nation-building, and I believe that the international community should extend assistance to ensure their success. However, putting an end to the vicious circle of violence remains our most urgent task. Japan resolutely condemns terrorist acts by Palestinian extremists, and strongly urges Israel to immediately withdraw its troops to the line of September 2000, halt its military operations, and lift the economic closures in the autonomous areas.
In Africa, peace and stability are prerequisites for development. We are encouraged by the positive movements in that continent, such as the realization of peace in Angola and a partial cease-fire in Sudan. Japan will actively support the efforts of African states for conflict resolution and the consolidation of peace.

The third challenge is the simultaneous achievement of environmental protection and development. Toward that end, it is of course important to utilize all available financial resources and to develop human resources, which are the engine of nation-building. However, gownership hby developing countries and their gpartnership hwith the international community which supports their ownership are also essential. In this respect, we welcome the development of the gNew Partnership for Africa's Development hand the establishment of the African Union as manifestations of the ownership by African countries. In order to help strengthen both the ownership by Africa and the partnership with the international community, and building on the results of the successful World Summit on Sustainable Development in Johannesburg, Japan will convene the third Tokyo International Conference on African Development (TICAD‡V) in October 2003. Also in pursuit of sustainable development, it will host the International Ministerial-level Conference on Water in Kyoto in March 2003. Japan will continue to actively participate in worldwide actions for environmental protection and development by providing expertise and taking concrete actions.

In the fourth place, I would like to touch upon the nuclear disarmament issue. I believe that Japan, as the only country in human history to have suffered nuclear devastation, has a significant role to play in nuclear disarmament and non-proliferation. Japan will continue its efforts to realize a peaceful and safe world free of nuclear weapons as early as possible. Toward that end, we will propose a draft resolution titled gA path to the total elimination of nuclear weapons h at this session of the General Assembly, and will redouble our efforts to achieve the early entry into force of the Comprehensive Nuclear-Test-Ban Treaty.

Mr. President,
When addressing these challenges, we must ensure that the variety of measures taken by Member States are effectively coordinated. The United Nations must exercise its leadership in this endeavor. We, all Member States, must breathe new life into the United Nations by strengthening its functions through reforms.
Next year, the debate on Security Council reform will enter its tenth year. I believe that we should now focus our discussion on such questions as the number of seats on the enlarged Security Council. Japan intends to work hard toward that end. In this connection, I would remind all Member States of the question of the enemy state clauses, meaningless legacies of the 20th century, remaining in the United Nations Charter.

Mr. President,
Since assuming office as Prime Minister in April 2001, I have proceeded with a series of reforms to enable Japan to respond appropriately to the new era. The United Nations also must continue to reform itself to respond to new situations in the world by constantly reviewing its organization and functions. The prescription for reform is already shown in the Millennium Declaration. In order to achieve the goals contained in the Declaration and build a more peaceful, prosperous and just world, every Member State should renew its determination to accomplish United Nations reform, and take actions toward that end. Japan will make utmost efforts to ensure that the United Nations is able to meet the challenges of the 21st century.

Thank you very much.