

Japanese Objectives for the 2002 Kananaskis Summit

Political Data

Head of Government:	Prime Minister Junichiro Koizumi (R)
Minister of Public Management, Home Affairs, Posts and Telecommunications:	Toranosuke Katayama (C)
Minister Of Justice:	Mayumi Moriyama (R)
Minister for Foreign Affairs:	Yoriko Kawaguchi (N)
Minister of Finance:	Masajuro Shiokawa (R)
Minister of Education, Culture, Sports, Science and Technology:	Atsuko Toyama (N)
Minister of Health, Labour and Welfare:	Chikara Sakaguchi (R)
Minister of Agriculture, Forestry, and Fisheries:	Tsutomu Takebe (R)
Minister of Economy, Trade and Industry:	Takeo Hiranuma (R)
Minster of Land Infrastructure, and Transport:	Chikage Ogi (Hiroko Hayashi) (C)
Minister of the Environment:	Hiroshi Ohki (R)
Minister of State, Chief Cabinet Secretary (Gender Equality):	Yasuo Fukuda (R)
Minister of State, Chairman of the National Public Safety Commission (Disaster Prevention):	Jin Murai (R)
Minister of State, Director-General of the Defense Agency:	Gen Nakatani (R)
Minster of State (Okinawa and Northern Territories Affairs, Science and Technology Policy):	Koji Omi (R)
Minster of State (Financial Services Agency):	Hakuo Yanagisawa (R)
Minister of State (Economic and Fiscal Policy, Internet Fair 2001 Japan, IT Policy):	Heizou Takenaka (N)
Minster of State (Administrative Reform, Regulatory Reform):	Nobuteru Ishihara (R)

Note:

"R" indicates a member of the House of Representatives.

"C" indicates a member of the House of Councilors.

"N" indicates a member of the Diet.

Government

Type: A constitutional monarchy with a mixed electoral system.

Parliament:

House of Representatives consists of 480 seats.

House of Councilors consists of 252 seats.

Ruling Parties:

Liberal Democratic Party (LDP)

New Komeito

New Conservative Party

Opposition Parties:

Democratic Party of Japan

Japan Communist Party

Social Democracy Party

Liberal Party

Source: Japan Information Access Project

Economic Data

GDP: 4,812.1 (Billion US\$)

	1997	1998	1999	2000
GDP per head (USD)	34,306	31,285	35,664	37,609
GDP (% real change pa)	1.92	-1.06	0.79	1.69
Government consumption (% of GDP)	15.16	15.64	16.13	16.57
Budget balance (% of GDP)	-3.24	-4.82	-6.76	-5.83
Consumer prices (% change)	1.71	0.65	-0.33	-0.65
Public debt (% of GDP)	82.59	94.05	101.61	108.78
Labour costs per hour (USD)	19.54	18.29	20.89	22.22
Recorded unemployment (%)	3.4	4.11	4.68	4.72
Current-account balance/GDP	2.19	3.06	2.37	2.48
Foreign-exchange reserves (bn\$)	219	215	286	354
(Source: Economist Intelligence Unit)				

Summit Objectives for Japan

1. Economic Growth and Reform

The Kananaskis Summit will be a critical venue for Koizumi to demonstrate to the world that he has made some progress reforming Japan's economy and encouraging growth. Koizumi swept into office last April pledging a raft of reforms to restore economic health in Japan after a decade of recession. These included capping new government bond issues to rein in national debt, opening up protected areas of the economy and cleaning up the banking sector.

But Koizumi's popularity has recently sagged and pressure has mounted for him to improve his mixed record. In addition to a decade long recession, most commentators emphasize that Japan is still "suffering from a deflationary spiral, a debt explosion, a dysfunctional banking system and a demographic nightmare"¹. Public debt is still the worst in the industrialized world at 130 percent of GDP and it looks set to hit 140 percent. This was a factor behind a recent humiliating two-notch credit rating downgrade by Moody's Investors Service and also Standard & Poor's decision to cut Japan's long-term local and foreign currency rating to AA- from AA. An inspection by Japan's Financial Services Agency into 13 major banks was too limited in scope, S and P said, adding the government must pump more public money into banks to support their efforts to write off bad loans. With waning confidence in Japan's Economy, the Japanese delegation will attempt to reverse growing pessimism.

Firstly, they will point to GDP figures for the first quarter of 2002 that jumped to the top of the G7 growth table. Japan's GDP up 1.4 per cent over the three months to March from the previous quarter. This was the first growth for four quarters and translated into annualized growth of 5.7 per cent. Yet GDP figures are notoriously prone to revisions and mask underlying structural problems. Much of the GDP growth was driven by a recovery in exports while domestic demand remained soft. For the next year to March 2003, the government has forecast zero growth, but economists say even that could prove optimistic.

A new set of substantive reforms will also be unveiled at the summit. According to government sources, The Japanese government's top economic panel, The Council on Economic and Fiscal Policy, will deliver the outlines of its policy recommendations on tax and stimulus measures to the G8. Koizumi told a meeting of the Council on Economic and Fiscal Policy that the tax reforms should start in the next fiscal year starting April 2003 and be completed by March 2007². The proposals aim to revive the economy, reform taxes and cut government spending. Other measures will revitalize regional economies in Japan and promote more free trade deals. In addition to improving economic indicators, these announcements will allow Japan and the Koizumi government to reveal their vision for a sustained economic recovery.

¹ http://www.edc.ca/docs/Country/Economics/Commentary/w02-27-2002_e.htm

² "Koizumi calls for tax reforms", AFP, June 7, 2002.

Koizumi will likely be successful at displaying his plans and his progress. Other G8 countries, such as the United States, certainly remain skeptical about Japan's outlook, but they also recognize that electoral dissatisfaction with Koizumi will only weaken his ability to push through the needed economic reforms. Therefore Koizumi will be able to display his progress, make more promises, and face muted (if any) criticism from the G8.

2. Russian - Japanese Relations

Japan will move closer towards signing a peace treaty with Russia. An important, top level meeting is expected over the course of G8 summit before or during Kananaskis. The Japanese embassy in Moscow has said their consultations have focussed on laying the groundwork for a meeting between the Russian and Japanese foreign ministers, Igor Ivanov and Yoriko Kawaguchi, at the G8 foreign ministers meeting in Canada on 12-13 June. At the end of World War II The Soviet Union occupied the three islands of Kunashiri, Etorofu and Shikotan and the Habomai group of islets - all located off northeastern Hokkaido. The territorial row prevents the two nations from signing a peace treaty. Negotiations over the dispute have been at a standstill because of the failure of the "two-track" approach- a strategy of seeking the return of the two smaller islands and concluding a peace treaty while the two nations would discuss the sovereignty of the two larger islands at a later date.

The prospect for a significant breakthrough appears strong. Both sides have been easing into a compromise by announcing various cooperative measures relating to the islands. For example, the Japanese Government has announced its intention to provide humanitarian aid to Russian-held islands through the Red Cross society after previously disbanding an international organization for that purpose.³ Some prominent Russian political figures have suggested that these islands could be swapped for a substantial amount of foreign aid from Japan⁴.

3. Kyoto

As one of the most recent countries to ratify the Kyoto protocol, Japan has a keen interest to see other nations follow suit. The more countries ratifying the treaty, the less costly will be Japan's ratification. This treaty faces stiff opposition from Japan's business community and will only be measured as a success if the sacrifices are shared globally. Although the United States currently shuns Kyoto, the treaty will enter into force if, at a minimum, it is ratified by the EU, Russia, Japan and either Canada or Poland. The EU made arrangements to ratify on May 31st in New York, while Russia's cabinet supported

³ Stated by Foreign Minister Yoriko Kawaguchi.

Kyodo News. June 7, 2002. <http://home.kyodo.co.jp/all/firstp.jsp?news=politics&an=20020607122>

⁴ Kyodo News June 7, 2002. The leader of the nationalist Liberal Democratic Party of Russia says he would support the return of four Russian-held islands to Japan on the condition Japan extends \$200 billion (24.8 trillion yen) in grant aid to his country.

ratification on April 11th. Japan's decision puts pressure onto Canada to fulfill Kyoto's minimal requirements.

The US is the most important but most problematic candidate for Kyoto ratification because it is the largest polluter. The statement released by Prime Minister Junichiro Koizumi shortly after Japan's ratification, declared, "To ensure the effectiveness of actions against global warming, it is vital that all countries strive for the reduction of greenhouse gases. The Government of Japan will do its utmost to establish a common rule, in which all countries including the United States and the developing countries participate."⁵

4. Development and Debt

Japan joins other European nations in opposing a United States proposal that the World Bank's International Development Association (IDA) provide more grants (up to about 50 percent of all financing) to developing countries. Japanese officials worry that the U.S. grant- plan erodes the donors' power to insist on the proper use of funds: if money is received through grants, it dilutes the discipline associated with loans. Economic stagnation and the perception that Japan's aid is neither well used nor appreciated has weakened public support, making ODA an easy target for politicians seeking to control Japan's huge public debt. Although Japan's ODA budget is the world's largest, it was reduced by 10 percent for the 2002 fiscal year.

Haruhiko Kuroda, Japan's Vice Minister for Finance challenges claims that a dramatic rise of global ODA by 40 to 60 billion dollars is needed. "If we use aid in a more efficient way, the goals should be achieved without such a huge sum," he said at recent seminar of the World Bank⁶.

The American idea met with stiff opposition in Europe and the debate has delayed agreement over the bank's request for a \$12 billion injection into the IDA. With the Europeans joining them, the Japanese have a formidable coalition preventing this IDA policy change.

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⁵ <http://www.mofa.go.jp/announce/announce/2002/6/0604.html>

⁶ AFP June 9, 2002