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## PRIORITY PROJECTS

### Studies on East Asian Economic Integration

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Movements toward the establishment of free trade areas (FTAs) have been growing in East Asia. Japan concluded agreements with Singapore in 2002 and with the Philippines in 2004, and is currently carrying out negotiations with the Republic of Korea, Malaysia and Thailand. Japan is also expected to begin negotiations with ASEAN as a whole in 2005. FTAs have a so-called trade diversion effect, which produces a positive trade effect for the participant countries, but negative ones for non-participants. Japan, with its very large economy, must consider this when promoting integration in East Asia.

In consideration of this, the East Asian Integration Study Project aims to study the status quo of East Asia's integration in terms of both *de jure* (FTAs) and *de facto* integration, to investigate the impact and problems arising from the full-fledged East Asia-wide integration and community, and to provide a way for realizing it. For this purpose, the project initiated two study projects—East Asia's Challenges: Economic Integration, Economic Reform and Institutionalization, and Repercussions of the East Asia FTA on the Japanese and Chinese Economies.

#### ▶ East Asia's Challenges: Economic Integration, Economic Reform and Institutionalization

Organizer: Daisuke Hiratsuka

In East Asia, a *de facto* economic integration has moved forward through the production networks of transnational corporations, but *de jure* integration has not taken place. This is partly because sensitive sectors have acted as obstacles to *de jure* integration. The reduction of income disparities between countries is another issue that needs to be addressed by East Asia. East Asian regional cooperation, through institutionalization, is necessary for less-developed countries to overcome their handicaps.

With the aim of clarifying the issues that need to be addressed, and to provide an overall perspective of the East Asia economy, this study discusses the implication of further globalization for East Asia's *de jure*, or formal, integration. More specifically, it attempts to formulate a framework for analyzing FTAs and economic integration, and characterizes East Asia as a *de facto* single production area which is being formalized through the implementation of FTAs. As shown by the subtitle, the project addresses: (1) the status quo of East Asia's economic integration in order to identify existing barriers, (2) the trade-off between short-term costs and long-term benefits, and (3) the progress of regional cooperation and institutionalization.

We found that in response to the *de facto* economic integration, instruments of *de jure* integration, meaning FTAs, have been implemented and discussed between governments, but the level of the agreements was not sufficient to match the *de facto* integration. East Asia is expected to benefit greatly from high-level FTAs, since current barriers are high. In fact, the agreements implemented so far have been low level, reflecting the difficult issues that lurk under the surface. We know that structural reforms have been implemented in Japan (agriculture) and Malaysia (automobile industry), but not in the Philippines (petrochemical industry). We see that the Philippines will withdraw from the petrochemical industry sooner or later.

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## ► Repercussions of the East Asia FTA on the Japanese and Chinese Economies

*Organizer:* Chiharu Tamamura

The prevailing trend toward regional integration in East Asia has implied a convergence into an East Asian FTA. With the accelerated negotiation of FTAs at various levels—bilateral, multilateral and regional—it is important that relations between Japan and China in the realms of trade and investment be strengthened, in order to encourage the process toward the ultimate goal of an East Asian FTA. This research focuses on industrial relations and analysis based on trade statistics, taking into consideration the progress of economic integration in the East Asia region.

*De facto* economic integration is moving forward in East Asia, and efforts toward seeking a high-level FTA will surely improve the business climate and further activate international production and procurement networks through the supply chain management system in the region. Simulations using macro models indicate that a wide FTA scheme would provide greater economic benefits to the countries and regions concerned. An analysis of export competitiveness finds that Japanese industry does not have an absolute advantage, but is competitive with other countries in the China market. With the development of procurement and sales networks in East Asia, the role of China in the system has been defined as an absorber of intermediate goods.

The industrial relations between Japan and China are said to be strong and complementary to each other. We analyzed the division of labor between Japan and China, and the potential effects of FTAs on eight major industries in Japan, through the Overseas Research Department of JETRO. The Chinese government has changed its foreign and economic policy, and overseas investment by Chinese companies has been increasing rapidly. Even the flow of investment from ASEAN to China is expanding. This shows that one of the preconditions for forming an East Asian FTA has already been realized. With regard to the industrial cluster in Shanghai and its suburbs, it is reported that it involves an automotive and related parts industry with comparative advantage over other areas.

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## Prospects for Economic Relationships among Asian Countries

In recent years, Asian countries had been seeking a new framework for an FTA that incorporates China. In November 2002, ASEAN and China entered into a “Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China,” with the intention to enter into an FTA by 2010. It is presumed that South Asian countries will also join this movement.

In this study, we will examine the influence of the above-mentioned trend on the economic relations between Asian countries and between Japan and Asian countries, and will overview how Japan will accommodate it. We will focus on the relationship between China and other Asian countries, surveying their relationship on trade and investment, and will carry out a survey of foreign direct investment and distribution networks of foreign commodities in China and other Asian countries.

Research experts in area studies will focus on actual conditions determined through field studies and joint research with research institutions in China and other Asian countries.

The planned time period of this study is three years. In this year (the second), two research activities had been completed, and two research activities, focusing on industry, have been launched.

### ► **Trade, Investment, and Economic Cooperation between China and South Asia**

*Organizer:* Shūji Uchikawa

During the 1990s, foreign trade between China and India increased rapidly. There are two reasons behind the growth in imports from China. First, demand for machinery and electrical machinery increased. New durable consumer goods such as computers and mobile phones were diffusing in India. Second, cheap Chinese goods, such as organic chemicals and cheap electric goods, flowed into the Indian market. The competitiveness of Chinese goods is based on the availability of a flexible labor force, high labor productivity, low prices of materials, and the externality of agglomeration. It is possible that Chinese companies are dumping in the Indian market, but they cannot be accused of doing so if they have competitiveness due to advantages in labor productivity. Some manufacturers are using cheap materials imported from China to improve their own competitiveness and are then exporting. Foreign direct investment has started between both countries. Since 2000, foreign direct investment by Chinese companies has grown. However, the share of FDI by Chinese companies in South Asia accounted for just 1.1 percent of the total amount. FDI among the two countries is thus as the initial stage.

As China formerly supported Pakistan, it did not have a stable relationship with India. After Prime Minister Vajpayee visited China in 2003, however, the relationship between the two countries improved dramatically. Even after the change of government in India, the relationship has continued to improve.

Footwear, which appears to be a labor intensive product, is flowing into Pakistan from China. The difference between China's footwear industry and that of Pakistan can be seen in terms of whether there are clusters with organic linkage and whether there is a division of labor between companies and production processes. Pakistan's footwear companies tend to have a complete process, from the tanning of skin to imports for their own outlet stores.

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### ► **Trade, Investment, and Economic Cooperation between China and Southeast Asia**

*Organizer:* Yasuo Ōnishi

The aim of this study is to examine and analyze economic relations in trade, investment and economic cooperation between China and Southeast Asian countries to gain concrete information and perspectives. The study is being conducted jointly with research experts from China and Southeast Asia. They are conducting intensive field surveys in these countries, strengthened by several overseas joint research projects being carried out by the Institute with research institutions in China and Southeast Asia.

During this year (the second year of the project), we have collected and analyzed basic data on trade, investment between China and Southeast Asian countries. We have carried out surveys on actual conditions, analysis and joint research, focusing on

the activities of Chinese and Southeast Asian enterprises, and investigated the influence that an FTA would have. In January 2005, we held a meeting to announce the results of the commissioned research at the Institute. At the meeting we tried to share the knowledge gained from the study.

The main findings were as follows: (1) In China ASEAN enterprises began to carry out a reorganization of their projects. The aim of the projects has shifted from an export orientation to a focus on the domestic market. (2) In ASEAN, investment by Chinese enterprises has moved into high gear. The investment has also shifted from an export-oriented to domestic-oriented form. (3) In ASEAN, Chinese products are highly visible, although their penetration rate is still low. The competition between products produced by Chinese enterprises investing in ASEAN and domestic products seems to have become fiercer. (4) An FTA will contribute to a further deepening of economic exchanges. The Japanese government needs to make clear articulations of its own FTA policy, and Japanese enterprises should accelerate the reorganization of their overseas projects. The results of this study will be published as part of the IDE Research Series.

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### ► **The Motorcycle Industry in Asia: Prospects for Local Capital Development in the Era of Trade Liberalization**

*Organizer:* Yuri Sato

The motorcycle industry has drawn little attention from researchers, as it does not generally have a large presence in industrial production and exports compared with the automobile and electronics industries. From the viewpoint of Asian developing countries, however, the motorcycle industry is worthy of study. In each country, the rapid growth of the motorcycle market has taken place before the popularization of the use of automobiles. In the phase of market growth, a large number of producers—foreign as well as local—have entered into the motorcycle manufacturing, as the barriers to entry in terms of technological and capital requirements are relatively low. The motorcycle industry, which requires a variety of materials and process technology, reflects the overall level of industrial technology of a country and influences the ensuing course of the country's industrial development.

Our study intends to analyze the industrial structure of the motorcycle industry in major Asian countries, which account for around 90 percent of world motorcycle production, and to examine the development of local manufacturers in relation to Japanese brand-holders. Through an analysis of the dynamics of the industry, we are attempting to plot a possible path of development for local companies in the era of trade liberalization.

In 2004, the first year of the two-year study, we collected basic information and data on the industry and compiled a report entitled "The Motorcycle Industry in Asia: Basic Information and Company Lists." The report provides an overview of the industry in Japan, Taiwan, China, Thailand, Indonesia, Vietnam and India, and includes a survey on the Asian businesses of major Japanese motorcycle brand-holders. Each country overview examines the historical progress of motorcycle production, trade and policy, market features, costs and benefits of using motorcycles, structure of producers, and related laws and regulations, and carries as an appendix a list of major assemblers and component suppliers, including foreign and local companies.

*Co-researchers:* Jun Ōtahara (Toho Gakuen University), Moriki Ōhara, Shigeki Higashi, Mai Fujita, Yoshie Shimane

### ▶ **Development of the International Division of Labor in East Asia: Case of the Information Technology Equipment Industry**

*Organizer:* Ken'ichi Imai

The development of international production networks in the electronics industry in East Asia has attracted wide attention. There is a great amount of academic literature dedicated to the subject. However, the rapid growth of the industry in the region since the 1990s has had an evidently different significance from the earlier experience in the electronics industry, in which the agenda for East Asian industrializing economies was to absorb well-matured technologies. Our research project compares development patterns of the information technology equipment industry in major Asian economies, i.e. Taiwan, Korea, Singapore, Malaysia, and China, focusing on the roles of local enterprises as main producers. The development of the industry in the region is roughly divided into two distinctive patterns. In Taiwan and Korea, domestic enterprises emerged as major players in the international production network in the region. On the other hand, in Singapore and Malaysia multinationals played dominant roles, and the presence of domestic manufacturers remains relatively insignificant. China seems to be located somewhere between these two poles. Through a comparative study, our research project aims to investigate how the organizational capabilities of local enterprises in East Asian industrializing economies are formed in the context of the development of international production networks.

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## **Studies on the Development Perspectives of CLMV Countries**

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In the 1990s, ASEAN's membership was expanded through the entry of the four CLMV countries (Cambodia, Laos, Myanmar and Vietnam). This priority research is designed to study various issues that will be faced by these four underdeveloped countries in their efforts to participate in the regional economic cooperation scheme. These countries are all struggling toward industrial development and poverty reduction under the pressure of economic globalization. They are also undergoing transition from centrally-controlled to market economies. In the third year of the project, which was organized in FY2004, the two studies below were carried out. In addition, results of our studies on Vietnam and Cambodia, which were conducted in FY2003, were published as *Vietnam's Growing Participation in the Global Economy* (I.D.E. Research Series No. 540, in Japanese) and *Cambodia in a New Era* (I.D.E. Research Series No. 539, in Japanese).

### ▶ **Transition to a Market Economy in Myanmar: Issues and Prospects after 15 Years of Military Rule**

*Organizer:* Kōichi Fujita (Kyoto University)

In 1998, Myanmar began its transition to a market economy from a closed state-controlled economy. There are two tasks that Myanmar had to tackle, as did other socialist countries. One was how to make a transition from a socialist to market economy, and the other was how to achieve successful economic development. To what extent has Myanmar succeeded in these tasks? What was the policy background and

domestic and international economic environment behind its efforts? Our research project aims to find answers to these questions, by analyzing various aspects of the economy.

The main contribution of this research is that it provides a clear interpretation of Myanmar's economic structural changes since 1988, especially on the "macro, financial and industrial structure" and "agriculture and labor." One of our findings is that Myanmar has succeeded in overcoming the problems involved in the transition in spite of the strong distortions and instability that existed in the macro economy, thanks to its abundance of natural resources and various forms of external economic relations. Secondly, it is pointed out that the stable growth of the agricultural sector was another factor supporting Myanmar's successful diversification of production based on its abundant natural resources, while maintaining the low price of rice (the main staple food) to keep the wage rate extremely low in both urban and rural labor markets. Lastly, it is argued that this advantage of low wages was never fully utilized for the purpose of export-oriented industrialization, and thus did not lead to long-term economic development.

The outcome of our research will be published as a book (in Japanese) in 2005.

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### ► **Laos: Transition to the Market Economy under a Single-party Regime**

*Organizer:* Naoko Amakawa

The Lao People's Revolutionary Party (LPRP) launched economic liberalization and an open-door policy with the adoption of "Chintanakan Mai" (new way of thinking). At the same time, it assumed the political task of justifying its single party regime. The government has adopted administrative reforms with two aspects: adapting to a market-oriented economy and strengthening the party's control. The reforms of local administrations aimed to secure both specialized and standardized administration and the party's control over the administration through its local committees.

As a result of pressure from foreign donors, Laos' economic liberalization moved from management reforms of state-owned companies to a comprehensive reform aiming to create a free-market economy. The privatization of state-owned companies was carried out in order to make it possible to say that Lao's transition to a market economy had been successful. However, though the transition to a market economy was successful, the problems of economic development still remain largely unsolved, as the industrial output from state-owned companies was never very high in the Lao national economy, which featured high output from family-based agriculture. Poor human capital and low capital accumulation, in particular, may have been a bottle-neck to industrial development. The expansion of higher education as well as elementary education is strongly needed to cultivate leaders for a market economy. To accumulate capital, there is a need to establish financial instruments that can mobilize domestic savings, because there are considerable savings in the form of real assets, hoarded cash and long-term deposits in foreign currency.

With regard to industrial development, now is the time to consider the possibility of regional complementary strategies, meaning that, for example, Laos should attract labor-intensive processes from Thailand and export intermediate or final products there. Laos may be able to benefit from regional development trends in Indochina.

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## MAJOR PROJECTS

### ► Analysis of Current Affairs in Asia

Organizer: Yasuo Ōnishi

Research on political, economic and social developments in the countries and regions of the Far East, East Asia, Southeast Asia, South Asia and Central Asia was conducted by the Area Studies Center. The result of the research project were published in the “Yearbook of Asian Affairs 2005” (in Japanese) which contains twenty-four reports of current analysis on Asian countries and regions, and four on wider regional issues such as national elections in Asia, the current situation of Asian FTAs, ASEAN, and U.S. Asian policy.

Asia in 2004 was characterized by three major phenomena. First, national elections were carried out in 12 countries and region, and changes of government took place in large countries such as India and Indonesia. Second, FTA negotiations moved into full swing, centered around ASEAN. Negotiations continue with major countries such as China, Japan, Korea and India. Third, a tsunami struck the coastal region of the Indian Ocean, highlighting the need for an international warning system.

The outcomes of the research project have also been published in *Ajiken World Trends* (monthly, in Japanese).

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### ► Projections for the Asian Industrializing Region (PAIR) (VIII)

Organizer: Mitsuru Toida

The Asian NIEs, ASEAN, and China attained high economic growth in the latter half of the 1980s and first half of the 1990s, while succeeding in the industrialization of their economies. Although the levels of industrialization differ, these economies can be referred to as the “Asian industrializing region.”

The recession in the worldwide IT industry, together with the terrorist attacks in the United States on September 11, 2001, put brakes on the expansion of the economies of the Asian region. Unusual events took place in 2003, which negatively affected the Asian economies, including the Iraq War and SARS. A recovery of the IT industry in the United States starting in the middle of 2003 stimulated the Asian economies in 2004.

We are aware of the increasing importance of studying the Asian industrializing region from a global perspective. In FY1991, we initiated a project entitled “Projections for the Asian Industrializing Region (PAIR).” Using macro-econometric models, the PAIR project aims to analyze the economic structure of the economies of the “Asian industrializing region” and to provide economic forecasts for the economies in the region.

We have invited experts to join the project from research institutions in the various countries and areas of the Asian industrializing region as well as from developed economies.

At the beginning of the 21st century, various proposals have been made for FTAs in East Asia. We believe an econometrical analysis of these FTAs would be an important contribution to understanding the Asian economies as well as making our economic forecasts for them more accurate. We decided to set up a sub-project of PAIR to construct a new econometric trade link model for evaluating various FTAs in East Asia. This new sub-project was initiated in FY2004 and will be completed in FY2006.

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### ► **The Industrial Structure of the Asia-Pacific Region (IV)**

*Organizer:* Nobuhiro Okamoto

The Asian Financial Crisis of 1997 prompted us to recognize the strong presence of international inter-industrial linkages in the Asia-Pacific Region, where the impact of one economy is effectively transmitted to others through the nexus of foreign trade and foreign direct investment. Consequently, much has been sought for recently in the area of international economic cooperation such as trade liberalization and regional economic integration. Here, the Asian International Input-Output Tables, the principal tool for the quantitative analyses of industrial linkages and spatial configuration in the Asia-Pacific Region, have earned increasing attention.

With the primary mission of studying economic interdependency in the Asia-Pacific region, this project has been dedicated to compiling the Asian International Input-Output Tables of 2000, following its predecessors, the 1975, 1985, 1990 and 1995 tables. The newest table is expected to offer us a quantitative approach to some of the important economic issues of the Asian region. The following organizations have collaborated on the project:

Badan Pusat Statistik, Indonesia; The National Economic and Social Development Board, Thailand; The Bank of Korea; National Statistics Office, the Philippines; State Information Centre, China; Taiwan Research Institute; Department of Statistics, Malaysia; Business Research Consultants, Singapore.

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### ► **Compilation and Application of Trade Indices (II): Adjustment of Trade Statistics and Industrial Statistics**

*Organizer:* Yosuke Noda

The purpose of this research project is to look at data to conduct an examination of the problems of formulating world trade models, in addition to calculating trade indices and examining their utilization, including their relationship to industrial data. The project continues the work of the "World Trade Data System: Arrangement and Application" and "Estimation and Application of Trade Indices" research project. The project has three main fields: (1) problems in the compilation and evaluation of world trade matrices, formulation of time series data employing common trade classifications,



(2) formulation and evaluation of trade price indices for east Asian countries and regions, (3) investigation of international comparisons and economic analyses employing various trade indexes in addition to trade price indices.

The most important element in formulating trade price indices and substantive world trade matrices is the conversion of the basic data into consistent trade statistics based on common standards of value and quantity. With regard to (1), we discussed the evaluation of and revisions to the consistency of compiling world trade matrices with commodities, partner countries, quantity unit and quantity, and technique for the estimation of distributed weights in cross-referencing commodity classifications. With regard to (2), we discussed the foundation of export and import unit price indices and the evaluation of their characteristics. With regard to (3), we discussed a partial equilibrium analysis of import quota liberalization in the case of the textile industry and an analysis of competitiveness based on RCA and intra-industry indices as an international comparison.

Part of the outcome of this year project was published as Statistical Data Series No. 88 titled *Trade Indices in East Asian Countries and Regions: Basic Subjects from Compilation and Application*, compiled by Noda. Trade indices of East Asia were included in the series

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## ▶ Research Project Contributing to Japan's Economic Cooperation

### (1) The Case of India

*Organizer:* Shūji Uchikawa

Since India launched its economic reforms in 1991, its economy has grown continuously. On the other hand, regional gaps and income gaps have appeared. The purpose of this project is to produce an introductory text to the Indian economy. We plan to cover various aspects of its economy.

The production of food grains entails problems on both the demand and supply sides. Economic development has brought about an increase of livestock consumption, and since livestock consume food grains as feed, there is a possibility that imports of feed will rise. Groundwater, a source of irrigation, is running dry. India has a public distribution system for providing cereals to poor people at low prices, but the system has some problems. First, government intervention cannot respond flexibly to changes of demand and supply conditions. Now, the WTO Agreement may force the Indian government to change its policies. Since the share of cereal consumption in household expenditure is falling even in low-income households, the importance of the public distribution system is decreasing.

The problem in the iron and steel industry involves a stratification. Small-scale electric induction furnace units have coexisted with large-scale integrated works and electric arc furnace units, but the two types lack linkages in terms of production and consumption. In the pharmaceutical industry, export-oriented companies hold many patents, and R&D oriented companies are exporting to the American market. Entry into the automobile industry became free after 1993, and new entries and the expansion of capacity by existing companies led to a rapid increase in the total production of two- and four-wheelers and auto components. The problem of small-scale industries is a lack of dynamism. In 2001, 85 per cent of small-scale units were producing one product or supplying only one service. While the Indian IT industry is growing rapidly, using an off-shore development model, it has problems: increasing wages of engineers, a

rising turnover ratio, competition with other developing countries, too much dependence on the American and U.K. markets, and specialization in exports of low-end software.

Workers in the organized sector, where minimum labor conditions are guaranteed by labor laws, constitute a minority of the workforce, and most workers do not have such guarantees. Since the economic reforms, the number of strikes has decreased. Companies are carrying out rationalization by cutting surplus workers and improving labor productivity through human resource management. Poverty reduction programs have shifted toward public employment generation since the 1980s. Although the private sector is contributing to the enhancement of livelihood infrastructure and social services such as education and health, the government needs to play a major role in providing public services to poor people.

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## **(2) The Case of the Mekong Sub-region**

*Organizer:* Masami Ishida

The Asian Development Bank (ADB) has carried out the Greater Mekong Sub-region (GMS) program since 1992, focusing on Thailand, Cambodia, Laos, Myanmar, Vietnam and Yunnan, China, through which the Mekong River flows. Projects adopted under the GMS must cover at least two countries in the sub-region, and most of the projects aim for the development of the economy of border areas which have not been the focus of bilateral assistance projects. So far, development has focused on the East-West Economic Corridor between Danang in Vietnam and Mawlamyain in Myanmar, the North-South Economic Corridor including the route between Bangkok and Kunming in Yunnan, China and the route between Kunming and Haiphong in Vietnam, and the South Economic Corridor including the route between Ho Chi Minh City and Bangkok.

This study project redefines this area as the “Mekong Region” and aims to examine how to promote the development of border economies in the region and how to encourage the under-developed economies of Cambodia, Laos and Myanmar by stimulating their linkages with Thailand, Vietnam and Yunnan, China. Thus Cambodia, Laos and Myanmar are analyzed from two aspects: the regional distribution of population and human resource, and the development of manufacturing industries such as garment industries in Cambodia and wood-processing industries in Laos. For Thailand and Vietnam, initiatives toward the development of the Mekong Region and border economic development policies are analyzed, and the trade relations in the region are also analyzed from the viewpoint of Yunnan, China. To enable an analysis of the whole region, we conducted analyses from the perspectives of history of economic cooperation, international relations, infrastructure development, and reviewed the prospects and policy outlines for the development of the Mekong Region.

*Co-researchers:* Kim Kwangmoon (Toyohashi University of Technology), Masahisa Koyama (Development Bank of Japan), Nobuo Hirohata (Development Bank of Japan), Junko Takeuchi (Development Bank of Japan), Takayuki Ogasawara (Yamanashi Gakuin University), Tsuneaki Yoshida (University of Tokyo), Tomohiro Andō (JETRO, Yangon), Kōji Ida (Overseas Research Department), Takao Tsuneishi, Akie Ishida, Nanae Yamada, Naomi Hatsukano

## ▶ Overseas Joint Studies on Economic Development Issues

*Coordinator:* Takao Tsuneishi

This research project, launched in 1987 as “Joint Studies on Economic Development Policies in ASEAN and Neighboring Countries,” aims to analyze economic development policies in developing countries or areas and to identify proper policy orientations for achieving development goals. Local collaborative research groups composed of academics, policy makers and other specialists in the fields are organized in the countries under study. Through joint activities by the group members, including discussion meetings, field surveys, workshops, and data processing, the results, findings and recommendations are published and disseminated in English by the Institute.

In FY2004, three projects were conducted, in Hanoi (Vietnam), Lahore (Pakistan), and Zomba (Malawi).

### **(1) Impact of Socio-economic Changes on the Livelihoods of People Living in Poverty in Vietnam**

*Organizer:* Shōzō Sakata (in Hanoi)

Since the adoption by the ten-year socio-economic strategy starting in 1991 of the aim “to eliminate hunger and reduce the number of people suffering from poverty,” “hunger eradication and poverty reduction” has become one of the pillars of the country’s national development tasks. Vietnam’s Doi Moi reform, which involves many spheres of socioeconomic policy, has played an important role in allowing the country to attain high macroeconomic growth, and has led to remarkable achievement in terms of poverty reduction. Many donor countries in fact give high marks to Vietnam’s achievements in poverty reduction, describing it as “one of the greatest success stories in economic development.”

In this study, we have illustrated how the government’s efforts toward poverty reduction have contributed to the improvement of welfare of the population living in poverty. We have made detailed assessments of the welfare of the rural poor, who are greatly affected by various policy reforms.

The study revealed that there are two important characteristics of poverty reduction efforts in Vietnam. One is the extensive concentration of national resources into poverty reduction programs. The government has conducted “National Target Programs” to improve the livelihoods of the poor and living conditions in poverty-ridden areas (so called HEPR Program and Program 135). The other characteristic is its participatory approach. The National Target Programs have been implemented and monitored by a special committee with the participation of related ministries. In addition to the National Target Programs, extensive attention has been given to the poor in other government policies and programs, in fields such as trade liberalization, rural-urban migration, rural infrastructure development, the “marketization” of the rural economy, and land management. Moreover, many local authorities, mass organizations and enterprises have organized their own poverty reduction programs.

The results obtained were compiled into a book titled *Impact of Socio-economic Changes on the Livelihoods of People Living in Poverty in Vietnam*, edited by Ha Huy Thanh and Shozō Sakata (ASEDP Series No. 71, March 2005).

*Co-researchers:* Ha Huy Thanh (Vietnam Institute of Economy), Vu Tuan Anh (Vietnam Institute of Economy), Phan Si Man (Vietnam Institute of Economy), Cu Chi Loi (Vietnam Institute of Economy), Bui Tat Thang (Ministry of Planning and Investment), Tran Thi Que (Gender, Environment and Sustainable Development Center)

## **(2) Internal Labor Migration in Pakistan**

*Organizer:* Hisaya Oda (in Lahore)

This project aims to trace new patterns and changes in the nature of labor migration in Pakistan and analyze the economic consequences of migration. It also involves a discussion of the determinants of migration and some policy issues. The summary of the project's report is as follows. Rashid Memon discusses the trends of internal migration in Pakistan, by examining two different types of national-level data (Pakistan Integrated Household Survey and Labor Force Survey). He finds that a lack of access to land and good facilities in the urban sector have significantly affected population movements from the rural sector to the urban sector. G. M. Arif analyzes the effects of internal migration on household consumption, infant mortality, and child malnutrition and observes that the overall effects on these indicators are not substantial because of a predominance of migration towards rural areas, where employment opportunities are limited and wages are low. Hisaya Oda finds, based on a survey of villages in rain-fed area of Punjab, that farm households in these areas use labor migration as a source of income, since the income from agriculture is weather dependent and thus erratic. S. M. Turab Hussain looks into migration policy issues based on an extended household framework. He examines the effects of urban and rural subsidies on migration from rural areas and provides policy implications.

The findings and analysis were compiled in a book titled *Internal Labor Migration in Pakistan*, edited by Hisaya Oda (ASEDP Series No. 72, March 2005).

*Co-researchers:* G. M. Arif (Pakistan Institute of Development Economics, and Asian Development Bank Office, in Islamabad), S. M. Turab Hussain (Lahore University of Management Sciences), Rashid Memon (Collective for Social Science Research)

## **(3) Agricultural and Rural Development in Malawi**

*Organizer:* Tsutomu Takane (in Zomba)

This study aims to identify the interrelationships between policy changes and agricultural/rural development dynamics in Malawi. The donor-supported structural adjustment programs in the 1980s led to the adoption of several policy reforms in the agricultural sector, including the liberalization of producer prices and agricultural input prices, deregulation of marketing of smallholder agriculture crops, restructuring of the state marketing agency, and deregulation of smallholder burley tobacco production. More recently, measures were taken to implement broader institutional reforms.

Despite an increasing concern over the effects of these policy changes on poverty reduction, policymakers, donors and researchers know relatively little about the complex interrelationships between the changing policy environment and the welfare of the rural population. This study has attempted to fill this gap by combining policy and institutional analysis and in-depth micro level studies of rural livelihood.

The results of the study were published in a report entitled "Agricultural and Rural Development in Malawi—Macro and Micro Perspectives," edited by Tsutomu Takane (Africa Research Series No.11). The report contains six chapters. The first three chapters use macro and sectoral perspectives. In Chapter 1, Wycliffe Chilowa examines food security issues by extensively assessing policies, strategies, and institutional arrangements adopted by the government of Malawi. In Chapter 2, James Milner analyzes the agricultural intensification process, looking at the preconditions, actors, and effects of the process. In Chapter 3, Sera Gondwe examines the role of financial institutions in the country's economic development. The remaining three chapters are micro-level case studies. In Chapter 4, Tsutomu Takane takes up the case of smallholder tobacco

production, which has flourished during the past decade and a half. In Chapter 5, Donald Makoka analyzes the effects of the expansion of supermarkets on agrifood systems and smallholders in Malawi. Finally, in Chapter 6, Thabbie Chilongo assesses smallholders' access to produce markets in the Kasungu Rural Development Project.

The findings and analysis were compiled in a book titled *Agricultural and Rural Development in Malawi: Macro and Micro Perspectives*, edited by Tsutomu Takane (Africa Research Series No. 11, March 2005).

*Co-researchers:* Wycliffe Chilowa (University of Malawi), James Milner (University of Malawi), Sera Gondwe (University of Malawi), Donald Makoka (University of Malawi), Thabbie Chilongo (University of Malawi)

## STANDBY RESEARCH FOR SPECIFIC DEVELOPMENT ISSUES

### ▶ **Taiwan's Presidential Election in 2004 and the Challenges for the Next Administration**

*Organizer:* Yukihito Sato

In the presidential election held on March 20, 2004, the incumbent, Chen Shui-bian, was reelected by a slim plurality of 0.2 percent. This research project examined the causes and impacts of Chen's victory and analyzed the issues that need to be tackled by his second administration. An examination of polls shows that Chen was able to win thanks to a marked increase in votes in the Fukienese area, which indicates the success of his campaign appealing to sentiments in favor of Taiwanese identity. However, this also irritated China, and led to a deterioration of its relations with the U.S. With regard to internal affairs, we focused on six issues, including the elimination of corruption, fiscal problems, non-performing loans, the privatization of public enterprises, the adjustment of central-local government relations, and educational reform. The first Chen administration was not strong or experienced enough to settle these problems.

Our project concluded in May 2005, and the results were published as Yukihito Sato and Takayuki Takeuchi, eds. *Chen Shui-bian's Reelection: Taiwan's Presidential Election and Tasks for the Second Chen Administration* (in Japanese, Ajiken topic report No. 51). Based on the outcome, we produced a special issue of *Ajiken World Trend, Taiwan after the Presidential Election* (in Japanese) in September 2004.

*Co-researchers:* Yoshiyuki Ogasawara (Tokyo University of Foreign Studies), Takeshi Watanabe (Kyorin University), Mitsutoyo Matsumoto (Nagasaki University of Foreign Studies), Shingo Itō (Mizuho Research Institute), Michiko Kitaba (research student, University of Tokyo), Mitsuyoshi Kawase (University of Shizuoka), Naoya Yamazaki (graduate student, Tokyo University of Foreign Studies)

### ▶ **Crafting Japan-U.S. Water Partnerships: Promoting Sustainable River Basin Governance in China**

*Organizer:* Jennifer L. Turner (Woodrow Wilson International Center for Scholars) and Kenji Ōtsuka

This research project was jointly initiated by the China Environment Forum, Woodrow Wilson International Center for Scholars (CEF-WWC, Washington, DC) and the Institute, with generous funding from the Center for Global Partnership of the Japan Foundation. The major goal of the project was to identify possible opportunities for U.S.—Japan assistance for promoting successful river basin governance in China.

CEF-WWC and the Institute therefore organized a tri-national working group—comprised of water experts from Japan, the United States, and China. Through working group study tours and research in China, Japan, and the United States, we have emphasized three key aspects of river basin governance: (1) the structure and function of river basin commissions; (2) the creation and operation of innovative finance mechanisms; and (3) the enhancement of public participation in river basin decision-making processes. Over the course of the study tours in the three countries, the working group met with government representatives, environmental financing experts, NGO activists, and scholars to discuss river basin governance issues, based on these three key themes. On October 7, 2004, the Institute and CEF-WWC held an international workshop in the Japan Foundation's office in Tokyo to present and discuss draft versions of the papers presented in the book published as a result of the study, with over 50 participants from academia, government, NGOs, and foundation communities. A collection of research papers written by study group members was published as IDE Spot Survey No. 28, with the title *Promoting Sustainable River Basin Governance: Crafting Japan-U.S. Water Partnerships in China*. Through discussions over these research papers, we have made some findings and recommendations towards sustainable river basin governance in China.

*Co-researchers:* Carol R. Collier (Delaware River Basin Commission, USA), Kaori Fujita (Momoyama Gakuin University), Hu Kanping (China Green Times), Naoki Kataoka (Tokyo Keizai University), Reiko Nakamura (Ramsar Center Japan), Mikiyasu Nakayama (University of Tokyo), Richard Volk (USAID), Wang Yahua (Tsinghua University), Gary Wolff (The Pacific Institute, USA), Yu Xiaogang (Green Watershed, China), Nanae Yamada

## ► The 2004 Indonesian General Elections and the New Government

*Organizer:* Kazuhisa Matsui

This study had two objectives. The first was to research and analyze the process of Indonesian General Elections in 2004, including the elections of legislators (in April) and president/vice-president (the first round in July and the runoff election in September). The second was to analyze the prospects for the performance of the new government under President Susilo Bambang Yudhoyono. In particular, we tried to analyze the meaning of the first direct election for president and vice president in Indonesian history.

Our team consisted of promising younger researchers on Indonesian politics with rich field experience in Indonesia, including three who were in Indonesia at the time of the 2004 elections. In addition to regular meetings at the Institute, we held a discussion meeting with Indonesian political analysts in CSIS and a seminar for Japanese residents in Jakarta in August. In addition, three short reports on the Indonesian General Elections were uploaded to the Institute's website, in both Japanese and English.

The final report was divided into two parts. In the first part, examining the process of the General Elections, the following topics were considered: the election of legislators (Kawamura); the presidential and vice presidential election (Matsui); the electoral system and democratization (Kawamura); the failure of the Indonesian Democratic Party of Struggle (Honna); quantitative analysis of Megawati's defeat (Higashikata); the voting behavior of Muslims (Miichi); the elections and violence (Okamoto); the elections in conflict areas (Kōno); and editorials on the election (Takahashi). For the second part, regarding prospects for the new government, the following articles were presented: the new cabinet members (Matsui and Kawamura); economic policies

(Matsui); politics and the military (Honma); issues on Aceh and Papua (Kōno); the impact of decentralization (Okamoto); and international relations (Matsui). The study will be published in July 2005, accompanied by data on the general elections.

*Co-researchers:* Jun Honma (Ritsumeikan University), Takeshi Kōno (National Graduate Institute of Policy Science), Masaaki Okamoto (Kyoto University), Ken Miichi (Japan Society for the Promotion of Science), Koichi Kawamura, Takayuki Higashikata

### ► **HIV/AIDS Policy in Transition: Challenges to Africa's Development**

*Organizer:* Kumiko Makino

Almost two thirds of the world's people living with HIV/AIDS (PLWHA) are in Sub-Saharan Africa. An estimated 2.3 million people in Africa died of AIDS in 2004 alone, and the devastating impact of AIDS is making poor African countries even poorer. HIV/AIDS is not just a health problem, but is the biggest challenge to Africa's development.

Until the late 1990s, the focus of HIV/AIDS policy in developing countries was mainly on the prevention of new infections. However, the trend has recently changed towards a comprehensive approach including prevention, care and support, voluntary counseling and testing (VCT), and treatment including life-prolonging antiretroviral therapy (ART). WHO has initiated the "3 by 5" target, with the aim to provide three million PLWHA in developing and middle-income countries with ART by the end of 2005, and the Global Fund to Fight Aids, Tuberculosis and Malaria (GFATM) has been set up to provide financial support to developing countries fighting against HIV/AIDS and other infectious diseases.

Based on an analysis of this global trend, this research project examined HIV/AIDS policy in five African countries, identifying the achievements so far and challenges ahead. The countries studied were Uganda, Kenya, Botswana, South Africa, and Nigeria. While all these countries have a national HIV/AIDS policy which is comprehensive and has a multi-sectoral focus, there are many obstacles to its proper implementation, including a lack of capacity and political leadership. International NGOs, local NGOs and community-based organizations such as self-help support groups of PLWHA are complementing the public sector, which is generally weak in African countries. Social cleavages and the historical experience of violent conflicts seem to have had a significant impact on the characteristics of HIV/AIDS policy in the respective countries.

*Co-researchers:* Masaki Inaba (Africa Japan Forum), Ken'ichirō Kōno (Africa Japan Forum), Emi Todokoro (University of Tokyo), Eiichi Yoshida, Katsuya Mochizuki

### ► **Recycling and the Recyclable Waste Trade in Asia**

*Organizer:* Michikazu Kojima

In recent years, exports of recyclable resources (recyclable waste and second hand goods) from developed countries to Asian developing countries have increased. A portion of China's demand for resources is being filled using recyclable waste. However, the problem of contamination arises in the process of recycling at destination, and the problem of the export of non-recyclable waste mixed in with or improperly labeled as recyclables or secondhand goods arises. On the other hand, some manufacturing companies have launched voluntary recycling programs, which often require the transboundary movement of waste, in order to ensure proper recycling. There has been criticism that regulations on transboundary movements of recyclable waste are too severe in Asian countries, and have become obstacles for environmentally sound recycling.

In this study, we have examined the present condition of export-and-import regulations on recyclable resources in East and Southeast Asia, and environmental problems arising from the export and import of recyclable resources and recycling industry in importing countries. Moreover, a comparison between EU and Asian countries on the export and import of recyclable resource was performed, showing a direction for international cooperation among Asian countries to ensure environmentally sound international recycling and the prevention of illegal traffic in hazardous waste. Furthermore, indicators for evaluating recycling have been examined, under circumstances where transboundary movements of recyclable resources become significant, since current indicators of domestic recycling cannot fully grasp the actual conditions.

*Co-researchers:* Atsushi Terazono (National Institute for Environmental Studies), Hidetoshi Yamashita (Hitotsubashi University), Aya Yoshida (graduate student, University of Tokyo), Tadayoshi Terao

### ▶ **Economic Reforms in the D.P.R. of Korea**

*Organizer:* Masahiko Nakagawa

The purpose of this research is to estimate the impact of the current economic reforms on the financial, industrial and agricultural sectors in the D.P.R. of Korea. The economy of the D.P.R.K., which suffered severely from flooding in 1995, has gradually recovered in recent years. At the second session of the 11th Supreme People's Assembly in March 2004, two official reports were delivered, including some statistics showing an improved situation brought about by economic reforms. We analyzed the implications of those reports and other news on the economic changes received from Pyongyang, and attempted to determine how the reforms had been promoted and had contributed to the economic recovery. We also looked at how future economic transformations would be supported and affected by Russia and China, which maintain friendly relations with Pyongyang, as well as the Republic of Korea, which has tried to build relations of mutual confidence with the Worker's Party of Korea.

*Co-researchers:* Moon Ho-il (Hitotsubashi University), Park Jaehoon (Korea University), Norihiro Sasaki

### ▶ **The Bush Administration's Second Term and the Middle East, Terrorism and Democratization**

*Organizer:* Sadashi Fukuda

The countries of the Middle East have experienced a turbulent period in the aftermath of 9/11. The War on Terror, the Afghanistan War, severe disputes between Israel and Palestine, and the war in Iraq, have strong impacts on politics in the region. However, a new trend in the Middle East Peace Process emerged after the death of Palestinian leader Yasser Arafat in November 2004. And at the beginning of 2005, many elections, including parliamentary elections in Iraq, the election of the new Palestinian leadership, and provincial elections in Saudi Arabia took place. In June 2005, the Iranian presidential election will be held. In the meantime, the US, under the second term of the Bush administration, has strengthened its political and military presence in the region, and especially in the Gulf region. The administration has plans to promote democracy, but the people and governments of the region will likely be reluctant to cooperate with the US policy. This research project aims to study the current political situation in the Middle East and the US policy toward the region, analyzing Middle Eastern responses to US policy.



*Co-researchers:* Masato Iizuka (Tokyo University of Foreign Studies), Akifumi Ikeda (Toyo Eiwa University), Ryōji Tateyama (National Defense Academy), Kōichirō Tanaka (The Institute of Energy Economics), Yasushi Hazama, Keiko Sakai, Hitoshi Suzuki, Hiroyuki Aoyama, Masaaki Watanabe

## **BASIC AND COMPREHENSIVE STUDIES**

### **ASIA**

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#### *Asia General*

##### **► Reconstruction of Financial Systems in Transition Economies in Asia**

*Organizer:* Mariko Watanabe

This project aimed to shed light on the transition process from planned to market economies in Asia. Many theoretical works argue that the Asian transition process laid out a correct path for transition. However, there are few empirical works addressing the subject. The empirical researches in this project aimed to fill in this blank.

A gradual transition from a planned to market economy implies that the government made a slow exit from direct intervention in economic activities. This project sought to document the consequences of this slowness.

From a macro perspective, we found that: (1) there was no clear hyperinflation due to excess reliance of fiscal revenues on seigniorage; (2) regarding the effectiveness of macro policy tools, fiscal expenditures obviously disappeared, but monetary policy also seems to have lacked effective power, and a vacuum of macro policy tools was apparent even 20 years after the start of the transition in China; (3) in terms of inter-regional financial flows, market adjustments have been far from perfect, and they seem to have been complemented by fiscal expenditures.

With regard to micro agent behavior, we examined firms, households and banks. With regard to firms, we first documented the fact that the government's retention of controlling shares led to wasteful intervention in corporate values. Without market supporting institutions such as law and dispute resolution systems, decentralized transactions fail and economic activity may shrink. Analyses of trade credit led to the hypothesis that the government took the place of the rule of law in market transactions. Household decisions on savings in the financial institution are a key for macroeconomic stability. We have confirmed the fact that confidence from households in the process of transition in China remained at an ideal level. The banking sector in the planned economy, under "financial repression," failed to develop the ability to manage risks or evaluate loans. However, financial liberalization in interest rates has not necessarily restored the ability of banks to behave independently in the market economy.

*Co-researchers:* Shin'ichi Watanabe (International University of Japan), Osamu Takamizawa (University of Tokyo), Noriyuki Yanagawa (University of Tokyo), Fumiharu Mieno (Kobe University), Zhou Jian-long (Dokkyo University), Seirō Itō, Kōichirō Kimura, Masahiro Kodama, Hisatoshi Hōken

## ▶ Environmental Impact Assessments in Asian Countries

*Organizer:* Naoyuki Sakumoto

Environmental Impact Assessments (EIAs), which are seen as important in preventing significant environmental impacts prior to development projects, were introduced by the United States in 1969, and have become commonly accepted as an effective environmental management instrument both in developed and developing countries throughout the world. However, nearly all developing countries face difficulties in implementing EIAs. A trend toward incorporating more environmental consideration into ODA activities can also be seen in the latest formulation of JICA and JBIC environmental and social guidelines. These guidelines call on recipient countries to conduct adequate EIAs as a way to avoid the serious environmental damage that can result from development projects. This project aims to study the diversified EIA systems of major Asian countries as well as related movements and issues in the region. Ten countries—China, Korea, Taiwan, Philippines, Thailand, Malaysia, Indonesia, Vietnam, Cambodia, Bangladesh, and India—will be studied from a comparative institutional perspective. Specific themes to be taken up with regard to EIA in the region include Southeast Asia in the international stream and context, natural conservation and EIAs, people's participation at the local level in China, and EIAs in ASEAN countries through an economic comparative perspective. The research project is still ongoing, based on the assumption that the problems confronted by developing countries in the process of implementing EIAs are much different from those of developed countries.

*Co-researchers:* Ken'ichirō Yanagi (Meiji University), Hidenori Inoue (Meisei University), Ken'ichi Tanaka (Japan International Cooperation Agency), Ken'ichi Okuda (Takushoku University), Shigeaki Fujisaki

## ▶ Development of Environmental Policy in Asia and the Japanese Experience

*Organizer:* Tadayoshi Terao

Over a period of four years, our research group has conducted a series of environmental policy studies to identify problems in environmental policy related to economic development in Asia, and applied a political economic approach involving elements such as: (1) analyzing the link between the environmental policy process and the economic development policy process; (2) analyzing broader socio-economic institutions and social interactions related to the policy formation and implementation process; (3) examining Japanese experiences in pollution control during the rapid economic growth era, and utilizing it as a reference for comparative policy studies; and (4) considering both domestic and global factors of social change in the various countries, focusing particularly on the market-oriented economic reform, democratization, administrative reform, judicial system reform, and policy contexts propounded by international trade and development organizations. In this research project, we will reexamine both the Japanese and other Asian experiences in environmental policy, endeavor to create a reference for international policy dialogue, and publish a book in English. We hope our research activity will contribute to the discussion on Asian environmental policy in the international research community.

*Co-researchers:* Yoshifumi Fujii (Bunkyo University), Ryō Fujikura (Hosei University), Yasushi Itō (Chiba University of Commerce), Hideaki Shiroyama (University of Tokyo), Kenji Ōtsuka, Nobuhiro Horii, Michikazu Kojima, Yūko Tsujita

## ► **Comparison of Industrial Clusters between Asia and the Other Regions**

*Organizer:* Masatsugu Tsuji (Osaka University)

This study, the first year of a two-year research project, reviewed conditions for the formation of clusters, particularly in developing countries. Policies for the formation of industrial clusters, or industrial cluster policy, play an important role in the developing regions of East Asia. Industrial cluster policy has been adopted not only in Japan by the Ministry of Economy, Trade, and Industry, but also in most countries in East Asia, including Malaysia and Singapore. Silicon Valley in the US and Bangalore in India are well-known success stories of development in information technology. Agglomeration theory and cluster theory explain that an industrial cluster is effective in generating external economies and reducing transportation costs. But we also need to clarify the required conditions for the formation of clusters, particularly in developing countries, when discussing growth strategy. The task force wrote the draft version of a joint study report, *Comparison of Industrial Agglomerations between Asia and the Other Regions*.

*Co-researchers:* Aya Okada (Nagoya University), Yumiko Okamoto (Doshisha University), Yoshiaki Hisamatsu (University of Tokyo), Masahisa Fujita (President, IDE-JETRO), Akifumi Kuchiki, Tsutomu Ashitomi

### *East Asia*

## ► **The Process of China's Policy Formulation in the Era of Transition toward a Market Economy**

*Organizer:* Norihiro Sasaki

This is the second year of a two-year study on the behaviors of different actors involved in public policy in China. Since 1992, China has been carrying out a transition toward a market economy. This development led to the emergence of new political actors, and complicated the political process. The goal of this study was to analyze the process of Chinese policy formulation through several case studies and to present the political actor's characteristics and influence and the relationship between political actors in the political process.

The case studies looked at political reform (including political participation of the private sector in urban areas, power structures in rural area, and information freedom), economic reform (physical distribution industry and telecommunication industry), foreign policy (minority autonomy and negotiations between Japan and China on accession to the WTO). Each study found a diversity of actors: (1) new emerging actors (private sector owners, industrial institutions, overseas groups), and (2) older actors (the China Communist Party, State Council, local government).

The outcome of our study is due to be published as a book (in Japanese).

*Co-researchers:* Tsuyoshi Ebihara (Toyama National College of Maritime Technology), Fumiki Tahara (University of Tokyo), Tang Liang (Yokohama City University), Masahiro Hoshino (Shizuoka University), Takeshi Watanabe (Kyorin University), Yasuo Onishi

## ► Population and Economy in Northeast Asia

*Organizer:* Hideki Hiraizumi

We analyzed changes of population in Northeast Asian countries (Democratic People's Republic of Korea, Republic of Korea, Mongolia, northeast region of China, Russian Far East) and researched the background of changes in their economic systems, mainly in the 1990s.

We know that the population of the Northeast Asian Region as a whole is increasing, but the rate of increase declined sharply in the 1990s. Why did this happen? The reasons are different for each country. For example in the Russian Far East the population decrease was mainly due to an outflow to other regions of Russia, and partly from a negative natural increase. In the northeast region of China, there was a decline in the birth rate as a result of the spread of the one-child policy and family planning, and an outflow of people to the coastal region of China. In Mongolia, the rate was influenced by a decline of the marriage rate and later marriages, in addition to a strong effect from the popularization of the use of contraceptives, the legalization of abortion, and the removal of the birth promotion policy.

We found that there was a common background for the changes in the population situation in Northeast Asian countries. In the 1990s, a number of these countries moved towards a market economy. Russia, Mongolia and South Korea chose the Anglo-Saxon model of capitalism, China proclaimed a socialistic market economy, and North Korea, from 2000, began to partly apply market mechanisms.

*Co-researchers:* Tōru Suzuki (National Institute of Population and Social Research), Moon Ho-Il (Hitotsubashi University), Terukazu Suruga (Kobe University), Yasuko Hayase (University of Kokushikan), Satoru Okuda

## ► Korea in the Post-crisis Era: Socio-economic Challenges in the State of Maturity

*Organizer:* Satoru Okuda

Under the supervision of the IMF, the Korean economy has successfully recovered from the 1997/98 economic crisis. However, the drastic structural reforms following the economic crisis also brought about abrupt and extensive socio-economic changes that may hinder the great strides the country has made toward maturity. Specifically, solutions must be urgently found for the uneven growth performances among sectors, "alienated" classes, aging population and appropriate implementation of globalization.

Considering the situation that Korea is currently facing, this study attempts to clarify and provide suggestions for its socio-economic advance toward a mature development stage. In FY2004, the first year of the two-year project, we identified basic problems in the following sectors: foreign trade (Korea's competence vis-à-vis foreign competitors, notably China), *chaebols* (large business groups) (anti-monopoly policies and corporate governance), public finance (the mid-term fiscal expenditure scheme to control future fiscal expansion), labor ("irregularization" of the labor force, etc), poverty (working poor), social welfare (social safety nets, and "Productive Welfare" policies after the crisis) and pensions (aging of the population and reform of the pension system). The interim research results for FY2004 were published as a working paper. Although the government has already begun to hammer out policy measures for the above-mentioned sectors, our results suggest that these measures are still far from sufficient, and that better solutions need to be found. For a better understating of the problems, where necessary, comparisons with the situation of other countries, notably Japan, were added, as the two countries generally share similar problems today.

*Co-researchers:* Norimichi Goishi (Tokyo Institute for Municipal Research), Chizuru Kabumoto (Sugiyama Jogakuen University), Nobuko Yokota (Yamaguchi University), Im Chonsok (Visiting Research Fellow), Makoto Abe, Yūichi Watanabe

## *Southeast Asia*

### ► **The Philippines in the Post Democratization Period: The Impact of Institutional and Policy Changes**

*Organizer:* Takeshi Kawanaka

This research aimed to uncover the characteristics of the Philippine political economy in the post-democratization period after 1986, which we call “the post-EDSA period.”

We focused on two main issues: democratic consolidation and economic liberalization. Democratic consolidation means having the people accept that democracy is “the only game in town” in their political life, while economic liberalization involves reducing the role of the state as well as opening the national economy. Importantly, democratic consolidation and economic liberalization are not independent of each other. The interrelation between the two processes created the feature of the Philippine political economy during this period.

The research examined the following topics in order to find such interrelations. Privatization, deregulations and banking/financial sector reforms were dealt with as cases of economic liberalization under a democratic regime. The role of judicial courts was also examined, since their presence increased drastically in the period, especially in the field of economic policy. Finally, social reform was taken up as a key policy field for balancing the relationship between democracy and liberalization.

We found that some progress has been made in both democratic consolidation and economic liberalization. Democracy has become accepted as an ideal political regime. The government’s initial agenda on economic liberalization has been largely realized. However, we also observed certain conflicts between democracy and economic reform. For instance, the democratic institution has led to some bargaining costs for economic reform. In addition, a dilemma has arisen between securing political support and implementing reform, against the backdrop of income disparities and poverty.

*Co-researchers:* Kazuhiro Ōta (Kobe University), Shingo Mikamo (Shinshu University), Izumi Chibana, Sōya Mori, Yurika Suzuki

### ► **Economic Development and National Unity in Malaysia: Twenty-two Years under the Mahathir Administration**

*Organizer:* Takashi Torii (Meiji University)

Malaysia underwent rapid economic growth and drastic social change under the Mahathir administration from 1981 to 2003. This study attempts to draw a comprehensive picture of the Mahathir regime by analyzing economic development, development policy, and their impact on politics during the Mahathir Era.

As a developing country and multiethnic society, Malaysia is a rare case of success in simultaneously achieving sustained growth and political stability. By analyzing the Malaysian experience from a multi-dimensional perspective, it might be possible to draw relevant implications for other multiethnic developing countries.

During the first year of this two-year-term research project, we collected basic data pertaining to major policy spheres such as government finance and to investment, financial, educational, and diplomatic policy. We also examined previous studies on

these topics. The outcome of our research was published as an interim report titled *Twenty-two Years under Mahathir's Administration: Literature review and basic data* (in Japanese). In the first chapter of the report, Takashi Torii, organizer of the research committee, presented a brief overview of politics and economic development during the Mahathir administration. In the ensuing chapters, each committee members presented a literature review as well as data analysis, attempting to depict characteristic features of the Malaysian experience.

*Co-researchers:* Naoki Sōda (Tokyo University of Foreign Studies), Masashi Nakamura, So Umezaki, Hikari Ishido, Sanae Suzuki, Rika Nakagawa

### ▶ **Local Enterprises and Industrialization in Vietnam**

*Organizer:* Mai Fujita

With the strong determination to enter the WTO by 2005, the Communist Party and government of Vietnam have recently placed emphasis on the role of foreign direct investment (FDI) in promoting industrialization. The 'FDI-led industrialization' approach is also widely supported by major aid donors and international organizations. In fact, the foreign-invested sector has recently emerged as an important driver of industrial production and exports. However, while local enterprises have experienced significant changes during the country's transition to a market economy and integration into the global economy, there has been only limited research on its local industrial enterprises, with the exception of a few industries that have shown remarkable export performance, e.g., garments.

This research project aims to analyze the development of local enterprises and their role in Vietnam's industrialization. In the first year of the project, each project member identified industries to be studied and research questions, and conducted field research. Case study industries were selected among consumer goods industries targeting the domestic market and rural industries, as they are generally characterized by relatively easy entry and competitiveness-building for local enterprises. Our preliminary findings are: (1) the opening and expansion of the domestic and foreign markets was the main impetus for the rapid development of local enterprises in the case study industries, but (2) the difference in the ability of enterprises to transform their products to meet market demand, development of distribution networks, and policy environment, among other factors, have resulted in diverging performance among enterprises or industrial districts.

We also implemented a joint research project with the Central Institute of Economic Management of Vietnam and published the findings as JRP Series No. 134 *Domestic Enterprise Development and the Role of Local Governments*.

*Co-researchers:* Fumi Idei (Asia University), Kenta Gotō (Kyoto University), Akie Ishida, Futaba Ishizuka, Emi Kōjin

## South Asia

### ► **Potential for Strengthening Regional Relations among Eastern South Asian Countries**

*Organizer:* Etsuyo Arai

In this research project, we investigated and analyzed political, economic and social relations among the countries and areas of Eastern South Asia, an area which consists of the northeastern part of India, Bangladesh, Nepal, Bhutan and Myanmar. This area had not been rigorously studied, as it has generally been considered a frontier, located far from the center of politics. One of the reasons leading us to address this topic was the fact that various initiatives for regional cooperation have been proposed by several bodies, and the potential of the area has received a lot of attention.

However, in the process of our study, we found some unexpectedly complicated factors which will make it difficult to realize the proposed cooperation in a so-called win-win situation. The active exchange and movement of goods and people in the area has had social and economic impacts through the flow and settlement of refugees, migration, and illegal trade, all which are difficult to regulate at the borders. We took up border issues from a historical and theoretical framework. Studies on the ethnic identity of Nepalese in northeast India, Muslim-Bengalese issues and Rohingya refugees in Myanmar clarified the historical and political process through which this area became a frontier and the people of the area were marginalized. Another study analyzed views on the regional relationships between the center and periphery.

We carried out two joint projects and published the outcomes as JRP series No. 132 *Sub-Regional Relations in the Eastern South Asia: With Special Focus on Bangladesh and Bhutan* and No. 133 *Sub-Regional Relations in the Eastern South Asia: With Special Focus on India's North Eastern Region*. Both can help give an understanding of the real situation of the area.

*Co-researchers:* Sanjoy Hazarika (Centre for North-East Studies & Policy Research), Kyoko Inoue (Daito Bunka University), Hiroshi Sato (expert on South Asia), Masanori Koga (Nihon Fukushi University), Kei Nemoto (Tokyo University of Foreign Studies), Akinobu Kawai (University of the Air), Mayumi Murayama, Yoshiko Suzuki

### ► **Changes in Indian Agricultural Villages: A Microeconomic Analysis**

*Organizer:* Seirō Itō

The purpose of this study is to gain an understanding of the decision-making rules of poor households on child education in Andhra Pradesh, India. In particular, we will estimate the effects of the child labor eradication programs of our research partner, the MV Foundation. Following several field trips with the MV Foundation, we selected the survey area. A questionnaire generally following the World Bank's LSMS format was carefully drafted to take into the account the local contexts, and was used in the subsequent survey of rural villages. Given our limited resources, the sampling method was also carefully chosen to ensure a sufficient number of observations of child labor while holding the survey costs to a minimum. The interim report on this first year of our two-year joint research project has been published as Joint Research Paper Series No. 135.

*Co-researchers:* Nobuhiko Fuwa (Chiba University, and International Rice Research Institute), Takashi Kurosaki (Hitotsubashi University), Yasuyuki Sawada (University of Tokyo), Kensuke Kubo

## MIDDLE EAST

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### ► Financial Systems and Asset Management in Middle Eastern Countries

Organizer: Yōko Iwasaki

Excessive dependence on public investment and the stagnation of the private sector are broadly observed in the Middle Eastern countries today, mainly due to their immature financial institutions including banking systems. It is believed that private (often unauthorized) financial organizations still have great influence in the private financial market. Asset management and property protection are extremely difficult, since there is a lack of both safe financial institutions and well-organized stock markets. As a result, severe capital flight and land speculation are constantly seen. In studying the origins of this institutional weakness, it is important to focus on its historical development and to ascertain how people have tackled the problems.

Our project combined historical case studies and research on the present conditions. The research topics selected were as follows: (1) origins of the financial weakness in late Qajar Iran, (2) property protection in 19th century Ottoman Syria, (3) impact of capital transaction liberalization in Turkey on people's asset management, (4) structural problems of the modern Islamic banking system, and (5) real estate transactions in contemporary Iran. The research results will be published independently in our periodicals, *Gendai no Chūtō* (the Contemporary Middle East), and *Ajia Keizai* (Asian Economies), in Japanese.

*Co-researchers:* Masashi Mizuta (Osaka University of Commerce), Tomoki Ōkawara (Tohoku University), Mieko Natsume (advisor, Overseas Research Department), Sadashi Fukuda

### ► Cleavage Structures and Political Systems in West and Central Asia

Organizer: Yasushi Hazama

In the first year of this two-year project, a literature review and preliminary investigation were carried out. A review of literature on cleavages in general revealed that the concept of cleavage had recently gone through a process of sophistication, especially in the 1990s. Social groups constitute a cleavage when they share three factors: (1) socio-demographic attributes, (2) identity and values, and (3) organizational expression. Empirical studies on developing countries show that even after democratization, cleavage parties failed to emerge, but that instead catch-all parties became dominant (Hazama).

While it is too early to make general comments on the relationship between cleavage structures and the political system, one may put forth two preliminary hypotheses from the findings of this research project. First, where the political system is relatively stable, the cleavage structure is generally characterized by cross-cutting cleavages or internal divisions of the opposition, forming major cleavages. According to Oka's literature review, in Central Asia, including Kazakhstan, the lack of serious ethnic conflict was attributed to the fact that the ethnic cleavages were transected by linguistic, clan, and regional cleavages. Aoyama's documentation describes the highly fragmented state of the Kurdish opposition movement in Syria.

Second, in places where the political system is undergoing transformation due to democratization, the reflection of the existing cleavage structure onto the political system may change over time. In post-war Iraq, uneven political organization has taken place, with Sunnis being left far behind the Shia and Kurdish groups. Also in urban and ethnically-mixed areas, it seems difficult to allocate resources on the principle of



community homogeneity (Sakai). At the same time, democratizing Iraq saw the emergence of domestic satellite television channels that emphasized Iraqi culture, in partial reaction to the radicalization of pan-Arab television broadcasts (Watanabe). In Yemen, the initial cleavage-based party system gave way to a dominant-party system with a strong catch-all party (Matsumoto).

*Co-researchers:* Hiroshi Matsumoto (The Japan Institute of International Affairs), Natsuko Oka, Keiko Sakai, Hiroyuki Aoyama, Masaaki Watanabe

### ► **Political Processes and International Relations Surrounding Afghanistan**

*Organizer:* Hitoshi Suzuki

After 9/11, Afghanistan, which had long been neglected by the international community, came to the forefront in a dramatic way and drew media attention from around the world. Due to the lingering internal conflict and restrictive policies of the Taliban regime, however, Afghanistan had been little studied on a nationwide scale, and there has only been limited research accumulation in Japan. To overcome this knowledge deficit, we set up a study group, with the aim of providing a basis for future first-hand research on this hard-to-study but important country of the region.

Afghanistan has many unsolved problems. Though a reconstruction process was launched in 2001, the fact that it is a war-ravaged and least developed country remains unchanged. In particular, it is characterized by a weak macro economy, repatriation of refugees and internally displaced persons, ruled by regional strongmen and militia groups, and a poor security situation. In order to grasp the nature of these phenomena and formulate a strategy for combating them, an uncompleted job in Afghanistan—national integration—must be reconsidered.

Members of the study group attempted to identify the forces of integration and disintegration through different approaches, including politics, economics, history, constitutions, and international relations. Given the fact that the reconstruction is in process, it may be too early to evaluate the progress of integration. However, we observed a qualitative change in the centrifugal forces after the Bonn Agreement. Since legitimacy is a key word for the current Karzai government, the discussions we developed on national legitimacy will provide ideas for future perspectives on Afghanistan.

*Co-researchers:* Hiroki Fukamachi (Tokyo University of Foreign Studies), Manabu Shimizu (Hitotsubashi University), Shōhei Komaki (Sophia University), Sō Yamane (Osaka University of Foreign Studies), Satoshi Ikeuchi (International Research Center for Japanese Studies), Kazushige Shibata (Afghan Network), Madoka Ōnishi (Overseas Research Department), Tomoko Kubota

### ► **Development Strategy and Regional Economic Integration: The Case of Egypt**

*Organizer:* Toshikazu Yamada

MENA (Middle East and North African) countries are now very rapidly concluding FTAs with the EU and United States, in addition to regional integration agreements (RIAs) with Arab and African countries (GAFTA, COMESA, Agadir Declaration etc.). In addition, these countries, including Egypt, are now involved in the MEFTA (Middle East FTA) Initiative proposed by the Bush administration in May 2003.

One of the major purposes of these agreements is to implement economic and political reforms under globalization and regionalization, with the aims of sustaining economic growth and reducing poverty.

Special attention has been paid to open regionalism, deeper integration and North-South integration with respect to competitiveness, reduction of transaction costs, credibility gains and harmonization to global standards (Yamada) and reviews of FTA with reference to regionalism (Suzui).

Our project is focusing on identifying country-specific circumstances and problems for the implementation of the agreements and benefits to be gained from increased trade and foreign investment. Comparative studies are being done on the effectiveness of FTAs for Egyptian trade with CCOMESA (Noguchi), the TIFA and QIZ between Egypt and USA-Israel (Uchida), FTAs of GCC countries with the EU (Hatanaka), and EU and Magreb countries (Fukuda), in order to draw lessons and solutions for the development of the countries and regions through empirical research (Watanabe).

*Co-researchers:* Kunio Fukuda (Meiji University), Yoshiki Hatanaka (International Development Center of Japan), Kiyomi Suzui (Hiroshima Shudo University), Matsuo Watanabe (The Japan Institute of International Affairs), Katsuaki Noguchi (Economic Research Department), Masanori Uchida (JETRO, Okinawa)

## AFRICA

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### ► Empirical Studies on the African Economy: Progress and Perspectives

*Organizer:* Katsumi Hirano

The ultimate purpose of this research group, which was established in 2001, is to introduce empirical studies adopting an econometric approach into African studies in Japan. For that purpose, we have engaged in pioneering work.

Recent progress in development economics has been stimulated by African studies. Eminent world scholars, exemplified by Joseph Stiglitz and Amartya Sen, a Nobel Prize laureate, have made valuable contributions, reflecting African realities, to economics and development theories. This movement has been enabled by empirical studies utilizing the accumulation of economic data on Sub-Saharan African countries after the 1980s. In Japan, however, development economics and African studies are scarcely connected. Economists show little interest in Africa, and Africanists tend to do their work outside the field of economics.

In order to catch up with the progress in African economic studies around the world, the Institute established a team to promote collaboration between economists and Africanists. The first fruit of the project was already published as IDE Research Series No. 529 titled *Toward an Economics of Sub-Saharan Africa* (in Japanese). The current team was set up as a successor, to produce the next publication. The topics dealt with are agriculture and farmers' behavior in Africa, the behavior of African firms, analyses of African governments, international trade, and gender inequality. The aggregate work has been published as IDE Research Series No. 543, *Econometrics for Sub-Saharan Africa*.

*Co-researchers:* Tōru Nakamura (Kobe Gakuin University), Akio Nishiura (Soka University), Takeshi Sakurai (Japan International Research Center for Agricultural Sciences), Hiroyuki Sudō (Nagoya Bunri University), Motoki Takahashi (Kobe University), Yuka Kodama, Takahiro Fukunishi, Hiroki Nogami, Eiichi Yoshida

## ▶ “Democratization” in Africa

Organizer: Miwa Tsuda

Based on the findings from our research during the first year of this project (see Miwa Tsuda, ed., “Re-examining Democratization in Africa” I.D.E., 2004, 165 pp. [in Japanese]), we launched a research project entitled “‘Democratization’ in Africa” to continue working on a re-examination of emerging political systems in Africa after the 1990s. As warned by Joseph (1999), electoralism poses serious pitfalls for understanding African political systems (Joseph, R., ed., *State, Conflict and Democracy in Africa*, Lynne Rienner Publishers, Inc, 1999, p. 9), and searching for alternatives to the multi-party-elections-centered approach has been our main challenge. Through both the collection of details on political changes and analysis of diverse aspects of Zambia, Kenya, Nigeria, and Cote d’Ivoire, we discovered the following as crucial factors for understanding these countries’ current politics. (1) “Trivial” institutions such as local level administrative laws or anti-defection laws that actually are remnants of precedent authoritarian and/or military regimes have a (sometimes strong) impact on politics after democratization. For example, in Kenya, anti-defection laws, which were handy tools used by the government to suppress opposition movements, have become the main force enabling the survival of democratically elected but weak coalition governments. Thus, the institutional remnants of authoritarian/military regimes do not necessarily work against democracy. (2) Though the institutional remnants, as a matter of form, remain unchanged from the previous regime, their functions have occasionally changed drastically after democratization, as can be seen above in Kenya’s case. (3) Even in countries like Cote d’Ivoire and Nigeria that have recently experienced coups d’etat and/or civil wars, democratic experiences such as multi-party elections, party politics and the devolution of power still have crucial effects on political practices.

Our report will appear as a special issue of *Ajia Keizai* this year.

Co-researchers: Mitsugi Endō (University of Tokyo), Takehiko Ochiai (Ryukoku University), Akira Satō

## ▶ Human-centered Approaches to African Conflicts

Organizer: Katsuya Mochizuki

This research group was organized to study the concept of human security and its applicability to conflicts, especially those in Africa. We intended to clarify the merits and demerits of applying the concept to the resolution and management of African conflicts. Six case studies were carried out and reported: the Great Lakes Region in central Africa, Democratic Republic of Congo, Somalia, Ethiopia, Malawi, and Nigeria.

We started by looking into conceptual interfaces with concepts such as peace-building and preventive diplomacy, because they have certain linkages with human security in terms of conflict issues. Through our analyses, we were able to identify inconsistencies and dilemmas in the applications of these concepts.

In relation to human security in war-torn countries, arguments on humanitarian intervention have been very active among researchers. Thus, we advanced our discussion to examine the backgrounds and implications for international intervention in African conflicts.

Two case studies concerned the topic of “People on the move,” which was selected by the UN Commission on Human Security as a key issue area. We have covered not only the issues of refugees and forced migration, but also that of internally displaced people.

Community-based conflict management was also part of our research interest. The bottom-up approach of human security was found to be applicable to grassroots efforts of Nigerian NGOs.

*Co-researchers:* Terumi Hirai (National Institute for Research Advancement), Misako Takizawa (Obirin University), Minako Ishihara (Nanzan University), Hideaki Shinoda (Hiroshima University), Shin'ichi Takeuchi

## GENERAL

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### ▶ **Business Management in Asia and Latin America**

*Organizer:* Taeko Hoshino

It is quite common for enterprises in developing countries to be controlled by dominant owner families, and to be passed down from one generation to the next. We regard these enterprises as “family businesses.” One of the important changes observed in large family businesses in Asia and Latin America in recent years is the professionalization of management. It means not only that owner-managers have improved their managerial capability through education and training, but also that professional salaried managers have been promoted to top management positions. The purpose of this project is to study the actual condition of the professionalization of business administration in family businesses, focusing on role-sharing between owner-managers and salaried managers in top management and their capabilities as professional managers. We studied cases of major family businesses in seven economies of Asia and Latin America: Korea, Taiwan, Thailand, Mexico, Venezuela, Peru, and Chile, and analyzed the roles and careers of their top managers. Our findings, from a comparative study of cases, are as follows. Although there are significant peculiarities of each economy and each case of family business, there are also several characteristics of management common to the seven economies. One common tendency is the withdrawal of owner-managers and advance of salaried managers in business execution. Another is that both owner-managers and salaried managers in top management positions have attained very high educational levels. A third is that there are various routes to top management positions, including internal promotion from the bottom to the top of the managerial hierarchy and recruitment from outside to middle or top positions. The route or kind of combination of routes preferred vary between economies and also between family businesses, and are mainly determined by the conditions of the internal and external labor market.

*Co-researchers:* Yōichi Koike (Takushoku University), Akira Suehiro (University of Tokyo), Tatsuya Shimizu, Aki Sakaguchi, Kōichi Kitano, Yukihiro Sato, Makoto Abe

### ▶ **Social Assistance Systems in the Emerging Welfare States**

*Organizer:* Kōichi Usami

This project analyzed the characteristics and backgrounds of social assistance systems in newly industrialized and socialist countries in Asia, Africa and Latin America. In the last few years, our team has studied welfare states in non-European countries, which we refer to as emerging welfare states. In these countries, social insurance occupies a central position and social assistance has a generally residual character.

However the needs to which social assistance must attend are huge and urgent in these countries and regions. Poverty persists in different ways in the regions analyzed, and care for elderly people is becoming increasingly important in some countries such as China. However, their social assistance systems have not been analyzed from the methodology of political economy. In many developed countries, we find pressure from trade unions behind the formation of social insurance systems. But this cannot be said

for the formation of social security systems, and especially social assistance systems, in the regions analyzed. Here we need to analyze the social assistance systems in these areas using the methodology of political economy.

As welfare states of newly industrialized countries and areas, we have selected Korea, Taiwan, Hong Kong Singapore and Turkey from Asia, South Africa from Africa and Mexico, Brazil and Argentina from Latin America. Furthermore we have included socialist countries such as China and Cuba within our study as cases in which per capita GDP is relatively low but social indicators are relatively high. Our final report consisted of three parts: Part I referred to the theories used in our analysis, in part II we analyzed policies on poverty and in Part III we analyzed the problems of care for families.

*Co-researchers:* Yasuo Hagiwara (Taisho University), Kim Jo-Seol (Shinshu University), Keiko Hata (Waseda University), Li Lian-Hua (Waseda University), Yukari Sawada (Tokyo University of Foreign Studies), Yasuhiro Kamimura (Hosei University), Akiko Koyasu (Kanda University of International Studies), Kaoru Murakami, Kumiko Makino, Kanako Yamaoka

### ► Transformation of Social and Economic Structure in Rural Societies under Globalization

*Organizer:* Yuka Kodama

Globalization is a relatively new concept, which has become widely known since the 1980s. Today, many specialists in a wide variety of fields use the word to refer to various social phenomena. This is because globalization has brought about rapid and significant transformations in economies, societies and cultures. Rural societies in developing countries are no exceptions. Economic liberalization, which has been progressing in many developing countries, has a large impact on rural societies by exposing them directly to the world market.

This year's research was positioned as the first stage of a series of research projects on rural societies in developing countries. The objective of the research is to review existing studies on globalization and to examine their relevance to rural societies.

Initially, the organizer of the project reviewed the concepts of globalization, and prepared an overview of its progress in developing countries. Next, each co-researcher selected a specific theme and examined the impact of globalization on rural economies and societies. The themes chosen were: the expansion of non-traditional agricultural exports in Latin America, the Green Revolution and Post Green Revolution in Southeast Asia, theories on the development of rural industry, and low productivity of African agriculture. These studies demonstrate that rural societies do not exist as isolated entities, but maintain close links with their surrounding societies and change in a dynamic manner.

*Co-researchers:* Tatsuya Shimizu, Naoko Amakawa, Emi Kōjin, Azusa Harashima

### ► Survey on the Theory of Corporate Governance and Financial Contracts: Implication for Developing Economies

*Organizer:* Yuri Sato

Economics of corporate organization, and contract theory in particular, has developed remarkably in recent years as a new field in applied microeconomics. Quantitative empirical studies have also been accumulated in this field by economists driven by theoretical developments. From the viewpoint of field workers who have observed firms

in developing economies, however, this approach has apparently not been successful in documenting actual problems that firms there face. For example, most of theory-driven “empirical” researchers focus on the agency problem between creditors and managers. However, the prevalent structure of corporate governance in developing economies is concentrated ownership, sometimes by owner-managers or the government, and in some cases there are no creditors. A major problem that firms face there is the agency problem between controlling and minority shareholders.

Our study intended first to study the basic idea of incomplete contract theory, which would seem to be more applicable to cases in the developing economies. Then, we moved on to applying the approach to case analyses in the developing economies to induce clear interpretations. The outcome of our study was compiled into an internal report comprised of three parts. The first overviewed the theoretical tools of microeconomics. The second focused on incomplete contract theory and surveyed basic models and their applications. In the third part, we attempted to put the approach of incomplete contract theory into analyses of corporate governance, inter-firm transactions, and privatization of corporations in developing economies such as China, Taiwan, Vietnam, the Philippines, Indonesia and Chile.

*Co-researchers:* Mariko Watanabe, Momoko Kawakami, Kōichi Kitano, Yurika Suzuki, Makoto Abe, Akie Ishida, Chie Kashiwabara, Aki Sakaguchi, Mai Fujita, Momoe Makino, Sōya Mori

## ► **New Developments in the International Monetary System and Developing Countries**

*Organizer:* Hisayuki Mitsuo

We have conducted theoretical and empirical research on new developments in the exchange rate regimes in developing countries since the 1990s. The contents of our studies are as follows. First, *fear of floating*, a phenomenon where a country declares that it will adopt a floating exchange rate regime but in fact does not, is often observed in emerging market economies. It was found to be associated with difficulty in borrowing in domestic currency. Second, the macroeconomic performance of countries using hard pegs was analyzed from the viewpoint of the role of the pegs in the national economy. These countries were Argentina, Bulgaria, Estonia (currency boards) and Ecuador (dollarization). Third, an econometric analysis was made of short-term interest rates of Brazil, which has adopted inflation targeting under a floating regime since 1999. The central bank was found to change interest rates with reference to country risk and government debts. Fourth, as a determinant of East Asian business cycles, global IT cycles were found to be more important than changes in East Asian competitiveness originating from fluctuations in yen/dollar rates. Fifth, a possible candidate for monetary integration in East Asia was chosen, using as a criterion the similarity of supply shocks. The group consists of Taiwan, Malaysia, Hong Kong, and Singapore. Sixth, new indices of trade competition were constructed for East Asian countries, showing high rivalry among the countries and increasing rivalry of Japan against China together with Hong Kong. Using weighted indices, real effective exchange rates for the East Asian countries were calculated. Seventh, a theoretical model of exchange rate revaluation under price ceilings was developed. In the model, contrary to what is usually believed, revaluation causes a real *depreciation* if the real exchange rate is measured with a quality-adjusted consumer price index, and if the revaluation induces quality improvements in the non-tradable sector.

*Co-researchers:* Tarō Esaka (Kobe City University of Foreign Studies), Kaku Furuya (Daito Bunka University), Masanaga Kumakura (Osaka City University), Shōji Nishijima (Kobe University), Kiyotaka Satō (Yokohama National University)

### ▶ **Economic Reforms and Development of Transition Economies in Perspective**

*Organizer:* Ken Morita (Hiroshima University)

It is now possible to categorize the post-socialist countries into two groups. One, represented by the Central Asian countries, has experienced protracted political and economic confusion. The other, represented by the Eastern European countries, shows relatively favorable economic performance. For the former, it is necessary to consider barriers to economic development, such as shortages of physical infrastructure and intellectual one, as found in the financial sector. For the latter, we intend to investigate the effectiveness of reforms conducted under political guidance from the World Bank and IMF. If things did not turn out the way they expected, it is necessary to determine factors which impeded the implementation of their plans. Then, for both groups, we apply game theory to capture features of transitional economies. We have conducted research from this perspective.

*Co-researchers:* Gabor Bakos (Kyoto Women's University), Masahiko Gemma (Waseda University), Yukihiko Funaki (Waseda University), Yasunori Ishii (Waseda University), Kumi Suzuki (Waseda University), Lau Sim-Yee (Reitaku University), Mitsuru Mizuno (Nihon University), Hisao Yoshino, Jun Nakamura

### ▶ **Globalization and Economic Law Reform in Developing Countries**

*Organizer:* Shin'ya Imaizumi

Globalization is a driving force behind the institutional reforms being carried out in many countries in Asia and other regions. These reforms were accelerated after the outbreak of economic crises in Asia and other regions; the vulnerability of institutions of developing countries or emerging markets is increasingly seen as a risk to the global market. Reforms have been made mandatory under international treaties such as WTO agreements, or have been forcefully pushed in the form of international norms, standards, principles, guidelines, model laws, best practices and other documents prepared and issued by international organizations.

This study is an effort to illustrate the changes of international rule making and its impact in the context of economic law reforms in developing countries. The study focuses on selected sectors including intellectual property, competition, financial law, contract law, arbitration, and maritime regulations.

*Co-researchers:* Shōichi Kidana (Waseda University), Makoto Kurita (Chiba University), Sōichirō Kozuka (Sophia University), Satsuki Konaka (graduate student, Waseda University), Hajime Satō, Miwa Yamada, Chie Kashiwabara

### ▶ **Defining Development Sociology**

*Organizer:* Hiroshi Kan Sato

The aim of this study is to define development sociology based on the Japanese experience as a developing (aid-receiving) country as well as a developed (aid-giving) country. Japan; as a non-western country; has a unique experience in successfully carrying out modernization and socio-cultural changes. Nevertheless, development studies in Japan have been dominated by technical and economic theories.

As the importance of the social dimensions of development has become evident, social development has emerged as one of the core issues in Japanese development aid policy. Despite the pressing need for refined development sociology, Japanese sociology circles have paid little attention to development in developing countries. As a result, theories of development sociology in Japan remain at a cut-and-paste mix of Western theories.

The author (Sato) has published several articles and volumes on social development and development sociology. In this study, he has attempted to define and establish a development sociology based on Japanese experiences. The result of this study will be published as one of the first textbooks on development sociology in Japanese. It will contain three parts; the first deals with the concept of development. It discusses the differences between spontaneous development and induced development, between social development and economic development, and between social change and modernization. In the second part, several examples of Japanese ODA experiences are described and analyzed from a sociological perspective. It deals, among other things, with primary health care projects, social forestry projects, small credit projects, and income generation projects. In the third part, the social impacts of development aid projects are conceptualized and several lessons are extracted for further projects. This part also deals with participatory development, pilot project strategies, and the empowerment approach.

Ultimately, this study tries to draw some practical lessons for further development projects and points out further task for development sociology.

### ► **Universalization of Primary Education: Mechanisms and Policy Tasks**

*Organizer:* Akio Yonemura

The universalization of primary education has been a key international challenge since 1990. However, actual policy should be formulated with reference to each country's level of educational attainment. It is known that the universalization process becomes increasingly difficult after an enrollment rate of about 90 percent is reached. This project focuses on such countries as Vietnam, Mexico, and Chile, which are entering this final stage of high uptake of primary education provision. In the first year of the study, special efforts were made to examine the past experiences of Malaysia, Japan and some European countries in order to construct an analytical framework.

The interim report contains the following chapters: Introduction-Universalization of Primary Education: A Historical-Sociological Approach; Chapter 1-Political Economy of the Universalization of Primary Education: Birth of Public Education and Its Introduction in Developing Countries; Chapter 2-Universalization of Primary Education in Vietnam: the Current Situation and Ongoing Challenges; Chapter 3-The Financial Structure of Primary Education in Vietnam; Chapter 4-The Role of the Community in the Diffusion of Primary Education in Vietnam: Actual Conditions of "Socialization of Education"; Chapter 5-Universalization of Primary Education in Mexico: the Current Situation and Policy Challenges to Be Met; Chapter 6-Hard Challenges for the Universalization of Basic Education in Chile: Analysis of Internal Education Processes in Schools with Low Academic Performance; and Chapter 7-Retrospective and Perspective of the Universalization of Primary Education in Malaysia: A Problem of National Education and Integration in an Ethnically Diverse Country.

The final report in the second year will be prepared in English, deepening the analysis of these countries based upon the framework mentioned above.

*Co-researchers:* Morikazu Ushioji (Obirin University), Motohisa Kaneko (University of Tokyo), Takashi Hamano (Ochanomizu University), Masato Noda (Chubu University), Miki Sugimura (Sophia University), Chiaki Miwa (Nagoya University)



## ► Possibility of a Multi-disciplinary Approach to Poverty Reduction

*Organizer:* Yasuhiro Nimura

Even now, in the 21st century, we find that poverty has become ever more widespread and complicated, as terrorism is deeply related with poverty. To analyze the many facets of poverty, we have to adopt various methods, based on a multi-disciplinary approach. In this project, we attempt to rethink the notion of poverty, focusing on economics, sociology, politics, and in some case studies of what actually happens in developing countries, in order to seek out its causes.

The results of the project can be summarized as follows: From the viewpoint of demography, we have to consider the poverty trap and quality of life in order to improve the situation drastically. From the viewpoint of sociology, it is pointed out that the approach of social exclusion helps to give a deeper understanding of the issue. Regarding the relation between politics and poverty, we can use two case studies. One is an analysis of spoiled votes, which examines the correlation between political participation and poverty in Indonesia. The other is an analysis of the rhetoric of economic assistance from implementing agencies, and studies on poverty. This study refers to the fact that the concept of poverty has a political aspect. With regard to the self-help activities of poor people, it is argued that access to microfinance schemes through the market mechanism can contribute to the alleviation of poverty in India. In the case of the Philippines, we examine the role of overseas workers and their contribution to the country through foreign currency remittances. Is the experience of policy measures to provide relief to poor people in modern Japan applicable to others? This study points out some very important tasks which developing countries face in tackling the poverty issue.

*Co-researchers:* Ryōhei Konta, Hiroshi Kan Sato, Hiroki Nogami, Mari Nakamura, Takayuki Higashikata, Naomi Hatsukano

## ► Feasibility of Exporting Agricultural Products and Processed Foods from Fukushima Prefecture to the Shanghai Area

*Organizer:* Keisuke Suganuma (Fukushima University)

In recent years, FTAs have been formed between many countries. In Japan, too, their importance is widely recognized, and there has been movement toward concluding such agreements. However, Japanese agricultural products lack a competitive advantage in the international market, and so the need for agricultural support in the event that Japan joins an FTA is becoming a pressing issue.

It is under these circumstances that the Fukushima prefectural government decided to begin efforts to export agricultural products and processed foods to the Shanghai area, starting in 2004. China is already experiencing rapid economic growth, but Shanghai's per capita GDP remains at a level five times higher than the national average. Economic growth has led to the appearance of a wealthy class that has enormous influence in the consumer market. Moreover, in Shanghai and cities all over China, food is flowing in from all over the world accompanying changes in lifestyle and eating habits. However, the share of Japanese agricultural products in the Chinese market remains very small.

In this project, we have investigated and analyzed the agricultural products market, the food market, the distribution system in the Shanghai area, and precedent-setting cases of agricultural exports, and have considered the feasibility of exporting agricultural products and processed foods from Fukushima to the Shanghai area. This research has been conducted along with the Fukushima prefectural government in order to support Fukushima's internationalization by exporting agricultural products and processed foods.

The final report of the study group will be useful not only for use in Fukushima Prefecture, but also by national agriculture-related organizations, food-processing companies and local governments in Japan.

*Co-researchers:* Fumio Makino (Tokyo Gakugei University), Luo Huanzhen (Tokyo Keizai University), Ken Sakurai (Tokyo Kaiyo University), Ruan Wei (Norinchukin Research Institute), Kenji Kokubun (Fukushima Prefectural Government), Kōji Kitada (Fukushima Prefectural Government), Akiko Nakagawa (JETRO, Fukushima), Hiroshi Ikegami, Shirō Mitsui

## COMMISSIONED RESEARCH

### ► **Politics and Regional Security in the Middle East, Focusing on Iran, Iraq and Saudi Arabia**

*Organizer:* Sadashi Fukuda

The war in Iraq had a strong impact on politics and regional security in the Middle East. It removed the menace of Iraq to the security of neighboring Gulf countries, by overthrowing the regime of Saddam Hussein. The US strengthened its political and military presence in the region, and Iraq has been placed under US political and military control. The US maintains strong military bases in Qatar, Kuwait and Bahrain. The war and the enhanced US presence, thus, have exerted a strong influence on politics and security in the Middle East.

However, the situation of Iraq remains unstable. The Israel-Palestine conflict seems to be endless. Considering that the Gulf region accounts for more than 85 percent of Japans' crude oil imports, the fact is that the politics and security of the region are very important for Japan. This research project aimed to study the current political and security situation of countries in the Middle East, focusing on Iran, Iraq and Saudi Arabia. The project was organized at the request of the Ministry of Economy, Trade and Industry.

*Co-researchers:* Keivan Abdoly (University of Tokyo), Manabu Shimizu (Hitotsubashi University), Shigeru Sudō (International Development Center of Japan), Takeru Hosoi (Ritsumeikan University), Yasuyuki Matsunaga (Nihon University), Kōji Mutō (Ritsumeikan Asia Pacific University), Yasushi Hazama, Hitoshi Suzuki, Hiroyuki Aoyama

### ► **The UNIDO Strategic Research Program: Optimizing the Impact of Industrial Development on Poverty Alleviation**

*Organizer:* Tatsufumi Yamagata

Poverty reduction was made one of the ultimate aims of international development as one of the Millennium Development Goals (MDGs) declared at the Millennium Assembly of the United Nations in 2000. Although the MDGs have encouraged improvements in the livelihood of the poor of the world by stressing the necessity of providing food, education and health, a strategy for the poor to actually get out of poverty has yet to be formulated. Since the only resource the poor possess for earning income is labor, employment must be a key. However, employment is not placed at the center of the MDGs.

Meanwhile, the experience of poverty reduction in East Asia reveals that the creation of employment opportunities in the export-oriented industrial sector is critical.

The East Asian pattern of poverty reduction through industrial development is now occurring in South Asia as well. This observation may imply that the East Asian strategy can be applied to current low-income countries.

In this project, the possibility of replicating the East Asian pattern of poverty reduction in current low-income countries is explored. The garment industry in Bangladesh and Kenya is scrutinized from the perspective of creating employment opportunities for the poor. Both firm surveys and worker surveys were conducted in the two countries. This study has continued in 2005 under consignment from the United Nations Industrial Development Organization.

*Co-researchers:* Akio Nishiura (Soka University), Mayumi Murayama, Takahiro Fukunishi

### ► **Comparative Study on East Asian and Latin American IT Industries**

*Organizer:* Akifumi Kuchiki

The project was conceived as part of the framework of the Thematic Trust Fund—Info-Communications Technology (ICT) for Development—in support of the FEALAC (Forum for East Asia-Latin America Cooperation) member countries in promoting ICT development and international trade between East Asia and Latin America and in reducing poverty. Small and medium-sized enterprises (SMEs) play an essential role, especially in developing countries, as generators of employment and as social stabilizers, thus contributing to poverty alleviation in the process of economic development, as well as agents of innovation. In addition, it is increasingly acknowledged that the goods and services provided by a thriving SME sector are a critical component of the systemic competitiveness necessary for the development of large firms and new SMEs. On the other hand, many SMEs still face hurdles to starting and expanding their businesses, such as a lack of skilled employees, access to capital and information, and bargaining power against large companies. These disadvantages make the sector more susceptible to sudden changes in the economic environment. Recognizing these characteristics, governments in Latin America and East Asia have introduced a series of SME-focused policies aimed at mitigating their deficiencies in terms of information, human resources, investment and working capital, innovation and international competitiveness. This project addressed: (1) the present situation of the IT revolution; (2) IT-related industries; (3) SME development in the IT revolution; (4) the diffusion of e-commerce; (5) government policies; (6) regional networks; and (7) regional perspectives of 13 selected countries in East Asia and Latin America. The main objectives were: to develop SMEs through the use of IT; to promote inter-regional cooperation between SMEs in Asia and Latin America, and to reduce poverty through the development of SMEs. This project relied on close collaboration among the ECLAC, UNDP, and the Institute with other partners of excellence.

In relation to this project, Yasushi Ueki, a Santiago-based Overseas Fellow of the Institute, participated in the IDE-ECLAC joint research project on Comparative Study on East Asian and Latin American IT Industries, in Chile.

### ► **Compilation of an Interregional Input-output Table for the Changjiang River**

*Organizer:* Nobuhiro Okamoto

This project was consigned by the National Institute of Environmental Studies, which conducts model analysis for environmental management of watersheds in East Asia. The Changjiang River is an important river for East Asia, and an Interregional Input-Output Table for the Changjiang River could be an important part of this model. The Institute compiled an Interregional Input-Output Table for the Changjiang River in cooperation with the State Information Center in China, which has compiled the Multi-regional Input-output Model for China 2000.

*Co-researchers:* Satoshi Inomata, Kōshi Yamada

### ► **Basic Data Preparing for a Future Emission Inventory To Be Used for a Forecast Model for Change in Atmospheric Composition**

#### **Basic Data Preparation for a Future Emission Inventory for the Asian Region**

*Organizer:* Nobuhiro Horii

Building models for forecasting changes in atmospheric composition is definitely needed in order to clarify changes in the density and composition of greenhouse gases, ozone, aerosols, and so forth. The effect of chemical transport and photochemical reactions should be considered in the model and therefore an emission inventory of chemical materials influencing the density, composition and distribution of air pollutants is a very important part of such a model. The Japan Agency for Marine-Earth Science and Technology (JAMSTEC) has already created an emission inventory of 28 countries in Asia for the years 1995 and 2000, and began to estimate gaseous pollutants emissions caused by fuel combustion for 2010 and 2020.

JAMSTEC recognizes the importance of China, the region's largest emission source, in enhancing the accuracy of model forecasting, and decided to outsource the task of collecting and preparing basic data related to China's future emissions to the Institute. The required data items are as follows. (1) energy demand forecasts by province, (2) data on the traffic and transportation sector in China, (3) data including estimates of FGD/CFBC installation in the power sector, (4) seasonal data on power generation and biomass production, (5) emission data from industrial processes, (6) emission data from LPSs (Large Point Sources) or power plants, and (7) adjusted data from Chinese macro energy statistics.

The research approach began by collecting data through published or unpublished statistics and literature and interviewing policy makers. Secondly, it involved investigating the collected data carefully and converting them into input for the model.