Following the agreement between the leaders of China, Japan and Korea at the historic Manila Meeting in November 1999, a joint research on economic cooperation between the three countries has been undertaken by the Development Research Center of the State Council (DRC) of China, the National Institute for Research Advancement (NIRA) of Japan and the Korea Institute for International Economic Policy (KIEP) since 2001.

In 2003, the three institutes embarked upon the second phase of joint research on “Long-term Economic Vision and Medium-term Policy Direction,” starting from a three year project on “Economic Effects of a Possible Free Trade Agreement (FTA) between China, Japan and Korea.” Last year’s joint study showed that all the three countries would benefit from the trilateral FTA in terms of economic welfare gains and GDP growth. Additionally, the majority of business people surveyed about the FTA in the three countries looked favorably at a CJK FTA.

After 2003’s overall analysis on the subject, the three institutions conducted a joint research on “Sectoral Implications of a China-Japan-Korea FTA” covering agriculture and manufacturing sectors. It will be followed in 2005 by a comprehensive concluding report on the economic effects of a CJK FTA with policy directions.

On the basis of this year’s study, the following policy recommendations are proposed jointly to the leaders of China, Japan and Korea by the three institutions involved in the joint research project.1

Utilize FTA Policy as Means of Trade Liberalization

This study on sectoral implications of a China-Japan-Korea FTA clearly shows that a regional trade agreement (RTA) such as a CJK FTA is likely to result in worldwide trade liberalization producing either other RTAs or facilitating multilateral trade liberalization to minimize losses caused by trade diversion. For instance, while with a CJK FTA, agricultural products exporting countries would exert pressure on Korea and Japan, it would also be in the interest of Japan and Korea to lower their tariffs on agricultural products to non-member countries. The same logic applies to the Chinese automobile sector. This time countries of major automakers such as the EU and United States would be involved. Therefore, a CJK FTA, which involves major players in many sectors, is likely to expand into a larger RTA like an East Asian FTA or bring about other bilateral FTAs involving one of the three Northeast Asian countries and a non regional country. Another alternative would be to lower their tariff rates multilaterally.

Jointly Set the Goal of a China-Japan-Korea FTA

Apart from the positive effects on the overall economies of all three countries such as welfare gains and GDP growth, and above mentioned positive effects of a CJK FTA in terms of East Asian economic integration and worldwide trade liberalization, just announcing a CJK FTA as a goal by the three countries can deepen intra-regional trade and avoid overproduction capacity in some industries. In particular, given the nature of the three countries’ medium and long-term industrial policy and major companies’ development or investment strategies, the lack of clear indication regarding the formation of CJK FTA can worsen the emerging overcapacity of some sectors like petrochemical and steel industry in Northeast Asia. Therefore, it is important for the three countries to agree on a CJK FTA as a common future goal in the near future.

Adopt a Gradual Approach in Pursuing a China-Japan-Korea FTA

Despite benefits a quick implementation of a CJK FTA would bring, the existence of sensitive sectors in some industries is a serious obstacle to its realization. Therefore, a CJK FTA must be approached gradually. In this regard, they may face temptation of excluding certain sensitive sectors and products. However, for a CJK FTA to facilitate further FTAs and worldwide trade liberalization, it must cover all sensitive sectors and maximum items. Thus, in order to maximize the number of items covered, when a CJK FTA is negotiated, a phase-out period approach is preferable to complete exclusion. A phase-out period can reduce readjustment costs by providing firms engaged in sensitive sectors time to restructure.

Accelerate Structural Adjustment in Sensitive Industries

In order to alleviate the adjustment burden of sensitive industries of the three countries highlighted in the study, each country must embark upon immediate structural adjustment. At the same time, they must devise a comprehensive system to meet the challenge of high social costs such as reeducation, job training, social safety net, compensation schemes and regional development. In this regard, structural adjustment of sensitive sectors must be approached by taking into account their particular status in their economy and society.

Future Agenda of Joint Research Work

Joint research on “Economic Effects of a Possible FTA between China, Japan and Korea” will be concluded in 2005 with more concrete and comprehensive policy direction and policy measures, taking the complexity and urgency of the issues into consideration. Therefore, for 2005, it is recommended to further study the possible effects of the CJK FTA on several industries, which were not addressed this year. In order to conclude the current joint research project with more concrete policy implications, we need more intensive cooperation with both business and government sectors of the three countries to reflect their practical view and ideas.

1 The recommendations do not necessarily imply official agreements between the governments of the three countries.
Public Pension Reserve Fund of Japan in 2008—Governance of a Super Mega Fund and How to Avoid Distorting the Market

The significance of policy on public pensions in Japan (National Pension and Employees’ Pension) far surpasses their status as a mere category among social security programs. A few of the critically important issues are: the future course of pension premiums and benefits, the retirement age, and the situation of women with regard to pensions.

Japan’s public pensions are backed by an enormous reserve fund of 150 trillion yen, a figure twice the total value of bank notes in circulation. To date, investment of this reserve fund has often been overshadowed by other topics, despite the fact that it has the potential to become a major issue in its own right.

In the past, the fund was deposited in its entirety with the former Trust Fund Bureau of the Ministry of Finance and was used to finance the Fiscal Loan and Investment Program (FLIP). However, since 2001, FLIP reform has been in the process of transforming the flow of money. New funds are no longer being deposited with the Ministry of Finance, and the Ministry of Health, Labour and Welfare will be, in fiscal 2008, responsible for the market investment of the whole fund in stocks and bonds (the deposits will be completely redeemed by fiscal 2008).

In other words, the government (the Ministry of Health, Labour and Welfare) is seeking to maximize investment return in the very same financial and capital markets that should function as the control tower of our market economy.

But why is it that such an enormous reserve fund is accumulated in what is by rights a pay-as-you-go system? Individual citizens paying monthly premiums are not purchasing a savings-type financial product, and one cannot help but wonder as to what extent the public is aware of this. Does investment by the government of the public pension reserve fund for a maximum financial return mean the same thing as investment of the reserve funds of private pensions? Another key question is: what influence will the government becoming a major shareholder in private corporations have on the market economy?

Any rational discussion of the investment of the public pension reserve fund requires fundamental issues like these to be addressed, and this research is an attempt, at least in part, to do so. Examples from the United States, Canada and Ireland are used.

(Nobusuke Tamaki, former Senior Researcher, NIRA)

A Study on Methods for Promoting International Exchange Activities—Focusing on Cultural Exchange

The need for and significance of international exchange activities have been on the rise. In Japan, the common belief has been that international activities, particularly cultural exchange, are ends in and of themselves, and there has been little analysis of specific results or the effects of knowledge acquired.

The objective of this research project was to offer proposals concerning measures to foster, promote and support Japan’s international exchange activities. Under the project, international exchange projects implemented by public interest corporations were assessed using questionnaire surveys and interviews, the results were analyzed, and the following proposals were made:

- The role of the central and local governments in international and cultural exchange activities, including whether they impede the development of other organizations, should be considered.
- To promote the introduction of systems of evaluation to international exchange organizations, it is necessary to foster the recognition that this introduction is not intended to reduce expenditures, but to improve and foster the organizations.
- It is necessary to build a process for fostering experts in the field of cultural exchange policy, and departments with this objective must be established at universities. For the time being, universities and nonprofit organizations should establish courses (that include internships) to provide attendees with opportunities to play an important role in international exchange activities.

(Akihiro Shimasaki, Researcher, NIRA)
NIRA Global Governance Forum Overview

As part of NIRA’s 30th anniversary symposium series, the Global Governance Forum was held in the NIRA conference room on July 12 and 13, 2004. In connection with its 30th anniversary strategic research project, NIRA has targeted five forms of governance for research: social, market, public, regional, and global. The intent of these projects is to examine appropriate modes of governance and consider new possibilities for the 21st century. The global governance research project runs from May 2004 until March 2005. Research is conducted by the NIRA Study Group on Global Governance, chaired by Professor Yozo Yokota. For this forum, NIRA called upon scholars and experts from Japan and abroad to present and engage in an open discussion on the theme of global governance from a security perspective.

Forum

As globalization deepens political, economic, security and environmental interdependence, the necessity for global cooperation in dealing with the challenges faced by the international community is increasing. While it is clear that there is no institution, including the United Nations, that functions as a strong, centralized governing agency, the United States exerts a strong influence on global governance as a “quasi-governing agent.” The stability of the international community depends in part on how other nations and international organizations interact with the U.S. Against this background, the new international order was examined, focusing on recent U.S. policy in Iraq and Afghanistan, as well as global counter-terrorism efforts.

A day and a half of closed sessions were held as part of NIRA’s internal research. The closed sessions were followed by an open forum involving a larger group of participants and building on the earlier discussion. Throughout the two days, we examined U.S. foreign policy after September 11 and the domestic forces behind U.S. policymaking. Also analyzed were U.S.-led global counter-terrorism initiatives, U.S. involvement in Iraq and Afghanistan, and the status of reconstruction activities in those nations. Forum participants explored the question of how to approach the “new threats” faced by the international community today, integrating perspectives from Europe, and focusing especially on the role of the United Nations. Finally, new directions for global governance were discussed, with emphasis on the potential role of Japan.

Open Forum

The open forum was held on the afternoon of July 13, moderated by Professor Yozo Yokota of Chuo University. The program opened with welcome remarks from Takafusa Shioya, President of NIRA, followed by three presentations. Professor Fumiaki Kubo of Tokyo University gave the first presentation, titled “What Is Happening in the United States?” His five main points are summarized below:

1. After 9-11, there was very strong support for the president at home and abroad, and consensus on a continuing threat and the need to take military action in Afghanistan. However, following the military intervention in Iraq, a “Marshall Plan” failed to materialize, and there were shortcomings in the provision of humanitarian, economic, and reconstruction aid.

2. In the latter half of the 1990s, the United Nation agreed on sanctions against Iraq, but they were not implemented effectively. Changes in the political landscape after the first Gulf War made Democrats less resistant to the use of force, and allowed President Bush to take advantage of the mood of the country in pressing for war in Iraq.

3. There are two campaigns in the United States today. The first is the political race for president between President Bush and Senator Kerry. The second is the conflict between the views of the foreign policy elite and the antiwar position held by many voters. Although the outcome of this contest is unclear, current public opinion is divided, as it was on Vietnam in the early 1970s.
The stability of Iraq is an especially important problem for the international community.

General issues to be addressed in relation to global governance include: the policies of powerful states, the problem of failed states, prevention of terrorism and counter-terrorism efforts, “ethnic cleansing,” WMD proliferation, rogue states, and unilateral military action by the United States.

The second presentation was by Professor Amatzia Baram of Haifa University. He spoke on the topic of “Governance in Iraq: A Historical Perspective and Current Advice.” He commented on the role of the Iraqi military and the Sunni-Shiite conflict from the beginning of Hussein’s rule. Beyond current terrorism, he examined developments in Iraq from a long-term perspective. Professor Baram expressed strong appreciation for the role Japan is playing in the reconstruction effort.

The third presentation was by Professor Ryo Oshiba of Hitotsubashi University. He spoke on the theme of “New Threats and Global Governance: The Role of the United Nations.” First, he defined “new threats” to include WMD proliferation, terrorism, small arms, environmental destruction, and infectious diseases. He mentioned that the debate over intervention and the use of force is becoming more problematic. He also pointed out that actors in global governance, including the United Nations, regional bodies, countries, and local as well as transnational organizations, ought to build multi-layered structures for governance.

Open Discussion
Following the presentations, forum participants and members of the NIRA Study Group engaged in discussion. Next, the floor was opened to questions and comments from all attendants. After the discussion, Michiro Naruto, a special advisor to NIRA, offered some remarks. He spoke on three points: the lessons of the Iraq war, the erosion of national governance, and the relation between Japan and global governance.

During the open discussion, a variety of problems related to global governance were addressed. Among the problems were recent developments in U.S. policy on Iraq, Afghanistan, and North Korea. Panelists and participants exchanged views on the recent efforts of the international community to resolve these situations. Finally, Hirotsugu Koike, a Director at NIRA, closed the Forum.

Research output from the NIRA global governance research project will be available in March 2005, when the research project report and recommendations will be released.

(Takuya Imaizumi, Researcher, NIRA)
(Christopher Worth Kelly, former Visiting Research Fellow, NIRA)
natural gas and is acceptable to the countries concerned. This vision must include measures to protect the global environment, such as the Clean Development Mechanism (CDM).

Transportation and Logistics
To promote greater economic and social exchange in the region, transportation and logistics systems must be given urgent attention. The concepts of the Asian Highway and land bridges need further discussion, as do a diverse range of issues such as the concept of a high-speed rail network centered in Northeast China and the Korean Peninsula and an undersea tunnel between the Republic of Korea and Japan.

Strategic Development Clusters
To encourage economic development, numerous special zones, such as those at Tumen River, Rajin, Chongjin, Dandong and Sinuiju, have been established in the border areas of China, North and South Korea and Russia. In addition to these, it is likely that, with the advancement of energy and logistics projects, a range of possible locations for strategic development clusters will emerge in those cities or hubs on which the projects focus. The selection of areas to enable efficient and effective area development will require research to identify strategic key areas believed to possess significant potential for growth and to determine possibilities for networking. Such research must be based upon a comprehensive evaluation of both the location’s relevance to development projects and regional trends.

Necessity for a Common Platform for Each Country
Ultimately, the Grand Design for Northeast Asia must be a “multilateral comprehensive development vision” debated and agreed upon on the basis of a joint platform by representatives of the governments, research institutes and private enterprises of the nations of the region. To this end, the nations of Northeast Asia must attempt to achieve a consensus on a vision for the future by cooperating in the development of a common regional database, exchanging opinions to foster a shaped regional consciousness, and coordinating their respective comprehensive national development plans.

Given these requirements, NIRA wishes to build a network for the exchange of information and opinion among Northeast-Asian research institutions, focusing first on China and the Republic of Korea. In other words, NIRA proposes the creation of a “Consortium of Research Institutions for the Grand Design for Northeast Asia.”

Dr. Mohammad Farhandi, former Lead Energy Specialist, East Asia and the Pacific Region, World Bank, and Dr. Won-Suh Choo, Head, Center for Northeast Asian Studies, Korea Development Bank, also offered presentations at the forum.

In the other sessions, research reports concerning energy, transportation and logistics, tourism and e-trade were presented, and many new proposals were made concerning cooperative initiatives in Northeast Asia.

Articles related to this forum can be found in NIRA Newsletter No. 5 at http://www.nira.go.jp/pubj/newsletter/nn05.pdf.

(Hiroyuki Yasuda, Researcher, NIRA)
Fourth Japan-Russia Forum
Prospects for Japan-Russia Cooperation in the Globalizing Asia-Pacific Region

NIRA co-organized the fourth Japan-Russia Forum on October 20 and 21, 2004 in Kanazawa City, Ishikawa Prefecture, Japan with the Center for Strategic Research (Moscow). This was the first Forum held in Japan since its commencement in 2001. The Forum was supported on the Japanese side by the Ministry of Foreign Affairs, Ishikawa Prefecture, Kanazawa City, Nanao City, and the Neagari Town, and on the Russian side by the Ministry of Foreign Affairs, the Council of the Federation (upper chamber) and the Ministry of Economic Development and Trade. Approximately 40 experts from the two countries participated.

Background to the Forum
The Japan-Russia Forum came about as a result of an agreement between President Vladimir Putin and then Prime Minister Yoshiro Mori, in September 2000, that there should be increased efforts to explain the importance of concluding a peace treaty to the citizens of both nations. And then, the following year in January, at the Foreign Minister’s meeting, the decision was made to hold the Forum as a concrete step of the above agreement. The Forum’s importance was reaffirmed in the “Japan-Russia Action Plan” adopted by Prime Minister Junichiro Koizumi and President Putin, and at the Foreign Ministers’ meeting in 2004.

At the fourth Forum, the main themes were “Japan-Russia Relations that contribute to Peace and Stability in Northeast Asia—From Historical Perspective” and “Exchange between Japan and Siberia/the Russian Far East—From Irkutsk to Ishikawa.”

Keynote Addresses
The Japanese side keynote speaker Tatsuo Arima, Special Envoy of the Government of Japan, stated that 2005 is a historically significant year, being the 150th anniversary of the signing of the Treaty of Commerce, Navigation and Delimitation between Japan and Russia. Looking back over the history of the establishment of diplomatic relations, he strongly emphasized that it is essential to conclude a peace treaty for a dramatic development of Japan-Russia relations.

The Russian side keynote speaker Dmitry Mezentsev, Vice Chairman of the Council of the Federation, noted that relations between Japan and Russia are developing based on the “Japan-Russia Action Plan,” but said they are still below a satisfactory level. Further, he stated that Russia is also aware of the importance of concluding a peace treaty, and that it is important to develop relations between the two countries in all fields.

Session Content
In the first session, the strategic importance of relations between Japan and Russia and the necessity of a peace treaty in terms of developing relations between the two countries were discussed from the geographic and strategic viewpoint of peace and stability in Northeast Asia, and in the historical context of the 150th anniversary of the signing of the Treaty of Commerce, Navigation and Delimitation between Japan and Russia. The tremendous potential that exists in this region was also discussed from the perspectives of the significance of Japan-Russia relations within the Asia-Pacific region, the possibility of cooperation on anti-terrorist measures, and economic development in Siberia/the Russian Far East.

With regard to the key issue in Japan-Russia relations, the territories issue of the disputed islands, there was lively discussion of how the issue can be resolved in the context of the historical background, and the link between the conclusion of a peace treaty and dramatic development of Japan-Russia relations. It was, therefore, pointed out that further efforts should be made to explain the importance of a peace treaty to the people of both nations.

In the second session, there was discussion of exchange in a range of fields between Japan and Siberia/the Russian Far East. Panels from both sides indicated that in recent years there has been a steady flow of prominent figures traveling between Japan and this region of Russia, and also that Japanese corporations are showing much greater interest in this region. It was indicated that there is great potential for further development between Japan and Siberia/the Russian Far East in such areas as energy, tourism, transport and youth exchange.

Also, both sides expressed the opinion that an active regional exchange between Ishikawa Prefecture and Irkutsk Region will play a useful role in promoting mutual understanding between the people of both countries.

It was decided that the timing and venue for the Fifth Japan-Russia Forum will be organized in the near future.

Summing up the Forum
This year’s Forum featured some extremely significant and lively debate on the two main themes, and provided an opportunity to emphasize the importance of resolving the territories issue and then concluding a peace treaty. It is hoped that fresh momentum in resolving this issue will be generated in the lead up to President Putin’s visit to Japan, scheduled for early 2005.

(Kayo Sasaki, Senior Researcher, NIRA)
(Takuya Imaizumi, Researcher, NIRA)
NIRA Publications

NIRA’s World Directory of Think Tanks 2005

Every three years since 1993, NIRA’s Center for Policy Research Information has published NIRA’s World Directory of Think Tanks (NWDTT)—a comprehensive, in-depth, clear-cut almanac of the world’s prominent public policy research institutions and their research-focused activities and findings. The fifth edition of NWDTT will be released fairly early next year. For this forthcoming edition, nearly 320 policy research institutions from approximately 90 countries and regions worldwide have been carefully selected and clearly introduced. More than 10 new countries have been included since the previous edition, evidence of the steady expansion of the think tank community in democratic societies. The expanded scope of the directory also illustrates how much the world of think tanks has diversified, developing alongside the other actors and sectors in the broad apparatus of public policymaking. To effectively describe the course of this diversification, the 2005 edition will feature a completely revised page layout that makes both general outlines and details easy to find for interested readers—whether policymakers at various levels, scholars, practitioners, or any other informed citizen of the world.

Entering the new century, the social environment surrounding think tanks has been undergoing a multifaceted transformation, requiring each think tank to redefine its own roles and responsibilities in light of changing circumstances. In recent years, a wide range of heretofore unknown threats and problems have emerged, and think tanks must address these from a variety of different perspectives. Furthermore, in this age of global communications, domestic and overseas networking among think tanks has become increasingly important. Addressing these phenomena, the forthcoming edition will include an article that indicates the issues that have drawn the most attention and explains how these targeted research topics, as “policy magnet,” have become the core concerns of the network of think tanks, with special reference to situations in the United States, East Asia, and Europe. The article’s primary purpose is to offer a deeper conception of how think tanks today can be managed in corpore.

As such, NWDTT is a vital resource. Indeed, the directory is one of the finest reference resources in the fields of public policy and research. It is widely distributed and frequently referred to by leading researchers and practitioners throughout the world. In addition, in order to expand access to more potential supporters and facilitate a more universal exchange of ideas, we plan to develop an on-line database that will make all the data in the 2005 directory available in a user-friendly format at NIRA’s website.

Excerpts from the back cover of the new directory:

“NIRA’s World Directory of Think Tanks is indispensable. It provides in one location a comprehensive picture of the world’s leading research institutes. Its profiles are an invaluable resource for policy makers, the private sector, foundations, academics and all other users of the output from these centers. I heartily endorse this fifth edition and recommend it strongly to all those with an interest in the topic.”
– C. Fred Bergsten, Director, Institute for International Economics (IIE), USA

“The pattern of power and influence in today’s world is complex, with many kinds of non-state actors operating alongside traditional nations and institutions. Think tanks can inform, advise and support governments: but they also influence and mobilize opinion in other spheres such as the business world, the media and the general population. To be effective, however—just like anyone else—think tanks have to network, cooperate and seek synergy with one another. NIRA’s Directory helps them do this, just as it helps build optimal relations between all think tanks and the outside world.”
– Alyson J.K. Bailes, Director, Stockholm International Peace Research Institute (SIPRI), Sweden

(Tomoyuki Saito, Researcher, NIRA)
Since 1960, when the nation’s era of high economic growth was well underway, a large number of think tanks have been established in Japan to meet changing needs, with the full-fledged “age of the think tanks” said to have commenced around 1970. Since shortly after its establishment in 1974, NIRA has carried out an annual survey of think tanks in Japan as part of its commitment to collecting, organizing and making available information on research activities at these institutions. The results are published in the Almanac of Think Tanks in Japan. The latest edition (published December 2004) features outlines of 326 Japanese think tanks, and provides information on 4,239 research projects undertaken by these institutes.

NIRA also carries out a range of surveys on such topics as sources of research funding, status of finances, and development of human resources in order to obtain a clear picture of the current status and future direction of Japanese think tanks. In 2004, a survey was carried out on the topic of “Dissemination and Utilization of Information.” One characteristic of the Japanese “policy-making industry” became clear: research results cannot be widely disseminated because the majority of research is commissioned. Based on the results of this survey, suggestions have been made regarding such issues as clarification of content in the dissemination of information, methods of making positive and efficient use of electronic media, and improvement of infrastructure.

**JAPAN’S POLICYMAKING IN TRANSITION: Lessons from the American Legislative Experience**

This report is the culmination of a research project that draws heavily from the experience of Daniel Bob, a former visiting research fellow at NIRA. Mr. Bob’s previous service as a senior advisor to Senator William V. Roth, Jr. and senior staff member of both the Senate Finance Committee and Senate Governmental Affairs Committee put him at the center of U.S. government policy formation on a number of key issues. His experience, which he details in one of the report’s chapters, provides a basis for examining the role of Congress in U.S. policymaking. By including commentary from Thomas S. Foley, former Ambassador to Japan and former Speaker of the House, as well as other U.S. officials familiar with Japan and Members of Japan’s House of Councillors who understand the workings of the U.S. Congress, this report presents both U.S. and Japanese perspectives. It also offers many suggestions useful in considering the nature of policymaking in the Japanese Diet.

The National Institute for Research Advancement (NIRA) is an independent policy research body established on the initiative of leading figures from Japan’s industrial, academic and labor communities. The institute was set up in 1974 under the National Institute for Research Advancement Act and is funded through an endowment of capital contributions and donations from the public and private sectors. NIRA conducts research related to current and emerging issues in many fields, including politics, economics, international affairs, systems of local government and other social issues.

**What is NIRA?**

**Chairman**  Yotaro Kobayashi  
**President**  Takafusa Shioya  

NIRA Newsletter is published by  
National Institute for Research Advancement (NIRA)  
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