Japanese Approach to Growth Support and Dynamic Capacity Development

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Outline of Today’s Lecture

1. Japanese (and East Asian) perspectives of aid and development
   - Are they different from those of the West? If so, how and why?

2. Japanese approach to growth support and dynamic capacity development
   - What are key features?
   - Complementarity to the Western way

3. Examples of Japanese growth support
Japanese Perspectives of Aid and Development

- Non-Western donor, having “dual experiences” of aid and development (recipient and donor)
- Latecomer perspectives, based on its own catch-up experiences
  - Growth strategy with “real-sector concern”: trade, investment, industries, technology, human resources, etc.
  - Long-term perspective: development is a long-term undertaking and path-dependent in nature
  - Respect for each country’s uniqueness
  - Realistic and pragmatic approach in aid delivery

→ Aid for graduation (not for charity), self-help efforts
<table>
<thead>
<tr>
<th>World Politics</th>
<th>World Economy</th>
<th>History of Development Cooperation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1941-45</td>
<td>1944: IMF and WB established (Bretton Woods Institutions)</td>
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<td>1945-50</td>
<td>1947: Marshall Plan</td>
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<td>1956-60</td>
<td>1955: Japan war reparation (WW II)</td>
<td>1955-: Japan war reparation (WW II)</td>
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<tr>
<td>1998: India &amp; Pakistan Nuclear Tests</td>
<td>1997-00: Peak of Japan's ODA</td>
<td>1997-00: Peak of Japan's ODA</td>
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<tr>
<td>2001-05</td>
<td>2001: September 11</td>
<td>2000: UN Millennium Summit (MDGs)</td>
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<td>2016-10</td>
<td>2012: Rio+20 Summit</td>
<td>2012: Rio+20 Summit</td>
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History of Japan’s ODA Policy

1946-51: Received US foreign aid (GARIOA & EROA)
1953-66: Received World Bank loans
1991: Repayments to WB completed

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tr>
<td>1946</td>
<td>Colombo Plan membership</td>
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<tr>
<td>1954</td>
<td>OECD membership</td>
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<td>1964</td>
<td>OECD membership</td>
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ODA Doubling Plans: Surplus recycling (1977~88)

ODA Expansion: Linked to economic interest, “Fukuda Doctrine” (1964~76)

US-Japan Trade Frictions

End of Cold War

Debate on Defense Budget (1% ceiling of GDP)

1954: Colombo Plan membership

Exploring vision for the new era

Note: A bar chart indicating the volume of Japan’s ODA in net disbursements, indicated in US dollars.
Source: Elaborated by the author, based on the Ministry of Foreign Affairs and the Ministry of Finance
Philosophy of Japan’s ODA  
(ODA Charter, Cabinet Decision on Aug. 28, 2003)

- The most important philosophy of Japan’s ODA is to support the self-help efforts of developing countries based on good governance, by extending cooperation for their human resource development, institution building, and economic and social infrastructure building. 

- Japan will utilize its own experiences in economic and social development as well as in economic cooperation, fully taking into account the development policies and assistance needs of developing countries.
“Self-Help” Efforts: Meiji Japan Technology Transfer

1. Foreign advisors (public and private sector)

<table>
<thead>
<tr>
<th>Person</th>
<th>Position</th>
<th>Monthly salary</th>
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</thead>
<tbody>
<tr>
<td>Mr. Cargill</td>
<td>Advisor to the Railroad Dept., Ministry of Industry</td>
<td>2,000 yen</td>
</tr>
<tr>
<td>(British)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. Kindle</td>
<td>Advisor to the National Mint, Ministry of Finance</td>
<td>1,045 yen</td>
</tr>
<tr>
<td>(British)</td>
<td></td>
<td></td>
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<tr>
<td>Mr. Morrell</td>
<td>Advisor to the Railroad Dept., ministry of Industry</td>
<td>850 yen</td>
</tr>
<tr>
<td>(British)</td>
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<td></td>
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<tr>
<td>Mr. Kiplon</td>
<td>Advisor on the development of Hokkaido</td>
<td>833 yen</td>
</tr>
<tr>
<td>(American)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tomomi Iwakura</td>
<td>Udaijin (equivalent to Prime Minister); chief of Iwakura Mission to US and Europe</td>
<td>600 yen</td>
</tr>
</tbody>
</table>


2. Engineering education (studying abroad, Institute of Technology; technical high schools)

3. Copy production, reverse engineering, technical cooperation agreements (esp. automobiles, electrical machinery); *sogo shosha* (trading companies) often intermediated such cooperation

Post-War Japan as Aid Recipient

GARIOA-EROA Fund (Bilateral Aid)  
US$1.8bn (1946-51)

Loans (Multilateral Aid)  
US$860mn (1953-66)

Tokaido Shinkansen (Bullet Train)

Tokyo-Nagoya Expressway

Total of 31 infrastructure projects financed by World Bank (e.g., electric power plants, irrigation)

Equivalent to 12 trillion yen

Equivalent to 6 trillion yen

Repayment completed in July 1990

Japan’s miraculous economic recovery

Source: Ministry of Foreign Affairs and the World Bank
Examples of World Bank Loans to Japan

- Kurobe No.4 Hydroelectric Power Station: 1964
- Tokaido Shinkansen (Bullet Train) Line: 1964
- Tomei Expressway (Tokyo-Shizuoka section): 1963
- Tanagawa Thermal Power Station: 1953
- Signing Ceremony with the World Bank
- Public Water Project in Aichi Prefecture: 1957

Photos: World Bank Tokyo Office Website
ODA Comparison (1): Share of Economic Infrastructure (net disbursements)

Source: www.oecd.org/dac/stats
ODA Comparison (2): Grant Share of Bilateral ODA Commitment

Source: www.oecd.org/dac/stats
Poverty Reduction and Economic Growth

(1) **Direct channel**: Impacting the poor directly
   -- Basic services (health, education, water), rural infrastructure, etc.

(2) **Market channel**: Growth helps the poor via economic linkages (or “trickle down”)
   -- Inter-sectoral and inter-regional labor migration
   -- Increasing demand
   -- Re-investment, etc.

(3) **Policy channel**: Supplementing the market channel and guiding the development process toward greater equality
   -- Taxes, subsidies
   -- Fiscal transfer, public investment, infrastructure
   -- Micro and SME credit and other financial measures
   -- Proper design of trade and investment policies
   -- Pro-poor legal framework, etc.
Japanese Approach to Growth Support and Dynamic Capacity Development

-- What are key features?
-- Complementarity to the Western way
Shigeru Ishikawa
The British Model in Africa and the Japanese Model in East Asia

- Japanese aid is not based on the grand concept or theoretical system (like WB, UK, etc.)
- Japan has traditionally given aid, without policy conditionality, on a request basis to projects proposed by the recipient govt.
- Japan discusses and advises on the related development policies in a separate policy dialogue in which the two parties participate with independence and on equal footing. This has contributed to strengthening relationships of mutual trust.
- Skeptical about WB & IMF views that structural reform policies can transform a developing country into a market economy; and that the market mechanism will automatically take care of modernization and industrialization of an industrial structure.

There are two contrasting ways of understanding and analyzing economic development and structural adjustment.

In the “framework approach,” the central task of policy and institutional reforms is correcting distortions in the incentive scheme, defined by the policy environment and institutional arrangements.

By contrast, in the “ingredients approach,” policies and institutions are viewed as tangible inputs, like conventional factors of production, that shape the process of economic change.

“Framework” vs. “Ingredients” Approaches (cont.)

<table>
<thead>
<tr>
<th>Framework-oriented (West)</th>
<th>Ingredients-oriented (Japan and East Asia)</th>
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<tbody>
<tr>
<td>- Emphasis on the framework of an economic system and its management</td>
<td>- Emphasis on an economy as the sum of component parts</td>
</tr>
<tr>
<td>- Rules of the game according to which economic agents make decisions and take action in a given economy</td>
<td>- Tangible organizational units such as firms, official bureaus, industrial projects and their aggregations such as industries, sectors and regions</td>
</tr>
</tbody>
</table>

【Examples】Functions of the market mechanism; the principles of government intervention, budgets and public investment; monitoring and evaluation; administrative efficiency and accountability, etc.

【Examples】Technologies; factors of production; demand of trends, products and commodities; industrial structures; marketing and logistics efficiency in individual industries and regions, etc.

### (Example) Assistance to Infrastructure Development

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>Japan</th>
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<tbody>
<tr>
<td><strong>Emphasis</strong></td>
<td>● Innovation in infrastructure financing—local currency guarantee, project development facility for privately-financed infrastructure, reaching the poor, etc.</td>
<td>● Building roads and bridges, giving attention to location, design &amp; technology, durability, regional development</td>
</tr>
</tbody>
</table>
| **Modality of assistance** | ● Infrastructure Consortium for Africa (G8 level)  
● General or Sectoral Budget Support (infrastructure expenditure)  
● Implementing through int’l organizations (e.g., EU, WB, AfDB) and multi-donor facility (e.g., PIDG) | ● Project assistance  
● Aid agency staff involved in feasibility studies (F/S) and master plans (M/P) of infrastructure projects. |
Capacity Development (CD)

- To promote “self-help” efforts of developing countries to solve their own problems, Japan emphasizes cooperation toward comprehensive capacity development (CD) in such areas as human resource development and the design of policies and institutions--as well as the development of social and economic infrastructure.

Source: UNDP (2002)

CD as the process by which individuals, organizations, institutions, and societies develop “abilities” (individually and collectively) to perform functions, solve problems, and set and achieve objectives.

Source: UNDP (2002)
Capacity Development: JICA’s Views

- Outside actors cannot directly develop capacities in a partner country.
- Ownership by the partner is vital.
- Joint efforts with the participation of stakeholders in the partner country are important.
- Long-term commitment is required.
- Creating a sustainable mechanism after project completion.
- Systemic thinking and program approaches.
- A flexible approach responsive to the development needs and conditions of each country, issue, and sector.
- Measuring and evaluating the long-term CD process.

Knowledge Creation

Knowledge A → Knowledge A’
Transfer of Knowledge

Knowledge C

Knowledge A → Knowledge B
Donor

Knowledge Creation

Donor

Partner Country

Knowledge B

Knowledge A’

Partner Country

Source: Koji Makino, “JICA’s Capacity Development Concept and Activities in Tanzania” March 2007
Key Features of Japanese Approach to Growth Support

Pragmatism with real sector concern

- **Goal orientation**—striving for concrete vision, targets, roadmaps, and actions instead of general capability improvements.
- **Field (gemba) orientation**—working on factory floor or crop field to solve concrete problems.
- **Joint work**—transferring skills and knowledge to developing countries by working together (OJT); no parallel mechanisms.

*Dynamic capacity development*—step-by-step learning through concrete, hands-on-experience; and expectation of graduation from aid.
Policy Design: Desirability vs. Feasibility

- Development is both a political process and an economic process.

**What should be done**
- HRD & technology
- Infrastructure
- Integration & competition
- Systemic transition, etc

(mainly economics)

**What can be done**
- Leadership
- Political constraints
- Popular sentiment
- Administrative capacity

(mainly politics)

- Each country is unique in *what needs to be done* as well as *what can actually be done*.

- Any policy maker must work with economic and political space simultaneously.
Desirability vs. Feasibility (cont.)

- We need to figure out a policy sequence which is both desirable and feasible in each country context.
- Policy advice without feasibility consideration cannot be implemented regardless of whether proposed actions are a few or many, common or tailor-made. Examples: IMF conditionality, big-bang liberalization, privatization, good governance, growth diagnostics, etc.
- While developing countries are directly responsible for politics/feasibility, donors can offer aid and advice to help them overcome this problem from the sideline.
Good Governance
Worldwide Governance Indicators (WGI: Kaufman Index)

- WGI reports aggregate and individual governance indicators for 213 economies over the period 1996-2010 on the six dimensions of governance:
  (i) voice & accountability; (ii) political stability & lack of violence; (iii) government effectiveness; (iv) regulatory quality; (v) rule of law; (vi) control of corruption

- Compiled the responses on the quality of governance given by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries.

- A list of desirable qualities of government?

Source: World Bank WGI website, Methodology developed by Kaufmann, Kraay, and Mastruzzi
Economies are ranked on their ease of doing business, from 1-183. A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm.

<table>
<thead>
<tr>
<th>Economy</th>
<th>Ease of Doing Business Rank</th>
<th>Starting a Business</th>
<th>Dealing with Construction Permits</th>
<th>Getting Electricity</th>
<th>Registering Property</th>
<th>Getting Credits</th>
<th>Protecting Investors</th>
<th>Paying Taxes</th>
<th>Trading Across Borders</th>
<th>Enforcing Contracts</th>
<th>Resolving Insolvency</th>
</tr>
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<tbody>
<tr>
<td>Singapore</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>14</td>
<td>8</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>2</td>
<td>5</td>
<td>1</td>
<td>4</td>
<td>57</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>16</td>
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<tr>
<td>New Zealand</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>31</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>36</td>
<td>27</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td>United States</td>
<td>4</td>
<td>13</td>
<td>17</td>
<td>17</td>
<td>16</td>
<td>4</td>
<td>5</td>
<td>72</td>
<td>20</td>
<td>7</td>
<td>15</td>
</tr>
<tr>
<td>Denmark</td>
<td>5</td>
<td>31</td>
<td>10</td>
<td>13</td>
<td>11</td>
<td>24</td>
<td>29</td>
<td>14</td>
<td>7</td>
<td>32</td>
<td>9</td>
</tr>
<tr>
<td>Norway</td>
<td>6</td>
<td>41</td>
<td>60</td>
<td>68</td>
<td>1</td>
<td>10</td>
<td>24</td>
<td>27</td>
<td>9</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>7</td>
<td>19</td>
<td>22</td>
<td>60</td>
<td>68</td>
<td>1</td>
<td>10</td>
<td>24</td>
<td>13</td>
<td>21</td>
<td>6</td>
</tr>
<tr>
<td>Korea, Rep.</td>
<td>8</td>
<td>24</td>
<td>26</td>
<td>11</td>
<td>71</td>
<td>8</td>
<td>79</td>
<td>38</td>
<td>4</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Iceland</td>
<td>9</td>
<td>37</td>
<td>34</td>
<td>1</td>
<td>11</td>
<td>40</td>
<td>46</td>
<td>35</td>
<td>81</td>
<td>3</td>
<td>11</td>
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<tr>
<td>Ireland</td>
<td>10</td>
<td>13</td>
<td>27</td>
<td>90</td>
<td>81</td>
<td>8</td>
<td>5</td>
<td>5</td>
<td>21</td>
<td>62</td>
<td>10</td>
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Note: Top 10 countries are indicated among the 183 countries surveyed in June 2011.

Source: World Bank・IFC Doing Business Website
Growth Diagnostics (HRV Model)  
Hausmann, Rodrik and Velasco (2005)

- Washington Consensus does not work. Discover a small number of **most binding constraints** to growth in each country.
- **HRV Tree**—private investment is key to growth; inquiry starts with *low return* or *high cost of finance*, and the causes of each.
- Harvard, WB, DFID, AsDB, IDB etc. are conducting GD in many countries. Armenia, Baltics, Bangladesh, Beni Bolivia, Brazil, Cambodia, Egypt, Ethiopia, El Salvador, Guatemala, India, Jamaica, Liberia, Madagascar, Malawi, Mali, Mongolia, Nicaragua, Peru, Philippines, Rwanda, S. Africa Tanzania, Tajikistan, Thailand T. Tobago, Uganda, and others
Issues for Consideration
Good Governance, Doing Business, Growth Diagnostics, etc.

- Useful tools to understand the positioning of a country (benchmarking), compared to the others.
- Discovery of general weaknesses relative to global norm, instead of enhancing the country’s unique strengths.
- Search for desirable policies without considering political/administrative feasibility?
- Developing countries may need mechanisms for prescribing concrete policy actions, tailored to respective circumstances.

→ Can the Japanese (or East Asian) approach complement the Western way?
Dynamic Capacity Development
Improving capability with pride & hands-on experience

- Goal orientation: long-term vision ➔ phased strategies (“roadmap”) ➔ concrete action plans.
- Direct most effort to perfecting your strengths rather than correcting your general weaknesses.
- Reform government (improve efficiency and organization) to attain concrete policy targets (e.g., Japan under the Meiji era, S. Korea under President Park, P.R. China SEZ under Deng Xiaoping)
- Achieve successes one by one, and be proud.
- Eventually, graduate from aid and become a donor
Example: Latecomer Japan Beats British Textile Industry

1883 Establishment of Cotton Spinning Industry

**Target:** import substitution of cotton yarn (industrial input)

**Actors:** Eiichi Shibusawa (super business organizer)
Takeo Yamanobe (engineer studying in UK)

**Action:** establish **Osaka Spinning Co.** with sufficient scale and technical breakthrough

**Result:** instant success with a large number of followers; Japan overtakes UK as top textile exporter by early 20th century; The City of Osaka is called “Manchester of the Orient”
Example: Korea’s Export-Oriented Industrialization

- In July 1965, 13 items were selected for export promotion that were considered to be superior in terms of the effects on the international division of labor, the balance of payments, as well as, having spillover effects on other industries.
- For each of these industries, a deputy director (in the Ministry of Commerce and Industry) was tasked with providing financial and technical assistance.
- Monthly Export Promotion Meetings were also established in 1966, chaired by the President Park Chung-hee, with MCI serving as the secretariat. Attended by high-ranking government officials and business representatives, the meetings provided a forum to monitor progress and devise institutional innovations and solutions to emerging problems.

*From Despair to Hope: Economic Policymaking in Korea 1945-1979
A Memoir by Kim Chung-yum, KDI (2011)*

Monthly Export Promotion Meetings headed by President Park (in the late 60s)
Example: Pragmatism of Deng Xiaoping in China
(In power 1978-97)

- All for production increase rather than fighting for political ideology (cf. Mao, in power 1949-76)
- “Black Cat or White Cat” – capitalism (FDI) or socialism (SOEs) does not matter as long as it catches mice (increase production).
- Special Economic Zones – creating good business conditions in limited areas to receive investment.
- Trial-and-error and flexible adjustment (“Even try stock market and see”).
- “Some get rich first, others can follow later.”
How can Japan Support?
-- Examples of Japan’s Growth Support with Dynamic CD

(1) If the country already has a good strategy, mobilize aid for concrete projects to realize the existing vision to support that strategy

(2) Engage in long-term, open-ended policy dialogue (preferably followed by specific assistance).

(3) Build a core infrastructure with additional investments around it for comprehensive regional development
(1) Mobilizing Aid to Support Existing National Vision

Menu for industrial support is common. But, selectivity and adjustment are needed to adapt to unique conditions of each country. Japan has many aid tools for industrial support:

- Production and technology management
- Industrial human resource training
- Efficient logistics and marketing
- Infrastructure (esp. transport and power)
- Regional development planning
- Creating necessary laws, standards, institutions
- Removing negative impacts of industrialization
<table>
<thead>
<tr>
<th>Objective</th>
<th>Policy measure</th>
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</table>
| (1) Legal and policy framework | Provision of necessary laws and regulations  
Designation or creation of lead ministry/agency for priority policy  
Inter-ministerial coordination mechanism  
Effective public-private partnership (PPP)  
Policy structure consisting of vision, roadmap and action plan  
Monitoring and evaluation mechanism  
National standards for quality, safety, skills, environment, etc.  
Framework for technology transfer and intellectual property rights  
Industrial statistics and database  
Strategic mobilization of international cooperation |
| (2) Industrial human resource (education and training) | Technology and engineering universities and institutes  
Polytechnics and industrial colleges  
Technical support in specialized skills for engineers  
Technical and vocational training for new and/or current workers  
Subsidies and incentives for worker training  
Skill certification, competition, and awards |
| (3) Enterprise capability (management and technology) | Introduction of kaizen or productivity tools (5S, QC circles, elimination of muri and muda, suggestion box, just-in-time system, etc.)  
Benchmarking, business process re-engineering, and other management tools  
Management or technical advisory service (by visiting consultants, short-term)  
Enterprise diagnostic and advisory system (institutionalized shindan or technical extension services)  
Short-term courses and tours for entrepreneurs and managers  
Quality standards and certification, testing services and centers  
Awards and recognition for business excellence, productivity, competitiveness  
Subsidies & incentives for upgrading management, technology, marketing, ITC… |
| (4) Finance                  | Development financial institutions  
Subsidized commercial bank loans for targeted firms (two-step loans)  
Special loans and grants for priority products and activities  
Credit guarantee system  
Equipment leasing  
Enterprise credit information system  
Linking loans with enterprise diagnostic and advisory system (see (3) above) |
|----------------------------|----------------------------------------------------------------------------------|
| (5) FDI attraction          | Clear announcement of preferred investors, sectors, regions, etc.  
Effective investor information package and website  
Investment promotion seminars, missions and offices abroad  
Provision of high-quality infrastructure services (power, transport, land, water, waste water and solid waste treatment, etc)  
One-stop investor support service (both before and after investment)  
Development and management of industrial estates including EPZs, SEZs and special zones for priority sectors, high-tech firms, etc.  
Rental factories for local and/or foreign SMEs  
Support for labor recruitment, matching, housing, commuting, healthcare, etc.  
Negotiation and provision of special incentives for attracting targeted anchor firms |
| (6) Marketing and business linkage | Support for domestic and export market development  
Trade fairs and reverse trade fairs  
Enterprise database (SMEs, supporting industries, sectoral)  
Incentives and subsidies for FDI-local firm linkage and technology transfer  
Official promotion/intermediation of subcontracting  
Establishment and strengthening of industry/business associations and local firm networks |
| (7) Innovation               | Business start-up support  
Support for R&D, branding, patenting  
Business incubation centers  
Venture capital market  
Innovation clusters among industry, research institutes and government  
Incentives/subsidies for designated activities and products |
(2) Japan’s Policy Dialogue with Developing Countries

If the developmental vision is weak or if the nation wants to learn Eastern way, Japan can engage in policy dialogue for improving policies and building mutual trust & understanding:

- Intellectual cooperation between a developing country and an advanced one, held regularly over a few to several years with open and evolving agenda
- Joint formulation of a vision and policies, building on mutual trust and understanding
- Differ from technical assistance with narrowly prescribed ToR or standardized policy matrices
- Strong commitment of a national leader of a developing country is needed
Policy Dialogue (Examples)

- **Argentina** – Okita Mission, 1985-87; follow-up 1994-96
- **Vietnam** – Ishikawa Project, 1995-2001
- **Thailand** – *Mizutani Report* for upgrading SMEs and supporting industries, 1999
- **Indonesia** – Continuous Government-Business Policy Dialogue: *Urata Report* for SMEs, 2000; Prof. Shiraishi & Asanuma for financial crises, 2002-04
- **Mongolia** – Ueno, Hashimoto, 1998-2001
- **Myanmar** – Prof. Odaka, 1999- (not successful); new policy dialogue recently started
- **Laos** – Prof. Hara for overall development strategy, 2000-05
- **Ethiopia** – GRIPS-JICA, 2009-present, for kaizen & policy methods
Ishikawa Project in Vietnam
1995-2001

- Communist Party General Secretary Do Muoi requested Prof. Shigeru Ishikawa to study the Vietnamese economy. The bilateral project was agreed between two prime ministers.
- JICA mobilized a large number of scholars and consultants. Prof. Ishikawa emphasized the spirit of mutual respect and joint work (and a lot of patience).
- Into bilateral industrial actions: supporting industry promotion (2008-); new industrial strategy initiative (2011- )
Ishikawa Project in Vietnam

Vietnam = Transition economy + Underdevelopment

Tasks:
• Macroeconomic stabilization
• Structural adjustment (systemic transition to market economy)
• Long-term development strategy

Phase 1 (95.8-96.6)
- Macro-economy
- Fiscal and monetary policy
- Industrial policy
- Agricultural and rural development

Phase 2 (96.7-98.3)
- Fiscal and monetary policy
- Participation in AFTA/APEC/WTO and industrial policy
- Agricultural and rural development
- SOE reform

Follow-up Phase (98.7-99.7)
- General commentary
- Fiscal and monetary matters
- Industry and trade
- Agricultural and rural development

Phase 3 (99.9-01.3)
- General commentary
- Fiscal and financial reform
- Trade and industry
- Agricultural and rural development
- SOE reform and private sector development

Joint research (2001- )
- Agriculture and rural development (livestock, vegetable, fruits and industrial crops, etc.)
- Monetary policy under partial dollarization
- Fiscal policy (introduction of personal income tax)
- Trade and industrial policies in the age of integration (NEU-JICA joint research program ➔ GRIPS-VDF)


Ethiopia-Japan Industrial Policy Dialogue


**Kaizen (JICA support)**
- **Phase 1 (2009-11)**—30 pilot firms improved
- **Phase 2 (2011-14)**—EKI established, 249 firms coached, a total of 409 kaizen consultants trained
- **Phase 3 (2015-2019)**—advanced kaizen

**Policy dialogue (by GRIPS & JICA)**
- 14 sessions held so far with PM, ministers & operational level. Also, letter exchange, policy proposals & third country missions.
- Study concrete cases in Asia & Africa, and propose pragmatic policies based on Ethiopian reality.
- JICA cooperation to facilitate implementation.

**Kaizen**, in Japanese management, means “continuous improvement” of productivity and quality without additional cost, in a participatory process and a bottom-up approach.
Industrial Policy Dialogue (Phase II)

Content of Dialogue

1. Policy Vision, Mechanism for Policy Formulation & Implementation
   Medium-and long-term industrial strategy vision, policy framework, policy planning system and the role of thinktank, high-level policy coordination mechanism, etc.

2. Five-Year Plan: Support to the Implementation of the Current GTP
   Customer-oriented export promotion, strategic investment attraction, technology transfer, comparative analysis of East Asian experiences, etc.

3. Five-Year Plan: Support to the Formulation of the Next GTP
   Issues to be included in the next GTP (industry chapter and competitiveness chapter), Vision for becoming an African leader of light manufacturing (goals and indicators, policy scope, action plan, etc.), mainstreaming Kaizen, etc.

Features of Cooperation

- Bi-annual policy dialogue
- Process-oriented approach, with flexible response and inputs
- Pragmatic advices from East Asian perspectives
- Multi-layered channels of communication with policymakers
- Comprehensive dialogue from policy vision to individual projects
- Joint work based on trustful partnership

GTP: Growth and Transformation Plan 2010/11-2014/15, EKI: Ethiopia Kaizen Institute
Industrial Policy Dialogue & Kaizen

**Preparation**
- Africa Taskforce Meeting Jul. 2008

**Phase 1 (2009-11)**
- Final session May 2011

**JICA’s Industrial Cooperation**
- Metal industry survey (With Germany)

**Kaizen Phase 1**
- (30 pilot companies) (With Germany)

**Phase 2 (2012-15)**
- Start Jan. 2012
- TICAD V
- PM Abe visit Malaysia mission
- Next session Aug. 2015

**Kaizen Phase 2**
- (Institution & human resource)
- Champion Products
- Branding & promotion

**Phase 3 (Advanced level)**

Note: Black boxes indicate three-level policy dialogue in Addis Ababa (PM, ministers, operational level).
Malaysia-Zambia Cooperation: Triangle of Hope (TOH)

- JICA implemented “Triangle of Hope” Project during 2006-09 to support the improvement of business environment in Zambia.
- Dato Jegathesan was Deputy DG of the Malaysia Industrial Development Authority (MIDA), under ex-Prime Minister Mahathir.
- TOH project formulated 12 concrete policy recommendations, and catalyzed Malaysian investment in Zambia (a cedular company).
- Currently, JICA is supporting capacity development of Zambia Development Authority (ZDA).
(3) Regional Development with Core Infrastructure

- Large infrastructure such as roads, ports and power has broad effects.
- Policies and aid should be organized around core infrastructure for maximum impact.
Regional Development with Core Infrastructure (Examples)

- **Greater Mekong Subregion** – East-West and North-South Corridors for development of Indochina
- **Thailand** – Eastern Seaboard: creation of industrial zones around a port infrastructure
- **Indonesia** – Brantas River Basin development
- **Vietnam** – Highway No.5 (Hanoi – Haiphong Port) for FDI attraction (industrial clusters)
- **Cambodia** – Sihanoukville Port, power and telecom networks, special economic zone
- **El Salvador** – La Union Port + regional development
- **India** – Delhi-Mumbai Industrial Corridor for FDI attraction (industrial zone, PPP infrastructure)
- **Mozambique** – Nacala Corridor for regional development
Greater Mekong Sub-region
East-West Economic Corridor

The Vision for GMS in Southeast Asia
(Source: JBIC)
Indonesia: Brantas River Basin Development:
Regional development around hydropower and irrigation

(Source: JBIC)
El Salvador: Growth Diagnostics vs. Japan’s ODA

- **Hausmann-Rodrik Growth Diagnostics 2003**: The largest constraint in El Salvador is the lack of self-discovery caused by market failure (low appropriability). Infrastructure is not a binding constraint.

- **Local Report 2008 (FUSADES)**: Our infrastructure is best in Central America and we are already a regional hub, but we can do even better by handling trade more efficiently. This will raise our productivity and competitiveness. For this purpose, infrastructure, especially *La Union Port*, is essential.

- **Japanese ODA in El Salvador**: Upgrade *La Union Port* as key infrastructure. Additional support for social & HRD, productive sectors, Eastern Region development, and regional integration.
The Vision: Strengthening El Salvador’s Position as a Regional Transport Hub

- Airport already a regional hub (built by Japan 28 years ago)
- Central American Highway link
- Pacific-Atlantic link via Panama Canal – El Salvador as a regional feeder
- However, La Union Port is low capacity
  ➔ Build a new port with sufficient capacity and services
Components of Japan’s ODA in El Salvador (ongoing)

KEY INFRASTRUCTURE
- Construction of La Union Port
- Rebuilding an old bridge (Honduras border)
- Digital map technology for efficient planning
- Urban development planning for La Union City

Social & Human RD
- MEGATEC La Union (training center)
- Primary schools & math
- Clean water
- Rural electrification
- Solid waste control

Support for Productive Sectors
- SME promotion
- Aquaculture
- Small-scale agriculture
- Reservoirs & irrigation
- Small-scale livestock

Eastern Region Development
- La Union Port
- Plan Puebla Panama
- CAFTA & other FTAs
- Cent. Amer. integration
- M/P for Eastern Region
Regional Development with Core Infrastructure (Examples)

- **Greater Mekong Subregion** – East-West and North-South Corridors for development of Indochina
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- **Mozambique** – Nacala Corridor for regional development
Mozambique is JICA’s target country in Africa for regional development approach: Nacala Corridor, agriculture development (with Brazil), productive sector support, road maintenance, etc.
Integrated regional development in Nacala Corridor, Mozambique

- [Loan] Montepuez-Lichinga Road Project
  (2007.03 E/N signed, 3,282 million JPY)

- [Survey/Loan] Nampula-Cuamba Road Upgrading Project
  (2010.03 E/N signed, 5,978 million JPY)

- [Survey/Grant Aid] The Project for Construction of Bridges of the Road between Ilé and Cuamba

- [Survey/Grant Aid] The Project for Construction of the Cuamba Teacher Training Center
  (2007.06 E/N signed, 998 million JPY)

- [Survey/Grant Aid] The Project for Improvement of 20 Secondary Schools in the Northern Region

Source: Ministry of Foreign Affairs, TICAD IV
Annual Progress Report 2010
Conclusion (1): The Western and East Asian Ways

- There are differences btw. the Western and the East Asian approaches to development.
- Major difference is about the *methodology* (in a broad sense) of designing and implementing policies unique to each country.
- Ample scope exists for Japan to complement the current international growth support, by incorporating the East Asian way.
- Japan should also collaborate with East Asian emerging donors to disseminate such perspectives.
Conclusion (2): Dynamic Capacity Development Approach

- Building new competitiveness from the country’s strengths, not correcting general weaknesses.
- Goal-oriented approach—vision, phased strategies, concrete action plans
- Focus effort strategically—rather than general improvement without clear goals
- Stop abstract thinking and start concrete action
- Donor-recipient policy dialogue for trust, knowledge sharing, and joint strategy formulation
- Long-term open-ended engagement


