Implementing TICAD IV Growth Agenda


“Support African countries to plan and implement industrial development strategies and policies, drawing on Asian experiences as appropriate.”

How do we concretize this?
- Selection of target countries & sectors
- Tokyo must prepare mechanism, personnel & budget to implement this initiative
- Work closely with other donors, businesses, academics, NPOs, international organizations (Japan’s knowledge and resources in Africa are too small)
Exploring Japan’s New Entry Points

- If valid national development vision and strategies exist, support them with **concrete industrial projects** (HRD, technology, quality improvement, infrastructure)
- **Continuous policy dialogue** for joint drafting of strategies and mobilizing aid & private resources
- Building **core infrastructure** and aligning various development programs to it
- Using ODA to **facilitate large FDI projects**
  - **Debate:** resource-based mega projects vs. local SME development

What is the East Asian Experience?

- Not blindly copying policies adopted in East Asia in the past to African countries (out of context and unlikely to work).
- Not discovering a standard “East Asian model” applicable to all African countries.
- It should be a **methodology** (in a broad sense) to design and implement policies unique to each country.
  - **What is the East Asian way of designing and implementing policies?**
Policy Design: Desirability vs. Feasibility

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

<table>
<thead>
<tr>
<th>What should be done</th>
<th>What can be done</th>
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<tr>
<td>HRD &amp; technology</td>
<td>Leadership</td>
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<tr>
<td>Infrastructure</td>
<td>Political constraints</td>
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<tr>
<td>Integration &amp; competition</td>
<td>Popular sentiment</td>
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<tr>
<td>Systemic transition, etc</td>
<td>Administrative capacity</td>
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(mainly economics)                    (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.

Policy Design (cont.)

- Policy advice without feasibility consideration cannot be implemented—regardless of whether proposed actions are a few or many, common or tailor-made. Eg. macro conditionality, liberalization, privatization, external opening, governance, growth diagnostics, etc.
- We need to figure out a policy sequence which is both desirable and feasible in each country’s context.
- While the government is directly responsible for politics, outsiders can indirectly & implicitly assist in overcoming political problems.
Good Governance?
Worldwide Governance Indicators (Kaufman Index)

- Causality? (growth ↔ governance)
- Feasibility of a long menu of institutional changes and capacity-building initiatives?
- No guidance on what specifically needs to be done in the real world context:
  - Merilee Grindle: “good enough” governance
  - Mushtaq Khan: “growth-enhancing” governance capability
  - Y. Shimomura: “endogenous” good governance elements
- East Asian high performers did not (do not) score high in Kaufman Index.

Growth Diagnostics (HRV Model)?
Hausmann, Rodrik and Velasco (2005)

- 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, etc. are conducting GD in many countries:
  Armenia, Baltics, Bangladesh, Benin, Bolivia, Brazil, Cambodia, Egypt, Ethiopia, El Salvador, Guatemala, India, Jamaica, Liberia, Madagascar, Malawi, Mali, Mongolia, Morocco, Nicaragua, Peru, Philippines, Rwanda, S. Africa, Tanzania, Tajikistan, Thailand, T. Tobago, Uganda, and others
Problem: low levels of private investment and entrepreneurship

\[ \frac{\alpha}{\beta} = \frac{1}{b} = \sigma (1 - \tau) - \rho \]

Low return to economic activity  
High cost of finance

Low social returns  
Low appropriability

Bad international finance  
Bad local finance

Government failures  
Market failures

Information externalities "self-discovery"  
Coordination failures

Poor geography  
Bad infrastructure

Low human capital  
Micro risks: property rights, corruption, taxes

Macro risks: financial, monetary, fiscal instability

Low domestic saving  
Poor intermediation

Problems with Growth Diagnostics

- Search for desirable policies without considering political/administrative feasibility (a few or many, common or unique – secondary issues).
- Discovery of general weaknesses relative to global norm instead of enhancing the country’s unique strengths (do you need to be “average” in all aspects before launching a development strategy?)
- Diagnostics only—no clear mechanism for prescribing concrete actions (the task is left to policy makers).
How to Cope with Economics-Politics Nexus

- **Joint research in economics & political science?**
  - Fine for academics but not much use for policy makers (too abstract for operational use)

- **Policy-capability matching? (WDR97)**
  Improve institutions/governance before attempting difficult policies (such as selective industrial policy)
  - Too broad and without focus; difficult to put into practice or mobilize political support

- **Dynamic capacity development**
  Improve ability through selective hands-on experience—clear goals, focused effort, trials and errors, cumulative sense of achievement

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More on Dynamic Capacity Development

- **Goal orientation:** long-term vision ➔ phased strategies ➔ concrete action plans.
- Direct most effort to perfecting your strengths rather than correcting your general weaknesses (don't worry too much about Kaufman index or investors’ ranking).
- Stop abstract thinking and start concrete action
  - **No**—Is industrial policy useful? What is the role of state?
  - **Yes**—Let's build this port & industrial zone successfully, etc.
- Achieve successes one by one, and be proud.
- Top leaders: take political risk and responsibility to move things fast forward.
A Comparison of East and West

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<th>East Asian</th>
<th>Traditional</th>
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<tr>
<td>Purpose</td>
<td>Enhance strengths to create competitiveness</td>
<td>Find weaknesses relative to norm, and correct them</td>
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<tr>
<td>Selectivity</td>
<td>Future vision, phased strategies, concrete actions to achieve goals</td>
<td>Improve governance, institutions etc. generally (let market do the rest)</td>
</tr>
<tr>
<td>Time frame</td>
<td>Patient; build trust through long-term engagement</td>
<td>Short-term implementation and frequent reviews</td>
</tr>
<tr>
<td>Modality</td>
<td>Hands-on experience, less talk or writing</td>
<td>Emphasize framework, monitoring, dissemination</td>
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How Donors Can Help

- If the country already has valid policy vision and strategies, **align assistance** to realize and improve them.
- If not, engage in **long-term, open-ended policy dialogue** for self-discovery and strategy formulation (preferably followed by specific ODA and other assistance).
- Build a **core infrastructure** and align aid and investments around it through donor coordination and private-public partnership.
Aligning Industrial Support to Existing Vision & Strategies

The case of Ethiopia:
- Very strong ownership and clear leadership vision
- Policy already in place since the 1990s: ADLI – industrial strategy – medium-term strategies – annual plans
- UNIDO, Italy, Gtz already assisting leather & footwear, HRD

Japan can also offer concrete projects such as:
- Shindanshi (enterprise evaluator) system
- Quality control & productivity (5S, kaizen, just-in-time, etc)
- Specific technical support (dyeing, steaming, tanning, etc)
- Environmental control
- Explain concrete E. Asian experiences (alternative methods & organizations for action plan design and monitoring, etc)

Japan’s Policy Dialogue with Developing Countries
- **Argentina** – Okita Mission 1985-87; 1994-96 (follow up)
- **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, 2002-04 (post-Asian crisis)
- **Laos** – Prof. Hara for overall development strategy, 2000-05
- **Myanmar** – Prof. Odaka, 1999-2002 (but failed)
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).

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)

Vietnam = Transition economy + Underdevelopment

Advising on the drafting process of the 6th Five-Year Plan
- General commentary
- Fiscal and monetary policy
- Industrial policy
- Agricultural and rural development

Advice on the implementation issues of the 6th Five-Year Plan, including participation in AFTA/APEC/WTO and industrial policy

Advice on the emerging issues arising from the East Asian crisis and the economic integration process

Advice on the formulation of the 7th Five-Year Plan

Follow-up:


Policy Dialogue in Africa?  
The Case of Zambia

- JICA is conducting “Triangle of Hope” Project 2006-09 (improving investment climate) mobilizing a Malaysian consultant under new methodology.
- As a next step, Zambia wants Japan to help formulate a long-term industrial strategy.
- Our proposal:
  (i) Create strong super-secretariat under President
  (ii) Learn E Asian way through studies, seminars etc (1 year)
  (iii) Draft **Zambia Industrialization Strategy** with JICA support (2 years)

Japanese Assistance for Core Infrastructure

- **Greater Mekong Subregion** – East-West and North-South Corridors for development of Indochina
- **Thailand** – Eastern Seaboard: creation of industrial zones around a port infrastructure
- **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
- **Mozambique** (planned) – Nacala Port and Corridor for regional development
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
The Vision for GMS in Southeast Asia
(Source: JBIC)

The Vision for Nacala Corridor in Mozambique
(Source: JBIC)
Conclusion: East Asian Policy Engagement

- Building new competitiveness from the country’s strengths, not correcting general weaknesses.
- Goal-oriented approach—vision, phased strategies, concrete action plans.
- Focus effort strategically—don’t waste time in general improvement without clear goals.
- Donor-recipient policy dialogue for trust, knowledge transfer, and strategy formulation.