



# **Organizational Arrangements for Industrial Policy Formulation & Implementation**

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## **Examples from East Asia**

Izumi Ohno, Sept. 2009  
GRIPS Development Forum



# Ethiopia's Vision, Strategies, and Plans

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- ADLI
- Long-term strategies (IDS, RDS, CBS, MSE, etc.)
- PASDEP (5-year Development Plan: 05/6-10/11)
- Sector plans: RSDP I-III, HSDP I-III, ESDP I-III, WSDP, etc.
  - Covering the whole sector
  - Revised periodically; mechanism for constant review & adjustments embedded
- Industry: 1) MOTI's 5-year strategic plan for the PASDEP period, 2) MP for "priority" sectors
  - The scope for improvement exists to provide medium-term industry-wide policy (@First HLF discussions, June 2, 2009)



# Sector Differences in Plan Formulation

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- Industry sector (productive sector) faces different challenges from social/ infrastructure sectors in plan formulation because of:
  - Not public-expenditure intensive
  - Need to work with private agents
  - Importance of incentives, regulatory framework, etc. (different from public service delivery – costing-based)
  - Multi-sector (incl. agriculture, infrastructure, skill development, science & technology), requiring inter-sectoral coordination

Cf. Mick Foster 2001 (ex-DFID, ODI): difficulty of agriculture Sector-wide Approach

- The forthcoming PASDEP revision provides an important opportunity to enhance industrial policy formulation



# Outline of the Presentation

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1. Organizational arrangements: East Asian examples
  - Industrial vision and policy formulation and implementation
  - Special mechanisms for executing high-priority programs

--Key perspectives: (i) inter-ministerial coordination; and (ii) stakeholder involvement

--Japan, South Korea, Malaysia, Thailand
2. Implications for Ethiopia

# **Organizational Arrangements: East Asian examples**

# Alliance between Leadership and Technocrat Team in East Asia

	Leadership Type	Technocrat Teams	Development & Industrial Vision Formulation
Japan (late 50s-70s)	Organizational leadership	MOF, EPA, MITI (super-ministry for industrial policy)	Economic and physical plans for vision sharing; industry-specific policies
S. Korea (60s-70s)	Strong personal leadership	EPB (super-ministry)	5-year plans and plans for targeted industries
Malaysia (80s-90s)	Strong personal leadership	Prime Minister's Dept. esp., EPU (super-ministry)	Vision 2020, 5-year plans; and Industrial Master Plans (IMP)
Thailand (80s)	Organizational leadership	Core macro-economic agencies (no super-ministry)	5-year plans; no industry-wide plan (except after financial crisis)



# Govt.-Business Partnerships: Experiences from East Asia

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- Large volume of high-quality information flow btw. govt.-business
- Govt. initiatives in operational management of policy networks and monitoring
- Existence of mutual confidence, making predictions and commitments credible
- The nature of govt.-business coordination has evolved, as the private sector grows
  - From govt.-led to private-sector led mechanisms for resolving specific problems



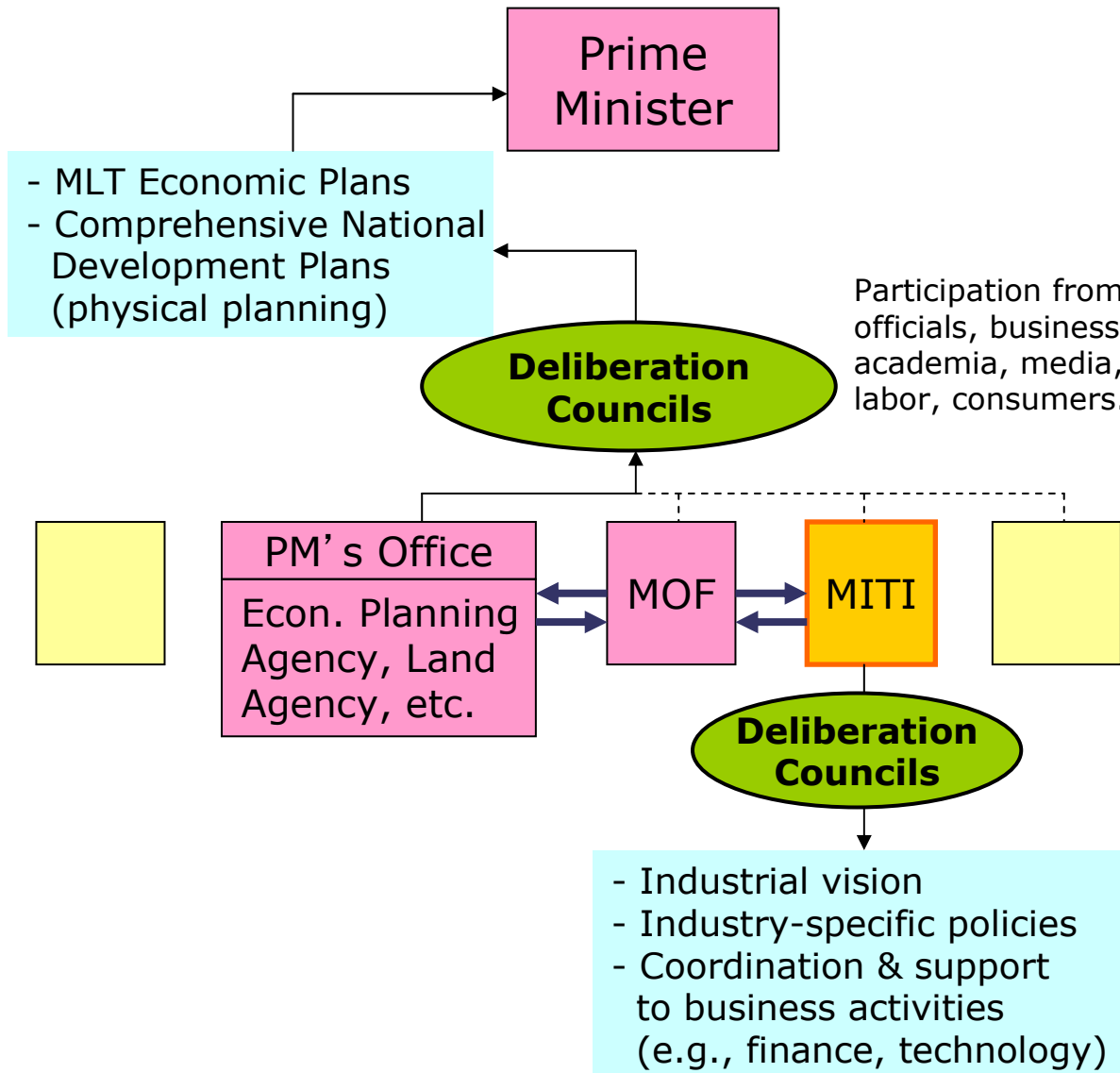
# Vision and Industrial Policy Formulation & Implementation

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- Effective industrial policy formulation requires:
  - Constructive and continuous contacts with businesses;
  - Mechanism to frequently review and flexibly adjust policy implementation; and
  - Inter-ministerial coordination mechanism
- Not all E. Asian countries formulate industry-wide policy; but, they have mechanisms for sharing industrial vision.
- Many E. Asian countries have devised centralized coordination mechanisms and instruments:
  - Deliberation councils
  - Steering committees (national, sectoral), working groups & special task forces
  - Govt.- business forums
  - Industry & function-specific “institutes”, etc.



# Japan (late 50s-70s): Development and Industrial Vision Formulation

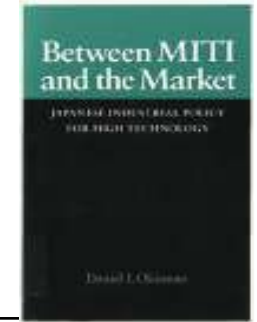


- Organizational leadership
- No single super-ministry
- Govt. formulating MLT economic and physical plans via deliberation councils
- MITI serving as super-ministry for industrial policy



# MITI as Super-Ministry for Industrial Policy: Japan (late 50s-70s)

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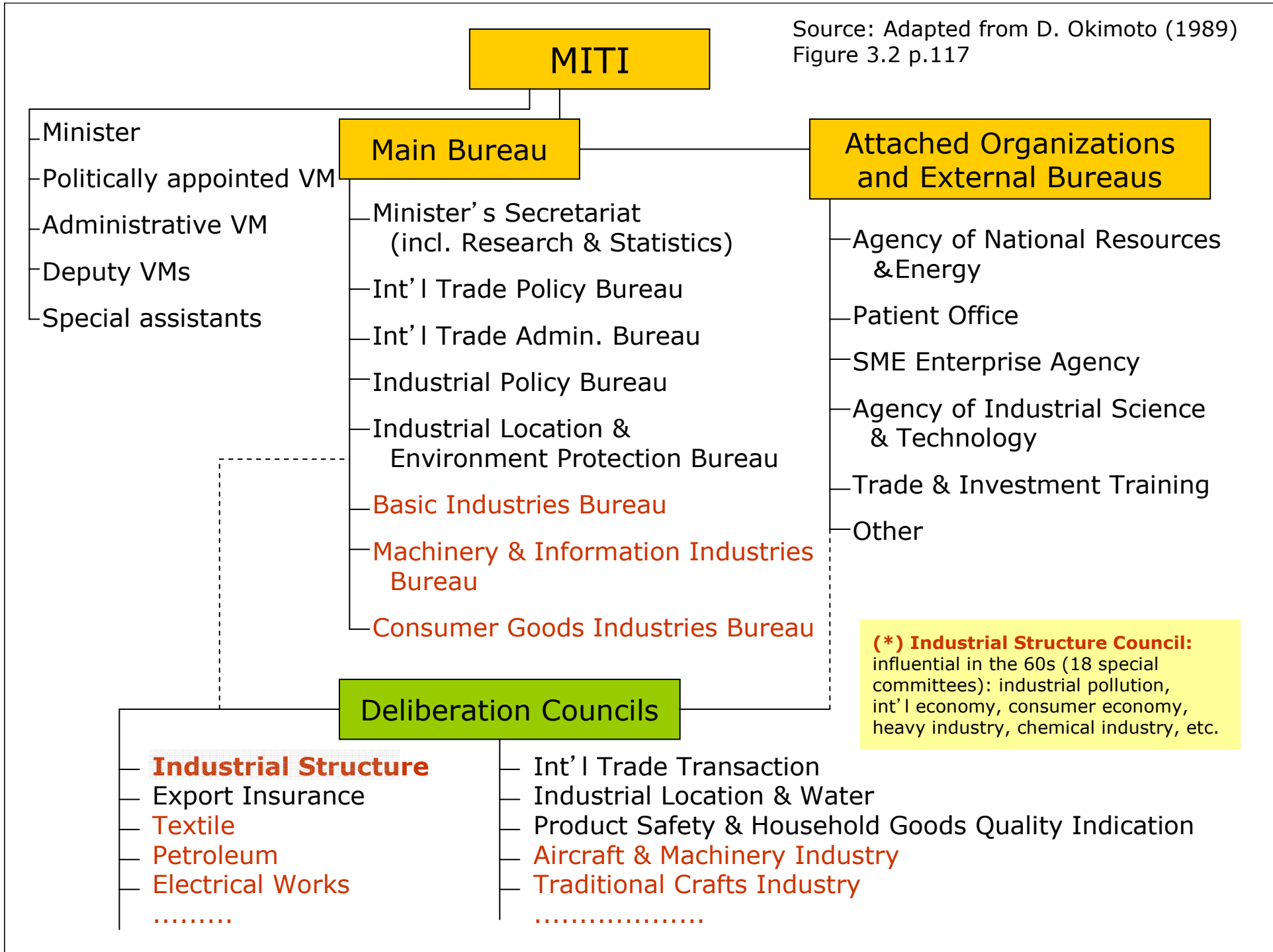


- Ministry of International Trade & Industry, MITI (now, METI) as a super-ministry for industrial policy
  - Extraordinary broad jurisdiction encompassing from SME to petroleum refining
  - Organization into vertical (industry-specific) and horizontal (functional or cross-industrial) bureaus
  - A bottom-up approach to policy-making, with power concentrated at the level of deputy division director
  - Capacity to work in harmony with the private sector (e.g., through **Deliberation Councils**)

[Okimoto 1989]

Cf. US (fragmented machinery): Depts. of Commerce, Defense, Energy, State, USTR, Congress, White House

Source: Adapted from D. Okimoto (1989)  
Figure 3.2 p.117



**(\*) Industrial Structure Council:**  
influential in the 60s (18 special committees): industrial pollution, int'l economy, consumer economy, heavy industry, chemical industry, etc.

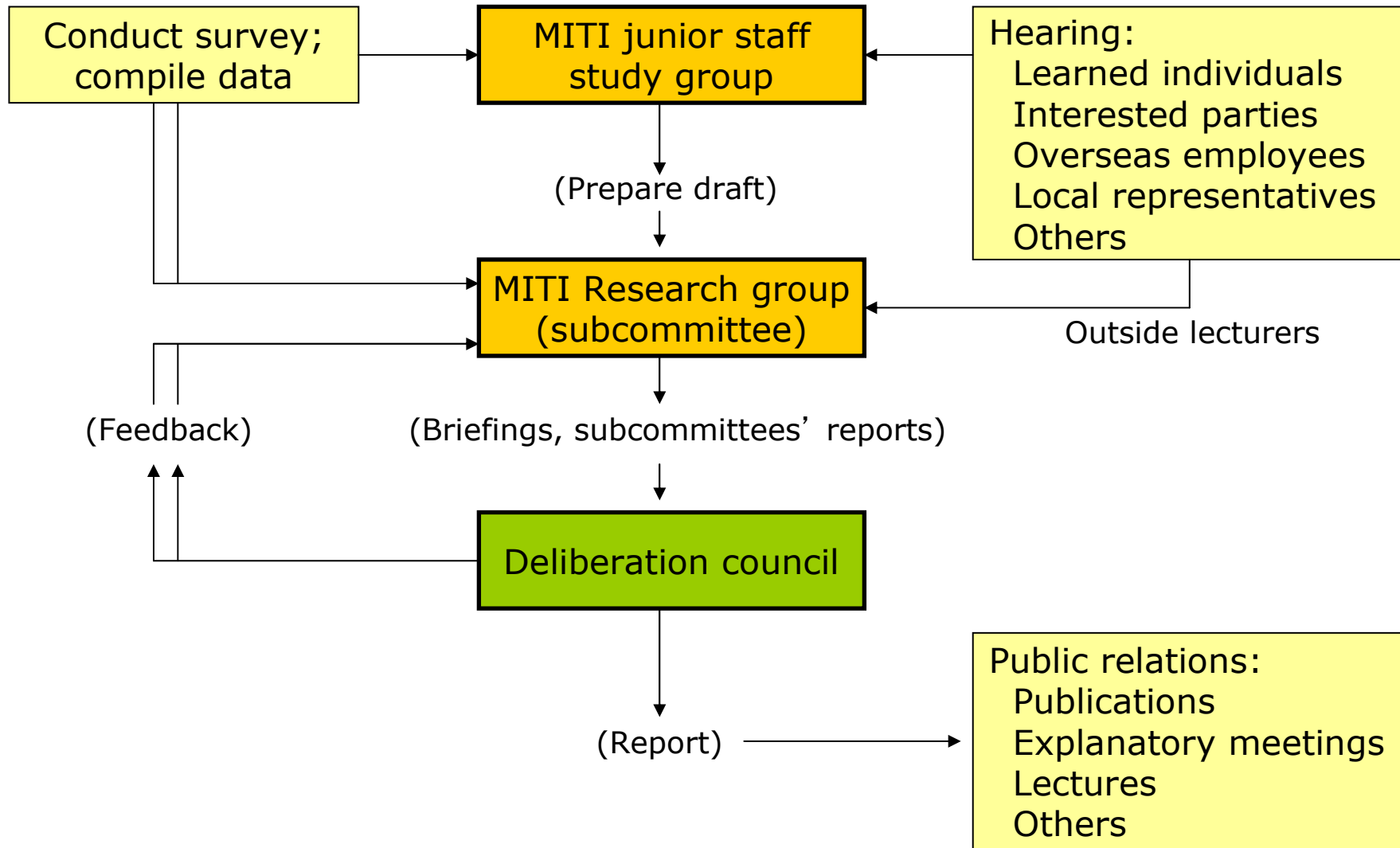


# Deliberation Councils and Bottom-up Approach: Japan (late 50s- )

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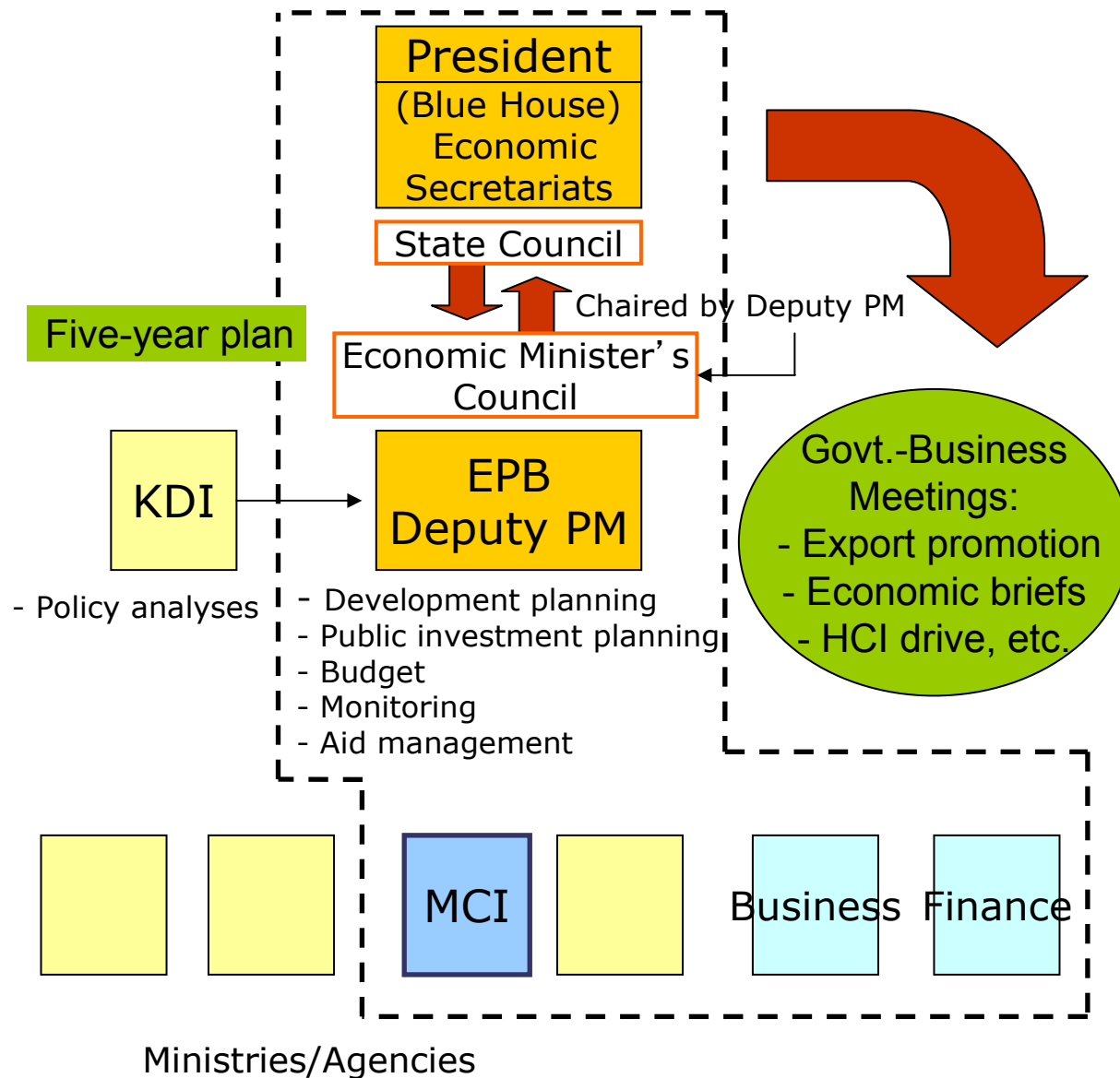
- DC used by MITI extensively:
  - Vision formation, industrial policy planning, specific problem-solving, information sharing, etc.
  - Two types: 1) functional, 2) industry-specific
  - Members: MITI officials, business, academia, the press (and in some cases, labor and consumers)
- **Bottom-up approach, consensus-building respected**
  - Key roles of MITI deputy division director (center of communication flows within/outside MITI); and junior staff (survey & information gathering)
- MITI's role was to coordinate and support private sector activities, rather than dictating them

# Industrial Vision Formulation and the Deliberation Council



Source: Ono (1992)

# South Korea (60s-70s): Development Vision and Govt.-Business Partnerships



- Direct presidential control over economic policies
- EPB as super-ministry
- Research institute (KDI, etc.), providing analysis for MLT economic policies
- Govt.-business: very close & cooperative relations
- Performance-based rewards & penalties



## EPB as Super Ministry and Top-Down Approach: South Korea (60s-70s)

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- Rapid economic development and national security as the overriding objective
- Top-down approach: strong leadership (esp., President Park), providing visions and policy direction
- Economic Planning Board (EPB) as a super-ministry: headed by Deputy PM, reporting directly to the President
  - Integrate development planning, fiscal control, aid management, overall policy coordination & monitoring
  - Research institutes (e.g., KDI), providing policy analyses to EPB
- Govt.-managed policy networks and monitoring of business
  - Various meetings with business, performance-based incentives, special prizes & medals, risk sharing, etc.



# Leadership Vision and Inter-Ministerial Coordination: Malaysia (80s-90s)

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PM provided LT vision and direction for changes; and policy formulation and implementation were conducted via. multi-layered, inter-ministerial coordination

## **Prime Minister & PM' s Dept.**

- PM Mahathir' s initiative to renovate direction for economic policies and institutional arrangements (pro-Malay to strategic partnership with business)
  - Learning from the “Look East Policy” (1981)
- The Vision 2020, announced by PM at the first Malaysian Business Council (1991)
- Institutionalized the Malaysia Inc. Vision

## **Ministry of International Trade & Industry**

- Industrial Master Plan (IMP) 2 (1996-2005) to implement the Vision 2020
- Various initiatives to implement IMP2



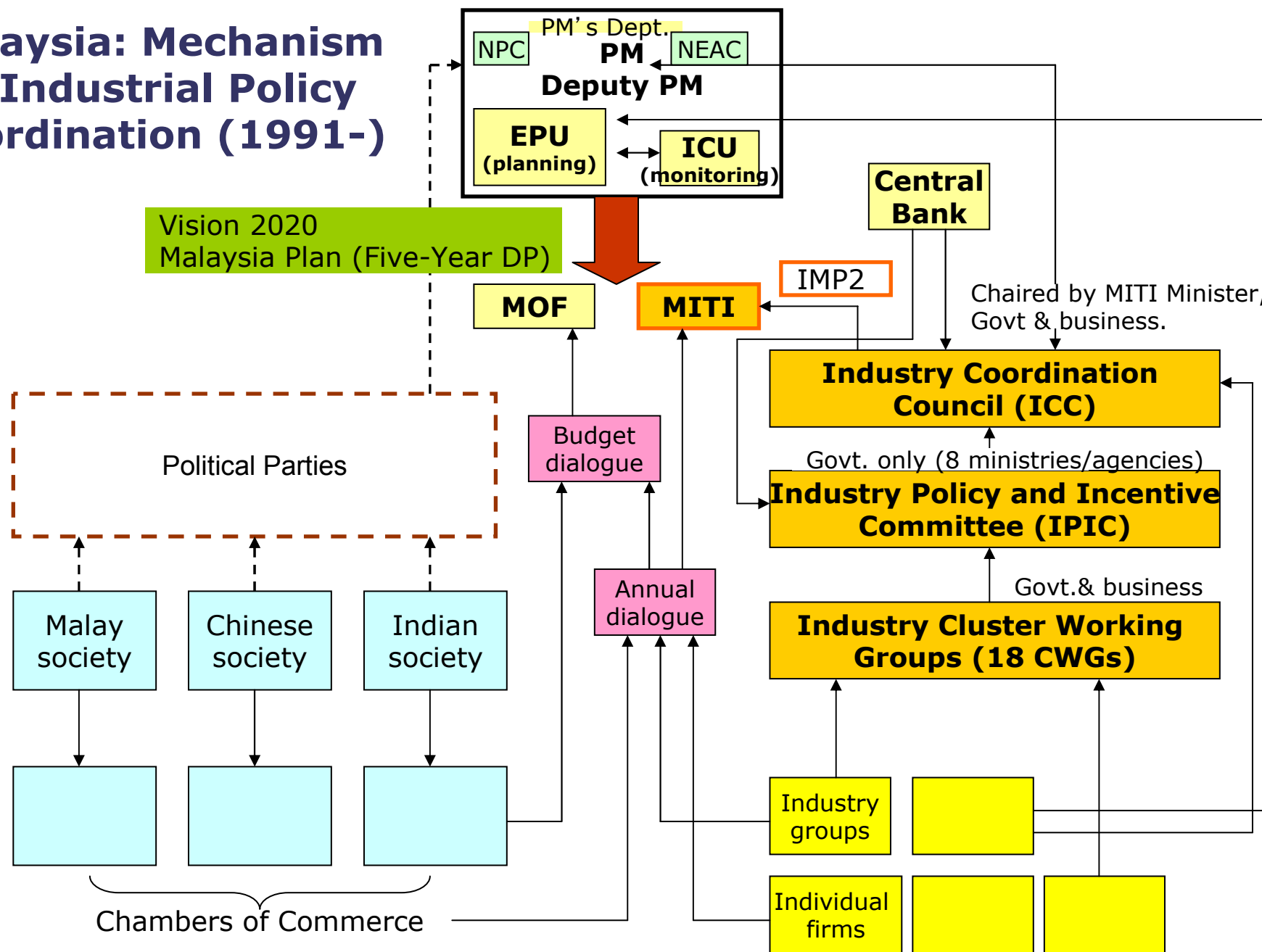


## Multi-layered Model: Industrial Master Plan 2 (90s)

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- IMP2 (1996-2005): Industry-wide master plan to attain the Vision 2020. Implementation supported by:
- Industrial Coordination Council (ICC), chaired by MITI Minister
  - Members: 8 officials from MITI, EPU, MOF, CB, related economic ministries (PS levels), 15 business representatives (Chamber of Commerce, FMM, major industrial associations)
  - Monitor the IMP2 progress and examine problems suggested by IPIC, CWGs
- Industrial Policy and Incentive Committee (IPIC)
  - Members: officials only (8 ministries/agencies)
- Public-Private Cluster WG (18 CWGs) and Strategic Thrust and Initiative Task Force (STITF)
  - Focusing on 18 targeted industrial clusters and cross-cutting issues
  - Participation of the private sector

# Malaysia: Mechanism for Industrial Policy Coordination (1991-)



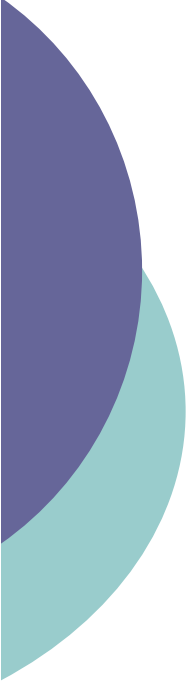
Source: Adapted from Takashi Torii, "Mahathir's Developmentalism and Implementation Mechanism: Malaysia Incorporated Policy and BCIC," ch.4, Higashi (2000), pp. 166, Figure 2.



## Multi-layered Model: Malaysia Incorporated (90s)

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- Institutionalizing govt.-business consultative bodies for policy coordination
- Malaysian Business Council (MBC) (91)
  - Chaired by PM Mahathir; organized by PM's Dept.
  - Members: 10 ministers, 10 officials, 55 business representatives (modeled on the Korean Monthly Export Promotion Meetings)
  - Facilitated direct communication among big business, labor and the PM
- Malaysia Inc. Officials' Committee (93)
  - Chaired by the Chief Cabinet Secretary of PM's Dept.
  - Members: govt. officials, business associations and business leaders (modeled on Japan's govt.-business relations)
- All govt. branches, federal states were requested to establish govt.- business councils and annual forums



## Industrial Restructuring Plan (IRP): Thailand (late 90s)

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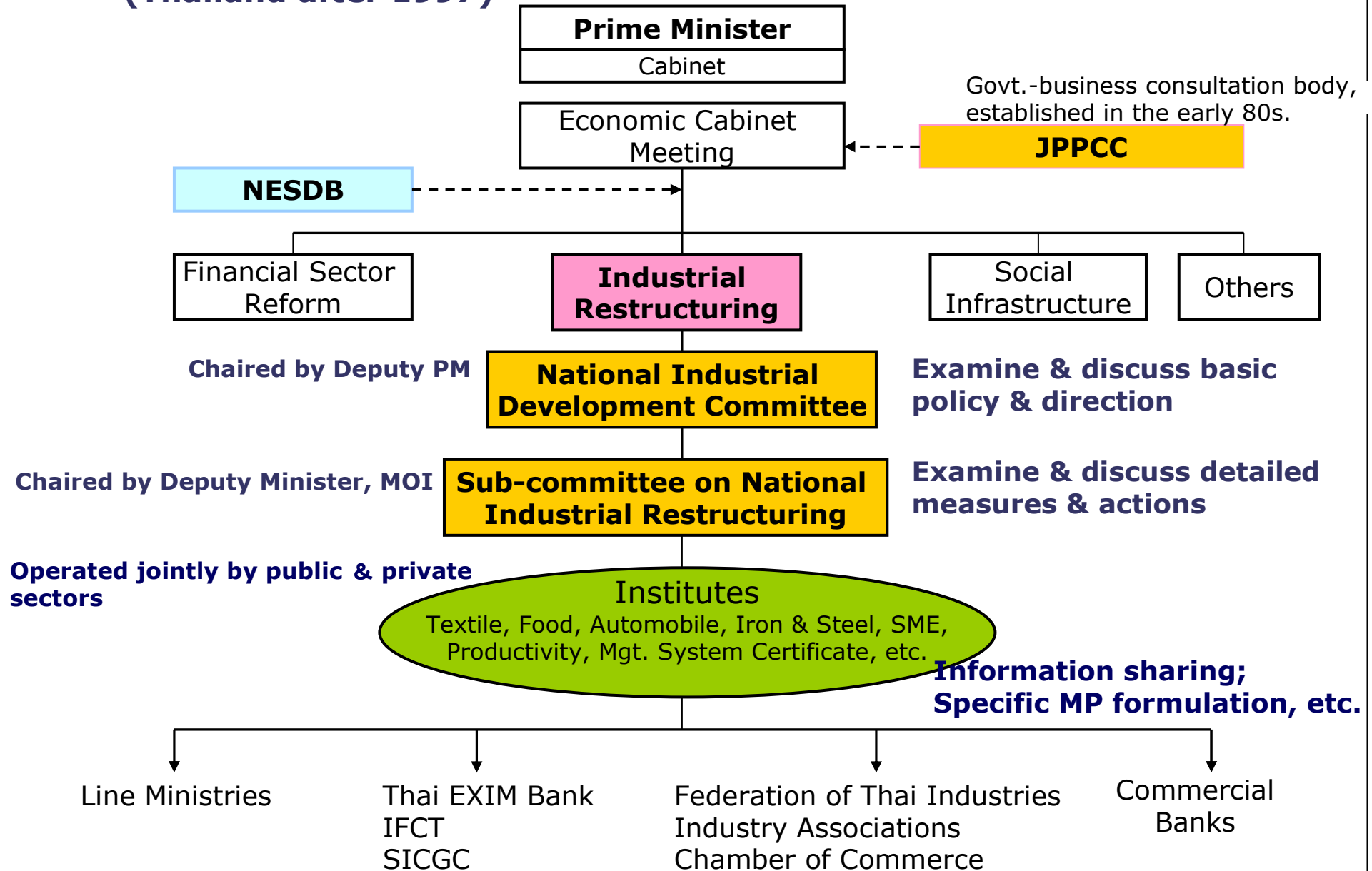
The Industrial Restructuring Plan (IRP, 98-02) formulated at the time of financial crisis, via Steering Committees. (Usually, Thai govt. has no industry-wide policy.)

- National Industrial Development Committee, chaired by Deputy PM; managed by MOI with members from related ministries, business, academia.
- Sub-committee on National Industrial Restructuring (IRP drafting), chaired by Deputy Minister MOI
- Implemented with SAL financing (WB, ADB), but under Thailand's strong ownership.

8 programs (for 13 industries) designed, incl. productivity improvement, technological upgrading, skill development.

- Institutes (6 industries; 4 thematic) created as a hub of information & consultation, drafting industry/issue-specific policy measures, etc.
  - Operated and financed jointly by public & business (some institutes originated from MOI depts.)

# Mechanism for IRP Formulation and Implementation (Thailand after 1997)



Source: Shigeki Higashi "Industry: Business and Government in a Changing Economic Structure"  
ch.3, Suehiro & Higashi (2000), p.166. Figure 3 a

## Thailand: “Institutes” created as part of IRP (as of Oct. 1999)

Name	Start-up Date	Organizations
Thailand Productivity Institute	June 1995	Originated from MOI industry promotion dept. 20 Board members, 161 staff.
Thai-German Institute	Nov. 1995	Financial cooperation from KfW, GDC. Technical training (CNC, CAM/CAD, etc.), 12 Board members, 79 staff, 5 German experts.
Thailand Textile Institute	June 1997	Based on MOI industry promotion dept. and industry association. 20 Board members, 27 staff.
National Food Institute (NFI)	Oct. 1996	Based on MOI industry promotion dept. and industry association. 20 Board members, 27 staff.
Management Systems Certification Institute (MSCI)	March 1999	Originated from Thai Industrial Standard Institute (TISI). 14 Board members, 55 staff.
Thailand Automotive Institute (TAI)	April 1999	Supporting industry development. 20 Board members, 28 staff
Electrical & Electronics Institute (EEI)	Feb. 1999	Supporting industry development. 29 Board members, 28 staff.
Foundation for Cane & Sugar Research Institute	April 1999	Originated from Cane & Sugar Research Institute. 13 Board members.
Institute for SME Development	June 1999	Modeled on Japan’s SME Univ. Operated by Thammasat Univ. in cooperation with 8 local universities. 21 Board members.
The Iron & Steel Institute of Thailand	Dec. 1998 (cabinet approval)	Aimed at joint marketing promotion of four steel companies (oversupply)

Source: Higashi (2000)



# Special Mechanisms for Executing High-Priority Programs

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- Some E. Asian countries established Special Task Forces and Steering Committees to plan and monitor the implementation of flagship programs
- Closely supervised by top leaders, with the secretariat given strong authority to manage:
  - Inter-ministerial coordination
  - Stakeholder interactions
- Combination of “top-down” and “bottom-up” approaches
  - Gathering high-quality information; linking it to decision-making
  - Rapid problem-solving mechanisms



# Export-Drive: South Korea (60s-70s)

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- **Monthly Export Promotion Meetings**, as the most important communication channels
  - Chaired by President Park
  - Members: economic ministers, business association leaders, governors of financial institutions, major export enterprises
  - Monitor the achievements of export targets; coordinating measures to eliminate impediments to export growth
  - Mutual responsibilities: ministries are ordered to take measures and report at the next meeting. ↔ Business are rewarded, based on export performance
- **Monthly Economic Briefings**
  - Chaired by President Park; managed by EPB
  - Members: President, all ministers, EPB, business leaders, representatives of financial institutions





# HCI Drive: South Korea (1973-79)

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- High-priority in the Third Five-Year DP (targets set until Fifth Five-Year DP)
  - Heavy and Chemical Industry (HCI): 6 strategic industries -- industrial machinery, shipbuilding, electronics, steel, petrochemicals, etc.
- HCI Promotion Committee (73)
  - Chaired by President Park; equivalent to State Council
  - Members: Prime Minister, Presidential Secretary for Economic Affairs, 6 ministers (EPB, MCI, MOF, MOE, MOST, MOC)
- HCI Planning Team (Special Task Force):
  - Managed by the Blue House (headed by Presidential Secretary for Economic Affairs)
  - Members: economic secretariats of the Blue House, MTI, EPB, MOF, MCI
- Financial and fiscal incentives: National Investment Fund, tax incentives, tariff reduction, etc.
- Macroeconomic implications? -- driven by the Blue House and MCI (rather than EPB and MOF)



## Steering Committees for High-Priority Programs: Thailand (80s)

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- In Thailand, close coordination among macro economic agencies has been key for macro stability, contributing to private sector development.
    - the existence of Sino-Thai families involved in business & banks
  - But, coordination between macroeconomic and sector agencies has not been strong.
- PM Prem (80-88) focused on three priorities, and established national committees:
    - Eastern Seaboard Development Program Committee (ESDC)
    - Joint Public-Private Consultative Committee (JPCCC), as the first, formal govt.- business forum in the country
    - Rural Development Committee
  - These were chaired by PM Prem; managed by the National Economic and Social Development Board (NESDB) responsible for development planning.

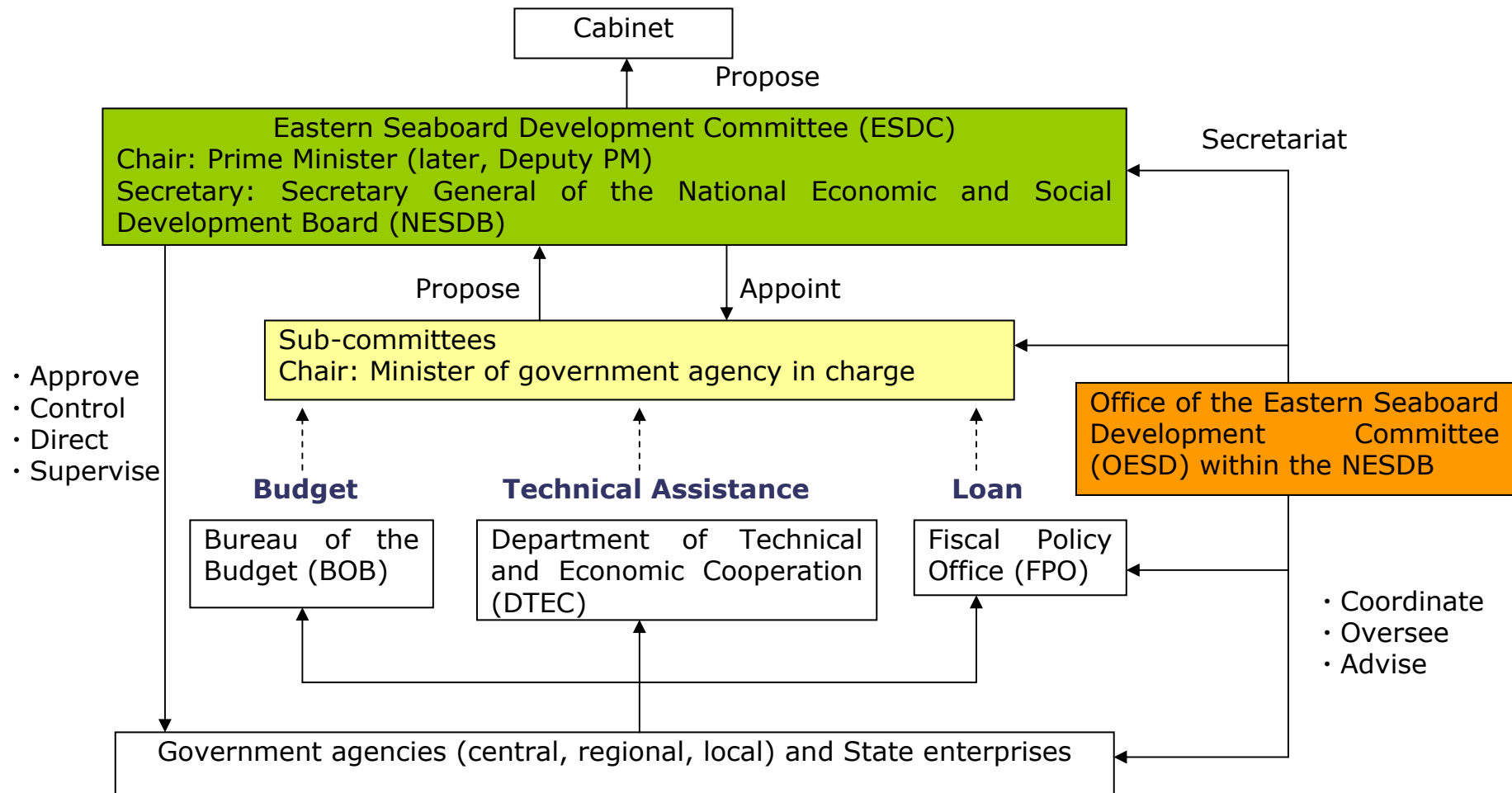


# Eastern Seaboard Development Program: Thailand (80s)

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- High-priority program in the Fifth & Sixth DPs; comprehensive regional development with large-scale infrastructure investments & industrial zones
- Cabinet-level, national committee: **Eastern Seaboard Development Committee (ESDC)**
  - Chaired by PM Prem and managed by SG of NESDB; *de facto*, “fast track” mechanism
- Secretariat created in NESDB (headed by Deputy SG): **Office of Eastern Seaboard Development (OESB)**
  - Competent staff recruited from the ministries concerned
- **Sub-committees**
  - Chaired by minister of the government agency in charge
  - ESB regional development, chemical fertilizer, petro-chemical, and education & social development
- Mechanism for pursuing “strategic use of donor assistance” incorporated

# Overview of the coordination and decision making mechanisms



Source: Masumi Shimamura -- drawn upon provisions from the Regulations of the Office of the Prime Minister Governing the Eastern Seaboard Development (1985) and information provided by NESDB, TICA, BOB, FPO, PDMO and MOI to the GRIPS team

# **Implications for Ethiopia**



# Achievements

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- 1) GOE has already built mechanisms for implementing the Industrial Development Strategy (IDS).
  - **Monthly Export Steering Committee**
    - Chaired by PM; managed by MOTI
    - Members: chief economic adviser & representatives from economic ministries concerned
    - Monitor the achievements of export targets and take measures to eliminate constraints for export growth
  - **Regular sectoral forums**
    - Chaired and managed by MOTI
    - Meetings with respective industry associations (e.g., textile & garments, LLPTI, agro-processing, horticulture, pepper)
    - Establish annual and monthly export targets of the respective sectors



# Achievements

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- MOTI, organized around “priority” industries to implement the IDS
  - Industry-specific “Development Centers” (e.g., textile & leather industry, metal products) and Depts. (agro-processing, chemical industry): acting as a hub of formulating & implementing sectoral MP, monitoring business performance, supporting problem-solving, preparing reports to the Monthly Export Steering Committee
  - Technology Institutes (e.g., LLPTI, TAI): providing technical advices to firms, mobilizing donor support, etc.



# Achievements

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- 2) GOE has devised instruments for gathering information on the problems faced by the private sector
  - Dialogues with Chambers of Commerce (national & local levels)
    - National Business Forum (annual), with PM participation
    - National Public-Private Dialogue (bi-annual)
    - Issue-specific working groups & technical groups
  - PSD Hub: research and analyses for private sector development
  - PSD Sector/Technical Working Groups
    - Aid coordination; govt.-donor consultations

Source: Based on GRIPS team's interviews with MOTI, PSD Hub, Addis Ababa Chamber of Commerce in Addis Ababa in October 2008.





# Challenges

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- Mechanism for constantly reviewing & adjusting industry-wide
  - Ongoing discussions on possible expansion of policy scope; “second-generation” of industrial policy (WB, Prof. Rodrik, etc.)
  - Coping with unexpected shocks, e.g., world financial crisis
- Mechanism for involving various stakeholders
  - Not only business, but also, research institutes, experts & academicians
- Mechanism for addressing functional, or cross-cutting issues (in addition to industry-specific issues)



# Challenges

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- Mechanism for strengthening inter-ministerial coordination, esp. among MOTI, MOFED and MOARD

## **[Examples of issues]**

- MOTI's inputs to relevant chapter of next PASDEP
- Agro-industry MP formulation
- Integrated Agro Food Parks
- Growth Corridors, linking agro-ecological potentials with infrastructure & markets, etc.



## Possibilities

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- How can our bilateral policy dialogue contribute?
  - High Level Forum
  - Policy Dialogue Steering Committee
- Expanding the role of MOTI' s “Development Centers”?
- Using the experiences gained from ECBP?

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