

The Quality of Industrial Policy

As a Determinant of Middle Income Traps and How
Government Can Improve It



**Policy Design and Formulation in Developing
Countries**

Nations Are Not Equal, and Policy Learning Is Critical

- Development performance differs greatly across nations. Some quickly reach high income while others slow down or stagnate at low or middle income.
- In my view, this fundamentally reflects differences in **private dynamism** and **policy quality**—not amounts of aid, trade, FDI, natural resources; not even colonial history or difficulties at the time of independence.
- Nations must learn **mindset** (heart) and **method** (brain) to attain high growth. Active and wise policy is needed.
- If you don't know how to learn policies, **international comparison**, **attention to details** and **proper tutoring** by foreign experts are recommended methods.

Learning to Industrialize: From Given Growth to Policy- aided Value Creation

By Kenichi Ohno Routledge (2014)
[Open Access \(free download\)](#)

This book proposes a pragmatic way of economic development which features policy learning based on a comparison of international best practices. Countries wanting to adopt effective industrial strategies but not knowing where to start will benefit greatly by the ideas and hands-on examples presented.

Policy learning experiences in Meiji Japan, Singapore, Taiwan, Malaysia, Vietnam and Ethiopia are discussed in concrete detail.

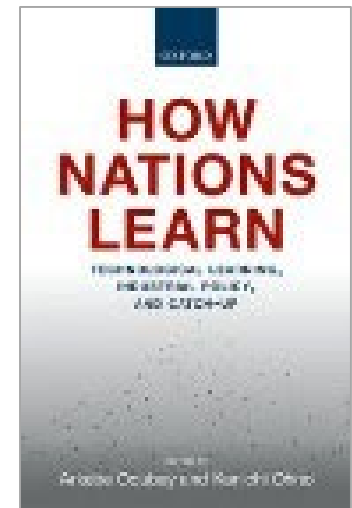


How Nations Learn: Techno- logical Learning, Industrial Policy, and Catch-up

Edited by Arkebe Oqubay & Kenichi Ohno
Oxford University Press (2019)

Middle-income economies are many, but very few have risen to attain truly high income and technology leadership. The book examines key structural and contingent factors that contribute to dynamic learning and catch-up.

Rejecting both the “one-size-fits-all” approach and the agnosticism that all nations are unique and different, it uses historical as well as firm, sector and country evidence to identify the sources and drivers of successful learning.



Working Hypothesis

Hypothesis—The lack of quality in industrial policy is the main cause of a middle income trap (or any other long-term growth problem).

Corollary—High-quality policy that actively supports private sector's value creation is required to escape the trap. Freeing and opening markets is not enough.

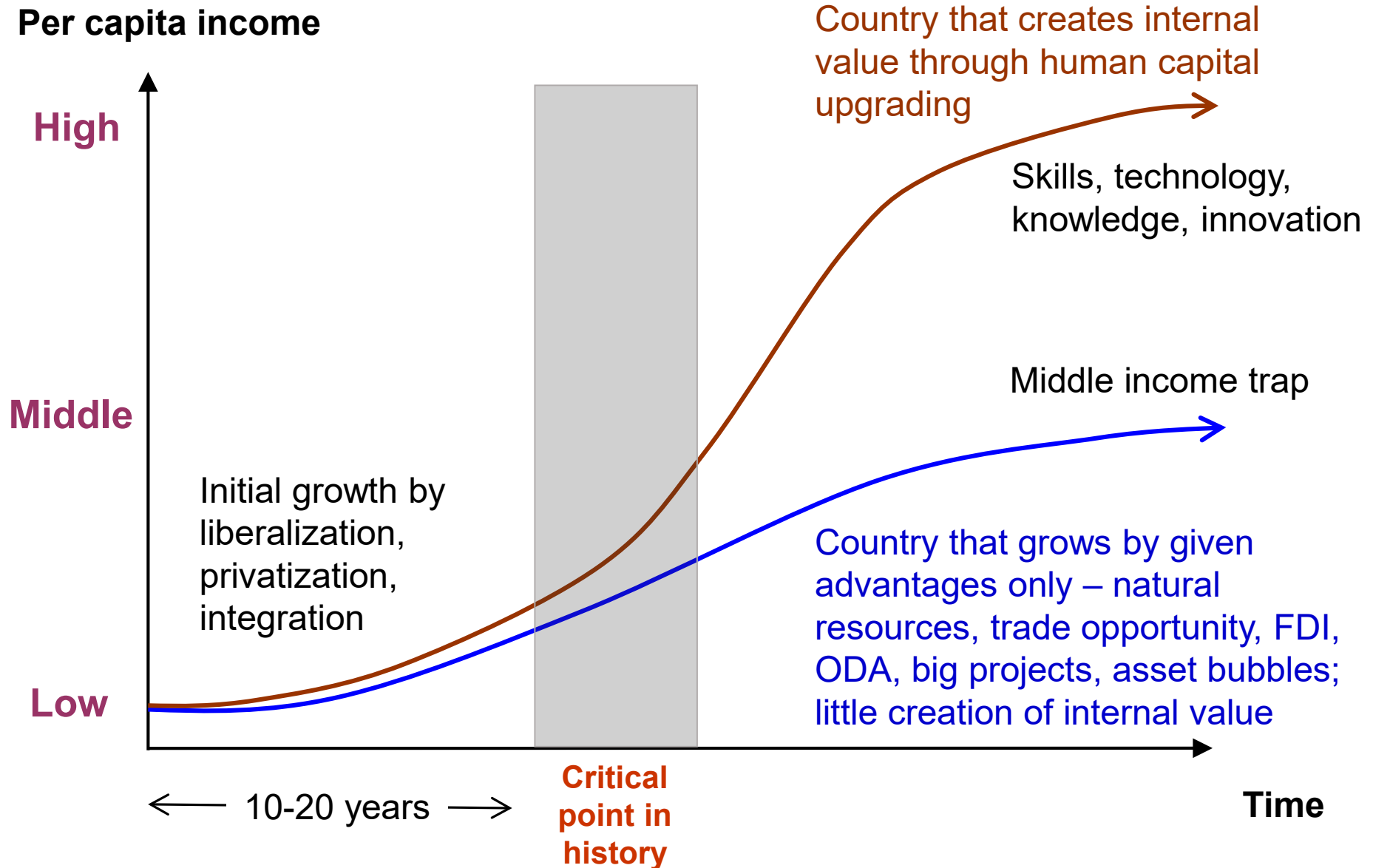
Countries stagnate not so much because they don't know **WHAT** to do to attain high income and technology, but because they don't know **HOW** to design and implement these necessary policies.

Middle Income Traps

(My structural definition)

- Inability of a nation to create and augment value beyond what is delivered by “given advantages.”
- “Given advantages” include natural resources, cheap and young labor, new trade opportunities, FDI, aid, locational and geopolitical advantages, big projects, etc.
- Endowment of natural resources is a disadvantage for manufacturing—the Dutch Disease (factor bias & overvaluation), lack of proper mindset & hard work, diverted interests, corruption and political lobbying.
- An economy starting from a very low level may grow rapidly for a decade or two even without good policy. But one-time freeing effect will eventually end.
- A trapped country may still grow, but at a speed too slow to reach high income even in the long run.

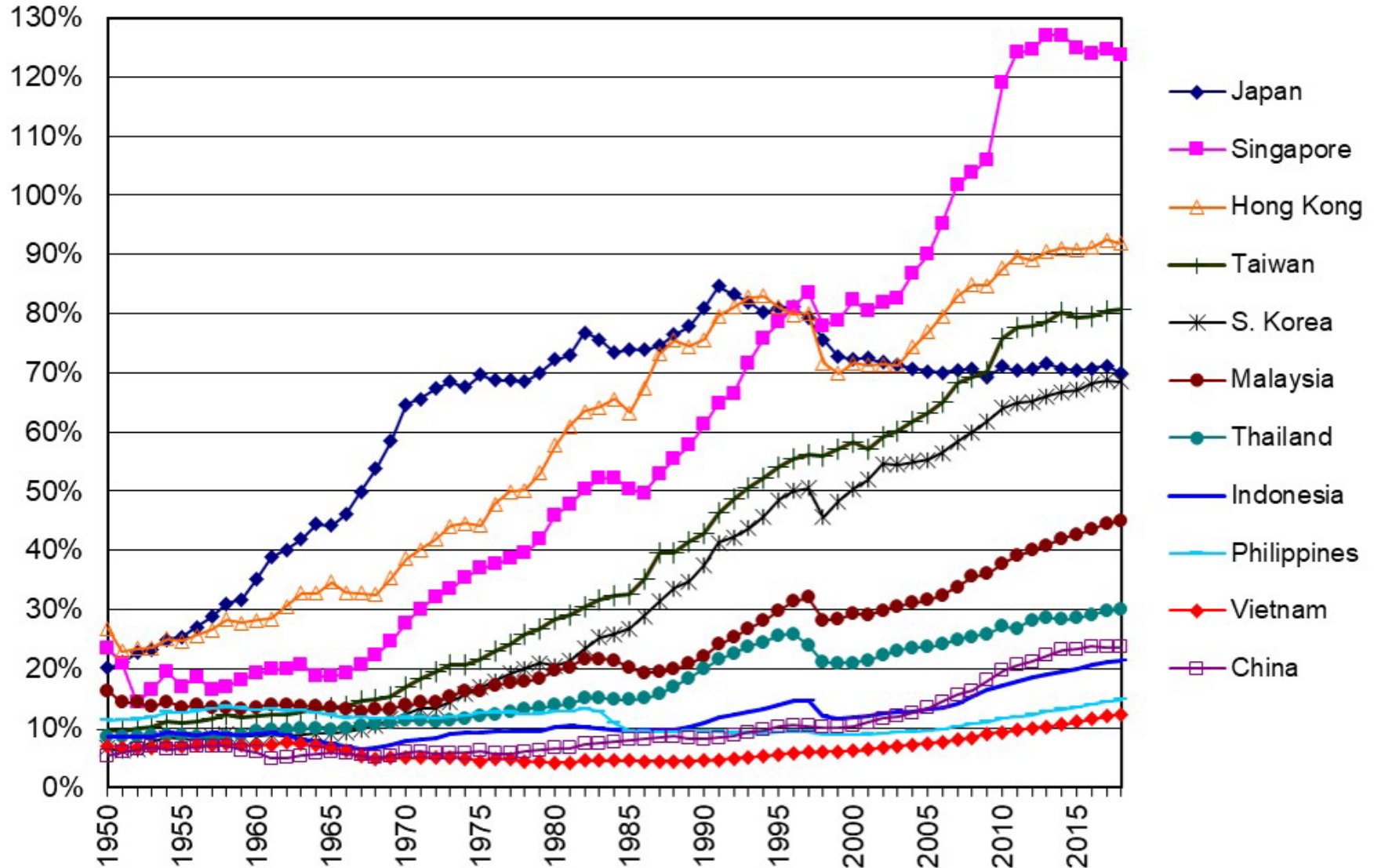
Why Do Countries Diverge?



Speed of Catching Up: East Asia

Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)

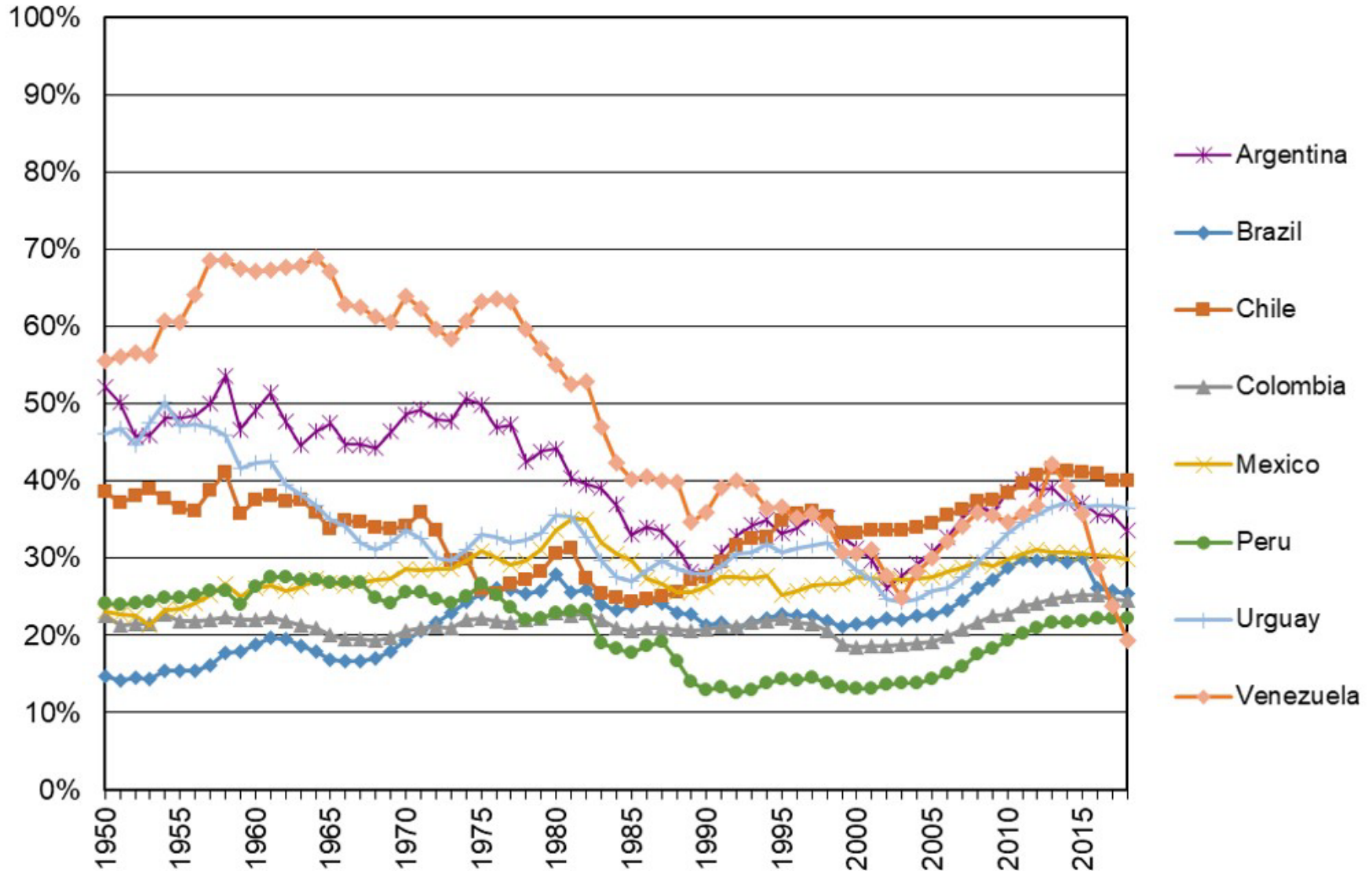


Source: Maddison Project Database, accessed on April 8, 2021.

Latin America

Per capita real income relative to US

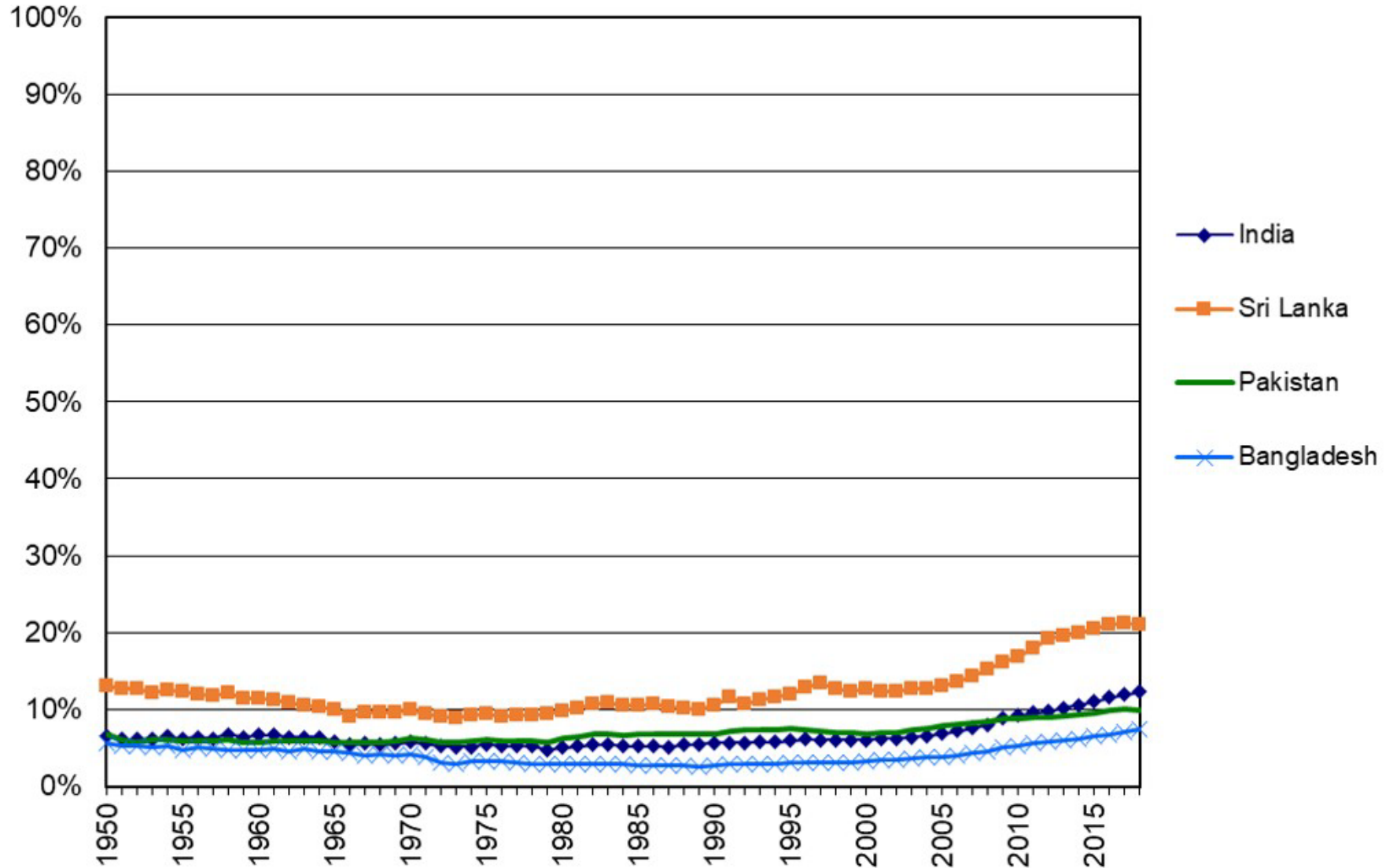
(Measured by the 1990 international Geary-Khamis dollars)



South Asia

Per capita real income relative to US

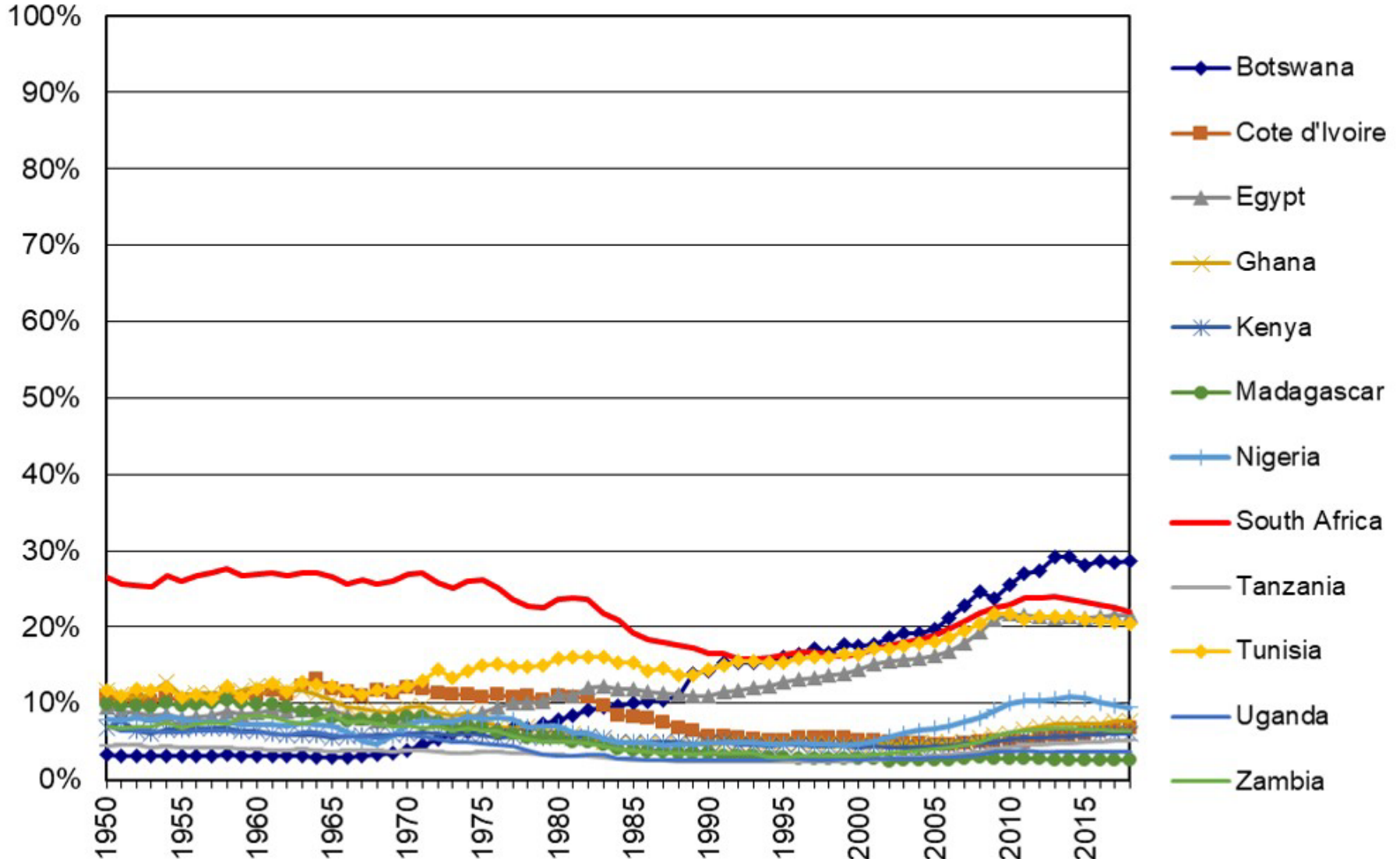
(Measured by the 1990 international Geary-Khamis dollars)



Africa

Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)

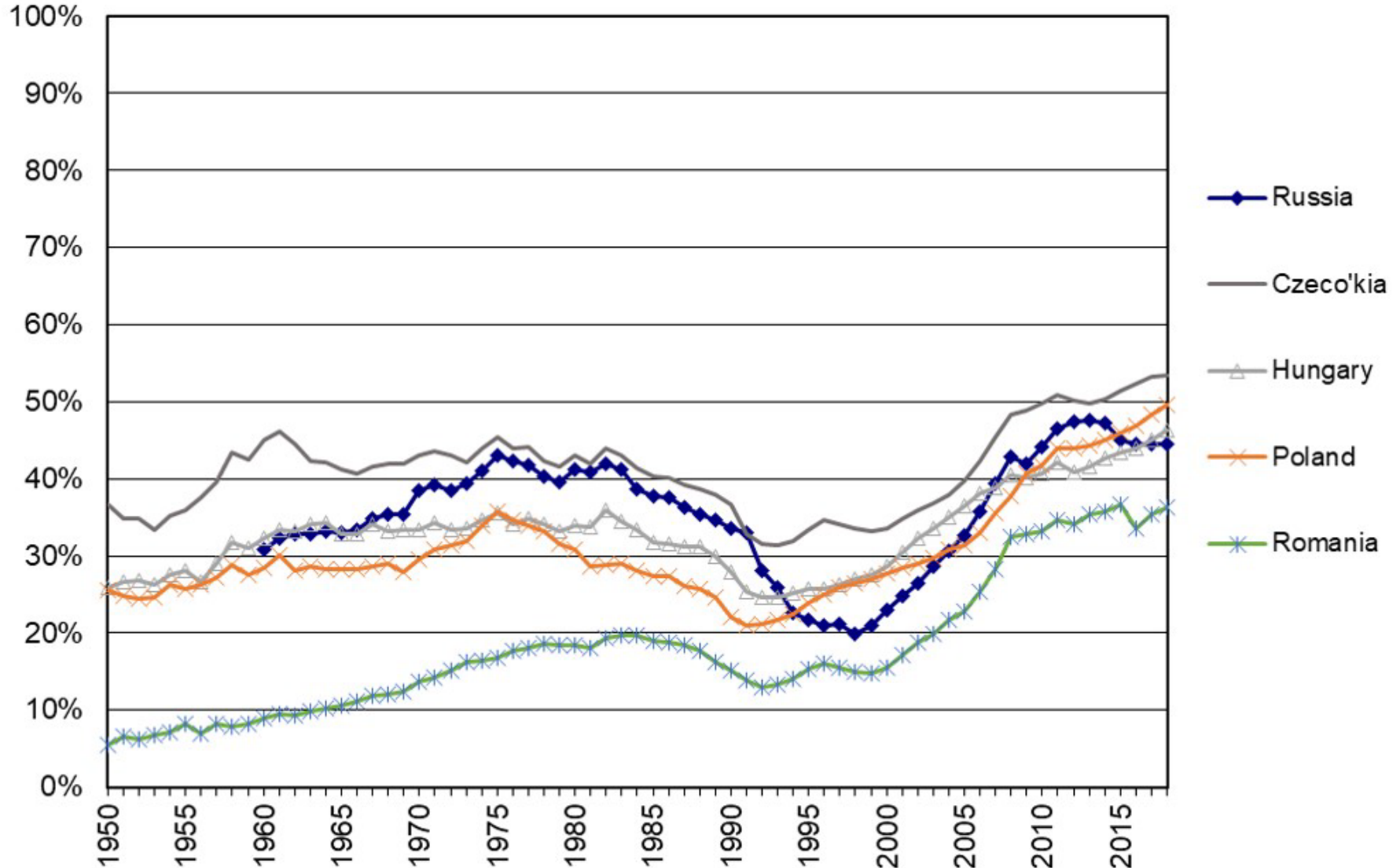


Source: Maddison Project Database, accessed on April 8, 2021.

Russia & Eastern Europe

Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)



International Comparison of Industrial Policy Quality

- The GRIPS Development Forum has visited Asia and Africa to compare industrial policy quality.
- **Asia—Vietnam**, Singapore, Taiwan, Korea, Malaysia, Thailand, Indonesia, India, Cambodia, Sri Lanka, Myanmar
- **Africa—Ethiopia**, Rwanda, Mauritius, Mozambique, Zambia, Tanzania, Ghana, Uganda, South Africa, Kenya, Djibouti
- We evaluate policy formulation, implementation and impact. Growth due to pure private effort, foreign aid/investment or sheer luck is not counted as “good policy.”
- In policy quality, Asia is not always superior to Africa. Some African countries (Mauritius, Rwanda, Ethiopia) practice better industrial policy than Vietnam or Indonesia.

How Do You Measure Industrial Policy Quality?

Grading

- 5 – Excellent
- 4 – Good
- 3 – Moderate
- 2 – Some
- 1 – Little
- 0 – Nothing or worse

Policy areas

1. Industrial human resource
2. Domestic enterprise development
3. Business climate
4. Power & logistics
5. Export promotion
6. Strategic FDI marketing
7. Industrial parks
8. Supporting industries & FDI-local firm linkage
9. Productivity, technology & innovation
10. Standards & testing



Functional aspects

1. Policy ownership
2. Vision & commitment of top leader(s)
3. Policy drafting procedure
4. Authority & capacity of policy organizations
5. Mindset & competency of implementing officials
6. Budgeting & staffing
7. Inter-ministerial coordination
8. Involvement of key non-official stakeholders
9. Monitoring & evaluating mechanisms
10. Impact on the real economy



The Scorecard for Vietnam

Date: May 2015 (based on policy research 1995-2015)

	Evaluation of industrial policy sub-components										Average
	Industrial human resource	Domestic enterprise development	Business climate	Power and logistics	Export promotion	Strategic FDI marketing	Industrial parks	Supporting industries & FDI-local firm linkage	Productivity, technology & innovation	Standards and testing	
Policy ownership	2	2	3	3	2	3	4	2	2	2	2.5
Vision & commitment of top leader(s)	1	1	2	3	2	2	2	2	1	1	1.7
Policy drafting procedure	2	2	1	3	1	1	1	1	1	2	1.5
Authority & capacity of policy organizations	2	3	2	3	2	2	3	2	2	2	2.3
Mindset & competency of individual officials	3	2	2	2	2	2	2	2	2	2	2.1
Budgeting & staffing	2	3	2	4	2	2	2	2	2	2	2.3
Inter-ministerial coordination	1	1	1	1	1	1	1	1	1	1	1.0
Involvement of key non-official stakeholders	2	2	2	2	2	2	3	2	2	2	2.1
Monitoring & evaluating mechanisms	0	0	2	3	0	0	1	0	0	0	0.6
Impact on real economy	0	2	3	4	2	2	3	1	1	1	1.9
AVERAGE	1.5	1.8	2.0	2.8	1.6	1.7	2.2	1.5	1.4	1.5	1.8
GRADE	D	D	C	C	D	D	C	D	D	D	D
Remark	Fragmented over MOET, MOLISA, MOIT, etc.	MPI & MOIT measures weak	Better than 1990s but still much room for improvement	Many ODA projects; improving significantly	Ministerial level only; not a national drive	Policy weak & decentralized but FDI comes	Too many, too decentralized; some effective	Much talk, little action except int'l cooperation	No realistic or pragmatic policy	Ineffective policy design & implementation	

Notes:

- Evaluation: 0 (non-existent or worse), 1 (little), 2 (some), 3 (moderate), 4 (good), 5 (excellent).
- Evaluation of policy prepared and implemented by government only; results obtained by private effort, international cooperation or external conditions are not included.
- Letter grades: A+ (4.5 or above), A (<4.5), B (<4), C (<3), D (<2), F (<1).

The Scorecard for Ethiopia

Date: May 2015 (based on policy research 2008-2015)

	Evaluation of industrial policy sub-components										Average
	Industrial human resource	Domestic enterprise development	Business climate	Power and logistics	Export promotion	Strategic FDI marketing	Industrial parks	Supporting industries & FDI-local firm linkage	Productivity, technology & innovation	Standards and testing	
Policy ownership	5	3	3	4	5	5	5	3	5	2	4.0
Vision & commitment of top leader(s)	5	3	3	4	5	5	5	4	4	3	4.1
Policy drafting procedure	2	1	2	2	3	4	4	1	3	2	2.4
Authority & capacity of policy organizations	3	2	2	3	3	4	5	2	2	2	2.8
Mindset & competency of individual officials	3	2	1	2	4	4	4	2	3	2	2.7
Budgeting & staffing	4	2	2	4	5	5	5	1	3	2	3.3
Inter-ministerial coordination	1	1	1	3	3	3	3	2	3	1	2.1
Involvement of key non-official stakeholders	2	2	2	3	3	3	3	2	3	2	2.5
Monitoring & evaluating mechanisms	3	1	1	2	5	5	5	1	3	2	2.8
Impact on real economy	2	2	0	4	3	5	5	2	3	2	2.8
AVERAGE	3.0	1.9	1.7	3.1	3.9	4.3	4.4	2.0	3.2	2.0	3.0
GRADE	B	D	D	B	B	A	A	B	B	C	B -
Remark	TVET, engineering universities	Fragmented	Limited action to improve business climate	Infrastructure still deficient but improving	Good policy; execution needs more improvement	Main policy focus; good results	Main policy focus	Policy will exist; further development required	Strong political will; kaizen & national movement	TIDI, LIDI, etc.; but generally under-developed	

Notes:

- Evaluation: 0 (non-existent or worse), 1 (little), 2 (some), 3 (moderate), 4 (good), 5 (excellent).
- Evaluation of policy prepared and implemented by government only; results obtained by private effort, international cooperation or external conditions are not included.
- Letter grades: A+ (4.5 or above), A (<4.5), B (<4), C (<3), D (<2), F (<1).

Quality of Industrial Policy vs. Income

	Date of research	Evaluation of industrial policy sub-components										Average	Grade	For reference only	
		Industrial human resource	Domestic enterprise development	Business climate	Power and logistics	Export promotion	Strategic FDI marketing	Industrial parks	Supporting industries & FDI-local firm linkage	Productivity, technology & innovation	Standards and testing			Per capita income (WB, 2013, USD)	Doing Business ranking (WB, 2014, among 189 entries)
Singapore	Aug.-Sep. 2010	5	4	5	5	4	5	5	4	5	5	4.7	A +	\$55,183	1
Japan	Continuous	5	5	4	5	4	3	3	...	4	5	4.2	A	\$46,330	29
Korea	Nov. 2010	5	4	4	5	5	3	4	...	4	5	4.3	A	\$25,977	5
Taiwan	Mar. 2011	5	5	5	5	3	4	5	...	5	5	4.7	A +	\$22,597	19
Malaysia	2006, 2010, 2013	3	4	4	5	4	5	4	1	4	4	3.8	B	\$10,538	18
Mauritius	Oct. 2012	4	4	4	4	4	5	4	3	4	3	3.9	B	\$9,478	28
Thailand	2005, 2009, 2013, 2015	3	2	4	4	3	4	4	4	2	4	3.4	B	\$5,779	26
Indonesia	Jun. 2014	2	2	2	2	2	3	1	1	1	2	1.8	D	\$3,475	114
Vietnam	Continuous since 1995	1.5	1.8	2.0	2.8	1.6	1.7	2.2	1.5	1.4	1.5	1.8	D	\$1,910	78
India	Sep. 2012	1	1	1	2	3	1	2	1	1	1	1.4	D	\$1,498	142
Cambodia	May 2015	0	1	4	3	1	2	3	0	0	1	1.5	D	\$950	135
Rwanda	Aug. 2014	2	2	4	3	3	4	4	2	2	1	2.7	C	\$639	46
Ethiopia	Continuous since 2008	3.0	1.9	1.7	3.1	3.9	4.3	4.4	2.0	3.2	2.0	3.0	B -	\$505	132

Notes:

1/ Evaluation: 0 (non-existent or worse), 1 (little), 2 (some), 3 (moderate), 4 (good), 5 (excellent). For Vietnam and Ethiopia, for which detailed data are available, points are given to the first decimal point.

2/ Letter grades: A+ (4.5 or above), A (<4.5), B (<4), C (<3), D (<2), F (<1).

3/ Evaluation of policy prepared and implemented by national government only; results obtained by private effort, international cooperation, or external conditions are excluded.

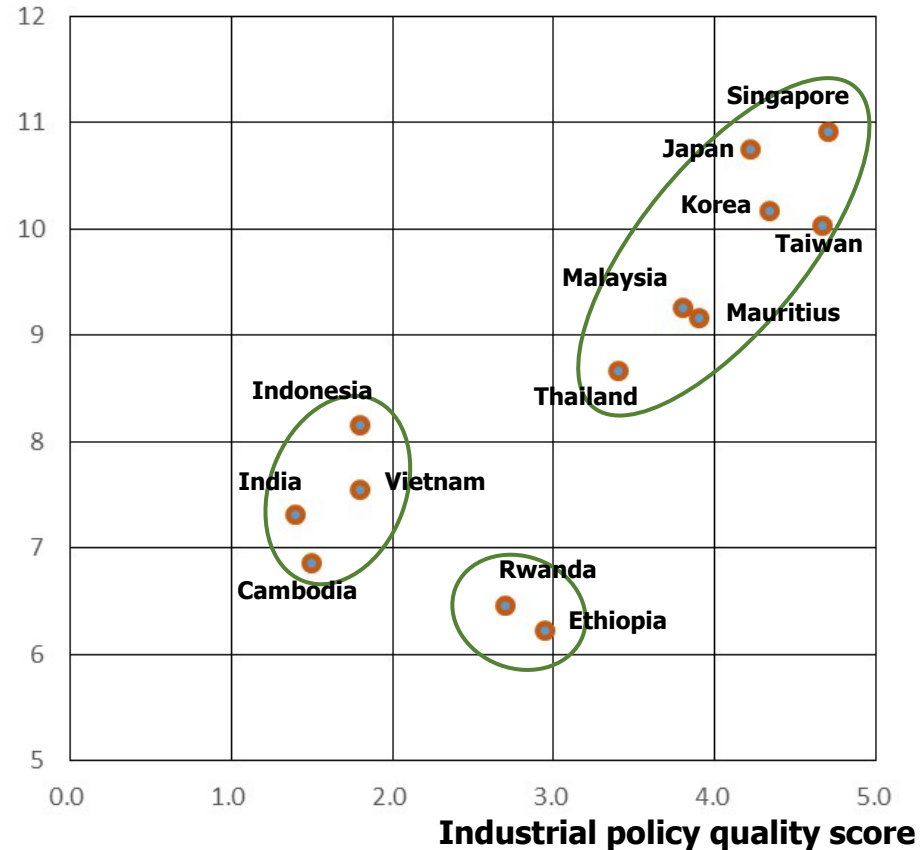
4/ It is somewhat difficult to evaluate the policy of a mature economy, such as Japan and Korea, with a large number of industrial policy measures in the past and at present. Grades may differ depending on which measures are evaluated and how much weight is given to past achievements relative to present policies.

Source: K. Ohno, "The Quality of Industrial Policy as a Determinant of Middle Income Traps," paper presented at Singapore Economic Review Conference, Singapore, August 2015.

Industrial Policy Quality: Summary

	Industrial policy quality		Per capita income (WB, 2013, USD)	Doing Business ranking among 189 entities (WB, 2014)
	Mean	SD		
Singapore	4.70	0.48	\$55,183	1
Japan	4.22	0.83	\$46,330	29
Korea	4.33	0.71	\$25,977	5
Taiwan	4.67	0.71	\$22,597	19
Malaysia	3.80	1.14	\$10,538	18
Mauritius	3.90	0.57	\$9,478	28
Thailand	3.40	0.84	\$5,779	26
Indonesia	1.80	0.63	\$3,475	114
Vietnam	1.80	0.43	\$1,910	78
India	1.40	0.70	\$1,498	142
Cambodia	1.50	1.43	\$950	135
Rwanda	2.70	1.06	\$639	46
Ethiopia	2.95	1.02	\$505	132

Log of per capita income



Observations

- Governments are not created equal. There is a huge gap in industrial policy quality from excellent to poor.
- Industrial policy quality and income level are positively correlated (0.815). This suggests, but does not prove, causality.
- Within each country, policy quality is often similar across different sub-components. If one policy or ministry is bad, others are also likely to be bad in the same way. There is a common policy culture that permeates the entire government.
- There is no strong evidence that resource endowment, FDI or ODA affects industrial policy quality in one way or the other.

Solution 1.

Proactive Industrial Policy

Proactive industrial policy in the 21st century must satisfy the following conditions. Details must be customized for each country.

1. Promotion of markets and integration
2. A strong and competent state to guide the private sector
3. Having sufficient policy tools for catching up (WTO loopholes, temporary protection, etc.) – don't throw away everything
4. Dynamic capacity building of both government and private sector through concrete actions and projects (learning by doing, trial-and-error)
5. Internalization of skills & technology as key goal
6. Effective public-private partnership (not superficial)
7. Deep industrial knowledge and trust shared by government and businesses

Solution 2.

Policy Learning

- International best policy practices (and failures) must be collected and compared systematically.
- Using them as references and building blocks, government must acquire general capability to create a policy most suitable for a particular country, time, and sector.
- Do not copy other countries uncritically, or reject their experiences as irrelevant. These two reactions lead to failure. **Learning** (knowledge collection) and **thinking** (adaptation to your country) must always be combined.

Confucius (551-479BC): 「子曰学而不思則罔思而不学則殆」
“Learning without thinking is useless; thinking without learning is precarious.”

Solution 3.

Policy Dialogue with Experts

- Government may learn by self-study (Meiji Japan, Korea, Taiwan...), but a better way is to have a tutor who understands your country and also has broad and pragmatic knowledge of international cases (the problem is that good foreign advisors are few and hard to find).
- Avoid experts who preach general ideas only, or propose the same solution to all countries.
- Japan has conducted industrial policy dialogue with many developing countries. Our method is ad hoc, case-by-case and flexible, unlike Korea's more standardized approach.

Japan's Industrial Policy Dialogues

Country	Period	Head/key players	Purpose and content
Argentina	1985-1987 1994-1996 (follow up)	Saburo Okita (former foreign minister)	Comprehensive study on agriculture and livestock farming, industry, transport and export promotion
Thailand	1999	Shiro Mizutani (former MITI official)	Study on the master plan for SME promotion policy
Vietnam	1995-2001	Shigeru Ishikawa (professor)	Large-scale joint study on macroeconomy, industry, agriculture, enterprise reform, crisis management, etc.
Vietnam	2003-	Japanese embassy, JICA, JETRO, JBIC	Bilateral joint initiative to improve business environment and strengthen competitiveness through 2-year cycle of action plans
Indonesia	2000	Shujiro Urata (professor)	Policy recommendation for SME promotion
Indonesia	2002-2004	Takashi Shiraishi and Shinji Asanuma (professors)	Policy support for macroeconomic management, financial sector reform, SME promotion, private investment promotion, democratization, decentralization and human resource development
Laos	2000-2005	Yonosuke Hara (professor)	Study on macroeconomy, finance, state enterprise, FDI and poverty reduction, etc.
Myanmar	1999-2002	Konosuke Odaka (professor)	Study on agriculture, rural development, industry, trade, finance, ITC, etc.
Mongolia	1998-2001	Hiroshi Ueno and Hideo Hashimoto (World Bank economists and professors)	Study on the support for economic transition and development
Vietnam	2008-2010	Japanese embassy, JICA, JETRO, businesses, GRIPS/VDF	Produce supporting industry development action plan for joint implementation
Ethiopia	2009-	GRIPS Development Forum and JICA	Kaizen, metals & engineering, productivity movement, policy documents, procedure & organization, export promotion, etc.
Vietnam	2011-2013	Japanese embassy, JICA, JETRO, METI, GRIPS/VDF	Select and intensively promote a small number of industrial sectors; draft and implement detailed action plans
Vietnam	2015-	JICA, JETRO, GRIPS, Vietnam National University	Select provinces with proper mindset and growth potential, support them with intensive Japanese ODA and FDI.

Comparison of Japan's Four Policy Dialogues

	Argentina Okita Project 1985-87, 94-96	Vietnam Ishikawa Project 1995-2001	Ethiopia GRIPS & JICA 2008-Present	Thailand Mizutani Plan 1999
Motivation for inviting Japan	For middle way between Wash. Consensus & protectionism	Counter-balancing IMF & WB's macro and liberalization conditionalities	To learn East Asian approach; rejecting IMF & WB	Real sector reconstruction after the Asian financial crisis
Committed national leader(s)	President Alfonsin, President Menem	Communist Party General Secretary Do Muoi	PM Meles, PM Hailemariam	PM Chuan, PM Thaksin
Japanese team leader	Former Foreign Minister Saburo Okita	Prof. Shigeru Ishikawa (Hitotsubashi U.)	Profs. Kenichi Ohno, Izumi Ohno (GRIPS)	Former MITI official Shiro Mizutani
Major agenda	Macro, agri., livestock, industry, transport, export; targeted sector promotion under competition	Promoting heavy industries with great care; well-prepared regional integration with scenarios	Learning Asian methods; Kaizen, export, FDI, industrial parks, productivity, car assembly	Ind. Restructuring Plan; SME policy; factory evaluation system; car component suppliers

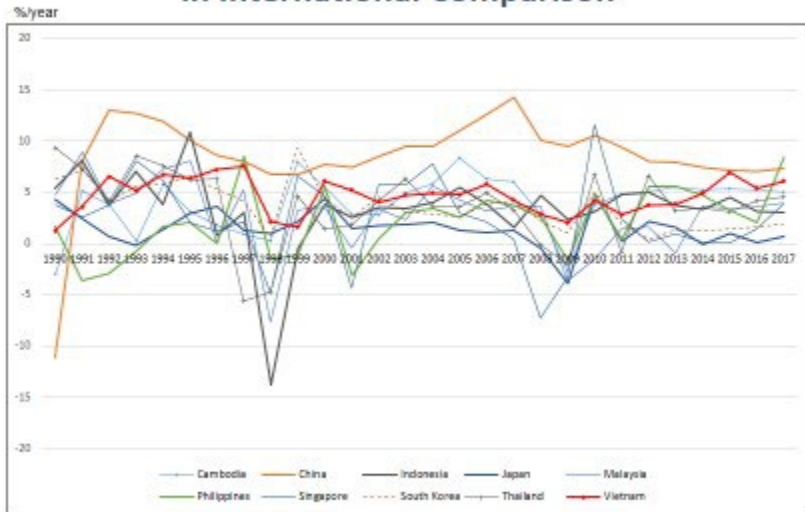
Key Factors for Successful Industrial Policy Dialogue

- **Proper mindset of the national leader** (President or PM) to learn seriously from Asian experience. Professors cannot teach lazy students. Working just with ministers or technocrats are not high enough to overcome difficulties and produce results.
- **The Japanese side must also be serious:** deeply understand the country, work hard, be patient and flexible. Work “ALL JAPAN” (businesses-government-academics work together).
- Establishment of **long-term working relationship** based on mutual trust, respect and commitment.
- Linking policy discussion with **concrete industrial projects** so policy dialogue is not just talk; at least some of the proposed actions are implemented with JICA and other support.

Vietnam: Growth without Policy Effort

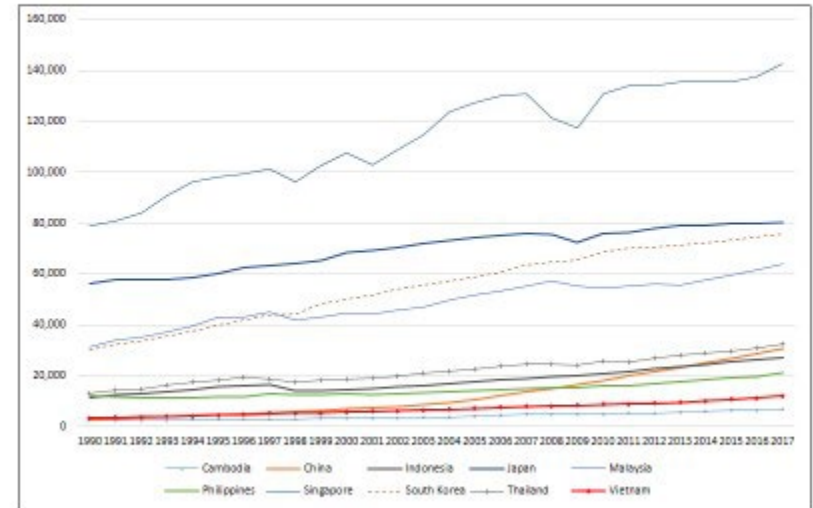
- Doi Moi (liberalization) since 1986 and global integration since 1993 brought high growth (6-9% range), propelling the country from the poorest to lower middle-income status by 2008.
- Vietnam has attracted thousands of manufacturing FDI including Toyota, Honda, Yamaha, Denso, Canon, Panasonic, Brother, Kyocera, Daikin; Samsung, LG; Intel, Ford, etc.
- However, policy quality and worker competence have not improved significantly. Policy has failed to support business. Short-term materialism prevails, especially since around 2006. Vietnam's growth has been externally driven and quantitative (not quality-based).
- Labor productivity growth has been moderate, around 4% annually, driven mainly by capital deepening (investment) rather than TFP. Over-investment resulted in high ICOR and public debt accumulation.
- Vietnam did not adopt any productivity tools despite long and close economic interaction with Japan, Korea, Taiwan, EU, etc. Projects were donor-driven with little sustainability or national scaling-up.

Labor Productivity Growth in International Comparison



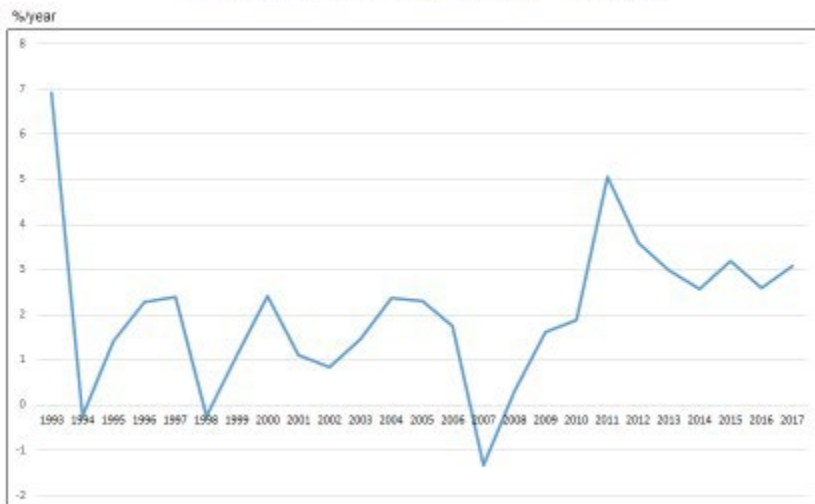
Source: The Conference Board Total Economy Database™ (adjusted version), March 2018.

Labor Productivity Level in International Comparison



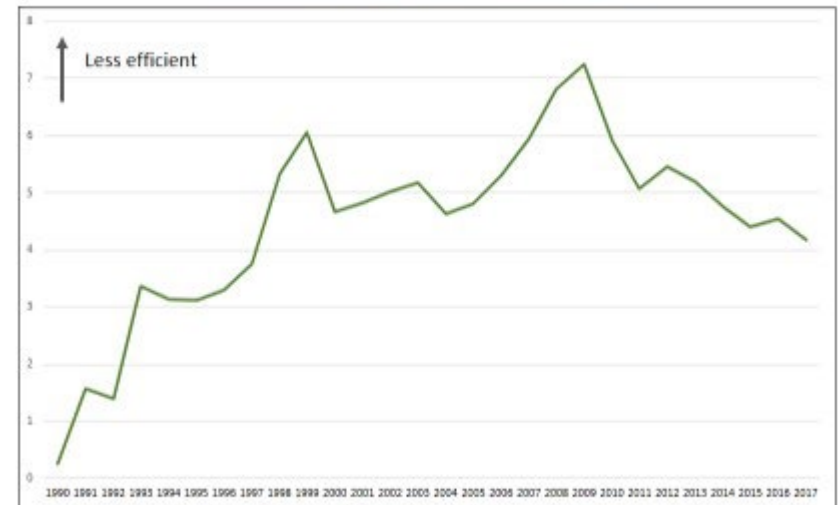
Source: The Conference Board Total Economy Database™ (adjusted version), March 2018.

Total Factor Productivity Growth



Source: Authors' calculation from the statistics of World Bank (2018).

Capital Efficiency Incremental Capital Output Ratio (ICOR)



Source: Authors' calculation from the statistics of IMF (2018).

Vietnam's Central Government

Problems with the Central Government are the lack of proper mindset and policy capacity. Appointments and recruitment are based on political connections, not competence. Situation is the same across all ministries and agencies. My bad experiences include:

Motorcycle master plan (2006-07): joint drafting with Honda & Yamaha, about 20 meetings; but content was changed secretly before approval without telling the Japanese side.

Supporting industry action plan (2008-10): Ambassador Sakaba, JICA, JETRO worked intensively but could not find active Vietnamese counterpart. No response or action to Japanese proposals.

Industrialization strategy (2011-13): six priority sectors were selected and action plans were to be jointly drafted, with JICA industrial projects to follow. But drafting authority was suddenly moved to Vietnamese ministries. Result was low quality.

JICA's Province-based Economic Growth Initiative (PBEG) in Vietnam, 2015-

Select provinces with right policy mindset and industrial potential. Concentrate Japanese FDI & ODA to create success. Roll out to other provinces as models.

- **Ha Nam Province** (North, rural) - A dynamic provincial leader is attracting Japanese FDI and conducting proactive industrial and agricultural policy. Japan will help with TVET, infrastructure, research, FDI attraction, etc.
- **Ba Ria-Vung Tau Province** (South, coastal) - Rich in natural resources but afraid of environmental damage. Japan will assist with environmental technology to simultaneously pursue heavy industry and clean environment.

Both are based on in-depth studies and interactive discussions. GRIPS and Vietnam National University cooperated with JICA for policy study and discussion.



Japan Desk invites Japanese investors



Ha Nam Province

Ha Nam Party Former Secretary Mr. Mai Tien Dung (now Cabinet Minister)



Vietnam

Ba Ria-Vung Tau Province



Industrial zone under construction for Japanese FDI

Discussion with the Provincial Department of Industry & Commerce

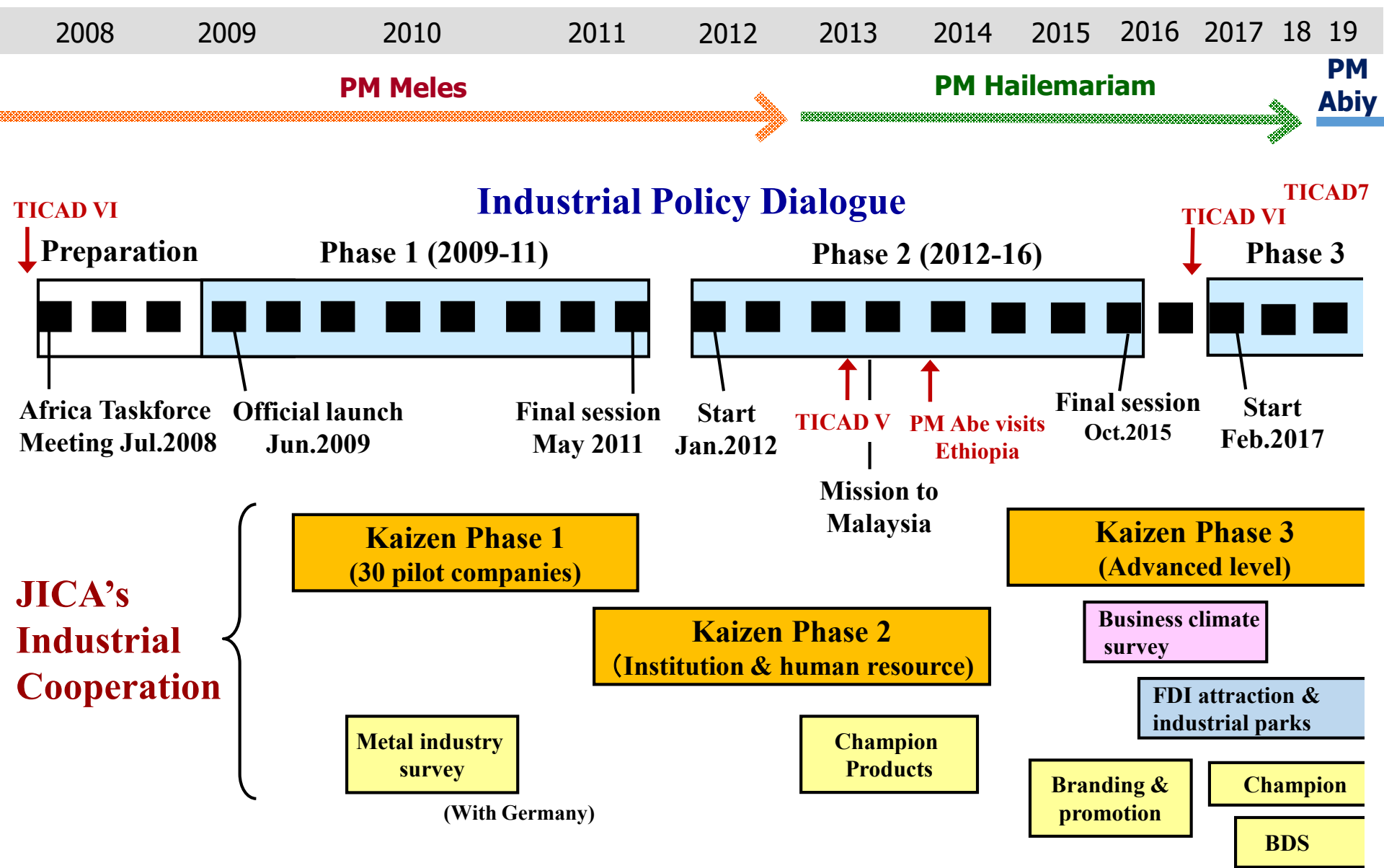
Striking a deal with Ba Ria-Vung Tau Leaders

Ethiopia-Japan Industrial Policy Dialogue

(2008-present)

- PM Meles Zenawi invited us for bilateral policy dialogue in 2008. We had 8 sessions with PM Meles and 12 sessions with PM Hailemariam. Each lasted 1.5 to 2 hours.
- High Level Forums (minister-level) were held regularly.
- Many meetings were organized with individual ministries, institutes, firms, NPOs, universities, bilateral and multilateral development partners, etc.
- In addition, 19 policy missions were dispatched to Asia and Africa on various policy issues. A large mission to Malaysia in 2013 led to the revision of FDI policy and organization.
- Policy dialogue is led by GRIPS. The Japanese ambassador and JICA also participate in key discussions. GRIPS and JICA have frequent meetings to decide the next step.

Ethiopia-Japan Policy Dialogue & Industrial Cooperation



Note: Black boxes indicate three-level policy dialogue in Addis Ababa (PM, ministers, operational level). Etc.



High Level Forum (ministerial level)



With PM Meles



With PM Hailemariam



Lecture at Civil Service University



At Ministry of Finance



Main Agenda of Ethiopia-Japan Industrial Policy Dialogue

Phase I (2008-2011)—Initial mutual learning about East Asia and Ethiopia's policy orientation; kaizen cooperation started; advice on next five-year plan

Phase II (2012-2015)—Champion export products, one-stop investor service, SME handholding support, industrial park management, etc. Many of our suggestions, such as Light Manufacturing Vision, kaizen targets and quality, productivity & competitiveness, were adopted in the new five-year plan.

Phase III (2017-)—Productivity research, FDI policy research, automotive sector, intensive dialogue to invite Japanese FDI, analysis of recent FDI slowdown

Japanese Industrial Cooperation in Ethiopia

As of 2018

JICA

- Industrial Policy Dialogue Phase 3 (GRIPS & JICA)
- Kaizen Phase 3 (with EKI)
- Investment Promotion (expert dispatch to EIC & IPDC)
- Export Promotion through Champion Product Approach
- Business Development Service
- Women Entrepreneurship Support
- TICAD Human Resource Dev. Center (new EKI headquarters)
- Infrastructure (power, roads, etc.)

JETRO (Tokyo & Addis Ababa Office)

- Business & investment support for private firms

GRIPS (by JICA's IPD Phase 3 budget)

- Exploring/advising new policy areas
- Japanese FDI for value creation
- Productivity & FDI research with PSI

M. Of Economy, Trade & Industry (METI)

- Supporting Japanese firms to upgrade garment firms in Ethiopia

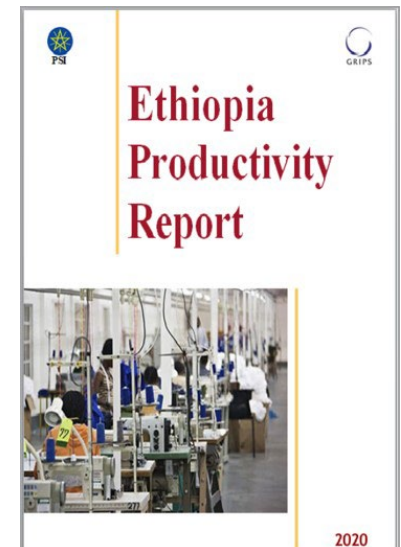
UNIDO (Tokyo & Ethiopia)

- Information & matching services for Japanese investors
- Ethiopian business consultant in AA supporting Japanese investors

Ethiopia Productivity Report (PSI & GDF, Jan. 2020)

10 key findings

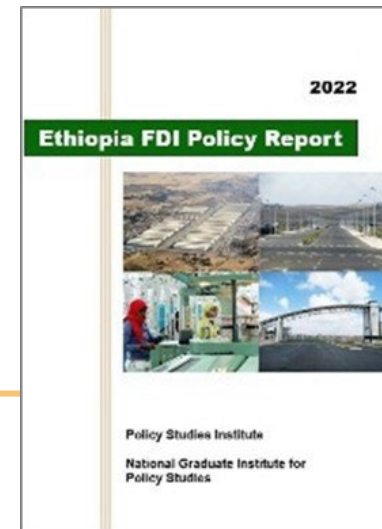
1. Reasonably high productivity growth but low absolute level
2. Heavy investment as a main driver of labor productivity
3. Limited labor mobility from low- to high-productivity activities
4. Fear of *premature de-industrialization* as rural labor migrates to services
5. Diverse performance within manufacturing
6. The risk of losing wage-productivity balance
7. Ethiopian workers are trainable in skills, but attitude and discipline are lacking
8. Foreign methods in improving workers
9. Locational differences in worker type
10. Impediments to productivity improvement (foreign currency shortage, bureaucracy, logistics, etc.)



FDI Policy Report (PSI & GDF, Jan. 2022)

Three Part Strategy for FDI-led Industrialization

Domestic firms must work with FDI. Exclusive FDI enclaves should be avoided.
Blue letter items are concrete policy actions recommended for Ethiopia.



(i) Improving capacity of domestic labor and enterprises

Labor

- Mindset resetting
- Technical training
- TVET-industry linkage
- Incentives & career path
- Labor rights & health
- Migration support

Enterprises

- Management
- Kaizen
- Handholding
- Benchmarking
- Export support
- Quality-cost-delivery (QCD)
- Sector-specific technology



(iii) Linkage promotion

- Trade fairs & exhibitions
- Supplier database
- SME product display
- FDI-local matching events
- Individual matching service
- Incentives for local partner training, local procurement & technology transfer

(ii) Attracting FDI that transfers skills and technology

- Proper FDI targeting
- Strategic & high-level marketing
- Appropriate incentives
- Reliable infrastructure
- One stop service
- Industrial parks
- WTO, AGOA, EBA, FTAs
- Business climate (incl. WB Doing Business)

Common enabling conditions

- Policy clarity**
- Legal framework**
- Support institutions**
- Quality bureaucracy**

Automotive Policy Discussion

- Japanese cars dominate Ethiopian streets. But most cars are used or parallel imports, not domestically assembled ones.
- The automotive sector has been government's priority. Ethiopian Investment Commission (EIC) works with VW/Germany and South African consultants, but progress is slow. Meanwhile, the Ministry of Trade and Industry (MOTI) wants to take more initiative.
- GRIPS has conducted automotive discussion with MOTI & EIC. Japanese auto makers were interviewed, officials were invited to Japan, three seminars were held at MOTI, Kenya and Myanmar were visited as references, and policy proposals were submitted.
- Four impediments to Japanese car assembly are identified: (i) foreign currency shortage, (ii) used cars, (ii) lack of incentive for domestic assembly, and (iv) small demand.

At Ethiopian Investment Commission



Ethiopia: Remaining Challenges

Leaders' mindset is impressive but practical knowledge is missing

- National leaders have strong will and ownership for economic development, but they lack business experience or industrial knowledge. Policies are created with great haste without pragmatism or proper localization.
- Capacity of middle and low level officials is low. They are unable to effectively draft documents, implement measures and make adjustments, consult with the private sector, monitor progress, etc.
- As a result, policies do not fit Ethiopia's reality. They are either unimplementable or ineffective even when implemented. Deeper policy learning is necessary.
- In addition, political and ethnic instability has accelerated under the Abiy administration (since 2018) which makes policy implementation more difficult.