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Learning from the East: Ethiopia–Japan industrial policy dialogue

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Abstract

Ethiopia has learned much from the experience and advice from East Asia. The learning was done under strong country ownership with selectivity and necessary adjustments, not by blindly emulating foreign practices. This chapter explains Ethiopia's policy learning with Japan which began in 2008 where kaizen, export promotion and other policy skills were absorbed through regular discussions, mutual visits, third-country research and so on. Topics evolved as learning deepened and circumstances changed. Many proposals were followed up by concrete Japanese industrial cooperation for actual realization. Ethiopia's industrialisation is taking place in Africa where conditions are quite different from those in the East Asia of the late twentieth century. The major difference is the absence of a leading nation and structured layers of follower nations (the Flying Geese pattern), and weak economic linkages among African economies. The implications of this for Ethiopia's development strategy are also considered.

Key words: industrial policy, East Asia, catch-up industrialisation, Flying Geese, policy dialogue, policy learning

Introduction

Ethiopia aims to industrialise by adopting a developmental state model that actively guides and harnesses private actors (see Chapters 43, 46, and 48). For this reason, Ethiopian industrial policy is naturally influenced by the experiences of other countries that have adopted such a regime as well as policy advice given in that spirit by international experts. The Ethiopian government has vigorously sought such lessons rather than passively waiting for their arrival (see Chapter 44). Relevant experiences and advice mostly—though not exclusively—originate in East Asia where developmental states actually existed and in some cases even succeeded brilliantly in achieving fast growth and high technology levels.

Ethiopia's industrial policy exhibits strong East Asian qualities in four related aspects: (i) policy orientation; (ii) vigorous learning from East Asian mentors; (iii) selective adoption of concrete East Asian policy measures with local modification; and (iv) a large inflow of light manufacturing foreign direct investment (FDI) as a driving force of early industrialisation, which was a typical developmental pattern observed in East Asia. As a result, despite its still low income and poor investment climate, Ethiopia has emerged as a unique and dynamic country featuring economic philosophy, policy capability, and growth performance which are more akin to those of East Asia's past and currently industrialising economies than of its African peers.

This chapter reviews and evaluates Ethiopia's policy learning from the East with particular attention to the industrial policy dialogue with Japan which started in 2008, with the National Graduate Institute for Policy Studies (GRIPS) Development Forum and the Japan International Cooperation Agency (JICA) as joint partners on the Japanese side. It also discusses remaining difficulties and differences between Ethiopian and East Asian industrial experiences.

The meaning of learning from others

Learning from the East should not mean copying policies adopted in an East Asian country in the past or at present—be it Meiji Japan's engineering education, South Korea's comprehensive export drive, or Malaysia's one-stop service for investors—to the home country without due regard to the latter's local context. The same can be said about learning from the West or any other advanced region or country. Blind acceptance of others' methods does not produce results because policies work only when they fit political, social, and economic readiness on the receiving side, which differs from one country to another. At the same time, a potential learner should not reject foreign models as irrelevant simply because 'our country is unique and times have also changed'. Such a claim is universally heard from the governments of latecomer countries. While recognition of the uniqueness of each nation and age is important, it should not be used as an excuse for not absorbing precious lessons from others.

Careless copying and flat rejection are two extreme attitudes that shut out the possibility of dynamic and intelligent policy improvement. What is needed for latecomer countries is systematic and pragmatic learning of alternative international best practices (and even failures) in order to strengthen the capacity to create their own policy package. A large number of country studies must be viewed as potential building blocks of home policy. Selecting, modifying, and combining them is a delicate task which can be done effectively only by policymakers equipped with humility, patience, great imagination, and a deep knowledge of how things are in the domestic society. A learner must also distinguish common factors from local peculiarities that lead to successful development, a capability which can be gained by examining many cases from a comparative perspective. Such learning is not easy and cannot be achieved by random reading or discussion. Nations must first learn how to learn policy methods.

Besides this, successful policy learning requires three more conditions (Ohno 2013:55–7).

First, it must be backed by strong political ownership. It is the national leader(s) of a developing country, not foreign consultants or international organisations, who must set priorities, decide policy content, create necessary conditions, and be responsible for implementing and monitoring projects. The proper role of foreign experts is to support a national development strategy from the sidelines. In turn, the challenge for a developing country is to prepare a development strategy worthy of such support, and this may require initial tutoring by well-informed foreigners. Moreover, strong national ownership must be accompanied by a desire for national pride and global excellence along with a sense of humiliation over the current inability to compete effectively. Such national aspiration was clearly visible in Meiji Japan as well as Singapore, South Korea, and Taiwan in the post-WWII period. It is also detected in the current Ethiopian government.

Second, policy must be learned on the ground by executing concrete industrial projects rather than abstractly or aimlessly in classrooms or conference halls. Policy learning is an ongoing process that must coincide with the process of industrialisation, not a precondition for industrial take-off. Many of the high-performing East Asian economies built policy capability through trial and error and hands-on struggles to attain specific targets rather than to raise their positions in investment climate contests or fulfill externally imposed conditionalities or governance criteria. Training was conducted, institutions were created, funds were raised, and officials and experts were mobilised to execute particular projects stipulated in five-year development plans or sectoral master plans. This pragmatic approach has several advantages, including concentration of limited human and financial resources on the areas where they are truly needed, clear criteria by which to assess performance, flexible shifting of resources and organisations to where they are needed, and the sense of pride and achievement that emerges as concrete projects are accomplished one by one.

Third, policy scope and instruments must be expanded as learning progresses. As with any learning, a novice must start with basics and climb the ladder in orderly steps. Skipping lessons, which many countries try to do after hearing East Asian miracle stories, is not advisable. South Korea’s wide-ranging export policy is too difficult to emulate for governments that have little practical experience of promoting exports, and Japan’s highly complex system of small business support is not a good model for recent starters. Mastery of frontline technology such as bio-tech, nano-tech and Industry 4.0 is often targeted in plan documents of developing countries, but there may be other elementary things—such as ensuring road connectivity and stable power supply, introducing kaizen or improving technical education programmes—that need to be done before aiming at high industrial goals.

In learning how to learn, industrial policy dialogue with experienced officials and experts from advanced economies may prove useful. Among the various forms of international assistance to improve policy quality are lectures and seminars, expert dispatches, training at home and abroad, tours and visits, policy reports, and help with drafting industrial plans. These can amply provide fragmentary ideas and cases, but industrialisation is an effort that requires the ability to integrate individual policy components into a coherent whole. A good teacher can show how to do this. Meanwhile, the teacher must also know deeply about the current mindset, capabilities, and constraints of the learning country before giving advice. Academics who give the same one-sizes-fits-all advice to every country must be avoided. These principles and objectives govern the Ethiopia–Japan Industrial Policy Dialogue which is explained in detail below.

Industrial policy dialogue with Japan

By the authors' definition, policy dialogue is intellectual cooperation between a developing country and an advanced country held regularly over a few to several years with an open, evolving, and action-oriented agenda for promoting economic development. It is a flexible consultative mechanism Japan employs routinely in East Asia and elsewhere. Since the 1980s, Japan has conducted policy dialogue with around a dozen partner countries,[1] and Ethiopia is the first African country in which Japan has applied this kind of consultative mechanism.

Japan's policy dialogue is unique in several ways. First, it aims to directly strengthen the state's role and capacity in industrialisation rather than reduce the scope of government intervention. Second, there is no pre-determined agenda or formula. Policy consultation and knowledge sharing are tailor-made to each country conducted through a highly interactive process. Japan's policy dialogue usually starts with a national leader of a developing country asking Japan to discuss developmental strategies generally or to teach and transfer East Asian development experience. This certainly differs from normal technical assistance with its narrowly prescribed terms of reference. Third, while intellectual cooperation takes place in a bilateral context, concrete cases from all around the world are cited. Unlike seminars organised by some industrial countries, we do not publicise or boast about Japanese past achievements as models to emulate. This is because Japanese experiences are usually too hard for beginners to digest.

Western donors and international organisations also conduct 'policy dialogue', but their topics tend to be less industrial and more oriented towards macroeconomic, legal, social, or governance aspects. Where industrial issues are taken up, they usually cover cross-sectoral

[1] Starting with Argentina in 1985, Japan has formally conducted policy dialogue (according to our definition) on around twelve occasions (there are overlapping countries) using various modalities regarding purpose, scale, participants, duration, and frequency. In countries such as Vietnam, Indonesia, Laos, and more recently Myanmar, the Japanese government has mobilised a large number of academics, businesses, and aid consultants to identify and analyse key issues and offer policy advice.

problems such as ICT, globalisation, green growth, and enterprise reform rather than sector-specific targeting and support. South Korea also offers large-scale policy cooperation to developing countries, called the Knowledge Sharing Programme (KSP), but its approach is less interactive and far more standardised than Japan's.

As of 2008, when policy dialogue with Japan was requested, the development partners having visible industrial support projects in Ethiopia were the United Nations Industrial Development Organization (UNIDO), the United Nations Development Programme (UNDP), Germany, Italy, and the United States Agency for International Development (USAID). Most other donors, including Japan, were assisting poverty reduction and hunger elimination. However, two events in that year caught the attention of Prime Minister Meles who decided to accelerate Ethiopia's learning from the East.

In May 2008, in Yokohama, Japan hosted the Fourth Tokyo International Conference on African Development (TICAD IV) attended by 40 African heads of state, including Prime Minister Meles. The key feature of TICAD IV was expansion of the scope of bilateral cooperation from official support to private business partnership. Separately, on 10–11 July 2008, Professor Joseph Stiglitz hosted the third Africa Task Force meeting of the Initiative for Policy Dialogue at Sheraton Addis, supported by JICA. Meles was present at most sessions and the present authors discussed the concept of Dynamic Capacity Development (Ohno & Ohno 2012). We also offered our edited book to the Prime Minister which he began to read during the conference sessions.[2] The following week, Meles requested to the Japanese government two-part bilateral industrial cooperation consisting of a quality and productivity (kaizen) project (just as JICA did in Tunisia) and regular policy discussion with GRIPS. Meles later explained that TICAD IV and discussion with GRIPS researchers had convinced him that the time was ripe for direct intellectual exchange with Japan, the first country to initiate the East Asian miracle (policy dialogue, 14 October 2008).

Later in 2008, two (unofficial) policy dialogue sessions were held with Meles, while JICA prepared kaizen support. Bilateral industrial policy dialogue and the kaizen project were both officially launched in May 2009. The former was led by GRIPS but also involved not only JICA but other Japanese—and even international—organisations such as the Ministry of Foreign Affairs, the Ministry of Economy, Trade and Industry (METI), the Japan External Trade Organization (JETRO), the Japan Bank for International Cooperation (JBIC) and the UNIDO Tokyo as well as Japanese private firms interested in Ethiopia. On the Ethiopian side, the Prime Minister, relevant Ministers and State Ministers, and officials and experts at the operational

[2] GRIPS Development Forum (2008), which was a collection of ten papers by development economists and officials in Japan, UK, Malaysia, and Uganda. Chapter 7 of the book compares how Japan and EU approached the problem of quality and productivity in Tunisia and explains how JICA implemented kaizen in that country. This book was later re-issued commercially as Ohno & Ohno (2013) with additions and updating.

level were involved. These three levels of participants met with the Japanese team in separate sessions. Policy dialogue sessions were held four times a year during Phase 1 and twice a year during Phases 2 and 3. Although the frequency was reduced in later phases, the workload was the same or even greater because of increased research, additional reciprocal visits, exchange of policy letters, and policy missions to third countries in Asia and Africa. After Prime Minister Meles passed away in 2012, bilateral dialogue was continued by Prime Minister Hailemariam Desalegn with equal commitment and enthusiasm.

Between 2008 and 2017, eighteen policy discussion sessions lasting one to two hours were held with the Prime Minister,[3] nineteen high-level forum sessions at minister and state minister level were conducted in Addis Ababa, and sixteen policy research visits to third countries in Asia and Africa were organised (not counting mutual visits between Ethiopia and Japan). In addition, there were numerous visits to offices, factories, and project sites, discussions with international organisations and other donors, regional trips inside Ethiopia and Japan, and invited lectures. Table 45.1 illustrates the topics deliberated at High Level Forums. These Forums were used not only to disseminate desired ideas and experiences to Ethiopian policy makers but also to test and propose new policy directions that were missing but considered necessary in the context of Ethiopian policy evolution. As this table makes clear, sharing of policy knowledge was mutual rather than unilateral from Japan to Ethiopia. Moreover, discussions were not confined to the experiences of Japan or countries that Japan had assisted to develop. A large number of concrete cases were drawn from Asia and Africa, and non-Japanese industrial officials and experts from Malaysia, Thailand, and Vietnam were invited to present their practices and research.

Table 45.1: Topics discussed at high-level forums (ministerial level)

	Presentations by Japan or third country	Presentations by Ethiopian government
<PHASE 1> Session 1 June 2009	(1) JICA's plan for policy dialogue (2) ADLI and future directions for industrial development	(1) Evaluation of current PASDEP focusing on industrial development and related sectors
Session 2 Sep. 2009	(1) Cross-cutting issues on industrial policy & East Asian policy menu (2) Organisational arrangements for industrial policy formulation (3) SME policies in Japan	(1) Comments and feedback by the Policy Dialogue Steering Committee on Japanese presentations
Session 3 Nov. 2009	(1) Designing industrial master plans: international comparison (2) Industrial policy direction of Ethiopia: suggestions for PASDEP II	(1) Concept for the industrial chapter of PASDEP II and the formulation plan
Session 4 Mar. 2010	(1) Basic metals and engineering industries: international comparison of policy framework & Ethiopia's case	(1) Draft of industry sector for PASDEP II (2) Overview, contents of PASDEP II draft of chemicals sub-sector

[3] There were eight face-to-face meetings with Meles Zenawi and twelve such sessions with Hailemariam Desalegn (two of which were conducted when he was Deputy Prime Minister).

Session 5 July 2010	(1) Result of basic metal and engineering industries firm-level study – parts conducted by MPDC and JICA	(1) Report of kaizen training in Osaka (2) Report of kaizen training in Chubu (3) Current status of kaizen project and institutionalisation of kaizen
Session 6 Oct. 2010	(1) Singapore's experience with productivity development: internalisation, scaling-up, and international cooperation	(1) Contents of industry sector in GTP (2) Singapore's productivity movement and lessons learned
Session 7 Jan. 2011	(1) The making of high-priority development strategies: international comparison	(1) Organisational structure of MOI and linkage with other ministries
Session 8 May 2011	(1) Ethiopia's industrialisation under GTP (2) Achievements of Kaizen Project (3) Kaizen movement in Asia & Africa (4) Taiwan: policy drive for innovation	(1) MSE development strategy of Ethiopia (2) Kaizen dissemination plan (3) Botswana's productivity movement and its implications for Ethiopia
<PHASE 2> Session 1 Jan. 2012	(1) Export orientation: three policy directions (2) Export promotion: JICA's experience (3) Export promotion centre in Egypt	(1) Export promotion of Ethiopia (2) Assessing Ethiopian investment and export policies
Session 2 Aug. 2012	(1) Results of champion product seminar (2) Export promotion of Malaysia (3) Economic diplomacy in Thailand	(1) Performance of export promotion in Ethiopia (2) Export promotion by foreign mission
Session 3 Jan. 2013	(1) Proactive FDI policy (2) FDI policy experience of Malaysia (3) JICA's assistance in Zambia etc.	(1) FDI inflow into Ethiopia
Session 4 Jul. 2013	(1) JICA's PSD assistance in Indonesia (2) FDI-linked technology transfer	(1) Malaysia's strategic FDI policy (2) Revision of Investment Proclamation
Session 5 Feb. 2014	(1) International comparison of manufacturing performance (2) Handholding programmes	(1) Sectoral institutes: roles & performance (2) Kaizen in GTP II and long-term vision
Session 6 Aug. 2014	(1) FDI-led industrialisation in East Asia (2) FDI inflow into latecomer Asia	(1) Proposal for key ideas in GTP II (2) Current status of Ethiopian FDI
Session 7 Jan. 2015	(1) Modality & key points of Japanese-run industrial zones in Vietnam & Thailand (2) Industrial zones & foreign currency issues in Myanmar & India	(1) Productivity & competitiveness chapter, industry chapter & kaizen in GTP II
Session 8 Oct. 2015	(1) Remaining industrial issues ahead (2) Industrial zone experience in Cambodia	(1) Discussion on GTP II draft (2) Ethiopian wage & labour productivity survey
<INTERIM> Jul. 2016	(1) Japan's alignment to Industrial objectives of GTP II	(1) Macro issues related to GTP II (2) Industrial policy of GTP II (3) Hawassa Industrial Park
<PHASE 3> Session 1 Feb. 2017	(1) Japan's industrial cooperation for GTP II (2) Asian experience of high growth & income polarisation/equalisation	(1) Anti-export bias & effects of export incentives (2) Youth Revolving Fund (3) Impact of urban job application assistance
Session 2 Nov. 2017	(1) Productivity in Ethiopia & Sri Lanka (2) Productivity issues in Vietnam	(1) Productivity of garment & metals sectors (2) Mini review of productivity studies & data

Source: prepared by the authors based on JICA & GRIPS Development Forum (2016).

The most prominent features of Ethiopia–Japan Industrial Policy Dialogue have been as follows. First, many of the proposed actions were actually adopted by the Ethiopian government either partially or fully. Second, Ethiopian leaders asked Japan to be direct and frank rather than polite and diplomatic, and discussion has always been held in this spirit. Third, the Japanese often stressed quality over speed in policy making, an idea which Ethiopians did not accept. The difference in policy stance between the two nations is a permanent trait of this dialogue, and this is now accepted as given. Fourth, topics were selected carefully and at the last minute to cover the burning issues of the day rather than set a few years in advance. Fifth, Japanese resources and concrete industrial projects were mobilised to realise some—if not all—of the proposals made during the dialogue sessions so that talk actually led to action instead of remaining just talk. Sixth, past East Asian experiences have increasingly become pertinent to Ethiopia as it focuses on skills, productivity, value creation, and attracting high-quality manufacturing FDI. Seventh, Japanese policy support in Ethiopia is conducted within the network of various private and public actors from Japan as well as other advanced or emerging economies because, unlike in Southeast Asia, Japan is a small player in Africa and cannot achieve its purposes through bilateral official efforts alone.

Evolving policy issues

As noted above, the Ethiopia–Japan Industrial Policy Dialogue has been conducted jointly by the GRIPS Development Forum and JICA at three levels: Prime Minister, Ministers and State Ministers, and officials and experts at the operational level. It has covered broad subjects. In sessions with these three different levels of dialogue partners, topics often overlapped but were not exactly the same. As circumstances surrounding Ethiopia and attention of policy makers shifted, topics also evolved from basic learning to implementation of new tools such as kaizen, champion exports, productivity movement, industrial park design, handholding,[4] and the like. Once debated, policy ideas were followed up by concrete industrial projects. Naturally, one cannot expect all suggestions to be accepted by the Ethiopian government, but many points raised in the bilateral policy dialogue were seriously considered by Ethiopian authorities and shaped their policies. The ratio of such effective policy advice was surprisingly high—about half or more—whereas in most other countries policy proposals are heard only to be ignored.

In the first phase of the Industrial Policy Dialogue (2009–11), both sides deepened knowledge of each other. Ethiopians explained existing policies such as ADLI and PASDEP while the Japanese side explained how East Asia and the rest of Africa designed and implemented policies and how they made the necessary institutional arrangements for policy coordination. Facilitation of such mutual understanding was key to ensuring the quality of policy dialogue that followed. Separately, Meles requested information packages on many issues he personally wanted to investigate, and they were compiled and sent to him.[5] Since

[4] Handholding (also called hands-on or *yorisoi* support) is an intensive SME promotion method practised in East Asia including Japan, South Korea, Taiwan, and Malaysia. It selects a small number of firms that show an appropriate attitude and potential, sets a single business goal (export, product development, etc.) and a customised support menu for each firm, and implements the support needed for two to three years until the firm succeeds. It is an invitation-only programme, not one to which any firm can apply.

[5] The information packages included topics such as Japanese technical education, rural life improvement movements in East Asia, steel industry, chemical industry, international comparison of industrial policy formulation methods, and how Japan and South Korea absorbed technology through foreign-aided industrial projects. Additionally, *Introducing Kaizen to Africa* (2009) and *Kaizen National Movement* (2011) were provided in book form.

Ethiopia–Japan industrial cooperation started with kaizen, much time was spent on how it should be localised and enhanced in Ethiopia. Much advice was also given to the next five-year development plan under preparation which was initially called PASDEP II and later renamed the Growth and Transformation Plan (GTP). Many ideas were offered, including incorporation of concrete quality and productivity targets, but the final version of GTP did not contain much of these. This was questioned by the Japanese side, and Ethiopian leaders promised that this would not happen again.[6] In April 2013, they officially asked the GRIPS team to assist with formulation of GTP II.

The second phase of policy dialogue (2012–15) began with a proposal to enhance export promotion, with a particular focus on the creation of narrowly selected, culture-laden, high-quality champion products with national branding rather than general export promotion. Ethiopian private firms enthusiastically supported this idea, and JICA's champion product approach project was launched. Japan's intention was to add customer orientation to Ethiopian policy making. Kaizen had become popular by then but it only dealt with supply-side efficiency at production sites while demand-side consideration was missing. Another important theme in the second phase was improving FDI policy because manufacturing FDI inflow was accelerating. Other countries' experiences were reviewed along with JICA's cooperation with FDI agencies in latecomer countries. In this connection, in 2013 a large Ethiopian delegation headed by a Ministry of Industry State Minister was dispatched to Malaysia to learn from its FDI and export promotion agencies, and related issues such as one-stop investor services, handholding support, and industrial park management were also discussed. As requested by the national leaders, the policy dialogue also advised on the content of the upcoming GTP II. Unlike the previous GTP, many of the recommendations actually made it to the final document, including the light manufacturing vision, kaizen philosophy and targets, and extensive use of the phrase "quality, productivity and competitiveness" throughout GTP II.[7] A paper summarising remaining industrial policy issues, as seen from the Japanese side, was drafted at the end of the second phase (JICA & GRIPS Development Forum 2016). Many policy actions that started in the second phase continued to be implemented in the following phase.

The third phase starting in 2017 turned to productivity as the core issue for Ethiopia in the years to come. In fact the wage–productivity nexus and related Asian experiences of managing—or failing to manage—this delicate balance had already been discussed towards the end of the second phase. A mini-survey on Ethiopia's past productivity tools (kaizen,

[6] The word 'kaizen'—and other productivity tools such as benchmarking and twinning—were not even mentioned in the GTP. There were objections from the Japanese team because this was contrary to the ongoing kaizen fever as well as the great importance the Ethiopian government attached to the upgrading of human capital and technology.

[7] Even though quality, productivity, and competitiveness (QPC) were highlighted, the government admitted that it was not sure exactly what these meant or what additional policies were needed to achieve them. Japan was thus asked by the Ministry of Industry to become a lead donor on QPC promotion.

benchmarking, and twinning) was conducted, and existing Ethiopian studies and data were reviewed in anticipation of a new report on productivity. Annual manufacturing data collected by the Central Statistical Agency was targeted for cleaning and panel data construction. An in-depth firm survey to identify the cause(s) of success and failure in labour management and incentivisation is planned. Besides these, a Japanese private developer is about to create a rental factory zone dedicated to Japanese investors inside Bole Lemi II Industrial Park, while JICA experts are assisting IPDC and EIC in hard and soft aspects of attracting FDI. The Japan External Trade Organization (JETRO) explained its experience of combined export and FDI promotion. Support for manufacturing SMEs is also being initiated, and will be strengthened and integrated in the future. In particular, handholding support in metals and engineering, a sector that Ethiopian leaders regard as critical but where international cooperation has so far been thin, has begun. Mobilisation of selected Ethiopian researchers for substantive preparation and discussion of the Industrial Policy Dialogue is another goal to be pursued in the third phase.

Kaizen itself warrants some further remarks. Japanese industrial cooperation in Ethiopia began with kaizen, and policy dialogue initially discussed the various practical aspects of kaizen to support JICA's project. Common questions about introducing kaizen were also discussed.[8] But as experience and knowledge were gained, day-to-day management and troubleshooting were delegated first to JICA experts, then to the Ethiopian Kaizen Institute (EKI). Ethiopians can now teach kaizen to other Africans bilaterally and through the New Partnership for Africa's Development (NEPAD),[9] a great achievement of which Japan is very proud. Even so, policy concern on kaizen of both Mr. Meles and Mr. Hailemariam remained considerable, and kaizen continued to be deliberated at almost each dialogue session with the Prime Minister. Among many issues, the most crucial is how kaizen can be transformed from a fashionable but superficial tool to be abandoned shortly, to the deeply ingrained national philosophy so that it will be practised willingly and forever without external coercion or instruction. This we call the 'mindset problem'. A national productivity movement is a partial answer to this. Kaizen Month was one proposal accepted by Prime Minister Hailemariam, and September was designated Ethiopia's Kaizen Month (in Japan or Singapore November is Kaizen Month). City kaizen movement, as well as coaching of sectoral institutes so they can teach basic kaizen to firms

[8] In most countries, introduction of kaizen raises two questions. The first is the effectiveness of kaizen in a country where a different mindset and culture from Japan's prevail. However, the fact is that peoples very different from Japanese, such as Indians and Latin Americans, produce similar gains with kaizen as there is no place on earth where conscious *muda* elimination fails to boost productivity. The second is whether kaizen is compatible with other methods such as benchmarking, business process re-engineering, and balanced score cards. The answer is that they are mutually consistent, at least in theory, but we need to pay attention to the pressure imposed on enterprise managers and workers who are asked to use many productivity tools at the same time.

[9] NEPAD is the socio-economic development flagship programme of the African Union (AU), with a vision and framework that facilitates and coordinates the development of continent-wide programmes and projects, mobilises resources, and engages the global community, Regional Economic Communities, and AU member states in the implementation of these programmes and projects.

under their responsibility, are other important drives by EKI through purely Ethiopian initiative. But more needs to be done to solidify kaizen in the minds of all Ethiopians.

Thus, within several years, Ethiopia–Japan industrial policy dialogue has grown to cover much ground, combining talk with many actions in industrial cooperation. It is the broadest industrial cooperation menu for Japan in Africa, and its content is essentially the same as Japanese industrial cooperation in latecomer economies in Southeast Asia.

It is important to recognise that Ethiopia is learning from many others, not only from Japan or East Asia. Officials, businesses, and experts from the West and emerging economies are also mobilised for Ethiopian industrial learning. Germany can teach many topics including technical and vocational education and training (TVET) and business associations, Italy teaches leather and fashion, France brought wine to the Rift Valley, the Netherlands leads on floriculture, USAID can help Ethiopia to reach the US market, and both the UK and the EU have large budgets for industry-related projects. India helps the Leather Industry Development Institute (LIDI), the Ethiopian Textile Industry Development Institute (TIDI), and the Metals Industry Development Institute (MIDI) with twinning arrangements. The World Bank, which previously promoted private-sector capacity building through a matching fund, now offers a broader range of support to Ethiopia including industrial parks, women entrepreneurs, and job creation for refugees (together with the UK and the EU). The International Labor Organization (ILO) is actively developing 'decent work'-related projects, in partnership with European donors and FDI firms. UNIDO has designated Ethiopia a model partner country for inclusive and sustainable industrial development.

Three things can be said about this situation. First, while virtually all bilateral donors now engage in industrial support—unlike the past—most newcomers have little concrete knowledge of industrial project implementation and rely heavily on NPOs, businesses, and the matching fund method. This is not the case with JICA or German development cooperation (such as GIZ) which have extensive industrial experience on the ground. Second, Japanese advice is often unique and different as it stresses (some say excessively) quality, productivity, and on-time delivery, while European buyers are more worried about labour and environmental conditions at the factory than perfect stitching and packaging of the product. Ethiopia needs to understand this difference, and hopefully to learn from both. Third, industrial strategies in East Asia are not all the same; policies across countries and over time have both commonalities and differences. Japan does not represent all of East Asia, and it only practises and teaches one particular model derived from its own history and social structure. Even then, it is hoped that the Japanese model, especially its spiritual and methodological aspects, is instructive in realising Ethiopia's economic aspirations. Japan can also talk about how other economies in East Asia are catching up due to its long experience of assisting them.

Ethiopia and the 'Flying Geese' pattern of East Asia

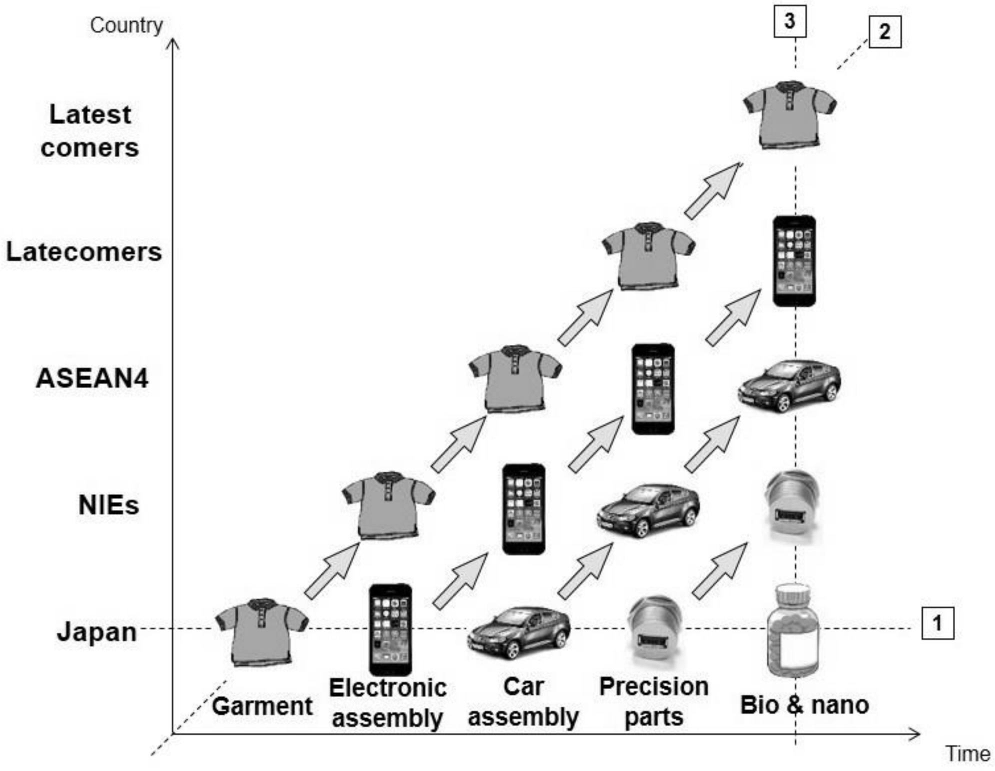
East Asia is unique because it has attained economic development through the very existence of the East Asian region as a powerful arena for policy learning, production cooperation, and business competition among its member countries, and not by the effort of each country alone. One by one, countries in different development stages have participated in the dynamic production network created by private multinational corporations. Linked by trade and investment and assisted by economic cooperation, a regional division of labour with a clear order and structure emerged. Industrialisation proceeded through geographic widening on the one hand and structural deepening within each country on the other. This supply-side phenomenon is called the Flying Geese pattern, through which East Asia has become the global factory of manufactured goods. No other developing region has such a collective growth mechanism.

For any economy in East Asia, development means jumping into this arena and becoming one crucial link in it, being on the receiving end of competitive pressure as well as cooperation from neighbouring economies, and upgrading industrial capabilities along the technological ladder. Over time, industries are passed from advanced economies to less advanced ones through FDI, so all latecomers seek to absorb as much manufacturing FDI as possible. What drives these countries is not conditionalities or policy matrices imposed by international organisations, but a nationalistic urge to achieve industrial excellence by copying the good practices of others.

Figure 45.1 illustrates industry passing among 'Flying Geese'. Taking a country (say, Japan), we can observe the transition of main activities along the time axis (direction 1). Looking at a product (say, garment), we can diagonally trace shifting production sites across countries (direction 2). Taking a time (say, now), geographic distribution of activities within East Asia can be explained (direction 3). While reality is a little more complex than this, the picture illustrates, to a first approximation, the story of how order and structure are created in the regional production network.

For a long time Japan was the leading bird in this configuration, but late starters such as South Korea, Taiwan, and China are now ahead of Japan in certain high-tech and electronics sectors. In view of this, some observers say that the Flying Geese are now dead, and that what we see is random acrobatic flight. Even with some shifting players, however, order and structure are still clearly visible in East Asia—except that they are not exactly the same as before. If we allow the possibilities of overtaking and leapfrogging, we can confirm that the Flying Geese are still alive and well.

Figure 45.1: Structural transformation in East Asia



Source: prepared by the authors based on JICA & GRIPS Development Forum (2016).

An accelerating inflow of labour-intensive light manufacturing FDI from emerging economies, including China, into Ethiopia implies that Ethiopia has just joined the Flying Geese formation of East Asia at its tail. FDI is also arriving from non-East Asian regions—India, Turkey, EU, USA, and so on. This means that Ethiopia has entered an era in which past and current growth experiences of East Asia—both successes to emulate and failures to avoid—are directly relevant to its policy formulation. There is no other country on the African continent to which this statement applies more aptly. The policies needed to propel Ethiopia's industrialisation forward must be forged carefully, and East Asia can offer many concrete suggestions.

Remaining differences and difficulties

East Asia exhibits a mixture of diverse developmental performance. Not all economies show miraculous growth. Some have already finished climbing to high income but others are trapped in upper- or lower-middle income, and still others have not even attained early industrialisation.

Colonialism, wars, and late start certainly mattered in the past, but the cause of diverse performance today essentially boils down to the presence or absence of two fundamental factors—private dynamism and policy competence. Japan, Singapore, Taiwan, and South Korea, which possessed vibrant private and public players, did not stop on the way to high income even though political and/or military shocks sometimes intervened temporarily. Meanwhile, the economies of Malaysia, Thailand, the Philippines, Indonesia, and Vietnam are slowing down at the middle-income stage due to various internal weaknesses. Cambodia, Laos, and Myanmar are at a very early stage of FDI-led growth with low industrial skills and technology. China, a huge country with many positive and negative aspects, is a special case for which simple assessment seems hardly possible.

Until recently Ethiopia resembled the third group of poor countries but it has made a big leap in the last fifteen years or so. The immediate national goal should be to catch up with East Asia's second group, namely, attaining middle income by 2025. Beyond that, the country has to avoid a middle-income trap, and this requires enhancement of private dynamism and policy competence for which effort must start now, not after 2025, to avoid slowdown at that time (see Chapter 37). Given this perspective, four final remarks are in order.

First, Ethiopia began from a very low point socially and economically and, despite recent high growth, it still stands at a low level on the long journey to industrialisation. The private sector is very weak (see Chapter 35) and industrial policy remains primitive by East Asian standards even though national leaders are very active, manufacturing FDI is pouring in, and new buildings and infrastructure are being erected. Weaknesses are visible in the lack of elementary skill and discipline in workers, low productivity, slow growth, and the stagnant output and export of manufactured products (see Chapters 32 and 33). The business climate is unfavourable, Ethiopia ranking 161st among 190 entities in the World Bank's Doing Business assessment in 2018. National aspiration is high but current achievement is low. This hard fact must be admitted, and policy must be drafted in a pragmatic way to reflect this reality.

Second, the lack of competent technocrats prevents policy ideas being put into practice. Policy is often made hastily at high level without consideration of the applicability of the detailed design to Ethiopian reality. Speed is prioritised over quality. Top leaders are very busy but the rest of the administrative machinery seems inactive or incompetent—or both. In high-performing East Asian governments, policy decision is made interactively in both top-down and bottom-up directions. A vision is first handed down from the top, then details are researched and decided by competent mid-level officials. Ministers are briefed on the essence and approve the final document. In Ethiopia, where such interactive decision making does not occur, all substantive negotiation must be done with ministers or state ministers. This situation is surely not unique to Ethiopia; many developing countries face the problem of weak bureaucratic machinery. Analysts in East Asian studies conclude that a thick layer of professional and politically insulated technocrats have contributed greatly to high growth in such countries as Japan, Singapore, South Korea, and Taiwan (World Bank 1993, Campos & Root 1996), whereas countries without them are unable to rise beyond middle income. Ethiopia needs dramatic administrative reform that significantly boosts the capacity of bureaucrats while reducing their number.

Third, Ethiopia's industrial growth is taking place in Africa where conditions are quite different from East Asia. As noted above, the principal difference is the absence of the 'Flying Geese' pattern featuring a leading nation and structured layers of follower nations, and the resulting lack of strong trade, FDI, and aid linkages and technology transfer within the region. East Asia as a region provided a dynamic ground for each country to grow in mutual competition and cooperation, letting latecomers emulate the good practices of advanced teachers. But no such regional production network exists in Africa. The relatively low income and small market size of Africa is another negative factor, which prompts most exporters to target EU or US markets using trade access privileges such as 'Everything but Arms' (EBA) and the African Growth and Opportunity Act (AGOA). This means that Ethiopia must industrialise as a solitary bird. It must directly face the global economy and work with any partner companies or countries from any region that offer business or cooperation opportunities because Africa as a region does not function as a collective factory or mentor. This requires certain adjustments when adopting East Asian lessons, especially regarding the formation of foreign partnership in marketing and knowledge transfer.

Finally, in today's world, there are newly emerging opportunities which Ethiopia should capture. In the twenty-first century, accelerated globalisation and advances in ICT are changing the path of economic development. Due to technological progress and the reduced costs of transport and telecommunications, production of goods and services is becoming increasingly fragmented and is taking place in global networks spanning many countries. Global value chains are usually driven by lead firms which coordinate design, logistics, component supply, assembly, marketing, and branding in multiple locations around the globe to optimise their sourcing strategy (Bernhardt 2013). In this age, the absence of the 'Flying Geese' pattern around Ethiopia may no longer pose serious disadvantages because Ethiopia can participate in global value chains by becoming part of a particular chain where the country has comparative advantages—without necessarily having linkages at or near home (AfDB, OECD & UNDP 2014). Yet, this requires vigorous efforts by the public and private sectors to enhance their policy, human, and enterprise capabilities so that the country can satisfy the international standards required by lead firms and keep upgrading its position in global value chains. This is a tall order for a latecomer. Geography and distance have certainly become less important than in previous centuries, but whether they have become irrelevant for economic development is an open question.

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