Topics

- Reviewing industrial policy debate
- Middle income traps and proactive industrial policy
- Japanese approach and entry points to African development
- Policy dialogue with Ethiopia
## Industrial Policy Debate

**Washington Consensus (IMF, WB)**
- I. Liberalization, privatization, integration + macroeconomic stability
- II. Good governance, “doing business” approach (investment climate)

**Opponents**
- Globalization favors early achievers and prevents catching up of latecomers
- Markets (esp. uncontrolled financial markets) are often de-stabilizing
- Government has an important role to play in supporting private sector

## Promoters of Policy Activism

**Ha-Joon Chang** (2002)
- Past latecomers (US, Germany, Japan, etc) all used infant industry promotion for catching up.
- Import protection, export subsidies, etc. should be permitted to today’s latecomers to upgrade industries.

**Justin Lin** (2009, 2010)
- Industrial diversification and upgrading, in dynamic steps, is crucial. Government should play an active, facilitating role.
- Industrial policy should follow a country’s comparative advantage, not go against it.
Promoters (cont.)

**Dani Rodrik** (2007)
- Remove most binding constraints for kick-starting growth ("growth diagnostics").
- Institution-building for sustaining growth.
- Help innovators only, not copycats.

**Cimoli, Dosi, Stiglitz** (2009)
- Accumulation of knowledge and organizational capabilities is key.
- Markets do not automatically achieve this; policy space should be expanded to promote it.

Many Countries Willing to Learn

- East Asia generally accepts government's role in industrialization. No allergy to "industrial policy."
- In Africa: Ethiopia, Zambia, Rwanda, Uganda, Tanzania, Egypt, Tunisia, Namibia, African Union... are seriously interested in industrial policy or implementing it.
- Ethiopian senior economic advisor: “We want action-oriented advice, not academic theories.”
- Vietnamese economists: “WB's policy proposals are too mechanical and not concrete enough for Vietnam.”
Theory vs. Practical Guidance

- Validity of industrial policy argument depends on actual successes on the ground.
- For industrial policy “converts,” pragmatic and detailed guidance is needed, not theoretical justification of industrial policy.
- Japan, Asian Tigers, ASEAN, and China industrialized through self-study, learning from neighbors, and trial-and-error.
- Today’s latecomers also face random and fragmented advice. No systematic instruction exists for policy design and implementation.

Systematic Instruction on Industrial Policy Making is Needed

Featuring:
- Strong country ownership
- A policy package tailored to each country
- Policy learning and gradual expansion of policy space
- A comprehensive policy menu to choose from, based on international comparison of concrete policy measures
- Policy dialogue with advanced country experts (coaching and tutoring)

Ethiopia: “Please show us how East Asian countries draft industrial master plans and action plans.”
How Much Is Real Debate?

- While some reject “industrial policy” emotionally, many of its components are already widely accepted and practiced.
- PSD, TVET, HRD, PPP, capacity development, marketing, investment climate policies... largely overlap with “industrial policy.”
- Theoretical differences melt away at operational level:
  - Follow or defy comparative advantage? (eg. Finland’s Nokia, Korea’s Pohang Steel)
  - General support vs. targeting sectors (“selective” industrial policy)

Speed of Catching Up: East Asia

Per capita real income relative to US
(Measured by the 1990 international Geary-Khamis dollars)

Latin America

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)

A certain income level can be reached by liberal policies, but higher income requires strong policy effort to enhance private dynamism.

Growth based on FDI, ODA, big projects, natural resources, and other given advantages will eventually end.

The true source of development is value creation by humans (knowledge, skills, technology).

A national mechanism must be established to promote human capital formation. This is possible even under globalization, but method must differ from past policies. I call it “proactive industrial policy.”
Proactive Industrial Policy: 
Seven Required Features

1. Strong commitment to global integration and private sector driven growth
2. A wise and strong government guiding private sector
3. Securing sufficient policy tools for latecomer industrialization
4. Constant policy learning through concrete projects and programs
5. Internalization of knowledge, skills and technology as a national goal
6. Effective public-private partnership
7. Collection and sharing of sufficient industrial information between government and businesses

Standard Policy Menu for Enhancing Industrial Capability

<table>
<thead>
<tr>
<th>Framework</th>
<th>Policy content &amp; policy organization</th>
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<tbody>
<tr>
<td>Vision-Plan-Action</td>
<td>Ministries &amp; agencies</td>
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<tr>
<th>Software</th>
<th>Enhancing industrial human and enterprise capability</th>
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<tr>
<td>Policy framework</td>
<td>Finance</td>
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<tr>
<td>Human capital</td>
<td>FDI/cluster policy</td>
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<td>Enterprise support</td>
<td>Business linkage</td>
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<th>Hardware</th>
<th>Innovation</th>
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<td>Infrastructure (power, transport/logistics)</td>
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<tr>
<th>Application (hard+soft)</th>
<th>Comprehensive regional development</th>
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## Enhancing Industrial Human and Enterprise Capability: Standard Menu for Latecomers

<table>
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<tr>
<th>Main objectives</th>
<th>Sub items</th>
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| **(1) Legal and policy frameworks** | Laws and regulations  
Ministries/agencies for promoting SMEs, FDI, etc. with sufficient capability and authority  
Inter-ministerial coordination mechanisms  
Effective public-private partnership (PPP)  
Mechanism for business-government-academia linkage  
Policy system consisting of visions, roadmaps, action plans, and monitoring  
Standards for quality, safety, skills, environment, etc.  
Mechanisms for protecting and utilizing intellectual property rights  
Strengthening of industrial statistics  
Strategic mobilization of international cooperation |
| **(2) Local capacity building (industrial human resource and local enterprises)** | Universities of technology and engineering, industrial colleges  
Short-term courses for entrepreneurs  
Technical support on specialized skills for engineers  
Technical and vocational training for new or current workers  
Skill certification, competition, and awards  
Subsidies and incentives for targeted activities (worker training, technology transfer, die and mold, marketing, ITC, etc)  
Management or technical advisory service (by visiting consultants, short-term)  
Enterprise evaluation and advice system (institutionalized shindan system or technical extension services) - also related to SME finance  
Local enterprise networks |

### (Cont.)

| **(3) Finance** | Development financial institutions  
Subsidized commercial bank loans for targeted firms (two-step loans)  
Credit guarantee system  
Equipment leasing  
Venture capital  
Enterprise credit information system  
Enterprise evaluation and advice system (same as in (2)) |
| **(4) FDI marketing** | List of priority products and activities and a system of investment incentives  
Investment promotion seminars and missions  
Effective investor information package and website  
Investment promotion offices abroad  
One-stop services and enterprise support (before and after investment)  
Upgrading infrastructure service quality (power, transport, water, etc)  
Environmental control and facilities (incl. waste water treatment)  
Industrial estates with sufficient infrastructure services and administrative services (incl. specialized industrial parks)  
Labor support (training, recruiting & matching, housing/dormitories, commuting, health care, etc)  
Prioritized and targeted FDI marketing  
Inviting individual target company ("anchor firm") and provision of required conditions |
| **(5) Linkage (learning by working with global standard firms; market development)** | Trade fairs and reverse trade fairs  
Enterprise databases (SMEs, supporting industries, sectoral)  
Official intermediation/promotion of subcontracting  
Incentives/subsidies for FDI-local firm linkage  
Domestic and export market development support  
Establishment and enhancement of industry associations |
Learning from East Asia

- NOT copying some specific policies adopted in some East Asian country to Africa.
- Learning *mindset* and *methodology* of designing and implementing industrial strategies.
- There is a standard industrial policy menu, but selectivity and adjustment are needed to adapt to unique conditions of each country.
- The Eastern approach should be complementary to the Western approach.

Features of Japanese Approach to Development

**Pragmatism and concern with specific industries:**

- **Target orientation**—striving for concrete vision, targets, roadmaps, and actions instead of general capability improvements.
- **Field (gemba) orientation**—working on factory floor or crop field to solve concrete problems.
- **Joint work**—transferring skills and knowledge to developing countries by working together (OJT); no parallel mechanisms.
- **Dynamic capacity development**—policy learning and expectation of graduation from aid.
Entry Points for Japan’s Industrial Cooperation in Africa

Japan, a small investor and donor in Africa, but with East Asian experience, can offer the following:

1. For a country with reasonable visions and plans, **standard policy tools** (training, quality control, *kaizen*, SME promotion, etc.) can be provided.
2. **Policy dialogue** for making and strengthening visions and strategies.
3. **Comprehensive regional development** with core infrastructure, supported by HRD, regional planning, industrial support, rural development, etc.
4. Creating **enabling environment for Japanese investment** under the principle of open access and non-excludability.

Initiation of Bilateral Policy Dialogue with Ethiopia

- **May 2008**: the 4th Tokyo International Conference on African Development (TICAD IV): Japanese commitment to increase cooperation in Africa.
- **July 2008**: PM Meles’ request for two-part cooperation: (i) *kaizen* (factory improvement) by JICA; and (ii) policy dialogue with GRIPS. Actually, two components are implemented jointly by GRIPS and JICA.
- **July 2008**: Preparation
- **June 2009**: Official launch of the 2-year project.
Purposes of Policy Dialogue with Ethiopia

- Transferring *mindset* and *methodology* of East Asian policy making through concrete issues and projects.
- Establishing linkage between policy dialogue and Japan’s industrial projects in Ethiopia.
- Cooperation and networking with other projects, donors, and academic institutions.
- Create pilot projects which should be scaled up by Ethiopian effort.
- Promoting industrial policy dialogue in the rest of Africa (if successful).
- Providing specific information upon request (Japanese TVET system, *kaizen*, metals, rural life improvement movement, etc).

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- Preparation
  - Topics: development regime, *kaizen*, policy documents, five-year plan, metal processing, import substitution, etc.
- Industrial policy dialogue
- Spring 2011

- Industrial support projects
  - Kaizen (30 pilot firms)
  - Basic metal & engineering industries study (With ECBP)
  - Institutionalization of kaizen
  - Other?
Participants of Industrial Policy Dialogue

**Ethiopian side (3 levels)**
- Prime Minister Meles Zenawi
- High-level policy makers headed by Ato Newai (Senior Economic Advisor to PM) and Ato Tadesse (State Minister of Industry, MOTI)
- Operational levels

**Japanese side**
- GRIPS researchers
- JICA officials and experts
  Supported by Japanese Embassy in Addis Ababa

Note: the Japanese team visits Ethiopia every three months for policy dialogue. Additional visits by Japanese experts and project teams. Ethiopian visits to Japan and other countries as needed.

Topics of Policy Dialogue in the First Year

- Democratic Developmentalism (DD) and Agricultural Development Led Industrialization (ADLI), with PM.
- Possibilities of agricultural breakthrough and rural life improvement movement, with PM.
- Desirable structure of policy documents and policy organization from East Asian perspective.
- Advice on the industrial chapter of PASDEP II.
- Pitfalls of import substitution.
- Differences and complementarity between *kaizen* and benchmarking; institutionalization of *kaizen*.
- Basic metal and engineering industries from international perspective.
## Issues Discussed at High Level Forums

<table>
<thead>
<tr>
<th>Japanese side</th>
<th>Ethiopian side</th>
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| **1st HLF** (Jun. 2009) | **1.** "JICA’s plan for policy dialogue and development study" (Masafumi Kuroki)  
**2.** "ADLI and future directions for industrial development" (Kenichi Ohno) | **1.** "Evaluation of current PASDEP focusing on industrial development and related sectors" (HE Tadesse Haile) |
| **2nd HLF** (Sep. 2009) | **1.** "Cross-cutting issues on industrialization and policy menu under the age of globalization: examples from East Asia" (Kenichi Ohno)  
**2.** "Organizational arrangements for industrial policy formulation and implementation: examples from East Asia" (Izumi Ohno)  
**3.** "Planning and decision-making process for SME policies in Japan" (Go Shimada) | **1.** "Comments and feedback by the Policy Dialogue Steering Committee on the presentations by GRIPS and JICA" (HE Tadesse Haile) |
| **3rd HLF** (Nov. 2009) | **1.** "Designing industrial master plans: international comparison of content and structure" (Kenichi Ohno)  
**2.** "Industrial policy direction of Ethiopia: suggestions for PASDEP II and the next five years" (Izumi Ohno) | **1.** "Concept for the industrial chapter of PASDEP II and the formulation plan" (HE Tadesse Haile) |
| **4th HLF** (Mar. 2010) | **1.** "Basic metals and engineering industries: international comparison of policy framework and Ethiopia’s approach" (Toru Homma) | **1.** "Draft plan of industry sector for PASDEP II" (HE Tadesse Haile)  
**2.** "Overview, contents of PASDEP II draft of chemical subsector" (Shimelis Wolde) |
| **5th HLF** (Jul. 2010) | **1.** "Result of basic metal and engineering industries firm-level study – parts conducted by MPDC and JICA" (Toru Homma) | **1.** "Report of kaizen training for capacity building of Kaizen Unit and Pilot Project companies in Japan, Osaka Team" (Tola Beyene)  
**2.** "Report of kaizen training for capacity building of Kaizen Unit and Pilot Project companies in Japan: Chubu Team" (Bekele Mekuria)  
**3.** "Concept of kaizen institutionalization and establishment of Ethiopian Kaizen Institute" (Getahun Tadesse) |

## Features of Ethiopian Industrial Strategy

- Unique development strategy based on DD and ADLI: strong state guiding private sector, interest in East Asia.
- Linkage between policy learning and expansion of policy scope
  - **Around 2003-now:** promoting a few export sectors with incentives and donor support; learning BPR, benchmarking, policy documents, scaling up of pilots, twinning, public-private dialogue, kaizen...
  - **PASDEP II:** addition of import substitution, kaizen institutionalization, etc. as policy capability has risen.
Expanding Policy Scope

- The need for broadening the policy scope was also suggested by Dani Rodrik (2008) and World Bank:
  - Move from 1st to 2nd generation industrial policies.
  - Support investors beyond current priority industries.
  - Broaden the list of policy instruments.

- Our approach
  - Emphasis on policy evolution—matching the speed of policy learning with policy expansion.
  - Supporting policy expansion with concrete, hands-on information, studies, and technical cooperation to avoid policy mistakes and political capture.

Recent Developments in Ethiopia

- National election in May 2010 – landslide victory for the ruling party (EPRDF).
- PM Meles will stay for five more years.
- A new government will be appointed in Sep.2010.
- A new five-year plan (Growth & Transformation Plan 2010/11-2014/15):
  - Targeting double digit growth or even 15% growth (doubling income in 5 years)
  - Shifting from agro-based to industry-driven growth
  - Mobilizing kaizen, new SME policy, import substitution, and other policy measures
Draft Interim Report (June 2010)

A collection of documents prepared by GRIPS Development Forum for bilateral policy dialogue.

Ch.1 – Introduction
Ch.2 – Democratic Developmentalism (DD) and Agricultural Dev. Led Industrialization (ADLI)
Ch.3 – Broadening the policy scope: cross-cutting issues
Ch.4 – Broadening the policy scope: organizational arrangements
Ch.5 – Policy direction for the next five years
Ch.6 – An international comparison of industrial master plans

Ch.2 – DD and ADLI

- Review of Ethiopia’s steps toward a developmental state since the 1990s, and early results.
- Democratic Developmentalism—definition, issues, comparison with East Asian developmental states.
- Agricultural Development Led Industrialization—core ADLI, enhanced ADLI, further expansion of policy scope and measures.
Ch.3 – Cross-cutting Issues

Critical review of Ethiopian industrial policies:
- Policy framework and structure
- Past review and future evaluation
- Time dimension of industrial promotion
- Import substitution
- Industrial clusters and corridors
- SME promotion

Ch.4 – Organizational Arrangements

Introducing East Asian experiences on:
- Leadership and a technocrat team
- Mechanisms for inter-ministerial coordination and stakeholder involvement
- Mechanisms for executing high priority policies
- Implications for Ethiopia
Ch.5 – Policy Direction for the Next Five Years

Based on current PASDEP and discussion with MOTI, advice was given on:

- Recent performance
- Proactive industrial policy
- Expansion of policy scope and measures
- Internalizing skills and technology
- Priority sectors
- Priority issues
- Numerical targets
- Policy documents and organization

Ch.6 – An International Comparison of Industrial Master Plans

Upon PM’s request, a quick study was conducted on industrial policy documents in Asia:

- Master plan types
- Chapter components
- Required features
- Relative scope of government vs. market
- Concrete examples from Asian policy documents: Thailand, Malaysia, etc.
- Recommendations for Ethiopia