Topics

- Need for a systematic and pragmatic policy learning program
- Study standard policy menu as building blocks for tailor-made policies
- Japanese aid approach and entry points to African development
- Example: Ethiopia-Japan Industrial Policy Dialogue
Learning from East Asia

- NOT copying some specific policies adopted in some East Asian country to Africa.
- Learning *mindset* and *methodology* for designing and implementing industrial strategies. Learn how to make policies.
- International best practices should be studied systematically as building blocks for a policy package suitable for each country.

To be avoided:
- Blind & random copying without local context
- Refusal to learn because “our country is unique”
Research in Industrial Policy

**Type 1 – Theoretical:** General and often ideological debate over “industrial policy”: Washington Consensus vs. J.Stiglitz, D.Rodrik, H.J.Chang, Justin Lin, G.Dosi...

**Type 2 – Historical:** Narration or analysis of concrete policy experiences in particular countries: Japan, Korea, China, Singapore, Malaysia...

**Type 3 – Pragmatic:** Comparative study of international best practices in policy measures, procedure, and organization—for improving policy making.
Willing to Learn

- East Asia widely accepts and practices industrial policy. Latecomers can—and should—learn from more advanced neighbors.
- In Africa: Ethiopia, Zambia, Rwanda, Uganda, Tanzania, Egypt, Tunisia, Namibia, African Union, East African Community... are interested in industrial policy or already 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.”
Systematic Instruction on Industrial Policy Making is Needed

- For industrial policy “converts,” pragmatic guidance, not theoretical justification of industrial policy, is needed.
- Japan, Asian Tigers, ASEAN4, and China industrialized through self-study, learning from others, and trial-and-error.
- Today’s latecomers receive random and not very helpful advice. No coherent instruction on policy making exists. Maybe they need a “school.”
- Basic problems and solutions are generally known to policy makers in each country. What is missing is how (details): how to design and implement priority strategies, how to create supporting mechanisms, etc.
What Need to Be Learned

- Strong leadership and mindset
  - A strong and economically literate leader with clear vision
  - National mindset for productivity & competitiveness

- Policy content
  - Ability to select, combine and modify international best policy practices to create own policy package
  - *Proactive industrial policy*—policies must be consistent with globalization and market orientation

- Policy procedure and organization
  - Creation of suitable policy system from alternative international models
  - Constant evolution with shifting weights of state vs. market

At the outset, policy dialogue with experts/practitioners from advanced economies may be helpful (initial guidance, private tutoring)
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 in East Asia
(But Contents Are Not Very Well Known in Africa)

- Kaizen (factory productivity improvement tools)
- Shindan (SME management consultant system)
- Engineering universities (King Mongkut ITK, Nanyang Polytechnic, Thai-Nichi Institute of Technology...)
- TVET-business linkage (Singapore, Thailand, Vietnam...)
- SME finance (two-step loans, credit guarantees...)
- Integrated export promotion (Korea)
- Industrial zone development (Taiwan, Korea, Thailand, Malaysia, Singapore...)
- Strategic FDI marketing (Thai BOI, Malaysia’s MIDA, Penang, Singapore)
- Supporting industry development (parts & components; Thai auto)
## Enhancing Industrial Human and Enterprise Capability: Standard Menu for Latecomers

<table>
<thead>
<tr>
<th>Main objectives</th>
<th>Sub items</th>
</tr>
</thead>
</table>
| (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 |
| (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/domitories, 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  

Policy Making Procedure

 Necessary steps:
 1. Clear vision given by top leader
 2. Consensus building (broad goals & directions)
     - Brainstorming among related ministries and agencies
     - Collection and analysis of international best practices
     - Discussion with non-government stakeholders
 3. Documentation
     - Drafters can be officials, academics, or consultants
     - Participation of all stakeholders in drafting & commenting
Studies & surveys

Brainstorming

Set broad goals & direction

Drafting work

Comments & revisions

Finalize & approve

1. Vision

2. Consensus building process

3. Documentation process

- Ministries & agencies
- Regions & localities
- Businesses & bus. assoc.
- Academics & consultants

Participation

Participation

Note: the entire process is managed and coordinated by a lead ministry or agency.

- The whole process (about 1 year) is managed by Thailand Automotive Institute (TAI).
- Goals are set by private firms; no government approval is needed for final M/P.

Brainstorming; agreeing on goals & directions

“CEO Forum”
FDI & local firms
Exporters
MoI, MoST, MoEdu
Professors’ team (Chulalornkorn Univ)

Set up formal committee for drafting M/P

M/P Steering Committee
Organized by MOI
Businesses
Officials
Experts

Subcommittees study identified issues

- Human resource
- Productivity
- Marketing
- Engineering
- Investment & linkage

M/P Drafting
By TAI staff

Comment & dissemination

Implementation

Business
Gov’t Experts
(Informal)

Business
Gov’t Experts
(Formal)
Malaysia: 3rd Industrial Master Plan 2006-2020

**Industrial Planning Committee (IPC)**
- Headed by MITI Minister; members from MITI, EPU, economic agencies (27)

**Steering Committee (SC)**
- Headed by MITI Official; members from MITI, EPU, econ. agencies, businesses (23)

**Technical Resource Groups**
- Head of TRG
- Total 288

### Committees and Groups:

- **Advisor/Coordinator**
- **Macro framework** (MITI) (38)
- **External trade** (MATRADE) (19)
- **Investments** (MIDA) (23)
- **SME development** (SMIDEC) (19)
- **Human resource development** (MEF/ MDC) (34)
- **Enabling technologies & ICT** (MIDC) (25)
- **Marketing/branding** (Business) (25)
- **Logistics** (Business) (40)
- **SME development** (MITI) (39)
- **Services** (MIDA) (26)

### Timeline:
- **Sep.2004**
  - **IPC**
  - **SC**
  - TRGs are called and start work
- **Mar.2005**
  - 1st draft brainstorming
  - Review and inputs by private sector & MITI
- **Aug.2006**
  - **IPC**
  - **MITI**
  - More fine-tuning with TRGs
  - **MITI**
  - Final adjustments in data & words within MITI
  - Finish

Note: Numbers in parentheses indicate the number of members in each committee or group.
Common Mistakes

Practices that do not lead to policy learning:

1. Lack of clear vision or directive from top leader
2. Policy making within a narrow circle of officials without deep involvement of other stakeholders
3. Outsourcing of entire policy drafting to outside academics or consultants, with policy makers only making comments & revisions (Marunage)
4. Bottom-up collection of ideas drafted by various ministries which ends up in unconnected chapters and too many priorities
Policy Organization

There are several alternative models to realize proper policy procedure discussed above:

- Elite technocrat group under PM/President to design policies as nation’s brain
- National Councils or Committees
- Super-ministry (eg. Japanese MITI, 1960s)
- Sector/issue-specific institute acting as a hub (eg. Thai auto policy)
- Strong national leader as a policy making hub without institutionalization (eg. Ethiopia)

These approaches are not mutually exclusive. Some countries adopt more than one.
Technocrat Group Approach

- Elite technocrat group with full planning authority given by top leader
- Members are selected officials, business leaders & experts with good education & experience

Korea – Econ. Planning Board
Malaysia – Econ. Planning Unit
Thailand – NESDB
Taiwan – Kuomintang Elites
Indonesia – “Berkeley Mafia”
Chile – “Chicago Boys”
National Council/Committee Approach

Typical configuration:

PM or President

Chair, give mandate

National Council or Committee

Support

working groups or task forces for specific issues and sectors

Ministries and agencies

Plan

Implement

Businesses Academics Experts
## Comparing the Two Approaches

<table>
<thead>
<tr>
<th></th>
<th>Technocrat group serving top leader</th>
<th>National councils/committees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number</strong></td>
<td>Only one</td>
<td>Up to several</td>
</tr>
<tr>
<td><strong>Tasks</strong></td>
<td>Multiple and variable</td>
<td>Single task</td>
</tr>
<tr>
<td><strong>Time scope</strong></td>
<td>Semi-permanent (until this system is no longer needed)</td>
<td>Temporary (until the assigned task is completed)</td>
</tr>
<tr>
<td><strong>Relation with ministries</strong></td>
<td>A planning body above all ministries; the latter are implementing bodies</td>
<td>Ministers and officials participate in policy making as members</td>
</tr>
<tr>
<td><strong>Comment on Ethiopia</strong></td>
<td>PM’s advisors—supporting PM individually but not working together as one autonomous body; no official planning function</td>
<td>Monthly Export Steering Committee—executing and monitoring agreed export policy rather than policy making</td>
</tr>
</tbody>
</table>
Korea 1960s-70s: Economic Planning Board

- Direct control by President
- Korea Dev. Inst. offering analysis for long/medium term economic policies
- Gov’t-business relations were very close & cooperative
- Performance-based rewards & penalties

**EPB**
- Deputy PM
- Development planning
- Public inv’t planning
- Budget
- Monitoring
- Aid management

**State Council**
- Economic Minister’s Council (chaired by DPM)

**President**
- (Blue House)
- Economic Secretariats

**Korea Dev. Institute**

**Gov’t-Business Meetings:**
- Export promotion
- Economic briefs
- HCI drive, etc.

**Ministries/Agencies**
- MTI
- Business
- Finance
Singapore Now: New Productivity Drive

Economic Strategies Committee: Report

National Productivity and Continuing Education Council (NPCEC)
- Chaired by Deputy PM
- Members from ministries/agencies, business, unions
- Joint secretariat: MTI, MOM (ministers)
- Led by MTI, MOM (PS level)
- Inter-agency coordination

Working Committee for Productivity and Continuing Education (WCPCE)
- Review & submit
- Oversight
- Review & approval

Sectoral “Productivity Roadmap” for the next 10 years
- Draft & propose

Financial Incentives
- National Productivity Fund
- Productivity & Innovation Credit
- Skills Dvt. Fund
- Lifelong Learning E.F.

Sector working groups (12 priority sectors)
- Construction: BCA, Unions, Industry
- Electronics: EDB, Unions, Industry
- Precision Eng.: EDB, Unions, Industry
- Transport Eng.: EDB, Unions, Industry
- General Mfg.: SPRING, Unions, Industry
- F & B: SPRING, Unions, Industry
- Retails: SPRING, Unions, Industry

Cross-cutting issues
- Low wage workers
- Research & benchmarking
- Infocomm and logistics
Malaysia Now: National SME Dev. Council

National SME Development Council
Est. 2004, chaired by PM

14 Other Ministries

Ministry of Int’l Trade and Industry (MITI, lead ministry for SMEs)

MITI’s key departments
- Strategic Planning
- Entrepreneurship Development
- Sectoral Policy & Industrial Service
- Investment Policy & Trade Facilitation
- Services Sector Development

Implementing agencies under MITI
- SME Corp. Malaysia (lead agency for SMEs and secretariat to National SME Dev. Council)
- Malaysian Ind. Dev. Authority (investment)
- Malaysia Productivity Corp (research, training, consultation)
- SME Bank (finance)
- Malaysian Ind. Dev. Finance (finance)
- MATRADE (trade)

Private sector partners
Service & training providers (private consultants & companies)

Note: Bank Negara Malaysia (central bank) served as a secretariat to the National SME Dev. Council until the establishment of SME Corp. Malaysia in 2009.
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 eventual graduation from aid. Patience is needed.
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, QC, *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.
Policy Dialogues by Japan and Korea

- Japan’s long engagement in policy dialogues
  - Argentina – Okita Mission, 1985-87
  - Thailand – *Mizutani Report* for SMEs & SI, 1999
  - Indonesia – *Urata Report* for SMEs, 2000; Shiraishi & Asanuma mission for financial crises, 2002-04
  - Laos – Prof. Hara’s Project for overall dev. strategy, 2000-05
  - Ethiopia – GRIPS-JICA, 2009-11

- Korea’s Knowledge Sharing Program (2004-)
  - Policy dialogue (KDI/KOICA: sectoral and cross-cutting issues; mutual visits, seminars & reports) Dom. Republic, Vietnam, Uzbekistan, Cambodia, Indonesia, Algeria, Libya…
  - Policy modules (>100 modules to be created, 40-50pp. each)

Korea is a new comer but makes greater effort to standardize & institutionalize policy dialogue than Japan (case-by-case).
Example: Industrial Policy Dialogue between Ethiopia and Japan

- **May 2008**: the 4th Tokyo International Conference on African Development (TICAD IV): Japan’s 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 (2 sessions).

GRIPS-JICA Industrial Policy Dialogue with Ethiopia (2009-2011)

IPD conference
Jul.2008

Official launch
Jun.2009

Spring
2011

Preparation

Industrial policy dialogue

Interim Report

Final Report

Kaizen Pilot Project (30 firms)

Metal & engineering study
(With ECBP/Germany)

Institutionalization of kaizen

Preparation

Design

Note: black squares indicate policy dialogue in Addis Ababa with (i) Prime Minister, (ii) concerned Ministers and State Ministers, and (iii) operational levels.
Participants of Industrial Policy Dialogue

Ethiopian side (3 levels)
- Prime Minister Meles Zenawi
- High-level policy makers headed by HE Newai (Senior Economic Advisor to PM) and HE Mekonnen and HE Tadesse (Minister & State Minister, MOI)
- 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

- Ethiopia’s key developmental principles (DD & 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.
- Industrial chapter of the new 5-year plan.
- Concept and institutionalization of kaizen.
- Productivity movement of Singapore.
- Basic metal and engineering industries from international perspective and survey results.
# Issues Discussed at High Level Forums

<table>
<thead>
<tr>
<th>1st HLF (Jun. 2009)</th>
<th><strong>Japanese side</strong></th>
<th><strong>Ethiopian side</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) “JICA’s plan to policy dialogue and development study” (Masafumi Kuroki)</td>
<td>(1) “Evaluation of current PASDEP focusing on industrial development and related sectors” (HE Tadesse Haile)</td>
<td></td>
</tr>
<tr>
<td>(2) “ADLI and future directions for industrial development” (Kenichi Ohno)</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>2nd HLF (Sep. 2009)</th>
<th><strong>Japanese side</strong></th>
<th><strong>Ethiopian side</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) “Cross-cutting issues on industrialization and policy menu under the age of globalization: examples from East Asia” (Kenichi Ohno)</td>
<td>(1) “Comments and feedback by the Policy Dialogue Steering Committee on the presentations by GRIPS and JICA” (HE Tadesse Haile)</td>
<td></td>
</tr>
<tr>
<td>(2) “Organizational arrangements for industrial policy formulation and implementation: examples from East Asia” (Izumi Ohno)</td>
<td></td>
<td></td>
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<tr>
<td>(3) “Planning and decision-making process for SME policies in Japan” (Go Shimada)</td>
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</table>

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<thead>
<tr>
<th>3rd HLF (Nov. 2009)</th>
<th><strong>Japanese side</strong></th>
<th><strong>Ethiopian side</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) “Designing industrial master plans: international comparison of content and structure” (Kenichi Ohno)</td>
<td>(1) “Concept for the industrial chapter of PASDEP II and the formulation plan” (HE Tadesse Haile)</td>
<td></td>
</tr>
<tr>
<td>(2) “Industrial policy direction of Ethiopia: suggestions for PASDEP II and the next five years” (Izumi Ohno)</td>
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</table>

<table>
<thead>
<tr>
<th>4th HLF (Mar. 2010)</th>
<th><strong>Japanese side</strong></th>
<th><strong>Ethiopian side</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) “Basic metals and engineering industries: international comparison of policy framework and Ethiopia’s approach” (Toru Homma)</td>
<td>(1) “Draft plan of industry sector for PASDEP II” (HE Tadesse Haile)</td>
<td></td>
</tr>
<tr>
<td>(2)</td>
<td>(2) “Overview, contents of PASDEP II draft of chemical subsector” (Shimelis Wolde)</td>
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</tbody>
</table>
## Issues Discussed (Cont.)

<table>
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<tr>
<th></th>
<th><strong>Japanese side</strong></th>
<th><strong>Ethiopian side</strong></th>
</tr>
</thead>
</table>
| 5th HLF (Jul. 2010) | (1) “Result of basic metal and engineering industries firm-level study – parts conducted by MPDC and JICA” (Toru Homma) | (1) “Concept of kaizen institutionalization and establishment of Ethiopian Kaizen Institute” (Getahun Tadesse)  
(2) “Report of kaizen training for capacity building of Kaizen Unit and Pilot Project companies in Japan” (Tola Beyene) |
(2) “Singapore’s Productivity Movement and Lessons Learned” (Prof. Daniel Kitaw, Addis Ababa University) |

Note: One more session is scheduled in April or May 2011. The Ethiopian Government requests continuation of Industrial Policy dialogue into the second phase.
Features of Ethiopian Industrial Strategy

- Strong ownership, top-down decision, aggressive speed
- State guiding private sector, interest in East Asia
- Expanding policy scope as policy is learned
  - **Last several years (2003-)**: limited export promotion with incentives and donor support; learning BPR, benchmarking, scaling up of pilot projects, institutional twinning, public-private dialogue, *kaizen*...
  - **Next five years (2010/11-2014/15)**: ambitious RGDP (11-15% per year) and sectoral growth targets; structural transformation from agri-led to industry-led; addition of import substitution, *kaizen* institutionalization, revamping SME policy, industrial clusters...
Our Comments

- We welcome Ethiopia’s proactive policy stance, and gradual policy expansion as policy is learned.
- Ambitious growth targets are acceptable, but hasty actions and macro overheating are two major risks.
- Policy making mechanism must be greatly improved (inter-ministerial coordination and stakeholder involvement).
- Japan will continue to support Ethiopian industrial effort with concrete information and studies, and hands-on technical cooperation.
- Japan (small donor) will work closely with traditional and new donors, including Germany, WB and East Asian emerging donors, in Ethiopia.
Materials for Policy Learning

Selected Research at GRIPS Development Forum

*East Asian Industrial Policy Handbook* (project in progress).


Comparative research on industrial policy making in Singapore, Korea, and Taiwan (ongoing).


