

## **GRIPS Development Forum: Exploring Japan's New Approach to African Development**



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### **Implementing TICAD IV Growth Agenda**



**Yokohama Action Plan (May 2008)** – Boosting Economic Growth – Trade, Investment and Tourism – 3. Assist Private Sector Development:

**“Support African countries to plan and implement industrial development strategies and policies, drawing on Asian experiences as appropriate.”**

#### **How do we concretize this?**

- Selection of target countries & sectors
- Tokyo must prepare mechanism, personnel & budget to implement this initiative
- Work closely with other donors, businesses, academics, NPOs, international organizations (Japan's knowledge and resources in Africa are too small)

## Exploring Japan's New Entry Points



- If valid national development vision and strategies exist, support them with **concrete industrial projects** (HRD, technology, quality improvement, infrastructure)
- **Continuous policy dialogue** for joint drafting of strategies and mobilizing aid & private resources
- Building **core infrastructure** and aligning various development programs to it
- Using ODA to **facilitate large FDI projects**
  - ➔ **Debate:** resource-based mega projects vs. local SME development

## What is the East Asian Experience?

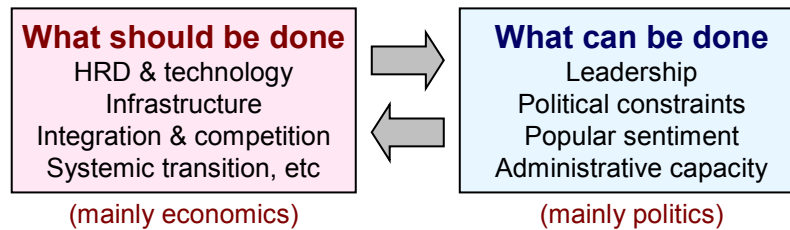


- Not blindly copying policies adopted in East Asia in the past to African countries (➔out of context and unlikely to work).
- Not discovering a standard “East Asian model” applicable to all African countries.
- It should be a *methodology* (in a broad sense) to design and implement policies unique to each country.
- ➔ **What is the East Asian way of designing and implementing policies?**

## Policy Design: Desirability vs. Feasibility



- Development is both a political process and an economic process.



- Each country is unique in *what needs to be done* as well as *what can actually be done*.
- Any policy maker must work with economic and political space simultaneously.

## Policy Design (cont.)



- Policy advice without feasibility consideration cannot be implemented—regardless of whether proposed actions are a few or many, common or tailor-made.  
*Eg. macro conditionality, liberalization, privatization, external opening, governance, growth diagnostics, etc.*
- We need to figure out a policy sequence which is both desirable *and* feasible in each country's context.
- While the government is directly responsible for politics, outsiders can indirectly & implicitly assist in overcoming political problems.

## Good Governance?

Worldwide Governance Indicators (Kaufman Index)



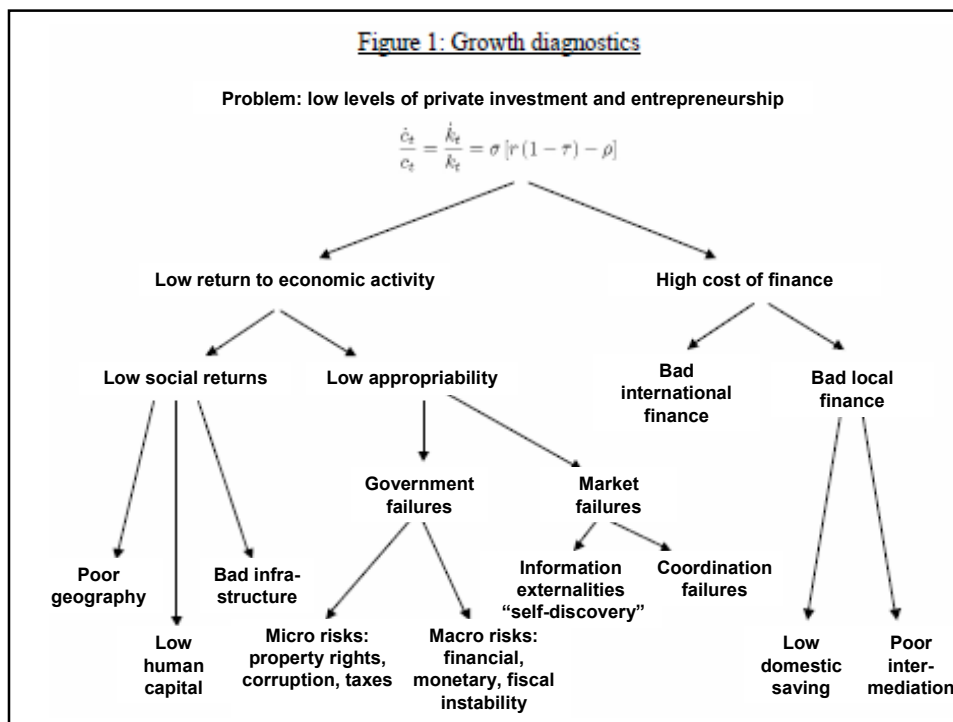
- Causality? (growth ↔ governance)
- Feasibility of a long menu of institutional changes and capacity-building initiatives?
- No guidance on what specifically needs to be done in the real world context:
  - Merilee Grindle: “good enough” governance
  - Mushtaq Khan: “growth-enhancing” governance capability
  - Y. Shimomura: “endogenous” good governance elements
- East Asian high performers did not (do not) score high in Kaufman Index.

## Growth Diagnostics (HRV Model)?

Hausmann, Rodrik and Velasco (2005)



- Discover a small number of **most binding constraints** to growth in each country.
- **HRV Tree**—private investment is key to growth; inquiry starts with *low return or high cost of finance*, and the causes of each.
- Harvard, WB, DFID, AsDB, etc. are conducting GD in many countries:
  - Armenia, Baltics, Bangladesh, Benin, Bolivia, Brazil, Cambodia, Egypt, Ethiopia, El Salvador, Guatemala, India, Jamaica, Liberia, Madagascar, Malawi, Mali, Mongolia, Morocco, Nicaragua, Peru, Philippines, Rwanda, S. Africa, Tanzania, Tazikistan, Thailand, T.Tobago, Uganda, and others



## Problems with Growth Diagnostics



- Search for desirable policies without considering political/administrative feasibility (a few or many, common or unique – secondary issues).
- Discovery of general weaknesses relative to global norm instead of enhancing the country's unique strengths (do you need to be "average" in all aspects before launching a development strategy?)
- Diagnostics only—no clear mechanism for prescribing concrete actions (the task is left to policy makers).

## How to Cope with Economics-Politics Nexus



- **Joint research in economics & political science?**  
→ Fine for academics but not much use for policy makers (too abstract for operational use)
- **Policy-capability matching? (WDR97)**  
Improve institutions/governance before attempting difficult policies (such as selective industrial policy)  
→ Too broad and without focus; difficult to put into practice or mobilize political support
- **Dynamic capacity development**  
Improve ability through selective hands-on experience—clear goals, focused effort, trials and errors, cumulative sense of achievement

## More on Dynamic Capacity Development



- Goal orientation: **long-term vision → phased strategies → concrete action plans.**
- Direct most effort to perfecting your strengths rather than correcting your general weaknesses (don't worry too much about Kaufman index or investors' ranking).
- Stop abstract thinking and start concrete action  
**No**—Is industrial policy useful? What is the role of state?  
**Yes**—Let's build this port & industrial zone successfully, etc.
- Achieve successes one by one, and be proud.
- Top leaders: take political risk and responsibility to move things fast forward.

### A Comparison of East and West

	East Asian	Traditional
<b>Purpose</b>	Enhance strengths to create competitiveness	Find weaknesses relative to norm, and correct them
<b>Selectivity</b>	Future vision, phased strategies, concrete actions to achieve goals	Improve governance, institutions etc. generally (let market do the rest)
<b>Time frame</b>	Patient; build trust through long-term engagement	Short-term implementation and frequent reviews
<b>Modality</b>	Hands-on experience, less talk or writing	Emphasize framework, monitoring, dissemination



## How Donors Can Help



- If the country already has valid policy vision and strategies, **align assistance** to realize and improve them.
- If not, engage in **long-term, open-ended policy dialogue** for self-discovery and strategy formulation (preferably followed by specific ODA and other assistance).
- Build a **core infrastructure** and align aid and investments around it through donor coordination and private-public partnership.

## Aligning Industrial Support to Existing Vision & Strategies



### The case of Ethiopia:

- Very strong ownership and clear leadership vision
- Policy already in place since the 1990s: ADLI – industrial strategy – medium-term strategies – annual plans
- UNIDO, Italy, Gtz already assisting leather & footwear, HRD

### Japan can also offer concrete projects such as:

- *Shindanshi* (enterprise evaluator) system
- Quality control & productivity (5S, kaizen, just-in-time, etc)
- Specific technical support (dyeing, steaming, tanning, etc)
- Environmental control
- Explain concrete E. Asian experiences (alternative methods & organizations for action plan design and monitoring, etc)

## Japan's Policy Dialogue with Developing Countries



- **Argentina** – Okita Mission 1985-87; 1994-96 (follow up)
- **Vietnam** – Ishikawa Project 1995-2001
- **Thailand** – *Mizutani Report* for upgrading SMEs and supporting industries, 1999
- **Indonesia** – Continuous Government-Business Policy Dialogue; *Urata Report* for SMEs, 2000; Prof. Shiraishi & Asanuma, 2002-04 (post-Asian crisis)
- **Laos** – Prof. Hara for overall development strategy, 2000-05
- **Myanmar** – Prof. Odaka, 1999-2002 (but failed)



## Ishikawa Project in Vietnam 1995-2001



- Communist Party General Secretary Do Muoi requested Prof. Shigeru Ishikawa to study the Vietnamese economy. The bilateral project was agreed between two prime ministers.
- JICA mobilized a large number of scholars and consultants. Prof. Ishikawa emphasized the spirit of mutual respect and joint work (and a lot of patience).
- Topics covered: macro, budget & finance, industry, agriculture, trade, SOE reform, Asian financial crisis.
- Continued dialogue—New Miyazawa Plan (1999), Vietnam-Japan Joint Initiative for improving investment climate (2003-).
- Now under preparation—Vietnam-Japan Partnership for Supporting Industry Development.

## Ishikawa Project in Vietnam



Vietnam = Transition economy  
+ Underdevelopment

### Tasks:

- Macroeconomic stabilization
- Structural adjustment (systemic transition to market economy)
- Long-term development strategy

*Advise on the drafting process of the 6th Five-Year Plan*

*Advice on the implementation issues of the 6th Five-Year Plan, including participation in AFTA/APEC/WTO and industrial policy*

*Advice on the emerging issues arising from the East Asian crises and the economic integration process*

*Advice on the formulation of the 7th Five-Year Plan*

### Phase 1 (95.8-96.6)

- > Macro-economy
- > Fiscal and monetary policy
- > Industrial policy
- > Agricultural and rural development

### Phase 2 (96.7-98.3)

- > Fiscal and monetary policy
- > Participation in AFTA/APEC/ WTO and industrial policy
- > Agricultural and rural development
- > SOE reform

### Follow-up Phase (98.7-99.7)

- > General commentary
- > Fiscal and monetary matters
- > Industry and trade
- > Agricultural and rural development

### Phase 3 (99.9-01.3)

- > General commentary
- > Fiscal and financial reform
- > Trade and industry
- > Agricultural and rural development
- > SOE reform and private sector development



### Joint research (2001- )

- > Agriculture and rural development (livestock, vegetable, fruits and industrial crops, etc.)
- > Monetary policy under partial dollarization
- > Fiscal policy (introduction of personal income tax)
- > Trade and industrial policies in the age of integration (NEU-JICA joint research program → GRIPS-VDF)

Source: MPI and JICA, Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy In the Socialist Republic of Viet Nam (Phase 3) Final Report Vol. General Commentary, 2001, pp.iii-vi.

JICA Vietnam Office, Executive Summary of "Ishikawa Project" Phase 3, March 29, 2002.

## Policy Dialogue in Africa? The Case of Zambia



- JICA is conducting “Triangle of Hope” Project 2006-09 (improving investment climate) mobilizing a Malaysian consultant under new methodology.
- As a next step, Zambia wants Japan to help formulate a long-term industrial strategy.
- Japanese Embassy, JICA and K Ohno submitted a concept paper (Dec.2007).
- Our proposal:
  - (i) Create strong super-secretariat under President
  - (ii) Learn E Asian way through studies, seminars etc (1 year)
  - (iii) Draft **Zambia Industrialization Strategy** with JICA support (2 years)

## Japanese Assistance for Core Infrastructure



- **Greater Mekong Subregion** – East-West and North-South Corridors for development of Indochina
- **Thailand** – Eastern Seaboard: creation of industrial zones around a port infrastructure
- **Vietnam** – Highway No.5 (Hanoi – Haiphong Port) for FDI attraction (industrial clusters)
- **Cambodia** – Sihanoukville Port, power and telecom networks, special economic zone
- **El Salvador** – La Union Port + regional development
- **Mozambique** (planned) – Nacala Port and Corridor for regional development

## El Salvador: Growth Diagnostics vs. Japan's ODA



- **Hausmann-Rodrik Growth Diagnostics 2003:** The largest constraint in El Salvador is the lack of self-discovery caused by market failure (low appropriability). Infrastructure is not a binding constraint.
- **Local Report 2008 (FUSADES):** Our infrastructure is best in Central America and we are already a regional hub, but we can do even better by handling trade more efficiently. This will raise our productivity and competitiveness. For this purpose, infrastructure, especially *La Union Port*, is essential.
- **Japanese ODA in El Salvador:** Upgrade *La Union Port* as key infrastructure. Additional support for social & HRD, productive sectors, Eastern Region development, and regional integration.

## The Vision: Strengthening El Salvador's Position as a Regional Transport Hub



- Airport already a regional hub (built by Japan 28 years ago)
- Central American Highway link
- Pacific-Atlantic link via Panama Canal – El Salvador as a regional feeder
- However, La Union Port is low capacity  
→ Build a new port with sufficient capacity and services





## Components of Japan's ODA in El Salvador (ongoing)



### KEY INFRASTRUCTURE

- Construction of La Union Port
- Rebuilding an old bridge (Honduras border)
- Digital map technology for efficient planning
- Urban development planning for La Union City

#### Social & Human RD

- MEGATEC La Union (training center)
- Primary schools & math
- Clean water
- Rural electrification
- Solid waste control

#### Support for Productive Sectors

- SME promotion
- Aquaculture
- Small-scale agriculture
- Reservoirs & irrigation
- Small-scale livestock

#### Eastern Region Development

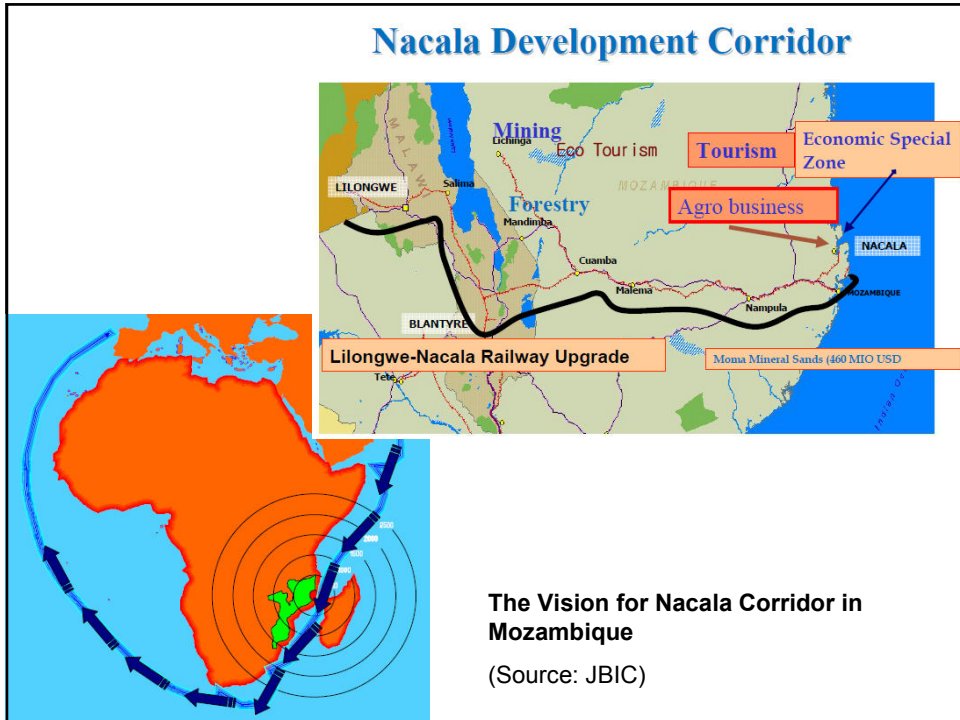
- La Union Port
- Plan Puebla Panama
- CAFTA & other FTAs
- Cent. Amer. integration
- M/P for Eastern Region

### Greater Mekong Sub-region East-West Economic Corridor



The Vision for GMS in Southeast Asia  
(Source: JBIC)

### Nacala Development Corridor



The Vision for Nacala Corridor in Mozambique  
(Source: JBIC)

## **Conclusion: East Asian Policy Engagement**



- Building new competitiveness from the country's strengths, not correcting general weaknesses.
- Goal-oriented approach—vision, phased strategies, concrete action plans.
- Focus effort strategically—don't waste time in general improvement without clear goals.
- Donor-recipient policy dialogue for trust, knowledge transfer, and strategy formulation.
- Long-term open-ended engagement rather than short-term outcome-based approach.