

Industrial Policy in Africa

Learning Mindset and Methods from East Asia



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Topics

- ❑ Need for concrete and pragmatic learning and instruction
- ❑ Standard policy menu in East Asia
- ❑ Japanese approach and entry points to African development
- ❑ Example: Ethiopia-Japan Industrial Policy dialogue

Studies in Industrial Policy

Type 1 - Ideological and/or theoretical debate over “industrial policy”: Washington Consensus vs. J.Stiglitz, D.Rodrik, H.J.Chang, Justin Lin...

Type 2 – Narration of concrete but isolated policy experiences in particular countries: Japan, Korea, China, Singapore, Malaysia...

Type 3 – Systematic collection and comparative analysis of past and present industrial policies, offering raw materials for policy formulation in each country.

Willing to Learn Practice

- ❑ East Asia generally accepts government’s role in industrialization and widely practices industrial policy. Rich experiences, and no allergy.
- ❑ In Africa: Ethiopia, Zambia, Rwanda, Uganda, Tanzania, Egypt, Tunisia, Namibia, African Union, East African Community... 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. Pragmatic 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 effective policy design and execution.

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 at initial stage)

Ethiopia: “Please show us how East Asian countries draft industrial master plans and action plans.”

Current Research at GRIPS Development Forum

East Asian Industrial Policy Handbook (project in progress).

The Middle Income Trap: Learning to Industrialize in the Globalization Age (Routledge, in preparation).

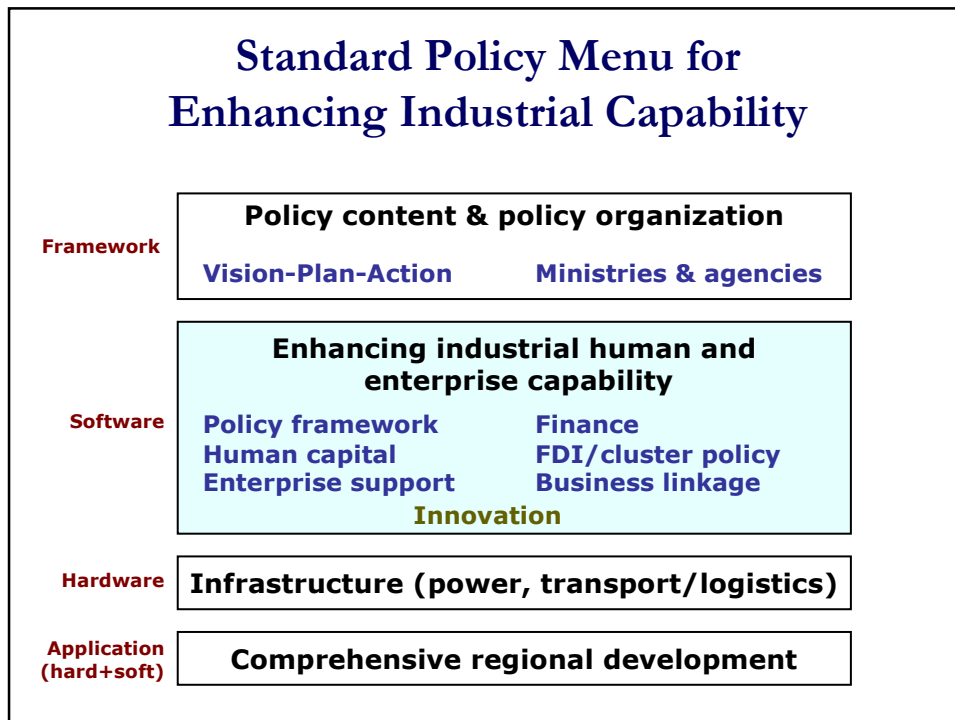
Comparative research on industrial policy making in Singapore, Korea, and Taiwan (ongoing).

“Japanese Approach to Growth Support in Developing Countries: International Comparison and Case Studies” (JICA, Mar.2010; English translation in progress).

“Backgrounds, Policy Measures and Outcomes for Development of Supporting Industries in ASEAN: Malaysia and Thailand in comparison with Vietnam” (JICA, Feb.2010).

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



Enhancing Industrial Human and Enterprise Capability: Standard Menu for Latecomers

Main objectives	Sub items
(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 – benchmarking, SWOT, PSD, business climate, good governance, policy frameworks...

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:

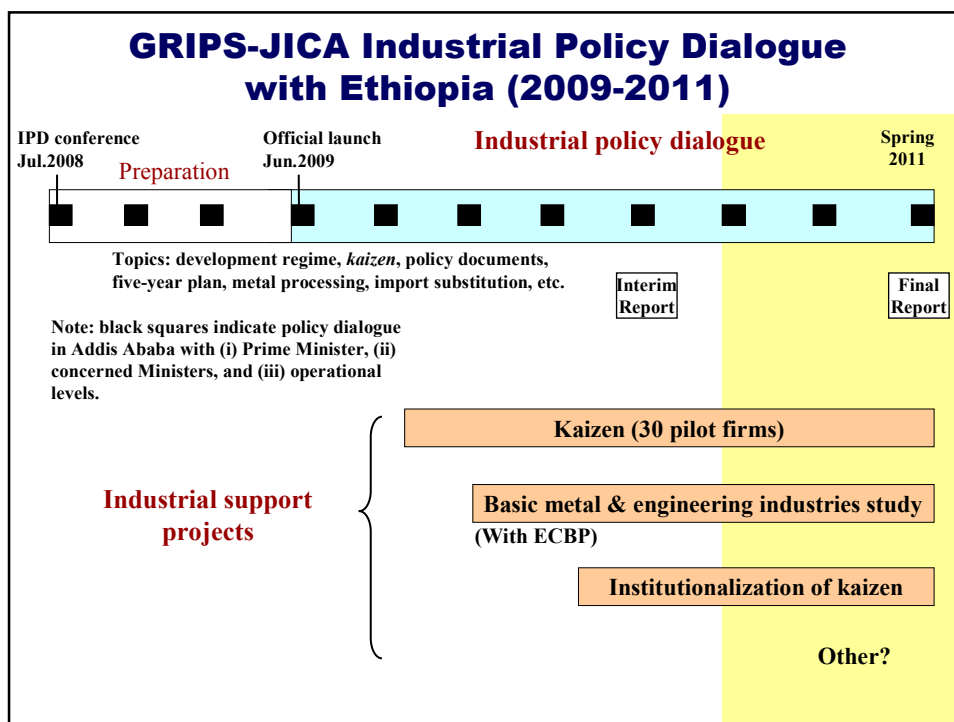
1. For a country with reasonable visions and plans, **standard policy tools** (training, QC, *kaizen*, SME promotion, etc.) can be provided.
2. **Policy dialogue** for making and strengthening visions and strategies.
3. **Comprehensive regional development** with core infrastructure, supported by HRD,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

Bilateral 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
- **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.
- Creating 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).



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

	Japanese side	Ethiopian side
1st HLF (Jun. 2009)	(1) "JICA's plan to 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)

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

Features of Ethiopian Industrial Strategy

- Democratic Developmentalism (DD) & Agricultural Development Led Industrialization (ADLI)
- State guiding private sector, interest in East Asia
- Expanding policy scope as policy is learned
 - **Around 2003-now:** limited export promotion with incentives and donor support; learning BPR, benchmarking, scaling up of pilots, twinning, public-private dialogue, *kaizen*...
 - **Next five years:** ambitious growth target (11-15%/year), structural transformation from agri-led to industry-led, import substitution, *kaizen* institutionalization, revamping SME policy, industrial cluster strategy...

Our Approach and Comments

- We welcome Ethiopia's proactive policy stance, and matching the speed of policy learning with policy scope expansion.
- Ambitious growth target is appropriate but carries risks. Discussions are needed to avoid *policy mistakes* (esp. macro overheating and crisis) and *political capture*.
- Japan will continue to support Ethiopian effort with concrete information and studies, and hands-on technical cooperation.
- Japan will work closely with traditional and new donors, including Germany, WB, etc. and East Asian emerging donors, in Ethiopia.