Japanese Approach to Growth Support and Dynamic Capacity Development

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Outline of Today’s Lecture

1. Japanese (and East Asian) perspectives of aid and development
   - Are they different from those of the West? If so, how and why?

2. Japanese approach to growth support and dynamic capacity development
   - What are key features?
   - Complementarity to the Western way

3. Examples of Japanese growth support
Japanese Perspectives of Aid and Development

- Non-Western donor, having “dual experiences” of aid and development (recipient and donor)
- Latecomer perspectives, based on its own catch-up experiences
  - Growth strategy with “real-sector concern”: trade, investment, industries, technology, human resources, etc.
  - Long-term perspective: development is a long-term undertaking and path-dependent in nature
  - Respect for each country’s uniqueness
  - Realistic and pragmatic approach in aid delivery

→ Aid for graduation (not for charity), self-help efforts
Post-War Japan as Aid Recipient

Japanese flag

GARIOA-EROA Fund
(Bilateral Aid)
US$1.8bn (1946-51)

Loans
(Multilateral Aid)
US$860mn (1953-66)

Tokaido Shinkansen (Bullet Train)

Tokyo-Nagoya Expressway

Total of 31 infrastructure projects financed by World Bank (e.g., electric power plants, irrigation)

World Bank

Equivalent to 12 trillion yen

Equivalent to 6 trillion yen

Source: Ministry of Foreign Affairs and the World Bank
Examples of World Bank Loans to Japan

Kurobe No.4 Hydroelectric Power Station: 1964

Tokaido Shinkansen (Bullet Train) Line: 1964

Tomei Expressway (Tokyo-Shizuoka section) 1963

Tanagawa Thermal Power Station: 1953

Signing Ceremony with the World Bank

Public Water Project in Aichi Prefecture: 1957

Photos: World Bank Tokyo Office Website
“Self-Help” Efforts: Meiji Japan Technology Transfer

1. Foreign advisors (public and private sector)

<table>
<thead>
<tr>
<th>Person</th>
<th>Position</th>
<th>Monthly salary</th>
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<tbody>
<tr>
<td>Mr. Cargill</td>
<td>Advisor to the Railroad Dept., Ministry of Industry</td>
<td>2,000 yen</td>
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<tr>
<td>(British)</td>
<td></td>
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<tr>
<td>Mr. Kindle</td>
<td>Advisor to the National Mint, Ministry of Finance</td>
<td>1,045 yen</td>
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<tr>
<td>(British)</td>
<td></td>
<td></td>
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<tr>
<td>Mr. Morrell</td>
<td>Advisor to the Railroad Dept., ministry of Industry</td>
<td>850 yen</td>
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<tr>
<td>(British)</td>
<td></td>
<td></td>
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<tr>
<td>Mr. Kiplon</td>
<td>Advisor on the development of Hokkaido</td>
<td>833 yen</td>
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<tr>
<td>(American)</td>
<td></td>
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<tr>
<td>Tomomi Iwakura</td>
<td>Udaijin (equivalent to Prime Minister); chief of Iwakura Mission to US and Europe</td>
<td>600 yen</td>
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2. Engineering education
   (studying abroad, Institute of Technology; technical high schools)

3. Copy production, reverse engineering, technical cooperation agreements
   (esp. automobiles, electrical machinery); sogo shosha (trading companies) often intermediated such cooperation


Technical Experts
(Graduates of Technical Univs. & High Schools)
Evolution of Japan’s ODA Policy

1954: Colombo Plan membership

1964: OECD membership

1954-51: Received US foreign aid (GARIOA & EROA)
1953-66: Received World Bank loans
1991: Repayments to WB completed

1946-51: Received US foreign aid (GARIOA & EROA)
1953-66: Received World Bank loans
1991: Repayments to WB completed

Note: A bar chart indicating the volume of Japan’s ODA in net disbursements, indicated in US dollars.
Source: Elaborated by the author
Re-integration into the int’l community (1954-63): Normalizing the relationship with Asia (post-war reparation) and the int’l community (Colombo Plan).

ODA expansion (1964-76): Linked with Japan’s economic growth and export promotion.
- Establishing aid agencies (JICA, ex-OECF, etc.)

ODA doubling plans (1977-88): As a primary instrument for int’l contribution as non-military power.
- ODA loans to China (1978-2008), etc.
- Surplus recycling, as a means to address US-Japan trade frictions (co-financing with WB SAL).
Evolution of Japan’s ODA Policy (2)

  - PKO to Cambodia (1992)
  - 1st TICAD for African development (1993-)
  - Aid untying (1993-)
  - Coping with Asian financial crisis

- **Era of diversity** (2001- present): Coping with diverse challenges (from growth promotion to MDGs, human security, peace building, global agenda…), while faced with severe ODA cut domestically.
  - Iraq and Afghanistan support
  - A series of ODA reforms, incl. new JICA (2008)

- **Post-2015 era…** Aid + beyond aid?
### Top 10 Recipient Countries of Japan’s Bilateral ODA (net disbursement basis)

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<td>Indonesia</td>
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<td>India</td>
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<td>South Korea</td>
<td>Bangladesh</td>
<td>China</td>
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<td>Pakistan</td>
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<td>India</td>
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<td>Turkey</td>
<td>India</td>
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<td>5</td>
<td>Philippines</td>
<td>Egypt</td>
<td>Bangladesh</td>
<td>India</td>
<td>Pakistan</td>
<td>Myanmar</td>
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<td>6</td>
<td>Thailand</td>
<td>Pakistan</td>
<td>Malaysia</td>
<td>Philippines</td>
<td>Sri Lanka</td>
<td>Bangladesh</td>
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<td>7</td>
<td>Iran</td>
<td>Philippines</td>
<td>Turkey</td>
<td>Pakistan</td>
<td>Cambodia</td>
<td>Kenya</td>
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<td>Iraq</td>
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<tr>
<td>9</td>
<td>China</td>
<td>Malaysia</td>
<td>Sri Lanka</td>
<td>Bangladesh</td>
<td>Liberia</td>
<td>Mongolia</td>
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<tr>
<td>10</td>
<td>Singapore</td>
<td>Sri Lanka</td>
<td>Poland</td>
<td>Peru</td>
<td>Laos</td>
<td>Ethiopia</td>
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(Source) MOFA, White Papers on ODA/International Cooperation (each year)
Poverty Reduction and Economic Growth

(1) **Direct channel:** Impacting the poor directly
   -- Basic services (health, education, water), rural infrastructure, etc.

(2) **Market channel:** Growth helps the poor via economic linkages (or “trickle down”)
   -- Inter-sectoral and inter-regional labor migration
   -- Increasing demand
   -- Re-investment, etc.

(3) **Policy channel:** Supplementing the market channel and guiding the development process toward greater equality
   -- Taxes, subsidies
   -- Fiscal transfer, public investment, infrastructure
   -- Micro and SME credit and other financial measures
   -- Proper design of trade and investment policies
   -- Pro-poor legal framework, etc.
Japanese Approach to Growth Support and Dynamic Capacity Development
-- What are key features?
-- Complementarity to the Western way
Shigeru Ishikawa
The British Model in Africa and the Japanese Model in East Asia

- Japanese aid is not based on the grand concept or theoretical system (like WB, UK, etc.)
- Japan has traditionally given aid, without policy conditionality, on a request basis to projects proposed by the recipient govt.
- Japan discusses and advises on the related development policies in a separate policy dialogue in which the two parties participate with independence and on equal footing. This has contributed to strengthening relationships of mutual trust.
- Skeptical about WB & IMF views that structural reform policies can transform a developing country into a market economy; and that the market mechanism will automatically take care of modernization and industrialization of an industrial structure.

There are two contrasting ways of understanding and analyzing economic development and structural adjustment.

In the “framework approach,” the central task of policy and institutional reforms is correcting distortions in the incentive scheme, defined by the policy environment and institutional arrangements.

By contrast, in the “ingredients approach,” policies and institutions are viewed as tangible inputs, like conventional factors of production, that shape the process of economic change.

“Framework” vs. “Ingredients” Approaches (cont.)

<table>
<thead>
<tr>
<th>Framework-oriented (West)</th>
<th>Ingredients-oriented (Japan and East Asia)</th>
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<tr>
<td>- Emphasis on the framework of an economic system and its management</td>
<td>- Emphasis on an economy as the sum of component parts</td>
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<tr>
<td>- Rules of the game according to which economic agents make decisions and take action in a given economy</td>
<td>- Tangible organizational units such as firms, official bureaus, industrial projects and their aggregations such as industries, sectors and regions</td>
</tr>
</tbody>
</table>

【Examples】Functions of the market mechanism; the principles of government intervention, budgets and public investment; monitoring and evaluation; administrative efficiency and accountability, etc.

【Examples】Technologies; factors of production; demand of trends, products and commodities; industrial structures; marketing and logistics efficiency in individual industries and regions, etc.

## (Example)
### Assistance to Infrastructure Development

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<thead>
<tr>
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<th>UK</th>
<th>Japan</th>
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<tr>
<td><strong>Emphasis</strong></td>
<td>● Innovation in infrastructure financing—local currency guarantee, project development facility for privately-financed infrastructure, reaching the poor, etc.</td>
<td>● Building roads and bridges, giving attention to location, design &amp; technology, durability, regional development</td>
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<tr>
<td><strong>Modality of assistance</strong></td>
<td>● Infrastructure Consortium for Africa (G8 level)</td>
<td>● Project assistance</td>
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<td></td>
<td>● General or Sectoral Budget Support (infrastructure expenditure)</td>
<td>● Aid agency staff involved in feasibility studies (F/S) and master plans (M/P) of infrastructure projects.</td>
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<td></td>
<td>● Implementing through int’l organizations (e.g., EU, WB, AfDB) and multi-donor facility (e.g., PIDG)</td>
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Capacity Development (CD)

- To promote “self-help” efforts of developing countries to solve their own problems, Japan emphasizes cooperation toward comprehensive capacity development (CD) in such areas as human resource development and the design of policies and institutions— as well as the development of social and economic infrastructure.

Source: UNDP (2002)
Capacity Development: JICA’s Views

- Outside actors cannot directly develop capacities in a partner country.
- Ownership by the partner is vital.
- Joint efforts with the participation of stakeholders in the partner country are important.
- Long-term commitment is required.
- Creating a sustainable mechanism after project completion.
- Systemic thinking and program approaches.
- A flexible approach responsive to the development needs and conditions of each country, issue, and sector.
- Measuring and evaluating the long-term CD process.

Source: JICA, Capacity Development Handbook for JICA Staff: For Improving the Effectiveness and Sustainability of JICA’s Assistance, March 2004, pp.8-10.
Knowledge Creation

Source: Koji Makino, “JICA’s Capacity Development Concept and Activities in Tanzania” March 2007
Key Features of Japanese Approach to Growth Support

Pragmatism with real sector concern

- **Goal 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*—step-by-step learning through concrete, hands-on-experience; and expectation of graduation from aid.
Dynamic Capacity Development
Improving capability with pride & hands-on experience

- Goal orientation: long-term vision ➔ phased strategies (“roadmap”) ➔ concrete action plans.
- Direct most effort to perfecting your strengths rather than correcting your general weaknesses.
- Reform government (improve efficiency and organization) to attain concrete policy targets (e.g., Japan under the Meiji era, S. Korea under President Park, P.R. China SEZ under Deng Xiaoping)
- Achieve successes one by one, and be proud.
- Eventually, graduate from aid and become a donor
WGI reports aggregate and individual governance indicators for 213 economies over the period 1996-2010 on the six dimensions of governance:
(i) voice & accountability; (ii) political stability & lack of violence; (iii) government effectiveness; (iv) regulatory quality; (v) rule of law; (vi) control of corruption

Compiled the responses on the quality of governance given by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries.

A list of desirable qualities of government?

Source: World Bank WGI website, Methodology developed by Kaufmann, Kraay, and Mastruzzi
Example: Latecomer Japan Beats British Textile Industry

1883 Establishment of Cotton Spinning Industry

Target: import substitution of cotton yarn (industrial input)
Actors: Eiichi Shibusawa (super business organizer)
Takeo Yamanobe (engineer studying in UK)
Action: establish Osaka Spinning Co. with sufficient scale and technical breakthrough
Result: instant success with a large number of followers; Japan overtakes UK as top textile exporter by early 20th century; The City of Osaka is called “Manchester of the Orient”
Example: Korea’s Export-Oriented Industrialization

- In July 1965, 13 items were selected for export promotion that were considered to be superior in terms of the effects on the international division of labor, the balance of payments, as well as, having spillover effects on other industries.
- For each of these industries, a deputy director (in the Ministry of Commerce and Industry) was tasked with providing financial and technical assistance.
- Monthly Export Promotion Meetings were also established in 1966, chaired by the President Park Chung-hee, with MCI serving as the secretariat. Attended by high-ranking government officials and business representatives, the meetings provided a forum to monitor progress and devise institutional innovations and solutions to emerging problems.

*From Despair to Hope: Economic Policymaking in Korea 1945-1979*
A Memoir by Kim Chung-yum, KDI (2011)
Example: Pragmatism of Deng Xiaoping in China
(In power 1978-97)

- All for production increase rather than fighting for political ideology (cf. Mao, in power 1949-76)
- "Black Cat or White Cat" – capitalism (FDI) or socialism (SOEs) does not matter as long as it catches mice (increase production).
- Special Economic Zones – creating good business conditions in limited areas to receive investment.
- Trial-and-error and flexible adjustment ("Even try stock market and see").
- “Some get rich first, others can follow later.”
How can Japan Support?
-- Examples of Japan’s Growth Support with Dynamic CD

(1) If the country already has a good strategy, **mobilize aid for concrete projects to realize the existing vision** to support that strategy.

(2) Engage in **long-term, open-ended policy dialogue** (preferably followed by specific assistance).

(3) Build a **core infrastructure** with additional investments around it for comprehensive regional development.

(4) Provide missing elements (infrastructure, skills, technology, etc.) to **entice (Japanese) firms to invest** under open access and non-exclusivity principle.
(1) Mobilizing Aid to Support Existing National Vision

Menu for industrial support is common. But, selectivity and adjustment are needed to adapt to unique conditions of each country. Japan has many aid tools for industrial support:

- Production and technology management
- Industrial human resource training
- Efficient logistics and marketing
- Infrastructure (esp. transport and power)
- Regional development planning
- Creating necessary laws, standards, institutions
- Removing negative impacts of industrialization
Thailand
King Mongkut's Institute of Technology
Ladkrabang (KMITL)

1960
Telecommunications Training Center (1960-)

Grant: Construction of facilities (1960-61)

1970
Telecommunications College (1964-)

Grant: Construction of facilities (1974-75)

1980
King Mongkut’s Institute of Technology (1971-)

Grant: Construction of facilities (1984-86)

1990

KMITL (1982-)

Grant: Construction of facilities (1978-83)
TC project (1997-02)

2000
SEED-Net
ASEAN University Network / Southeast Asia Engineering Education Development Network

2010
TC project (2003-2013)

Level:
Diploma
Bachelor
Master
Doctor

Interregional networking

Vietnam TVET-FDI Linkage

JICA has assisted Hanoi University of Industry (HaUI) since 2000.

- **Phase I (2000-2005)** – teaching machining & electronics by providing experts & equipment
- **Phase II (2010-2013)** – matching training programs with labor needs of Japanese FDI
- **Phase III (now)** – scaling up this model to other TVET institutions in Vietnam
Kaizen in Ethiopia
(2009-, currently phase 3)
Driven by strong initiative of PM with JICA support

Tire factory

PVC pipe factory

Shoe factory
(2) Japan’s Policy Dialogue with Developing Countries

If the developmental vision is weak or if the nation wants to learn Eastern way, Japan can engage in policy dialogue for improving policies and building mutual trust & understanding:

- Intellectual cooperation between a developing country and an advanced one, held regularly over a few to several years with open and evolving agenda
- Joint formulation of a vision and policies, building on mutual trust and understanding
- Differ from technical assistance with narrowly prescribed ToR or standardized policy matrices
- Strong commitment of a national leader of a developing country is needed
Policy Dialogue (Examples)

- **Argentina** – Okita Mission, 1985-87; follow-up 1994-96
- **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 for financial crises, 2002-04
- **Mongolia** – Ueno, Hashimoto, 1998-2001
- **Myanmar** – Prof. Odaka, 1999- (not successful); new policy dialogue recently started
- **Laos** – Prof. Hara for overall development strategy, 2000-05
- **Ethiopia** – GRIPS-JICA, 2009-present, for kaizen & policy methods
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).
- Into bilateral industrial actions: supporting industry promotion (2008-); new industrial strategy initiative (2011- )
Ishikawa Project in Vietnam

Vietnam = Transition economy + Underdevelopment

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

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)


Ethiopia-Japan Industrial Policy Dialogue


Kaizen (JICA support)

- Phase 1 (2009-11)—30 pilot firms improved
- Phase 2 (2011-14)—EKI established, 249 firms coached, a total of 409 kaizen consultants trained
- Phase 3 (2015-2019)—advanced kaizen

Policy dialogue (by GRIPS & JICA)

- 17 sessions held so far with PM, ministers & operational level. Also, letter exchange, policy proposals & third country missions.
- Study concrete cases in Asia & Africa, and propose pragmatic policies based on Ethiopian reality.
- JICA cooperation to facilitate implementation.

*Kaizen*, in Japanese management, means “continuous improvement” of productivity and quality without additional cost, in a participatory process and a bottom-up approach.
Note: Black boxes indicate three-level policy dialogue in Addis Ababa (PM, ministers, operational level).
(3) Regional Development with Core Infrastructure

- Large infrastructure such as roads, ports and power has broad effects.
- Policies and aid should be organized around core infrastructure for maximum impact.
Regional Development with Core Infrastructure (Examples)

- **Greater Mekong Subregion** – East-West and North-South Corridors for development of Indochina
- **Thailand** – Eastern Seaboard: creation of industrial zones around a port infrastructure
- **Indonesia** – Brantas River Basin development
- **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
- **India** – Delhi-Mumbai Industrial Corridor for FDI attraction (industrial zone, PPP infrastructure)
- **Mozambique** – Nacala Corridor for regional development
Regional Development with Core Infrastructure
Evolution of Industrial Cluster (Thailand, Eastern Seaboard Development)

Public Sector (Aid)
- Infrastructure construction
  - Industrial estates (Laem Chabang, Map Ta Put)
  - Ports, roads
  - Water pipelines & dam
  - Railways
- Institutional reform
  - One Stop Center
- FDI
- Industrial cluster

Private Sector
- Industrial estates (Amata Group, Hemaarji Land Group)
- Anchor firms (automobile industry)
  - Parts/materials suppliers (auto related industries)
- Economic growth
- Export growth
- Job increase

Indonesia: Brantas River Basin Development:
Regional development around hydropower and irrigation

(Source: JBIC)
Regional Development with Core Infrastructure
Nacala Development Corridor (Mozambique)

(Source) Ministry of Foreign Affairs, TICAD IV Annual Progress Report 2010 Digest Version, p.9