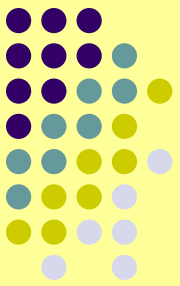


International Development Policy
Lecture #3, February 10, 2014

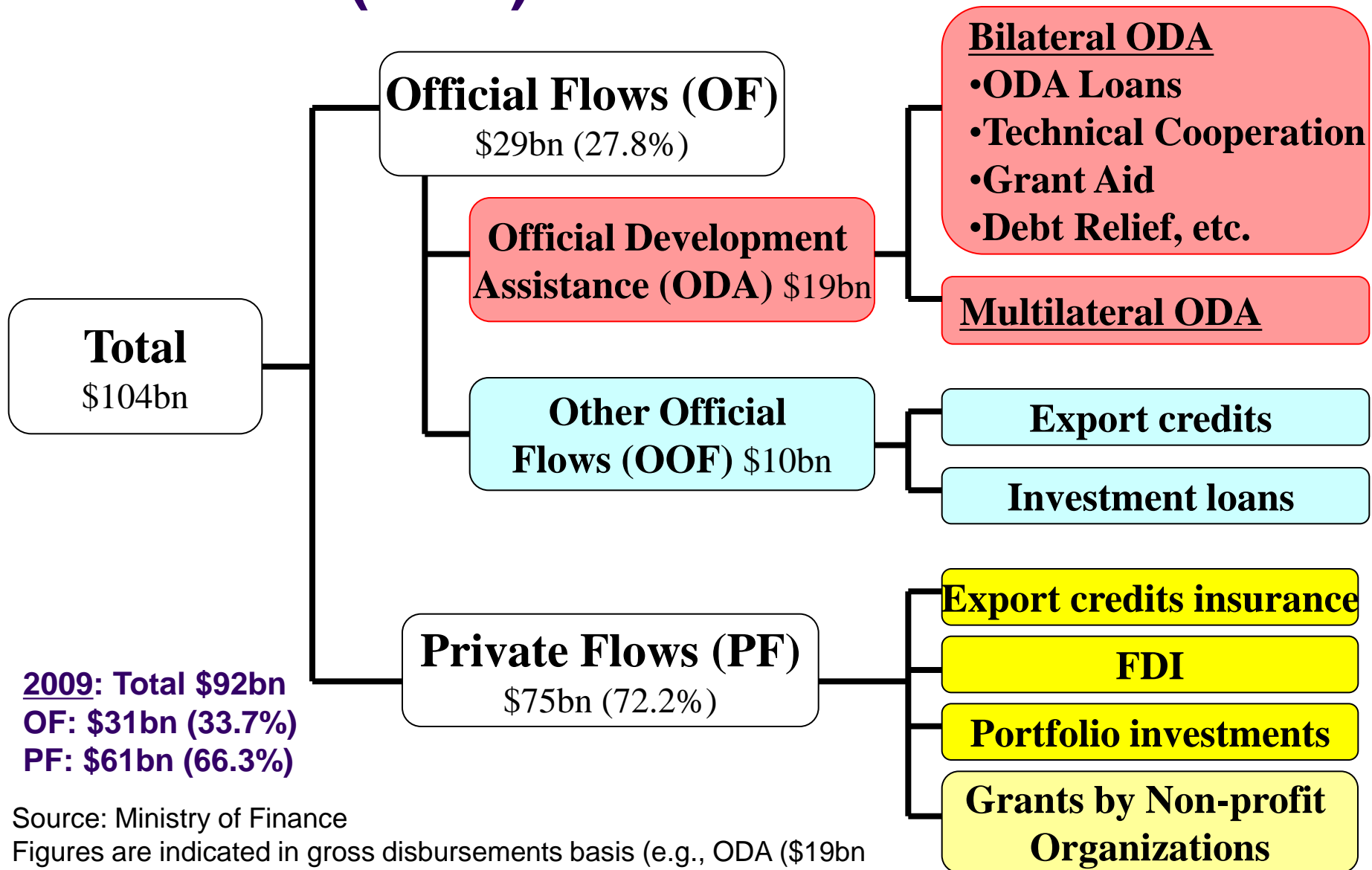


Japanese Approach to Growth Support and Dynamic Capacity Development

Izumi Ohno, GRIPS

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Financial Flows from Japan to Developing Countries (2010)

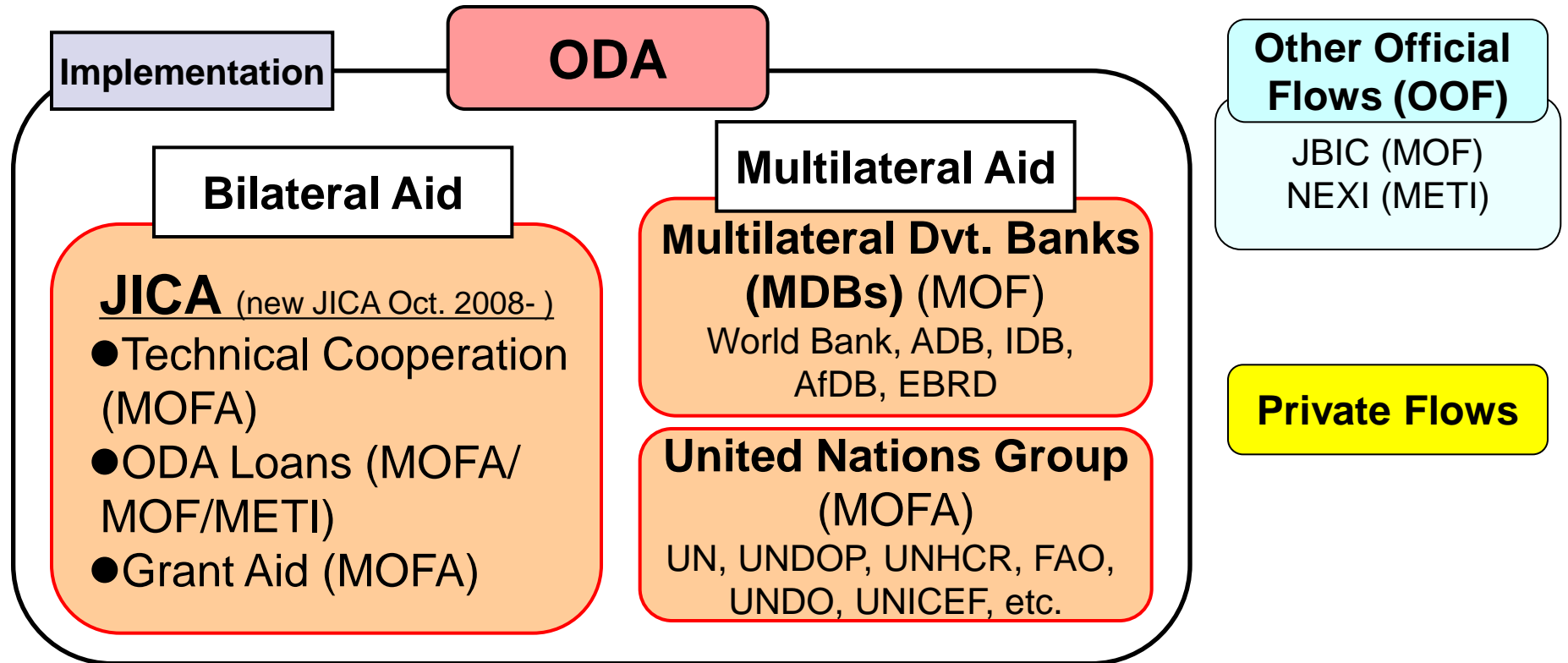


2009: Total \$92bn
OF: \$31bn (33.7%)
PF: \$61bn (66.3%)

Source: Ministry of Finance

Figures are indicated in gross disbursements basis (e.g., ODA (\$19bn in gross, \$11bn in net disbursements))

Institutional Setting of Japan's ODA



JICA: Japan International Cooperation Agency

ODA Policy

- Ministry of Foreign Affairs (MOFA): Overall policy coordination of bilateral ODA, UN
- Ministry of Finance (MOFA): Budget, MDBs, ODA loans
- Ministry of Economy, Trade and Industry (METI): ODA loans

Features of ODA: UK, UK, Japan and South Korea

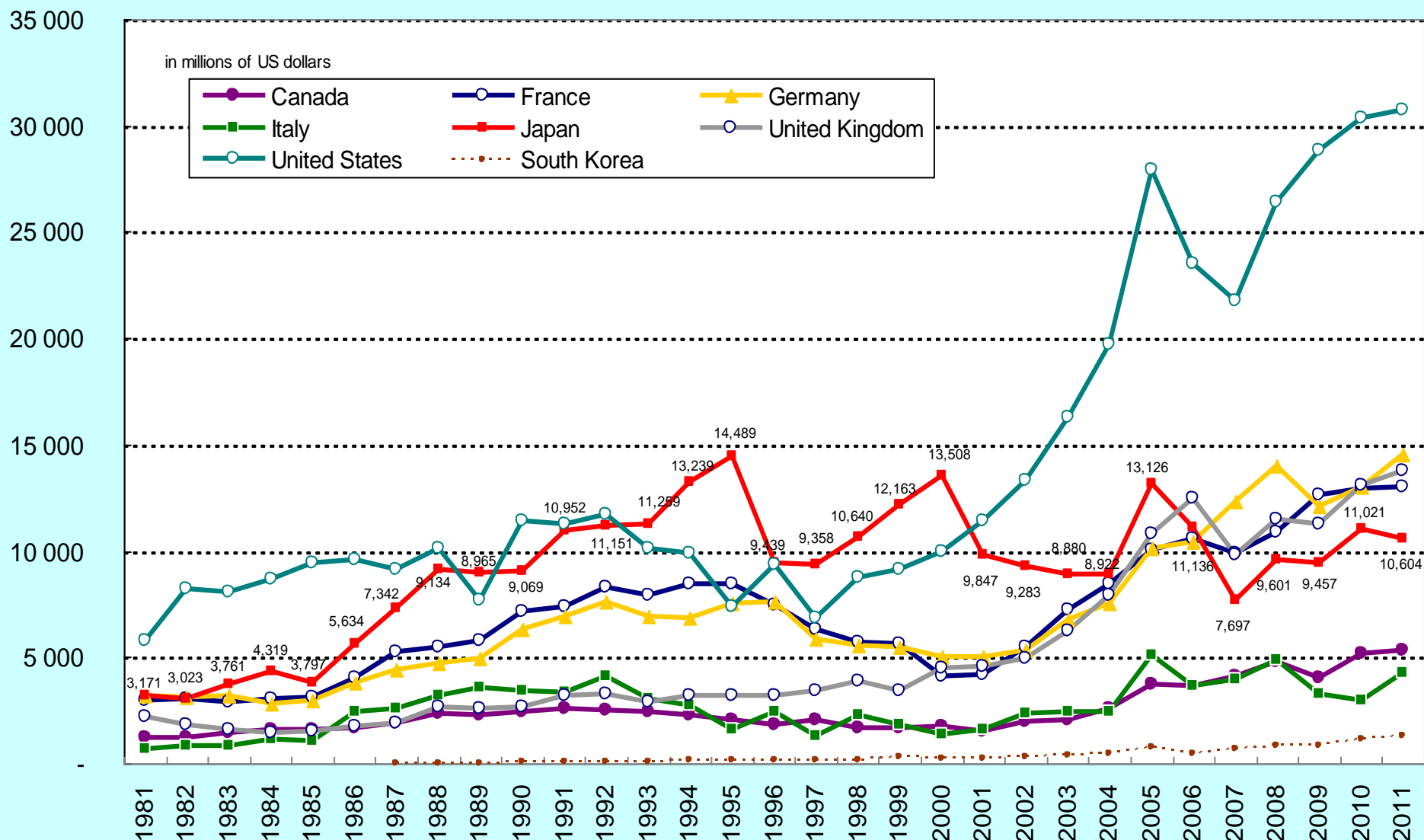
	US	UK	Japan	S. Korea
Volume (ODA/GNI) (2012: net disbursement)	\$30,687 mn (0.19%)	\$13,893 mn (0.56%)	\$10,605 mn (0.17%)	\$1,597 mn (0.17%)
Regional distribution (2009-10: % of total gross disbursement)	1.Su-Saharan Africa (37.0%) 2.South & Central Asia (24.7%)	1.Sub-Saharan Africa (53.0%) 2.South & Central Asia (31.7%)	1.East Asia & Oceania (43.6%) 2.South & Central Asia (25.2%)	1.East Asia & Oceania (29.7%) 2.Sub-Saharan Africa (28.3%)
Major aid use (2009-10: % of total bilateral commitments)	1.Social & admin. infrastructure (50.7%) 2.Humanitarian assistance (16.3%)	1.Social & admin. Infrastructure (44.5%) 2.Economic infrastructure (10.6%)	1.Economic infrastructure (41.3%) 2.Social & admin. Infrastructure (25.8%)	1.Economic infrastructure (45.6%) 2.Social & admin. Infrastructure (40.1%)
Grant share (2009-10: % of total ODA commitments)	100%	95.1%	52.3%	45.7%

Source: OECD Development Assistance Committee (Statistics on Resource Flows to Developing Countries, as of Dec. 22, 2011 and Oct. 16, 2013)

ODA Policy and Institutional Framework: US, UK, and Japan

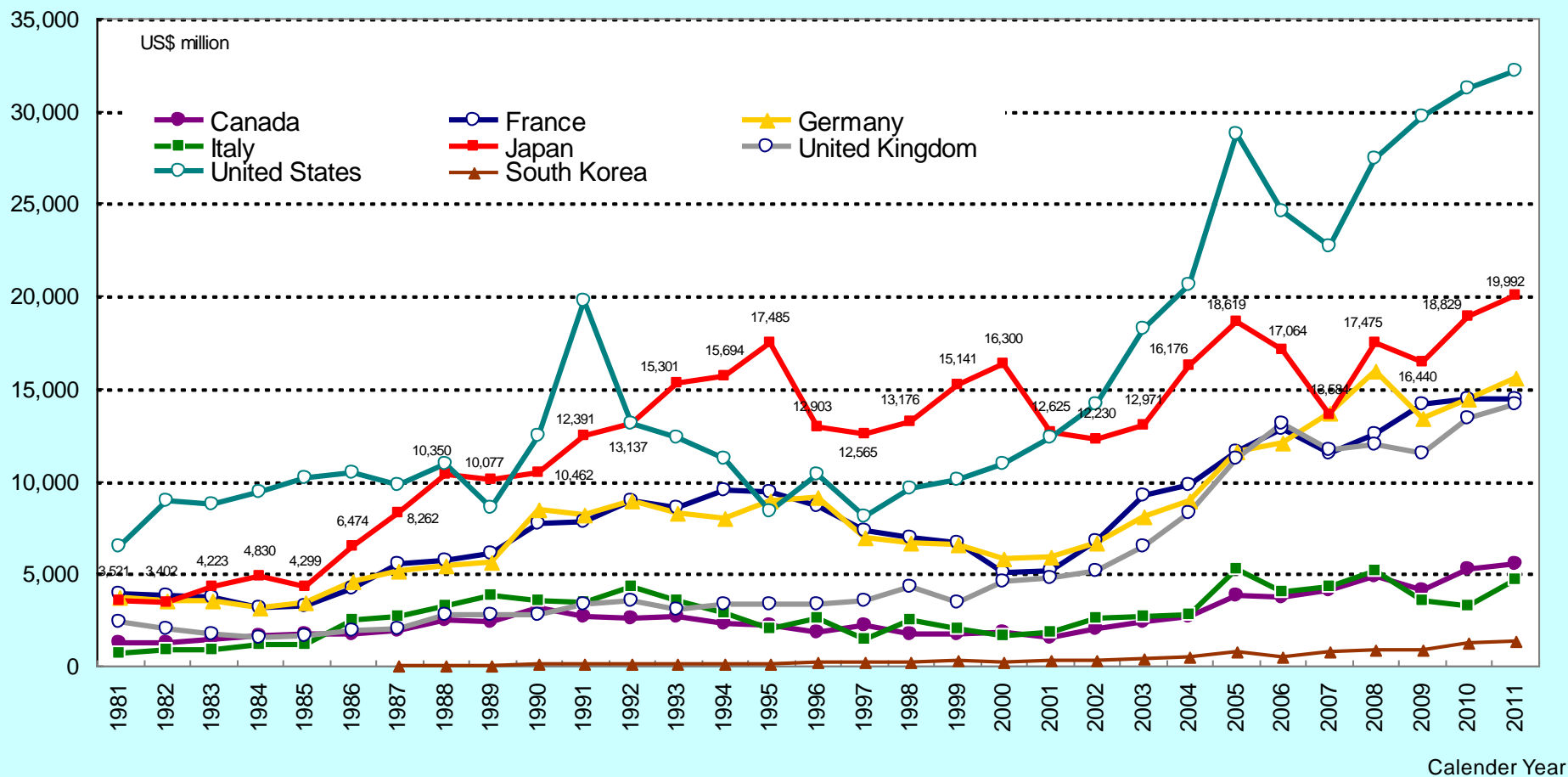
	US	UK	Japan
Legal and policy framework	<ul style="list-style-type: none"> ■ Foreign Assistance Act (1961, amended) ■ WH National Security Strategy (2002, 2006, 2010) 	<ul style="list-style-type: none"> ■ Int'l Development Act (2002) ■ DFID White Papers (1997, 2000, 2006, 2009) 	<ul style="list-style-type: none"> ■ No law ■ ODA Charter (Cabinet decision 1992, 2003 amended), Medium-Term Policy
Policy formulation and implementation coordination	<ul style="list-style-type: none"> ■ Fragmented system, with active check & control by Congress ■ USAID: semi-independent, subcabinet-level agency ■ MCC (2004-): govt-owned corporation ■ Other depts. & agencies 	<ul style="list-style-type: none"> ■ Coherent & organized system ■ DFID (1997-): cabinet-level dept. for ODA policy & implementation ■ Public Service Agreement with Treasury 	<ul style="list-style-type: none"> ■ Fragmented system ■ Policy: MOFA (overall) MOF, METI ■ Implementation (2008-): JICA (grants, TA, loans), MOFA (grants) ■ Other ministries & agencies
Role of legislature	<ul style="list-style-type: none"> ■ Vigorous scrutiny by Congress (strategy, budget, programs) ■ No specialized committee for ODA 	<ul style="list-style-type: none"> ■ Comprehensive review by Int'l Dvt. Committee (House of Commons, est. in 1997) 	<ul style="list-style-type: none"> ■ Special committee for ODA established (House of Councilors in 2006)

Trends of Net ODA from G7 Countries + Korea: 1981-2011 (net disbursement basis)



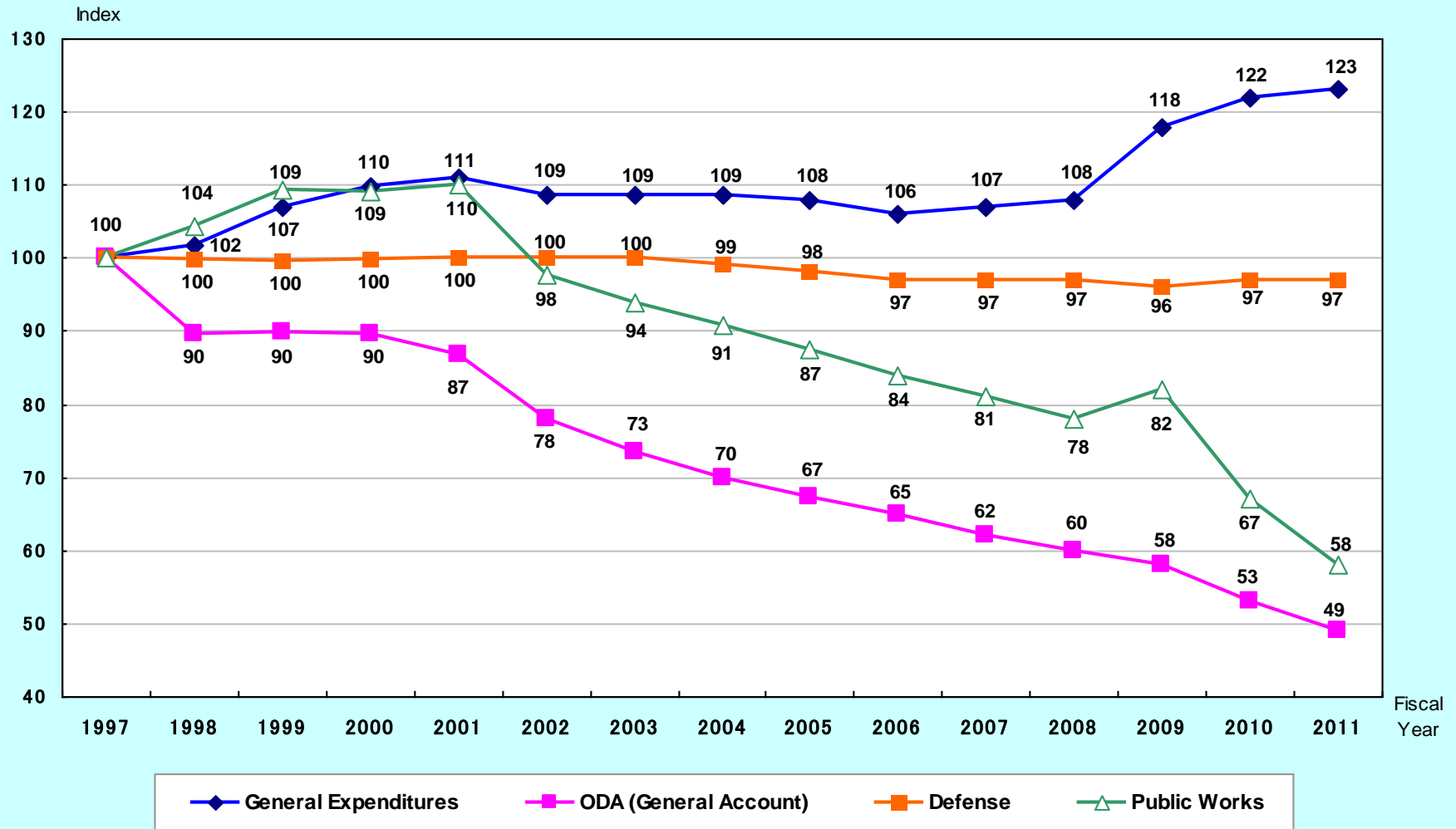
Source: OECD Development Assistance Committee (DAC), Statistical Annex of the 2011 Development Co-operation Report, CRS online database (2012.05.08)

Trends of Net ODA from G7 Countries + Korea: 1981-2011 (gross disbursement basis)



Source: OECD Development Assistance Committee - Statistical Annex of the 2011 Development Co-operation Report (CRS online database)

Trends of ODA Budget and the Other Major Expenditures (Index)



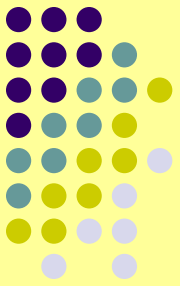
Source: Ministry of Foreign Affairs, Japan's ODA White Paper 2011



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

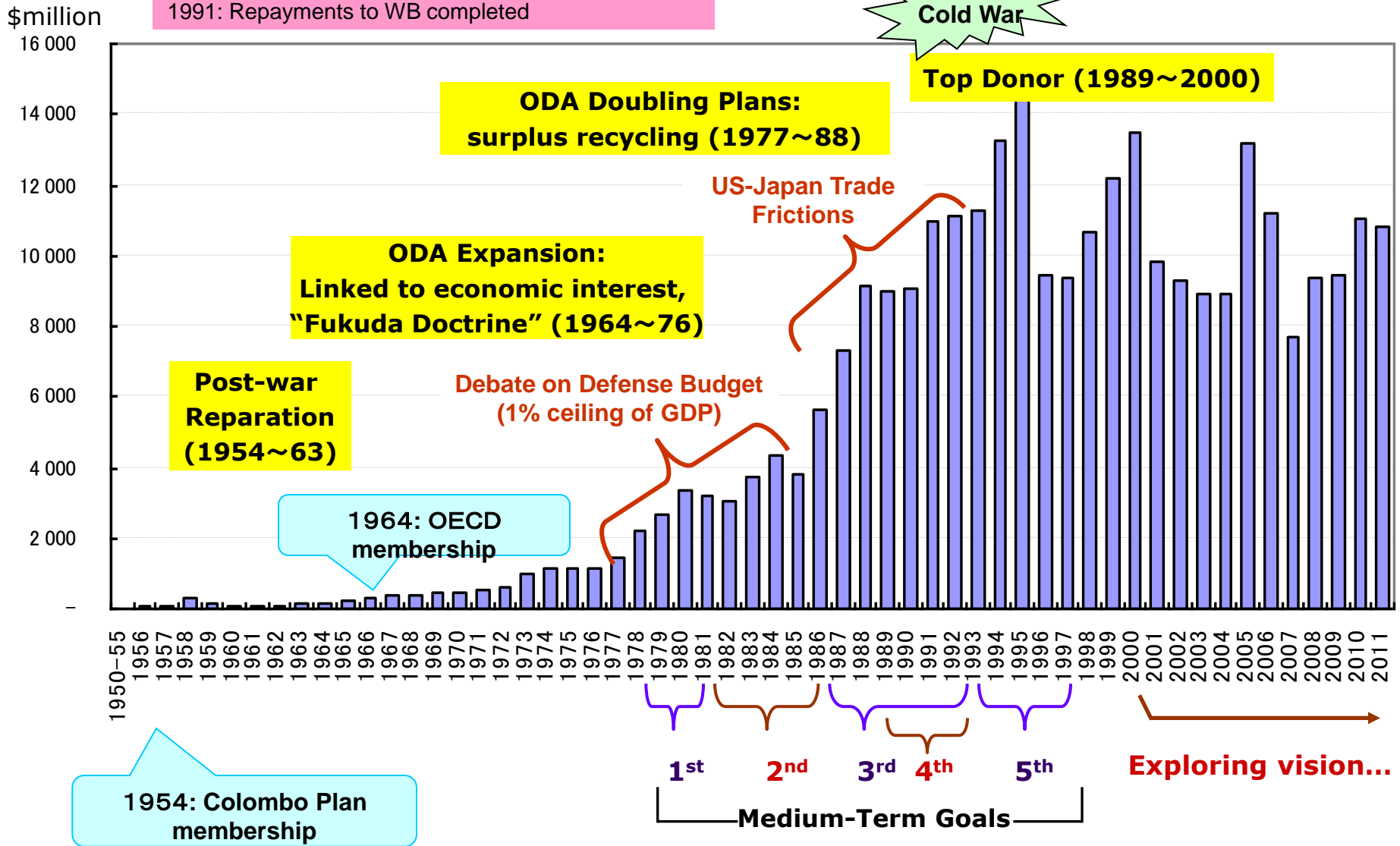


- Non-Western donor, having “dual experiences” of aid and development (recipient and donor)
 - Latecomer perspectives, based on its own catch-up experiences
 - Growth strategy with “real-sector concern”: trade, investment, industries, technology, human resources, etc.
 - Long-term perspective: development 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**

	World Politics	World Economy	History of Development Cooperation
1941-45	1940-45: World War II 1945: Yalta Conference 1945: UN Charter		1944: IMF and WB established (Bretton Woods Institutions)
1946-50	1945-50: Independence of Asia 1949: NATO and COMECON established	1947: Marshall Plan	
1951-55	1951: San Francisco Peace Treaty (Japan independence) 1955: Asia-Africa Conference (@bandung) 1955-75: Vietnam War		1953-66: WB loans for Japan's postwar reconstruction 1954: Japan joined Colombo Plan 1955-: Japan war reparation (WW II)
1956-60	1960: Year of Africa (independence of 17 countries)		1959: IDB established / 1960: IDA established 1960: DAG established (61- OECD DAC)
1961-65	1960s: Transition from colonial administration to foreign aid system (esp. France and UK) 1962: Cuban missile crisis	1961: OECD established (64- Japan member)	1961: UN Decade of Development (J.F. Kennedy proposal)/ USAID established 1961: Ministry of Cooperation established (France) 1961: OECF established (98- JBIC) 1962: OTCA established (74- JICA) 1963: AfDB established 1964: Ministry of Overseas Development established (UK) 1965: UNDP established
1966-70	1967: ASEAN established		1966: ADB established 1969: DAC first defined "ODA" (72- tighter definition)
1971-75	1973: Arab-Israeli War	1973: Oil Crisis 1973: Nixon Shock (floating FX)	1973: Robert McNamara/WB Nairobi Speech (BHN)
1976-80	1976: First G7 Summit	1978: China reform & opening 1979: Second Oil Crisis	
1981-85		1982: Mexico Debt Crisis 1985: Plaza Accord (USDollar devaluation)	1980-: Structural Adjustment Programs (WB)
1986-90	1989: German Unification 1990: Gulf War	1986-94: GATT Uruguay Round 1989: Tiananmen Square protests	1987: Brundland Report (Our Common Future)
1991-95	1991: Collapse of Soviet Union (End of Cold War) 1991: Somalia Civil War 1992-95: Bosnia-Herzegovina War 1994: Rwanda Genocide 1994: End of Apartheid 1995: China Nuclear Test	1995: WTO established	1990: UN Education for All 1992: Japan ODA Charter 1992: Rio Earth Summit 1993: First TICAD (every 5yr)
1996-00	1997: Kyoto Protocol 1998: India & Pakistan Nuclear Tests	1997: Asian Financial Crisis	1996-99: HIPC Initiatives (99- PRSP) 1997-00: Peak of Japan's ODA 2000: UN Millennium Summit (MDGs) 2000: China FOCAC (every 3yr)
2001-05	2001: September 11 2001: Afghanistan War 2003: Iraq War 2004: Indian Ocean earthquake		2002: Montrey Consensus 2002: WSSD Summit 2003: New ODA Charter 2005: Paris Declaration(@DAC)
2006-10	2008: First G20 Summit	2008: Lehman Shock 2010-: European Sovereign Debt Crisis	2008: Merger of JICA & JBIC (new JICA) 2010: Seoul Consensus (@G20 Seoul Summit)
2011-15	2011: Arab Spring 2011: Great East Japan (Tohoku) earthquake 2011: First BRICS Summit		2011: Busan Declaration(@DAC) 2012: Rio+20 Summit 2015: MDGs Goal Year

History of Japan's ODA Policy

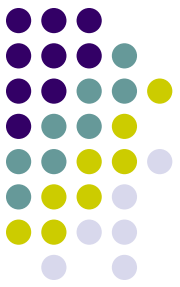
1946-51: Received US foreign aid (GARIOA & EROA)
 1953-66: Received World Bank loans
 1991: Repayments to WB completed



Source: Elaborated by the author, based on the Ministry of Foreign Affairs and the Ministry of Finance

Philosophy of Japan's ODA

(ODA Charter, Cabinet Decision on Aug. 28, 2003)



- The most important philosophy of Japan's ODA is to support the self-help efforts of developing countries based on good governance, by extending cooperation for their human resource development, institution building, and economic and social infrastructure building.....
- Japan will utilize its own experiences in economic and social development as well as in economic cooperation, fully taking into account the development policies and assistance needs of developing countries.

“Self-Help” Efforts: Meiji Japan Technology Transfer

1. Foreign advisors (public and private sector)

Person	Position	Monthly salary
Mr. Cargill (British)	Advisor to the Railroad Dept., Ministry of Industry	2,000 yen
Mr. Kindle (British)	Advisor to the National Mint, Ministry of Finance	1,045 yen
Mr. Morrell (British)	Advisor to the Railroad Dept., ministry of Industry	850 yen
Mr. Kiplon (American)	Advisor on the development of Hokkaido	833 yen
Tomomi Iwakura	Udaijin (equivalent to Prime Minister); chief of Iwakura Mission to US and Europe	600 yen

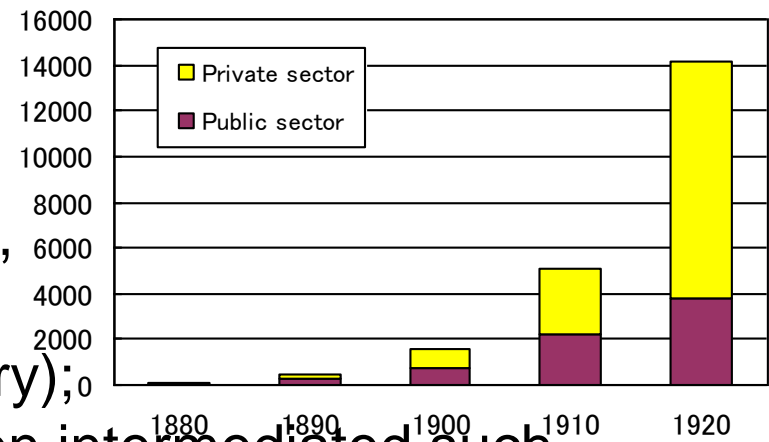
Source: Summarized from K. Ohno *The Economic Development of Japan* (2006), pp.62-65

Source: S. Sakamoto and T. Fukuda, eds., *Shinsen Nihonshi Zuhyo* (New Selection of Diagrams in Japanese History), Daiichi Gakushusha, 1998. Reprinted from K. Ohno, *The Economic Development of Japan: The Path Traveled by Japan as a Developing Country*, GRIPS Development Forum (2006)

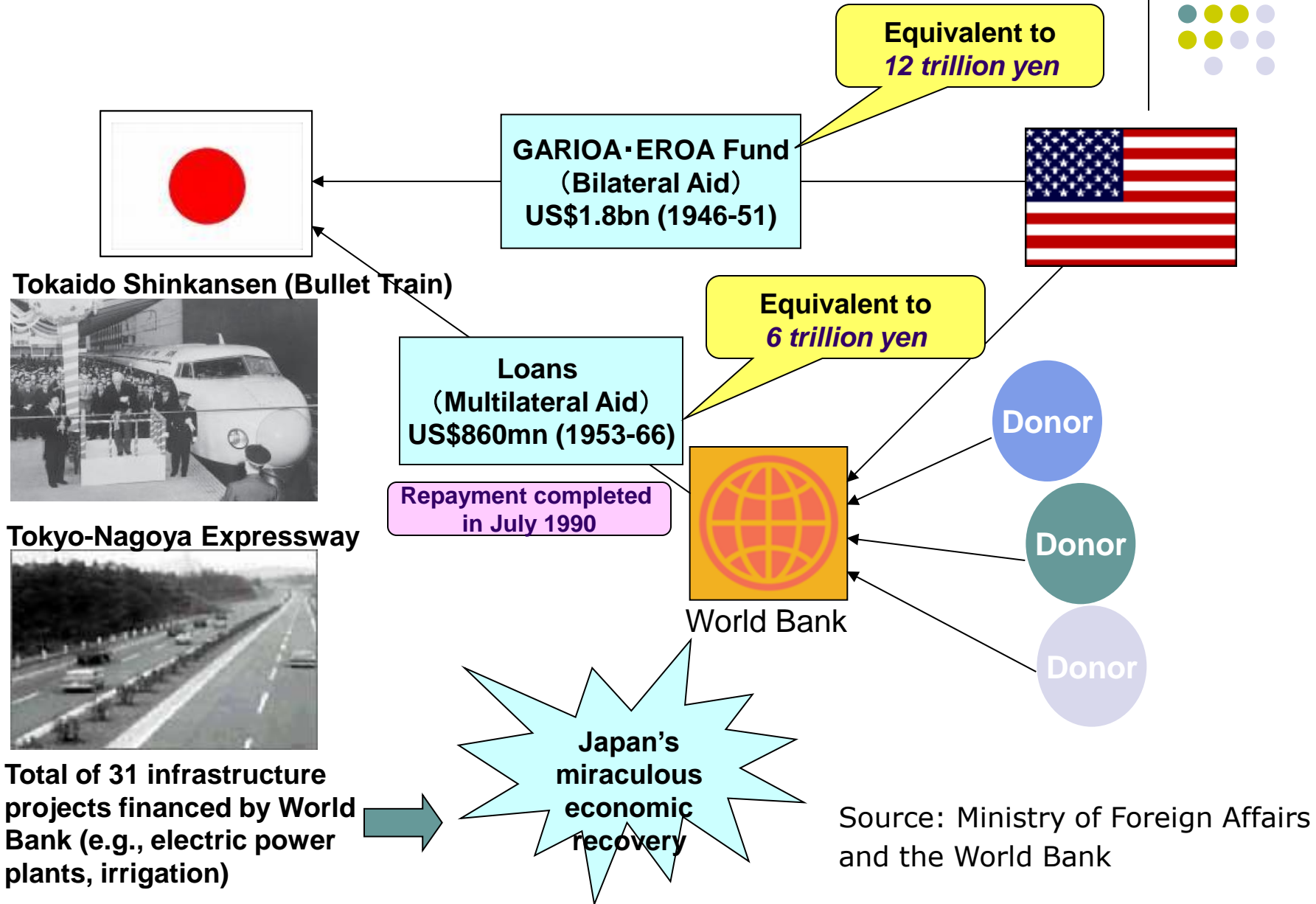
2. Engineering education (studying abroad, Institute of Technology; technical high schools)

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)



Post-War Japan as Aid Recipient



Examples of World Bank Loans to Japan



Kurobe No.4 Hydroelectric Power Station: 1964



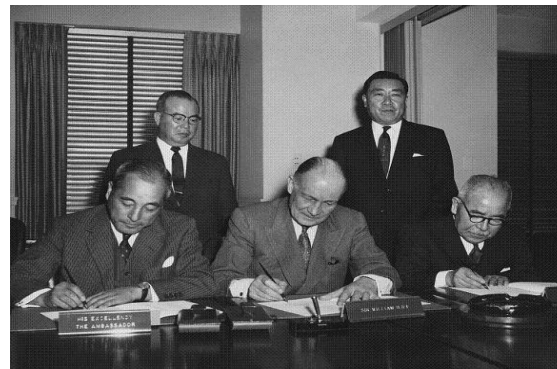
Tokaido Shinkansen (Bullet Train) Line: 1964



Tomei Expressway (Tokyo-Shizuoka section) 1963



Tanagawa Thermal Power Station: 1953

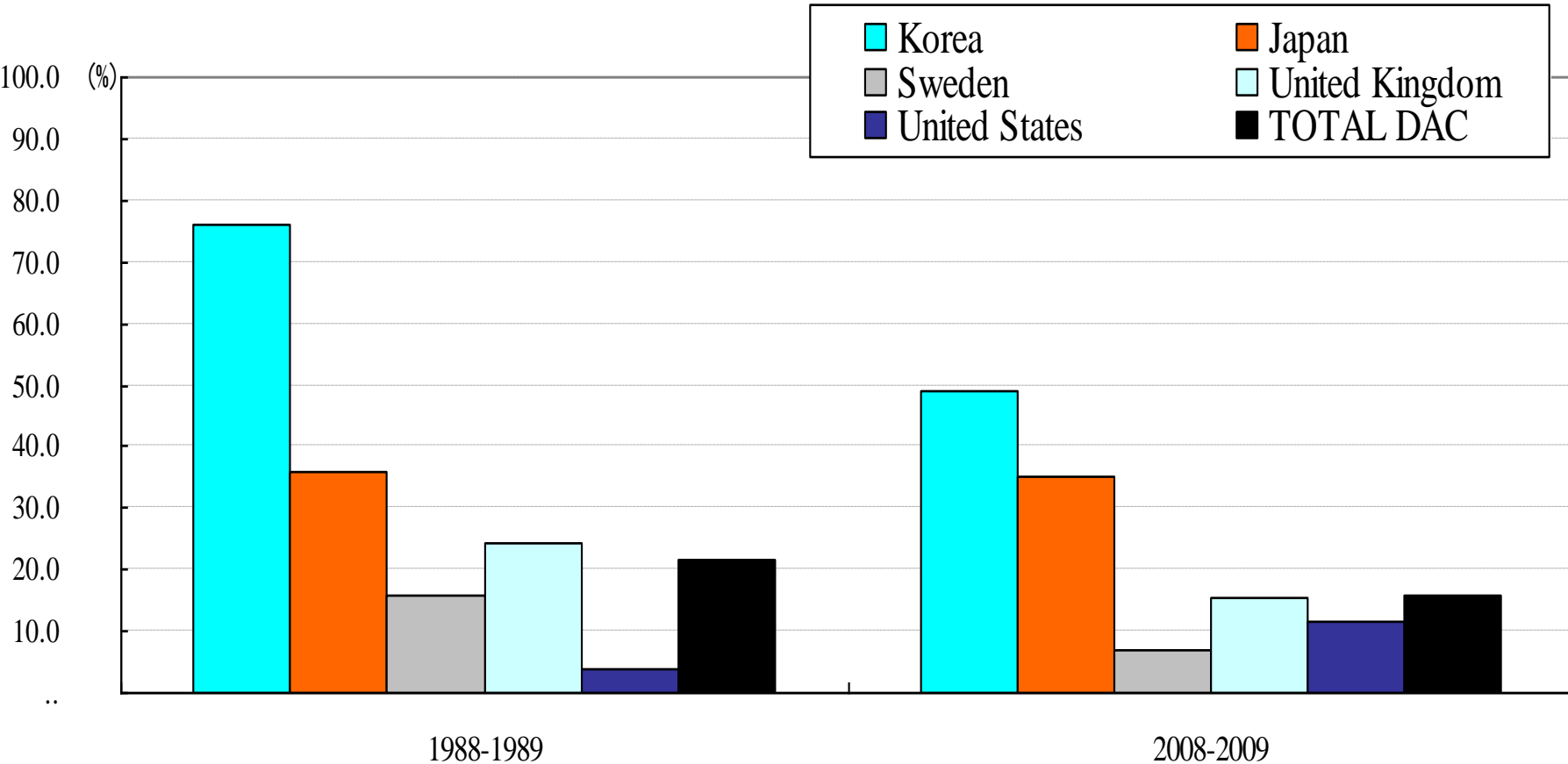
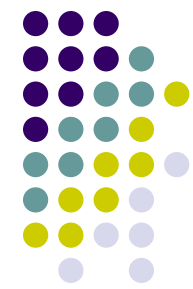


Signing Ceremony with the World Bank



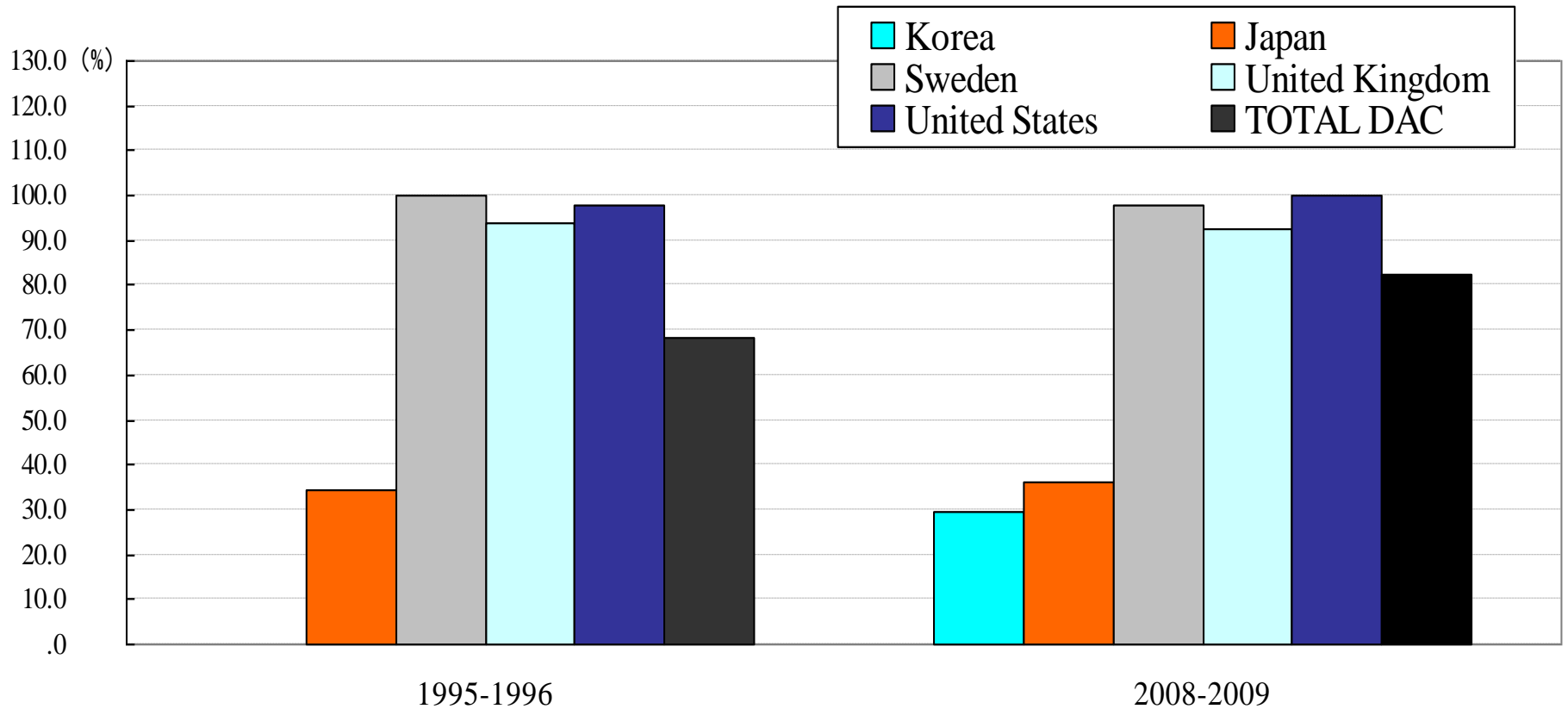
Public Water Project in Aichi Prefecture: 1957

ODA Comparison (1): Share of Economic Infrastructure (net disbursements)



Source: www.oecd.org/dac/stats

ODA Comparison (2): Grant Share of Bilateral ODA Commitment

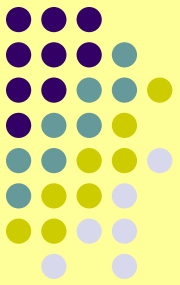


Source: www.oecd.org/dac/stats

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

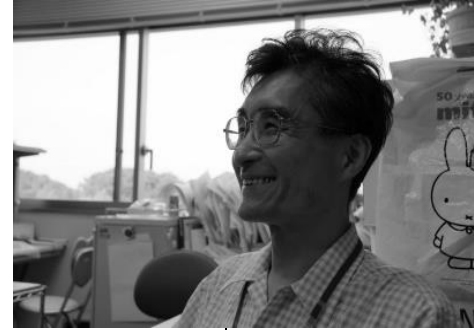


- Japanese aid is not based on the grand concept or theoretical system (like WB, UK, etc.)
- Japan has traditionally given aid, without policy conditionality, on a request basis to projects proposed by the recipient govt.
- Japan discusses and advises on the related development policies in a separate 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.

(Source) Shigeru Ishikawa, "Supporting Growth and Poverty Reduction: Toward Mutual Learning from the British Model in Africa and the Japanese Model in East Asia" (GDF Discussion Paper#9, March 2005)

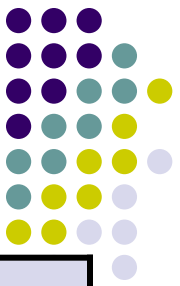
Toru Yanagihara

“Framework” vs. “Ingredients” Approaches



- 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.)



Framework-oriented (West)	Ingredients-oriented (Japan and East Asia)
<ul style="list-style-type: none">■ Emphasis on the framework of an economic system and its management■ Rules of the game according to which economic agents make decisions and take action in a given economy <p>【Examples】 Functions of the market mechanism; the principles of government intervention, budgets and public investment; monitoring and evaluation; administrative efficiency and accountability, etc.</p>	<ul style="list-style-type: none">■ Emphasis on an economy as the sum of component parts■ Tangible organizational units such as firms, official bureaus, industrial projects and their aggregations such as industries, sectors and regions <p>【Examples】 Technologies; factors of production; demand of trends, products and commodities; industrial structures; marketing and logistics efficiency in individual industries and regions, etc.</p>

Source: Toru Yanagihara (1998). Development and Dynamic Efficiency: “Framework Approach versus “Ingredients Approach”, Chapter 4, Ohno & Ohno (1998).

(Example)

Assistance to Infrastructure Development

	UK	Japan
Emphasis	<ul style="list-style-type: none">● Innovation in infrastructure financing—local currency guarantee, project development facility for privately-financed infrastructure, reaching the poor, etc.	<ul style="list-style-type: none">● Building roads and bridges, giving attention to location, design & technology, durability, regional development
Modality of assistance	<ul style="list-style-type: none">● Infrastructure Consortium for Africa (G8 level)● General or Sectoral Budget Support (infrastructure expenditure)● Implementing through int'l organizations (e.g., EU, WB, AfDB) and multi-donor facility (e.g., PIDG)	<ul style="list-style-type: none">● Project assistance● Aid agency staff involved in feasibility studies (F/S) and master plans (M/P) of infrastructure projects.

Capacity Development (CD)

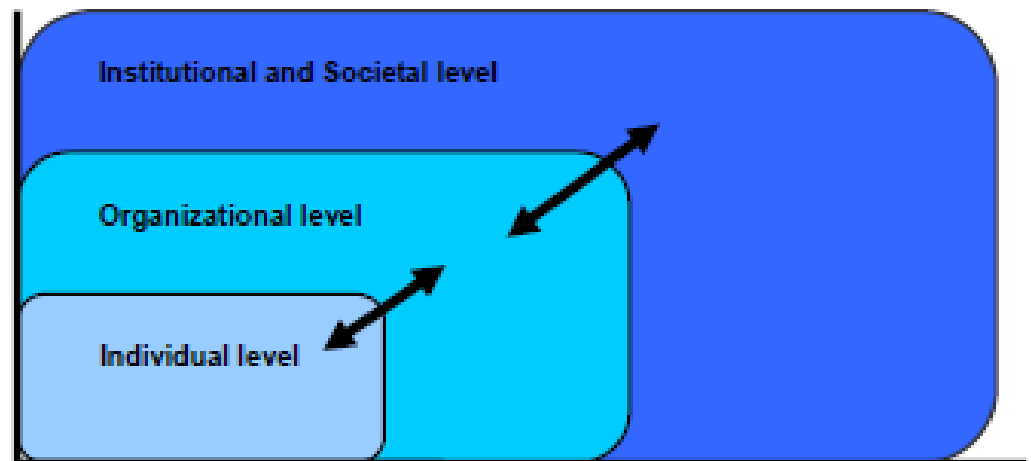


- To promote “self-help” efforts of developing countries to solve their own problems, Japan emphasizes cooperation toward comprehensive **capacity development (CD)** in such areas as human resource development and the design of policies and institutions--as well as the development of social and economic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

The three layers of capacity development (conceptual framework)

CD as the process by which individuals, organizations, institutions, and societies develop “abilities” (individually and collectively) to perform functions, solve problems, and set and achieve objectives.

Source: UNDP (2002)

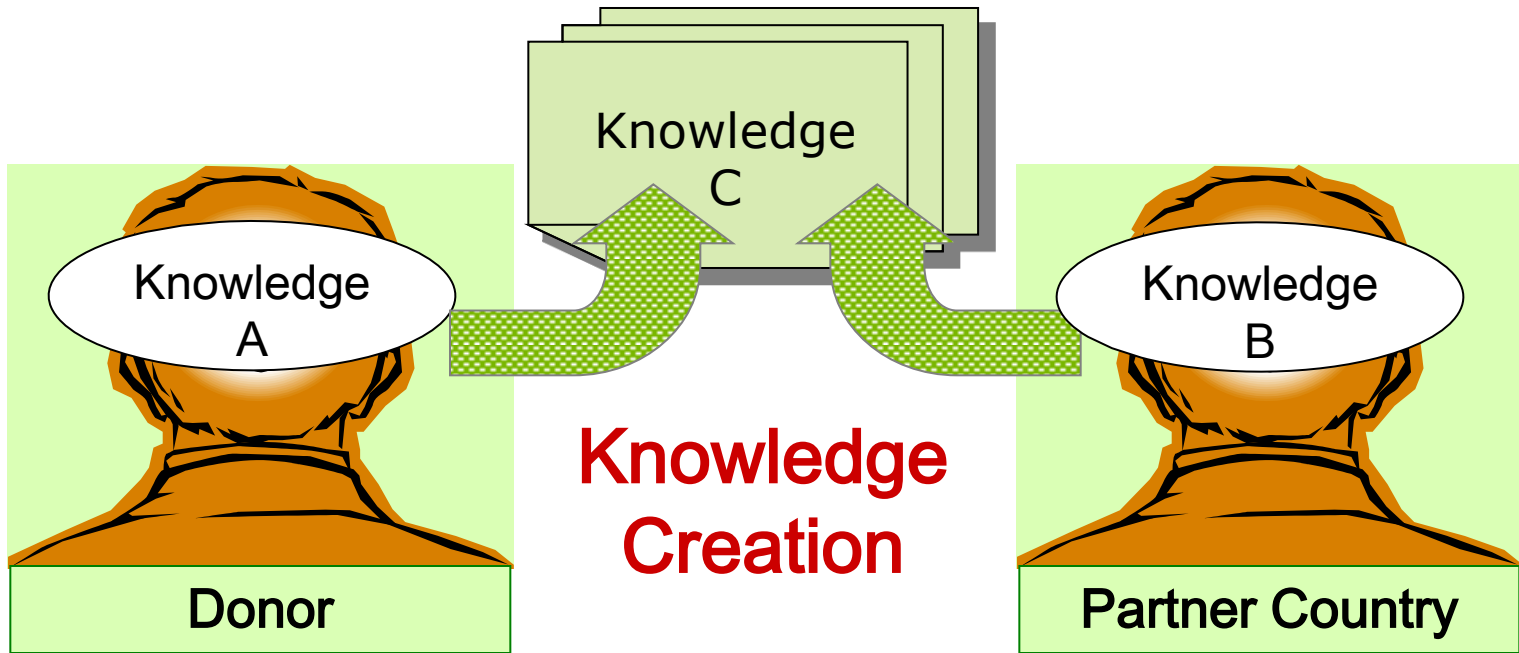
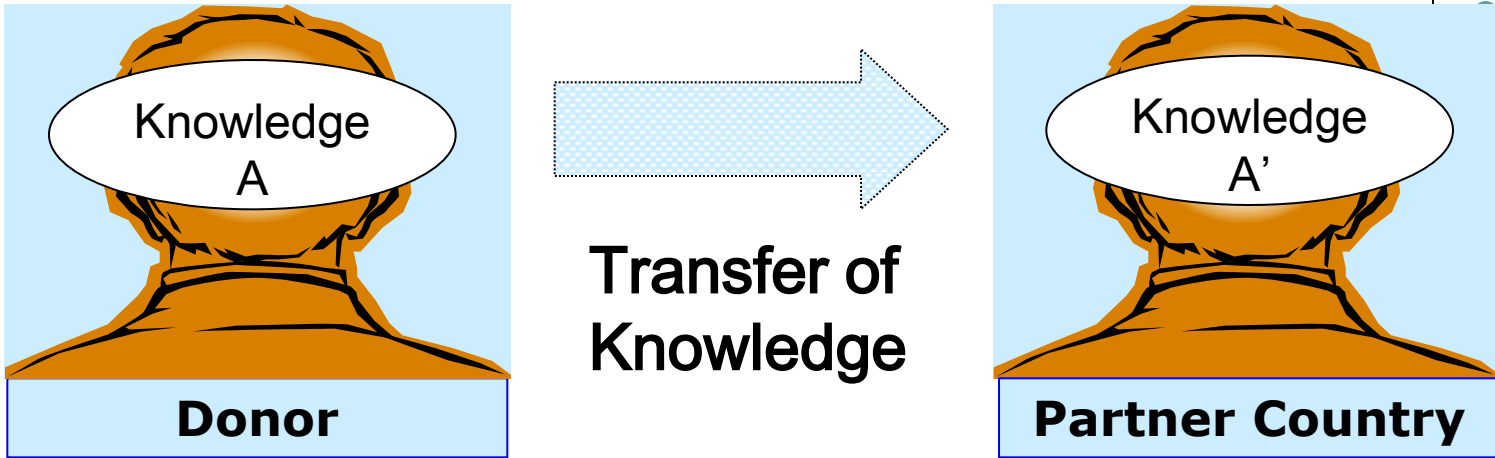
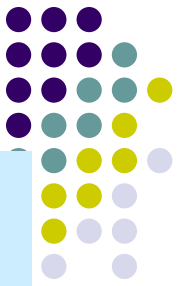


Capacity Development: JICA's Views

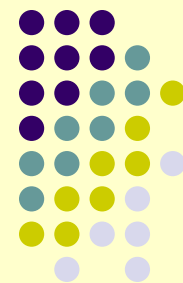


- Outside actors cannot directly develop capacities in a partner country.
- Ownership by the partner is vital.
- Joint efforts with the participation of stakeholders in the partner country are important.
- Long-term commitment is required.
- Creating a sustainable mechanism after project completion.
- 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.

Knowledge Creation



Key Features of Japanese Approach to Growth Support



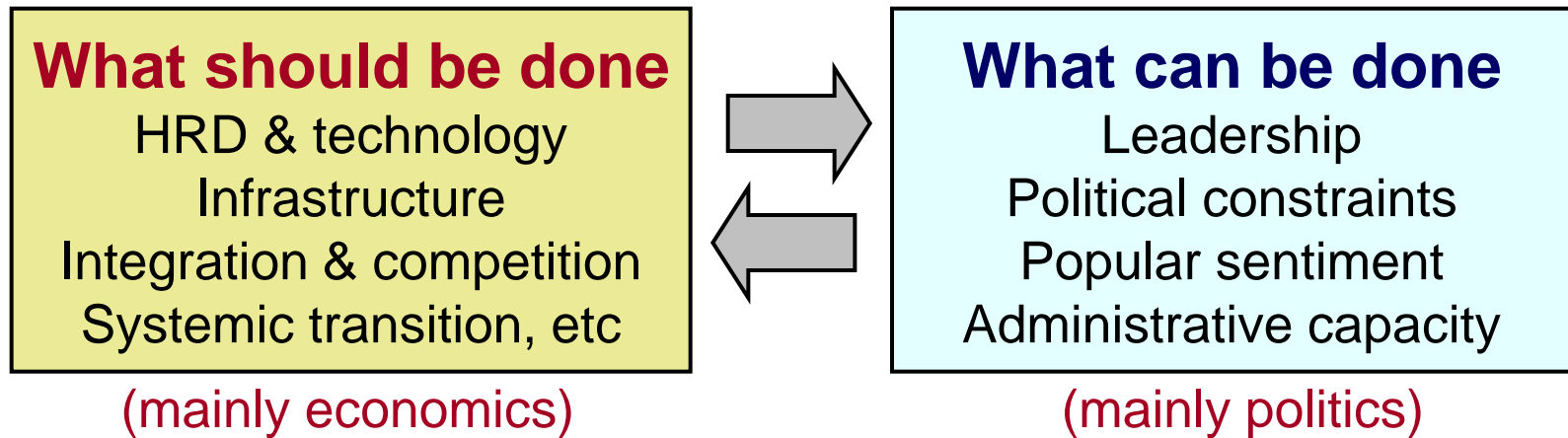
Pragmatism with real sector concern

- **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.

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.

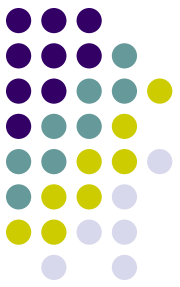
Desirability vs. Feasibility (cont.)



- We need to figure out a policy sequence which is both desirable and feasible in each country context.
- Policy advice without feasibility consideration cannot be implemented regardless of whether proposed actions are a few or many, common or tailor-made.
Examples: IMF conditionality, big-bang liberalization, privatization, good governance, growth diagnostics, etc.
- While developing countries are directly responsible for politics/feasibility, donors can offer aid and advice to help them overcome this problem from the sideline.

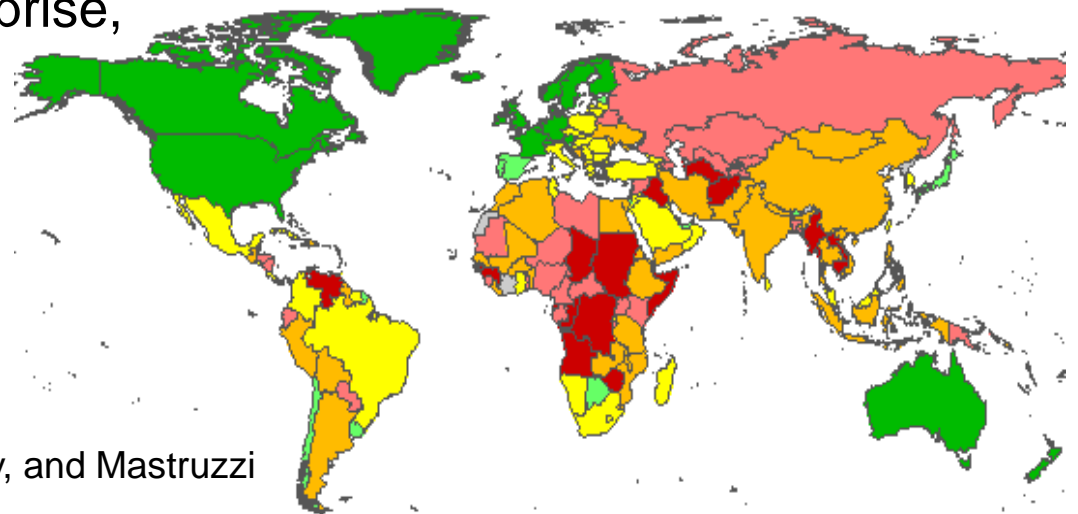
Good Governance

Worldwide Governance Indicators (WGI: Kaufman Index)



- 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?

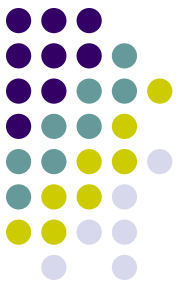
Control of Corruption (2008)



Source: World Bank WGI website,
Methodology developed by Kaufmann, Kraay, and Mastruzzi

Doing Business

Comparing Business Regulation in 183 Economies (WB/IFC)



- Economies are ranked on their ease of doing business, from 1-183. A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm.

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credits	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Singapore	1	4	3	5	14	8	2	4	1	12	2
Hong Kong, China	2	5	1	4	57	4	3	3	2	5	16
New Zealand	3	1	2	31	3	4	1	36	27	10	18
United States	4	13	17	17	16	4	5	72	20	7	15
Denmark	5	31	10	13	11	24	29	14	7	32	9
Norway	6	41	60	68	1	10	24	27	9	4	4
United Kingdom	7	19	22	60	68	1	10	24	13	21	6
Korea, Rep.	8	24	26	11	71	8	79	38	4	2	13
Iceland	9	37	34	1	11	40	46	35	81	3	11
Ireland	10	13	27	90	81	8	5	5	21	62	10
Note:											
Japan	20	107	63	26	58	24	17	120	16	34	1
Ghana	63	104	156	68	36	48	46	90	90	45	106
China	91	151	179	115	40	67	97	122	60	16	75
Tanzania	127	123	176	78	158	98	97	129	92	36	122
Indonesia	129	155	71	161	99	126	46	131	39	156	146
India	132	166	181	98	97	40	46	147	109	182	128

Source: World Bank • IFC Doing Business Website

Note: Top 10 countries are indicated among the 183 countries surveyed in June 2011.



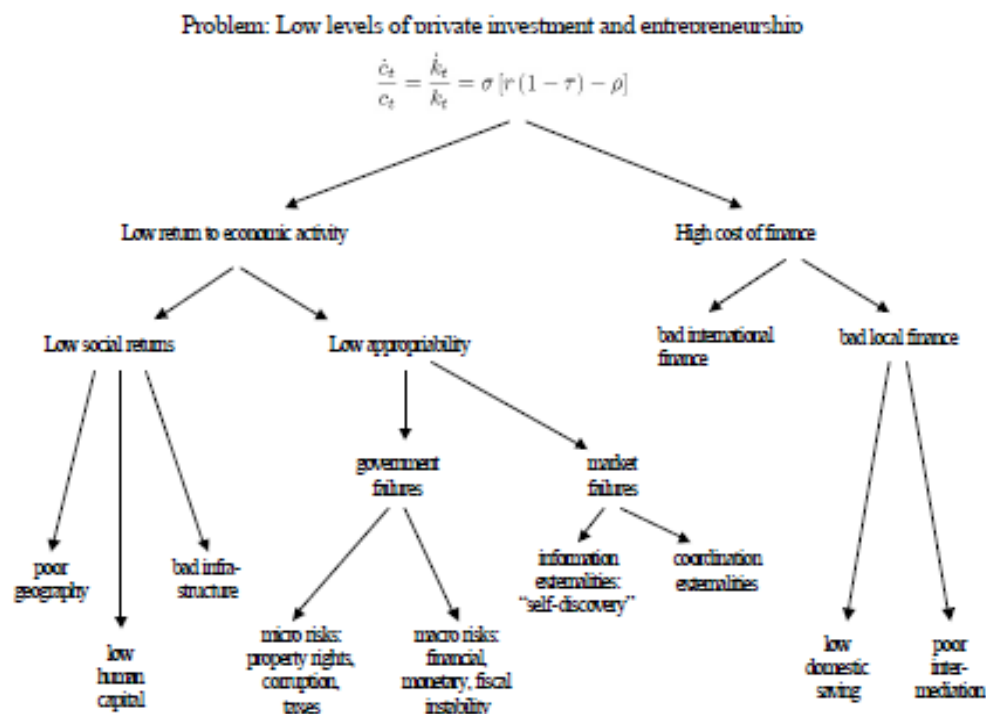
Growth Diagnostics (HRV Model)

Hausmann, Rodrik and Velasco (2005)

- Washington Consensus does not work. 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, IDB etc. are conducting GD in many countries.

Armenia, Baltics, Bangladesh, Beni Bolivia, Brazil, Cambodia, Egypt, Ethiopia, El Salvador, Guatemala, India, Jamaica, Liberia, Madagascar, Malawi, Mali, Mongolia, Nicaragua, Peru, Philippines, Rwanda, S. Africa Tanzania, Tajikistan, Thailand T. Tobago, Uganda, and others





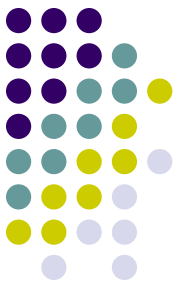
Issues for Consideration

Good Governance, Doing Business, Growth Diagnostics, etc.

- Useful tools to understand the positioning of a country (benchmarking), compared to the others.
 - Discovery of general weaknesses relative to global norm, instead of enhancing the country's unique strengths.
 - Search for desirable policies without considering political/administrative feasibility ?
 - Developing countries may need mechanisms for prescribing concrete policy actions, tailored to respective circumstances.
- *Can the Japanese (or East Asian) approach complement the Western way?*

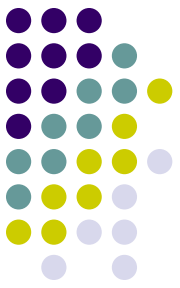
Dynamic Capacity Development

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

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

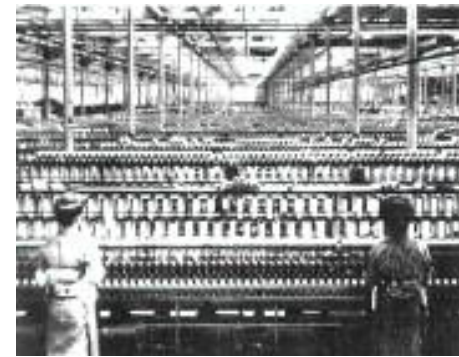
Result: instant success with a large number of followers; Japan overtakes UK as top textile exporter by early 20th century; The City of Osaka is called “Manchester of the Orient”



Shibusawa



Yamanobe



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)



Monthly Export Promotion Meetings headed by President Park (in the late 60s)

Example: Pragmatism of Deng Xiaoping in China

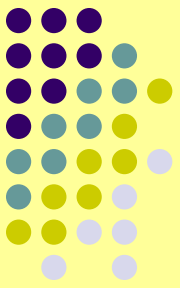


(In power 1978-97)

- 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 and investments around it for comprehensive regional development

(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

East Asia's Standard Policy Menu for Enhancing Industrial Human Resource and Enterprise Capability

Objective	Policy measure
(1) Legal and policy framework	Provision of necessary laws and regulations
	Designation or creation of lead ministry/agency for priority policy
	Inter-ministerial coordination mechanism
	Effective public-private partnership (PPP)
	Policy structure consisting of vision, roadmap and action plan
	Monitoring and evaluation mechanism
	National standards for quality, safety, skills, environment, etc.
	Framework for technology transfer and intellectual property rights
	Industrial statistics and database
	Strategic mobilization of international cooperation
(2) Industrial human resource (education and training)	Technology and engineering universities and institutes
	Polytechnics and industrial colleges
	Technical support in specialized skills for engineers
	Technical and vocational training for new and/or current workers
	Subsidies and incentives for worker training
	Skill certification, competition, and awards
(3) Enterprise capability (management and technology)	Introduction of kaizen or productivity tools (5S, QC circles, elimination of muri and muda, suggestion box, just-in-time system, etc.)
	Benchmarking, business process re-engineering, and other management tools
	Management or technical advisory service (by visiting consultants, short-term)
	Enterprise diagnostic and advisory system (institutionalized shindan or technical extension services)
	Short-term courses and tours for entrepreneurs and managers
	Quality standards and certification, testing services and centers
	Awards and recognition for business excellence, productivity, competitiveness
	Subsidies & incentives for upgrading management, technology, marketing, ITC...

(4) Finance	Development financial institutions
	Subsidized commercial bank loans for targeted firms (two-step loans)
	Special loans and grants for priority products and activities
	Credit guarantee system
	Equipment leasing
	Enterprise credit information system
	Linking loans with enterprise diagnostic and advisory system (see (3) above)
(5) FDI attraction	Clear announcement of preferred investors, sectors, regions, etc.
	Effective investor information package and website
	Investment promotion seminars, missions and offices abroad
	Provision of high-quality infrastructure services (power, transport, land, water, waste water and solid waste treatment, etc)
	One-stop investor support service (both before and after investment)
	Development and management of industrial estates including EPZs, SEZs and special zones for priority sectors, high-tech firms, etc.
	Rental factories for local and/or foreign SMEs
	Support for labor recruitment, matching, housing, commuting, healthcare, etc.
	Negotiation and provision of special incentives for attracting targeted anchor firms
(6) Marketing and business linkage	Support for domestic and export market development
	Trade fairs and reverse trade fairs
	Enterprise database (SMEs, supporting industries, sectoral)
	Incentives and subsidies for FDI-local firm linkage and technology transfer
	Official promotion/intermediation of subcontracting
	Establishment and strengthening of industry/business associations and local firm networks
(7) Innovation	Business start-up support
	Support for R&D, branding, patenting
	Business incubation centers
	Venture capital market
	Innovation clusters among industry, research institutes and government
	Incentives/subsidies for designated activities and products

(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).
- Topics covered: macro, budget & finance, industry, agriculture, trade, SOE reform, Asian financial crisis.
- Continued dialogue—New Miyazawa Plan (1999), Vietnam-Japan Joint Initiative (2003-), GRIPS-NEU joint research (VDF, 2004-)
- 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

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

Follow up

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.

Japan-Ethiopia Industrial Policy Dialogue (2009-2011)



- Japan has been providing industrial cooperation to Ethiopia, consisting of two components, at the request of late Prime Minister Meles who has strong interest in East Asian development experiences.
- 1. **Policy dialogue** (JICA-GRIPS, June 2009-): high level and working level dialogue on industrial development strategy, from East Asian perspectives (every 3 months).
- 2. **Kaizen – quality & productivity improvement project** (JICA consultants, from fall 2009): teaching continuous and participatory improvement at pilot factories.

Kaizen, in Japanese management, means “continuous improvement” of productivity and quality without additional cost, in a participatory process and a bottom-up approach

Japan-Ethiopia Industrial Policy Dialogue, coupled with Technical Cooperation Project (now, phase 2 ongoing)

Three Layers of Dialogue with Ethiopia

Dialogue with Prime Minister

Policy Dialogue (phase 1: Jun.09-2011)

1. Policy Visions

Democratic Developmentalism, Agriculture Development-led Industrialization (ADLI)

2. Five Year Development Plans

PASDEP(05/06-09/10), GTP (10/11-14/15)

3. Sector Policies

- Basic Metal & Engineering Industry
- Industrial Development Strategy
- MSE Development Strategy

4. Cross-cutting Issues

- Policy Making Process and Organizations
- National Movement of Productivity

High Level Forum with Ministers and State Ministers

Operational Level
MoFED, MoARD, MoE, Mol, MoUDC, etc.

Mol, Metal Products Development Center

Mol, KAIZEN Unit

Study Project on KAIZEN (Oct.09-Jun.2011)

Supplementary Firm-Level Study of Basic Metal and Engineering Industry(2010)

Japan

EOJ

G
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Professors
Kenichi Ohno &
Izumi Ohno

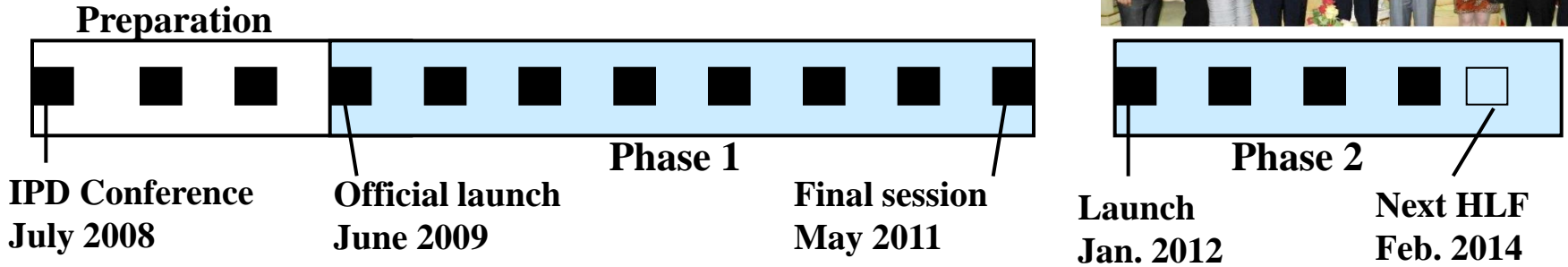
JICA

JICA

JICA-GRIPS Industrial Policy Dialogue and Industrial Support Projects with Ethiopia (2009-)



Industrial Policy Dialogue



PM Meles

PM Hailemariam



JICA Industrial Support Projects



**Kaizen pilot project (30 firms)
(phase 1)**

**Institutionalization of Kaizen
(phase 2)**

**Basic metal &
engineering study**

(With Germany, ECBP)

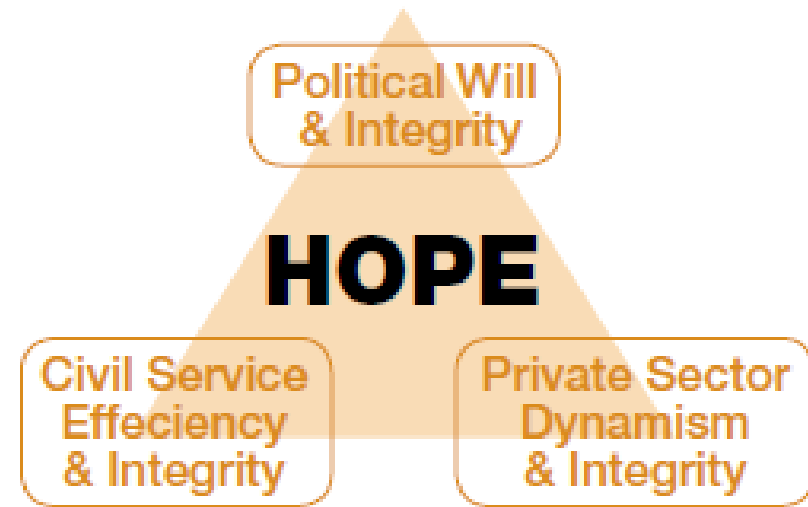
**Export promotion, etc.
(Champion products)**

Note: Black squares indicate policy dialogue sessions in Addis Ababa with the prime minister, concerned ministers and state ministers, and officials and experts at operational levels. IPD stands for the Initiative for Policy Dialogue, policy oriented meetings on various topics hosted by J. Stiglitz of Columbia University. ECBP stands for the Engineering Capacity Building Program, a large-scale program run jointly by Ethiopia and Germany.

Malaysia-Zambia Cooperation: Triangle of Hope (TOH)



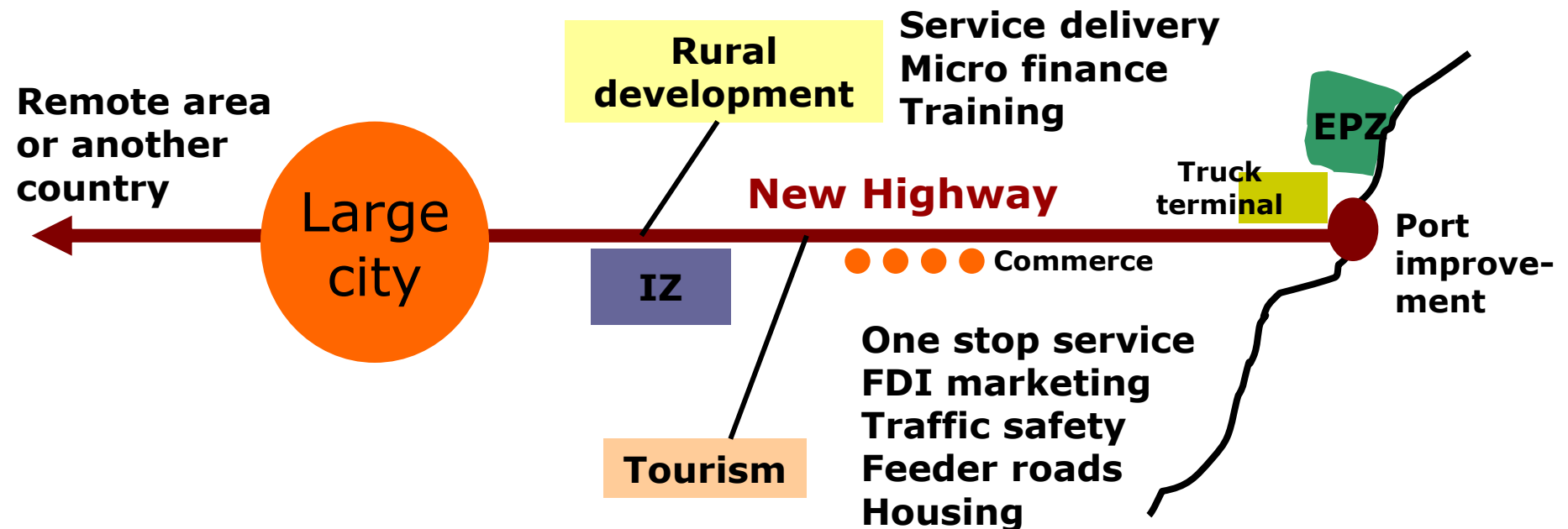
- JICA implemented “Triangle of Hope” Project during 2006-09 to support the improvement of business environment in Zambia
- Dato Jegathesan was Deputy DG of the Malaysia Industrial Development Authority (MIDA), under ex-Prime Minister Mahathir.
- TOH project formulated 12 concrete policy recommendations, and catalyzed Malaysian investment in Zambia (a cedular company).
- Currently, JICA is supporting capacity development of Zambia Development Authority (ZDA).



(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

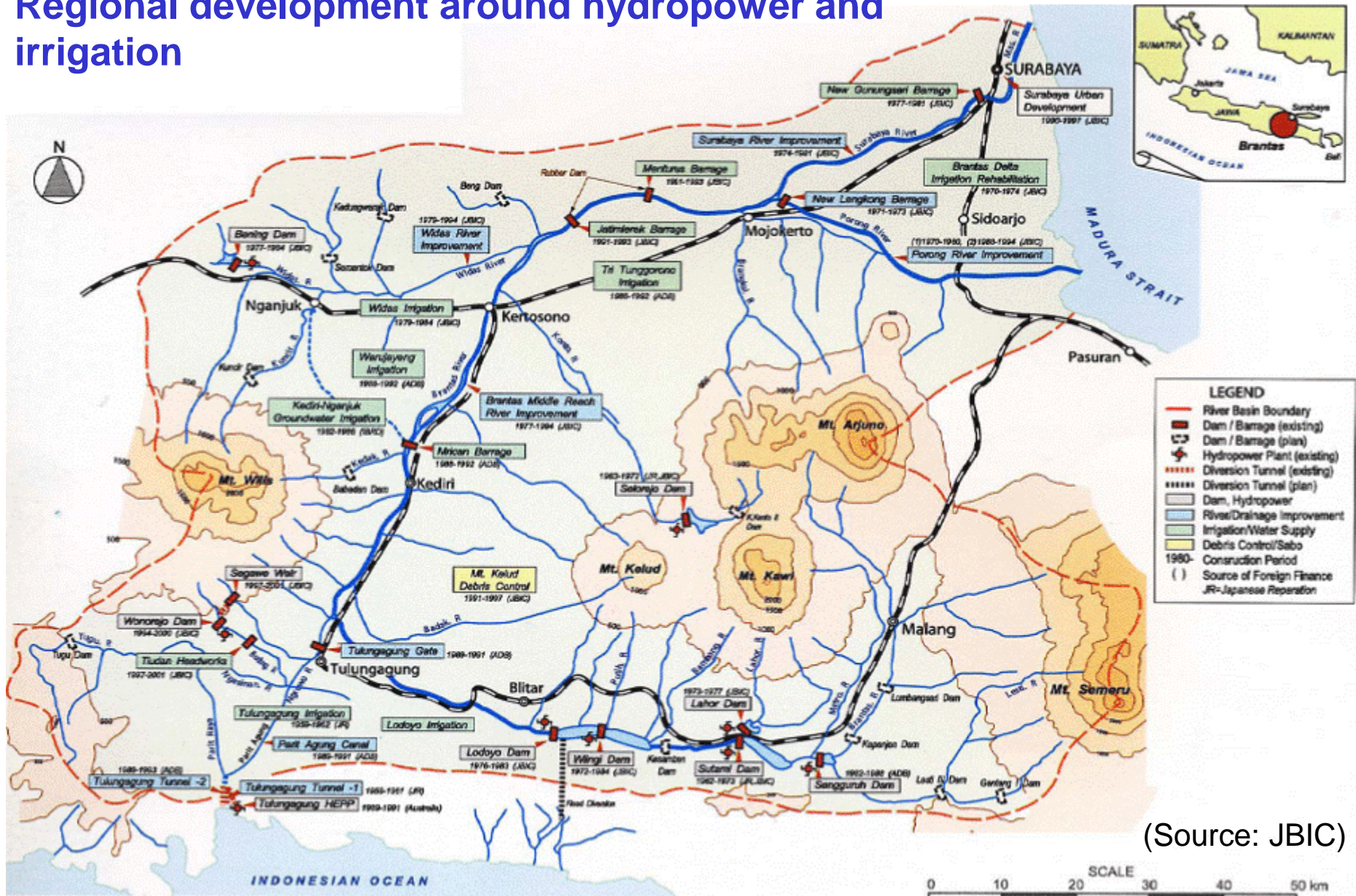
Greater Mekong Sub-region East-West Economic Corridor



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

Indonesia: Brantas River Basin Development:

Regional development around hydropower and irrigation



(Source: JBIC)

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





Guatemala

Honduras

El Salvador

San Salvador

Road
(US aid)

Missing Road Link

Bridge
(Japanese aid)

La Union
(Japanese aid)

Regional development
(Japanese aid)

Pacific Ocean

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

Regional Development with Core Infrastructure (Examples)



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Nacala Development Corridor

The Case of Mozambique (Ongoing)

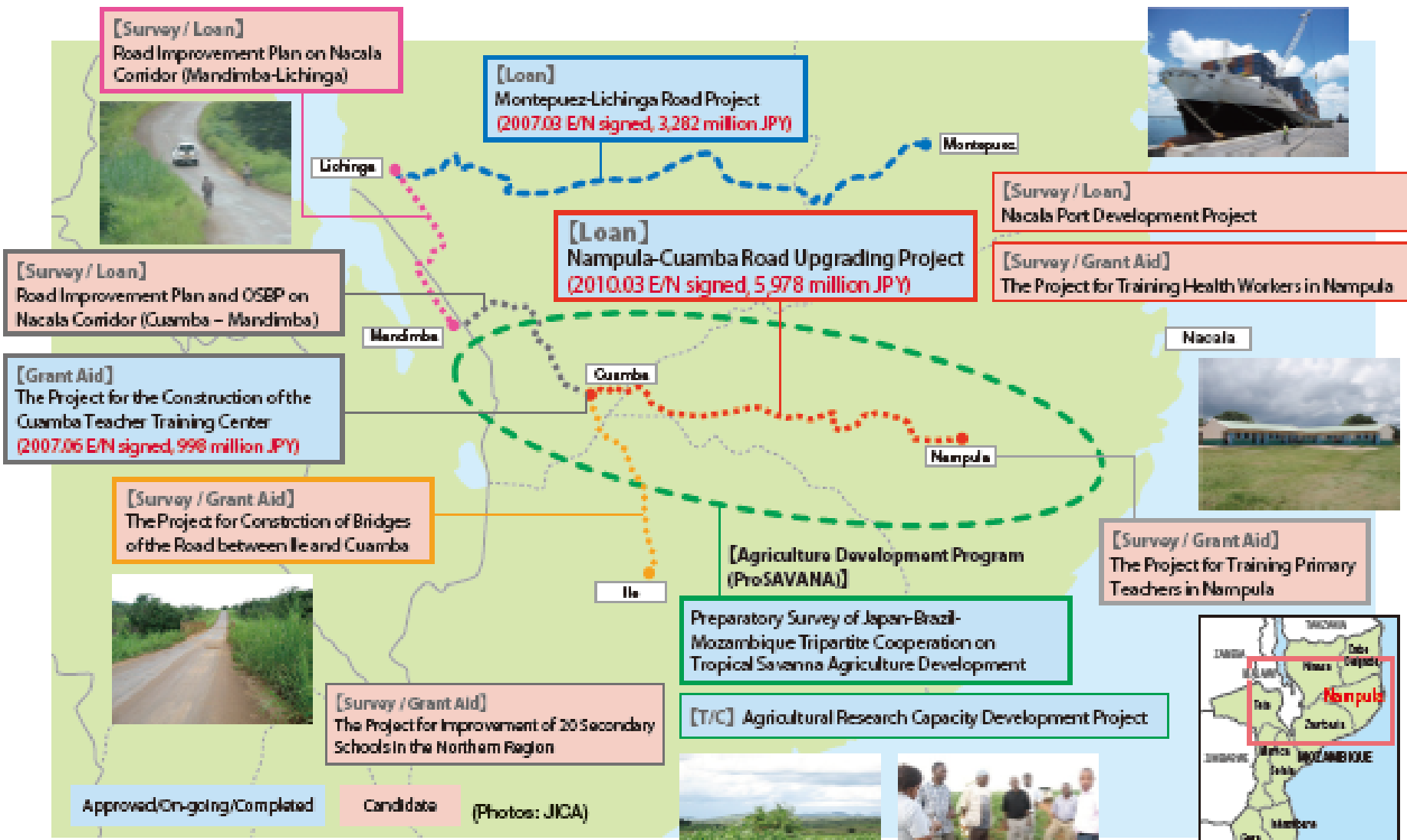
Nacala Development Corridor →

(Source: CPI, Govt. of Mozambique)



Mozambique is JICA's target country in Africa for regional development approach: Nacala Corridor, agriculture development (with Brazil), productive sector support, road maintenance, etc.

Integrated regional development in Nacala Corridor, Mozambique



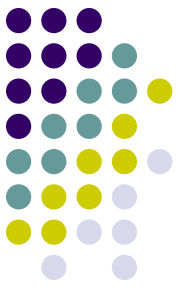
Source: Ministry of Foreign Affairs, TICAD IV Annual Progress Report 2010

Conclusion (1): The Western and East Asian Ways



- There are differences btw. the Western and the East Asian approaches to development.
- Major difference is about the ***methodology*** (in a broad sense) of designing and implementing policies unique to each country.
- Ample scope exists for Japan to complement the current international growth support, by incorporating the East Asian way.
- Japan should also collaborate with East Asian emerging donors to disseminate such perspectives.

Conclusion (2): Dynamic Capacity Development Approach



- Building new competitiveness from the country's strengths, not correcting general weaknesses.
- Goal-oriented approach—vision, phased strategies, concrete action plans
- Focus effort strategically—rather than general improvement without clear goals
- Stop abstract thinking and start concrete action
- Donor-recipient policy dialogue for trust, knowledge sharing, and joint strategy formulation
- Long-term open-ended engagement

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