

Industrial Policy in Africa

What Africa Can Learn from East Asia



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Tokyo, Revised February 2011

Topics

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

Learning from East Asia

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

To be avoided:

- Blind & random copying without local context
- Refusal to learn because “our country is unique”

Research in Industrial Policy

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

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

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

Willing to Learn

- ❑ East Asia widely accepts and practices industrial policy. Latecomers can—and should—learn from more advanced neighbors.
- ❑ In Africa: Ethiopia, Zambia, Rwanda, Uganda, Tanzania, Egypt, Tunisia, Namibia, African Union, East African Community... are interested in industrial policy or already implementing it.
- ❑ Ethiopian senior economic advisor: “We want action-oriented advice, not academic theories.”
- ❑ Vietnamese economists: “WB’s policy proposals are too mechanical and not concrete enough for Vietnam.”

Systematic Instruction on Industrial Policy Making is Needed

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

What Need to Be Learned

- Strong leadership and mindset
 - A strong and economically literate leader with clear vision
 - National mindset for productivity & competitiveness
- Policy content
 - Ability to select, combine and modify international best policy practices to create own policy package
 - *Proactive industrial policy*—policies must be consistent with globalization and market orientation
- Policy procedure and organization
 - Creation of suitable policy system from alternative international models
 - Constant evolution with shifting weights of state vs. market

At the outset, policy dialogue with experts/practitioners from advanced economies may be helpful (initial guidance, private tutoring)

Proactive Industrial Policy:

Seven Required Features

1. Strong commitment to global integration and private sector driven growth
2. A wise and strong government guiding private sector
3. Securing sufficient policy tools for latecomer industrialization
4. Constant policy learning through concrete projects and programs
5. Internalization of knowledge, skills and technology as a national goal
6. Effective public-private partnership
7. Collection and sharing of sufficient industrial information between government and businesses

Standard Policy Menu in East Asia

(But Contents Are Not Very Well Known in Africa)

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

Enhancing Industrial Human and Enterprise Capability: Standard Menu for Latecomers

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.)

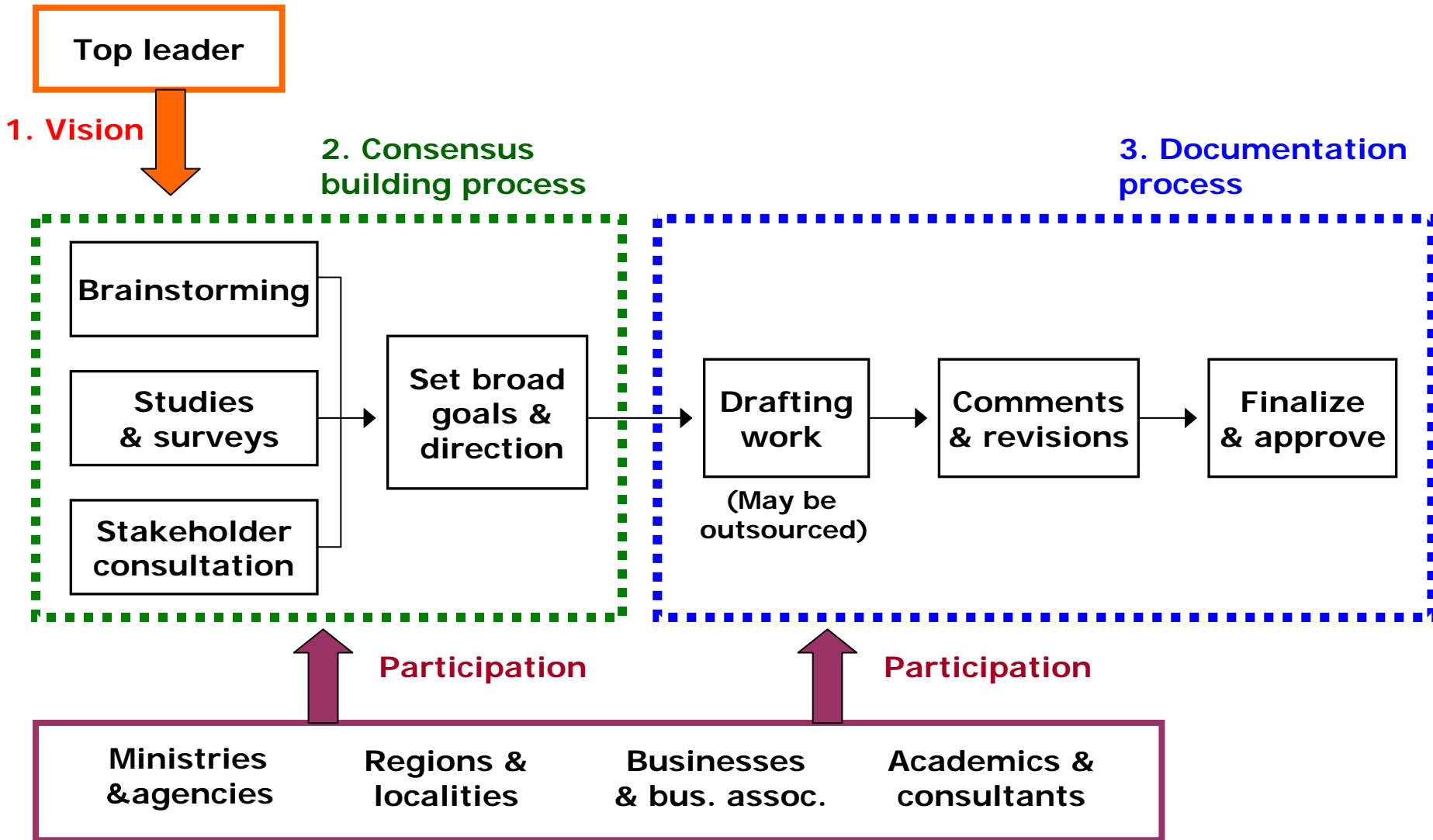
(3) Finance	Development financial institutions
	Subsidized commercial bank loans for targeted firms (two-step loans)
	Credit guarantee system
	Equipment leasing
	Venture capital
	Enterprise credit information system
	Enterprise evaluation and advice system (same as in (2))
(4) FDI marketing	List of priority 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	

Policy Making Procedure

Necessary steps:

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

Standard Policy Making Procedure



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

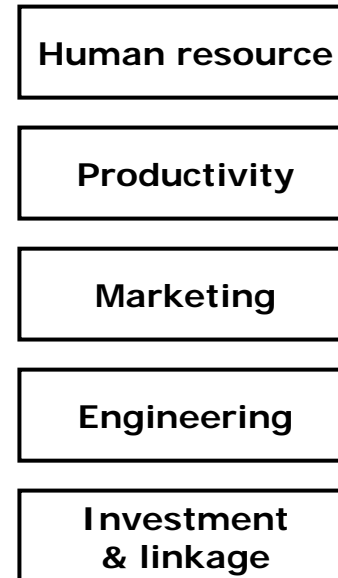
Thailand: Automotive Industry Master Plan 2007-2011

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

**Brainstorming;
agreeing on goals
& directions**

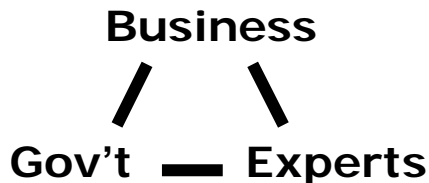
**Set up formal
committee for
drafting M/P**

**Subcommittees
study identified
issues**

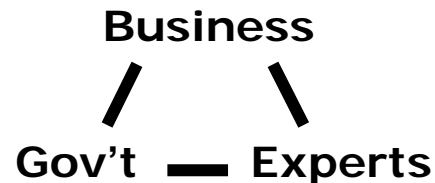


Comment &
dissemination

Implementation



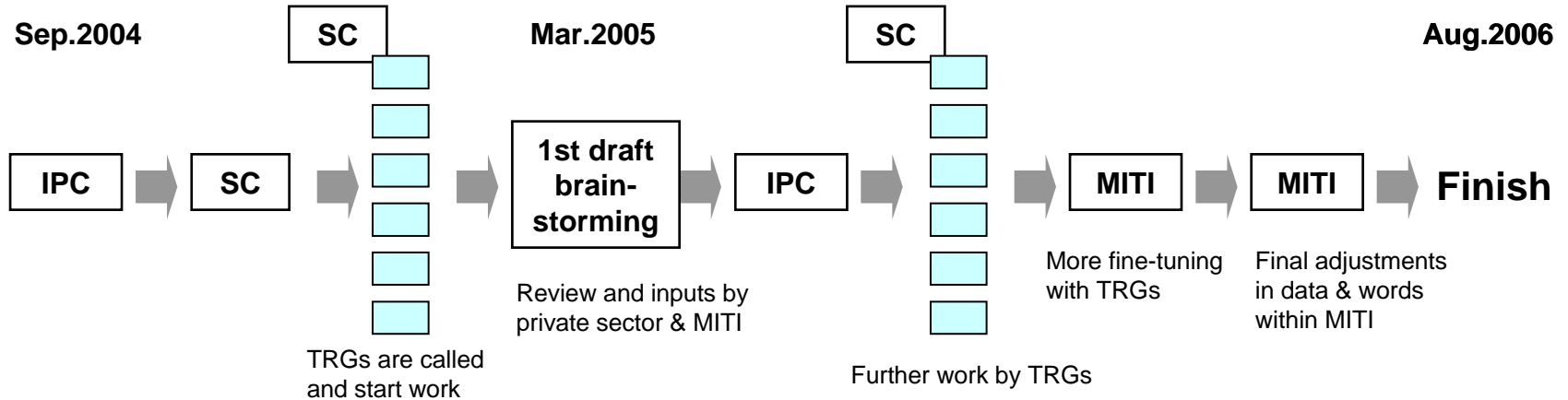
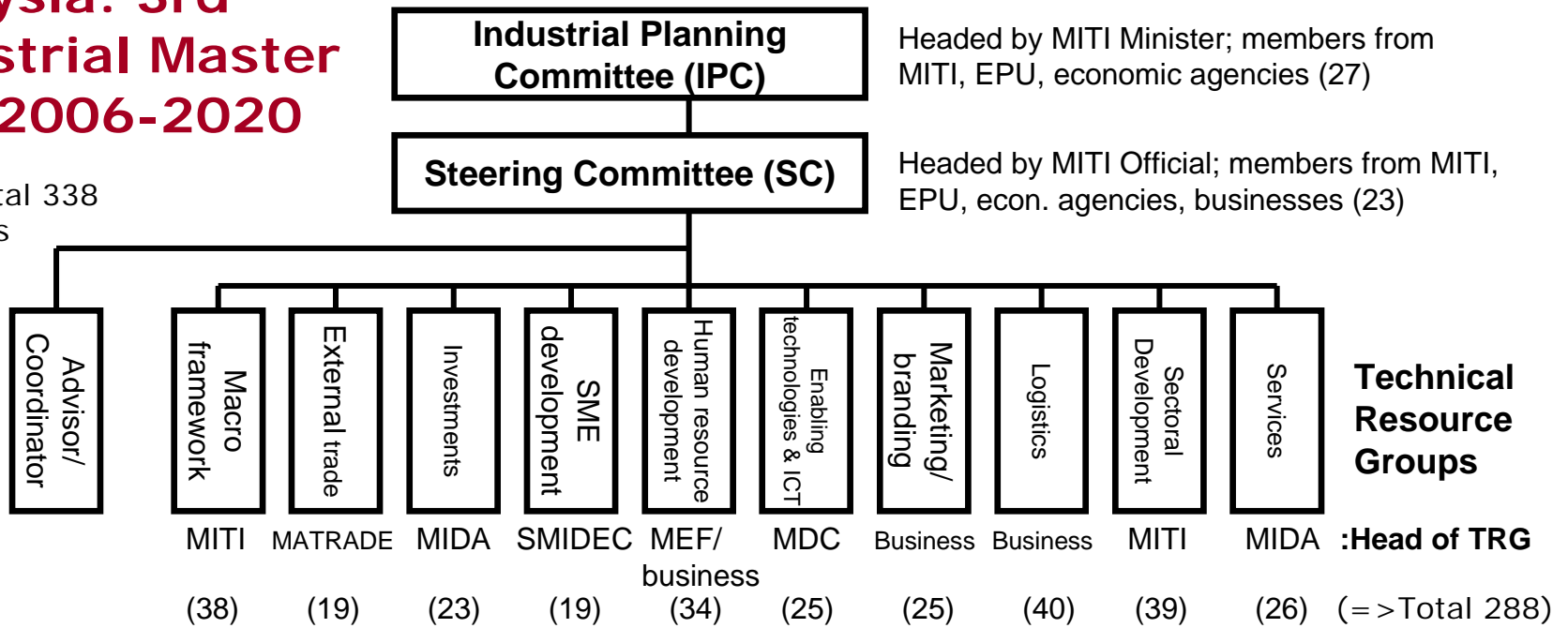
(Informal)



(Formal)

Malaysia: 3rd Industrial Master Plan 2006-2020

Grand total 338 + advisors



Source: MITI website, and VDF mission to Kuala Lumpur, Jan. 2006.

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

Common Mistakes

Practices that do not lead to policy learning:

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

Policy Organization

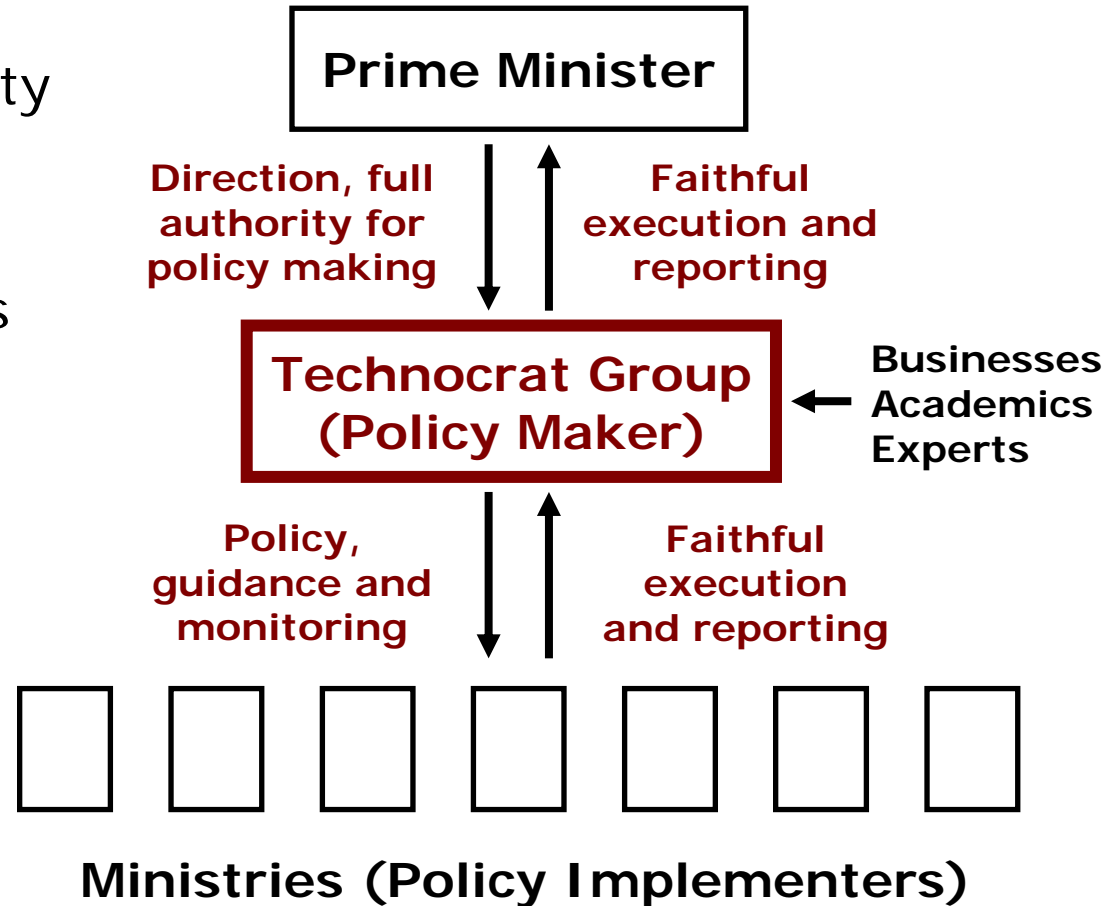
There are several alternative models to realize proper policy procedure discussed above:

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

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

Technocrat Group Approach

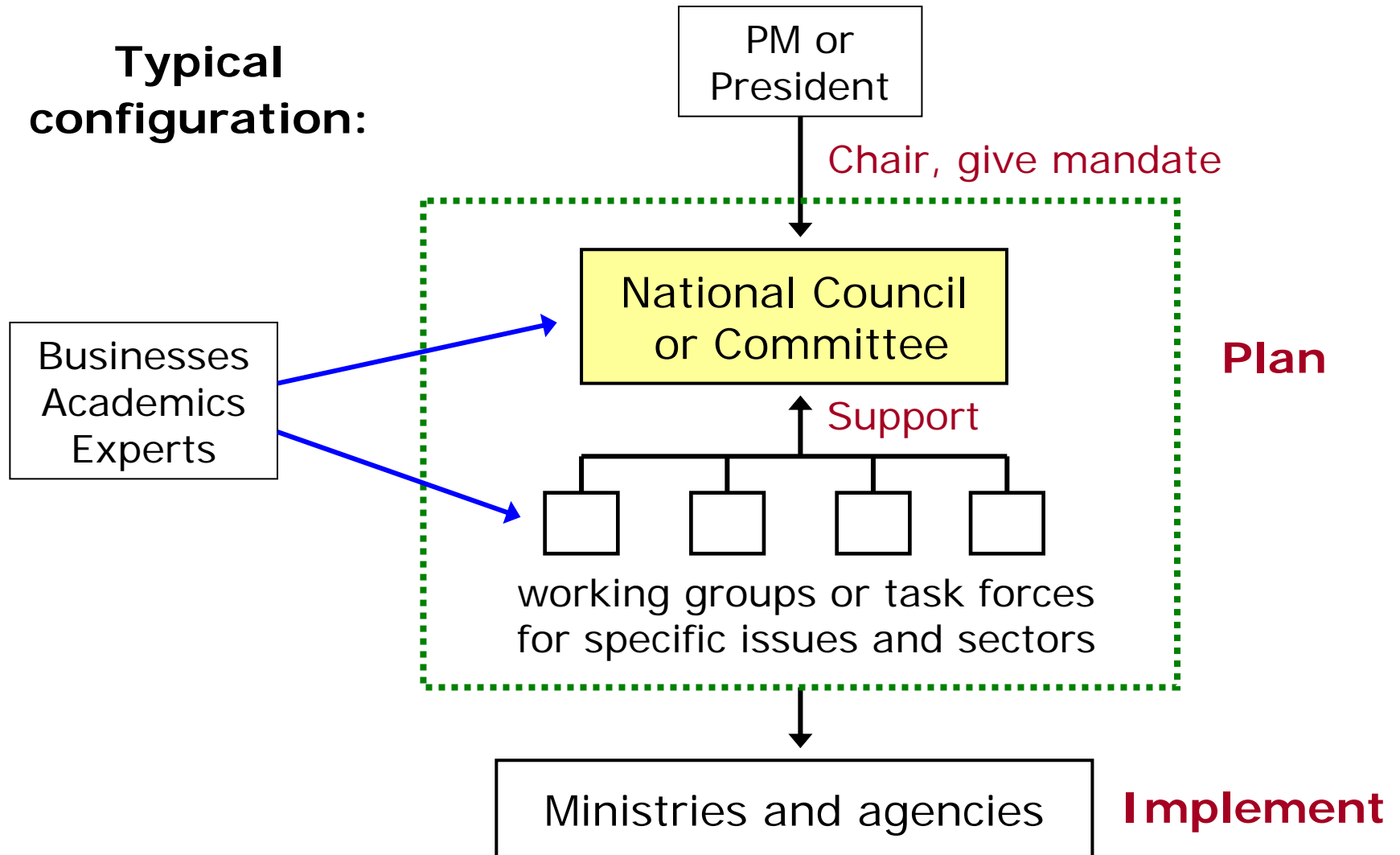
- Elite technocrat group with full planning authority given by top leader
- Members are selected officials, business leaders & experts with good education & experience



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

National Council/Committee Approach

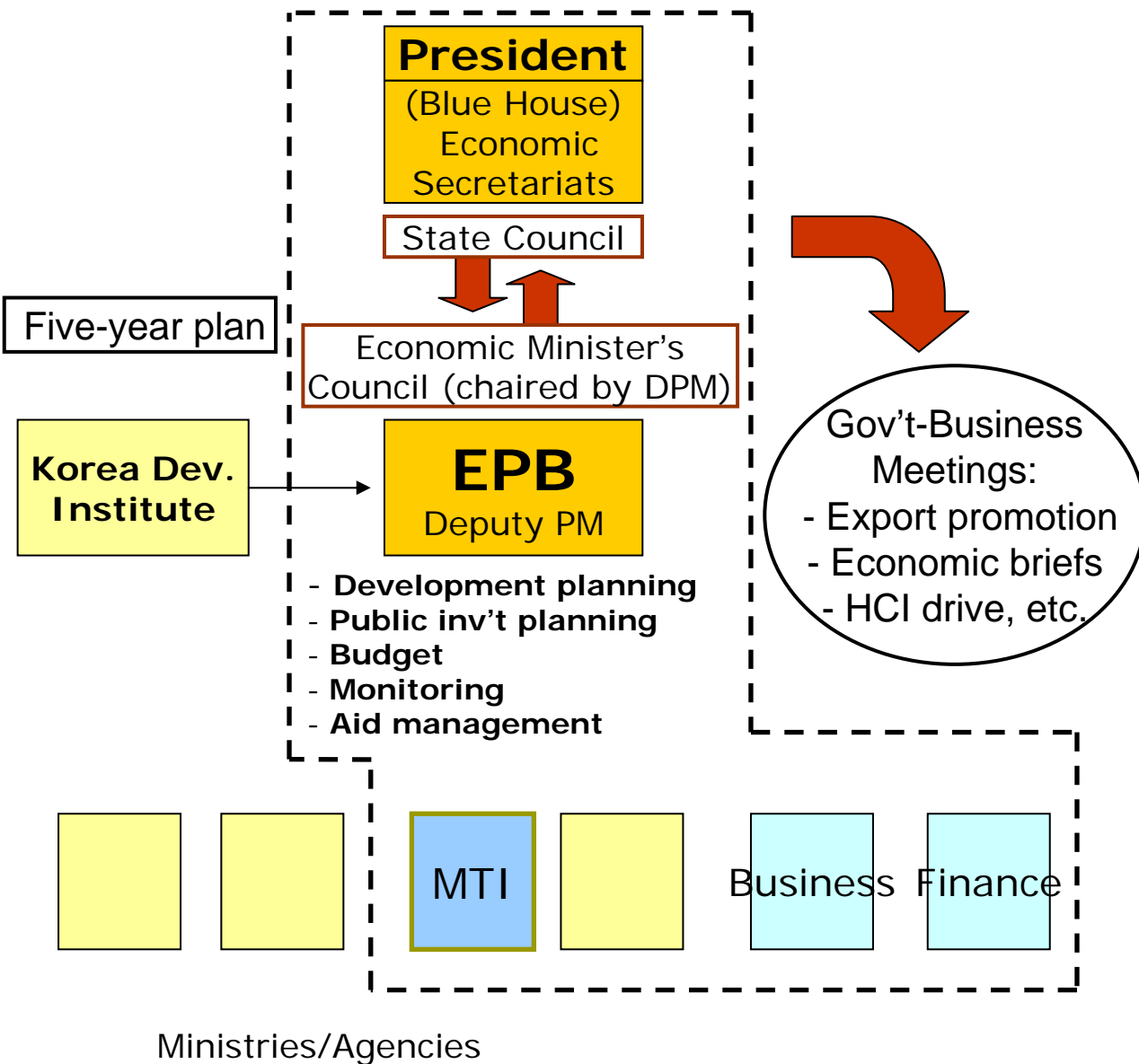
Typical configuration:



Comparing the Two Approaches

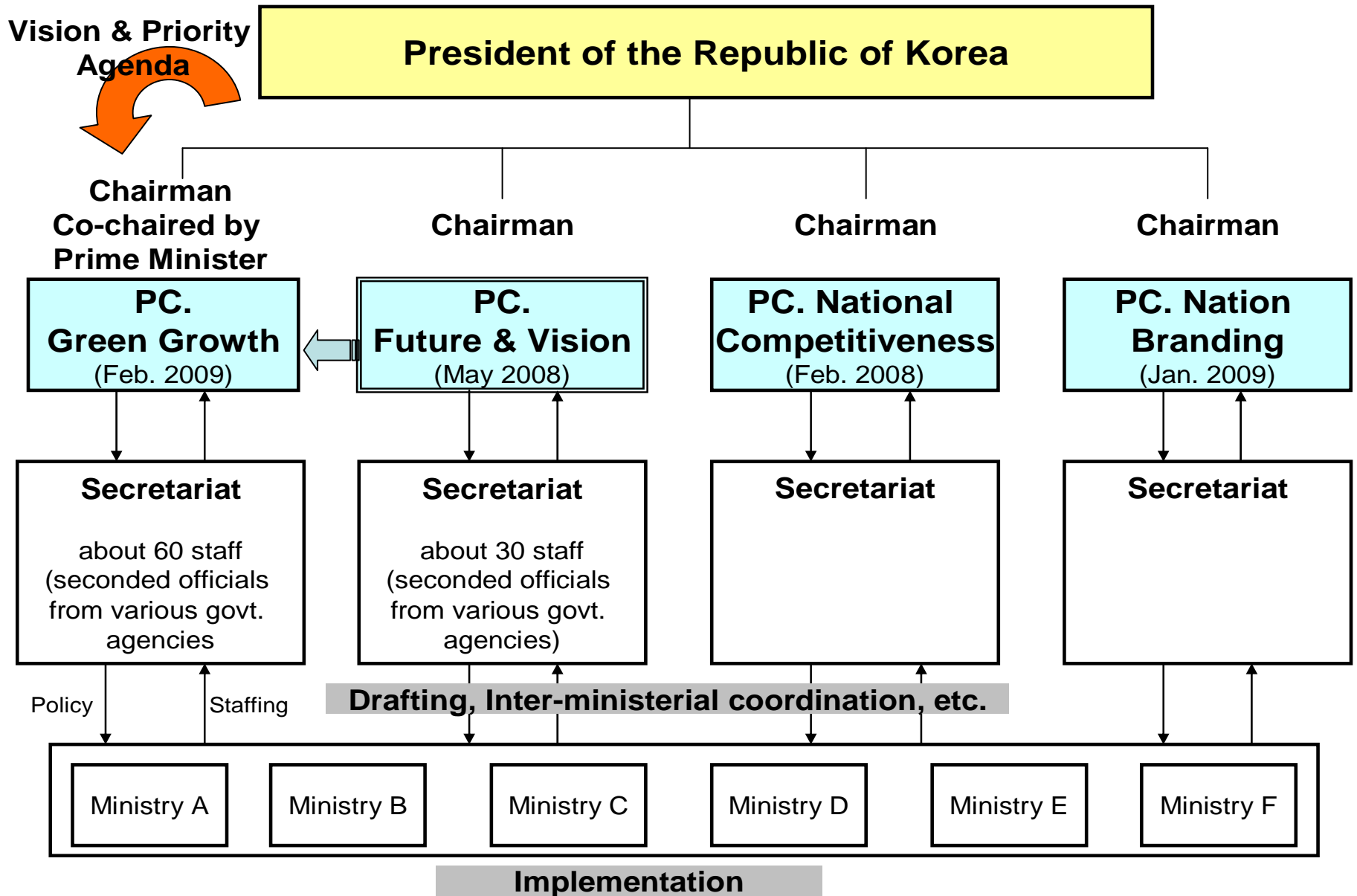
	Technocrat group serving top leader	National councils/ committees
Number	Only one	Up to several
Tasks	Multiple and variable	Single task
Time scope	Semi-permanent (until this system is no longer needed)	Temporary (until the assigned task is completed)
Relation with ministries	A planning body above all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

Korea 1960s-70s: Economic Planning Board

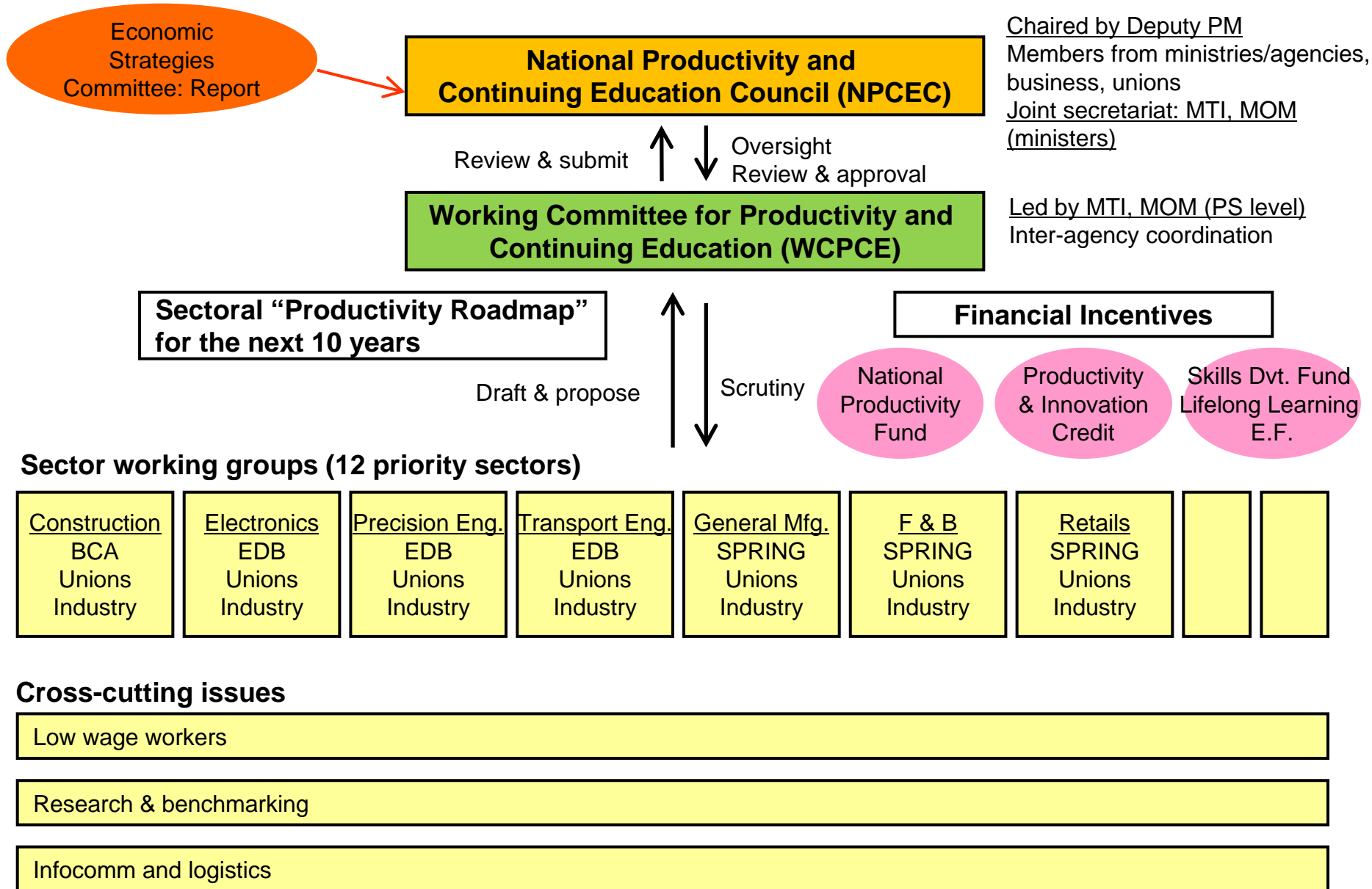


- Direct control by President
- Korea Dev. Inst. offering analysis for long/medium term economic policies
- Gov't-business relations were very close & cooperative
- Performance-based rewards & penalties

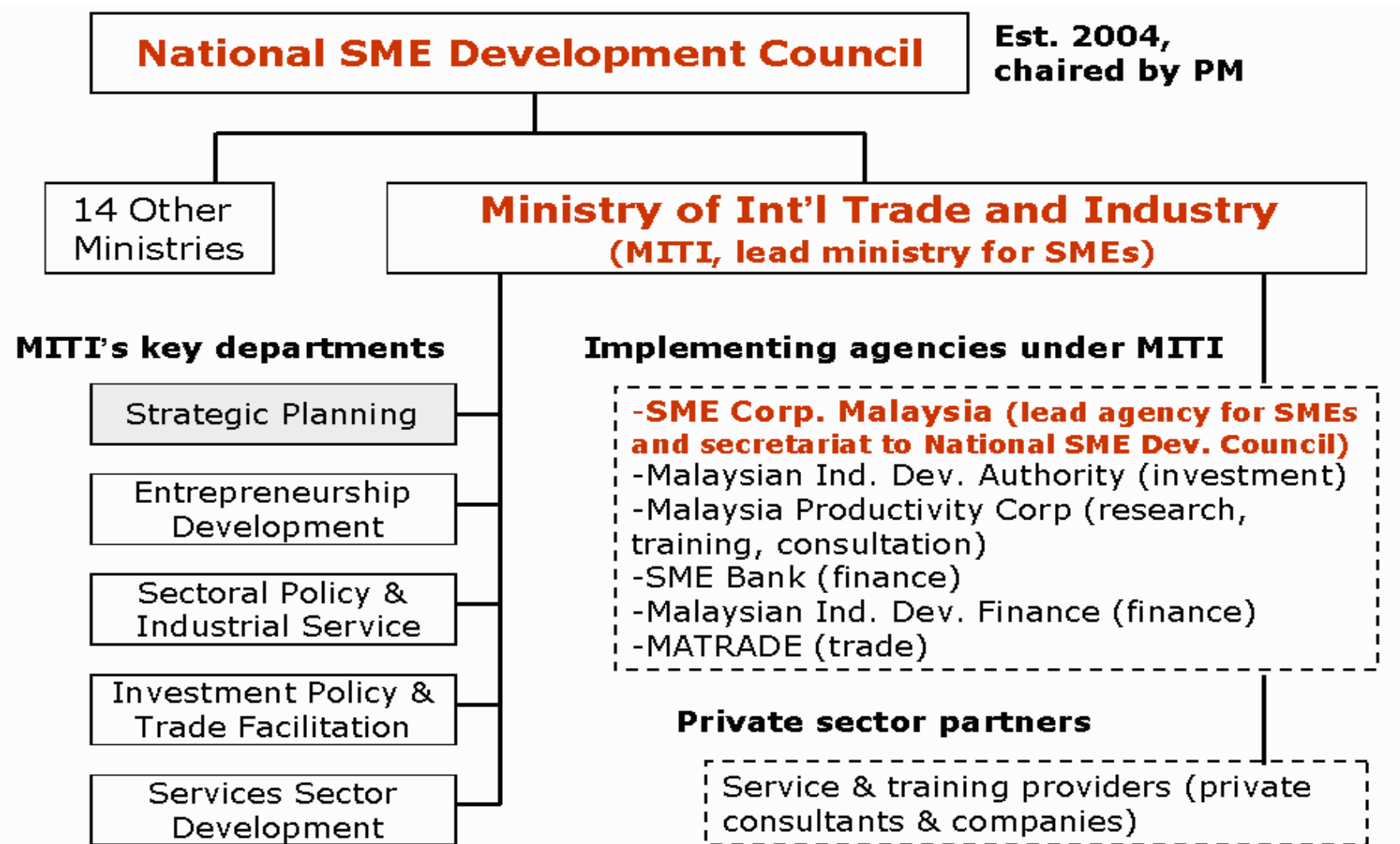
Korea Now: Presidential Committees



Singapore Now: New Productivity Drive



Malaysia Now: National SME Dev. Council



Note: Bank Negara Malaysia (central bank) served as a secretariat to the National SME Dev. Council until the establishment of SME Corp. Malaysia in 2009.

Features of Japanese Approach to Development

Pragmatism and concern with specific industries:

- ❑ **Target orientation**—striving for concrete vision, targets, roadmaps, and actions instead of general capability improvements.
- ❑ **Field (*gemba*) orientation**—working on factory floor or crop field to solve concrete problems.
- ❑ **Joint work**—transferring skills and knowledge to developing countries by working together (OJT); no parallel mechanisms.
- ❑ **Dynamic capacity development**—policy learning and expectation of eventual graduation from aid. Patience is needed.

Entry Points for Japan's Industrial Cooperation in Africa

Japan, a small investor and donor in Africa, but with East Asian experience, can offer the following:

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

Policy Dialogues by Japan and Korea

□ Japan's long engagement in policy dialogues

Argentina – Okita Mission, 1985-87

Vietnam – Ishikawa Project, 1995-2001

Thailand – *Mizutani Report* for SMEs & SI, 1999

Indonesia – *Urata Report* for SMEs, 2000; Shiraishi & Asanuma mission for financial crises, 2002-04

Laos – Prof. Hara's Project for overall dev. strategy, 2000-05

Ethiopia – GRIPS-JICA, 2009-11

□ Korea's Knowledge Sharing Program (2004-)

Policy dialogue (KDI/KOICA: sectoral and cross-cutting issues; mutual visits, seminars & reports) Dom. Republic, Vietnam, Uzbekistan, Cambodia, Indonesia, Algeria, Libya...

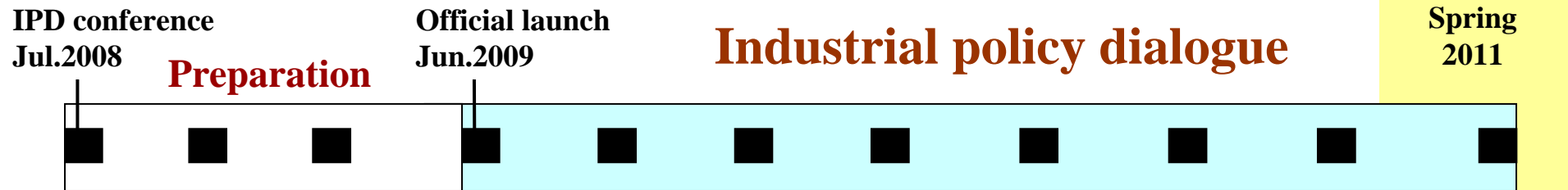
Policy modules (>100 modules to be created, 40-50pp. each)

Korea is a new comer but makes greater effort to standardize & institutionalize policy dialogue than Japan (case-by-case).

Example: Industrial Policy Dialogue between Ethiopia and Japan

- **May 2008:** the 4th Tokyo International Conference on African Development (TICAD IV): Japan's commitment to increase cooperation in Africa.
- **July 2008:** PM Meles' request for two-part cooperation: (i) *kaizen* (factory improvement) by JICA; and (ii) policy dialogue with GRIPS. Actually, two components are implemented jointly by GRIPS and JICA.
- **July 2008-:** Preparation (2 sessions).
- **June 2009-Spring 2011:** Industrial Policy Dialogue in Addis Ababa (8 sessions).

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

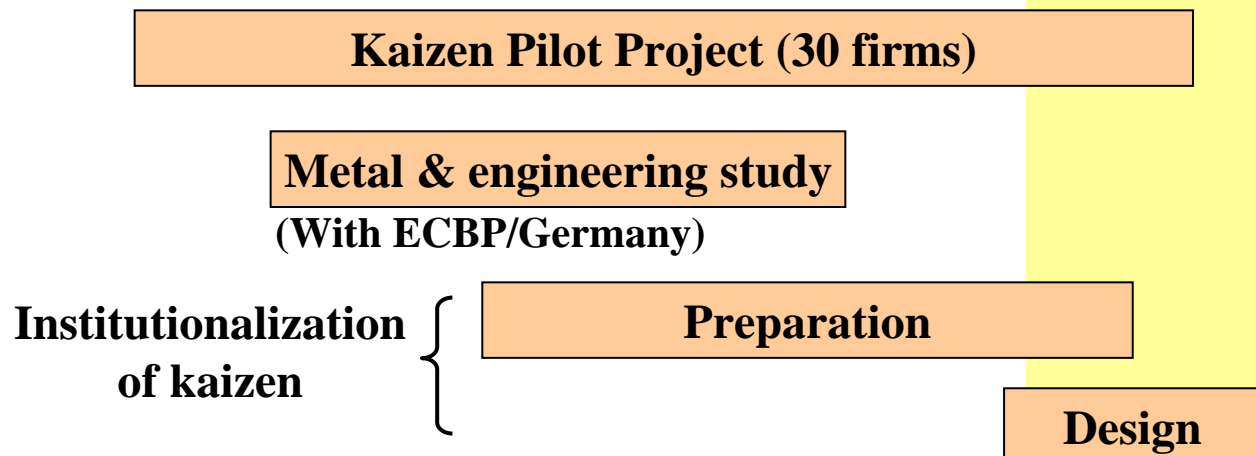


Note: black squares indicate policy dialogue in Addis Ababa with (i) Prime Minister, (ii) concerned Ministers and State Ministers, and (iii) operational levels.

Interim
Report

Final
Report

JICA's Industrial support projects



Participants of Industrial Policy Dialogue

Ethiopian side (3 levels)

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

Japanese side

- GRIPS researchers
 - JICA officials and experts
- Supported by Japanese Embassy in Addis Ababa

Note: the Japanese team visits Ethiopia every three months for policy dialogue. Additional visits by Japanese experts and project teams. Ethiopian visits to Japan and other countries as needed.

Topics of Policy Dialogue

- ❑ Ethiopia's key developmental principles (DD & ADLI), with PM.
- ❑ Possibilities of agricultural breakthrough and rural life improvement movement, with PM.
- ❑ Desirable structure of policy documents and policy organization from East Asian perspective.
- ❑ Industrial chapter of the new 5-year plan.
- ❑ Concept and institutionalization of *kaizen*.
- ❑ Productivity movement of Singapore.
- ❑ Basic metal and engineering industries from international perspective and survey results.

Issues Discussed at High Level Forums

	Japanese side	Ethiopian side
1st HLF (Jun. 2009)	<ul style="list-style-type: none"> (1) “JICA’s plan to policy dialogue and development study” (Masafumi Kuroki) (2) “ADLI and future directions for industrial development” (Kenichi Ohno) 	<ul style="list-style-type: none"> (1) “Evaluation of current PASDEP focusing on industrial development and related sectors” (HE Tadesse Haile)
2nd HLF (Sep. 2009)	<ul style="list-style-type: none"> (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) 	<ul style="list-style-type: none"> (1) “Comments and feedback by the Policy Dialogue Steering Committee on the presentations by GRIPS and JICA” (HE Tadesse Haile)
3rd HLF (Nov. 2009)	<ul style="list-style-type: none"> (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) 	<ul style="list-style-type: none"> (1) “Concept for the industrial chapter of PASDEP II and the formulation plan” (HE Tadesse Haile)
4th HLF (Mar. 2010)	<ul style="list-style-type: none"> (1) “Basic metals and engineering industries: international comparison of policy framework and Ethiopia’s approach” (Toru Homma) 	<ul style="list-style-type: none"> (1) “Draft plan of industry sector for PASDEP II” (HE Tadesse Haile) (2) “Overview, contents of PASDEP II draft of chemical subsector” (Shimelis Wolde)

Issues Discussed (Cont.)

	Japanese side	Ethiopian side
5th HLF (Jul. 2010)	(1) “Result of basic metal and engineering industries firm-level study – parts conducted by MPDC and JICA” (Toru Homma)	(1) “Concept of kaizen institutionalization and establishment of Ethiopian Kaizen Institute” (Getahun Tadesse) (2) “Report of kaizen training for capacity building of Kaizen Unit and Pilot Project companies in Japan” (Tola Beyene)
6th HLF (Oct. 2010)	(1) “Singapore’s Experience with Productivity Development: Internalization, Scaling-up, and International Cooperation” (Izumi Ohno)	(1) “Contents of Industry Sector in Growth and Transformation Plan (GTP)” (HE Tadesse Haile) (2) “Singapore’s Productivity Movement and Lessons Learned” (Prof. Daniel Kitaw, Addis Ababa University)
7th HLF (Jan. 2011)	(1) “The Making of High Priority Development Strategies: International Comparison of Policy Procedure and Organization” (Kenichi Ohno)	(1) “Ministry of Industry’s GTP, Organizational Structure and Linkage with Other Ministries” (Ahmed Nuru)

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

Features of Ethiopian Industrial Strategy

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

Our Comments

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

Materials for Policy Learning

Selected Research at GRIPS Development Forum

East Asian Industrial Policy Handbook (project in progress).

Learning to Industrialize: Catch-up Strategies for Twenty-first Latecomers (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).

Diversity and Complementarity in Development Aid: East Asian Lessons for African Growth (GDF, 2008).

“Proposal for a New African Growth Support Initiative” (GDF, Aug.2008)