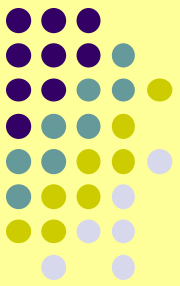


International Development Policy
Lecture #3, February 19, 2018

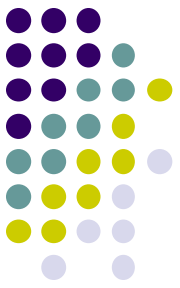


Japanese Approach to Growth Support and Dynamic Capacity Development

Izumi Ohno, GRIPS

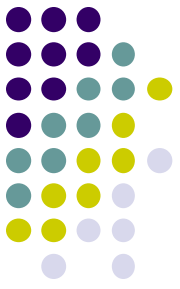
i-ohno@grips.ac.jp (Room E-411)

Different Aid Philosophy by Donors



Historical factors affect the philosophy of foreign aid by donors (path dependence).

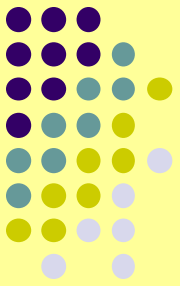
- UK & France: From colonial administration to foreign aid relationship → Charity, poverty reduction
- US: National security → American value such as democracy & market economy
- Germany: Post-war recovery, “Social-Market Economy” & craftsmanship → Vocational education & training, chambers of commerce
- Japan: War reparation & post-war recovery, latecomer perspectives → Self-help efforts, economic development, non-policy interference
- Emerging Asian donors (Korea, China, India, etc.): Bringing new and non-Western perspectives?



Outline of Today's Lecture

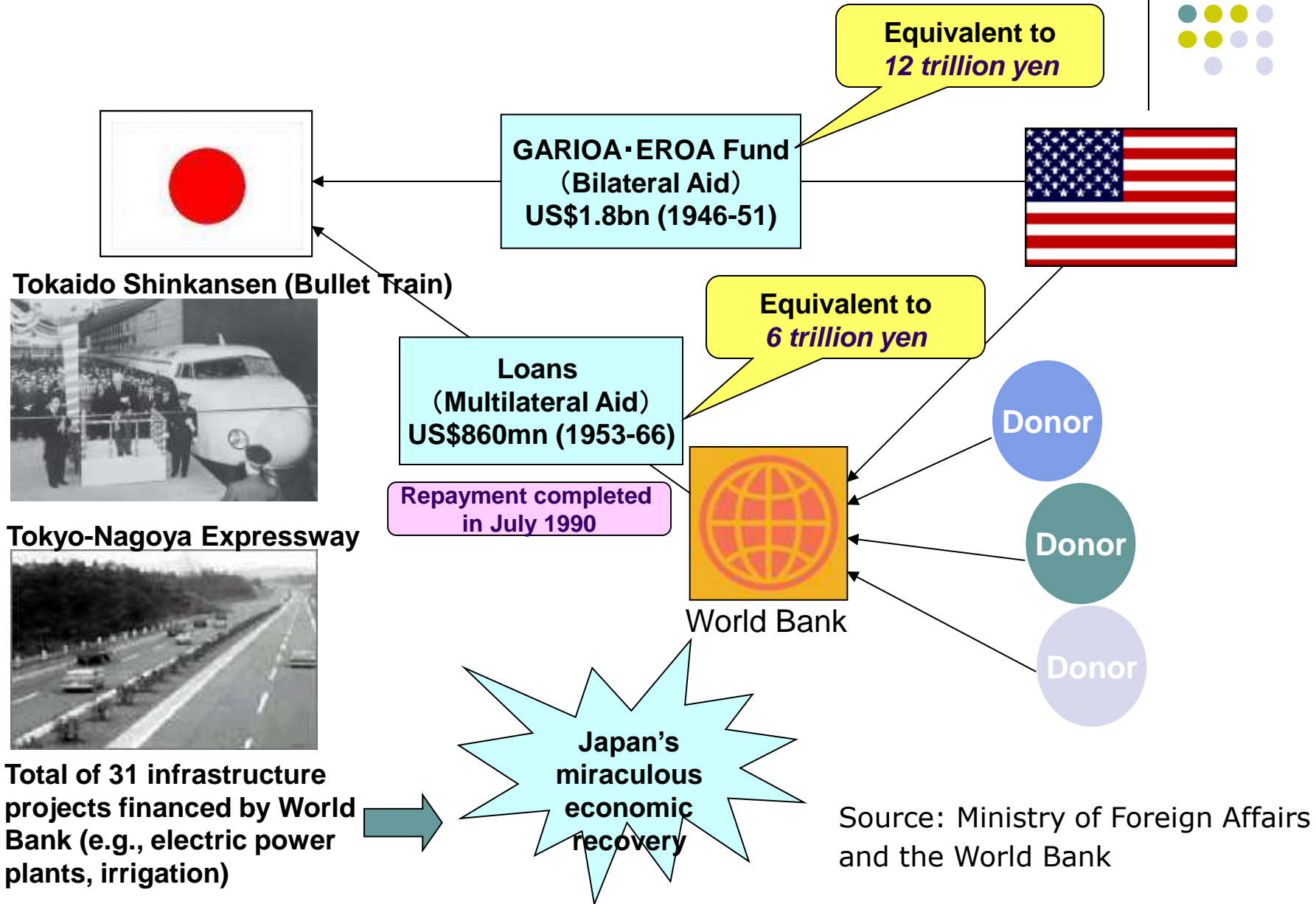
1. Japanese (and East Asian) perspectives of aid and development
 - Are they different from those of the West? If so, how and why?
2. Japanese approach to growth support and dynamic capacity development
 - What are key features?
 - Complementarity to the Western way
3. Examples of Japanese growth support

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



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

“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

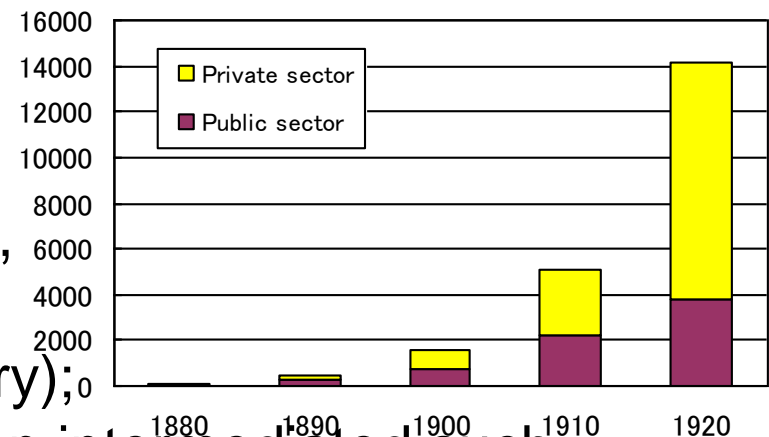
Source: Summarized from K. Ohno *The Economic Development of Japan* (2006), pp.62-65

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)

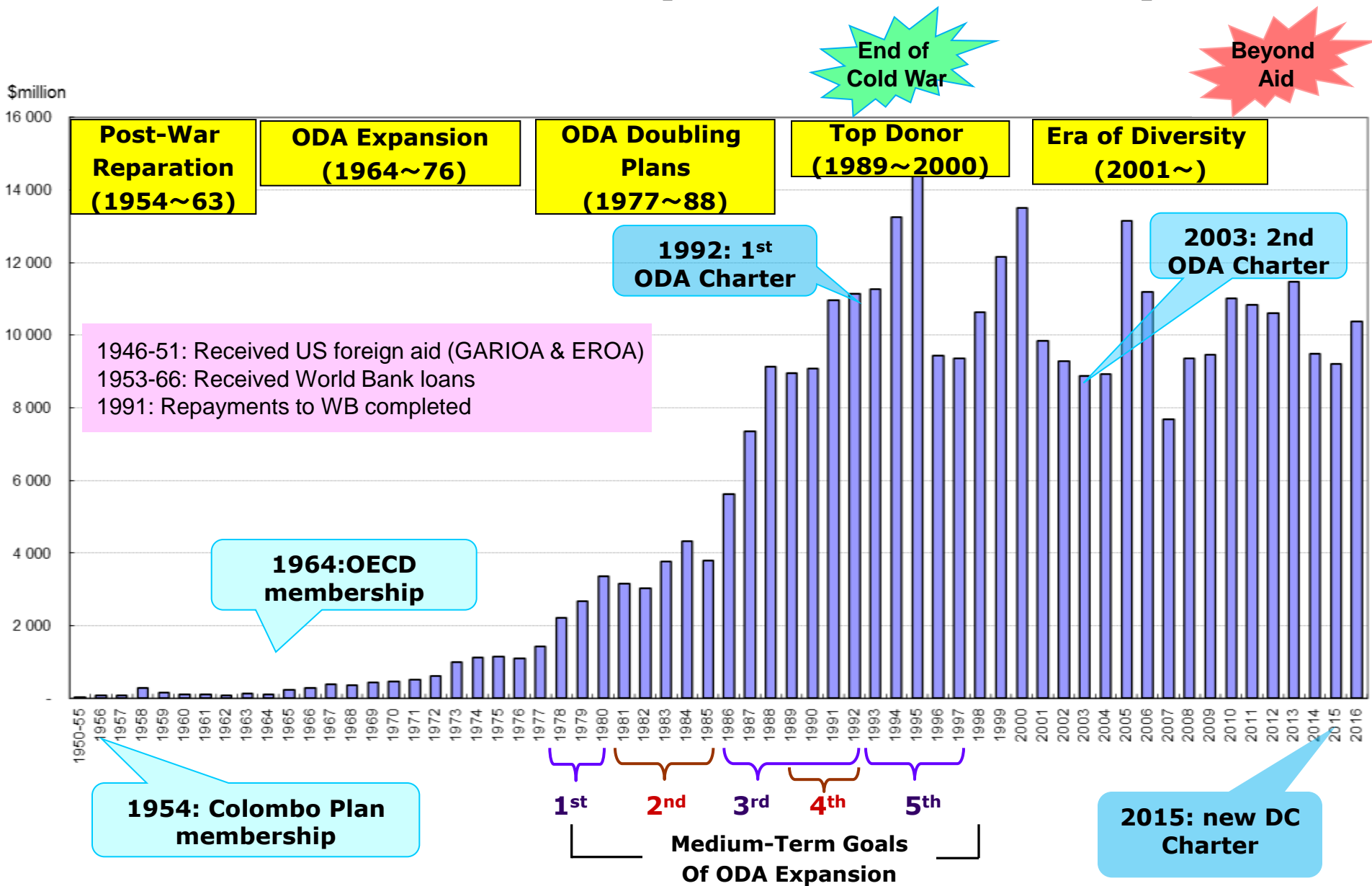
2. Engineering education (studying abroad, Institute of Technology; technical high schools)

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)



Evolution of Japan's ODA Policy



Note: A bar chart indicating the volume of Japan's ODA in net disbursements, indicated in US dollars.

Source: Elaborated by the author

Evolution of Japan's ODA Policy (1)



- **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.
 - ▶ “Fukuda Doctrine” (1977) to build “heart-to-heart” relationship with ASEAN, leading to “ASEAN Human Resource Development Project” (1981).
 - ▶ 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)



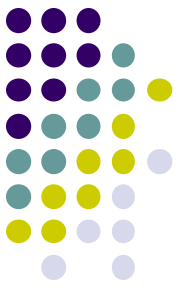
- **Top donor (1989-2000):** Assuming broader global responsibility, as a top donor.
 - ▶ PKO to Cambodia (1992)
 - ▶ 1st TICAD for African development (1993-)
 - ▶ Aid untying (1993-)
 - ▶ Coping with Asian financial crisis
- **Era of diversity (2001- present):** Coping with diverse challenges (from 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)

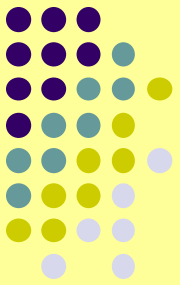
	1970	1980	1990	2000	2010	2015
1	Indonesia	Indonesia	Indonesia	Indonesia	India	Vietnam
2	South Korea	Bangladesh	China	Vietnam	Vietnam	India
3	Pakistan	Thailand	Philippines	China	Afghanistan	Banladesh
4	India	Burma	Thailand	Thailand	Turkey	Myanmar
5	Philippines	Egypt	Bangladesh	India	Pakistan	Iraq
6	Thailand	Pakistan	Malaysia	Philippines	Sri Lanka	Afghanistan
7	Iran	Philippines	Turkey	Pakistan	Cambodia	Angola
8	Burma	South Korea	Pakistan	Tanzania	Iraq	Kenya
9	China	Malyasia	Sri Lanka	Bangladesh	Liberia	Jordan
10	Singapore	Sri Lanka	Poland	Peru	Laos	Uzbekistan

(Source) MOFA, White Paper 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.

(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)

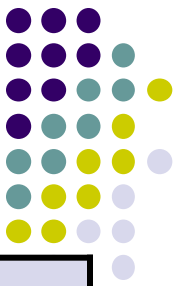
Toru Yanagihara

“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>

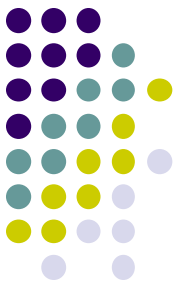
Source: Toru Yanagihara (1998). Development and Dynamic Efficiency: “Framework Approach versus “Ingredients Approach”, Chapter 4, Ohno & Ohno (1998).

(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)

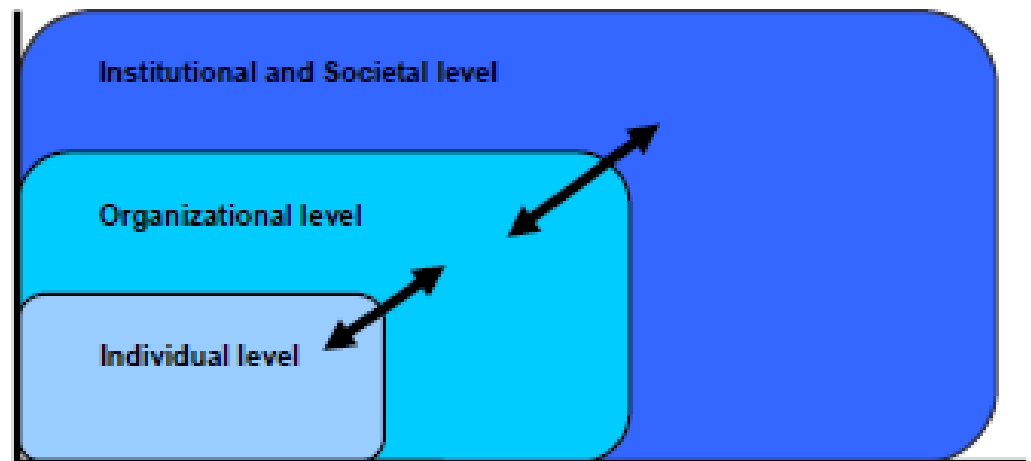


- To promote “self-help” efforts of developing countries to solve their own problems, Japan emphasizes cooperation toward comprehensive **capacity development (CD)** in such areas as human resource development and the design of policies and institutions--as well as the development of social and economic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

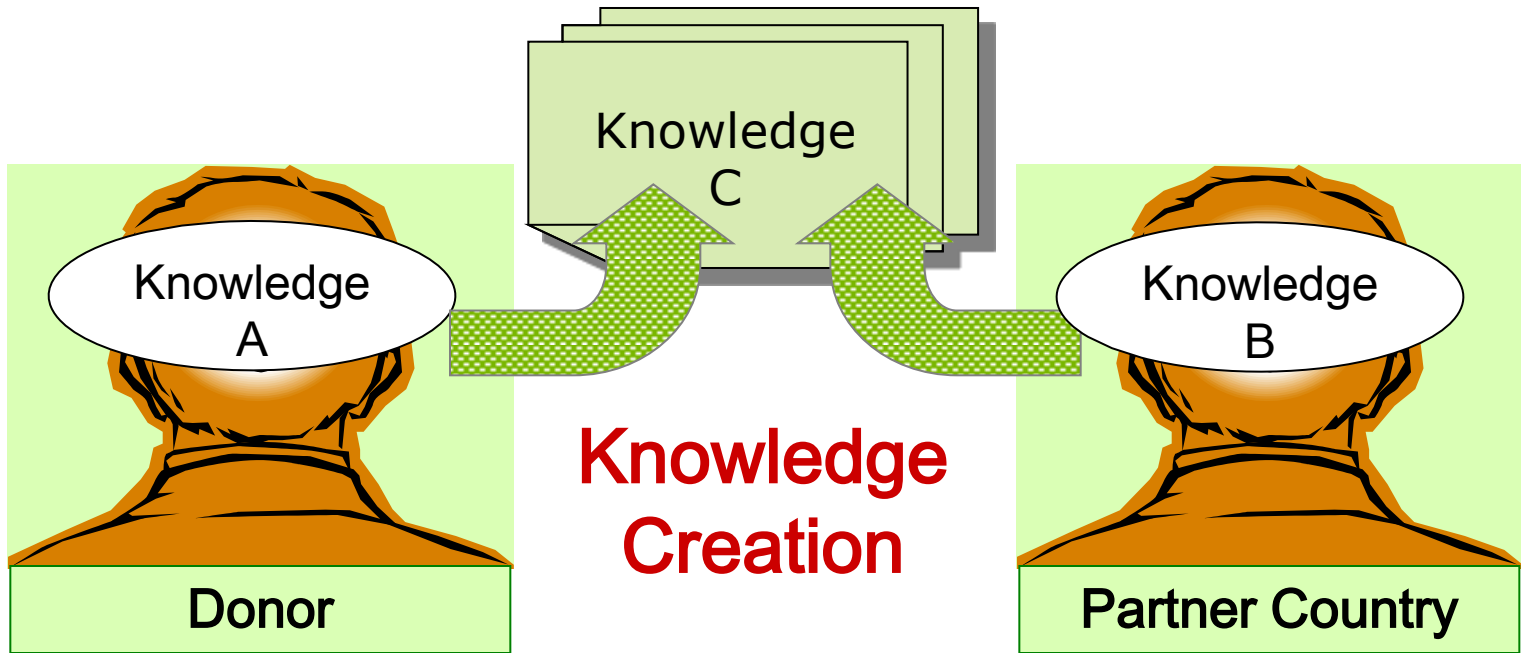
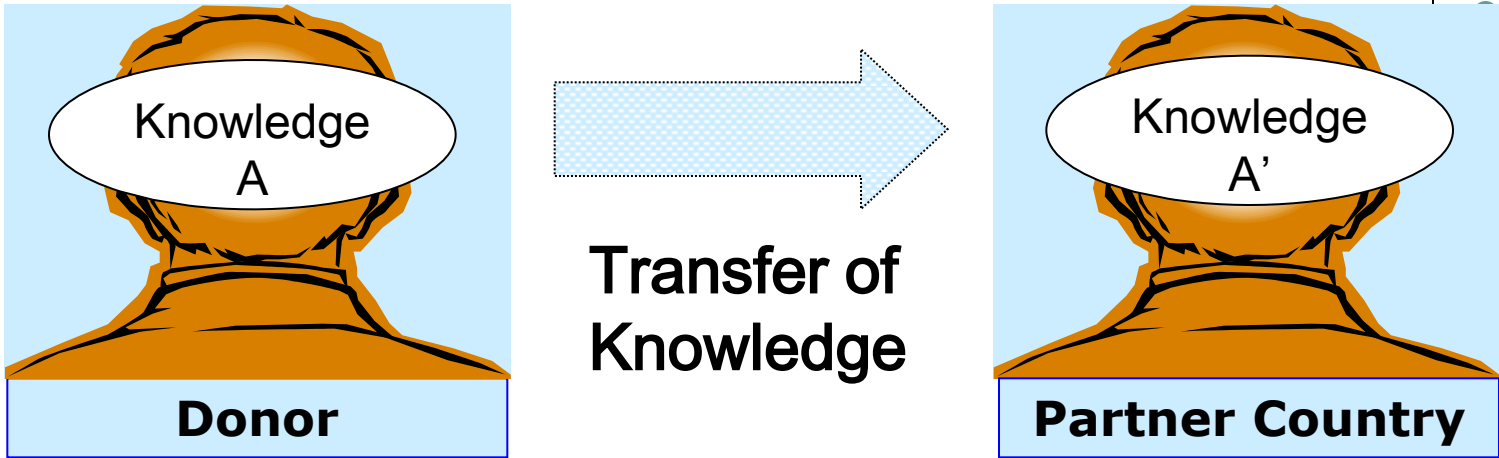
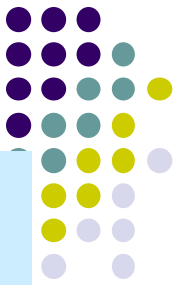


Capacity Development: JICA's Views

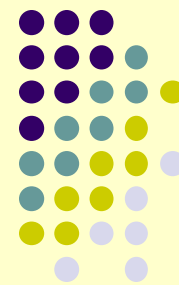


- Outside actors cannot directly develop capacities in a partner country.
- Ownership by the partner is vital.
- Joint efforts with the participation of stakeholders in the partner country are important.
- Long-term commitment is required.
- Creating a sustainable mechanism after project completion.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



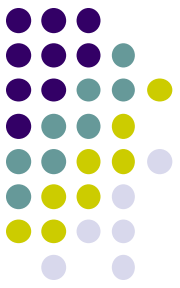
Pragmatism with real sector concern

- **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.

Dynamic Capacity Development

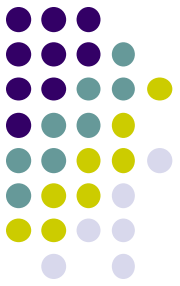
Improving capability with pride & hands-on experience



- 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

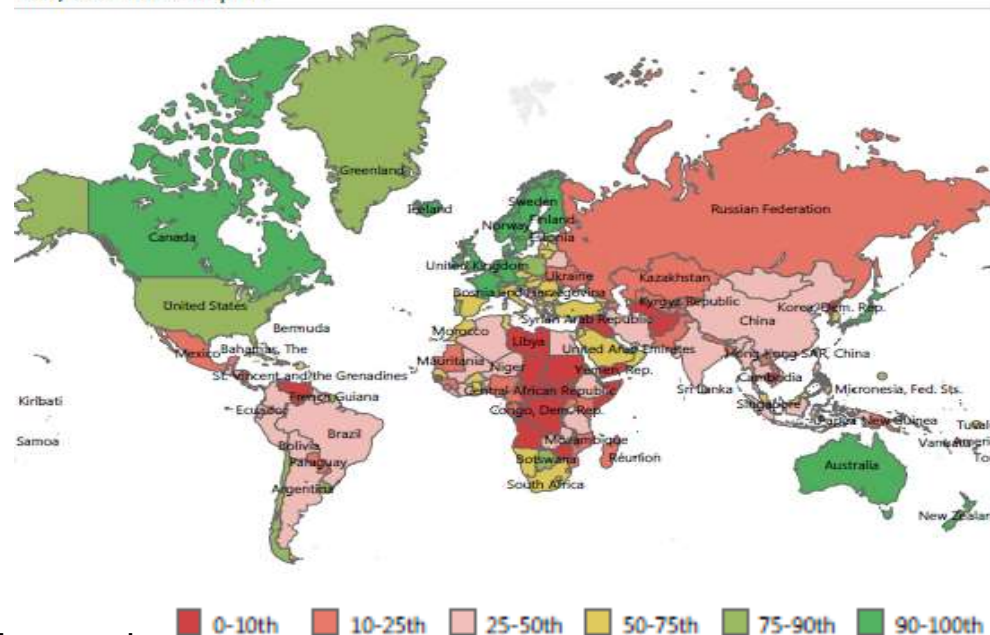
Good Governance

Worldwide Governance Indicators (WGI: Kaufman Index)

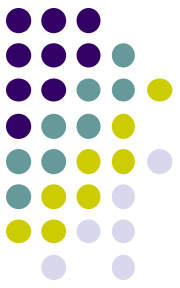


- WGI reports aggregate and individual governance indicators for 213 economies over the period 1996-2016 on the six dimensions of governance:
 - (i) voice & accountability; (ii) political stability & lack of violence;
 - (iii) government effectiveness; (iv) regulatory quality; (v) rule of law; (vi) control 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?

2016, Control of Corruption



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

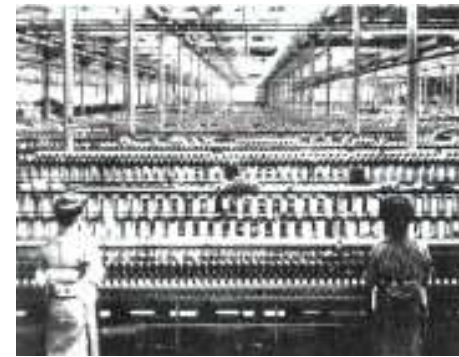
Result: instant success with a large number of followers; Japan overtakes UK as top textile exporter by early 20th century; The City of Osaka is called “Manchester of the Orient”



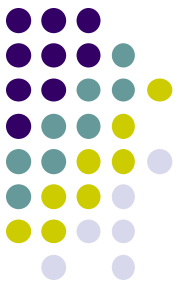
Shibusawa



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

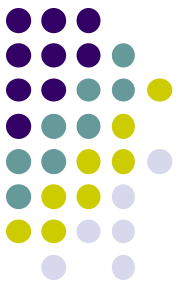


(In power 1978-97)

- 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.”

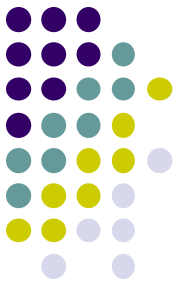
How can Japan Support?

-- 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 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)

50 years
Anniversary

1960

1970

1980

1990

2000

2010

Level:

Diploma

Bachelor

Master

Doctor



Telecommunications
Training Center
(1960-)

Grant:
Construction
of facilities
(1960-61)

Telecommunications
College (1964-)

TC project
(1960-65)

King Mongkut's
Institute
of Technology
(1971-)

Grant:
Construction
of facilities
(1974-75)

TC project
(1978-83)
(1997-02)

KMITL
(1982-)

Grant:
Construction
of facilities
(1984-86)

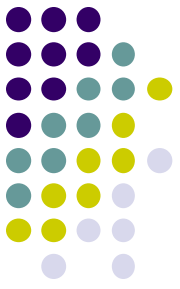
Interregional
networking

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

TC project
(2003-2013)

(Source) Senichi Kimura, "Perspective of Asian ODA: JICA's View", May 26 2011, presentation at the Policy Dialogue session, International Symposium: Styles of Foreign Assistance, held in Seoul, South Korea.

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



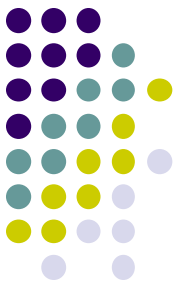
PVC pipe factory



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).
- 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

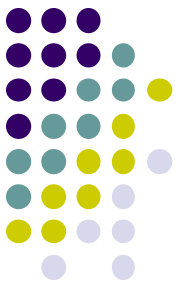
Joint research (2001-)

- 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.

Ethiopia-Japan Industrial Policy Dialogue



Late PM Meles requested Kaizen & policy dialogue with Japan on the occasion of IPD-JICA Africa Taskforce Meeting (chaired by Prof. J.E. Stiglitz) in Addis Ababa, July 2008.

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)

- 18 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

Industrial Policy Dialogue & Kaizen

2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

PM Meles

PM Hailemariam

Industrial Policy Dialogue

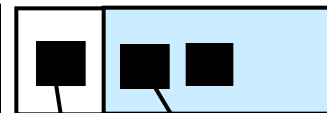
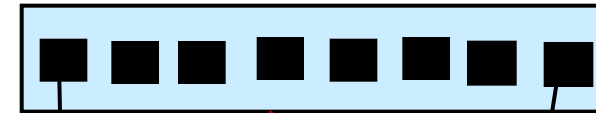
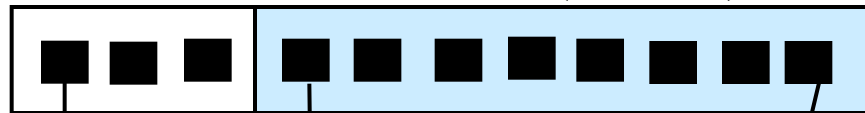
TICAD VI

Preparation

Phase 1 (2009-11)

Phase 2 (2012-16)

Phase 3 (2017-20)



Africa Taskforce Meeting Jul. 2008

Official launch Jun. 2009

Final session May 2011

Start Jan. 2012

TICAD V
Malaysia mission

PM Abe visit

Final session Oct. 2015

Preparatory session July 2016

Start Feb. 2017

JICA's Industrial Cooperation

Kaizen Phase 1
(30 pilot companies)

Kaizen Phase 3
(Advanced level)

Kaizen Phase 2
(Institution & human resource)

Metal industry survey

(With Germany)

Champion Products

Branding & promotion

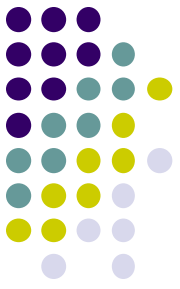
Industrial Parks

Export promotion

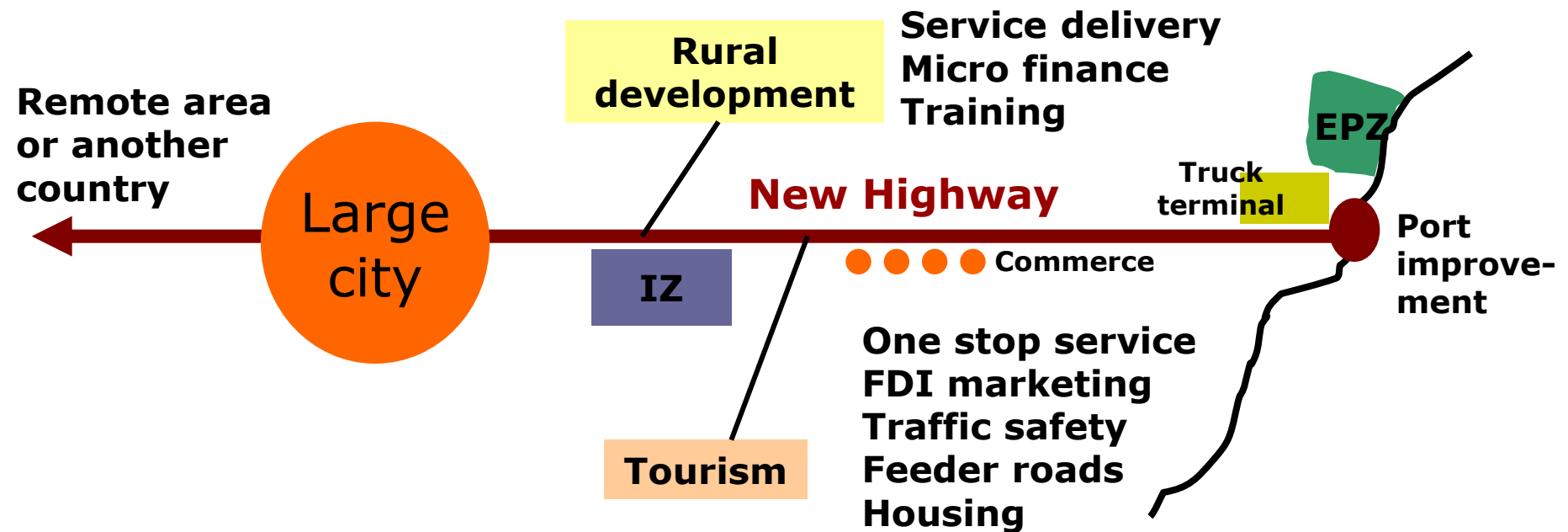
HH. support

Note: Black boxes indicate three-level policy dialogue in Addis Ababa (PM, ministers, operational level).

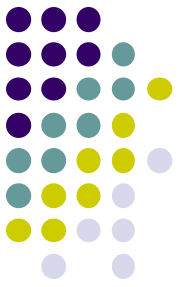
(3) Regional Development with Core Infrastructure



- 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)

Private Sector

Infrastructure construction

Industrial estates (Laem Chabang, Map Ta Put)
Ports, roads
Water pipelines & dam
Railways

Industrial estates (Amata Group, Hemaarji Land Group)

Institutional reform

One Stop Center

Industrial HRD

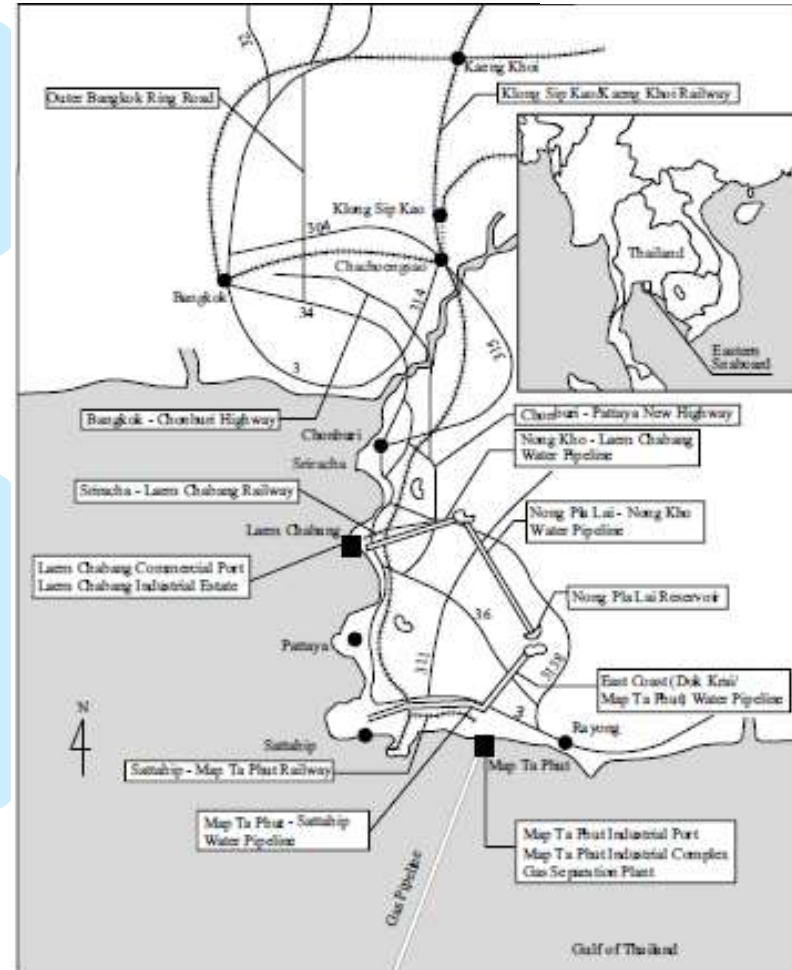
Anchor firms (automobile industry)
Parts/materials suppliers (auto related industries)

FDI

Industrial cluster

Economic growth
Export growth
Job increase

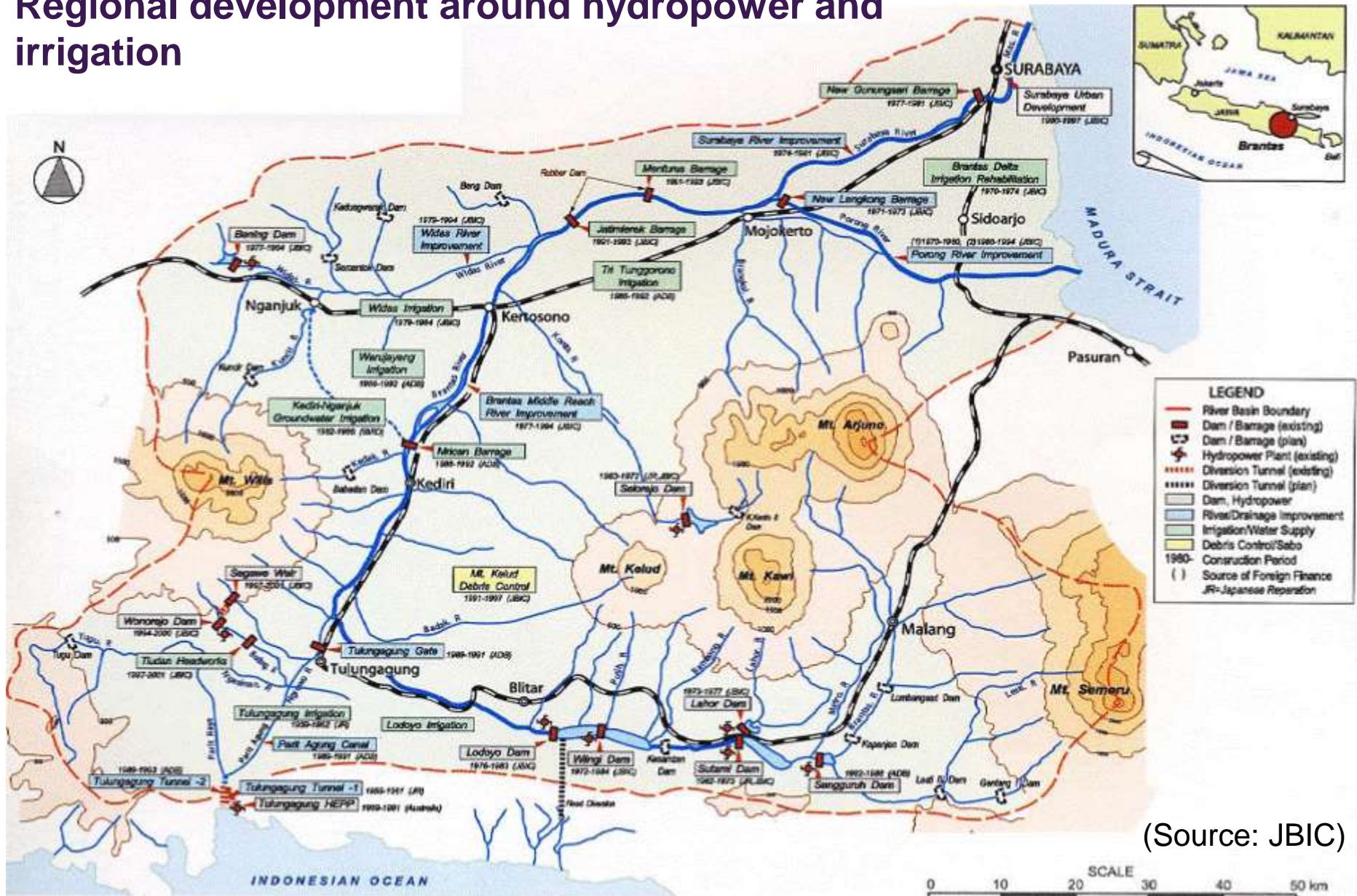
Macroeconomic impacts



(Source) Yasutami Shimomura, "The evolution of 'aid, investment, trade synthesis' in China and Japan", Ch.7, *The Rise of Asian Donors*, eds. Sato and Shimomura, Routledge, 2012, Figure 7.1, p.125

Indonesia: Brantas River Basin Development:

Regional development around hydropower and irrigation



Regional Development with Core Infrastructure Nacala Development Corridor (Mozambique)

