

Ethiopia-Japan Industrial Policy Dialogue under JICA's Industrial Promotion Project SUMMARY



December 2022
National Graduate Institute for Policy Studies
(GRIPS) Development Forum

Ethiopia-Japan Industrial Policy Dialogue (Three Phases, 2008-2023)

- ❑ In 2008, PM Meles requested Japanese cooperation in kaizen and policy dialogue. Both projects began officially in 2009.
- ❑ We had 8 dialogue sessions with PM Meles and 12 sessions with PM Hailemariam each lasting 1.5 to 2 hours.
- ❑ We were asked to be frank and honest. The two PMs were also direct and raised many questions and requests.
- ❑ Minister-level discussions (High Level Forums) were held regularly. Many meetings were also arranged with ministries, institutes, firms, universities, development partners, etc.
- ❑ Meetings and studies were highly practical. Talk did not just remain talk but produced concrete actions by both sides.



With PM Meles



High Level Forum (ministerial level)



With PM Hailemariam

Phase 1 & 2



Lecture at Civil Service University

At MOFED (now MOF)





KEC



MOI Minister & automotive seminar

Phase 3

MOF State Minister Eyob



EIC Deputy Commissioner Daniel

Former President Mulatu



Japan's Development Cooperation Strategy

1. National customization

Policy must fit the reality of Ethiopia. Because each nation is different in history, culture and people, appropriate policy must be created after studying many foreign practices.

2. Pragmatic real-sector approach

We do hands-on cooperation at *gemba* (farms, factories, etc.) instead of preaching theories and frameworks. Long-term vision and sector-by-sector support are critical. We care about quality, marketing, management, and other practical issues.

3. Creation of wise government

We believe a wise government that can guide and assist the private sector is essential (not small government). Policy quality is not given but can be learned and improved.

Japan's Policy Dialogue: A Short List

Country	Phases	Key members from Japan	Remark
Argentina	1985-1987 1994-1996 (follow up)	Saburo Okita (former foreign minister, IDCJ); Hirohisa Kohama (IDCJ), Akio Hosono, Kotaro Horisaka (professors); JICA	Agriculture & livestock farming, industry, transport, export promotion (Okita Report). Follow-up phase studied measures to strengthen economic ties with Japan/East Asia.
Vietnam	1995-1996 1996-1998 1998-1999 1999-2001	Shigeru Ishikawa, Yonosuke Hara (professors); JICA	Large-scale joint study on macroeconomy, industry (with in-depth studies of selected sectors), agriculture, enterprise reform, and financial crisis management (Ishikawa Project).
Paraguay	1998-2000	Kagehide Kaku (DIR), Hidesuke Kotajima (DIR); Akio Hosono (professor); JICA	Economic development, competitiveness, and export promotion (including clusters and agro-industry chain).
Thailand	1999	Shiro Mizutani (former MITI official); JICA	Study on SME promotion policy (Mizutani Plan)
Indonesia	2000	Shujiro Urata (professor); JICA	Policy recommendations for SME promotion
Myanmar	1999-2002	Konosuke Odaka (professor); JICA	Agriculture, rural development, industry, trade, finance, ICT, etc.
Mongolia	1998-2001	Hiroshi Ueno and Hideo Hashimoto (ex-World Bank economists and professors)	Study on economic transition and development
Indonesia	2002-2004	Takashi Shiraishi, Shinji Asanuma, Shujiro Urata (professors); JICA	Macroeconomic management, financial sector reform, SME promotion, private investment promotion, democratization, decentralization, human resource development
Laos	2000-2005	Yonosuke Hara (professor); JICA	Macroeconomy, finance, state enterprises, FDI, poverty reduction.
Vietnam	2003-present	Keidanren, Japanese embassy, JICA, JETRO, JBIC	Bilateral joint initiative to improve business environment with action plans and 2-year monitoring cycles
Ethiopia	2009-2011 2012-2016 2017-present	Kenichi Ohno, Izumi Ohno (GRIPS professors); Japanese embassy, JICA	Policy methods and organizations, kaizen, export promotion, champion products, FDI policy and support, SME support, productivity, automotive assembly, inviting Japanese FDI, etc.
Myanmar	2012-2015	Konosuke Odaka, Shigeru Matsushima, Toshihiro Kudo (professors); METI, JICA	Supporting economic reform program covering finance, trade, investment, SMEs, agriculture, rural development.
Laos	2019-2020	Toshiro Nishizawa, Terukazu Suruga, Takuji Kinkyo, Kazue Demachi, Fumiharu Mieno (professors), MOF, JICA	Joint policy research and dialogue for fiscal stabilization, fiscal & debt management, resource export, balance of payments, financial system development.

Japan's Dialogue Modality

- Japan conducts policy dialogue with developing countries only if **national leader(s)** requests it. We will not sell it worldwide.
- Our dialogue is **continuous, interactive and flexible** regarding topics, members, duration, frequency, etc.
- We talk to as **many stakeholders** as possible from PM to ministers, key officials, technical staff, firms, associations, universities, researchers, developing partners, etc.
- **Ground data** must be collected before designing a policy because each country is different.
- We try to follow up the dialogue with **JICA's concrete projects** and (if possible) Japanese businesses (trade & investment).
- **Suitable benchmark countries** must be selected carefully (not just Japan but other countries). Study tours are organized for this purpose.

Ethiopia-Japan Policy Dialogue: 3 Phases

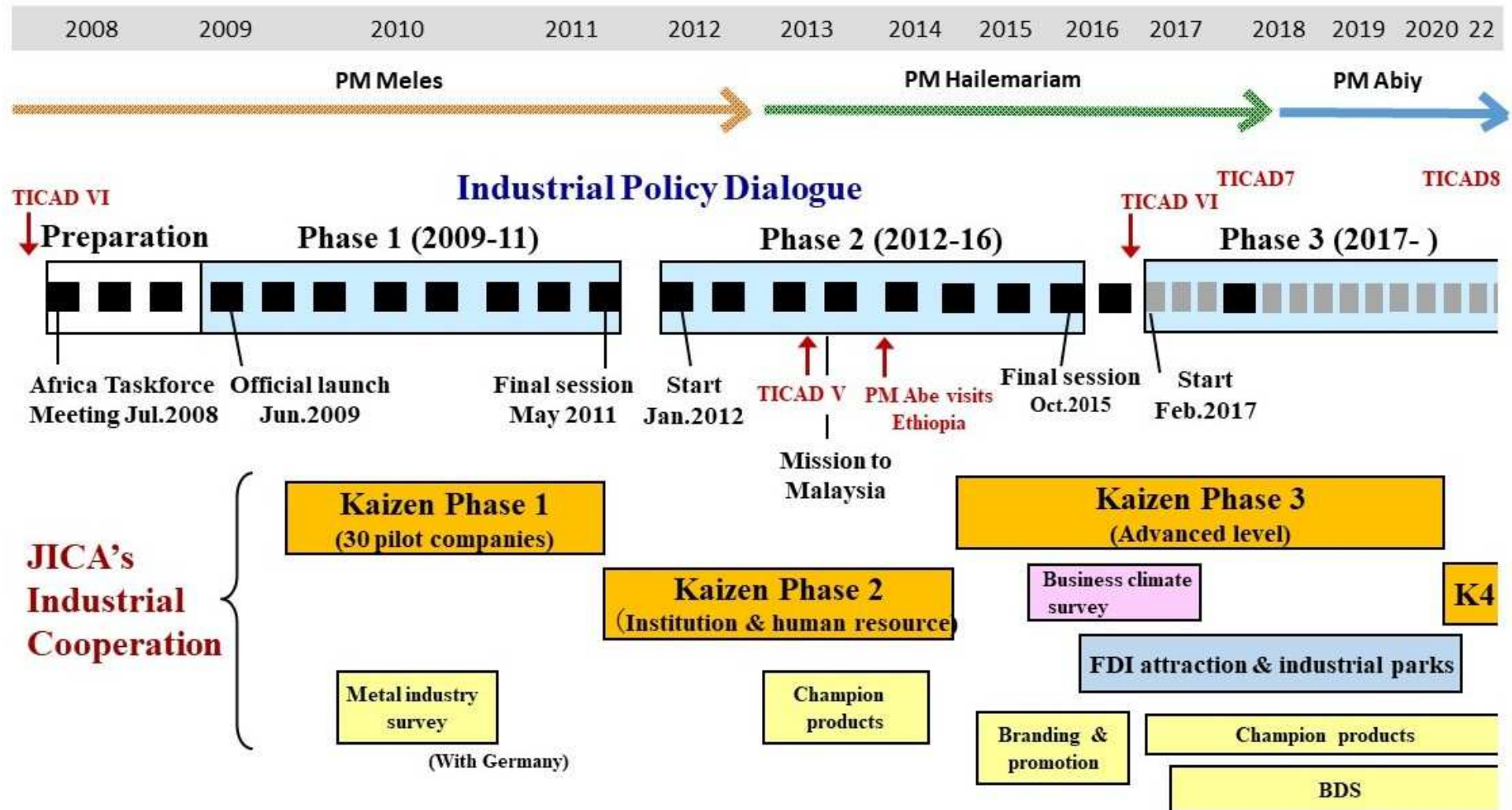
Phase 1 (2008-2011)—Mutual learning about East Asian ways and Ethiopia's policy orientation; kaizen cooperation started; advice on next five-year plan (GTP I).

Phase 2 (2012-2015)—Champion export products, one-stop investor service, SME handholding support, industrial park management, FDI attraction, etc.

Phase 3 (2017-2023)—Discussion with Macroeconomic Team, comments on Homegrown & 10-year plan, productivity, FDI policy, automotive assembly, policy to invite Japanese FDI

Besides these, 16 industrial policy missions were dispatched to Asia and Africa on various policy issues. A study visit to Japan for MOTI and MIDI officials was also arranged to learn Japanese SME support , metal, machinery & automotive sectors.

Timeline: Policy Dialogue and JICA Projects



Note: Black boxes indicate three-level policy dialogue (PM, ministers, operational). In Phase 3, PM Abiy did not participate in dialogue.

Policy Impacts (Phase 1 and 2)

- **Advice on GTP I and II:** PM Hailemariam introduced Japanese ideas in GTP II—Light Manufacturing Vision, Kaizen philosophy and targets, Quality, Productivity and Competitiveness (QPC).
- The Malaysia study tour in 2013 (MOI, EIC) gathered ideas for the **revision of Investment Proclamation**.
- **Additional JICA projects** were created to fill the needs identified by the dialogue (industrial parks, FDI policy, export champion products, etc.)
- **Advice on kaizen:** problems at EKI were reported to PM Hailemariam (lack of incentive for kaizen consultants, limited budget). Corrective actions were subsequently taken. Kaizen national movement was launched (incl. regions & cities).
- PM Hailemariam's strong request led to the establishment of the **JETRO Addis Ababa Office** in 2016.

PM Statements in the dialogue

PM Meles (in power 1991-2012)

- Ethiopia aims at (i) promotion of value creators and elimination of rent seekers; (ii) political support from small farmers; and (iii) Agricultural Development Led Industrialization (industrialization based on strong agriculture-industry linkage).
- Firms should be given both carrots and sticks. To promote leather export, I introduced rules and restrictions for domestic processing, but also assist producers with technical, training, matching, institutional and ODA support.



PM Hailemariam (in power 2012-2018)

- Just learning 5S for cost reduction is not enough. Kaizen is not a convenient tool but a philosophy. Our support institutions must understand this. I always talk about it in media. Kaizen is an important national agenda and we can overcome difficulties.



PM Hailemariam (cont.)

- I am requesting JETRO Office to be established in Ethiopia. I believe JETRO will persuade Japanese firms to come to Ethiopia. When they come, they will be role models for our companies [In response, JETRO Addis Ababa was established in July 2016].

PM Abiy (2018-)

- We did not meet PM Abiy. His interests and governing style seem different from the previous two PMs.
- We discussed policies with the Macroeconomic Team (Amb. Girma, Dr. Mamo, Dr. Eyob, Dr. Fitsum...), key officials of MOTI/MOI and other ministries and commissions (see below).
- COVID and Northern Conflict prevented direct contact for two years (early 2020-early 2022). Work continued online.
- The rapid and frequent government restructuring makes it difficult to perform policy dialogue effectively.

Three-part Structure of Phase 3

Industrial Promotion Project: Records of Discussions between FDRE and JICA
signed on July 5, 2016

*To improve the quality and delivery of industrial policies through the policy dialogues.
To promote quality investment through improved services of EIC and IPDC.
To promote export through the champion products approach (CPA).*

1: Industrial Policy Dialogue (C/P: PM Office + EDRI, MOI)

- ✓ Policy Dialogue for promoting implementation and monitoring of GTP II and Ten Year Plan
- ✓ Research and surveys for industrial policy design (e.g. study on productivity, FDI policy)
- ✓ Study and trial support of Champion Companies
- ✓ Linkage with other component of the program
- ✓ Inputs on automotive policy, garment industry promotion, etc.

* The name of C/P institutions are those at the time of R/D signing on July 5, 2016.

2: Investment Promotion and Industrial Park (IP) Development

(C/P: EIC + IPDC)

- ✓ Improvement of investment promotion
- ✓ Improvement of OSS for investors
- ✓ Regulation and supervision of IPs
- ✓ Improvement of business climate
- ✓ Improvement of planning, development, promotion, operation, maintenance of IPs.
- ✓ Improvement of facilitation and aftercare service (incl. linkage) to investors at IPs

3: Export Promotion through CPA

(C/P: MOT, LIDI and ELIA)

- ✓ Promotion of export of Champion Product
- ✓ Study and analysis of competitiveness of potential champion products
- ✓ Improvement of brand management of Ethiopian Highland Leather
- ✓ Analysis and tackling of bottlenecks for trade promotion

Source: Adapted from JICA information

Policy Dialogue Phase 3: Highlights (2017-2023)

- ❑ Implemented as one components of JICA-supported **Industrial Promotion Project**. The other components were
 - Investment promotion & industrial park development
 - Export promotion through champion product approach
- ❑ **Dialogue partners**
 - PMO (official), MOTI/MOI, EIC, MPD, MOF, industrial institutes (MIDI, EKI/KEC, etc.)
 - Policy Studies Institute (PSI) as research partner
- ❑ **Main activities**
 1. Concrete policy discussion at high level
 2. Input to national development plans and strategies
 3. Joint policy research with PSI
 4. Visiting benchmark countries for policy learning
 5. Assisting Japanese FDI interested in Ethiopia

1. Policy Discussion at High Level

- ❑ Direct dialogue with **PM Hailemariam** at PMO (until Nov. 2017) and letter exchange (March & Aug. 2017)
- ❑ Since 2018, discussion with the **Macroeconomic Team** (Amb. Girma, Dr. Mamo, Dr. Eyob, Dr. Fitsum, EIC Commissioner Abebe & Lelise, and others)
- ❑ **Policy forums** to discuss priority policy agenda with the participation of Ministers and State Ministers
 - **High Level Forum (HLF)** : 2 sessions (Feb. & Nov. 2017) co-hosted by EDRI & JICA with the participation of MOI Minister, State Ministers, and others
 - **Development Policy Forum (DPF)** : 4 sessions (Feb. & Aug. 2019, Feb. 2020, Jan. 2022 (online)) co-hosted by PSI & GRIPS with the participation of PDC Commissioner Fitsum, and others

Policy Discussion (cont.)

- **Industry-specific seminars** at MOI/MOTI (1 textile & garment, 3 automotive)
 - **Discussions with industry-related institutes** (EKI, MIDI, ETIDI, etc.)
- **Open Workshop on Policy Inconsistencies** at the request of MOI Minister Melaku (Dec. 2022)

High Level Forum (co-hosted by EDRI & JICA)

Attended by MOI Minister, Japanese ambassador, senior policymakers concerned

	Topics presented by the Japanese side	Topics presented by the Ethiopian side
HLF #1 Feb. 2017	(1) Japan's industrial cooperation for GDP II (2) Asian experience of high growth & income polarization/equalization	(1) Anti-export bias & effects of export incentives (2) Youth Revolving Fund (3) Impact of urban job application assistance
HLF#2 Nov. 2017	(1) Productivity in Ethiopia & Sri Lanka (2) Productivity issues in Vietnam (by VN expert)	(1) Productivity of garment & metal sectors (2) Mini review of productivity studies & data

Development Policy Forum (co-hosted by PSI & GRIPS, supported by JICA)

Attended by PDC Commissioner, Japanese ambassador, ministries & institutions concerned

	Objective	Topics presented by the Ethiopian side
DPF #1 Feb. 2019	Ethiopia Productivity Interim Report	(1) Introduction, Concepts and Importance of Productivity, Ethiopia's Productivity in International Comparison (PSI) (2) Preliminary Analysis of Firm and Worker Survey (PSI)
DPF#2 Aug. 2019	Ethiopia Productivity Report (final validation with stakeholders)	(1) Labor productivity: data analysis (PSI) (2) Summary of field survey on apparel industry (PSI)
DPF#3 Feb. 2020	Launch of the Ethiopia Productivity Report	(1) Ethiopia Productivity Report (GRIPS) (2) Ethiopia Productivity Report: Ten uncovered facts (PSI & GRIPS)
DPF#4 Jan. 2022	Launch of the Ethiopia FDI Policy Report (online webinar)	(1) Ethiopia FDI Policy Report 2022: Main Findings and Recommendations (GRIPS) (2) Dynamics of FDI in Ethiopia: Bridging the Balance of Payments Gap and Enhancing the Role of FDI in Technology and Knowledge Transfer (PSI) (3) Pursuit of Product Quality and Ethical Correctness in Developing the Garment Industry (GRIPS) (4) Ethiopia in the Industry 4.0 and Post-Pandemic Age (JICA)

2. Input to Industrial Plans and Strategies

The dialogue team offered advice and comments to Ethiopia's priority agenda through various documents and means, including:

- **Preliminary assessments on Homegrown Economic Reform Agenda**, submitted and discussed jointly with PMO, MOF, EIC, and separately with PDC (Oct. 2019)
- **Four automotive industry promotion analyses and proposals**, submitted to MOTI/MOI, EIC & PMO (Feb. 2018, March 2020, Nov. 2020, Dec. 2020, Sep. 2022)
- **Comments on 10-year Perspective Development Plan 2021-2030**, submitted to PDC, PMO, EIC (June 2020)
- **Comments on MOTI's 10-year Perspective Development Plan 2021-2030**, submitted to MOTI (Aug. 2021)
- **Hawassa Industrial Park: Impression from a Japanese perspective**, submitted to Minister Arkebe & EIC (Feb. 2017)
- **Ideas for Stimulating the Ethiopian Economy**, submitted to PSRC Director Ahmed (Sept. 2018)

Assessments on Homegrown Economic Reform Agenda

Presented at a joint meeting with Dr. Mamo (PMO), Dr. Eyob (MOF), and Mr. Abebe (EIC), as well as a meeting with Dr. Fitsum (PDC) on Oct. 30 2019

	Washington Consensus	PM Meles	Homegrown Economic Reform Agenda
Macro economic stability	Top priority: bold budget cuts, tight money, flexible exchange rate as preconditions for reform and growth (IMF)	Coping with crises as they arise (inflation, fuel & sugar shortage, F/X allocation, etc.)	Concern indicated but effective and concrete enough? F/X, finance, inflation, debt sustainability, etc. (5 slides)
General improvements on business conditions	Big-bang liberalization: Liberalize, privatize, integrate, good and level investment climate asap	Maintaining tight controls (banking, telecom, SOEs, etc.); no long-term liberalization plan shown	Will to SOE reforms, better infrastructure services expressed, with WB support (WB EDB ranking also targeted) (1 slide)
Selective industrial concern & promotion	Undesirable; don't do it Government is unwise & policies are captured by interests (Anne Krueger)	Strong state guidance & support on priority sectors; learning how to do this from East (incl. Kaizen)	Listed but details unknown; still general--agriculture, manufacturing, mining, tourism, ICT (1 slide each)
Remark	Traditional IMF & WB and most Westerners; criticized for damaging real economy in Africa, L. America, Former USSR, Asian crisis countries	Despite serious policy learning, targeted manufacturing sectors remained weak and visible transformation did not occur	Weights and depths of 3 pillars unknown; General and Selective should both be pursued strongly and in balance (Framework or Ingredients approach?)

Automotive Policy Discussions

- ❑ Since 2018, the policy dialogue team has conducted automotive discussions with MOTI/MOI & EIC. Japanese automakers were interviewed, MIDI officials were invited to Japan, three seminars were held at MOTI/MOI, Kenya and Myanmar were visited, and a series of policy proposals were submitted.
- ❑ For Ethiopia and Japan, key policy targets should be (i) successful development of Isuzu business, and (ii) invitation of Toyota SKD. The current business climate (e.g. F/C shortage, political situation) is unfavorable but a long-term plan should be made.
- ❑ Four impediments to Japanese SKD were identified: (i) F/C shortage, (ii) used cars, (ii) lack of incentive for domestic assembly, and (iv) small demand (Japanese firm interviews).
- ❑ We also discussed with GIZ.



At Moenco

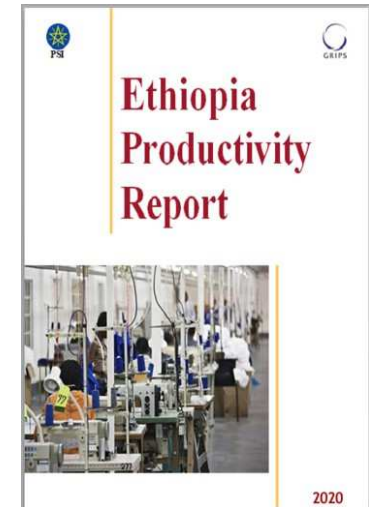


At EIC

3. Joint Policy Research with PSI

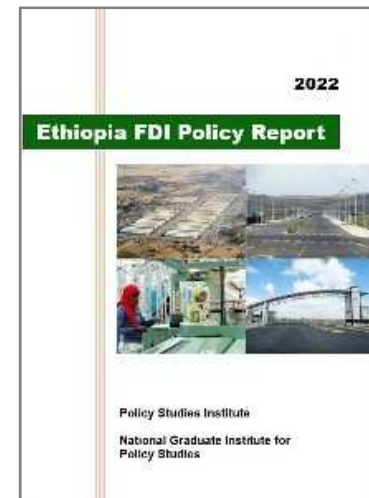
Ethiopia Productivity Report (Jan. 2020)

- First comprehensive productivity analysis of Ethiopia using standard statistical methods, international comparison and firm surveys
- Labor issues and sources of weaknesses are explored
- Received wide media coverage; World Bank and MCC invited lead author to Washington DC to present the report (Feb. 2020)



Ethiopia FDI Policy Report (Jan. 2022)

- Ethiopia's FDI policy and performance are reviewed
- FDI's impacts on balance-of-payments and technology transfer are studied with international experiences
- Garment performance is compared among Ethiopia, Vietnam and Bangladesh
- A companion FDI policy paper was also released (GDF, Oct. 2021)



4. Visiting Benchmark Countries for Policy Learning

- During Phase 3, we organized research missions to Sri Lanka, Kenya and Myanmar to draw implications for Ethiopia's policy direction (with the participation of PSI researcher)
 - **Sri Lanka** (Oct. 2017): apparel industry, EPZ, industry-supporting institutions
 - **Kenya** (Aug. 2018): automotive industry, industry associations
 - **Myanmar** (Nov. 2019): automotive & apparel industries, investment promotion & SEZ

The findings were shared with Ethiopian policymakers at HLF & DPF sessions and in writing.

- A **study visit to Japan** was organized for four officials of MOTI's Metal Industry Development Institute (MIDI) to study Japan's SME support measures and situations of metal, machinery and automotive sectors (June 2018).

5. Assisting Japanese Firms Interested in Ethiopia

- ❑ Our team supports Japanese firms (large and small in various sectors) seriously or potentially interested in Ethiopia.
- ❑ We provide policy information, suggest government contacts, organize workshops for government and Japanese firms, and propose policies to attract and retain Japanese FDI.
- ❑ Related seminars and operational discussions were held at MOTI/MOI (next slide).
- ❑ However, the attraction of Japanese FDI has not been very successful so far.

Related Seminars

- **Textile & Garment Seminar** in collaboration with **Itochu Corp.** (Japan's leading garment trader) co-organized by MOI, JICA, GRIPS and UNIDO at MOI (Aug. 2018): **on global garment business and how Japan can come to Ethiopia**
- **Automotive Industry Seminar**, co-organized by MOTI, JICA, GRIPS and UNIDO at MOTI (Feb. 2019): **“The Prospects of Japanese Automotive Assembly in Ethiopia: Policy Issues and Concrete Problems”**
- **Automotive Industry Seminar**, co-organized by MOTI, JICA and GRIPS at MOTI (Feb. 2020): **“Myanmar's automotive policy and lessons for Ethiopia”**
- **Automotive Industry Seminar**, organized by MOI with presentations by GRIPS and JICA at MOI (Sep. 2022): Also inviting Japanese and local automotive firm representatives
- **Linkage Policy Seminar**, co-organized by MOI, JICA and GRIPS at MOI (scheduled Dec. 2022)