

Industrial Action Plans

East Asian Experience in Modality,
Content and Organization



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Topics

- General points
 - Vision → Strategy → Action plan
 - Issues in strategy and action plan making
- Case studies
 - Thailand, Malaysia, Vietnam, Japan, Zambia
 - Evaluating Ethiopia



Goal Orientation

- In East Asia, industrial policy is often characterized by goal orientation and policy hierarchy: **Vision - Strategy - Action plan** (other terms may be used).
- **Dynamic Capacity Development**—domestic capability is built up for the purpose of achieving concrete real-sector objectives rather than improving “governance” or removing “binding constraints” generally.

	Description	Examples
Vision	<ul style="list-style-type: none"> -Slogan -Short and Vague 	<ul style="list-style-type: none"> -Vision 2020 (Malaysia) -Detroit of Asia (Thailand) -Industrialization & Modernization (Vietnam)
Strategy	<ul style="list-style-type: none"> -Document specifying goals, roadmaps, policy measures -Scope & detail depend on each case 	<ul style="list-style-type: none"> -Industrial Master Plan (Malaysia) -Automotive Master Plan Main Text (Thailand) -e-Japan Strategy -Industrial Cluster Plan (Japan)
Action plan	<ul style="list-style-type: none"> -Document, action matrix, formal/informal mechanism, or ongoing process 	<ul style="list-style-type: none"> -Automotive Master Plan Action Tables (Thailand) -Vietnam-Japan Joint Initiative -Triangle of Hope Project (Zambia)
Review & Adjustment	<ul style="list-style-type: none"> -Numerical monitoring, document report, organizational review, or no formal review 	<ul style="list-style-type: none"> -Interim & final review by joint committee (VJJI, ToH Zambia) -Industry specific committees (Thailand)

Additional Remarks

- We consider both overall industrial policy and sector-specific policies.
- Strategies and action plans may be revised as situations change, but the long-term vision should remain intact.
- Some countries produce plan documents (5-year Plan etc—China, Malaysia, Thailand, Vietnam) but these alone are usually not concrete enough for industrial policy purposes.
- Annual budget process sometimes replaces action plan making process (Malaysia, Japan).



Issues in Industrial Strategy and Action Plan Making

- Country ownership
- Stakeholder involvement
- Inter-ministerial coordination
- Quantitative targets
- Methodology of policy formulation
- Action Plan format and details
- Review and adjustment



Country Ownership

- Some countries (Vietnam, Thailand, Ethiopia) have strong policy ownership while others are largely donor-driven (Cambodia, Tanzania, Mozambique).
- Policy ownership depends on leadership quality, existence of clear national goals, and degree of aid dependency.
- Strong ownership does not necessarily guarantee good policy. *Donor management* and *policy quality* are two separate issues (cf. Vietnam).



Stakeholder Involvement

- Key stakeholders in industrial policy are business community (primary, both local & FDI) and donor community (secondary).
- Stakeholders should be engaged throughout: policy design, implementation, review & adjustment.
- Policy improves as stakeholder engagement is broadened:
 - Top-down orders → Multiple interactive channels → Private-sector led policy makingBut this shift requires strong private sector capability in parallel.



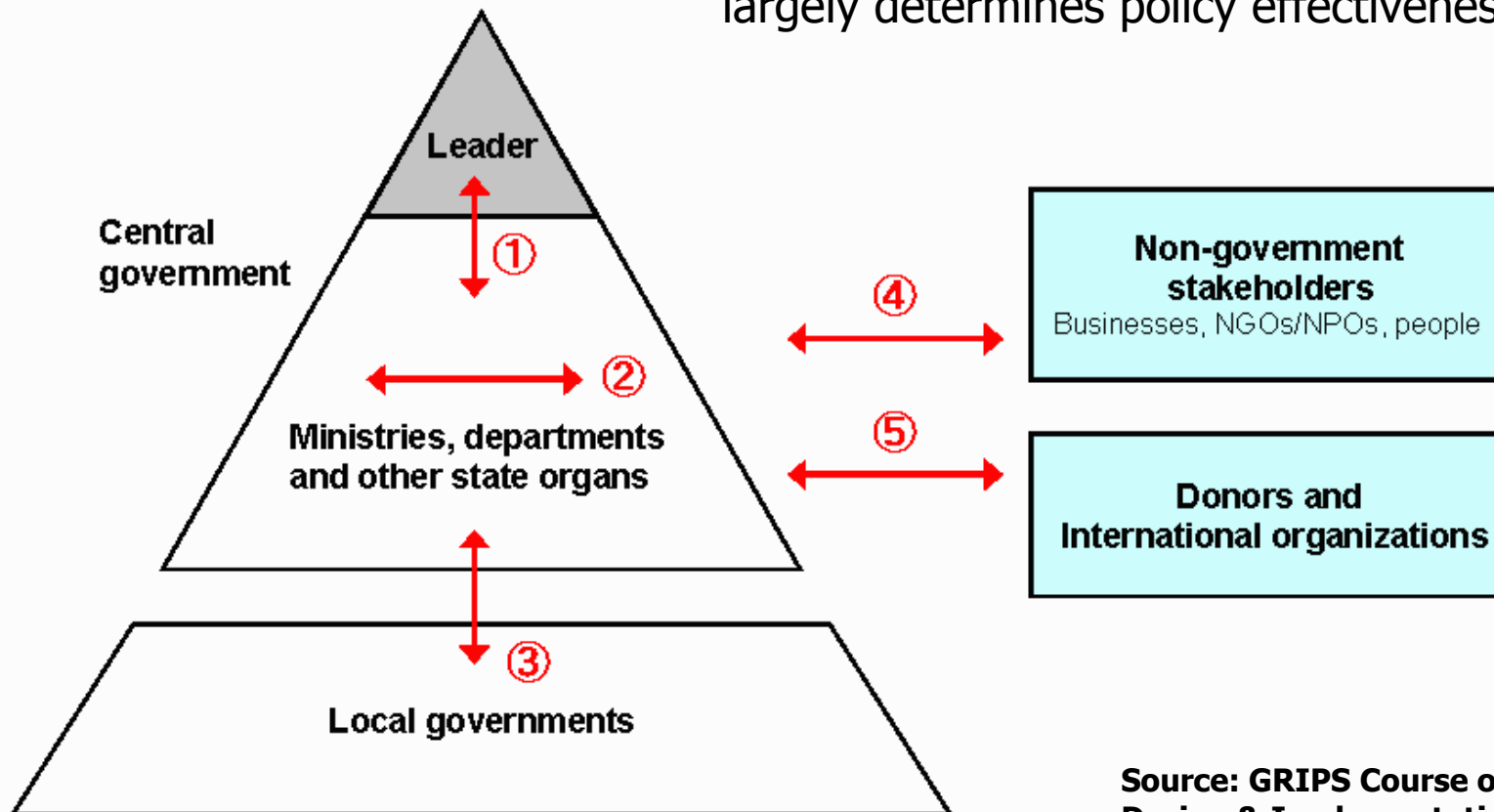
Inter-ministerial Coordination

Different ways to ensure policy consistency:

- Powerful technocrat team under PM/President (Korea's Economic Planning Board, 1960s-70s)
 - Super-ministry approach (Japan's MITI, 1960s)
 - Central coordination approach (Thailand under Thaksin)
 - Multi-layer approach (Malaysia)
-
- ➔ Choose the style that fits your country
 - ➔ Strong leader alone is not sufficient
 - ➔ Role of donors as enforcer of coordination (Vietnam-Japan Joint Initiative)

Critical Relationships in Development Policy Formulation

The configuration of these five relations largely determines policy effectiveness



Source: GRIPS Course on Policy Design & Implementation in Developing Countries

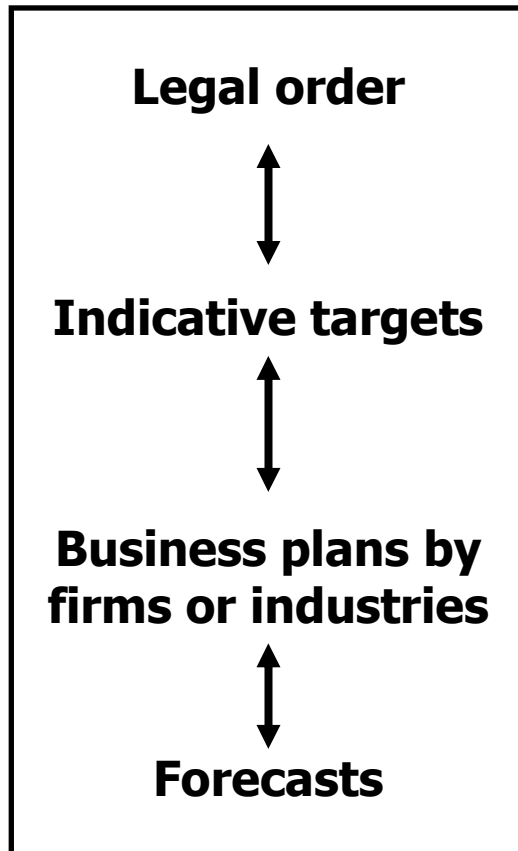


Quantitative Targets

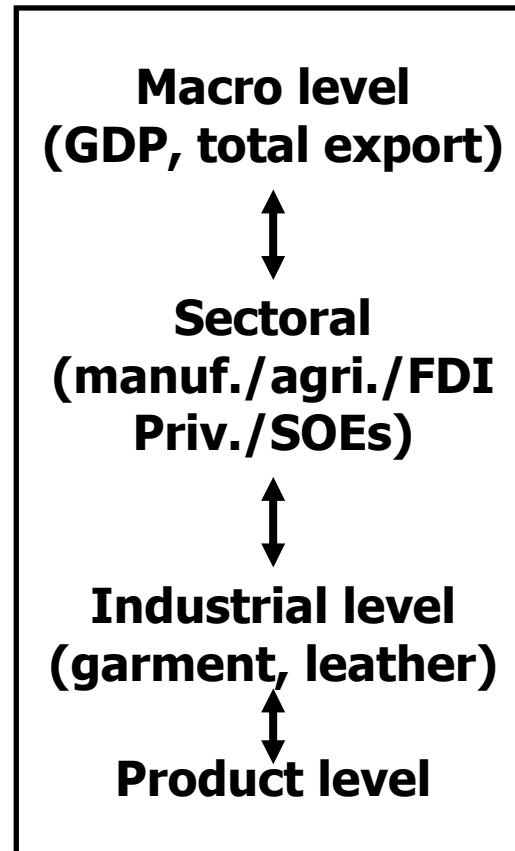
- Most popular industrial targets are production, export, investment and localization.
- Quantitative targets should be decided by private sector or by private-public consultation, not by government alone.
- Trust between government and business community must be secured. If trust is low, numerical targets are counter-productive.
- Hardness, aggregation and time scope must be chosen carefully (next slide). The choice should depend on policy capability and level of private sector development.

Three Dimensions of Numerical Real-sector Targets

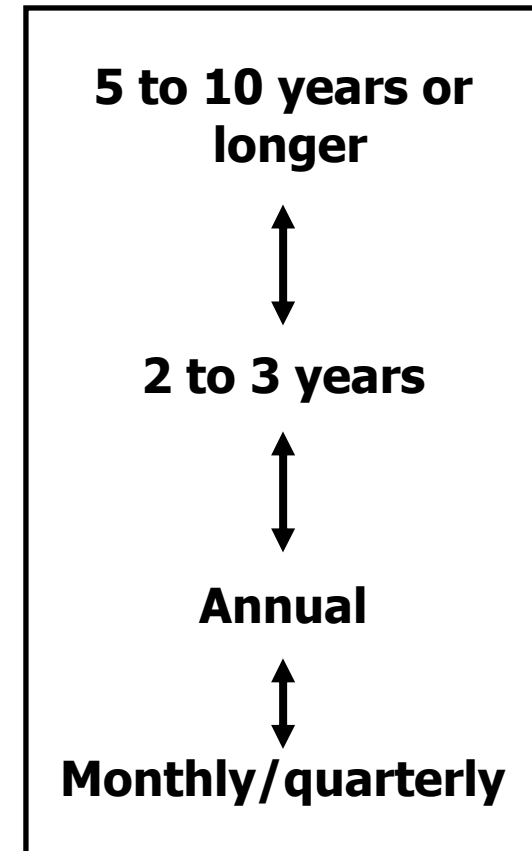
Hard vs. soft

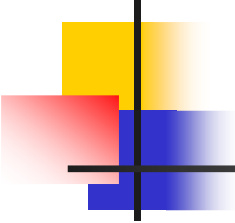


Aggregation



Time scope





Methodology of Policy Formulation

- Drafters—officials, experts, sectoral institutes, or joint task forces (including private sector).
- *Concise* (targets-action plans--Thailand) or *explanatory* (background, int'l & domestic reviews, SWOT, orientation etc--Vietnam).
- Sharply focused & analytical (eg. value chain analysis) or bottom-up collection of many issues.
- Government domain vs. market domain--how much should gov't dictate (location, projects, markets)? This should be country, sector and time specific.



Action Plan Format and Details

Different ways to create action plans:

- Detailed action plan matrices—what, who, when, and monitoring criteria (Thai Automotive M/P, Zambia's TOH).
- Multiple targets, with one or a few actions for each target (Vietnam-Japan Joint Initiative).
- Broad targets only without action plan matrix-- policy measures are left to the ministry in charge (Malaysia IMP).



Review and Adjustment

Different ways to monitor and revise:

- A special team or consultant is appointed to review progress explicitly at agreed times.
- Ministry in charge reviews (implementer=reviewer).
- Monthly or quarterly review committee, with participation of PM or relevant minister.
- No or little review.
(Excuses--broad targets are easy to monitor; spend more time on future strategy than past review)



Summary

- There are different ways to make strategies and action plans—no one method dominates.
- Institutionalization and documentation (stability) vs. implementation by appointed committee or ministry (flexibility).
- Proper method depends crucially on gov't capability and the level of private sector development.



Policies for Reference

- Automotive Master Plan of Thailand
- Industrial Master Plan of Malaysia
- Vietnam-Japan Joint Initiative
- Triangle of Hope Project of Zambia
- Vietnam's master plan drafting (negative)
- Industrial Development Strategy of Ethiopia
- Leather & Leather Product Industry M/P of Ethiopia



Automotive Master Plan of Thailand 2002-2006

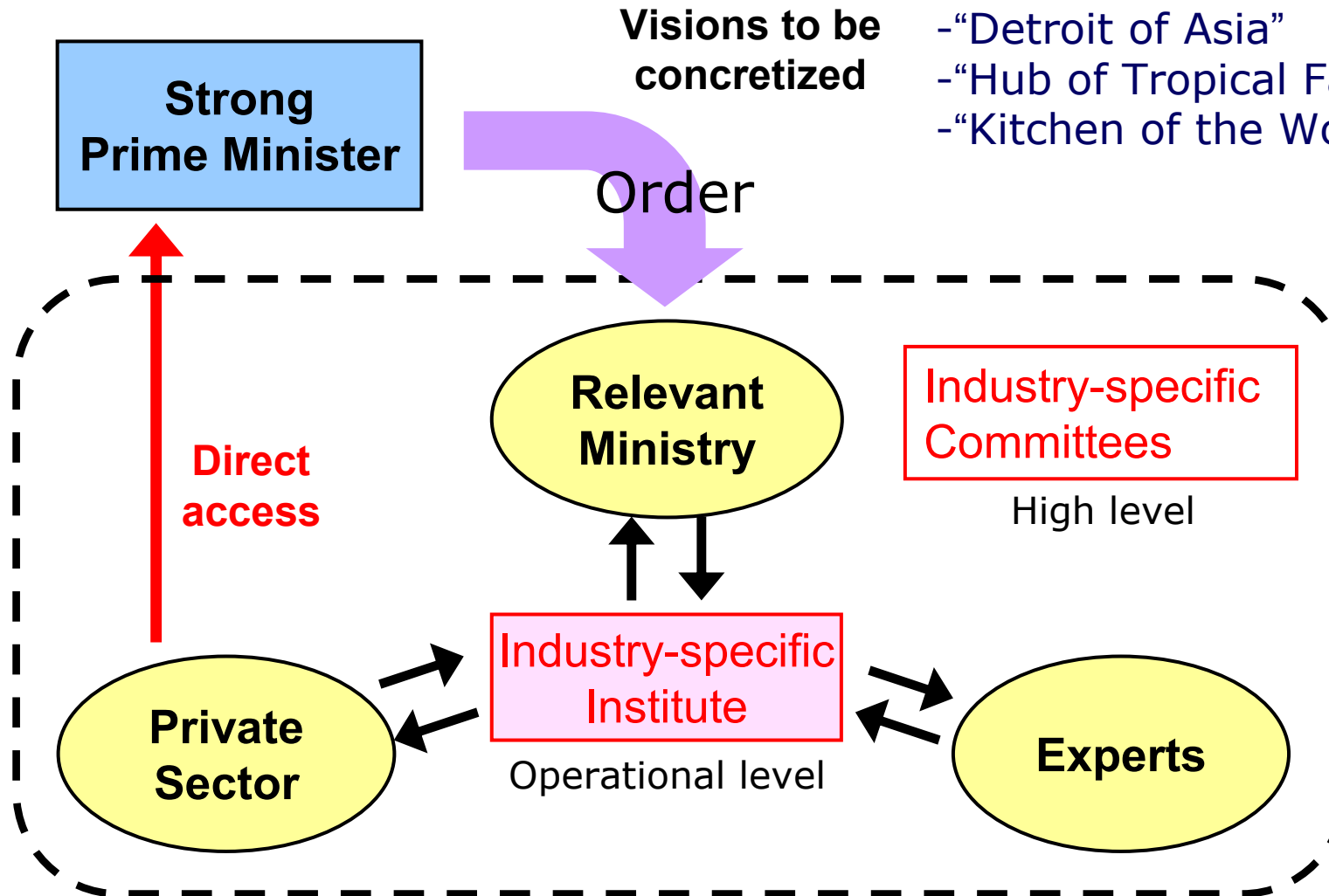
Content Structure:

- Global situation
 - Thai situation
 - SWOT analysis
 - Strategy and targets for next five years
 - Action plan (60% of total pages)
-
- Over 300 pages, with 180 pages devoted to action plan tables.
 - Original (Thai), executive summary (Thai & English)
 - Drafting time was 1 year.



Central Coordination Model: Thailand under Thaksin 2001-06

Thailand should become:
-“Detroit of Asia”
-“Hub of Tropical Fashion”
-“Kitchen of the World”





The Role of TAI as Coordinator

- Thai Auto M/P was drafted by Thailand Automotive Institute (headed by Mr. Vallop Tiasiri) with inputs from industry and MOI.
- TAI was established in 1999, an NPO with both private & gov't funding. It has 70 staff, of which 30 are engineers. It cooperates with related ministries & 10 universities.
- TAI's missions: (1) policy study & advice, (2) support the "clustering" of auto parts, (3) export promotion. It also runs a training center.
- TAI has daily contacts with private firms and gov't officials both formally and informally.



Thai Auto M/P - Targets for 2006

**The long-term vision was given by PM Thaksin:
“To become the Detroit of Asia”**

Numerical targets were decided by private firms:

- Produce 1 million cars per year
- Export 40% of cars produced
- Produce 2 million motorcycles per year
- Export 20% of motorcycles produced
- Export 200 billion bahts of high quality parts
- Achieve localization of 60%

These were achieved one year in advance, in 2005.

Sample Format of Thai Automotive Master Plan

Strategy	Action Plan	Output	Key success indicator	Main resp. org.	Cooperative org.
1.2 Automotive Human Resource Development	3. Automotive training center project	Standardized automotive training center	1. Number of trained persons	TAI	OIB/TAIA/TAPMA/F TI
	3.1 Provide Systematic training to the industry from workers to management level		2. Number of companies sending employees for training		
	3.2 Skill training		3. Increased income of trained persons		
	3.3 Provide training to engineers in the field of advanced engineering and specialized technology		4. Cost reduction and profitability		

Source: Executive Summary (English), Master Plan for Thai Automotive Industry 2002-2006, page 10.



Thai Auto M/P – Cont.

- M/P is presented and explained to Prime Minister by private firms. There is no official approval process.
- M/P must be included in the National Five-year Plan to receive budgeting.
- There is no revision of M/P during implementation. However, budgeting and concrete projects are adjusted constantly.

Industrial Master Plan of Malaysia



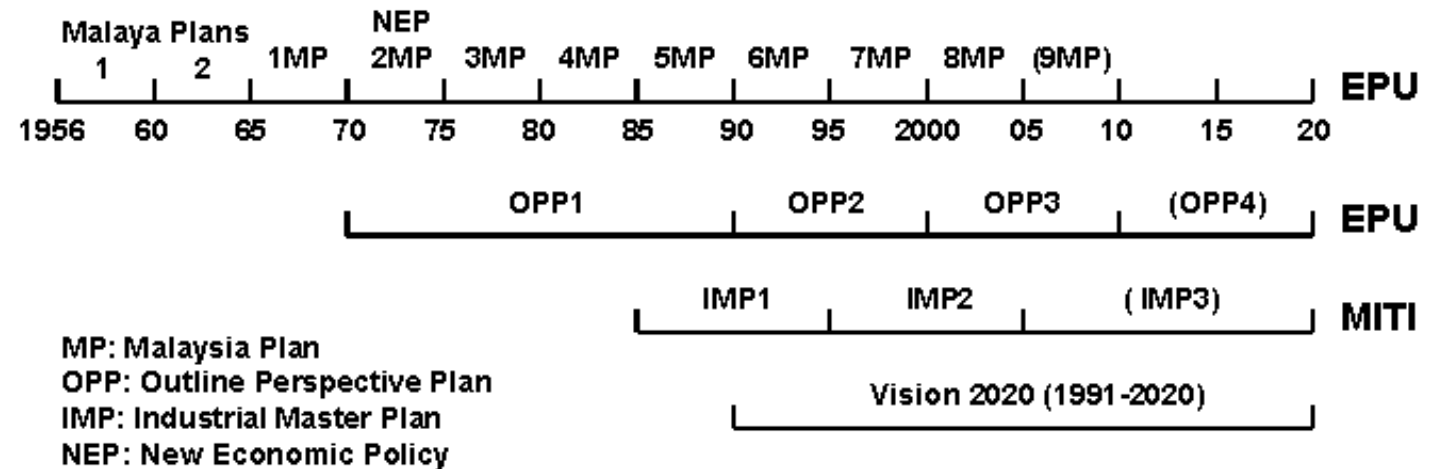
- ***Vision 2020***, set by Former PM Dr. Mahathir in 1991, remains the overarching national goal. Malaysia aims to become a “fully developed country” by achieving 9 challenges:
National unity, confidence, democracy, moral & ethics, tolerance, science & technology, caring culture, economic justice, and prosperity
- Vision 2020 is general and vague. It must be concretized by rolling and overlapping policies.



Malaysia, Cont.

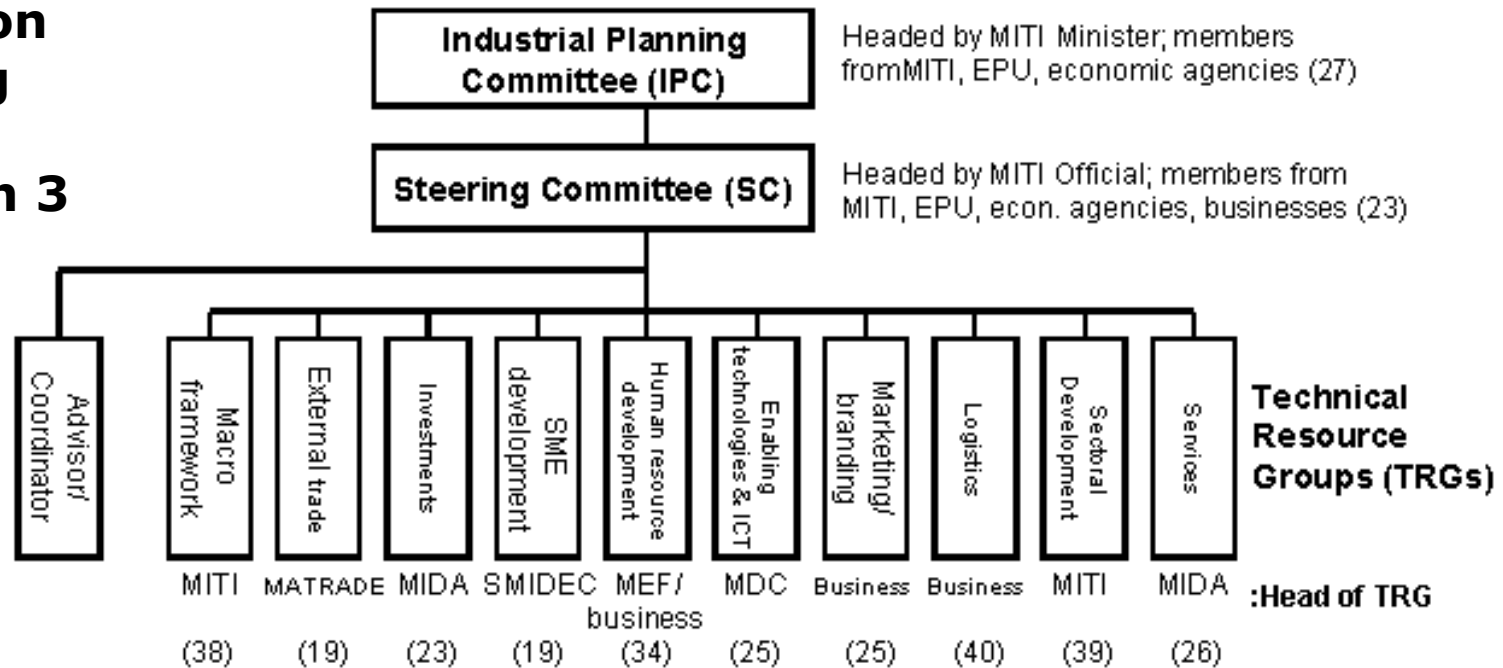
- Economic Planning Unit (EPU) under PM drafts Malaysia Plan (5-yr Plan) & Outline Perspective Plan.
- Ministry of International Trade and Industry (MITI) drafts Industrial Master Plan.
- Industrial Master Plans:
 - IMP1** (1986-1995) – acceleration of manufacturing, efficient use of local resources, local technical capability.
 - IMP2** (1996-2005) – for 8 industrial clusters, raise and broaden Malaysia's position in value chains.
 - IMP3** (2006-2020) – strengthen many aspects such as SMEs, HRD, ICT, marketing & branding, logistics etc.

Multi-layered Model



Malaysia

Organization for drafting Industrial Master Plan 3



Total 338 members + advisors

Source: MITI website.

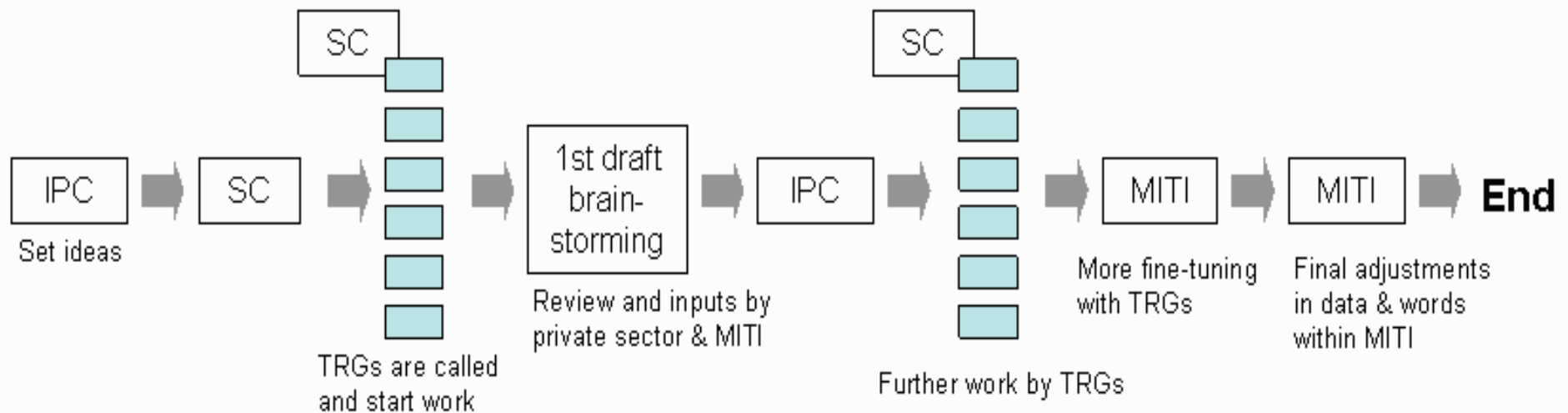
Note: Numbers in parentheses indicate the number of members in each committee or group.

Malaysia: Drafting of Industrial Master Plan 2006-2020 (IMP3)

IPC: Industrial Planning Committee (headed by MITI Minister)

SC: Steering Committee (headed by MITI high official)

TRGs: Technical Resource Groups (headed by various experts)



Business opinions reflected through TRGs and brainstorming



Malaysia's IMP2 (1996-2005)

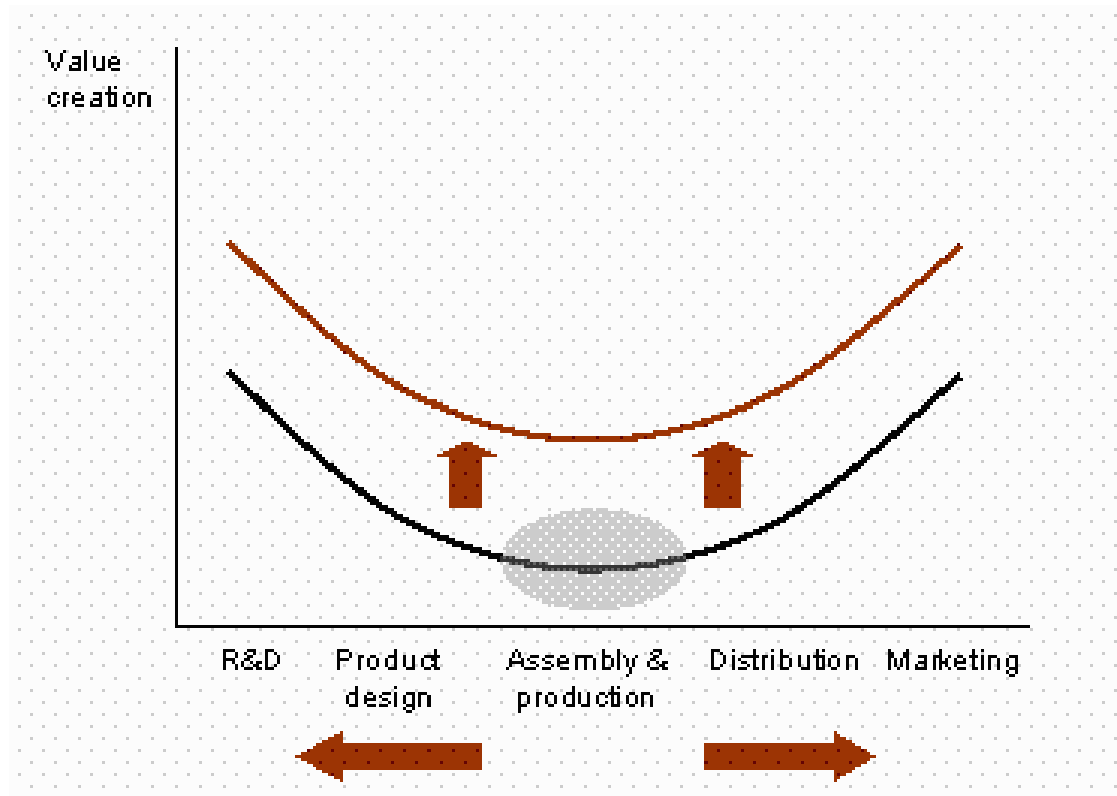
- 453 pages (English) with the following chapters:
 - Overview & analytical framework (first 2 chapters)
 - Analysis & proposals for 8 indust. clusters (8 chs.)
 - Directions & institutional framework (last 2 chs.)
- Malaysian Institute of Economic Research (MIER) drafted a background paper, which gave IMP2 a lucid academic style (but not IMP3).
- Possible problems: (1) sectoral coverage is too wide, (2) method is too mechanical and uniform, (3) full-set industrial promotion is against globalization and specialization.

Malaysia's Cluster-based Industrial Development and Manufacturing++

Malaysia's IMP2 (1996-2005) aimed at raising and broadening the value chain.

Leveling up of each industrial cluster

- Core production
- Supporting industries
- Supporting services
- Human resources
- Logistics
- R&D





IMP2 Implementation

- Compared with drafting process, implementation is less well organized. There is no clear mechanism for monitoring, review or revision. No action plan is specified.
- Concrete actions are left to 5-yr Plan, annual budgets, and measures of relevant committees, ministries and agencies.
- MITI Minister was reportedly unhappy with IMP2 results, and many outsiders felt that IMP2 did not achieve cluster-based industrial development or manufacturing++.



IMP2 Interim Review

The 5th year review of IMP2 was posted in MITI web which was later removed:

- Manufacturing export growth 16.6% (target 16%)
- Manufacturing investment RM27.4b (target RM25b)
- Employment share of manuf. 27.6% (target 27.9%)
- 2 clusters attained targeted value-added shares
- 3 clusters had rising capital investment per worker

BUT

- R&D, patents and innovation remained low
- Participation in global supply chain was weak
- Little progress in ICT and logistics



Vietnam-Japan Joint Initiative

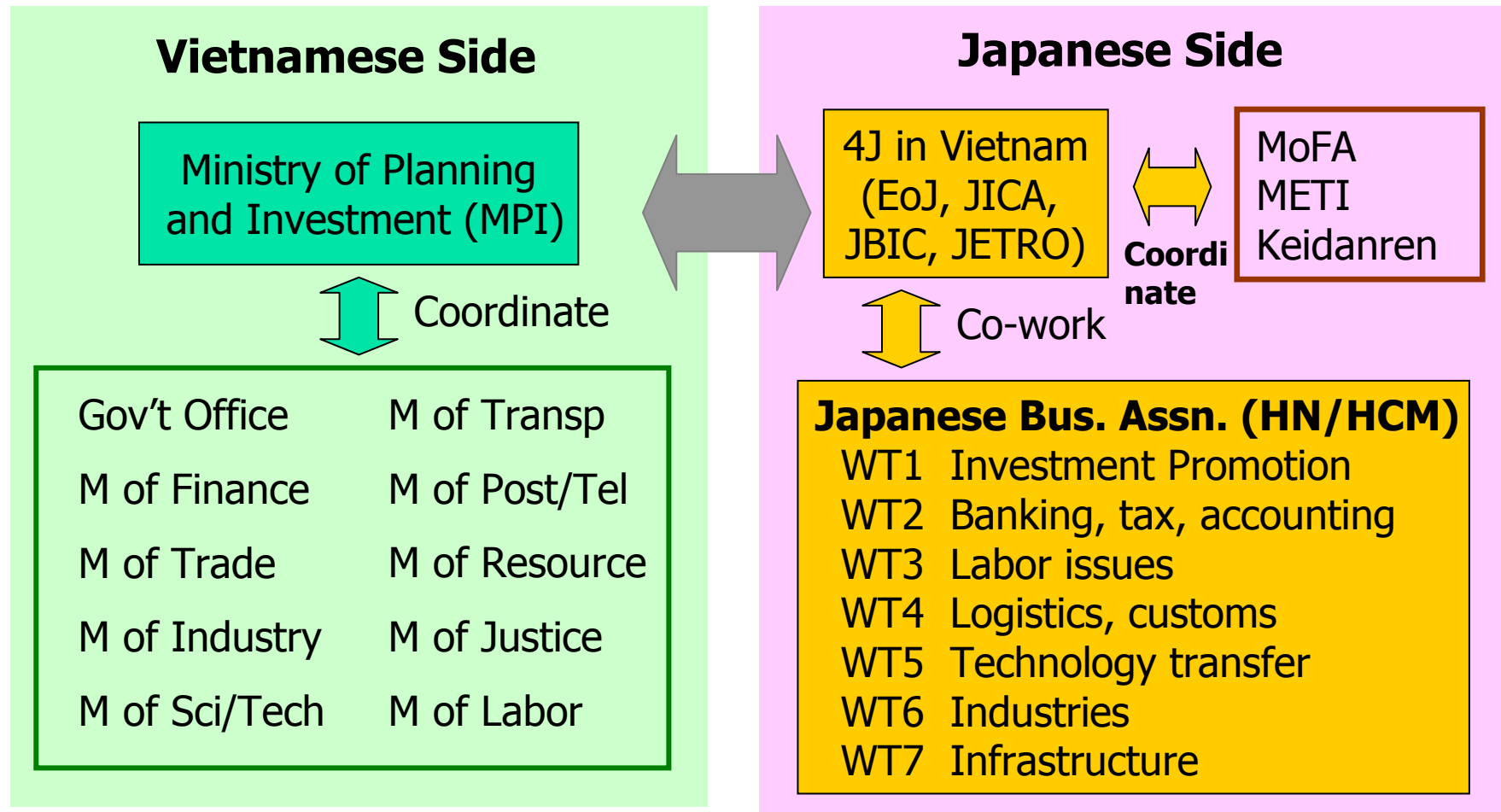
- **Purpose:** Improve Vietnam's investment climate to become an attractive investment destination
- **Background:** (1) Japan is the largest implementer of FDI and largest donor in Vietnam; (2) Gov't-private dialogue; (2) Vietnam joins WTO in Jan.2007.
- **Scheme:** (1) Action Plan is agreed by VN gov't, Japanese gov't, and Japanese private companies. (2) Monitor progress and announce final result.
 - Phase 1**, 2003-2005 (44 items, 85% achieved)
 - Phase 2**, 2006-2007 (46 items, 93% achieved)
 - Phase 3**, 2008-2010 (37 items, in preparation)



Procedure for Action Plan Vietnam-Japan

1. Japanese Business Associations in Vietnam identify problems and study support measures.
2. Bilateral dialogue to agree on problems and solutions (two governments & Japanese FDI)
3. Agree on Action Plan
4. Execute Action Plan
 - { Vietnam—review/adjust laws and regulations
 - { Japan—ODA support
5. Monitor Action Plan
 - Interim monitoring (one year later)
 - Final monitoring (two years later)

Organization for Action Plan Vietnam-Japan (Phase 2)



A/P Drafting & Monitoring Vietnam-Japan (Phase 2)

Drafting Action Plan

Joint Committee

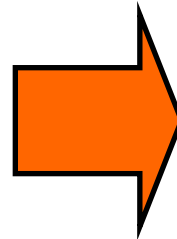
headed by
Japanese ambassador
Keidanren chairman
MPI Minister

Task Force

headed by MPI Minister & GD
attended by Japanese Bus. Assn.

Japanese Consultants

Hearing from companies
Preparing action plan draft



Monitoring Action Plan

Evaluation Committee

headed by
Japanese ambassador
Keidanren chairman
MPI Minister

Monitoring Committee

headed by MPI Minister & GD
attended by Japanese Bus. Assn.

Task Force

headed by MPI Secretary & DGD
attended by Japanese Bus. Assn.



Action Plan Issues (Examples from Phase 2)

- Abolish unanimity rule in corporate board meetings
- Bidding rule in JV with 30% share of national entity
- Clarification of investment incentives
- Simplify customs procedures
- Clarification of prohibited imports and exports
- Regulation and standard of used car import
- Proper application of environmental regulation
- Clarification of technology transfer law
- Solution of power shortage
- Privatization of the power sector



Action Plan Format Sample:

(Phase I, Item 29) Adoption of international accounting standard (total 2 pages)

- (1) **Current status**—Explanation of current situation and citation of relevant laws & regulations (2 paragraphs)
- (2) **Issues raised by enterprises**—Gap between local and global accounting system adds cost and ambiguity, etc (2 paragraphs)
- (3) **Views expressed by Vietnamese Gov't**—Statement of proposed law revisions and future direction (2 paragraphs)

(4) Concrete solution measures:

1. Clarification of all accounting and auditing standards and integration into international standards.
2. From 2004, PR & implementation of Accounting Law

Common deadline for Phase I: Action within 2 years



Reasons for Success

- Excellent bilateral relationship between VN & JP
- High level political involvement
- Public Private Partnership
- Commitments with a deadline on Action Plan and monitoring
- Support by ODA for implementing Action Plan
- Openness and transparency of the result

(Cited from the presentation of Mr. Kyoshiro Ichikawa, Senior Investment Advisor & JICA expert, Hanoi, Dec. 2007)



“Triangle of Hope” Project in Zambia

- This project can be considered a mix of Malaysian IMP and Vietnam-Japan Joint Initiative.
- Request by President H.E. Mwanawasa to JICA President Mme. Ogata for “Asian Tiger experience.”
- Project name: “Strategic Action Initiatives for Economic Development” (Jul.2006-Mar.2009) with JICA support, in line with TICAD growth agenda.
- Energetic Malaysian consultant J. Jegathesan galvanized Zambian Cabinet and led this project.



“Triangle of Hope” in Zambia - Key Project Components

1. Investment climate improvement

Cabinet ← Steering Committee ← 12 Task Forces

- Large Action Matrix with expected output, deadline, ministry in charge, and performance status (by color)
- Monitored by Steering Committee headed by President Advisor Dr. Musokotwane
- Progress regularly reported to Cabinet

2. Multi Facility Economic Zone for receiving FDI

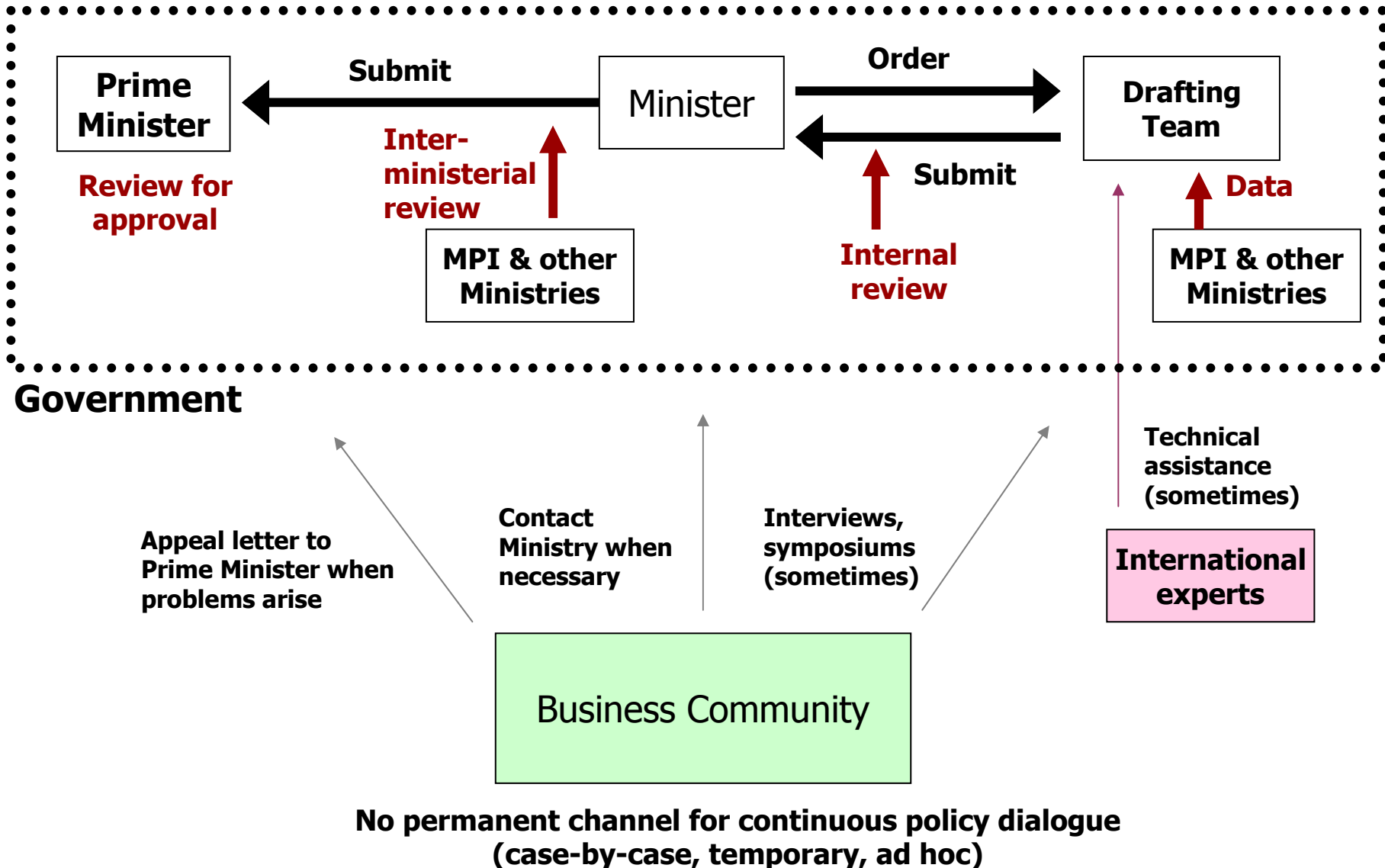
- FDI marketing missions sent to Malaysia, India
- Malaysian firm (KLIM) to build MFEZ



Vietnam's Master Plan Drafting – Some Negative Lessons

- Vietnam's high growth is due to good location and good workers; not because of good policy.
- Main problems are **lack of business involvement** and **lack of inter-ministerial coordination**. Policies are not supported by private sector and usually not implemented.
- More fundamentally, these problems arise from lack of proper leadership, legacies of planning days, and distorted incentives within government (brain drain).

Vietnam: Traditional M/P Drafting Process





Vietnam – My Suggested Entry Points for Solution

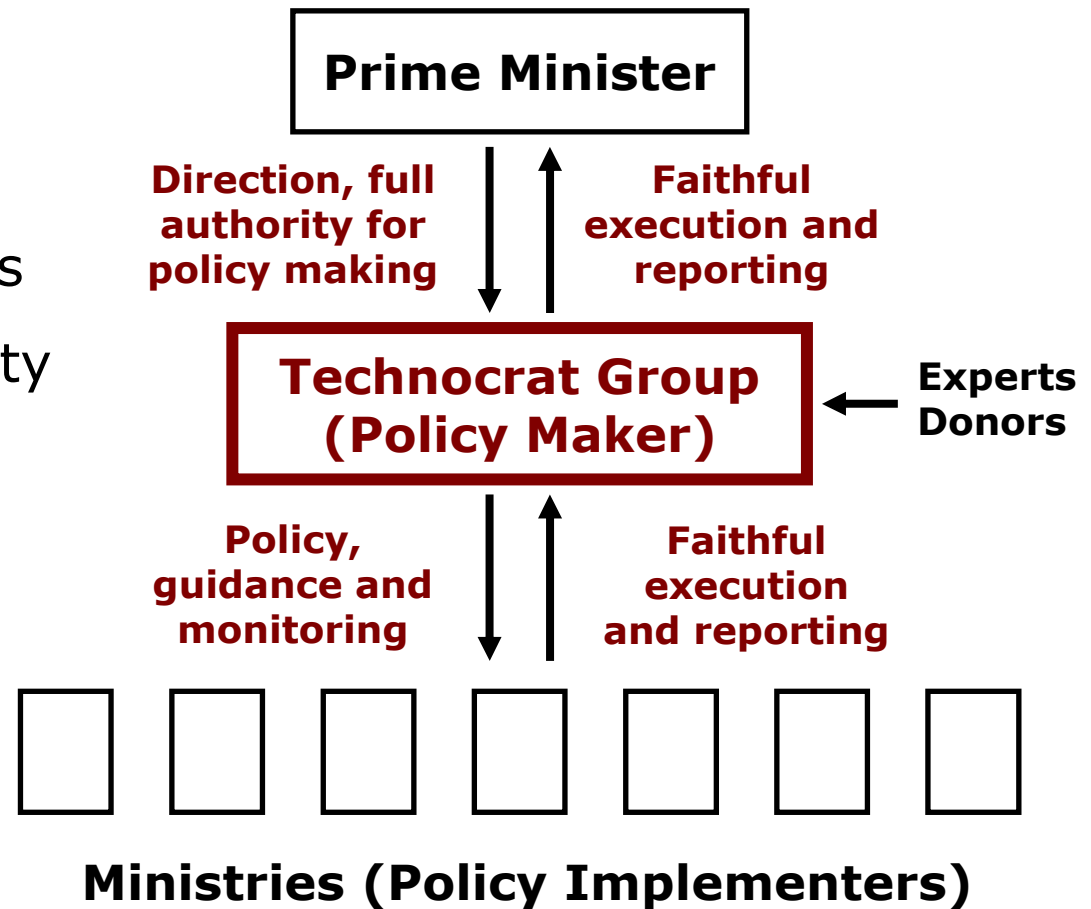
- Installation of strong and wise leadership
- Creation of technocrat team under PM
- Strategic foreign partnership

- The leader's vision should be concretized by the technocrat team (clear strategies and action plans). Foreign businesses, donors and experts should be mobilized to achieve this vision.

- For strategic foreign partnership, Japan is currently working on "Vietnam-Japan Monozukuri Partnership for Supporting Industries" (to be officially launched in 2009).

My Recommendation for Vietnam

- Elite technocrat group under strong leadership of Prime Minister
- Choose young, well educated officials & experts
- Streamline policy authority and procedure

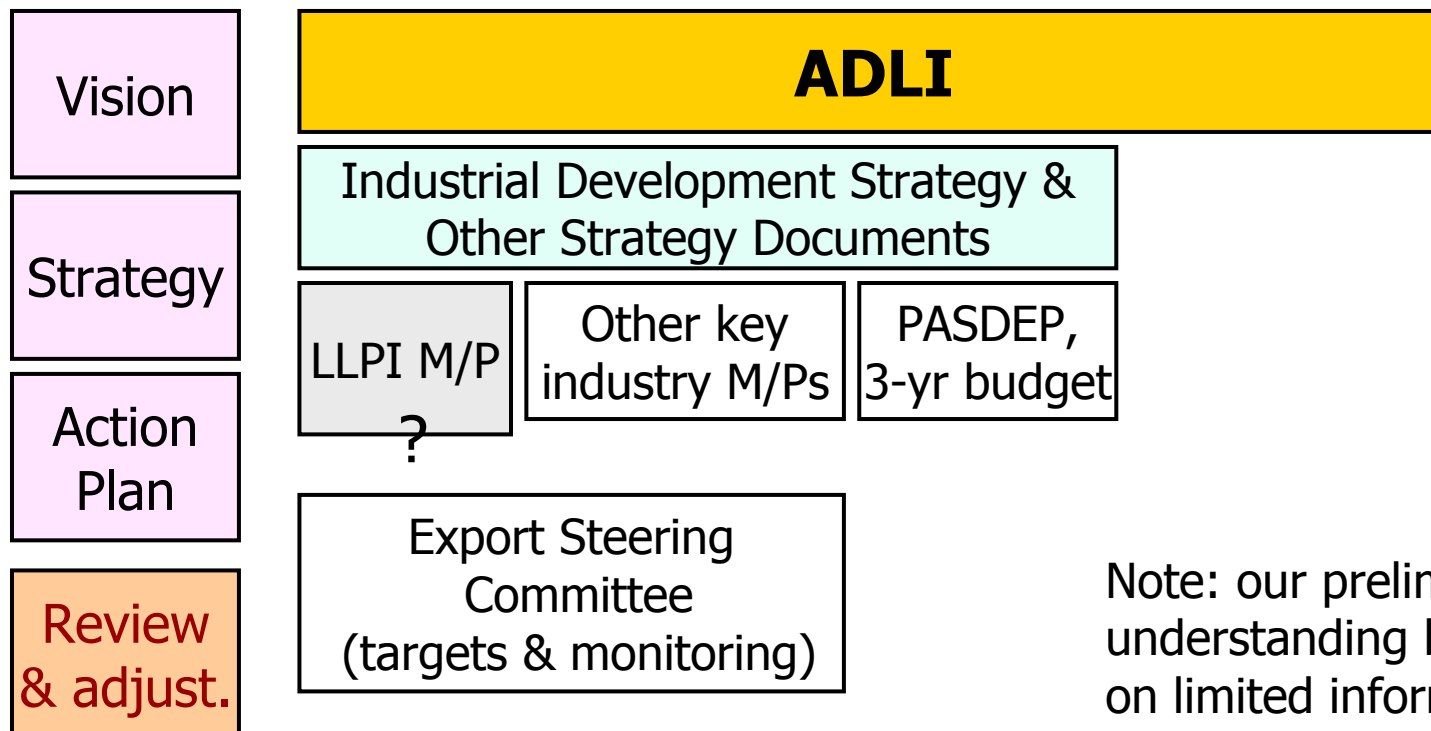


Korea – Econ. Planning Board
Malaysia – Econ. Planning Unit
Thailand – NESDB
Taiwan – Kuomintang Elites
Indonesia – “Berkeley Mafia”
Chile – “Chicago Boys”

So why not Vietnam also?

Policy Structure of Ethiopia?

- At higher level--well documented and broadly shared
- At lower level--less formal, less complete



Note: our preliminary understanding based on limited information



Industrial Development Strategy of Ethiopia

- IDS is partly *vision* and partly *strategy*.
- Roadmap and policy measures are not included (delegated to M/Ps).
- Clear statement of **policy principles**—private initiative, ADLI, export-led, labor-intensive, FDI role, strong state control, whole-society mobilization.
- Additionally, macro, finance, infrastructure services, HRD, ADM, judiciary are discussed.
- **Targeted sectors**--textile & garment; meat, leather & leather products; agro-processing; construction, MSEs.
- Widely understood and shared by policy makers and donors, and used in actual policy formulation.



Leather & Leather Products Industry (LLPI) M/P of Ethiopia

- MOTI-UNIDO (2005)—Vol. I contains analyses and concepts; Vol. II spells out targets and actions.
- Key concepts: value chain, benchmarking, Top-Down Approach (TDA) – somewhat different terminology and orientation from the E. Asian perspective.
- Extensive analyses, but direct link with action process seems weak and incomplete.
- Numerical targets are too detailed. Concrete products, markets, investments etc. should be decided by corporate strategy, global trends & customer needs.
- Downstream pull (TDA) vs. pulling at all stages?



Possible Issues in Ethiopian Policy Formulation

- Vision is well established (ADLI, Ind. Dev. Strategy) although amendments are needed over time.
- Master Plans for key industries should be completed with a degree of methodological uniformity (even with different donor support). An overall industrial master plan is one option.
- Linkage between Master Plan and Action Process (eg. Export Steering Committee) should be enhanced.
- In addition to annual/monthly export reviews, other Action Plans or Action Processes may be explored (subject to staff and time constraint).



Possible Issues - More Generally

- Industrial policy coverage is still limited (several sectors only, export volume as main performance indicator), much narrower than other countries.
- Untargeted industries, including potential import-substitution industries, are not supported adequately.
- However, government's policy capability is also limited—risk of expanding policy coverage too much and becoming too general and unfocused.
- Policy ownership is strong at general policy level but only partial ownership at daily implementation, monitoring and adjustment – heavy reliance on donors and existence of many neglected areas.



Possible Issues - More Generally Cont.

- At present, donors mainly support capacity building of enterprises and industries.
- Ethiopia also needs enhancement of policy capacity:
 - Policy design and implementation capability of the government
 - Producing a large number of Ethiopian industrial experts and enterprise advisors (government officials, institutes, business associations, bankers, etc)
- Production management as an integral process from procurement to marketing, not just one process component (GTZ, USAID, Japan...)
- Continuous bottom-up improvement involving workers such as 5S, kaizen, QCM etc. (Japan) in addition to manager education and training.