

Industrial Policy Dialogue in Ethiopia

Transferring Mindset and Methods from East Asia



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Studies in Industrial Policy

- Type 1** - Ideological and/or theoretical debate over “industrial policy”: Washington Consensus vs. J.Stiglitz, D.Rodrik, H.J.Chang, Justin Lin...
- Type 2** – Narration of concrete but isolated policy experiences in particular countries: Japan, Korea, China, Singapore, Malaysia...
- Type 3** – Systematic collection and comparative analysis of past and present industrial policies, offering raw materials for policy formulation in each country.

Willing to Learn Practice

(rather than debating theory)

- East Asia generally accepts government's role in industrialization and widely practices industrial policy. Rich experiences, and no allergy.
- In Africa: Ethiopia, Zambia, Rwanda, Ghana, 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."

Pragmatic Policy Making

- Validity of industrial policy argument depends on actual successes on the ground.
- For industrial policy “converts,” pragmatic and detailed guidance is needed, not theoretical justification of industrial policy.
- Japan, Asian Tigers, ASEAN, and China industrialized through self-study, learning from neighbors, and trial-and-error.
- Today’s latecomers also face random and fragmented advice. No systematic instruction exists for effective policy design and execution.

Systematic Instruction on Industrial Policy Making is Needed

Featuring:

- Strong country ownership
- A policy package tailored to each country
- Policy learning and gradual expansion of policy space
- A broad policy menu to choose from, based on international comparison of policy measures
- Policy dialogue with advanced country experts (individual coaching & tutoring at initial stage)

Ethiopia: “Please show us how East Asian countries draft industrial master plans and action plans.”

Learning from East Asia

- ❑ NOT copying some specific policies adopted in some East Asian country to Africa.
- ❑ Learning *mindset* and *methodology* of designing and implementing industrial strategies.
- ❑ There is a standard industrial policy menu, but selectivity and adjustment are needed to adapt to unique conditions of each country.
- ❑ The Eastern approach should be complementary to the Western approach – benchmarking, SWOT, PSD, business climate, good governance, policy frameworks...

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

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

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

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 graduation from aid.

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-exclusivity.

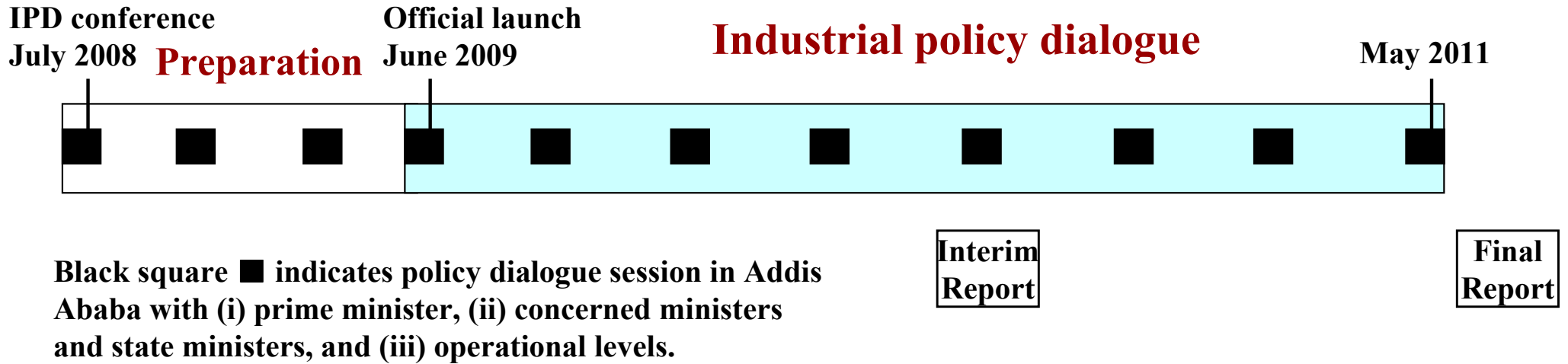
Japan's Policy Dialogue with Developing Countries

| Country | Period | Head/key players | Purpose and content |
|-----------|---------------------------------------|---|---|
| Argentina | 1985-1987 1994-1996 (follow up) | Saburo Okita (former foreign minister) | Comprehensive study on agriculture and livestock farming, industry, transport and export promotion |
| Thailand | 1999 | Shiro Mizutani (former MITI official) | Study on the master plan for SME promotion policy |
| Vietnam | 1995-2001 | Shigeru Ishikawa (professor) | Large-scale joint study on macroeconomy, industry, agriculture, enterprise reform, crisis management, etc. |
| Vietnam | 2003-current | Japanese embassy, JICA, JETRO, JBIC | Bilateral joint initiative to improve business environment and strengthen competitiveness through 2-year monitoring cycle of action plans |
| Indonesia | 2000 | Shujiro Urata (professor) | Policy recommendation for SME promotion |
| Indonesia | 2002-2004 | Takashi Shiraishi and Shinji Asanuma (professors) | Policy support for macroeconomic management, financial sector reform, SME promotion, private investment promotion, democratization, decentralization and human resource development |
| Laos | 2000-2005 | Yonosuke Hara (professor) | Study on macroeconomy, finance, state enterprise, FDI and poverty reduction, etc. |
| Myanmar | 1999-2002 | Konosuke Odaka (professor) | Study on agriculture, rural development, industry, trade, finance, ITC, etc. |
| Mongolia | 1998-2001 | Hiroshi Ueno and Hideo Hashimoto (World Bank economists and professors) | Study on the support for economic transition and development |
| Ethiopia | 2009-2011 | GRIPS Development Forum and JICA | Kaizen, basic metals and engineering, productivity movement, policy procedure and organization, etc. |

Bilateral Policy Dialogue between Ethiopia and Japan

- **May 2008:** 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-May 2011:** Eight quarterly sessions of industrial policy dialogue were conducted.
- **Jan. 2012-:** 2nd phase of policy dialogue will start together with continued JICA support for *kaizen*.

GRIPS-JICA Industrial Policy Dialogue and Industrial Support Projects (2009-2011)



Industrial support projects

Kaizen pilot project (30 firms)

Institutionalization of kaizen

(To be continued)

Basic metal & engineering study
(With ECBP)

Purposes of Policy Dialogue with Ethiopia

- ❑ Transferring *mindset* and *methodology* of East Asian policy making through concrete issues and projects.
- ❑ Establishing linkage between policy dialogue and Japan's industrial projects in Ethiopia.
- ❑ Cooperation and networking with other projects, donors, and academic institutions.
- ❑ Creating pilot projects which should be scaled up by Ethiopian effort.
- ❑ Promoting industrial policy dialogue in the rest of Africa (if Ethiopian dialogue is successful).
- ❑ Providing specific information upon request (Japanese TVET system, *kaizen*, metals, rural life improvement movement, etc).

Participants of Industrial Policy Dialogue

Ethiopian side (3 levels)

- Prime Minister Meles Zenawi
- High-level policy makers headed by Mr. Newai (Senior Economic Advisor to PM), Mr. Mekonnen (Industry Minister), Mr. Tadesse (Industry State Minister) and others
- Operational levels

Japanese side

- GRIPS researchers
- JICA officials and experts

Supported by Japanese Embassy in Addis Ababa

Note: the Japanese team visited Ethiopia every three months for policy dialogue. Additional visits by Japanese experts and project teams. Ethiopian visits to Japan and other countries were also organized. Ethiopian PhD students were trained at GRIPS.



At the Prime Minister's Office

Meeting with Senior Economic Advisor to PM



Presenting JICA's Kaizen Report to PM





High Level Forum (minister & state minister level)



Meeting with Industry Minister



At the Ministry of Finance,
Economy and Development

Main Topics of Industrial Policy Dialogue

- ❑ Democratic Developmentalism (DD) and Agricultural Development Led Industrialization (ADLI), with PM.
- ❑ Policy formulation and implementation mechanism from East Asian perspective.
- ❑ Structure of master plans and action plans from East Asian perspective.
- ❑ Advice on the next five-year plan (Growth and Transformation Plan).
- ❑ Concept, practice and institutionalization of *kaizen* (productivity improvement)—global practice and Ethiopian context.
- ❑ Basic metal and engineering industries—local survey and review of international experience.

Key Comments from Japanese Experts and Officials

- ❑ Ethiopia's strong policy ownership, clear vision and eagerness to learn are highly admirable.
- ❑ Policy vision must be backed by effective implementation at operational levels. Capabilities of ministries and agencies are still weak.
- ❑ Coordination mechanism among different ministries must be set up without relying on one powerful leader (cf. alternative E. Asian models).
- ❑ Development planning, MSE policy, and kaizen institutionalization must be greatly enhanced as the focal points of industrial policy learning.
- ❑ Quality over speed: policy is made too hastily without sufficient interaction with stakeholders.

Issues Discussed at High Level Forums

| | Presentations by Japanese side | Presentations by 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) |

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| <p>5th HLF (Jul. 2010)</p> | <p>(1) “Result of basic metal and engineering industries firm-level study – parts conducted by MPDC and JICA” (Toru Homma)</p> | <p>(1) “Report of kaizen training for capacity building of Kaizen Unit and pilot project companies in Osaka, Japan” (Tola Beyene) (2) “Report of kaizen training for capacity building of Kaizen Unit and pilot project companies in Chubu, Japan” (Bekele Mekuria) (3) “Current status of kaizen project and institutionalization of kaizen” (Getahun Tadesse)</p> |
| <p>6th HLF (Oct. 2009)</p> | <p>(1) “Singapore’s experience with productivity development: internalization, scaling-up, and international cooperation” (Izumi Ohno)</p> | <p>(1) “Contents of industry sector in Growth and Transformation Plan” (HE Tadesse Haile) (2) “Singapore’s productivity movement and lessons learned” (Daniel Kitaw)</p> |
| <p>7th HLF (Jan. 2011)</p> | <p>(1) “The making of high priority development strategies: international comparison of policy procedure and organization” (Kenichi Ohno)</p> | <p>(1) “Organizational structure of Ministry of Industry and linkage with other ministries” (Ahmed Nuru)</p> |
| <p>8th HLF (May 2011)</p> | <p>(1) “Ethiopia's industrialization drive under the Growth and Transformation Plan” (Kenichi Ohno) (2) “Achievements in the Quality and Productivity Improvement (Kaizen) Project” (Go Shimada) (3) “Overview of national movement for quality and productivity improvement: experiences of selected countries in Asia and Africa” (Izumi Ohno) (4) “Taiwan: policy drive for innovation” (Kenichi Ohno)</p> | <p>(1) “MSE development strategy of Ethiopia” (Gabremeskel Challa) (2) “Kaizen dissemination plan and institutionalization plan” (Getahun Tadesse) (3) “Botswana's productivity movement and its Implication to Ethiopia” (Daniel Kitaw)</p> |

Some Related Research at GRIPS Development Forum

Learning to Industrialize: From Given Growth to Policy-aided Value Creation (Routledge, coming soon).

East Asian Industrial Policy Handbook (project in progress).

Comparative research on industrial policy making in Singapore, Korea, and Taiwan (2010-2011).

“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).