

Policy Procedure and Organization for Executing High Priority Industrial Strategies*

Success in industrial policy formulation depends not only on the proper choice of policy measures but also, more fundamentally, on policy procedure and organization from which good policies are produced and executed. This chapter will look at institutional aspects of policy making which is an essential background for effective policy learning. The purpose of studying various international best practices in policy procedure and organization is basically the same as studying alternative policy measures. Rich foreign examples are to be regarded as building blocks from which a policy package most suitable for the country in question should be created through the principles of selectivity, modification, combination, and improvement. As always, haphazard adoption of foreign models without systematic survey of Ethiopian local contexts should be avoided.

4-1. Leadership

Our discussion starts with national leaders. High-quality leadership is the most vital ingredient of national development, a fact that can hardly be overemphasized. A good leader is crucial because he or she is the primary source of national development that can create all other conditions of industrialization if they are initially missing. Major reforms are not possible by bottom-up processes alone unless the top leader takes up the main responsibility. This principle applies generally to all organizations including a nation, local governments, political parties,

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private firms, universities, research institutions, and nonprofit organizations (NPOs).

There are two aspects of national leadership worthy of attention. The first is the quality of the leader or the leading group, and the second is the dynamics of coalition formation among contesting leaders and leading groups.

A national leader must be equipped with strong will and passion as well as genuine belief in productivity and excellence for the country instead of being interested in personal influence or wealth accumulation. He or she must have sufficient political savvy and networks, personal integrity and discipline, intellectual ability, and pragmatism. A top leader must be personally committed to a nation's priority policies and use his or her full power and authority to push them to completion. I expect that the reader will find these obvious but convincing. National leadership comes in different forms including personal leadership of a charismatic figure, organizational leadership among multiple ministries and agencies, and inherited leadership by one political party with changing heads. In either case, success depends on the existence of an outstanding human personality who can effectively lead the government, ministry, agency, or party as the case may be.

One evident problem with installing a good national leader is that no one can consistently select such a leader in the complex political process of any country whether it is democracy or otherwise. Who will be the next prime minister or president and how effective that person will be as a national leader is highly uncertain even among candidates, let alone for individual citizens, officials, or business persons. Yet there are indirect ways to influence the quality of national leaders in the long run. These include leadership and elite education, comparative studies in development politics, systematic and concrete analysis of effective policy making (to which this chapter hopes to contribute), regional contagion of good leadership through imitation and competition, and publishing biographies of admirable national leaders. Humans are driven by both reason and emotion. While social sciences should do much to reveal the anatomy of strong and wise leadership, intimate knowledge of what excellent leaders in different countries and periods did, presented vividly and concretely, is certain to raise the consciousness of

what needs to be done among voters and political candidates.

The second issue that needs to be examined is formal and informal coalition forming among leaders and leading groups, which is a crucial political process that drives development in any political regimes, and especially under democracy. Coalitions here are not confined to the alliance of political parties to form a government but covers broader cooperation among individuals or organizations involving bureaucrats, businesses, labor, military, regional and ethnic groups, academics, professionals, local residents, consumers, and so on. In most cases—this includes even so-called dictatorship and one-party dominance—a single political entity is unable to pursue its aim unless it forms a coalition with other persons or organizations through negotiation, compromise, and sharing of benefits. The importance of politics in development has been recognized in general but the systematic analysis of how this “black box” works and how its operational implications can be used in policy formulation remain rudimentary.

One of the attempts in this unexploited area is the Developmental Leadership Program (DLP) organized by Adrian Leftwich of the University of York and Chris Wheeler of AusAid (Leftwich, 2009, 2011). DLP aims to collect and analyze concrete cases of developmental coalition dynamics from all over the world to extract policy implications and concrete operational guidelines for development partners and civil society organizations. It stands on the premise that the good governance approach by the World Bank has failed to produce any significant results and a different approach to developing country politics is required. For bilateral and multilateral aid organizations, “working politically” in developing countries should not mean conspiring a regime change or imposing a Western model in total disregard of local context. Since any aid action will influence power relation and coalition formation among political, official and civil organizations in the host country, aid providers must fully understand their influence and work consciously but subtly and quietly to become enabling agents for desired change with deep local knowledge and judicious choice of entry points and counterparts. In the first phase of DLP, the importance of context specificity, brokering and convening functions of donors, and the role of secondary and tertiary education, among others, were highlighted from the case studies of Botswana, China, Egypt,

India, Indonesia, Jordan, Mauritius, South Africa, Uganda, Yemen, Zimbabwe and others.¹

Additionally, interaction between agential and structural factors (relative weight between producing high-quality leaders and institutionalization of good policies) must be borne in mind. An outstanding leader may rise to propel the nation toward development for a while but he or she will not stay forever. If progress depends solely on effective personal leadership, the whole thing may collapse when a next leader of average quality or less arrives. In the worst case, the next head of the state may revoke whatever the previous one did for political revenge or self-expression. In order to reduce this risk, good policies started by an excellent leader must be institutionalized. That is to say, staffing, budgeting, policy procedures, and policy organizations must be cemented as much as possible by laws, decrees, and agreed practices among multiple stakeholders. On the part of an incumbent national leader, it is necessary to delegate sufficient authority to various people and organizations as well as work early on the succession problem. Oftentimes, this turns out to be difficult for an “excellent” leader because of his or her self-confidence and desire for continued monopoly of power often outweigh the need for institutionalization of good policy practices.

4-2. National movement for mindset change

Some policies require a fundamental change in popular mindset before sustained results are obtained. Good policy alone may not induce dynamic growth if the public is generally content with passivity, short-terminism, and foreign product worship (see Malaysia’s limited success with Bumiputra policy in chapter 3). If mindset change is not forthcoming spontaneously from the private sector, the state may have to force it from the top until it becomes part of national culture. While permanent state guidance detached from market force or popular sentiment is inconsistent with the long-term development of a market economy, temporary use of

¹ From East Asia, Banno and Ohno (2010) contributed a detailed analysis of coalition formation and re-formation among political leaders in Meiji Japan, which we called the flexible structure of politics, for the period of 1858-1881.

such an approach is not only permissible but even highly recommendable in an early stage of economic take-off. Such top-down persuasion has produced significant lasting performance in some countries as well as failure in others—as seen in collective farming and state-owned factories under socialism which relied on central orders without appropriate incentive mechanisms for managers, workers and farmers to work better and harder. National movement is a double-edged sword. If it is to be adopted, systematic policy learning is essential to avoid mistakes.

National movement usually aims at elevation of productivity and competitiveness by instilling the spirit of activism and cooperation into the public. Successful examples from East Asia include Japan's Rural Life Improvement Movement (1948-) and factory *kaizen* (improvement) movement (1950s-), Singapore's Productivity Movement (1960s-), and Korea's Saemaul (new village) Movement (1970s-). These movements usually evolve from pilot projects to full-scale mobilization, institutionalization, broadening and shifting of scope, and end with sharing lessons with other countries. Some movements initiated decades ago are still practiced and disseminated in advanced forms. For this reason, the end point of a successful national movement is more difficult to identify than the starting point.

Mindset change requires a national movement and not just collection of individual projects. Policy will bear no fruit if its spirit and goals are shared only within a narrow circle of political leaders, state officials, and experts and specialists. To be successful, a comprehensive and self-sustaining system of philosophy, principles, implementing mechanisms, and resources backed by state's will and popular passion are required. In Singapore's productivity movement, even taxi drivers were made fully aware of importance of improving productivity—and that is really the way it should be.

As an example, we take up South Korea's Saemaul Movement which was launched in 1970 as a response to an emerging gap between rapid urban industrialization and persistent rural poverty and backwardness. It was driven by President Park Chung-hee's personal interest in rural development through mass campaigns. Its objectives included not just improvement of rural life and income but, more

fundamentally, achievement of these through a value shift of farmers from passivity to activism. In September 1971, President Park defined the movement as “a fundamental concept of national development, one in which economic development and spiritual enlightenment go together hand-in-hand” (Park, 1979, pp.83-84). The three slogans of *diligence*, *self-help*, and *cooperation* were hammered into all rural residents.

The Saemaul Movement, as a goal-oriented top-down rural development program, started with an experimental free distribution of 335 bags (13.4 tons) of cement to every village of the country from October 1970 to June 1971 with the condition that they should be used only for communal projects. President Park ordered that government funds be directed toward those who demonstrated the right spirit. By 1973, all villages were ranked into three categories: 18,415 basic villages, 13,943 self-helping villages, and 2,307 self-sufficient villages. Assistance was continued to be given mainly to the last two categories while “lazy” villages and villagers were repudiated or removed from further assistance (Kim, 2004, pp.134-35).

The Saemaul Movement was most vigorously pursued in the 1970s and in several stages. After experimentation with free cement distribution in 1970-71, the years 1972-73 were spent on institutionalization and full-scale implementation supported by a hierarchical administration, guidelines which included standardized procedure for project selection and evaluation, and training programs. The period from 1974 focused on self-development, enrichment, and broadening of the movement including the introduction of Urban Saemaul Movement.

The Saemaul Movement was guided by the Central Consultative Council chaired by the Minister of Home Affairs. Under the Council, there were five administrative layers consisting of central government, provinces, counties, townships, and villages. Through this vertical mechanism the central government provided in-kind and financial aid and technical advice on management, farming technology, and project preparation and execution to worthy villages. At the bottom the Village Development Committee in each village, chaired by a Saemaul leader and with 15 elected villagers as members, proposed communal projects which were to be approved by the general assembly of the village as well as at the township level.

For education and training, the Saemaul Leaders Training Institute was opened in 1972 providing one- to two-week intensive courses to village leaders. Eventually 85 such institutes were established across the country with the Institute in Suwon assuming the model role. In 1974 the scope of trainee was expanded to include those in managerial positions in all sectors such as cabinet ministers, religious leaders, university presidents, and media executives. Its standardized curriculum covered Saemaul philosophy, national security and economy, project planning, case studies, field tours, and group discussion. All trainees stayed on the premise and slept in the dormitory during the course, which numbered 822,900 in the first ten years of 1972-1981. In addition, short-term training without lodging was offered extensively.

Some criticize the Saemaul Movement as President Park's political device to fortify his dictatorial rule under the so-called Yushin Reform and inculcate the entire population in support of it. Others argue that the movement benefited wealthy farmers more than poor ones (Han, 1987, p.48). There was protestation against homogeneous Saemaul leader training which emphasized military-like discipline and morning jogging over specialized knowledge (Kim, 2004, p.136). These are probably all valid criticisms, but the Saemaul Movement should also be judged by the enormous progress that South Korean villages made in income and living standards, along with urban residents, in sharp contrast to the dismal state of North Korea which also adopted similar top-down popular movements under Kim Il-sung. As average income per capita grew 1.7 times from 1971 to 1981 in South Korea, the per capita income ratio between the richest urban area and the poorest province remained almost unchanged at 2.01-2.05 and subsequently declined to 1.75 by 1991.² Farmers were not left behind in Korea's economic miracle. Spectacular economic performance may not completely justify forced national movement, but to a large degree it does.

² Due to data problems, Korea's provincial incomes prior to 1985 are difficult to estimate consistently. The gap data cited in the text is calculated by Huh (1995). Some of the income gap indicators using provincial data and reported by Huh, which support regional income convergence, are as follows: max/min ratio, 2.0471 (1971), 2.0143 (1981), 1.7531 (1991); coefficient of variation weighted by economic size, 0.2873 (1971), 0.1643 (1981), 0.1572 (1991); Gini coefficient, 0.1597 (1971), 0.0846 (1981), 0.0644 (1991).

From Korea's Saemaul Movement and experiences for productivity improvement in other countries, the following factors can be distilled for successful execution of a national movement for mindset change.

First, the movement must be launched and sustained by strong personal interest and commitment of the top leader. Second, the movement must start with top-down instruction for grassroots participation. This may sound contradictory, but contradiction will evaporate if the movement "catches" and begins to attract genuine interest of private participants because they see the benefits of the movement instead of their reluctant obedience. While elements of coercion cannot be eliminated entirely in national movement, it should be regarded as success if intended economic performance is attained even with a certain amount of compulsion. Third, performance-based rewards should be given to villages, firms or workers that produce good results according to transparent criteria. Highly visible incentive and recognition mechanisms should also be installed at the national and local levels. Fourth, supporting institutions must be created. This includes establishment of a national council or committee presided by the top leader; a central ministry or agency as the lead organization and the secretariat to the national council or committee; regional, district, and community level offices; and staffing and budgetary arrangements. Fifth, authorized and well-designed training programs must be created to educate government officials in charge as well as private leaders and participants of the movement in the frontline of implementation. Sixth, the movement must continue for a sufficiently long time, typically over a decade or more, with evolving emphasis. A project lasting only for a few years will not be enough.

4-3. Policy procedure

In policy formulation, the procedure by which policy is made is often more important than the final document which is drafted and approved. While all policy documents must be revised and updated as time passes, the process that does the revision can remain and continue to be fortified as experiences accumulate. This process should not be improvised for each occasion or left to a small group of

drafters which happen to be assigned to the task. The process must be owned and institutionalized by the policy makers even though background studies and drafting can be outsourced after basic goals and directions are laid out.

Policy formulation must begin with the vision produced by the top leader that guides the national development strategy. This vision, which must come from the deep personal conviction of the top leader, needs to be communicated to the people and eventually win their approval through election or other means. It is also the vision by which his or her government is judged. The existence of a seriously committed policy vision is the prerequisite for making any high priority strategy without which policy tends to be *ad hoc*, reactive, and scattered.

When the leader's vision is provided, the two crucial procedural requirements are *inter-ministerial coordination* and *stakeholder involvement*.

Any industrial policy in developing countries—whether it is small and medium enterprise (SME) promotion, industrial human resource, quality and productivity movement, or industrial cluster development—normally covers multi-sectoral issues managed by more than one ministry or agency. Thus intra-government coordination becomes imperative if the policy is to be effectively designed and implemented. A lead ministry or agency must be designated and given a clear mandate to formulate the policy. While the ministry in charge of industry usually takes main responsibility, other ministries in charge of finance, official development assistance (ODA) and foreign direct investment (FDI), education and training, science and technology, transportation, infrastructure, agriculture, urban development, and so on, must also be made to cooperate. Since one ministry or agency is unable to direct or overrule other ministries and agencies, there should be a higher mechanism that supervises the whole process, gives full authority to the lead ministry or agency, and provides a forum in which multi-sectoral issues are deliberated and solved. Concrete organizational arrangements that ensure this will be the topic of the next section.

Besides cooperation among ministries and agencies, policy making must receive active participation of non-government players. For the purpose of industrial

policy formulation, by far the most important players are domestic and foreign enterprises that carry out investment and production as well as their business associations. Without their willing participation, any industrial policy is doomed to fail. Since not all enterprises share the same business interests or sectoral goals, a mechanism must also be in place to coordinate various voices among them. In addition, domestic and foreign academics, industrial experts, and consultants should be mobilized for conducting necessary surveys, analysis, and international comparison, as well as drafting and commenting on policy documents as needed. Depending on the issue at hand, local residents, user firms, consumers, NPOs, and other stakeholders may also be involved.

It should be stressed that mobilization of non-government stakeholders must be substantial with sufficient time and opportunities provided for contact and input. Nominal participation, such as hearings in which official views are unilaterally communicated or a large-scale symposium where little time is allocated for interaction with the floor, does not contribute much to the betterment of policy formulation. Public-Private Dialogue (PPD) will become an important policy mechanism only when it goes beyond setting a formal framework and begins to incorporate private opinions seriously and effectively into policies.

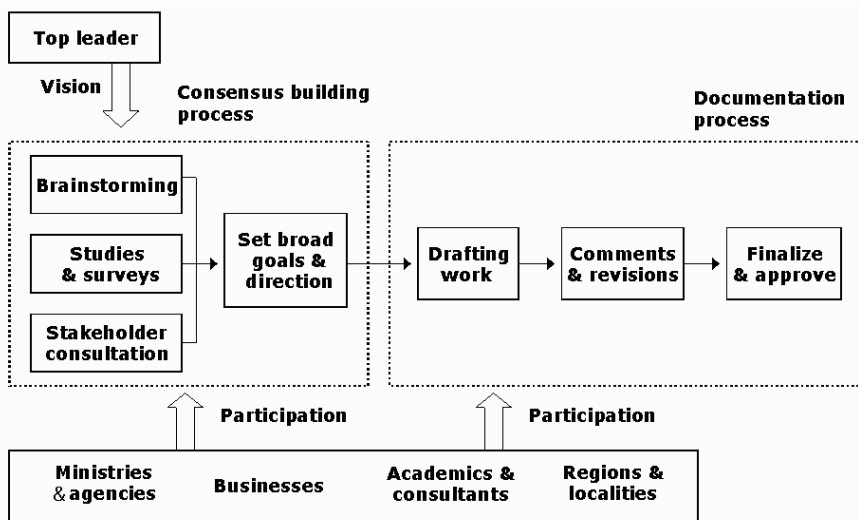
Many governments in East Asia succeeded in institutionalizing government-business interactions for information sharing and policy coordination (Weiss, 1998; Weiss and Hobson, 1995; Kondo, 2005). Large flows of high-quality information between the two parties contributed to building mutual confidence, credible commitments, and predictability between the public and private sectors. The nature and intensity of government-business coordination have evolved over time as the private sector has improved its capability and graduated from direct public intervention.

Through strong inter-ministerial coordination and stakeholder involvement, all major parties inside and outside the government participate in policy formulation leading to a growing sense of shared ownership and responsibility as well as willingness to cooperate in implementation. This fact is far more important than producing documents which may be comprehensive and theoretically advanced but

are not supported by concerned organizations. In the early stage of policy learning, agreed policy may be relatively simple with only a small number of specified actions. Even in that case, if the drafting process reflects existing policy capability and local context, the resulting policy will be unique, ambitious, and at the same time feasible for the country in question. Indeed, this is the very process in which policy making is learned. If the process is outsourced in its entirety to a group of domestic or foreign consultants, little learning will take place within the government.

This also has an implication for appropriate speed with which policy should be drafted. Some governments set unreasonably short deadlines for policy documents. This compels the ministry in charge to contract out the drafting work to experts and consultants, which militates against the policy learning described above. While the situation varies across countries, if proper internal and external consultation is conducted, a realistic amount of time needed to revise an existing policy is about one year, and creating a new policy may take two to three years. This includes time lost due to administrative delays and political cycles which are often inevitable in policy formulation. Quality, not speed, should be the main objective of policy making. Quality here means that, based on sufficient information and analysis, all key aspects of the policy have been agreed among major stakeholders through discussion and compromise so that the policy, once adopted, will be strongly supported and willingly implemented. Figure 4-1 illustrates the standard policy making procedure observed generally in East Asian high-performing economies. Five elements are important here: top leader's vision, consensus building, stakeholder participation, documentation, and the designation of a lead ministry or agency with clear mandate and responsibility.

Figure 4-1. Standard Policy Making Procedure



Note: The entire process is coordinated by a lead ministry or agency.

An example is given from Thailand. The Thai automotive industry boasts the largest production volume in Southeast Asia and has expanded strongly despite two serious regional and global economic crises in 1997-98 and 2008-09. Its policy making is competently coordinated by the Thailand Automotive Institute (TAI), one of the ten sector-specific non-profit organizations established by the Thai government which are required to be financially autonomous from the government budget (see section 4-4-(iv)). The structure of the Thai automotive policy is given succinctly in the Executive Summary of the Automotive Master Plan 2007-2011 which emanates from Vision 2011³ and branches out to four objectives, five strategies, and 12 action plans. The most important part of the Master Plan is the exposition of the 12 action plans.

Drafting of the Thai automotive master plan takes about a year which is a genuinely joint process between private firms and the Ministry of Industry. Close-knit networking among all stakeholders is ensured by TAI. The drafting process begins with the “CEO Forum,” an informal discussion forum among foreign and domestic

³ Vision 2011 states that “Thailand is the automotive production base in Asia which creates more value added to the country with strong automotive parts industry.” This vision remained unchanged from the previous Master Plan 2002-2006.

firms, government officials, and academics, that agrees on basic directions and identifies key areas (in the current automotive policy, they are human resource, productivity, marketing, engineering, and investment and linkage). Production and export targets are proposed collectively by the industry, not the government. After a broad consensus is formed, the Automotive Master Plan Steering Committee will commission studies on the identified key areas to “focus groups.” Finally, the master plan is drafted by TAI staff after all major aspects of policy revisions have been agreed among stakeholders and necessary studies have been conducted. TAI serves as a secretariat throughout the entire process and provides administrative and logistic support. Mr. Vallop Tiasiri, President of TAI, meets foreign and local producers at least twice a month formally and meets them more often informally.

From the perspective of effective policy making, common mistakes include: (i) the lack of a clear vision of the leader; (ii) policy drafting by a few dedicated officials without building consensus or facilitating interaction among all stakeholders; (iii) outsourcing of the entire policy drafting to outsiders (local or foreign experts) with the role of policy makers limited to making comments and revisions; (iv) bottom-up collection of subdocuments drafted by various ministries which ends up in unconnected chapters with too many priorities for implementation. These negative practices must be avoided as a first step toward policy learning.

4-4. Policy organization

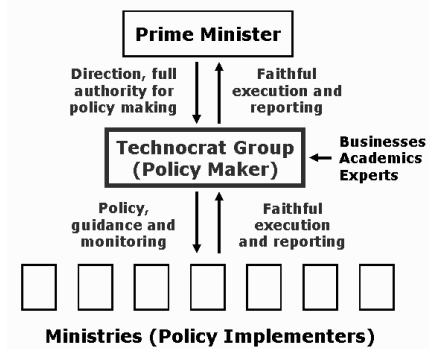
What organizational arrangements are necessary to realize inter-ministerial coordination and stakeholder involvement discussed above? International comparison of policy making points to different policy organizations that can equally attain good policy results. The choice should fundamentally depend on the unique characteristics and existing policy capability of the country in question. Below, five alternative policy organizations for conducting high priority development policies are explained with examples. Again, the intention here is to provide raw materials from which policy organization for each country can be constructed under the principles of selectivity, modification, combination, and improvement.

It should be noted that these organizational arrangements are not mutually exclusive. There are countries that adopt more than one arrangement to execute different national strategies. It is also important to recognize that high-performing economies in East Asia did not possess strong institutional bases at the beginning of their rapid growth. Policy procedure and organization were strengthened during, and not before, their high growth periods. State-building is a dynamic process in which the government has to build up industrial policy capability through concrete hands-on efforts and trial-and-error in the actual process of industrialization.

4-4-1. A technocrat team supporting the top leader

One of the key ingredients of the “East Asian Miracle” was strong alliance between the top leader and the technocrat team (Campos and Root, 1996; Ohno and Shimamura, 2007). Many countries in East Asia established a semi-permanent technocrat group that directly supported the prime minister or the president in executing his priority national programs. Examples include Korea’s Economic Planning Board (EPB), Malaysia’s Economic Planning Unit (EPU), Taiwan’s Kuomintang elites, Indonesia’s Berkeley Mafia, and Thailand’s National Economic and Social Development Board (NESDB).⁴ Among these, Malaysia’s EPU and Thailand’s NESDB still exist while others have been disbanded as income and private sector dynamism rose and new policy organization replaced the old.

Figure 4-2. Technocrat Team Supporting Top Leader

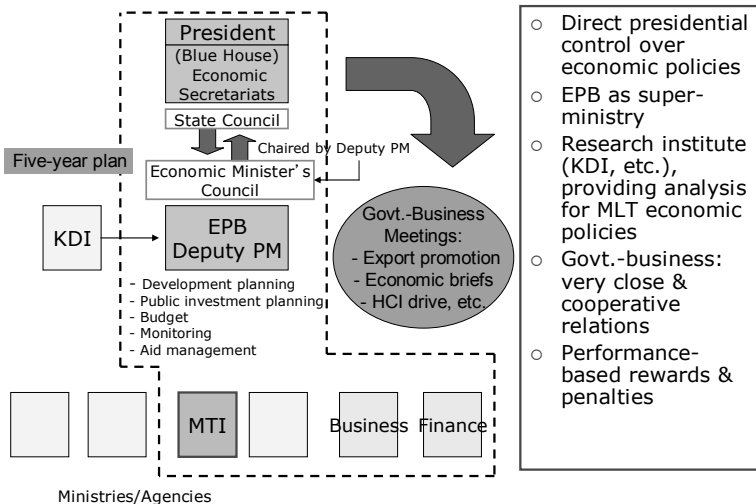


⁴ In Latin America, policy support in Chile was provided by Chicago Boys, or Chilean economists trained at the University of Chicago under Milton Friedman and Arnold Harberger, to the military junta to carry out free-market reforms starting in 1973.

These technocrat groups were created by convening well-educated and/or highly experienced officials, scholars, and business leaders to act as a policy-making brain of the country. Many of them had high degrees from foreign universities or had been summoned from prominent positions in foreign countries. These elites had full trust of the top leader while ministries were placed under them as implementing agencies. Their authority and directives constituted central coordination mechanisms for formulating, implementing, and monitoring development policies (Kondo, 2005).

This policy organization model works best under a strong and wise leader who exercises power for a relatively long time. Korea’s EPB and Malaysia’s EPU were the supporting arms of their charismatic leaders, namely, President Park Chung-hee (in power 1961–79) and Prime Minister Mahathir bin Mohamad (in power 1981–2003).

Figure 4-3. South Korea 1960s-70s: Economic Planning Board

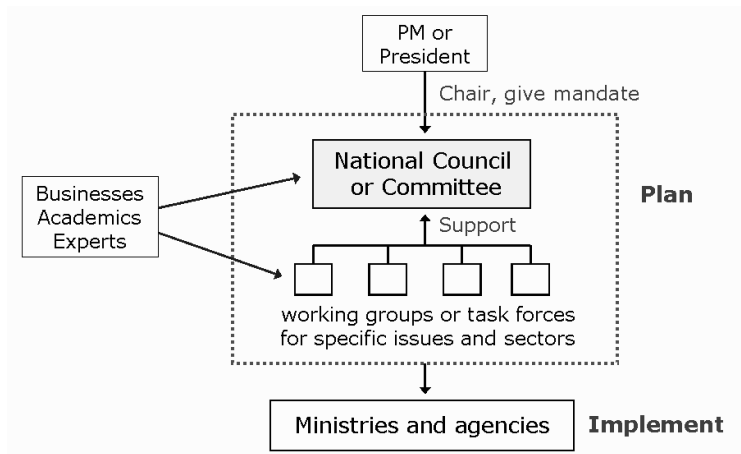


4-4-2. A national council or committee

A national council of committee—the precise name does not matter—is a less permanent policy making arrangement that can replicate strong coordinating functions of the technocrat team in the previous model. This approach may be

adopted by a strong, long-serving leader but it can also work effectively in a country where no such charismatic leader exists or where the head of the state must change every few to several years. In this model, the task of policy formulation is taken up by a national council or committee presided by the top leader himself, a near-top leader such as vice president or deputy prime minister, or someone trusted and appointed by the top leader. Its members are selected from a broad base including businesses, scholars, ministers and retired officials, civil society leaders, media, and so on. The council or committee is supported by a secretariat staffed by seconded officials from related ministries which does administrative and logistic works. The council also has working groups (or task forces) under it that prepare studies, reports, and draft chapters in specialized fields. Unlike technocrat teams, these councils or committees are normally organized around a specific issue and are terminated when the policy objective is achieved or there is a change of government.

Figure 4-4. National Council or Committee



In this model, concerned ministries and agencies can participate in the policy process in three ways: (i) through the minister's membership in the national council or committee; (ii) as official experts in working groups or task forces; and (iii) as implementing bodies. Compared with the technocrat model explained above, this configuration may be more acceptable for ministries and agencies wanting to participate in policy formulation extensively rather than receiving top-down instructions from the elite group and being confined to policy implementation.

The national council and committee approach is used widely with different variations. Three examples are given below from Singapore, Malaysia and Korea. This approach is adopted to carry out a small number—usually up to several—of top priority programs in each country.⁵

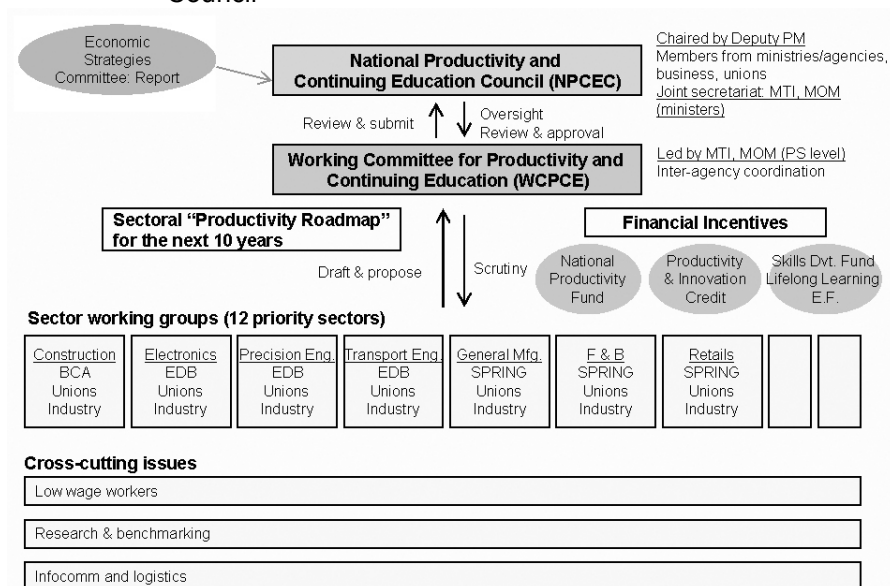
In Singapore, productivity has long been a top national agenda. In recent years productivity began to receive renewed attention in the context of lagging productivity of aged or foreign migrant workers, the rise of China and India, and the aftermath of global economic crisis. To propose basic policy directions, the Economic Strategies Committee (ESC) chaired by the finance minister published a report in January 2010. It recommended a drastic shift from factor-driven to productivity-driven growth and set an annual productivity growth target of 2-3% and an average GDP growth target of 3-5% in the next ten years. The main thrust of the ESC Report was endorsed by the Prime Minister and reflected in the fiscal year 2010 budget.

One of the key recommendations of the ESC Report was establishment of the National Productivity and Continuing Education Council (NPCEC). NPCEC was formed in April 2010 as a policy making body for realizing a productivity-led economy. It is chaired by the Deputy Prime Minister with its members coming from government, business community, and labor unions. The Ministry of Trade and Industry (MTI) and the Ministry of Manpower (MOM) jointly act as the secretariat. Under NPCEC, two layers of organizations are created: (i) the Working Committee for Productivity and Continuing Education (WCPCE) led by the Permanent Secretaries of MTI and MOM; and (ii) sectoral working groups and horizontal thematic working groups. Three financial mechanisms fund incentives and subsidies to firms and individuals based on their action and performance.

⁵ Following the Korean model of the 1960s and 70s, Ethiopia has established a monthly Export Steering Committee presided by the prime minister and attended by relevant ministers and officials. The Committee seems to work well in monitoring export performance and solving problems that may arise. However, the Ethiopian Committee is narrower in operational scope than the original Korean model or other approaches explained in this section as it is not accompanied by designation of the lead ministry and agencies, the secretariat, and working groups or task forces that perform various functions. Moreover, it remains an implementing body rather than a policy making body.

NPCEC has selected 12 priority sectors that have large contribution to employment and GDP and high potential for productivity gain. Each sector group is required to draw up a productivity roadmap for the next ten years. They are reviewed by WCPCE and submitted to NPCEC for approval. A ministry or an agency is assigned to oversee each priority sector. In addition, horizontal working groups work on cross-cutting issues such as low-wage workers, research and benchmarking, and infocomm (ITC) and logistics. In all of these working groups, tripartite representation of government, businesses, and unions is ensured.

Figure 4-5. Singapore: National Productivity and Continuing Education Council

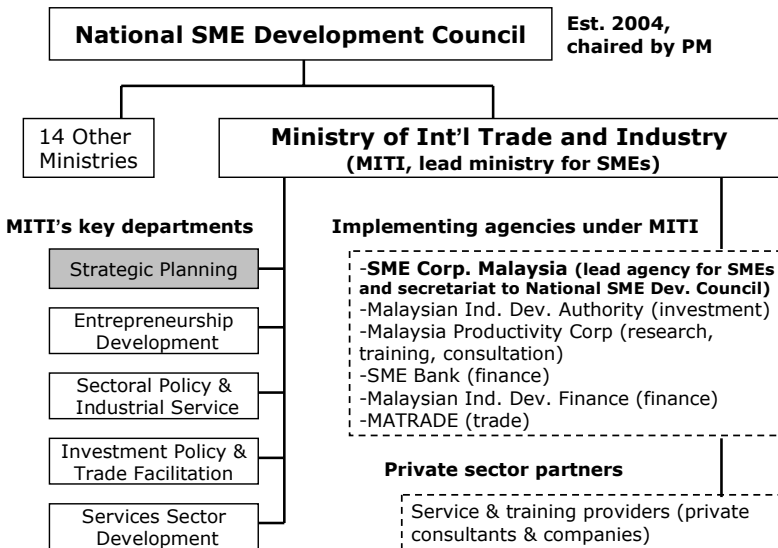


The Malaysian government puts high priority on SME development as a policy instrument to shift the growth engine from large multinational corporations to autonomous and innovative indigenous firms (Preface of the SME Annual Report, 2008). SMEs are to play key roles in job and income creation as well as moving the country out of the middle income trap and into high income. The National SME Development Council was established in 2004 as a leading body that sets the policy direction for cohesive SME development. It is chaired by the prime minister and brings together 15 ministries and more than 60 government agencies to

work together toward this goal. Initially, Bank Negara Malaysia (central bank) served as the secretariat of the Council which set three policy pillars (enabling infrastructure, capacity building, and financial access), five-year targets, and common SME definition, and published the Annual SME Integrated Plan of Action and the SME Annual Report. The Council also improved National SME Database and SME training and marketing, and introduced new financial products for SMEs.

In 2009 the SME Corporation Malaysia (SME Corp.) was created as a central coordinating agency at the operational level by upgrading the previous functions of the Small and Medium Industries Development Corporation (SMIDEC) which belonged to the Ministry of International Trade and Industry (MITI), a lead ministry for SME development. As the new secretariat to the Council, SME Corp. serves as a central reference point for all SME matters and undertakes impact studies on SME policies and programs across all economic sectors. Malaysia has many SME-related ministries, agencies, and private sector partners whose activities are now brought under the vertical policy organization consisting of the Council, MITI, and SME Corp.

Figure 4-6. Malaysia: National SME Development Council

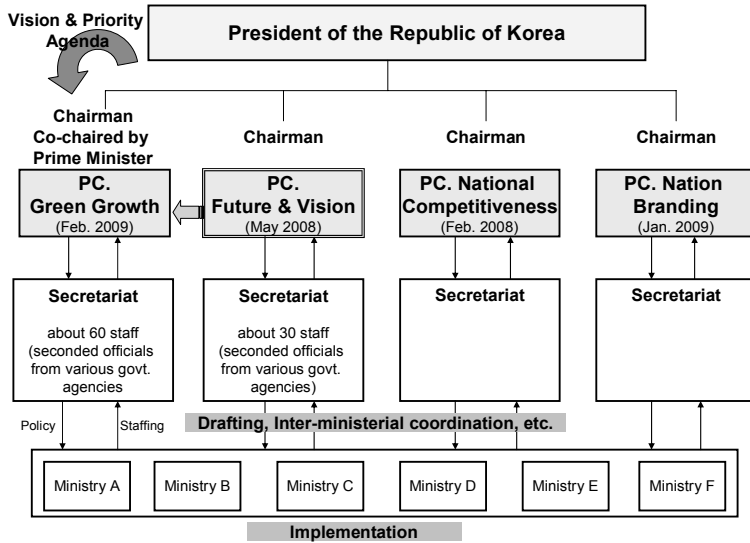


Note: Bank Negara Malaysia (central bank) served as a secretariat to the National SME Dev. Council until the establishment of SME Corp. Malaysia in 2009.

In present Korea, presidential committees serve as a key instrument for economic policy making. Upon assuming power, every president establishes a small number of presidential committees as a vehicle to concretize, implement, and monitor the priority agenda during his five- year term. Each presidential committee is headed by a person who has expertise in the chosen subject and enjoys strong confidence of the president as well as secretarial support by staff seconded from various ministries.

President Lee Myung-bak, who assumed office in February 2008, established four Presidential Committees for Future and Vision, Green Growth, National Competitiveness, and Nation Branding. The most important among them is the Presidential Council for Future and Vision (PCFV), established in May 2008, which advises the president for designing overall national strategies and setting policy priorities. It is chaired by Prof. Seung Jun-kwak, Dean of Korea University, and has 26 members drawn from academia, non governmental organizations (NGOs), legal experts, and business leaders. Vice ministers also attend the Council. The Council meets on a need basis without any fixed schedule. PCFV is supported by the Executive Office of the Council, a secretariat of about 30 staff comprised of seconded officials from various government ministries and agencies. The secretariat is charged with drafting of policy documents, inter-ministerial coordination, and related administrative works. In addition to four presidential committees mentioned above, a temporary (one-year) presidential committee was created to host the G20 Summit which took place in Seoul in November 2010.

Figure 4-7. Korea: Presidential Committees



4-4-3. A super-ministry

Another way to secure dynamism and consistency in industrial policy is to give broad responsibility to one ministry and let this ministry do the designing and implementation of industrial strategies as well as additional works such as interface with political parties, interaction with non-government stakeholders, preparation of necessary laws and regulations, and dissemination of policy objectives and outcome. While this ministry is just one among many ministries in legal standing, it has sufficient authorities and policy tools to become a one-stop house for initiating and carrying out industrial strategies. As long as the importance of industrialization is generally agreed, this approach may not even require a strong and wise national leader to constantly supervise the process since the ministry can internally and autonomously produce coherent visions and strategies with its highly motivated officials and extensive information network.

Japanese industrial policy making from the late 1950s to the early 1970s was the prime example of this model. The Ministry of International Trade and Industry (MITI) was created in 1949 by merging the Ministry of Trade and Industry, the Coal

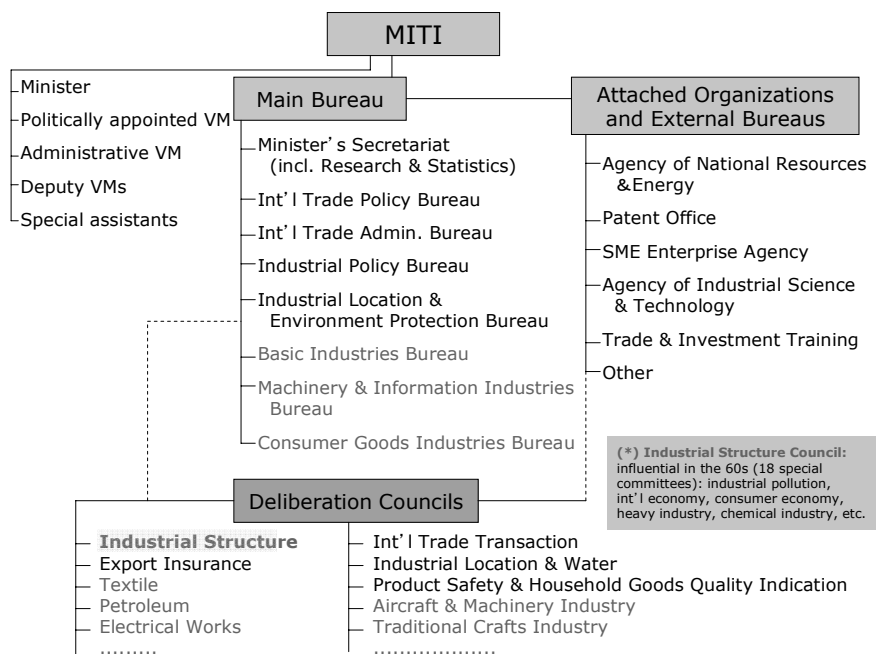
Agency, and the International Trade Agency to become the lead ministry for post-WW2 industrial catch-up.⁶ MITI had broad authority over creation of visions and strategies; individual industrial sectors such as textiles, steel, machinery, and electronics; technology and productivity; trade promotion and negotiation; product, quality, and safety standards; intellectual property rights; competition and anti-monopoly policy; SME development; policy finance; restructuring of sunset industries; and energy and environment. Legal frameworks and policy tools needed to promote these policy areas were created during the 1950s.

According to Okimoto (1989), MITI was the *de facto* super-ministry for Japanese industrial policy. Compared with the fragmented industrial policy making mechanism in the United States, MITI was distinctive in having broad jurisdiction over many industrial sectors and functional issues as described above, as well as having both vertical (industry-based) and horizontal (cross-sectoral) bureaus in its organizational structure (Figure 4-8).

As the lead ministry for industrialization, MITI worked closely with the Economic Planning Agency (EPA) under the Prime Minister's Office and the Ministry of Finance (MOF). The former was in charge of national economic planning and assessment and the latter was responsible for budgeting and financial issues. The tripartite consisting of MITI, EPA, and MOF collectively assumed the primary role in formulating and executing medium- and long-term national visions and economic plans. In addition, EPA and, subsequently, the Land Agency (established in 1974) under the Prime Minister's Office, formulated spatial plans that included corridors, industrial zones, and land and regional development plans.

⁶ Subsequently, in 2001, MITI was renamed to the Ministry of Economy, Trade, and Industry (METI).

Figure 4-8. Japan: Organizational Structure of MITI



Source: Adapted from Okimoto (1989), p.117, Figure 3.2.

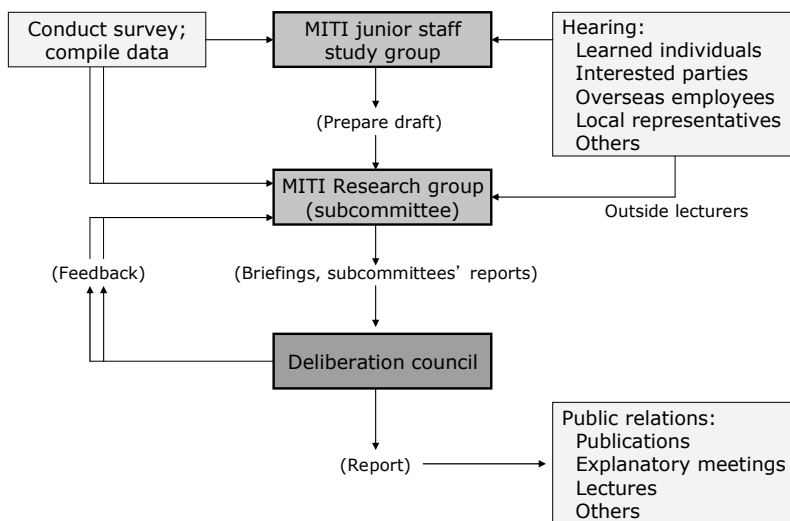
In Japan, deliberation councils functioned as the key instrument for vision making, policy consultation and coordination, and information sharing within and outside the government. Deliberation councils were extensively used by MITI. They provided a forum in which government and businesses met and discussed policy issues and business trends, and built consensus (World Bank, 1993). They were similar to national councils and committees discussed above but they were organized and managed by a super-ministry rather than the top leader, and MITI served as the secretariat. Members of a deliberation council included representatives from related ministries, business leaders, experts, and academicians. Additionally, the structure of deliberation councils reflected both vertical and horizontal bureaus within MITI. This contributed to enhancing MITI's capacity to aggregate diverse interests (Okimoto, 1989).

Among deliberation councils, the Industrial Structure Council, established in 1964, was most influential as it oversaw industrial policy in its entirety with the

participation of representatives from the public and private sectors (Johnson, 1982). The Industrial Structure Council drafted a vision for industrial policies in each decade. It published the vision of Heavy and Chemical Industry (HCI) in the 1960s, the vision of knowledge-intensive industries in the 1970s, the vision of creativity and knowledge-based industries in the 1980s, and the vision of better quality of life in the 1990s (Kawakita, 1991). The Industrial Structure Council also discussed measures to support pioneer industries and ensure the transition of sunset industries.

Japanese policy making process was bottom-up. It started with MITI’s junior officials gathering and analyzing data and conducting intensive hearings from various stakeholders, especially the business community (Figure 4-9). Information thus collected served as the basic input for subsequent discussions in the subcommittee and the deliberation council, which respectively drafted and finalized policy recommendations. Throughout the process, deputy division directors (officials in their mid-thirties) were at the center of communication flows both inside MITI and between MITI and the private sector and thus had a considerable voice in determining the policy direction (Okimoto, 1989).

Figure 4-9. Japan: MITI’s Policy Formulation (late 1950s-early 1970s)



Source: Ono (1992).

Akira Suehiro, a leading expert on East Asian development, stresses the Fiscal Investment Loan Program (FILP) and close linkage between technical and financial support to SMEs as Japan's two most successful policy instruments for high growth in the post WW2 period. FILP was a mechanism in which funds from postal savings and pension contributions from the private sector were mobilized to conduct investment and loans having public nature (typically infrastructure and business support) through state institutions and credit mechanisms. Its financial resource was at times as large as half the size of the central government's general budget. Part of FILP was combined with MITI's industrial policy, whereby policy formulation and technical support were provided to SMEs by MITI and financial support was provided to the same SMEs by the Japan Development Bank (JDB) under MOF using FILP funds. *Shindanshi* (state-certified SME management consultants) played a key role in linking management and technical support to SMEs with loans by JDB and commercial banks (Ohno, 2010).

During Japan's high growth period from the late 1950s to the early 1970s, there was no charismatic leader who ruled for a long time. Under the leadership of MITI, key economic ministries and agencies worked in close collaboration, with close contact with political leaders, to formulate visions and concretize them into various plans and policy measures.

4-4-4. A specialized institute as a policy making hub

While industrial visions and broad direction should be set by the government, detailed plans, master plan drafting, and daily contact and consensus building among stakeholders for any particular sector or issue can be delegated to a specialized, neutral, and non-profit organization. Thailand adopts such an approach together with other approaches for industrial policy formulation.

The Asian financial crisis of 1997-1998 prompted the Thai government to conduct a comprehensive industry review. The Industrial Restructuring Plan (IRP) was quickly formulated for enhancing industrial competitiveness with due attention to social conditions (this was conducted by the national council approach discussed above). IRP consisted of the Master Plan, the Strategic Plan, and the Action Plan

for industrial restructuring, and included as its objectives upgrading labor skills in target industries, supporting SMEs, relocating high pollution industries, and promoting clean technology. The MOI was the lead ministry, which facilitated involvement of various stakeholders such as the public sector, businesses and academicians. Although IRP was formulated and implemented within the frameworks of structural adjustment loans from the World Bank and the Asian Development Bank, the Thai government took full initiative in developing its content.

To implement proposed plans, ten specialized institutes were established or re-created to design concrete measures for targeted industries and issues and to cope with problems arising in the implementation process. They were initially operated jointly by the public and private sectors, each with its own staff and board. They acted as a hub of information sharing and consultation between government and businesses and in some cases formulated industry-specific master plans. Some institutes were created by the Industry Promotion Department of MOI while others were transformed from existing agencies or established with donor assistance. As shown in Table 4-1, they included six industry-specific institutes (textile, food, automobiles, electrical and electronics, cane and sugar research, and iron and steel) and four thematic institutes (productivity, technical training, management and certification, and SME development). After five years of establishment, these institutes were required to become financially independent from the government budget.

Table 4-1. Thailand: Specialized Institutes

Name	Start-up Date	Organizations
Thailand Productivity Institute	June 1995	Originated from MOI industry promotion dept. 20 Board members, 161 staff.
Thai-German Institute	Nov. 1995	Financial cooperation from KfW, GDC. Technical training (CNC, CAM/CAD, etc.), 12 Board members, 79 staff, 5 German experts.
Thailand Textile Institute	June 1997	Based on MOI industry promotion dept. and industry association. 20 Board members, 27 staff.
National Food Institute (NFI)	Oct. 1996	Based on MOI industry promotion dept. and industry association. 20 Board members, 27 staff.
Management Systems Certification Institute (MSCI)	March 1999	Originated from Thai Industrial Standard Institute (TISI). 14 Board members, 55 staff.
Thailand Automotive Institute (TAI)	April 1999	Supporting industry development. 20 Board members, 28 staff
Electrical & Electronics Institute (EEI)	Feb. 1999	Supporting industry development. 29 Board members, 28 staff.
Foundation for Cane & Sugar Research Institute	April 1999	Originated from Cane & Sugar Research Institute. 13 Board members.
Institute for SME Development	June 1999	Modeled on Japan's SME Univ. Operated by Thammasat Univ. in cooperation with 8 local universities. 21 Board members.
The Iron & Steel Institute of Thailand	Dec. 1998 (cabinet approval)	Aimed at joint marketing promotion of four steel companies (oversupply)

Source: Higashi (2000).

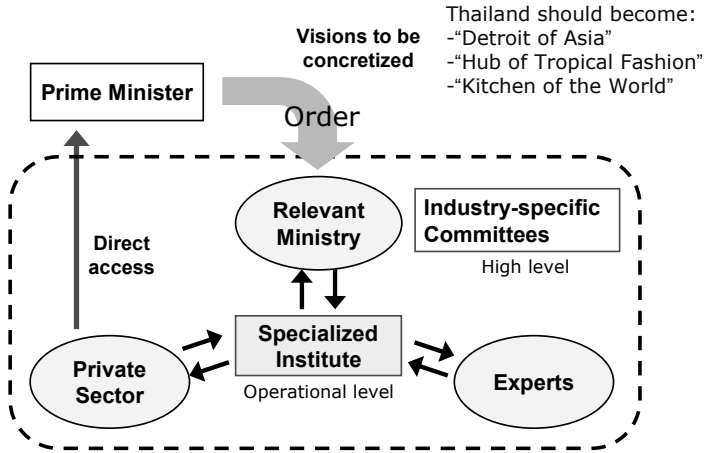
Among these institutes, the Thailand Automotive Institute (TAI) has been among the most successful as a policy making and implementation hub connecting the Thai tripartite of government, businesses, and experts. TAI conducts policy study and advice, supports clustering of auto parts makers, and promotes export. It provides training for factory engineers and workers, runs an automotive testing laboratory, and serves as the secretariat for consensus building and drafting policy documents. TAI cooperates with MOI, MOF, the Ministry of Commerce, and the Ministry of Science and Technology (MOST) as well as researchers from ten universities in Thailand. It provides research and information services and manages an APEC-supported website for automotive part makers. At the beginning it was financed jointly by the government and the private sector. By now it has become a

self-financing organization. As of November 2009, half of its 91 staff were at the testing laboratory and the remaining half were in policy research and training.

As the secretariat of master plan drafting, TAI supplies not only administrative support but, more fundamentally, key ideas for policy direction, selectivity and concentration, and coordination of different interests between government and businesses as well as among businesses. The idea of subsidizing Eco-Car production was one of such ideas emanating from TAI and accepted by the government and the industry in the current automotive master plan. The process by which TAI drafts the master plan was already explained in section 4-3 above.

Figure 4-10 depicts Thai policy making for specific policy areas adopted under Prime Minister Thaksin Shinawatra, a strong leader who served the country from 2001 to 2006. The prime minister produced highly vague visions, such as becoming the “Detroit of Asia” or the “Hub of Tropical Fashion,” for relevant ministries to concretize and implement. A specialized institute functioned as a policy hub among the tripartite at the operational level while an industry-specific committee approved and adjusted policies at a higher level. The private sector could influence policy through these institutes and committees, and it also had direct access to the prime minister. Even after the strong leader was removed in 2006, the Thai policy system continues to function basically in the same way as before because these specialized institutes are already “institutionalized.” Its operation does not hinge critically on the existence of a strong leader.

Figure 4-10. Thailand: Specialized Institute Approach (Under Thaksin Government 2001-2006)



The institutional hub approach works well in the case of the Thai automotive sector because there is deep trust among all stakeholders, because TAI has build solid relations with them, and because Thai policy making is pragmatic and flexible without too many bureaucratic requirements. According to Thai MOI officials, the Thai automotive sector is already sufficiently developed and becoming large in size, and the role of government has shifted from direct support to the industry to general policy making. Thus managerial, technical, and financial support for managers, engineers, and workers is to be conducted by private service providers and private financial institutions. However, in a country where the private sector is weak, where mutual trust between government and businesses does not exist, or where policy making is highly rigid and hierarchical, assignment of policy making authority to a neutral non-profit organization may not work as effectively as in Thailand.

4-4-5. A strong top leader as a policy driver without institutionalization

A very different type of policy making is possible with the existence of a strong and economically enlightened leader without institutionalization. In this case, the head of the state (or a similarly high-level key actor) plays the instrumental role in all

policy making functions. This includes vision and strategy making, coordination among ministries and agencies, implementation and monitoring, solving problems and coping with shocks, mobilizing the private sector, and dealing with foreign investors and development partners. Policies become action-oriented and coherent if the leader's mind is lucid and dynamic. Actions of different ministries become mutually consistent even though ministers do not talk to each other. The private sector and foreign investors will know where the country is headed and international cooperation will be made to align with the national development plan. All this is possible because the top leader personally directs every player in the game.

This type of policy making depends heavily on the personal capacity and dynamism of one particular individual and, for that reason, can be quickly realized if such a leader assumes power. In the early stage of economic take-off, a leader who sets everything right is highly welcome since the nation has no time or resource to build strong enough systems quickly for sustainable growth. But the risks of this approach are also clear. Without institutionalization, the exit of a capable leader will stagnate and even reverse economic growth and no policy learning among other policy makers will take place. To avoid this fate, the capable leader must work even harder not only to conduct good policies but also to create new laws, systems, and organizations that cement the way of policy making which he or she has started. This is indeed an enormous demand on the wise leader.

4-5. Policy structure⁷

While policy documents such as industrial master plans and strategies do not have one "correct" format applicable to all countries, structural variation must come from conscious choice based on local context and policy purpose at hand rather than by chance. If a policy document is produced without serious consideration of overall design, it may end up reflecting the whims of particular drafters—ministerial officials, academics, or foreign consultants—that happened to be assigned to the task. As argued in section 4-3 above, basic visions and policy direction must be

⁷ For more discussion on policy document structure, see chapter 9 in this volume.

established through a consensus building process involving major stakeholders before the drafting of a policy document is commissioned.

Figure 4-11. Standard Ingredients of an Industrial Master Plan

Vision	Importance, role, orientation, and positioning of industry in national development
Targets	Long- and medium-term numerical and/or qualitative targets
Situation analysis	Current status, potentials and obstacles of the domestic industry in the national, regional and global context; tables and graphics for data, surveys, international comparisons, etc.
Policy issues	A small number of selected issues should be identified, prioritized, and analyzed in preparation for designing policy action
Action plan or action mechanism	A large matrix that pre-specifies actions, sub-actions, expected output, success criteria, deadlines, and responsible organizations; procedure for monitoring and reporting should also be specified. Alternatively, a monthly high-level committee chaired by top leader, or a well-focused and well-coordinated budgeting and project approval process may substitute the action plan matrix.

The standard components of an industrial master plan are illustrated in Figure 4-11 and discussed individually below. Each of these components may occupy either one chapter or a number of chapters. Selection and order of these components are somewhat flexible. For example, targets may be inserted after situation analysis and policy issues. However, the vision should most properly be stated at the outset and the action plan matrix should come at the end (unless specified in another document or mechanism). Terminology is also flexible and substitutable by other phrases of similar connotations. In addition to these basic components, there may be additional materials such as preface, table of contents, list of tables and figures, executive summary, introduction, drafting procedure and organization, appendices, and so on.

- (i) *Vision*—a master plan must clarify the purpose of industrial promotion. This includes why a particular industry is important in national development, what role it should play in stimulating other sectors, what positioning it

should take in the global, regional, and national economies, and so on. If these purposes are already presented in other documents and widely shared among stakeholders (such as Agricultural Development Led Industrialization (ADLI) and the Industrial Development Strategy (IDS) in the case of Ethiopia), they can be mentioned only briefly without spilling much ink. On the other hand, if these are not yet sufficiently expressed, the master plan should clearly and concisely state the importance of the sector in question. This section should be no more than a few pages. Vision is sometimes stated in a layered structure consisting of vision, missions, and objectives. This is acceptable but not obligatory.

- (ii) *Targets*—long- and medium-term targets, quantitative or qualitative, should be presented with a clear time frame, which should normally extend over a few to several years.⁸ These targets should be ambitious but realistic. Numerical targets should be higher than simple extrapolation of the present course but also reachable with serious exertion of cooperative efforts by both government and businesses. The appropriate number and levels of these targets, including how many numerical targets should be set with how much detail, depend critically on the characteristics of the sector in question as well as the capability of the government and the private sector of that country. For this reason, there is no fixed formula applicable to all master plans for all countries. Generally speaking, there should be fewer (numerical) targets if the industry is not capital-intensive, markets and prices are unpredictable, the industry produces final consumer goods, the domestic private sector is mature, policy capability is weak, or the private sector does not trust the government. Before setting any targets, policy makers should have a thorough discussion with all stakeholders, including businesses and experts, for the proper configuration of such targets.
- (iii) *Situation analysis*—the master plan must analyze the current status, potentials, and obstacles of the domestic industry in question. Data should

⁸ Targets are also called goals, objectives, strategies, action plans (different from “action plans” in (v) below), and so forth. We regard all of these as “targets” as long as they set some qualitative or quantitative aims to be achieved.

be presented in tables and graphics, and the results of surveys and benchmarking should be reported (if available and relevant). Information should not be thrown in randomly but must be inserted with a clear purpose of making certain points. Routinely reviewed issues include the past performance of output, capacity, demand, export and import, and localization; product mix and producer profiles; regional distribution of production; labor quality and market; productivity and competitiveness; demand forecasts; and global, regional or domestic market trends that may impinge on the development of the industry. The appropriate selection of these analyses depends on the degree of understanding and consensus among stakeholders. If businesses, policy makers and experts generally agree on the current position of the domestic industry, situation analysis can be brief or even skipped. If, on the other hand, policy formulation is in an early stage and stakeholders do not yet share basic information, situation analysis becomes an integral part of the master plan.

- (iv) *Policy issues*—after the industry situation is reviewed comprehensively in (iii), specific aspects that need to be fortified by policy to realize vision (i) and targets (ii) above must be identified and analyzed. The issues may call for removal of negatives or strengthening of positives. Obviously, which issues are most important cannot be prejudged because circumstances differ from one industry to another and from one country to another. Here, some of the common focal issues are listed by way of examples: skills and technology, cost reduction, quality improvement, product design and development, input procurement (localization and supplier policy), marketing, export promotion, infrastructure, financing, labor supply and workers, and so on. The most relevant topics for the industry in question should be identified and agreed among stakeholders, and studies should be conducted for each of them. It is important to work on prioritized issues only rather than cover all issues broadly and superficially. Issues raised here should be given concrete solutions in the following action plan section.
- (v) *Action plan or action mechanism*—an action plan matrix or an action mechanism is essential for ensuring implementation. An action plan matrix

is a large table that translates analyses and proposals conducted in previous chapters into concrete actions. It may be included in the master plan text or prepared in a separate document. Either way, it is crucial that its progress is monitored and reported to the government at regular intervals and any problems are attended to as they arise. The action plan matrix typically contains the following cells: actions, sub-actions, deadlines, expected output, performance criteria (success indicators), main responsible organizations, and other cooperative organizations. One sample format from Zambia is presented in Table 4-2. The implementation procedure, such as who will report what to whom by when, must also be specified alongside the action plan matrix.

Table 4-2. Zambia: Action Plan Matrix Format for the Triangle of Hope Project (Example)

Recommendation (action)	Activities (sub-action)	Status	Expected output	Status	Activity period	Responsibility	Monitoring indicator
Promote investment in cotton production by allocating land to appropriate producers	1. Identify land to be held in MACO trust	Little progress	Land for cotton production identified and secured	Not yet started	Jun. 2007	MACO (main), MoL (sub)	Monthly report
	2. Write to MoL for title deed	Not yet started					
	3. Develop adm mechanism for farm blocks	Done					

Note: Extracted and edited by the author. The Triangle of Hope Project aims at improving investment climate and establishment of an industrial zone.

Alternatively, an action mechanism, such as a high-level monthly committee chaired by a top leader or minister, or a well-focused budgeting and project approval process coordinated by an effective hub organization, can be adopted. Compared with the action plan matrix approach which stipulates all actions in advance, these process-oriented approaches are more flexible in coping with shifting circumstances. However, their success requires strong and effective guidance by the leader or the designated hub organization. In cases where political and administrative support for policy execution is weak, the action plan matrix approach may be preferable.

An industrial master plan must be implemented and supported by all stakeholders. A policy document, however excellently written, is just paper if it is not implementable. As we close this section, a few general features that must be satisfied throughout chapters can be reiterated. These can be attained more easily if proper policy procedure and organization discussed in the previous sections are already in place.

First, relevance and conciseness should be the criteria for including any information in policy documents. All text and data should support the main arguments and proposals of the master plan. Statistics that add little informational value, abstract words with no concrete implication such as “improve,” “strengthen,” and “level up,” and general statements applicable to any industry in any country should be removed as much as possible. If all chapters are logically connected, it is possible to summarize relations among key targets, strategies, and actions in one diagram or table—as done in Thailand’s supporting industry master plan in 1995 and automotive industry master plan 2007-2011.

Second, flexibility and adaptability must be ensured across countries, sectors and time. Since all industries are different and countries face different challenges, cookie-cutter molds cannot be applied to the making of master plans. Even for the same industry in the same country, shifting circumstances will call for policy revisions over time. In particular, the relative scope of government intervention must be set properly. The optimal borderline between state and market must continue to be re-drawn for each industrial master plan. Industry’s characteristics such as capital intensity, gestation period, product type, and market volatility should influence the appropriate weight of state intervention. In addition, the maturity and dynamism of the private sector and government’s policy capability should also be taken into account. Creativity is needed to fit policy documents to the changing reality of the industry in question.

Third, proper balance between pre-determined actions and flexibility in implementation must be pursued. In general, the higher is policy capability, the more flexibility should be given to policy makers. In the early stages of policy learning, it is a good idea to regularly and strictly monitor the progress of each pre-agreed action. This will increase the percentage of actions implemented, but at the cost of agility as situations change. As implementation is generally assured and policy response to

shocks is learned, rigid policy matrices should give way to the improvise-as-you-go approach. For this reason, low-income countries usually spell out proposed actions in large tables while advanced countries prefer to state strategies generally or even do away with master plans completely, and leave annual project formulation, budgeting and institutional revisions to a competent organization in charge.

Mr. Vallop Tiasiri, President of the Thailand Automotive Institute which drafts the automotive master plan, prefers the process-oriented approach in ensuring implementation. Although the first automotive master plan of Thailand (2002–2006) had a large action plan matrix, the second automotive master plan (2007–2011) has only a small action summary table and relies heavily on ongoing project-based implementation toward agreed goals. If in any given year greater budgetary resources and more projects are available, policy implementation is accelerated and vice versa. In the case of the Thai automotive industry, strong leadership exercised by Mr. Vallop and his institute, and deep trust and information sharing among industry, government and donors, enable such an approach.⁹

4-6. Suggestions for Ethiopia

In the course of the Ethiopia-Japan Industrial Policy Dialogue conducted quarterly since June 2009, the Japanese side has identified the following three methodological problems which are mutually related. They are problems common to many of the industry-related issues in Ethiopia that the Japan International Cooperation Agency (JICA) and Japanese experts have observed or assisted with, including the quick survey of the basic metal and engineering sector, planning for *kaizen* institutionalization, revision of the micro and small enterprise (MSE) development strategy, and preparation for the industrial cluster strategy.

4-6-1. Quality over speed in policy making

In Ethiopia, priority policies are often formulated in great haste at the cost of quality

⁹ Interview with Mr. Vallop, November 5, 2009.

and implementability. We understand that there is an urgent need to industrialize Ethiopia during the Growth and Transformation Plan (GTP) period, and the top leader is monitoring the progress of priority strategies. However, Ethiopia is trying to achieve great reforms in its mindset and economic structure at much faster speed than other, more advanced economies—Singapore, Korea, Malaysia, Thailand, and so on—which usually spend about one year to revise an existing industrial strategy and two to three years to draft a new one. A Japanese proverb says, “When in a hurry, take a roundabout way.” It is better to tread a steady path with sufficient preparation instead of taking shortcuts which often delays final achievement.

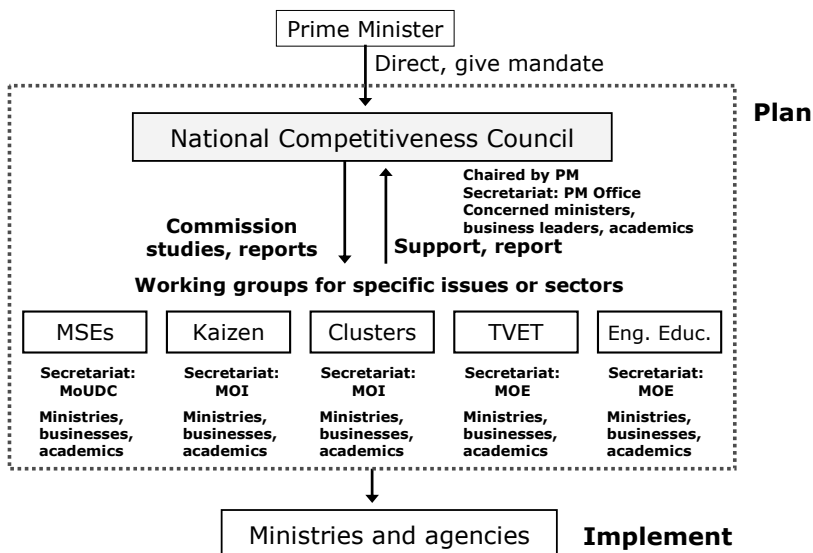
Quality must be the main concern over speed in the formulation of priority industrial strategies. New policy must be drafted in proper steps, as shown in Figure 4-1 above, over a few years as in most other countries. The prime minister’s vision, however clear and appropriate, cannot be put directly into the words and numbers of master plans and action plans without the intervening process of consensus building among all government and non-government stakeholders. This “missing middle” process must be consciously created by MOI (or any other lead ministry of any priority issue). Drafting work may be done internally or subcontracted to external consultants or academics but only after main policy contents and document structure have been agreed.

4-6-2. Establishment of inter-ministerial cooperation mechanisms

Many of the industrial challenges, including *kaizen*, MSEs, and industrial clusters, are multi-sectoral issues. The lead ministry should properly be the MOI, but MOI alone cannot design and implement comprehensive measures covering trade, investment, technology, quality and safety standards, agro inputs, marketing, education and training, labor, environment, logistics and connectivity, regional development, ODA, and so forth. MOE, MOUDC, MOFED, MOARD, MOST, etc. must also be brought in. However, a lead ministry cannot direct or intervene in other ministries horizontally. For multi-sectoral issues, a supervisory mechanism above all ministries must be created for facilitating inter-ministerial cooperation and solving any problems that may arise.

In Ethiopia, one option for this purpose is to establish a national council headed by the Prime Minister which supervises and coordinates several key industrial strategies as shown in Figure 4-12. Under the strong leadership and vision of the prime minister, policy planning should be supervised by the National Competitiveness Council (the precise name does not matter) supported by issue- and sector-based working groups. The Council and each of the working groups must have a responsible ministry which will serve as the secretariat. Members of the Council should include heads of concerned ministries and agencies, business leaders and associations, and academics and experts. Ministries and agencies participate in this mechanism in two functions: participation in planning and as implementing bodies. Inter-ministerial issues and conflicts will be solved at the level of the Council with the ultimate decision resting with the prime minister.¹⁰ Five working groups shown in Figure 4-12 are for illustrations only. The Ethiopian government should select most appropriate working groups. However, the total number of such issue- or sector-specific working groups should not greatly exceed four or five.

Figure 4-12. Ethiopia: A Suggested National Council Approach



¹⁰ A similar idea of the National Competitiveness Council is proposed for Vietnam by Professor Michael Porter of Harvard University in the November 2010 launching seminar of *Vietnam Competitiveness Report 2010* published by the Central Institute for Economic Management of Vietnam and Lee Kuan Yew School of Public Policy of Singapore (Ketels, et al. 2010).

Ethiopia already has the Export Steering Committee presided by the prime minister. However, as discussed earlier (footnote 5), this Committee is different from and smaller in scope than the proposed Council as it is an implementing mechanism mainly for export promotion without policy making authority such as consensus building and master plan drafting. One option is to upgrade and expand the scope of the Export Steering Committee to function as the National Competitive Council as described above with the designation of new secretariats, lead ministries and working groups.

4-6-3. Ownership and speed of kaizen institutionalization

On the issue of the proposed institutionalization of kaizen and establishment of the Ethiopian Kaizen Institute (EKI), common understanding on who will take the responsibility for the entire process and what must be done now remains somewhat unclear.¹¹ Details of the roadmap will be designed by the Kaizen Unit under MOI beginning in 2011. But it should be agreed clearly from the outset that policy substance is to be decided and owned by the Ethiopian side with foreign experts only filling information and knowledge gaps from the sideline. In some workshops, we have witnessed the situation where the Ethiopian side asks for concrete implementable strategies and action plans from foreign experts. But these must be prepared by MOI, and the very process of drafting them will constitute policy learning by which policy skills are internalized.

The roadmap drafting for kaizen institutionalization should not be rushed. As argued above, a good roadmap cannot be created within months for such important issues as national movement for kaizen. This is especially true for Ethiopia, a country that only recently began to systematically learn industrial policy making. Even in Singapore, it took a few decades for its Productivity Movement to produce clear results.¹² The Productivity Unit was established within the Economic

¹¹ This statement is based on the situation as of January 2011. Subsequently, the basic modality of EKI was discussed and agreed between Ethiopia and Japan, and JICA is assisting the design of EKI to be followed up by further assistance for kaizen institutionalization.

¹² Details of Singapore's Productivity Movement were reported by Professor Daniel Kitaw of Addis Ababa University and Professor Izumi Ohno of GRIPS in the Sixth High Level Forum of Ethiopia-Japan Industrial Policy Dialogue held in Addis Ababa on October 7, 2010.

Development Board in 1964, which was upgraded to the National Productivity Center in 1967 and the National Productivity Board in 1972. The JICA-supported Productivity Development Project was conducted from 1983 to 1990 in steps with the awareness stage (1981-85), the action stage (1986-88), and the follow-up stage (1989-). Only in the 1990s, Singapore felt confident enough to delegate remaining tasks to the private sector and initiate international cooperation programs to help other countries in productivity enhancement.

Ethiopia's current effort at kaizen, which started in July 2009 when Prime Minister Meles asked for Japanese cooperation, is in its early stage and on track. In less than two years, a number of policy discussions and dissemination seminars have been held, the Pilot Project supported by JICA is in place, the outcome of its first batch has been reviewed, reports are being drafted, and standardization tools such as manuals and videos are being prepared. JICA will dispatch another expert for designing EKI in early 2011, who will work with the Kaizen Unit to initiate a roadmap drafting for kaizen institutionalization. This is a relatively fast progress even by East Asian standards and we feel that the groundwork for kaizen institutionalization has been laid.

When a roadmap for kaizen institutionalization is agreed and when an inter-ministerial coordination mechanism, as proposed above or otherwise, is established, MOI as the lead ministry can—and should—mobilize active participation of all related ministries and agencies toward the ultimate goal of kaizen institutionalization. But this will take some time to materialize. In the mean time, initiating big actions on kaizen before such a roadmap is agreed runs the risk of being ineffective in the long run.