

Ethiopia as Japan's Partner in Trade and Manufacturing

A Perspective from Ethiopia-Japan Policy Dialogue



Kenichi Ohno

**National Graduate Institute for Policy
Studies (GRIPS)**

June 2013

Topics

- ❑ Ethiopia-Japan industrial policy dialogue
- ❑ Negative aspects
- ❑ Positive aspects
- ❑ Manufacturing FDI: current status and potential
- ❑ Uniqueness of Japanese FDI
- ❑ Proposal to Japanese businesses

For details of policy dialogue see:

- http://www.grips.ac.jp/forum/af-growth/support_ethiopia/support_ethiopia.htm
- JICA&GRIPS, *Intellectual Partnership for African Development: Japan-Ethiopia Industrial Policy Dialogue*, Dec.2011, in Japanese.

Ethiopia-Japan Policy Dialogue

After IPD-JICA Africa Taskforce Meeting in AA (July 2008), PM Meles requested Japan's two-part cooperation (kaizen & policy dialogue). Phase 1:2009-2011, Phase 2: 2012-ongoing.

Kaizen (JICA)

- Kaizen introduced to 30 pilot firms (phase 1); for scaling up, support given for institution-building & training of EKI

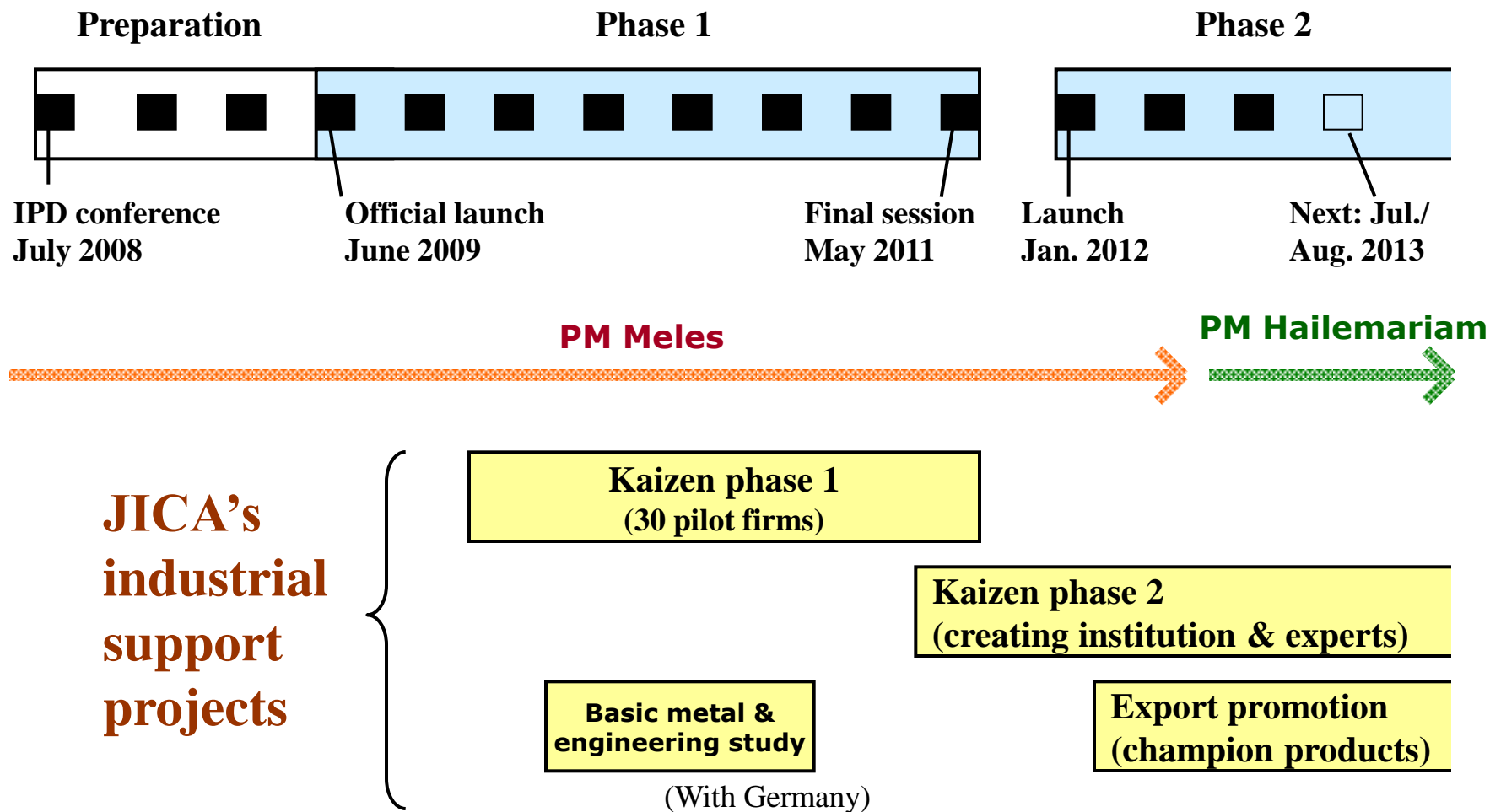
Industrial Policy Dialogue(GRIPS & JICA)

- PM-ministers-operational level; 14 sessions conducted.
- Selection of issues with high relevance to Ethiopian gov't; study & report experiences of East Asian countries; pragmatic policy discussions based on Ethiopian reality.
- To make policies happen, JICA & JETRO offer concrete industrial support as necessary.

(IPD: Initiative for Policy Dialogue, a policy-oriented research project organized by Prof. J. Stiglitz of Columbia University.

GRIPS-JICA Industrial Policy Dialogue with Ethiopia

Industrial policy dialogue

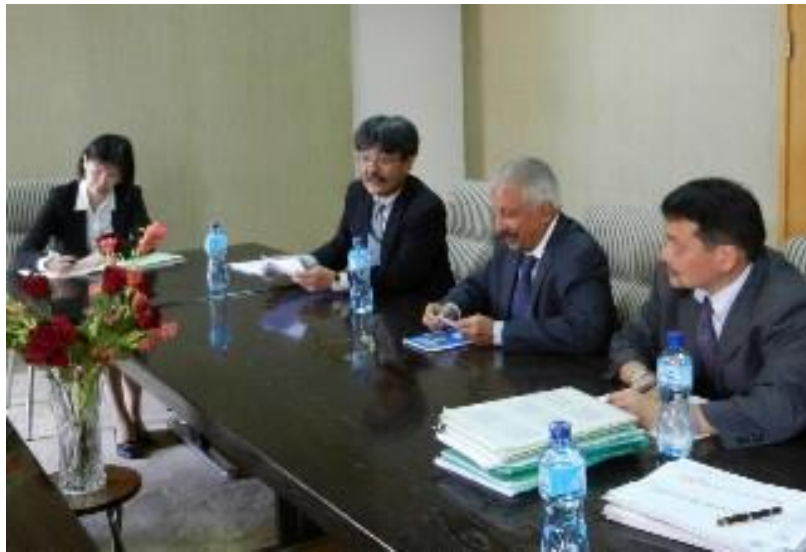


Note: Black squares indicate policy dialogue sessions in Addis Ababa with the prime minister, concerned ministers and state ministers, and officials and experts at operational levels.

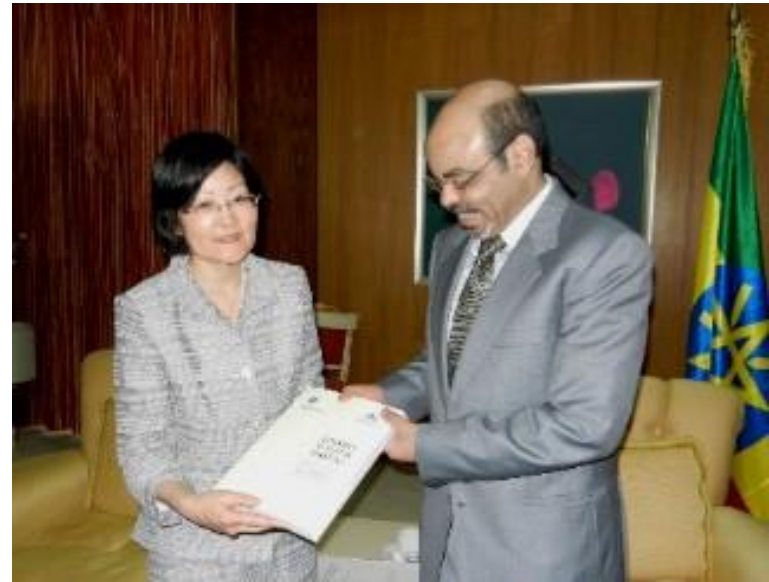


At the Prime Minister's Office

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

Issues Discussed at High Level Forums

Phase 1

- ❑ East Asia's industrial policies (method, organization, documentation; country studies)
- ❑ Kaizen and its transferability to Ethiopia; international comparison of kaizen national movements
- ❑ Assessment & advice on PASDEP & GTP
- ❑ Basic metal & engineering survey, etc.

Phase 2

- ❑ Integrated export promotion; champion products
- ❑ Strategic FDI marketing (inviting Malaysian & Thai officials)
- ❑ FDI-linked technology transfer (planned)
- ❑ Method & organization for drafting the next five-year plan (planned), etc.

Our Impression & Evaluation

- ❑ We visited a number of African countries for policy dialogue partner. We finally chose Ethiopia because of its mindset & readiness (also, request by PM).
- ❑ We were truly impressed by the positive and pragmatic attitude of PM & Ministers toward industrialization. Ethiopia is far better than Vietnam in this regard.
- ❑ If this mindset is combined with policy design and implementation capability, Ethiopia can achieve sustained growth. Japan wants to help Ethiopia in this difficult task.
- ❑ Japan is a small donor in Ethiopia, but our policy dialogue is far deeper than those offered by WB, Western & emerging donors. Sincerity, candidness & mutual respect on both sides are key.

Negative Aspects

- ❑ As one of the poorest countries, the Ethiopian private sector is undeveloped—weak firms, subsistence farming, lack of infrastructure, etc.
- ❑ Landlockedness
- ❑ Limited natural resources (future possibility?)
- ❑ Business environment is far from satisfactory
- ❑ Policy capability is low; top leaders are generally good but more and better middle-level officials are needed
- ❑ Industrial policy is still primitive (but policy learning is continuing; better than other African countries)

Positive Aspects

1. Political stability and high diplomatic standing

- Offering stability in a region fraught with instabilities
- Leadership in G20, COP meetings, AU, etc.
- Smooth transition of power in 2012
- Constant policies—democratic developmental state, ADLI, GTP are firmly held

2. Seriousness in learning industrialization

- People are serious & patient; few crimes
- Strong determination of top leaders toward agricultural development and industrialization
- Learning from East Asia (Japan, Korea, Taiwan, Malaysia...)
- Economic Business Diplomacy (very actively conducted by leaders, MoFA, other ministries, foreign missions...)
- Strong support to priority sectors (firm visits, problem-solving, incentives, sectoral institutes, targeted ODA & FDI, etc.)

(Cont.)

3. Proper understanding and expectation of Japanese businesses and cooperation

- Expecting quality, not quantity, in trade, FDI and ODA with Japan (transfer of knowledge, technology, institutions, mindset, etc.)
- Effort in scaling up kaizen (supported by JICA)
- Creation of champion products for Japanese market; attraction of Japanese FDI (supported by Japan)
- Willingness to hear Japanese advice in policy dialogue (policy mechanism, export & FDI strategies, MSEs, sectoral strategies, etc.)

Manufacturing FDI: Current Status and Potential

- Ethiopia's performance in attracting manufacturing FDI (not big projects, extraction, energy or aluminum smelting) is relatively good by African standard. Many labor-intensive light industry projects have come from Turkey, China, India..., some of which are quite large (unfortunately, none from Japan so far).
 - In terms of scale, Ayka, a Turkish maker of knitted apparel is largest. Products are sold to European & US markets through a German buyer.
 - In terms of number, Chinese dominate (372 registered, 86 in operation as of mid 2012, many engage in manufacturing).
- Top leaders approach targeted foreign firms with some success.
- Ethiopia expects much from key FDI firms, and in turn takes care of them well with support and problem-solving.
- Access problem?—2-day trucking from Djibouti to AA; for mid-range apparel, this adds about 2% to product value (\$3,000/14ft container). MOI will solve customs/transport problems if any.
- Mozambique, Tanzania and Ghana receive relatively less FDI in manufacturing despite the fact that they have political stability, coastal access and higher income.



Ayka (Turkish firm producing knitted goods, vertically integrated, employing 5,000 workers

Eastern Industrial Zone by China



FDI activities



Local Firms

(JICA-supported kaizen introduced)



Tire factory



PVC pipe factory



Tannery

Local Firms

Nutrition
food &
edible oil
factory



Leather shoe
factory



Rose cultivation



TVET (Germany-assisted)



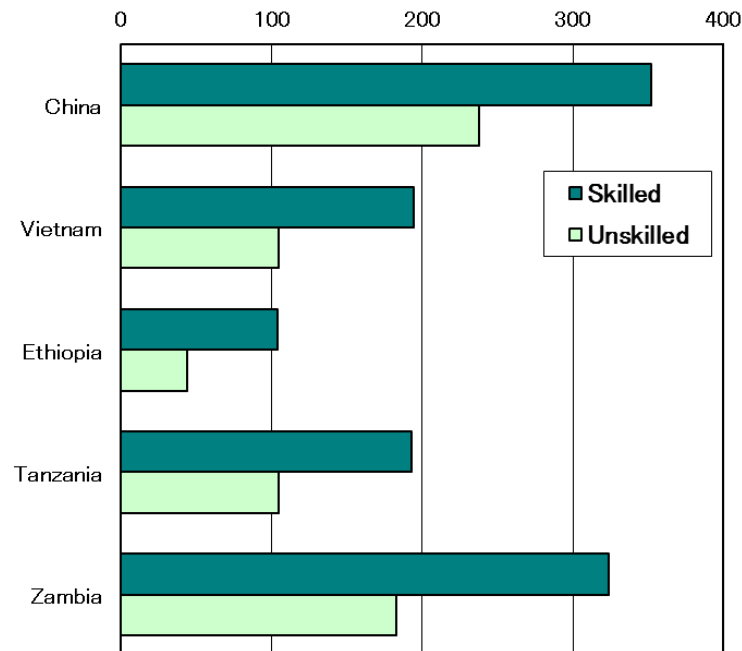
Leather product workshop



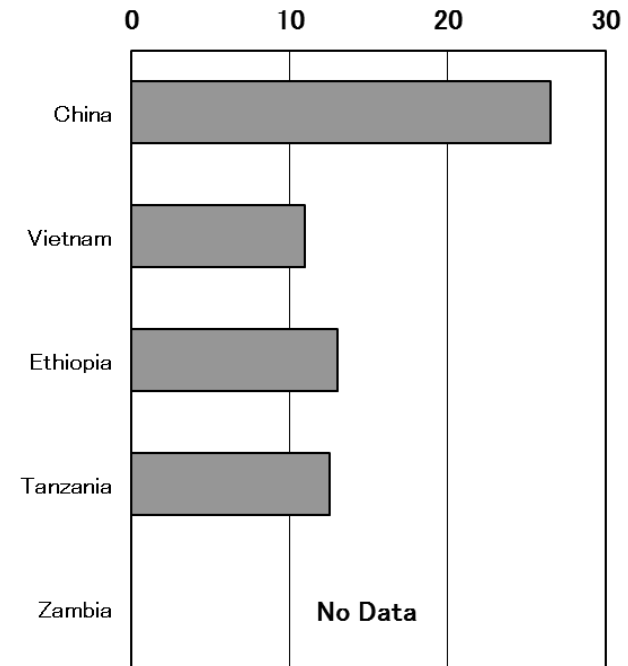
WB "Light Manufacturing in Africa" (2012)

- Comparison of Africa (Ethiopia, Tanzania & Zambia) and Asia (China & Vietnam) with special attention on Ethiopia.
- Analysis of potential & problems of Ethiopia's five light industries (apparel, leather products, wood products, metal products, agro-business).
- Ethiopian wage is $\frac{1}{4}$ of China and $\frac{1}{2}$ of Vietnam. Labor productivity is $\frac{1}{2}$ of China and same as Vietnam. Policy can expand this sector.

Light manuf. wage (\$/mo.) 2011



Light manuf. labor productivity Polo shirts /worker /day 2011



WB Survey “Chinese FDI in Ethiopia” (Dec.2012)

- ❑ As of mid 2012, 372 Chinese FDI projects were registered, of which 86 were in operation. Many were engaged in manufacturing. 69 firms responded to questionnaire.
- ❑ Sector distribution: food, apparel, IT, machinery, non-metal minerals, other (many).
- ❑ China’s total investment \$450 million; 15,910 full-time employment; average wage \$85/month.
- ❑ Motives for investing in Ethiopia—Chinese business network (friends), Ethiopian market, low wage, incentives, and incentives by Chinese government.
- ❑ Main impediments—problems in customs clearance & business transaction, foreign currency & exchange rate, irregularities & non-transparency in tax administration, finance, lack of skilled workers, etc.

Uniqueness of Japanese FDI

- The Japanese model is unique among global players who pursue short-term profits and flexible partner change
 - Manufacturing—far more than property, trade or mining
 - Monozukuri (manufacturing) spirit—proud of factory floor; endless pursuit of quality & customer satisfaction
 - Long-term orientation—last in coming to frontier countries but once invested, will stay long against difficulties.
 - Partner assistance—providing training to local firms and engineers
 - Legal compliance—observance of local labor, tax, environment laws
- Japanese firms are slow but sincere; developing countries will eventually realize their virtue. They may not know at first, but after a number of years of receiving FDI, firms that contribute to national development, and those that don't, will become clear (cf. Vietnam; but not yet in Africa).

Proposal to Japanese Businesses (Quality over Quantity)

- ❑ Ethiopia's initial conditions are unfavorable, but people are serious and government wants to learn industrialization. Even without big projects, industries can grow steadily.
- ❑ Let us show the goodness of Japanese firms, whether you are manufacturing or importing.
 - Please do FDI or trade that leads to long-term benefits for both sides; not just for short-term gains or resources.
 - Combine Japan's technology with improvement of local capability to produce high-quality products unique to Ethiopia.
- ❑ Ethiopia may not become a large export base for Japanese industrial products like East Asia. But the following projects are feasible. If quality is produced, scale does not matter.
 - Add value to exports by marketing, quality guarantee, packaging, logistics, etc. (coffee, sesame...)
 - Produce champion products by creating Ethiopian brand
 - FDI in manufacturing that uses Ethiopian high-quality materials (leather products, gems & jewelry...)

(Cont.)

- Linkage with kaizen—ask EKI/JICA to send a kaizen team to your company or partner factory for improvement. Propose a change to kaizen curriculum to fit your needs.
- Public-private partnership—if there is anything that governments can do (regulation, tax, foreign currency, HRD, policies, etc.), please approach our Embassy, JICA, JETRO or GRIPS regardless of your sector or size. We will do our best to solve the problem with the Ethiopian government.