

GRIPS Development Forum: Exploring Japan's New Approach to African Development



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Implementing TICAD IV Growth Agenda



Yokohama Action Plan (May 2008) – Boosting Economic Growth – Trade, Investment and Tourism – 3. Assist Private Sector Development:

“Support African countries to plan and implement industrial development strategies and policies, drawing on Asian experiences as appropriate.”

How do we concretize this?

- Selection of target countries & sectors
- Tokyo must prepare mechanism, personnel & budget to implement this initiative
- Work closely with other donors, businesses, academics, NPOs, international organizations (Japan's knowledge and resources in Africa are too small)

Exploring Japan's New Entry Points



- If valid national development vision and strategies exist, support them with **concrete industrial projects** (HRD, technology, quality improvement, infrastructure)
- **Continuous policy dialogue** for joint drafting of strategies and mobilizing aid & private resources
- Building **core infrastructure** and aligning various development programs to it
- Using ODA to **facilitate large FDI projects**
 - ➔ **Debate:** resource-based mega projects vs. local SME development

What is the East Asian Experience?

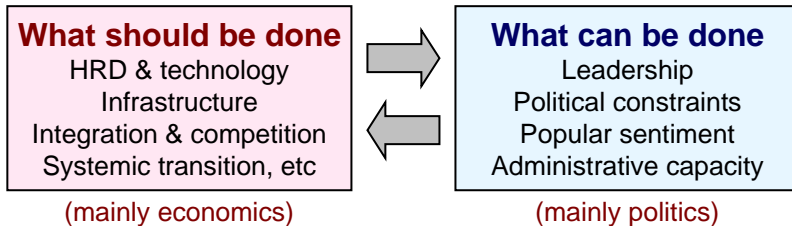


- Not blindly copying policies adopted in East Asia in the past to African countries (➔out of context and unlikely to work).
 - Not discovering a standard “East Asian model” applicable to all African countries.
 - It should be a *methodology* (in a broad sense) to design and implement policies unique to each country.
- ➔ **What is the East Asian way of designing and implementing policies?**

Policy Design: Desirability vs. Feasibility



- Development is both a political process and an economic process.



- Each country is unique in *what needs to be done* as well as *what can actually be done*.
- Any policy maker must work with economic and political space simultaneously.

Policy Design (cont.)



- Policy advice without feasibility consideration cannot be implemented—regardless of whether proposed actions are a few or many, common or tailor-made.
Eg. macro conditionality, liberalization, privatization, external opening, governance, growth diagnostics, etc.
- We need to figure out a policy sequence which is both desirable *and* feasible in each country's context.
- While the government is directly responsible for politics, outsiders can indirectly & implicitly assist in overcoming political problems.

Good Governance?

Worldwide Governance Indicators (Kaufman Index)



- Causality? (growth ↔ governance)
- Feasibility of a long menu of institutional changes and capacity-building initiatives?
- No guidance on what specifically needs to be done in the real world context:
 - Merilee Grindle: “good enough” governance
 - Mushtaq Khan: “growth-enhancing” governance capability
 - Y. Shimomura: “endogenous” good governance elements
- East Asian high performers did not (do not) score high in Kaufman Index.

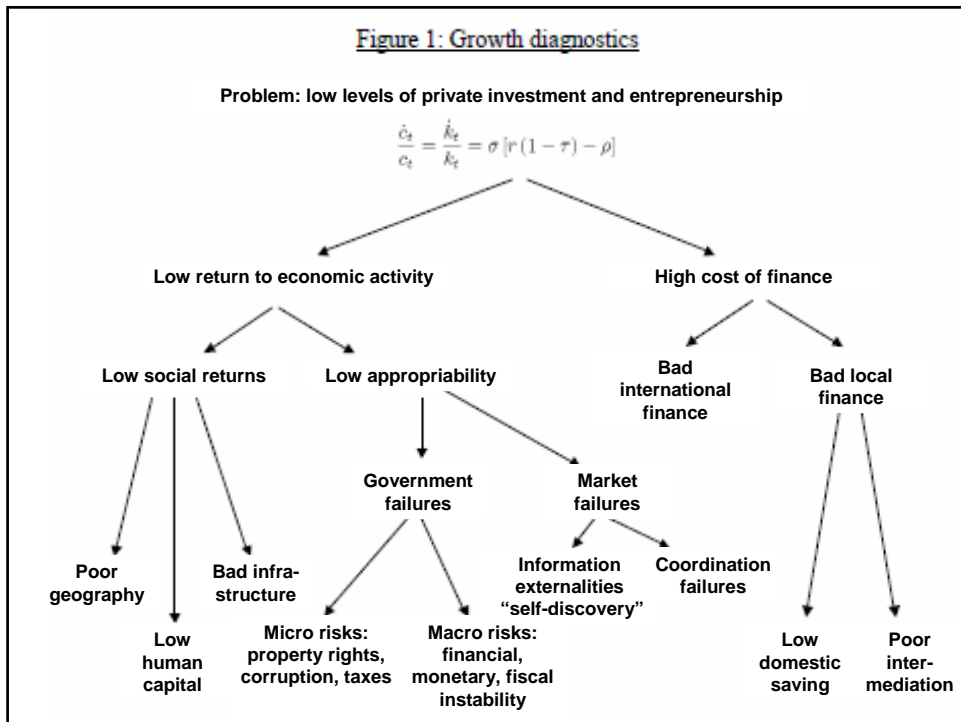
Growth Diagnostics (HRV Model)?

Hausmann, Rodrik and Velasco (2005)



- Discover a small number of **most binding constraints** to growth in each country.
- **HRV Tree**—private investment is key to growth; inquiry starts with *low return* or *high cost of finance*, and the causes of each.
- Harvard, WB, DFID, AsDB, etc. are conducting GD in many countries:
Armenia, Baltics, Bangladesh, Benin, Bolivia, Brazil, Cambodia, Egypt, Ethiopia, El Salvador, Guatemala, India, Jamaica, Liberia, Madagascar, Malawi, Mali, Mongolia, Morocco, Nicaragua, Peru, Philippines, Rwanda, S. Africa, Tanzania, Tazikistan, Thailand, T.Tobago, Uganda, and others

Figure 1: Growth diagnostics



Problems with Growth Diagnostics



- Search for desirable policies without considering political/administrative feasibility (a few or many, common or unique – secondary issues).
- Discovery of general weaknesses relative to global norm instead of enhancing the country's unique strengths (do you need to be "average" in all aspects before launching a development strategy?)
- Diagnostics only—no clear mechanism for prescribing concrete actions (the task is left to policy makers).

How to Cope with Economics-Politics Nexus



- **Joint research in economics & political science?**
→ Fine for academics but not much use for policy makers (too abstract for operational use)
- **Policy-capability matching? (WDR97)**
Improve institutions/governance before attempting difficult policies (such as selective industrial policy)
→ Too broad and without focus; difficult to put into practice or mobilize political support
- **Dynamic capacity development**
Improve ability through selective hands-on experience—clear goals, focused effort, trials and errors, cumulative sense of achievement

More on Dynamic Capacity Development



- Goal orientation: **long-term vision → phased strategies → concrete action plans.**
- Direct most effort to perfecting your strengths rather than correcting your general weaknesses (don't worry too much about Kaufman index or investors' ranking).
- Stop abstract thinking and start concrete action
No—Is industrial policy useful? What is the role of state?
Yes—Let's build this port & industrial zone successfully, etc.
- Achieve successes one by one, and be proud.
- Top leaders: take political risk and responsibility to move things fast forward.

A Comparison of East and West

	East Asian	Traditional
Purpose	Enhance strengths to create competitiveness	Find weaknesses relative to norm, and correct them
Selectivity	Future vision, phased strategies, concrete actions to achieve goals	Improve governance, institutions etc. generally (let market do the rest)
Time frame	Patient; build trust through long-term engagement	Short-term implementation and frequent reviews
Modality	Hands-on experience, less talk or writing	Emphasize framework, monitoring, dissemination



How Donors Can Help



- If the country already has valid policy vision and strategies, **align assistance** to realize and improve them.
- If not, engage in **long-term, open-ended policy dialogue** for self-discovery and strategy formulation (preferably followed by specific ODA and other assistance).
- Build a **core infrastructure** and align aid and investments around it through donor coordination and private-public partnership.

Aligning Industrial Support to Existing Vision & Strategies



The case of Ethiopia:

- Very strong ownership and clear leadership vision
- Policy already in place since the 1990s: ADLI – industrial strategy – medium-term strategies – annual plans
- UNIDO, Italy, Gtz already assisting leather & footwear, HRD

Japan can also offer concrete projects such as:

- *Shindanshi* (enterprise evaluator) system
- Quality control & productivity (5S, kaizen, just-in-time, etc)
- Specific technical support (dyeing, steaming, tanning, etc)
- Environmental control
- Explain concrete E. Asian experiences (alternative methods & organizations for action plan design and monitoring, etc)

Japan's Policy Dialogue with Developing Countries



- **Argentina** – Okita Mission 1985-87; 1994-96 (follow up)
- **Vietnam** – Ishikawa Project 1995-2001
- **Thailand** – *Mizutani Report* for upgrading SMEs and supporting industries, 1999
- **Indonesia** – Continuous Government-Business Policy Dialogue; *Urata Report* for SMEs, 2000; Prof. Shiraishi & Asanuma, 2002-04 (post-Asian crisis)
- **Laos** – Prof. Hara for overall development strategy, 2000-05
- **Myanmar** – Prof. Odaka, 1999-2002 (but failed)

Ishikawa Project in Vietnam 1995-2001



- Communist Party General Secretary Do Muoi requested Prof. Shigeru Ishikawa to study the Vietnamese economy. The bilateral project was agreed between two prime ministers.
- JICA mobilized a large number of scholars and consultants. Prof. Ishikawa emphasized the spirit of mutual respect and joint work (and a lot of patience).
- Topics covered: macro, budget & finance, industry, agriculture, trade, SOE reform, Asian financial crisis.
- Continued dialogue—New Miyazawa Plan (1999), Vietnam-Japan Joint Initiative for improving investment climate (2003-).
- Now under preparation—Vietnam-Japan Partnership for Supporting Industry Development.

Ishikawa Project in Vietnam

Vietnam = Transition economy
+ Underdevelopment

Tasks:

- Macroeconomic stabilization
- Structural adjustment (systemic transition to market economy)
- Long-term development strategy

Advise on the drafting process of the 6th Five-Year Plan

Advice on the implementation issues of the 6th Five-Year Plan, including participation in AFTA/APEC/WTO and industrial policy

Advice on the emerging issues arising from the East Asian crises and the economic integration process

Advice on the formulation of the 7th Five-Year Plan

Phase 1 (95.8-96.6)

- Macro-economy
- Fiscal and monetary policy
- Industrial policy
- Agricultural and rural development

Phase 2 (96.7-98.3)

- Fiscal and monetary policy
- Participation in AFTA/APEC/ WTO and industrial policy
- Agricultural and rural development
- SOE reform

Follow-up Phase (98.7-99.7)

- General commentary
- Fiscal and monetary matters
- Industry and trade
- Agricultural and rural development

Phase 3 (99.9-01.3)

- General commentary
- Fiscal and financial reform
- Trade and industry
- Agricultural and rural development
- SOE reform and private sector development



Joint research (2001-)

- Agriculture and rural development (livestock, vegetable, fruits and industrial crops, etc.)
- Monetary policy under partial dollarization
- Fiscal policy (introduction of personal income tax)
- Trade and industrial policies in the age of integration (NEU-JICA joint research program → GRIPS-VDF)

Source: MPI and JICA, Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy In the Socialist Republic of Viet Nam (Phase 3) Final Report Vol. General Commentary, 2001, pp.iii-vi.

JICA Vietnam Office, Executive Summary of "Ishikawa Project" Phase 3, March 29, 2002.

Policy Dialogue in Africa? The Case of Zambia



- JICA is conducting “Triangle of Hope” Project 2006-09 (improving investment climate) mobilizing a Malaysian consultant under new methodology.
- As a next step, Zambia wants Japan to help formulate a long-term industrial strategy.
- Japanese Embassy, JICA and K Ohno submitted a concept paper (Dec.2007).
- Our proposal:
 - (i) Create strong super-secretariat under President
 - (ii) Learn E Asian way through studies, seminars etc (1 year)
 - (iii) Draft **Zambia Industrialization Strategy** with JICA support (2 years)

Japanese Assistance for Core Infrastructure



- **Greater Mekong Subregion** – East-West and North-South Corridors for development of Indochina
- **Thailand** – Eastern Seaboard: creation of industrial zones around a port infrastructure
- **Vietnam** – Highway No.5 (Hanoi – Haiphong Port) for FDI attraction (industrial clusters)
- **Cambodia** – Sihanoukville Port, power and telecom networks, special economic zone
- **El Salvador** – La Union Port + regional development
- **Mozambique** (planned) – Nacala Port and Corridor for regional development

El Salvador: Growth Diagnostics vs. Japan's ODA



- **Hausmann-Rodrik Growth Diagnostics 2003:** The largest constraint in El Salvador is the lack of self-discovery caused by market failure (low appropriability). Infrastructure is not a binding constraint.
- **Local Report 2008 (FUSADES):** Our infrastructure is best in Central America and we are already a regional hub, but we can do even better by handling trade more efficiently. This will raise our productivity and competitiveness. For this purpose, infrastructure, especially *La Union Port*, is essential.
- **Japanese ODA in El Salvador:** Upgrade *La Union Port* as key infrastructure. Additional support for social & HRD, productive sectors, Eastern Region development, and regional integration.

The Vision: Strengthening El Salvador's Position as a Regional Transport Hub



- Airport already a regional hub (built by Japan 28 years ago)
- Central American Highway link
- Pacific-Atlantic link via Panama Canal – El Salvador as a regional feeder
- However, La Union Port is low capacity
→ Build a new port with sufficient capacity and services





Components of Japan's ODA in El Salvador (ongoing)



KEY INFRASTRUCTURE

- **Construction of La Union Port**
- Rebuilding an old bridge (Honduras border)
- Digital map technology for efficient planning
- Urban development planning for La Union City

Social & Human RD

- MEGATEC La Union (training center)
- Primary schools & math
- Clean water
- Rural electrification
- Solid waste control

Support for Productive Sectors

- SME promotion
- Aquaculture
- Small-scale agriculture
- Reservoirs & irrigation
- Small-scale livestock

Eastern Region Development

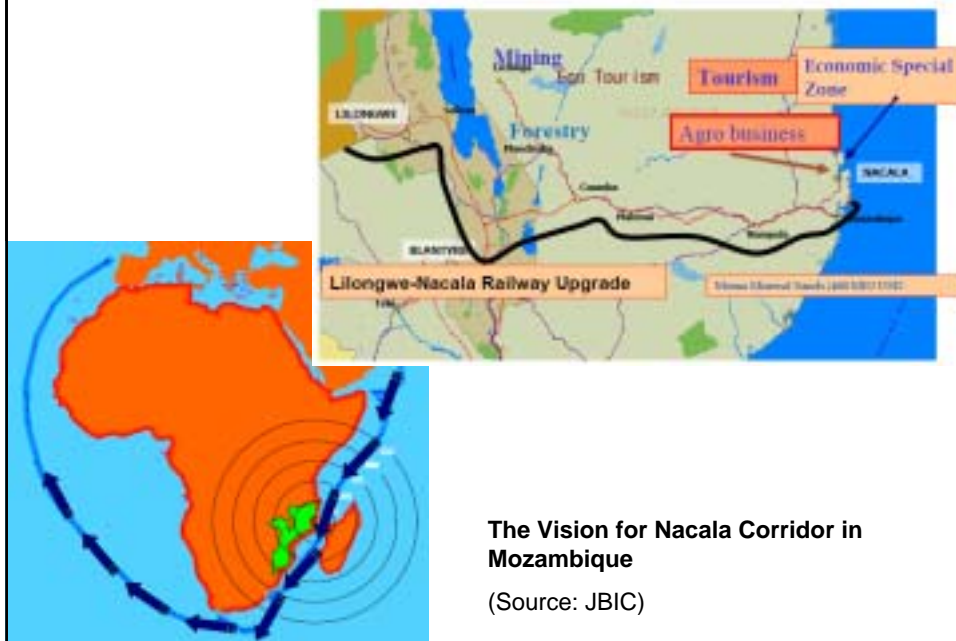
- La Union Port
- Plan Puebla Panama
- CAFTA & other FTAs
- Cent. Amer. integration
- M/P for Eastern Region

Greater Mekong Sub-region East-West Economic Corridor



**The Vision for
GMS in
Southeast Asia**
(Source: JBIC)

Nacala Development Corridor



**The Vision for Nacala Corridor in
Mozambique**
(Source: JBIC)

Conclusion: East Asian Policy Engagement



- Building new competitiveness from the country's strengths, not correcting general weaknesses.
- Goal-oriented approach—vision, phased strategies, concrete action plans.
- Focus effort strategically—don't waste time in general improvement without clear goals.
- Donor-recipient policy dialogue for trust, knowledge transfer, and strategy formulation.
- Long-term open-ended engagement rather than short-term outcome-based approach.