

Learning from East Asia's FDI-led Industrializing Economies

Preparing for New Problems and Scaling Up in Proper Steps



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As Light Manufacturing FDI Rushes into Ethiopia...

Lessons from East Asian high-growth economies become more relevant (both positive and negative):

1. Anticipating and avoiding industrialization bottlenecks

Rapidly industrializing countries face similar issues.

Whether they are solved competently or left unattended will determine the long-term fate of the economy.

2. Policy upgrading in proper steps

Key policy components must be installed in reasonable sequence. Fast introduction without adequate human resource or institutional capacity will lead to policy failure.

Common Problems in FDI-led Industrialization (Early Stage)

(K. Ohno's letter to PM Hailemariam, April 28, 2014)

For sustaining strong FDI inflow

- Steady improvement in business environment
- Maintaining wage competitiveness
- Selective and strategic FDI marketing
- SME promotion and FDI-local firm linkage

Coping with new problems

- Labor shortage (where FDI concentrates)
- Working & living conditions of workers
- Transport bottlenecks
- Irresponsible FDI (unlawful deals, worker mistreatment, pollution...)

East Asia & Ethiopia: Overview

	Per capita income (WB, 2013)	World Bank income classification	History of industrialization (approximately)	Industrial policy quality (GDF evaluation)
Singapore	\$54,040	High	Five decades	Excellent
Taiwan	\$20,930	High	Six decades	Very high
Malaysia	\$10,400	Upper middle	Six decades	High
Thailand	\$5,370	Upper middle	5.5 decades	Moderate & spotty
Indonesia	\$3,580	Lower middle	Five decades	Poor
Vietnam	\$1,730	Lower middle	Two decades	Poor
India	\$1,570	Lower middle	Two decades	Poor
Ethiopia	\$500	Low	One decade	Improving...

Note: Taiwan's income is from IMF. India's industrialization history counts post-planning years only.

Income Performance vs. Quality of Industrial Policy

	Very good
	Good
	Fair
	Fail

	Per capita income (WB, 2013, USD)	Ease of Doing Business ranking (WB, 2013, among 189 countries)	Industrial policy assessment by GDF (industrial human resource & enterprise support)							
			Overall	Human resource	Supporting industries	Manufacturing SMEs	Export promotion	FDI policy	Industrial parks	Productivity & innovation
Singapore	\$54,040	1	A+							
Taiwan	\$20,930	16	A		NA			NA		
Malaysia	\$10,400	6	B							
Thailand	\$5,370	18	B-							
Indonesia	\$3,580	120	D							
Vietnam	\$1,730	99	D							
India	\$1,570	134	D							

Note: Policy assessment excludes results of external factors, private effort or foreign support.

How Many Years Does It Take to Become a Singapore?

	Per capita income (WB, 2013)	Years required for reaching if Ethiopia maintained an annual per capita growth of				
		10.0%	8.0%	6.0%	4.0%	2.0%
Singapore	\$54,040	49.1	60.8	80.4	119.4	236.5
Taiwan	\$20,930	39.2	48.5	64.1	95.2	188.6
Malaysia	\$10,400	31.8	39.4	52.1	77.4	153.3
Thailand	\$5,370	24.9	30.8	40.7	60.5	119.9
Indonesia	\$3,580	20.7	25.6	33.8	50.2	99.4
Vietnam	\$1,730	13.0	16.1	21.3	31.6	62.7
India	\$1,570	12.0	14.9	19.6	29.2	57.8
Middle income threshold	\$1,036	7.6	9.5	12.5	18.6	36.8
Ethiopia	\$500	0.0	0.0	0.0	0.0	0.0

Business Environment

	WB Ease of Doing Business Ranking 2013	Remark
Singapore	1	World's top business location since 2007.
Taiwan	16	Reliable environment with low corporate income tax (17%); few incentives.
Malaysia	6	MIDA provides good services & support.
Thailand	18	Board of Investment supports investors well; policies are reasonably stable & predictable.
Indonesia	120	Laws & regulations are unpredictable, unclear & without stakeholder consultation
Vietnam	99	Improving slowly since mid 1990s, but irregularities still abound.
India	134	FDI deregulation & industrial zones underway. Generally very difficult business climate.
Ethiopia	125	Government's commitment & policy effort are laudable, but many business barriers remain.

Note: World Bank's Ease of Doing Business ranking among 189 countries and areas benchmarked to June 2013.

Wage and Productivity

	Unskilled monthly wage, JETRO Dec. 2013	Labor productivity increase per year, APO index 1970-2011	Labor market condition & issues
Singapore	\$1,433	3.3%	Highly competitive & professional; aged & foreign workers are less efficient.
Taiwan	\$1,054	4.9%	ICT & industrial engineers abound.
Malaysia	\$429	3.1%	Ethnic gap exists; high-tech shift aimed; labor-using processes sent abroad
Thailand	\$366	3.5%	Acute labor shortage; L-using processes sent abroad (Thailand-plus-One)
Indonesia	\$234	3.0%	Labor surplus; aggressive wage demand & labor dispute
Vietnam	\$162	4.5%	Labor shortage in urban areas; rural wages are still competitive
India	\$217	5.0%	Auto and IT sectors have well trained workers and engineers
Ethiopia	\$50	N.A.	Rapid growth of FDI workers in AA; future labor D&S and migration unknown

Note: Ethiopia's wage is not JETRO. Vietnam's labor productivity increase is for 1986-2011.

FDI, SME & IZ Policies

Assessment by GRIPS Development Forum based on site visits and interviews with officials, zone operators and client firms

	FDI policy	Manufacturing SME promotion & linkage	Industrial zones
Singapore	Highly strategic based on individual deals	Productivity support for targeted segments	State-owned & strategic; overseas expansion
Taiwan	(No longer important; outward bound)	Highly developed and effective	World model state-owned science parks & EPZs
Malaysia	High-tech orientation	Well-coordinated but results to be seen	Reasonably good
Thailand	Shifting to high-tech orientation	Generally weak except auto part suppliers	Many private IZs (AMATA...); modest state-management
Indonesia	Restrictive & unfriendly; nationalistic	Many scattered policies but ineffective; clusters	Left to private sector
Vietnam	Irregular though slowly improving	Almost none despite JICA/JETRO support	Many state, provincial, private IZs but many are plan only
India	Restrictive; only slowly opening	Almost none at policy level	State-managed; very hard land procurement
Ethiopia	Improving...	Generally weak except textile, leather, kaizen...	Initial zones under construction

Main Messages

- East Asia's income levels range from very high to poor; business environment & wage competitiveness also vary.
 - Attained income is highly correlated with the quality of core industrial measures.
 - The core components of industrial policy are **HUMAN and ENTERPRISE capacity building**—engineering education, TVET & matching, SMEs, FDI & linkage, IZs, export promotion...; these capacities must be built up over a long time.
 - Ethiopia, starting from low income & low policy capacity, must also be steadfast and patient, and proceed with a good long-term plan.
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- ➔ *Quality over Speed! (Phase 1)*
 - ➔ *Isogaba Maware! = "Slow and steady wins the race"*
 - ➔ *"Rome was not built in a day"*

Manufacturing Handholding?

PM Hailemariam (Feb. 25, 2014): “Can’t we adopt handholding for transforming traders into manufacturers who invest, take risks, and absorb technology?” (garment, leather, horticulture...)

My response (Apr. 28, 2014):

- HH is a comprehensive program involving planning, marketing, technology, finance, taxes, accounting, IT, linkage, labor, etc.
- JETRO can help 150-200 SMEs annually to break into new export markets because many competent experts are available in Japan. But most countries lack such experts to do large-scale HH.
- Ethiopia is building basic support functions such as kaizen, TVET, MSEs, FDI, export, sectoral institutes, etc. Ethiopian industrial experts are still scarce. If full-fledged HH is launched today, time & resources for basic functions will be overstretched.
- If HH is to be started, start with a small manageable scale that does not impinge too much on existing budget & human resources. Scaling up of pilot projects should be a future task.

Integrated & FDI-linked Technology Transfer (TT)

Technology transfer as an overarching policy objective

- TT to enhance quality, productivity & ownership
- Firm effort + policy support + international cooperation
- Targeted: light manufacturing & agro processing

Three policy pillars (to be built up and strengthened over time)

Targeted attraction of FDI & buyers

- General improvement of business climate
- Strategic marketing (bring light manuf. FDI from Asia)
- One-stop service
- Efficient logistics
- Hard & soft infrastructure
- Fast & reliable customs
- Industrial parks
- Reform laws, EIA, ERCA...

Linkage policy

- Incentives, subsidies & policy support for TT
- Matching of business & JV partners
- Handholding
- Effective follow-up & monitoring

Local enterprise capacity building for linkage

- Kaizen
- Benchmarking
- Management training
- Sector-specific TT & QCD
- Export marketing (incl. champion products)
- TVET
- Strengthening support agencies: EKI, TIDI, LIDI...

Ethiopia: A Step-by Step Approach to Policy Upgrading & Expansion

Function	Now	Intermediate solution	Final solution (suggested)
MSE support	TVET, Femseda, Remseda System and master plan are laid out but support functions remain weak	Scale up & enhance quality of support; carry out Domestic Private Sector transformation; pilot handholding (HH)	Fully developed MSE support with sufficient experts, handholding, etc.
Large & medium enterprise support	TIDI, LIDI, MIDI... (sectoral); EKI (functional) Support functions under development	Strengthen existing institutes; train more experts; improve technical support functions; pilot HH	Well-developed sectoral & functional institutes with efficient division of labor & ample experts; effective handholding
FDI marketing & investor services	Top sales, Business Diplomacy (attraction); EIA, TIDI, LIDI (support) Still insufficient	Strengthen EIA's functions; reduce TIDI & LIDI roles	EIA with full functions accompanied by top sales diplomacy
FDI-local linkage	Very little	LIDI, TIDI, EIA & EKI to jointly launch pilot HH; JICA & HIDA supporting Japan-local firm linkage	Full linkage program by EIA (general) & sectoral institutes (priority sectors)
Export promotion	Export Steering Committee; TIDI, LIDI, ministries; champion product initiative; Export Promotion Unit just established under MOT	Enhance export promotion unit and upgrade to agency; reduce TIDI & LIDI roles	Fully developed export promotion agency with strategic marketing & increasing champion products
Industrial zones	Industrial Zone Dev. Corp.; state-owned WB-supported industrial zones	Strengthen planning & management capability; invite private operators	Proper public-private partnership with less state involvement