

# Ethiopia-Japan Industrial Policy Dialogue

What We Discuss and How We Interact



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**GRIPS Development Forum**  
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# Learning to Industrialize

## From Given Growth to Policy-aided Value Creation

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- ❑ True development is **value creation** by people and domestic enterprises, not becoming rich thanks to oil, gas, diamond, copper, FDI, aid, big projects, etc.
- ❑ Growth due to *given advantage* (luck), not by human effort, will sooner or later slow down (Middle Income Traps).
- ❑ ***Policy learning (mindset & policy method)***—(i) collecting and comparing international best (and worst) policy practices; and (ii) based on this rich information, building a general capability to create policies that fit your country.
- ❑ ***Policy dialogue***—candid, concrete and pragmatic discussion between a developing country government and experts & officials from more advanced countries (Japan/East Asia), followed by actual project implementation.
  - Individual tutoring—no standard manual or pre-set agenda; all students are different and times are changing.
  - Serious & flexible interaction between teacher & student based on mutual respect and high aspiration.

# Standard Policy Menu in East Asia

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- ❑ *Kaizen* (productivity improvement philosophy & tools)
- ❑ *Shindan* (SME management consultant system)
- ❑ Engineering universities (King Mongkut ITK, Nanyang Polytechnic, Thai-Nichi Institute of Technology...)
- ❑ TVET-business linkage (Singapore, Thailand...)
- ❑ SME finance (two-step loans, credit guarantees...)
- ❑ Integrated export promotion (Korea)
- ❑ Industrial zone development (Taiwan, Korea, Thailand, Malaysia, Singapore...)
- ❑ Strategic FDI marketing (Thai BOI, Malaysia's MIDA, Penang, Singapore)
- ❑ Supporting industry promotion (parts & components; Thai auto)

# Japan's Policy Dialogue with Developing Countries

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

# Japan's Industrial Policy Dialogue with Vietnam

Program	Period	Principal actor(s)	Content
Ishikawa Project (Study on the Economic Development Policy in the Transition toward a Market-oriented Economy in Vietnam)	1995-2001 (3.5 phases)	MPI-JICA	Joint research on macroeconomy, fiscal and financial issues, agriculture, industry, integration, currency crisis, SOE reform, and PSD; based on the principle of country ownership and mutual respect, with emphasis on long-term real sector development.
New Miyazawa Initiative (Economic Reform Support Loan)	1999-2000	JBIC	Quick disbursing loan of 20 billion yen with conditionalities in PSD, SOE auditing, and tariffication of non-tariff barriers. Action plans in PSD were monitored and evaluated.
JICA-NEU Joint Research on Vietnam's Industrialization Strategy	2001-2003	JICA-NEU with Japanese researchers	Bilateral policy research by university researchers on selected industrial issues and sectors: AFTA, WTO, FDI, motorcycles, steel, textile and garment, footwear, electronics, and software.
Vietnam-Japan Joint Initiative to Improve Business Environment with a View to Strengthen Vietnam's Competitiveness	2003-	MPI-4J, Keidanren	Two-year cycle agreement and implementation of dozens of concrete action plans which were monitored and reported to high-level, with initial focus on removal of business impediments and added emphasis on strengthening of local industrial capabilities.
Joint Work between Vietnam and Japan to Strengthen the Competitiveness of Vietnamese Industries	2004	MPI-4J	Analyses by Vietnamese and Japanese experts as inputs to the drafting of the Five-year Plan 2006-2010, with attention on industrial policy formulation and competitiveness of individual industries (automobile, electronics, supporting industries, etc).
Joint drafting of Motorcycle Master Plan under MOI and VJJI2	2006-2007	Joint Working Group (MOI, VDF, producers, experts)	Drafting of master plan following new content and method, with active participation of large motorcycle assemblers and interaction with other stakeholders; VDF serving as facilitator. Master plan, after significant editing, was approved in August 2007.
Drafting and implementation of supporting industry development action plan	2008-	3J, MOIT, MPI	To implement supporting industry development master plan of 2007, action plan with clear time schedule and executing agents, together with proposed Japanese assistance, was proposed. Agreement with Vietnam was not reached but Japanese assistance projects began to be executed and monitored.
Vietnam's Industrialization Strategy	2011-	DPM Hai, MPI/CIEM, METI, 3J	Based on past and current industrial studies, a small number of industries and/or regions are to be chosen to receive concentrate policy effort and Japanese cooperation to produce new industries in Vietnam.

# Ethiopia-Japan

## Industrial Policy Dialogue

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PM Meles requested Kaizen & policy dialogue with Japan on the occasion of IPD-JICA Africa Taskforce Meeting (chaired by Prof. J.E. Stiglitz) in Addis Ababa, July 2008.

### **Kaizen** (JICA support)

- Phase 1 (2009-11)—30 pilot firms improved
- Phase 2 (2011-14)—EKI established, 249 firms coached, a total of 409 kaizen consultants trained
- Phase 3 (2015-2019)—advanced kaizen

### **Policy dialogue** (by GRIPS & JICA)

- 14 sessions held so far with PM, ministers & operational level. Also, letter exchange, policy proposals & third country missions.
- Study concrete cases in Asia & Africa, and propose pragmatic policies based on Ethiopian reality.
- JICA cooperation to facilitate implementation.

# Industrial Policy Dialogue & Kaizen

2008      2009      2010      2011      2012      2013      2014      2015      2016

**PM Meles**

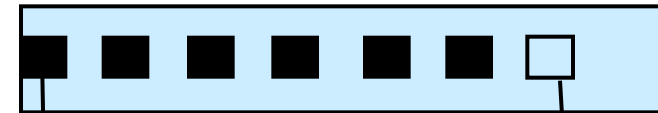
**PM Hailemariam**

## Industrial Policy Dialogue

**Preparation**

**Phase 1 (2009-11)**

**Phase 2 (2012-15)**



Africa Taskforce Meeting Jul. 2008

Official launch Jun. 2009

Final session May 2011

Start Jan. 2012

TICAD V  
Malaysia mission  
PM Abe visit

Next session Jan. 2015

**JICA's Industrial Cooperation**

**Kaizen Phase 1**  
(30 pilot companies)

**Kaizen Phase 3**  
(Advanced level)

**Kaizen Phase 2**  
(Institution & human resource)

Metal industry survey

(With Germany)

Champion Products

Branding & promotion

**Note: Black boxes indicate three-level policy dialogue in Addis Ababa (PM, ministers, operational level).**



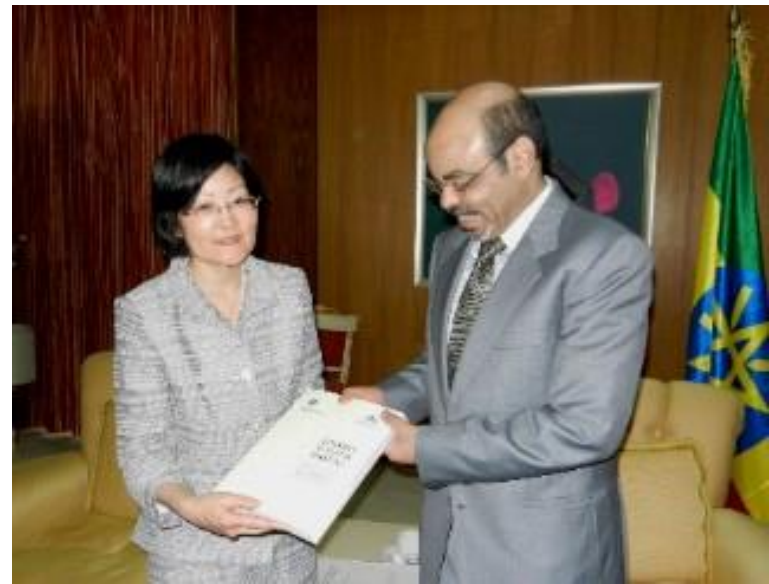


With Former PM Meles at PM Office

Chief Economic Advisor Newai



Presenting JICA's Kaizen Report







High Level Forum (Aug. 2014)



Lecture at Civil Service University  
(Economic Development of Japan)

At MOFED



# Topics Discussed at HLF

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## Phase 1

- ❑ Policy method of East Asia; individual country studies
- ❑ Applicability of kaizen to Ethiopia; international comparison of kaizen movement
- ❑ Discussing existing & new five-year plans
- ❑ Basic metal & engineering industry survey, etc.

## Phase 2

- ❑ Creating champion products
- ❑ Strategic FDI attraction—Malaysian experts & mission
- ❑ FDI-linked technology transfer
- ❑ Handholding
- ❑ “Vision” & “Productivity & Competitiveness” for GTP2
- ❑ Attracting Japanese firms to Ethiopia
- ❑ Industrial zone development

# Letter from GRIPS to PM (Apr. 2014)

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- ❑ With manufacturing FDI inflow, Ethiopia is starting on a path to FDI-led industrialization like East Asia. East Asian experiences will become more relevant.
- ❑ To accelerate FDI, better business climate, strategic FDI marketing, wage increase not exceeding productivity increase, and SME support are needed.
- ❑ Labor shortage in certain locations & skills and logistic bottlenecks must be anticipated and solved.
- ❑ To inculcate kaizen philosophy, we advise launching Kaizen Month (→launched in September).
- ❑ Various industrial measures should be strengthened in proper steps & sequences instead of hasty introduction. Japan will support Ethiopia's policy effort.

# Suggestions for GTP2 (Sep. 2014)

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- ❑ Proposing concrete targets for Vision 2025 (middle income & light manufacturing leader in Africa).
- ❑ MOI & MOT should be reunited and strengthened.
- ❑ Kaizen should be the main pillar for productivity enhancement. Concrete kaizen targets are proposed.
- ❑ Wage and labor productivity data for Ethiopia and Asian economies are provided.
- ❑ To improve FDI policy, mind WB's Doing Business ranking, prepare industrial zones properly, and strategically invite (Japanese) FDI.
- ❑ Additional proposals for manufacturing SMEs, MOI's institutes, handholding, national image building, etc.

# Very Eager to Invite Japanese Firms

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- While Turkish, Indian and Chinese firms arrive in large numbers, the Ethiopian government eagerly waits for the arrival of Japanese firms. Japanese firms are expected to be long-term partners and strengthen Ethiopian firms.
- Passionate call to Japan (PM, PM Office, MOI)
  - “Please establish a JETRO office.”
  - “We will build factory sheds or an industrial zone reserved for Japanese. We welcome Japanese IZ developers, but if they don’t come, we will build them anyway and wait for Japanese companies.”
- Our initial response
  - Japanese investors are very cautious and last ones to arrive in a new economic frontier.
  - We invest heavily in East Asia, and are currently interested in Myanmar & India. Africa is far and still out of our radar screen.



# Uniqueness of Japanese Companies

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- ❑ **Manufacturing-oriented**—we prefer manufacturing rather than quick trade, real estate or mining.
- ❑ **Monozukuri spirit**—we are proud of *gemba* and pursue quality & customer satisfaction.
- ❑ **Long-term orientation**—we are slow to come to frontier countries but, once invested, we will stay even with difficulties.
- ❑ **Enhancing local capability**—many Japanese firms are willing to train HR & improve partner companies.
- ❑ **Legal compliance**—we observe local laws on labor, tax, environment, etc. better than others.

Japan may be a maverick in the world of quick profits & flexible partnership. But developing countries will notice and value our business conduct in the long run.



# Prime Minister Hailemariam

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“From my days of Foreign Minister, I saw and heard the wonderful functions and activities of JETRO [Japan External Trade Organization], and wanted to invite it to Ethiopia. My hope is to have Japanese investors and trading companies in Ethiopia; the current number is too small. PM Abe’s visit here may have improved our image in Japan. I want JETRO because I believe it will persuade Japanese firms on the ground to come here. The presence of Japanese firms will become a role model and teach us many things. This will not happen with companies from other countries.” (at PM Office, Feb. 25, 2014)

“Studying kaizen will not produce real results unless Japanese firms come and teach us.”

“I am optimistic. Previously your ambassador said no Japanese investor would come. But now situations are changing.”

# Our Current Works (Other than Kaizen)

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- ❑ **FDI marketing in Japan**—in cooperation with Ethiopia, we supply information which has value to Japanese investors (Ethiopia Light Manufacturing Workshop in Tokyo, “Ethiopia Information Kit for Japanese Businesses”)
- ❑ **Suggesting industrial zone design & services**—we explain to Ethiopians how Japanese IZ developers in developing Asia solve various problems—IZ ownership & management; customs, foreign currency & land clearance; power failure; special support for SMEs, etc.
- ❑ **Exploring possible Japanese support**—brainstorming among METI, MoFA, JICA, JETRO, JBIC & GRIPS to find ways to combine available measures to accelerate Japanese FDI to Ethiopia.
- ❑ **National re-branding (JICA)**—Dentsu & FASID are producing ideas & materials to elevate Ethiopia’s image.

# Our Proposal to Japanese Companies

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- ❑ Ethiopia may not be an investors' paradise yet, but it has good, low-cost labor and it is very serious about industrial learning. No other African country is like this.
- ❑ Please practice what you do everywhere else.
  - Go for long-term mutual benefit, not for short-term gain.
  - Combine what Ethiopia has with Japanese technology & method, and produce high quality.
  - Teach Ethiopian managers, engineers and workers.
- ❑ Please use EKI, TIDI, LIDI, etc. for improving your factory and/or partner companies.
- ❑ If you face any policy problem (regulation, customs, tax...), please contact the Japanese Embassy (or JICA, JETRO, GRIPS). We will use all available means, including policy dialogue with Ethiopia & working with other investor countries, to solve your problem.

# Final Remarks

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- ❑ Ethiopia's **resolve to industrialize and learn from Japan & East Asia** is remarkable. Such resolve is not seen in Vietnam or Indonesia.
- ❑ If this resolve is combined with **enhanced policy capability**, sustainable growth will be achieved. Ethiopia has a long way to go in policy learning, but Japan wants to be a good friend & teacher. We will continue to say "quality over speed."
- ❑ Japan is a small player in ODA & FDI in Ethiopia. But we are proud to engage in bilateral policy dialogue more pragmatically than other development partners. We value sincerity, frankness and mutual trust.