

# Industrial Policy Quality and Policy Learning

## A Comparative Study in Asia and Africa



Ministry of Finance, Ghana (2012)



German Technical Training Institute, Sri Lanka (2017)



PM Phuc & Industry Minister Tuan Anh, Vietnam (2018)



The Ethiopian delegation meets SME Corp. in Malaysia (2013)

**Kenichi Ohno (GRIPS)**  
**Djibouti, February 2019**

# Introductory Remarks

## Nations Are Not Equal, and Policy Learning Is Critical

- Development performance differs greatly across nations. Some nations quickly reach high income while others slow down or stagnate at low or middle income.
- In my view, this mainly reflects differences in **private dynamism** and **policy quality**—not amounts of aid, trade, FDI, natural resources, big projects, or initial difficulties.
- Nations must learn **mindset** (heart) and **method** (brain) to attain high income. Active and wise policy is needed. Minimalist government is not advisable.
- For policy learning, recommended methods include (i) international comparison, (ii) attention to concrete details, and (iii) proper tutoring by experienced foreign experts.

# Working Hypothesis

**Hypothesis**—the lack of quality in industrial policy is the main cause of a middle income trap (or any other long-term growth problem).

**Corollary**—high-quality policy that actively supports private sector's value creation is required to escape a developmental trap. Freeing and opening markets is not enough.

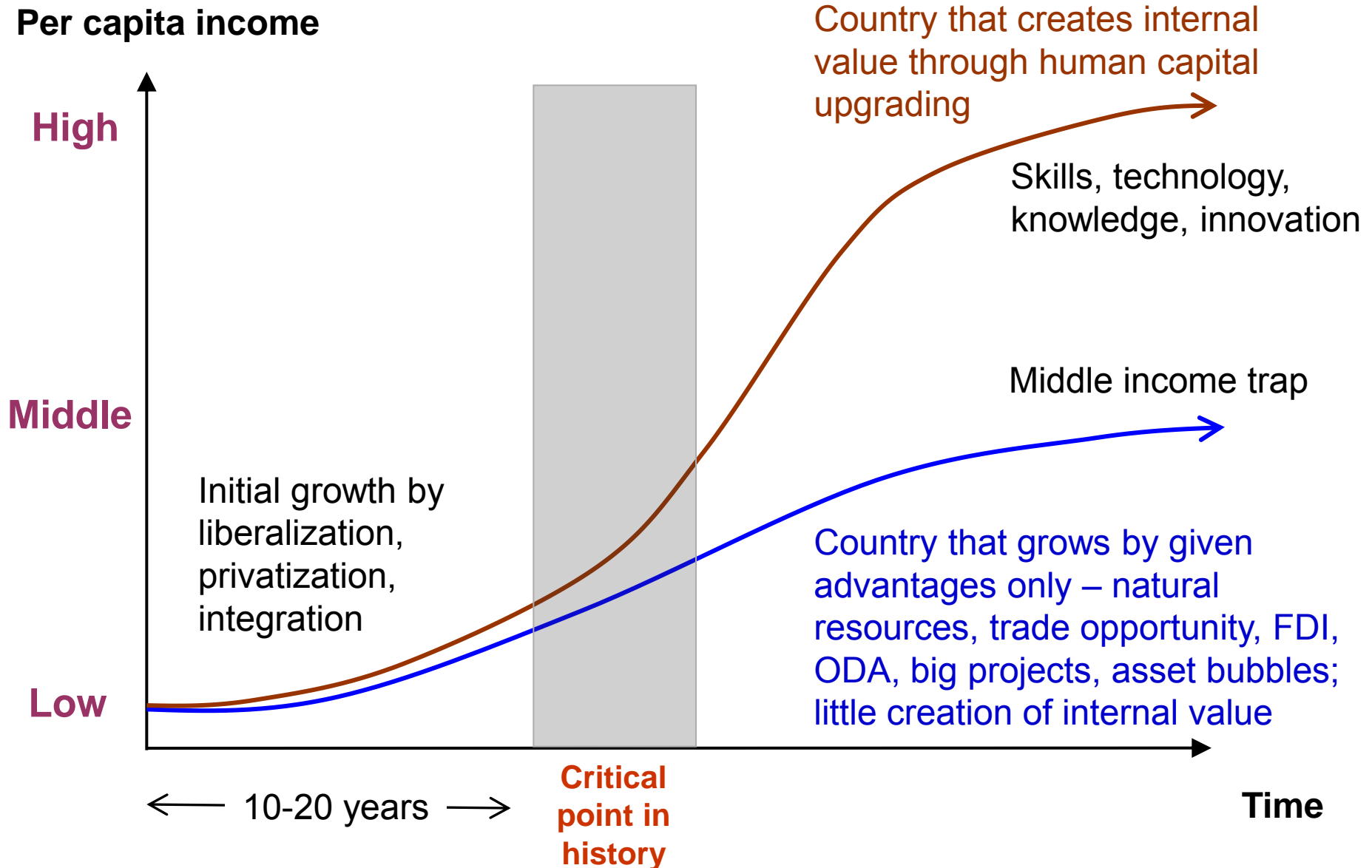
Other factors such as history, ODA, FDI, geography, natural resources, ethnic issues and domestic, regional and global politics define initial conditions and certainly do matter; but ultimately and in the long run, economic performance is determined by leadership capacity and policy quality.

# Middle Income Traps

## My structural definition

- Inability of a nation to create and augment value beyond what is delivered by “given advantages.”
- “Given advantages” include natural resources, cheap and young labor, new trade opportunities, FDI, aid, locational and geopolitical advantages, big projects, etc.
- Endowment of natural resources is a disadvantage for industrialization—the Dutch Disease (factor bias and overvaluation), lack of proper mindset and hard work, diverted interests, corruption and political lobbying.
- An economy starting from a very low level may grow rapidly for a decade or two even without good policy. But one-time freeing effect will eventually end.
- A trapped country may still grow, but at a speed too slow to reach high income even in the long run.

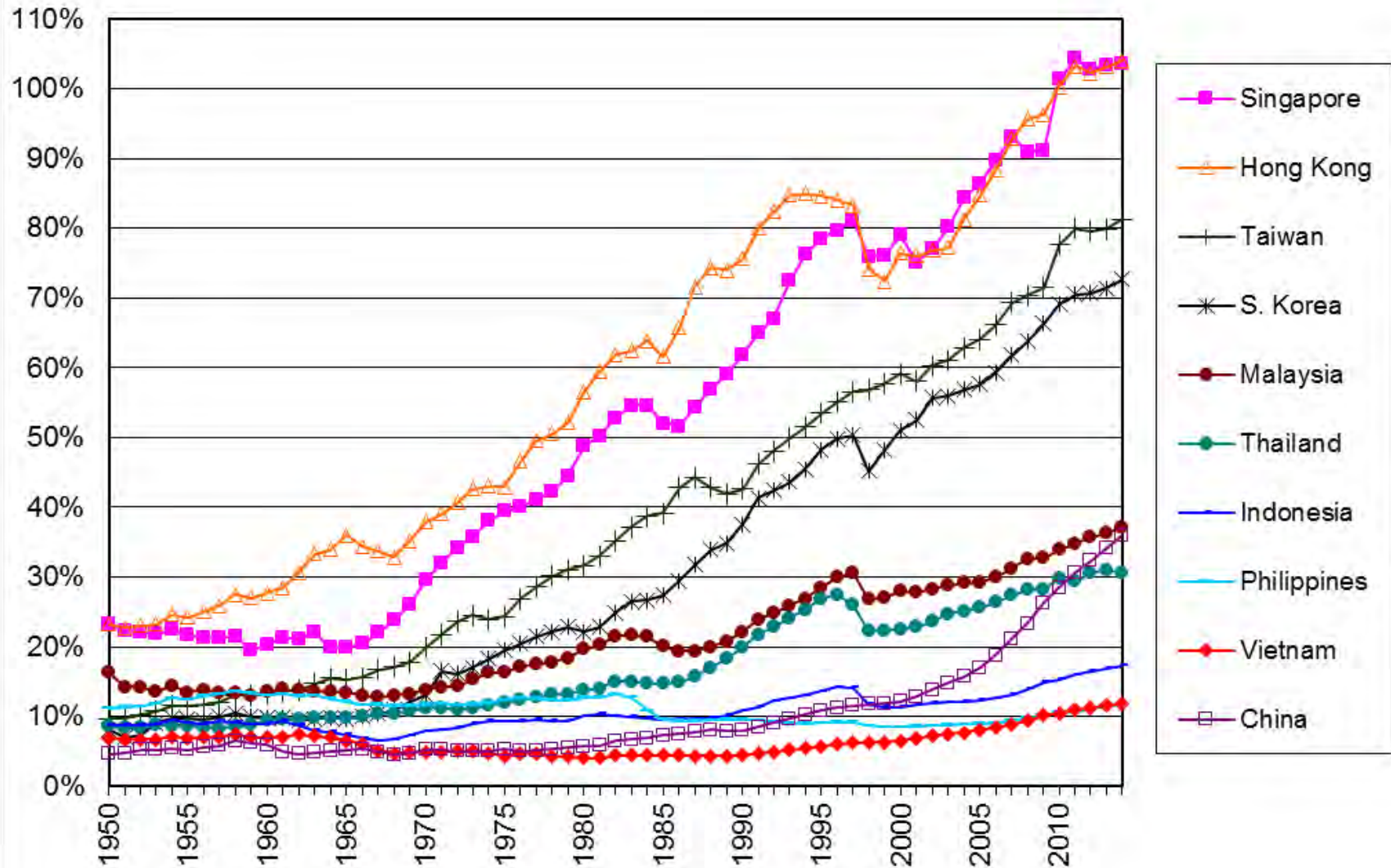
# Why Do Countries Diverge?



# Speed of Catching Up: East Asia

## Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)

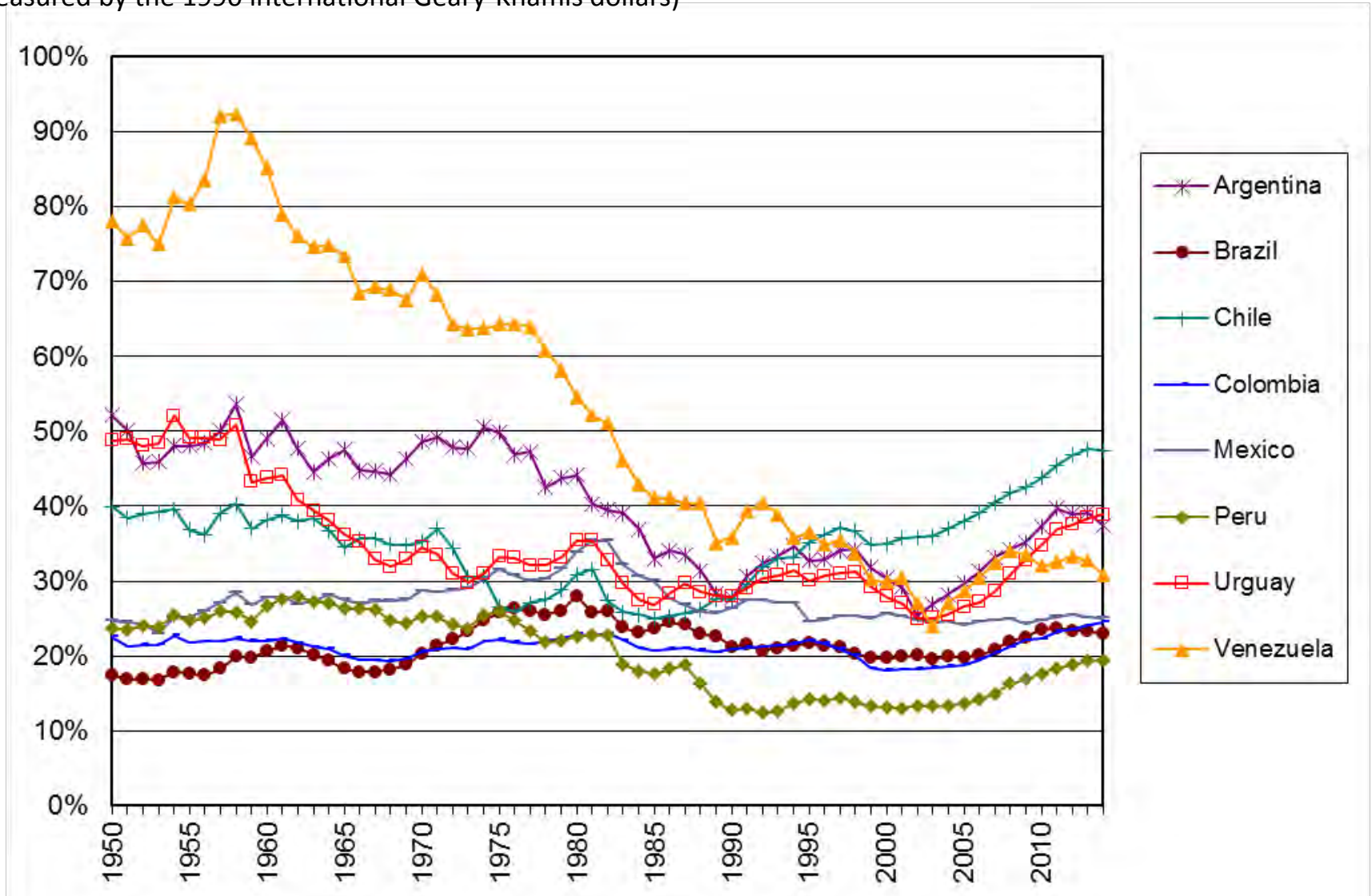


Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database* (for updating).

# Latin America

## Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)

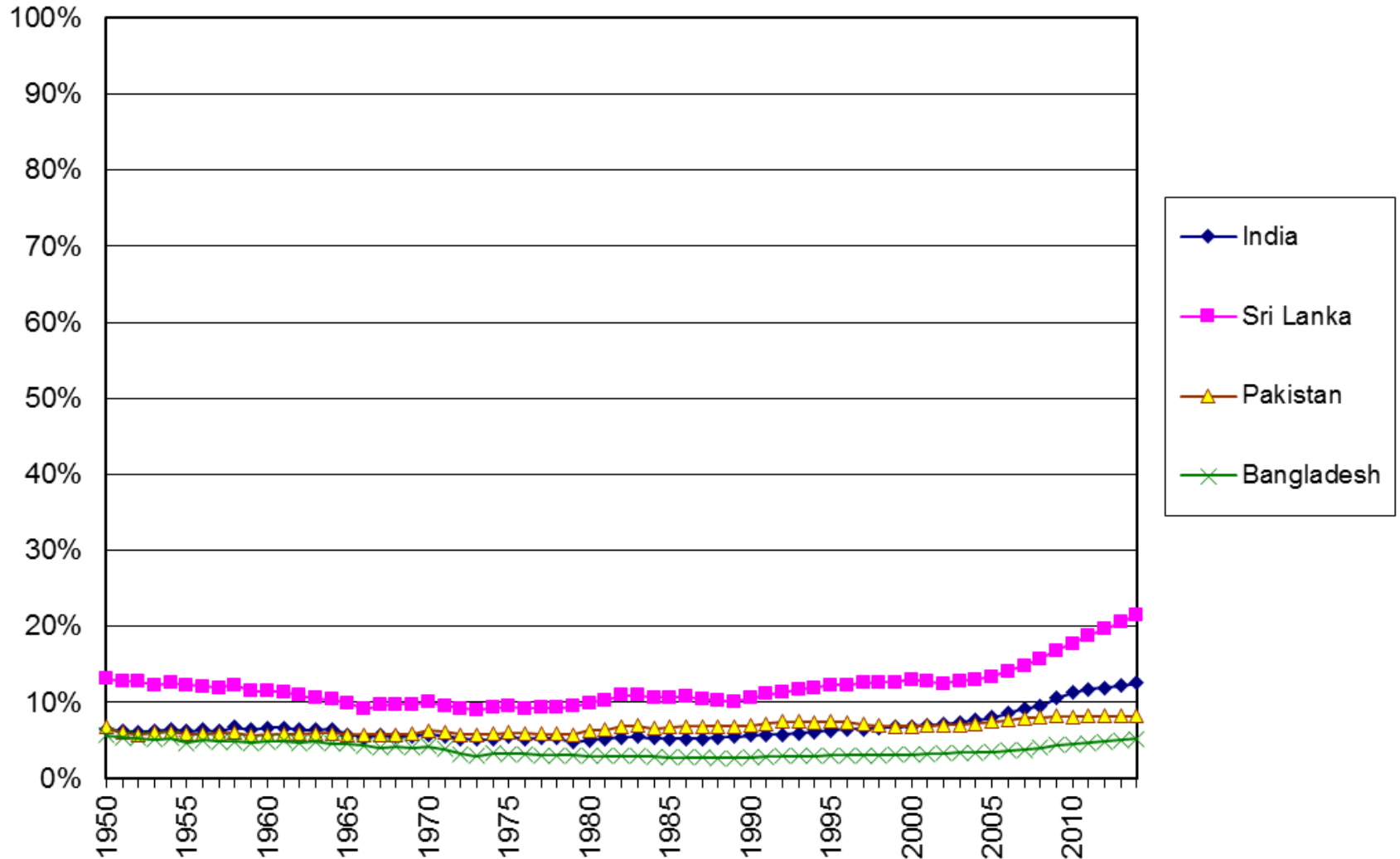


Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database* (for updating).

# South Asia

## Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)



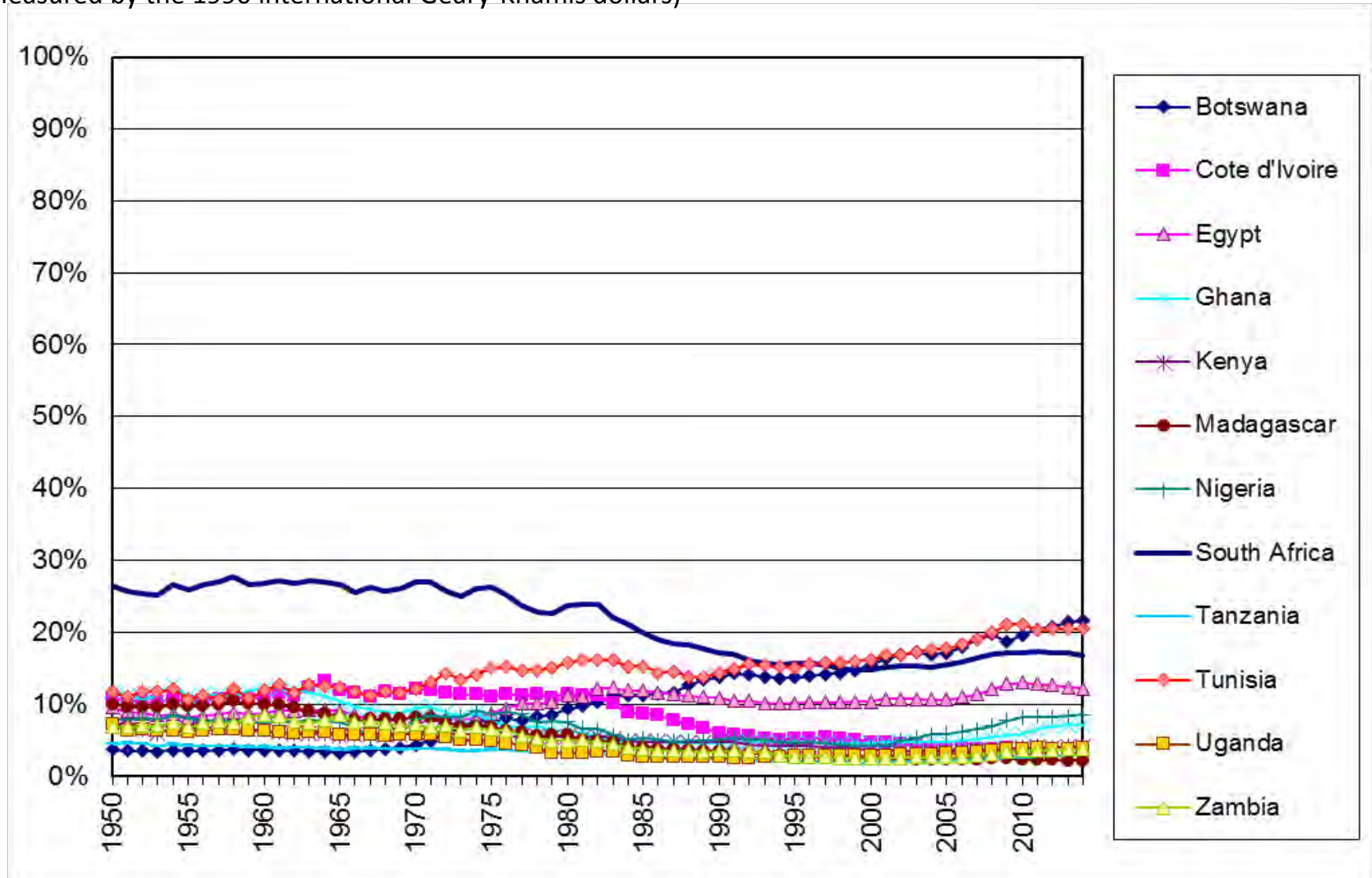
Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database* (for updating).



# Africa

## Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)

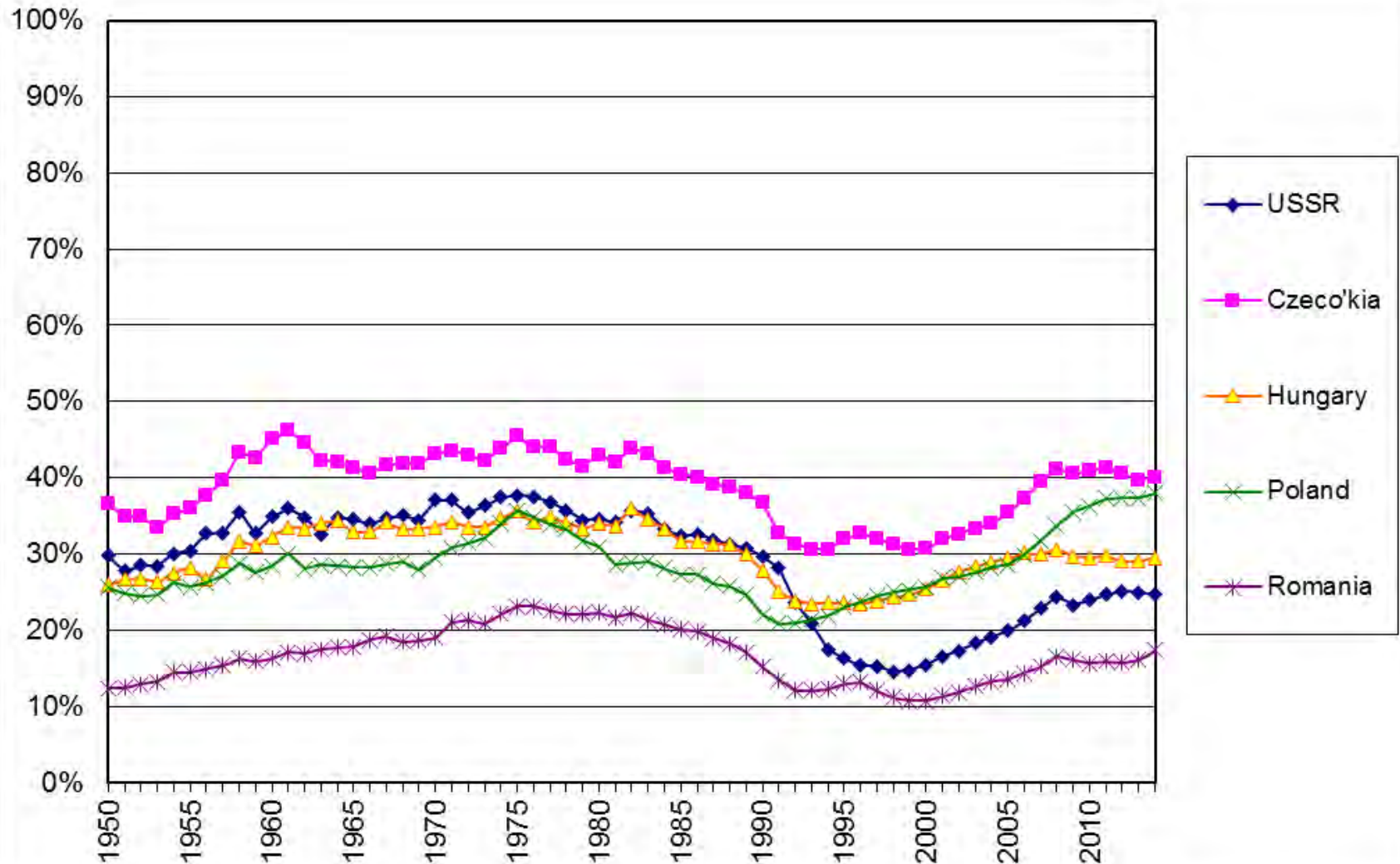


Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database* (for updating).

# Russia & Eastern Europe

## Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)

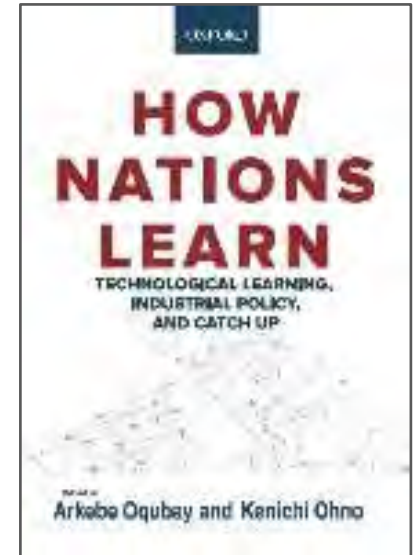


Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database* (for updating).

# How Nations Learn

Co-edited by Arkebe Oqubay & K. Ohno, Oxford Univ. Press, 2019

1. Catch-up requires international benchmarking, foreign stimulus, private & government learning, collective national passion, and pragmatism.
2. There are both common policy requirements and locally unique adjustments.
3. Strategic diversity to fit each societal features.
4. There must also be diversity in concrete project design and execution for each society and sector.
5. 19th, 20th and 21st centuries have offered radically different policy environments.
6. Policy learning (by government) and technology learning (by private sector) must be combined.
7. Nations (macro), sectors (meso) and firms (micro) must all learn.
8. Passion is required for state leaders, CEOs, engineers and workers.



# Policy Structure for Industrialization

## **ENABLING POLICY**

(providing environment for value-creation and competitiveness)

**Industrial  
infrastructure**

**Efficient  
logistics**

**SOE reform**

**Good business  
environment**

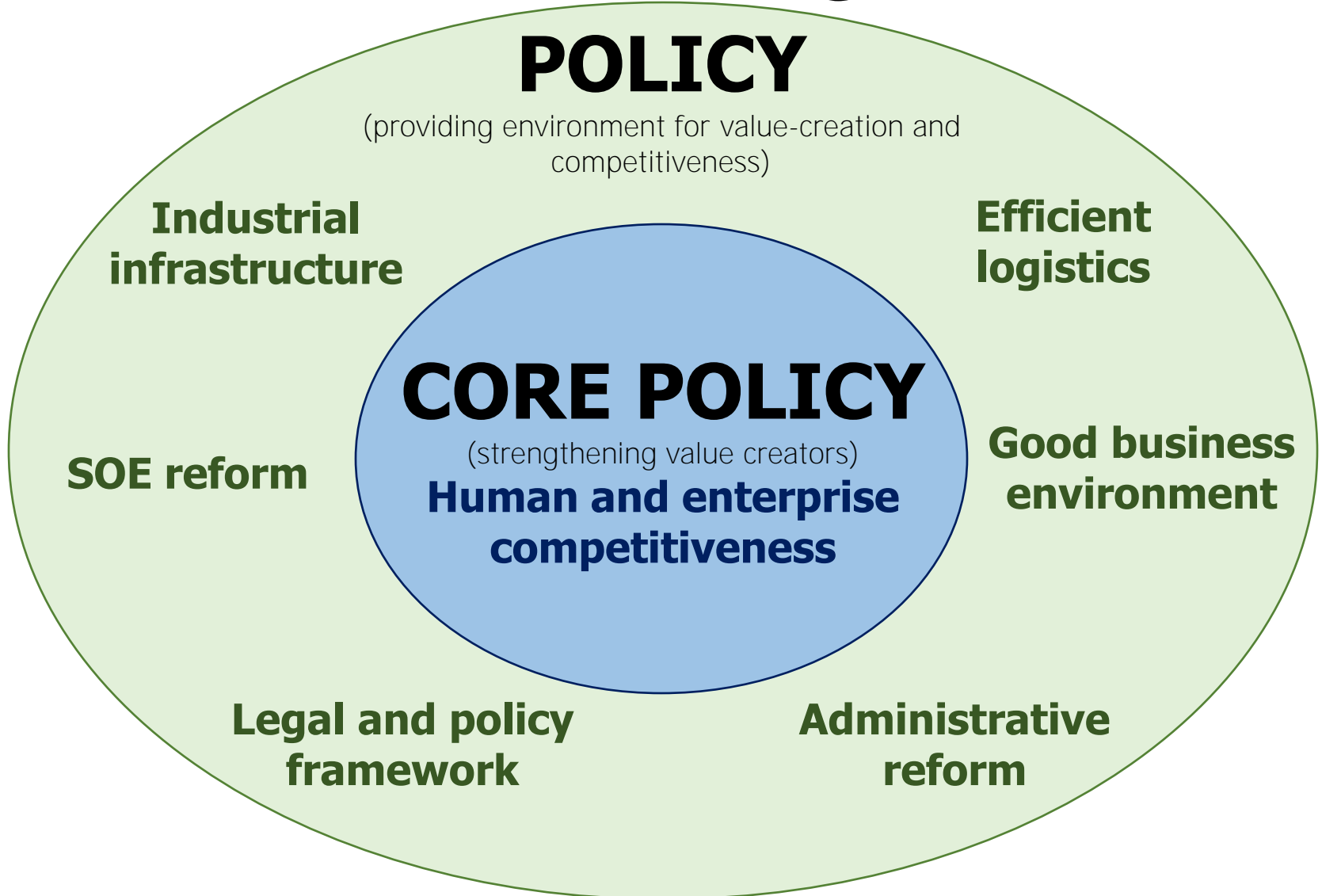
## **CORE POLICY**

(strengthening value creators)

**Human and enterprise  
competitiveness**

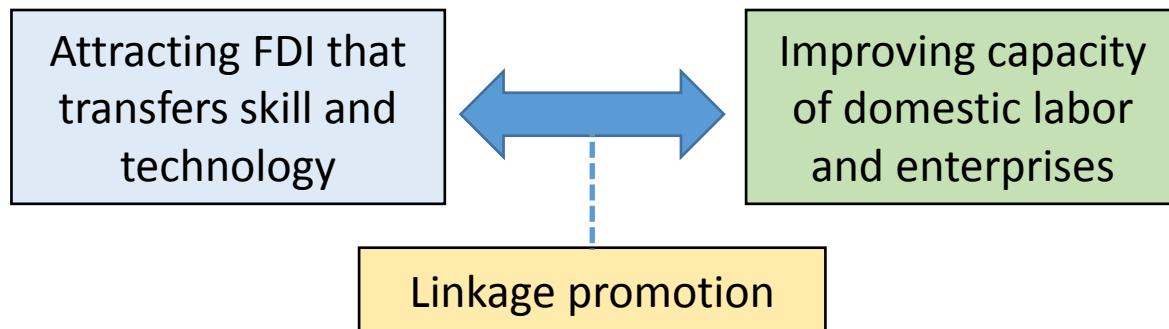
**Legal and policy  
framework**

**Administrative  
reform**



# General Policy Suggestion for Countries Receiving Manufacturing FDI

- **Set targets**—to reach middle income, overcome a middle income trap or reach high income, a few concrete and verifiable targets should be set (e.g., annual labor productivity growth of x%, manufacturing export share of x%, domestic value creation of x% in key industries, etc.)
- **National Productivity Movement** should be started and sustained for several years (contents can be studied from global experiences).
- For countries that receive large amounts of FDI, strategy should consist of (i) inviting **high-quality FDI**, (ii) improving **domestic capacity**, and (iii) **linkage** between them.



# FDI Attraction Factors

## Why Foreign Investors Arrive or Stay Away

**Compelling factors**—if a nation has any one of these, FDI will pour in even if other conditions are missing or inferior.

1. Natural resource
2. Large/growing domestic demand
3. Labor advantage (cheap & good labor; or expensive but excellent labor)
4. (Export privileges such as AGOA & EBA)

**Supporting factors**—it's nice to have these, but these alone (without compelling factors) will not bring much FDI.

1. Infrastructure (power & logistics)
2. Favorable business conditions (WB ranking)
3. Incentives, industrial parks, one-stop service
4. Investment seminars, website, brochure, campaign, etc.

# International Comparison of Industrial Policy Quality

- The GRIPS Development Forum has visited Asia and Africa to compare industrial policy quality.
- **Asia**—**Vietnam**, Singapore, Taiwan, Korea, Malaysia, Thailand, Indonesia, India, Cambodia, Sri Lanka
- **Africa**—**Ethiopia**, Rwanda, Mauritius, Mozambique, Zambia, Tanzania, Ghana, Uganda, South Africa
- We evaluate policy formulation, implementation and impact. Industrial growth due to pure private effort, foreign assistance /investment or sheer luck is not counted as “good policy.”
- In policy quality, Asia is not always superior to Africa. Some African countries (Mauritius, Rwanda, Ethiopia) practice better industrial policy than Vietnam or Indonesia.

# The Scorecard for Vietnam

**Date: May 2015** (based on policy research 1995-2015)

	Evaluation of industrial policy sub-components										Average
	Industrial human resource	Domestic enterprise development	Business climate	Power and logistics	Export promotion	Strategic FDI marketing	Industrial parks	Supporting industries & FDI-local firm linkage	Productivity, technology & innovation	Standards and testing	
Policy ownership	2	2	3	3	2	3	4	2	2	2	<b>2.5</b>
Vision & commitment of top leader(s)	1	1	2	3	2	2	2	2	1	1	<b>1.7</b>
Policy drafting procedure	2	2	1	3	1	1	1	1	1	2	<b>1.5</b>
Authority & capacity of policy organizations	2	3	2	3	2	2	3	2	2	2	<b>2.3</b>
Mindset & competency of individual officials	3	2	2	2	2	2	2	2	2	2	<b>2.1</b>
Budgeting & staffing	2	3	2	4	2	2	2	2	2	2	<b>2.3</b>
Inter-ministerial coordination	1	1	1	1	1	1	1	1	1	1	<b>1.0</b>
Involvement of key non-official stakeholders	2	2	2	2	2	2	3	2	2	2	<b>2.1</b>
Monitoring & evaluating mechanisms	0	0	2	3	0	0	1	0	0	0	<b>0.6</b>
Impact on real economy	0	2	3	4	2	2	3	1	1	1	<b>1.9</b>
<b>AVERAGE</b>	<b>1.5</b>	<b>1.8</b>	<b>2.0</b>	<b>2.8</b>	<b>1.6</b>	<b>1.7</b>	<b>2.2</b>	<b>1.5</b>	<b>1.4</b>	<b>1.5</b>	<b>1.8</b>
<b>GRADE</b>	<b>D</b>	<b>D</b>	<b>C</b>	<b>C</b>	<b>D</b>	<b>D</b>	<b>C</b>	<b>D</b>	<b>D</b>	<b>D</b>	<b>D</b>
<b>Remark</b>	Fragmented over MOET, MOLISA, MOIT, etc.	MPI & MOIT measures weak	Better than 1990s but still much room for improvement	Many ODA projects; improving significantly	Ministerial level only; not a national drive	Policy weak & decentralized but FDI comes	Too many, too decentralized; some effective	Much talk, little action except int'l cooperation	No realistic or pragmatic policy	Ineffective policy design & implementation	

Notes:

- Evaluation: 0 (non-existent or worse), 1 (little), 2 (some), 3 (moderate), 4 (good), 5 (excellent).
- Evaluation of policy prepared and implemented by government only; results obtained by private effort, international cooperation or external conditions are not included.
- Letter grades: A+ (4.5 or above), A (<4.5), B (<4), C (<3), D (<2), F (<1).



# The Scorecard for Ethiopia

**Date: May 2015** (based on policy research 2008-2015)

	Evaluation of industrial policy sub-components										Average
	Industrial human resource	Domestic enterprise development	Business climate	Power and logistics	Export promotion	Strategic FDI marketing	Industrial parks	Supporting industries & FDI-local firm linkage	Productivity, technology & innovation	Standards and testing	
Policy ownership	5	3	3	4	5	5	5	3	5	2	<b>4.0</b>
Vision & commitment of top leader(s)	5	3	3	4	5	5	5	4	4	3	<b>4.1</b>
Policy drafting procedure	2	1	2	2	3	4	4	1	3	2	<b>2.4</b>
Authority & capacity of policy organizations	3	2	2	3	3	4	5	2	2	2	<b>2.8</b>
Mindset & competency of individual officials	3	2	1	2	4	4	4	2	3	2	<b>2.7</b>
Budgeting & staffing	4	2	2	4	5	5	5	1	3	2	<b>3.3</b>
Inter-ministerial coordination	1	1	1	3	3	3	3	2	3	1	<b>2.1</b>
Involvement of key non-official stakeholders	2	2	2	3	3	3	3	2	3	2	<b>2.5</b>
Monitoring & evaluating mechanisms	3	1	1	2	5	5	5	1	3	2	<b>2.8</b>
Impact on real economy	2	2	0	4	3	5	5	2	3	2	<b>2.8</b>
<b>AVERAGE</b>	<b>3.0</b>	<b>1.9</b>	<b>1.7</b>	<b>3.1</b>	<b>3.9</b>	<b>4.3</b>	<b>4.4</b>	<b>2.0</b>	<b>3.2</b>	<b>2.0</b>	<b>3.0</b>
<b>GRADE</b>	<b>B</b>	<b>D</b>	<b>D</b>	<b>B</b>	<b>B</b>	<b>A</b>	<b>A</b>	<b>B</b>	<b>B</b>	<b>C</b>	<b>B -</b>
<b>Remark</b>	TVET, engineering universities	Fragmented	Limited action to improve business climate	Infrastructure still deficient but improving	Good policy, execution needs more improvement	Main policy focus; good results	Main policy focus	Policy will exist; further development required	Strong political will; kaizen & national movement	TIDI, LIDI, etc.; but generally under-developed	

Notes:

- Evaluation: 0 (non-existent or worse), 1 (little), 2 (some), 3 (moderate), 4 (good), 5 (excellent).
- Evaluation of policy prepared and implemented by government only; results obtained by private effort, international cooperation or external conditions are not included.
- Letter grades: A+ (4.5 or above), A (<4.5), B (<4), C (<3), D (<2), F (<1).

# Quality of Industrial Policy vs. Income

## (preliminary results)

	Date of research	Evaluation of industrial policy sub-components										Average	Grade	For reference only	
		Industrial human resource	Domestic enterprise development	Business climate	Power and logistics	Export promotion	Strategic FDI marketing	Industrial parks	Supporting industries & FDI-local firm linkage	Productivity, technology & innovation	Standards and testing			Per capita income (WB, 2013, USD)	Doing Business ranking (WB, 2014, among 189 entries)
Singapore	Aug.-Sep. 2010	5	4	5	5	4	5	5	4	5	5	4.7	A +	\$55,183	1
Japan	Continuous	5	5	4	5	4	3	3	...	4	5	4.2	A	\$46,330	29
Korea	Nov. 2010	5	4	4	5	5	3	4	...	4	5	4.3	A	\$25,977	5
Taiwan	Mar. 2011	5	5	5	5	3	4	5	...	5	5	4.7	A +	\$22,597	19
Malaysia	2006, 2010, 2013	3	4	4	5	4	5	4	1	4	4	3.8	B	\$10,538	18
Mauritius	Oct. 2012	4	4	4	4	4	5	4	3	4	3	3.9	B	\$9,478	28
Thailand	2005, 2009, 2013, 2015	3	2	4	4	3	4	4	4	2	4	3.4	B	\$5,779	26
Indonesia	Jun. 2014	2	2	2	2	2	3	1	1	1	2	1.8	D	\$3,475	114
Vietnam	Continuous since 1995	1.5	1.8	2.0	2.8	1.6	1.7	2.2	1.5	1.4	1.5	1.8	D	\$1,910	78
India	Sep. 2012	1	1	1	2	3	1	2	1	1	1	1.4	D	\$1,498	142
Cambodia	May 2015	0	1	4	3	1	2	3	0	0	1	1.5	D	\$950	135
Rwanda	Aug. 2014	2	2	4	3	3	4	4	2	2	1	2.7	C	\$639	46
Ethiopia	Continuous since 2008	3.0	1.9	1.7	3.1	3.9	4.3	4.4	2.0	3.2	2.0	3.0	B -	\$505	132

### Notes:

1/ Evaluation: 0 (non-existent or worse), 1 (little), 2 (some), 3 (moderate), 4 (good), 5 (excellent). For Vietnam and Ethiopia, for which detailed data are available, points are given to the first decimal point.

2/ Letter grades: A+ (4.5 or above), A (<4.5), B (<4), C (<3), D (<2), F (<1).

3/ Evaluation of policy prepared and implemented by national government only; results obtained by private effort, international cooperation, or external conditions are excluded.

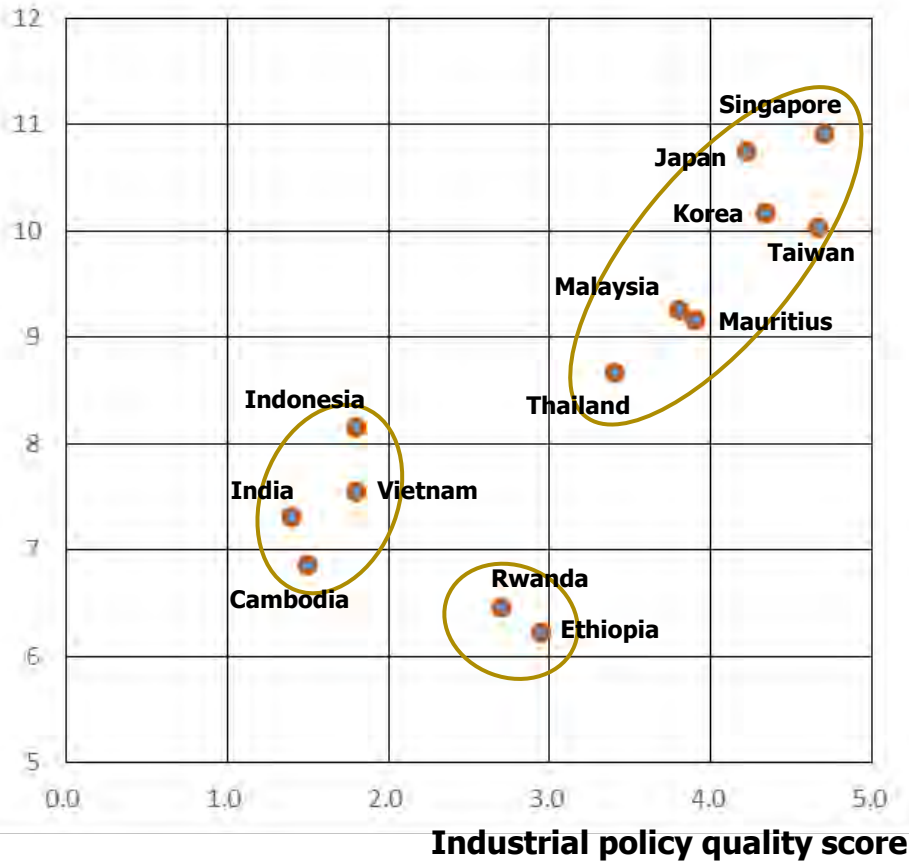
4/ It is somewhat difficult to evaluate the policy of a mature economy, such as Japan and Korea, with a large number of industrial policy measures in the past and at present. Grades may differ depending on which measures are evaluated and how much weight is given to past achievements relative to present policies.

Source: K. Ohno, "The Quality of Industrial Policy as a Determinant of Middle Income Traps," paper presented at Singapore Economic Review Conference, Singapore, August 2015.

# Industrial Policy Quality: Summary

	Industrial policy quality		Per capita income (WB, 2013, USD)	Doing Business ranking among 189 entities (WB, 2014)
	Mean	SD		
Singapore	4.70	0.48	\$55,183	1
Japan	4.22	0.83	\$46,330	29
Korea	4.33	0.71	\$25,977	5
Taiwan	4.67	0.71	\$22,597	19
Malaysia	3.80	1.14	\$10,538	18
Mauritius	3.90	0.57	\$9,478	28
Thailand	3.40	0.84	\$5,779	26
Indonesia	1.80	0.63	\$3,475	114
Vietnam	1.80	0.43	\$1,910	78
India	1.40	0.70	\$1,498	142
Cambodia	1.50	1.43	\$950	135
Rwanda	2.70	1.06	\$639	46
Ethiopia	2.95	1.02	\$505	132

Log of per capita income



(Correlation = 0.815)

# Observations

- Governments are not created equal. There is a huge gap in industrial policy quality from excellent to poor.
- Industrial policy quality and income level are positively correlated (0.815). This suggests, but does not prove, causality.
- Within each country, policy quality is often similar across different components. If one policy or ministry is bad, others are also likely to be bad. There is a common policy culture that permeates the entire government.
- There is no strong evidence that resource endowment, FDI or ODA affects industrial policy quality in one way or the other.

# Solution 1.

## Proactive Industrial Policy

Proactive industrial policy in the 21st century must satisfy the following conditions. Details must be customized for each country.

1. Promotion of markets and international integration
2. A strong and competent state to guide the private sector
3. Having sufficient policy tools for catching up (WTO loopholes, temporary protection, etc.) – don't throw away everything
4. Dynamic capacity building of both government and private sector through concrete actions and projects (learning by doing, trial-and-error)
5. Internalization of skills and technology as key goal
6. Effective public-private partnership (not superficial)
7. Deep industrial knowledge and trust shared by government and businesses

# Solution 2.

## Policy Learning

- International best policy practices (and failures) should be collected and compared systematically.
- Using them as references and building blocks, government must acquire **general capability** to create a policy most suitable for a particular country, time, and sector.
- Do not copy other countries uncritically, or reject their experiences as irrelevant. These two reactions lead to failure. Learning (knowledge collection) and thinking (adaptation to your country) must always be combined.

Confucius (551-479BC): 「子曰学而不思則罔思而不学則殆」  
“Learning without thinking is useless; thinking without learning is precarious.”

# Solution 3.

## Policy Dialogue with Foreign Experts

- Government may learn by self-study (Meiji Japan, Korea, Taiwan...), but a better way is to have a tutor who understands your country and also has broad and pragmatic knowledge of international best policy practices.
- Avoid experts who preach general ideas only, or propose the same solution to all countries.
- Japan has conducted industrial policy dialogue with many developing countries. Our method is ad hoc, case-by-case and flexible, unlike Korea's more standardized approach.

# Japan's Industrial Policy Dialogue

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-	Japanese embassy, JICA, JETRO, JBIC	Bilateral joint initiative to improve business environment and strengthen competitiveness through 2-year 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, ITC, etc.
Mongolia	1998-2001	Hiroshi Ueno and Hideo Hashimoto (World Bank economists and professors)	Study on the support for economic transition and development
Vietnam	2008-2010	Japanese embassy, JICA, JETRO, businesses, GRIPS/VDF	Produce supporting industry development action plan for joint implementation
Ethiopia	2009-	GRIPS Development Forum and JICA	Kaizen, metals & engineering, productivity movement, policy documents, procedure & organization, export promotion, etc.
Vietnam	2011-2013	Japanese embassy, JICA, JETRO, METI, GRIPS/VDF	Select and intensively promote a small number of industrial sectors; draft and implement detailed action plans
Vietnam	2015-	JICA, JETRO, GRIPS, Vietnam National University	Select provinces with proper mindset and growth potential, support them with intensive Japanese ODA and FDI.



# Key Factors for Successful Industrial Policy Dialogue

- **Proper mindset** of the national leader (President or PM) to learn seriously from Asian experience. Professors cannot teach lazy students. Working just with ministers or technocrats are not enough to overcome difficulties and produce results.
- **The Japanese side must also be serious:** deeply understand the country, work hard, be patient and flexible. Work “ALL JAPAN” (businesses-government-academics collaboration).
- Establishment of **long-term working relationship** based on mutual trust, respect and commitment.
- Linking policy discussion with **concrete industrial projects** so policy dialogue is not just talk; at least some of the proposed actions are implemented with JICA and other support.

# Policy Learning: What Needs to Be Learned

## Basics: **What + How**

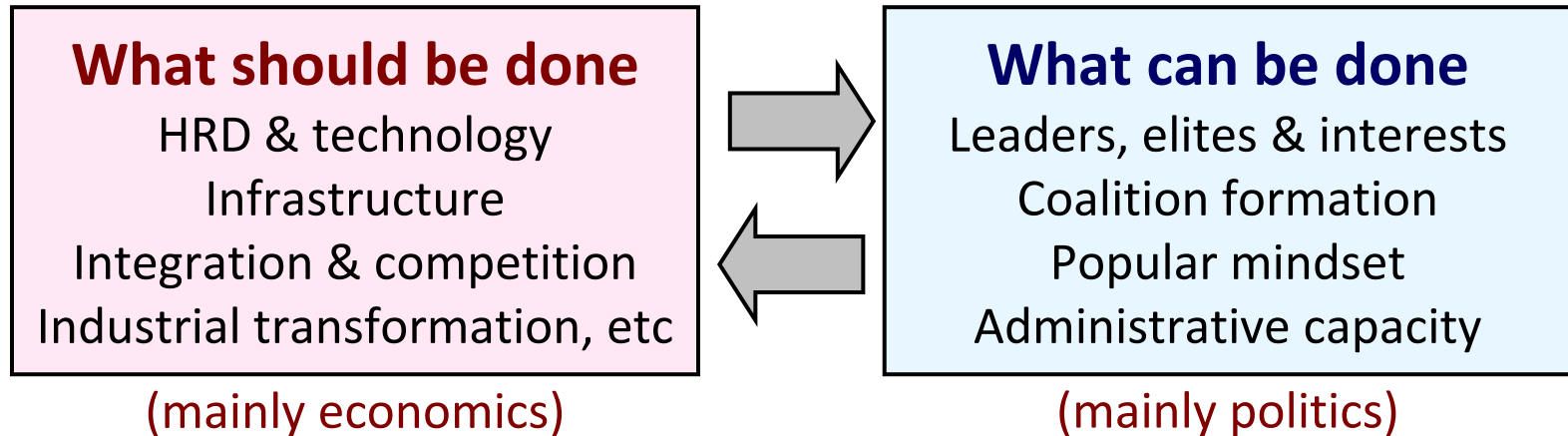
- Policy content
- Policy procedure
- Policy organization
- Policy documentation

## More advanced

- National leadership
- National movement for mindset change
- Developmental state (politics & development)
- Exit to an advanced society (for upper middle-income country)

# Policy Desirability vs. Feasibility

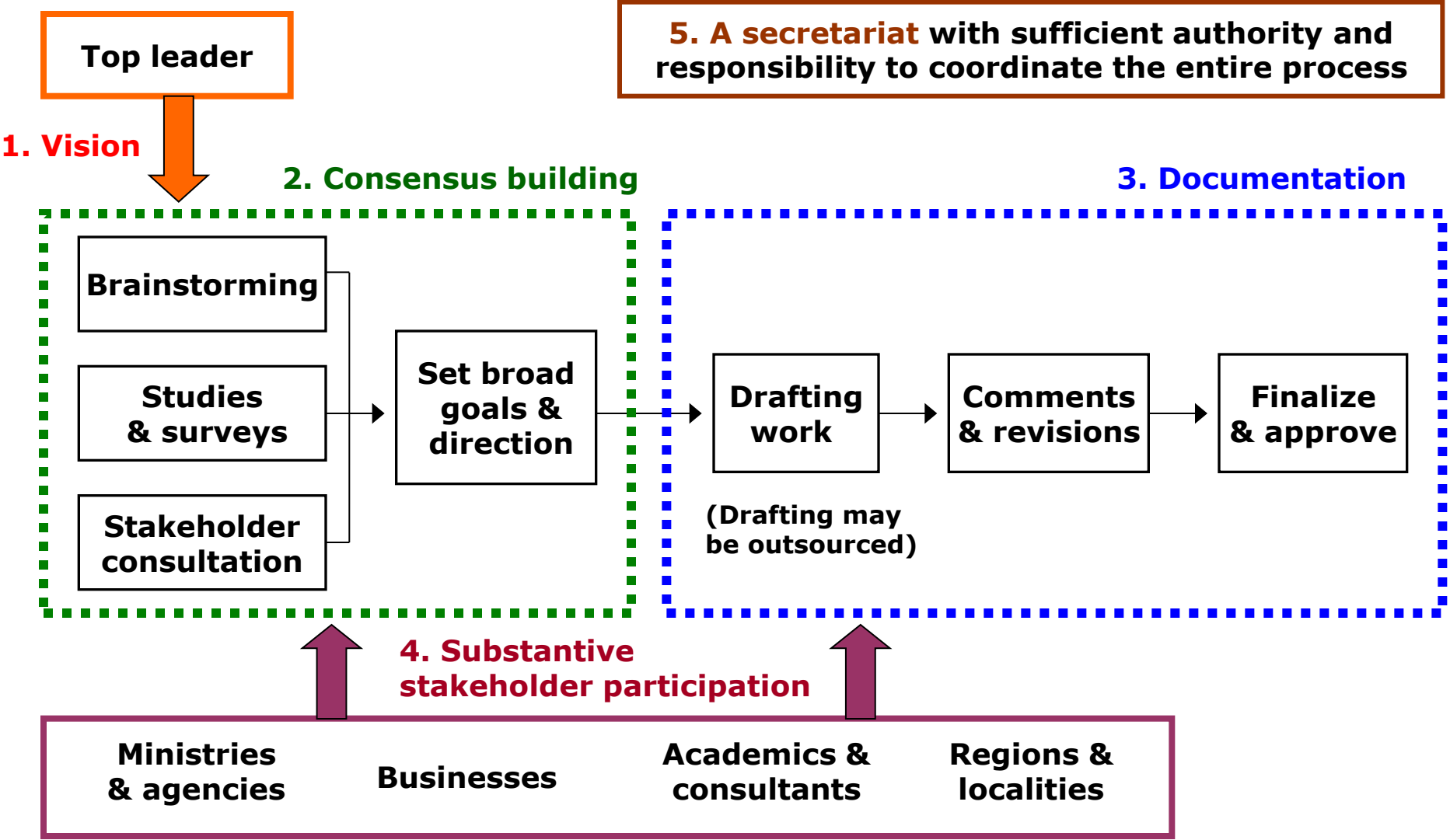
Development is both a political process and an economic process.



- Each country is unique in what needs to be done (economics) as well as what can be done (politics and administrative capacity).
- Any serious policy maker must work on both aspects.

# Standard Policy Making Procedure

(Five Necessary Conditions)



# Policy Documents: Avoiding Pitfalls

## Documentation → Implementation → Economic impact

- **Documents** are means, not end. Bureaucrats often spend too much time and energy drafting perfect documents with active stakeholder consultation - but forget implementation (India, Indonesia, Vietnam, Cambodia...)
- **Implementation** (budgeting, organization, monitoring...) is also means, not end. If the plan is implemented but results are scanty, there is something wrong. Go back and rework the plan (Malaysia).
- Rough and flexible plans, with adjustment as you proceed, may produce better results (Taiwan, Past Japan: “Start running, think as you run”).

# Action Plan Template

- The following template was actually used in Vietnam-Japan Industrialization Strategy (2011-2013).
- Policy purpose: foster new industries in Vietnam under bilateral cooperation, PPP, selectivity, and concrete action plans.
- Only essential items were listed; about 5 pages in all.

**Situation analysis** (about 2 pages, essential facts only for promoting this industry)

**Vision for 2025** (one sentence)

**Targets** (3-4 items, one phrase each)

**Policy issues** (3-5, one phrase each, listing policy efforts required for targets above)

**Action plan** (who, what, by when & completion criteria in table format)

**Monitoring mechanism** (1-2 sentences)

**I recommend this basic policy structure for all governments (with minor adjustments as necessary).**

# Concrete Examples from Asia and Africa

- Ethiopia-Japan Industrial Policy Dialogue
- My policy work in Vietnam since 1995
- Taiwan, Thailand, Indonesia, Sri Lanka
- Mauritius, Rwanda, South Africa

GRIPS industrial policy research reports for Singapore, Korea, Taiwan, India, Mauritius, Indonesia, Rwanda, Thailand, Cambodia and South Africa are downloadable from my lecture website:

<http://www.grips.ac.jp/teacher/oono/hp/index.htm>

and also available in “Records of Ethiopia-Japan Industrial Policy Dialogue vol.II: Policy Research in Third Countries” (GRIPS Development Forum, 2016).

My book, *Learning to Industrialize: From Given Growth to Policy-aided Value Creation* (Routledge, 2013), contains cases of Meiji Japan, Singapore, Taiwan, Malaysia, Vietnam and Ethiopia.

# Ethiopia-Japan Industrial Policy Dialogue (2008-present)

- PM Meles invited us for bilateral policy dialogue in 2008. We had 8 sessions with PM Meles and 12 sessions with PM Hailemariam. Each lasted 1.5 to 2 hours.
- Additionally, minister-level policy forums were held regularly.
- Many meetings were arranged with individual ministries, institutes, firms, universities, bilateral and multilateral development partners, etc.
- We were asked to be frank and honest. The two PMs were also direct and raised many questions and requests.
- These were highly practical meetings because talk did not just remain talk but produced many concrete actions by both governments.





With PM Meles, 2011

Ministerial High Level Forum (held twice yearly)



Lecture at Civil Service University (Economic Development of Japan)



Dr. Arkebe, PM advisor



PM Hailemariam



New PM Abiy Ahmed



At MoFED



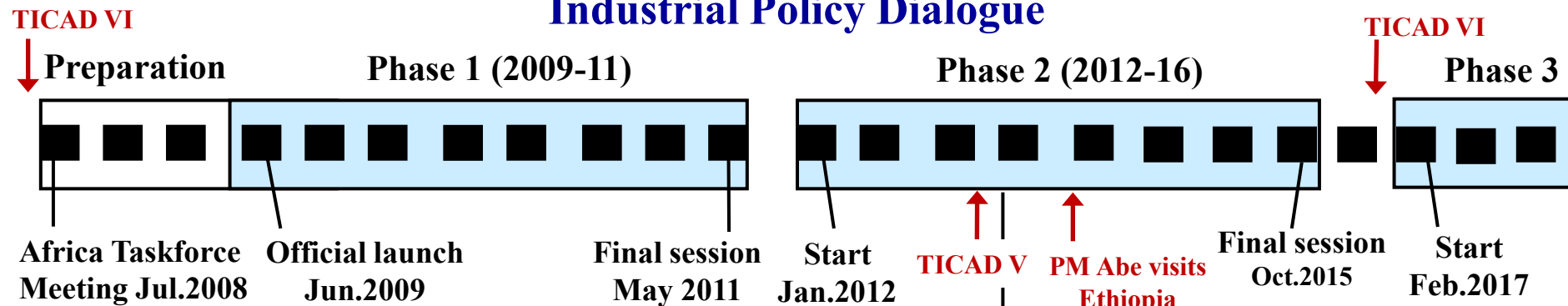
# Ethiopia-Japan Policy Dialogue & Industrial Cooperation

2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

PM Meles

PM Hailemariam

## Industrial Policy Dialogue



## JICA's Industrial Cooperation

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

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

**Kaizen Phase 3**  
(Advanced level)

Metal industry survey

(With Germany)

Champion Products

Business climate survey, BDS support, etc.

Industrial park soft & hard support

Branding & promotion

Champion

Handholding Metal, etc.

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

# Main Features of Ethiopia-Japan Industrial Policy Dialogue

**Phase I (2008-2011)**—Initial mutual learning about East Asia and Ethiopia's policy orientation; kaizen cooperation started; advice on next five-year plan.

**Phase II (2012-2015)**—Champion export products, one-stop investor service, SME handholding support, industrial park management, etc. Many of our suggestions, such as Light Manufacturing Vision, kaizen targets, and quality, productivity & competitiveness, were adopted in the new five-year plan.

**Phase III (from 2017)**—Productivity research, mindset issue, intensive dialogue to invite Japanese FDI (automobile, apparel, etc.)

Besides these, 16 policy missions were dispatched to Asia and Africa on various policy issues. A large mission to Malaysia in 2013 led to significant revisions of FDI policy and organization.

## Japanese Industrial Cooperation in Ethiopia

### JICA

- |  |  |
|--|--|
| ■ Industrial Policy Dialogue Phase 3<br>(GRIPS & JICA)   | ■ Kaizen Phase 3 (with EKI)  |
| ■ Investment Promotion & Industrial<br>Park Development<br>(expert dispatch to EIC & IPDC)     | ■ TICAD Human Resource Dev. Center<br>(new EKI headquarters) (*)             |
| ■ Export Promotion through<br>Champion Product Approach<br>(focus on quality leather products) | ■ Manufacturing SME assistance &<br>networks (BDS, with FESMMIDA) (*)        |
|  | ■ Women Entrepreneurship<br>Development Project<br>(co-financed with WB) (*) |

### JETRO (Tokyo & Addis Ababa Office)

- Business & investment support for private firms

### JBIC (Japan Bank for Int'l Cooperation)

- Potential for financing eligible projects (no actual case yet)

### GRIPS (by JICA's IPD Phase 3 budget)

- Exploring/advising new policy areas
- Handholding & MIDI support (\*)
- Productivity research with PSRC (\*)

### UNIDO Tokyo (also in Ethiopia)

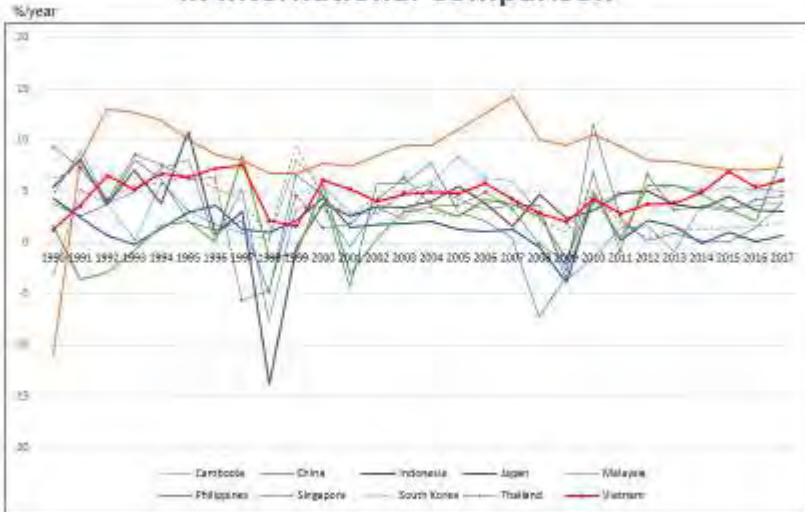
- Information & matching services for Japanese investors
- Ethiopian business consultant in AA

Note: (\*) means relatively early stage. Others are fully operational. The Japanese embassy coordinates all and also provides business and investor support.

# Vietnam: Growth without Policy Effort

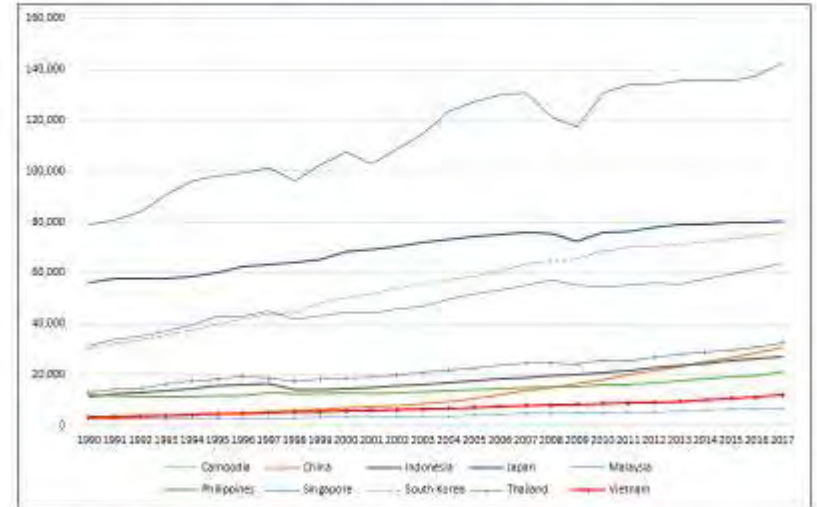
- Doi Moi (liberalization) since 1986 and global integration since 1993 brought high growth (6-9% range), propelling the country from the poorest to lower middle-income status by 2008.
- Vietnam has attracted thousands of manufacturing FDI including Toyota, Honda, Yamaha, Denso, Canon, Panasonic, Brother, Kyocera, Daikin; Samsung, LG; Intel, Ford, etc.
- However, policy quality and worker competence have not improved significantly. Policy has generated little business support. Short-term materialism prevails, especially since around 2006. Vietnam's growth has been externally driven and quantitative (not quality-based).
- Labor productivity growth has been moderate, around 4% annually, driven mainly by capital deepening (investment) rather than TFP. Over-investment resulted in high ICOR and public debt accumulation.
- Vietnam did not adopt any productivity tools despite long and close economic interaction with Japan, Korea, Taiwan, EU, etc. Projects were donor-driven with little sustainability or national scaling-up.

## Labor Productivity Growth in International Comparison



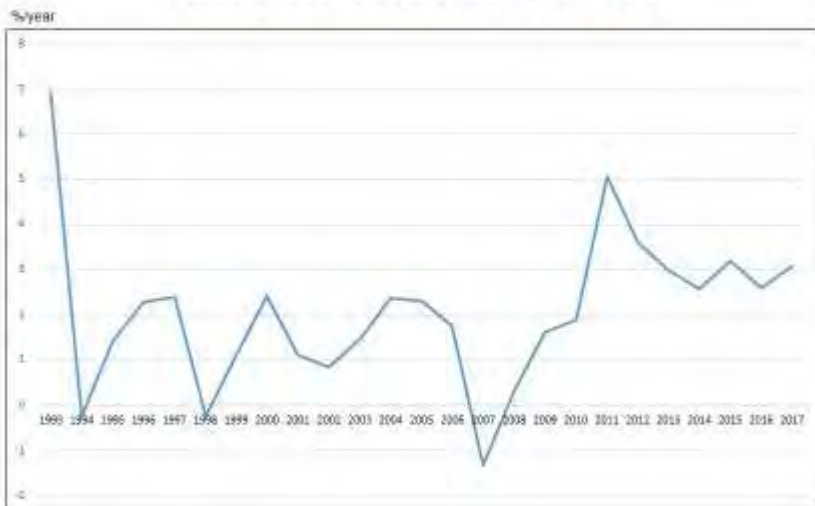
Source: The Conference Board Total Economy Database™ (adjusted version), March 2018.

## Labor Productivity Level in International Comparison



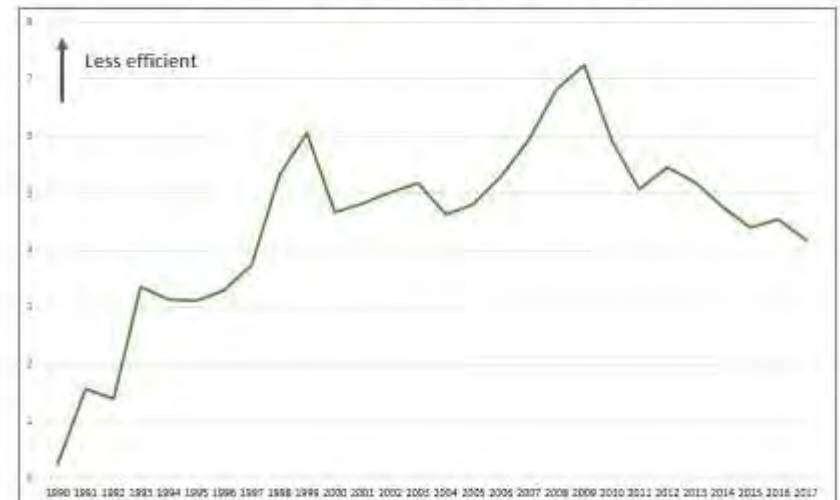
Source: The Conference Board Total Economy Database™ (adjusted version), March 2018.

## Total Factor Productivity Growth



Source: Authors' calculation from the statistics of World Bank (2018).

## Capital Efficiency Incremental Capital Output Ratio (ICOR)



Source: Authors' calculation from the statistics of IMF (2018).

# Vietnam's Central Government

Problems with the Central Government are the lack of proper mindset and policy capacity. Appointments and recruitment are based on political connections, not competence. Situation is the same across all ministries and agencies. My bad experiences include:

**Motorcycle master plan (2006-07):** joint drafting with Honda & Yamaha, about 20 meetings; but content was changed secretly before approval without telling the Japanese side.

**Supporting industry action plan (2008-10):** Ambassador Sakaba, JICA, JETRO worked intensively but could not find active Vietnamese counterpart. No response or action to Japanese proposals.

**Industrialization strategy (2011-13):** six priority sectors were selected and action plans were to be jointly drafted, with JICA industrial projects to follow. But drafting authority was suddenly moved to Vietnamese ministries. Result was low quality.

# JICA's Province-based Economic Growth Initiative (PBEG) in Vietnam, 2015-

Select provinces with right policy mindset and industrial potential. Concentrate Japanese FDI & ODA to create success. Roll out to other provinces as models.

- **Ha Nam Province** (North, rural) - A dynamic provincial leader is attracting Japanese FDI and conducting proactive industrial and agricultural policy. Japan will help with TVET, infrastructure, research, FDI attraction, etc.
- **Ba Ria-Vung Tau Province** (South, coastal) - Rich in natural resources but afraid of environmental damage. Japan will assist with environmental technology to simultaneously pursue heavy industry and clean environment.

**Both are based on in-depth studies and interactive discussions. GRIPS and Vietnam National University cooperated with JICA for policy study and discussion.**





Meeting with Planning Department



Ha Nam Party  
Former Secretary  
Mr. Mai Tien Dung  
(now Cabinet Minister)

Japan Desk invites  
Japanese investors



## Ha Nam Province



Vietnam

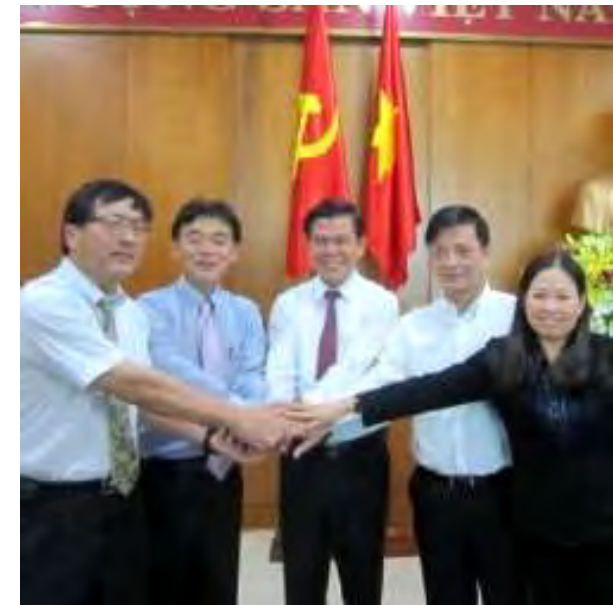
## Ba Ria-Vung Tau Province



Industrial zone under construction  
for Japanese FDI



Discussion with the Provincial  
Department of Industry & Commerce



Striking a deal with Ba Ria-Vung  
Tau Leaders

# Our Proposed Bilateral Cooperation for Vietnam's National Productivity Movement

- Vietnam and Japan should engage in serious industrial cooperation focused on **productivity** for win-win benefits:
  - Vietnam to acquire Japanese technology and skills to overcome a middle income trap
  - Japan to deepen economic ties with Vietnam to solve labor shortage and monozukuri inheritance problem
- Specifically, (i) Vietnam should launch the National Productivity Movement with Japanese help; and (ii) Vietnam should adopt Japanese productivity tools (especially from post-WW2 period) with selectivity and proper adjustments. Japanese firms and government should cooperate with this.
- GRIPS (Ohno), Japanese Ambassador Umeda and his economic team are working with the Party Central Economic Commission, the PM Office, the Vietnam Chamber of Commerce & Industry, Vietnam National University, etc. to formalize and initiate the proposed cooperation.

# Productivity: Proposed Actions

## **STEP 1. Initial actions (in progress)**

- **Vietnam Productivity Report** (VEPR/GRIPS with METI support)
- **Productivity awareness campaign**—seminars, TV programs, events, competitions, awards, etc.

## **STEP 2. Establish official mechanism for bilateral productivity cooperation (under discussion)**

- **Vietnamese side:** Party Central Economic Commission; National Productivity Committee and Secretariat; VCCI to represent business; researchers
- **Japanese side:** METI and MoFA; Japanese Embassy, JICA, JETRO, GRIPS, Japanese firms

## **STEP 3. Implementation**

- Concrete contents to be decided by the bilateral mechanism
- Reinforce existing productivity programs and start new ones with Japanese official and private cooperation

# Vietnam Productivity Report (in progress)

Research team: Vietnamese and Japanese researchers supported by METI, Japanese Embassy in Vietnam, Mitsubishi UFJ Research & Consulting

## **Part I Main Report**

What is productivity? (concepts and measurement)

Where Vietnam stands (Vietnamese and international data)

Review of past productivity policies

Steps Forward

## **Part II Concrete Measures with Possible Japanese Cooperation**

Mindset change / 5S and kaizen / Handholding

Shindan / TVET-industry linkage / Kosen / Gino Jisshusei

Kosetsushi / FDI-domestic firm linkage

Revitalizing supporting industry programs / Productivity Center, etc.

## **Part III International Experiences (to be conducted later)**

Sharing productivity policy experiences among Asian neighbors

# Taiwan: A Silicon Island Going for Innovation



Hsinchu Science Park receives two visiting delegates per day

- Taiwan is a high-tech economy with global ICT device producers. It has had strong and broad-based SMEs but large firms also emerged.
- Industrial structure shifted rapidly from food and textile (1950s-60s) to heavy industry (1970s) and ICT devices (1980s-present).
- The Ministry of Economic Affairs (MoEA) is the powerful one-stop ministry for industrial policy. Its simple tools consist of (i) “Industrial Projects” for innovation and commercialization of R&D; and (ii) science parks, EPZs and industrial parks.
- Taiwan offers no investment incentive (except for R&D). Corporate income tax is low and uniform 17%. Five-year plans are not created.
- Policy drafting is systematic and participatory. Two economic think tanks compete to support MoEA in the drafting process. A new policy normally takes three years to complete.

# Thailand: A Detroit of Southeast Asia; What is the Next Step?



Bangkok is full of Japanese cars; Japanese eco-cars are made in Thailand.

- Thai mentality is easy-going, not strict or rule-based. Government in general and MOI in particular are not dynamic but some agencies are good (Board of Investment, Automotive Institute, Central Bank, etc.)
- Thailand opened up to foreign (mostly Japanese) manufacturers and became the automotive industry hub of Southeast Asia. It had visible success in eco-car production and creation of “supporting industries” (domestic part suppliers). It produces about 2 million cars per year.
- Per capita income is \$6,000 (2017). FDI policy was revised in 2015 to become more selective and value-oriented. Industry 4.0, technology & innovation, Eastern Economic Corridor, Border SPZs, etc. are now promoted.
- However, standard policies to upgrade domestic firms and HR seem missing. At this income level, Thailand should shift from FDI dependency to value creation by Thai people and entrepreneurs.

# Indonesia: Large & Growing Domestic Demand



Jakarta is a modern city but traffic is horrible.

- Indonesia has 264 million people with per capita income of \$3,540 (2017). The middle class is growing with great appetite for cars, food and other consumer items. FDI is attracted by large market size.
- Manufacturing is domestically oriented with little export. There is virtually no incentive for investors, and licensing procedure is cumbersome (but BKPM, investment agency, will help).
- MOI's capacity is low. SME policy is limited and ineffective. HR training is conducted by private firms and foreign (Japanese) NPOs. Our discussion with MOI officials was not impressive.
- Development policy is strongly driven by politics. Excessive decentralization hampers policy implementation at national level.
- Delays in infrastructure construction causes huge congestion at Jakarta's roads and ports. There is no modern urban transit system.

# Sri Lanka: High-end Apparel but Manufacturing Base is Narrow and Weak



Katunayake Export Processing Zone established in 1978

- Per capita income is \$4,000 (2017). Growth is rather low at 3-4%. Workers are well educated but prefer services, not manufacturing. Skilled workers migrate abroad to work, causing labor shortage.
- The apparel sector grew strongly, achieving high quality and ethical standards. It occupies half of the country's export. This is unusual for a soon-to-be upper middle-income economy.
- A few local firms (MAS, Brandix, Star Garment, etc.) dominate the apparel sector but other industries are generally weak. FDI is limited and business conditions are inferior (No.110 in WB ranking, 2016).
- Private construction is booming, but transport infrastructure is outdated and low capacity. Colombo suffers from serious traffic jam.
- Industrial policy is ineffective and limited in scope (FDI attraction, business climate, more FTAs). technical training institutes are good.



# Mauritius: A Business-Friendly Island



Kaizen lost momentum but beautiful beaches attract European tourists.

- Mauritius is a small, multi-ethnicity, English & French speaking, and politically stable island. Per capita income reached \$10,140 in 2017. It has good governance and business climate. Policy procedure is efficient and practical.
- In the past, sugar plantation dominated. Through policy and private effort, Mauritius diversified into sugar, apparel and tourism by the 1990s. MFA and AGOA assisted their development.
- To reach higher, FDI, SMEs and skills training are promoted. Finance, ICT, BPO and other high-value services are targeted but prospects are unclear. Becoming the gateway to Africa may not be so easy. Challenges are tougher global competition and loss of trade privileges.
- Mauritius learned Japanese kaizen from 2000, but the movement stalled due to the loss of political interest.

# Rwanda: An African Miracle in the Making?



High-value services are targeted

- After the 1994 genocide, Rwanda grew fast under President Kagame's strong leadership. Officials are highly competent. Kigali is clean, safe and free of corruption.
- Everyone must commit to Imihigo (performance target). Policies are made under strong ownership and participation. Business climate is good. The country wants to be a Switzerland or Singapore.
- Manufacturing is not prioritized due to the lack of coastal access. High-value services such as ICT, telecom, finance and conference business are targeted. RDB offers good investment support.
- Income is still low (\$720 in 2017). Human resource, SMEs and farmers on the ground remain relatively weak. For Japanese observers, government and policies are wonderful but workers and enterprises need to improve skills and knowledge to compete in the global market.

# South Africa: Revitalizing the Automotive Sector?



Expressway in Durban, the city where Toyota South Africa is located

- South Africa successfully created an automotive cluster (7 foreign car makers) by generous subsidies. But policy is biased toward simple assembly and against domestic value creation or technology upgrading. Car production has stagnated at 600,000 vehicles per year.
- Technocrats (DTI) and Japan (Embassy, JICA, JETRO, Toyota) want a policy shift. But some foreign car makers resist it. SA politicians are afraid of FDI lobbying and job loss.
- Policy revision will require:
  - DTI minister and technocrats working hard to convince and energize future national leaders (by 2018-19?) ([Arrival of President Ramaphosa](#))
  - Willingness of Japanese auto makers and government to work jointly to improve SA's policy (Africa is far and Japanese firms are not many)
  - Technical work on data analysis, international benchmarking, scenario making, impact assessment on jobs, trade balance, etc.

# THANK YOU

- The GRIPS Development Forum (GDF) is conducting high-level policy research and dialogue with Vietnam (since 1995) and Ethiopia (since 2008) in cooperation with Japanese MoFA, METI and JICA.
- In 2018-19, GDF is preparing the Vietnam Productivity Report and the Ethiopia Productivity Report in collaboration with ministries, research institutes and universities in Vietnam and Ethiopia. We will offer basic data, international comparison, policy suggestions and information about concrete Japanese tools which these nations may adopt with Japanese support. The drafting process provides ample opportunities for all stakeholders to discuss and propose ideas.
- My draft paper on Japanese productivity tools (written for Vietnam) is available upon request.