

# Introduction

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The GRIPS Development Forum (GDF) is a policy research unit of the National Graduate Institute for Policy Studies (GRIPS) in Tokyo. Established in 2002, GDF works closely with frontline policy makers in Japan, Southeast Asia, and Africa to improve the design and implementation of concrete development policies. The main areas of its policy research and involvement include Japan's development cooperation strategy, Vietnam's industrialization, best policy practices of East Asian high-performing economies, and African development. Transferability of East Asian experience to Africa and other developing regions is a particularly important research agenda for GDF. Apart from conducting policy studies and supporting policy actions, GDF also serves as a hub of intellectual networks of domestic and foreign policy makers, development partners, research institutes, private organizations, and Nonprofit Organizations (NPOs).

The Japan International Cooperation Agency (JICA), established in 1974, is the integrated agency for the implementation of Japan's official development assistance (ODA). After the merger in 2008 with the overseas economic cooperation section of the Japan Bank for International Cooperation (JBIC), JICA has become the "one stop shop" of Japan's ODA providing technical assistance, concessionary loans and grant aid as well as dispatching Japanese young and senior volunteers to developing countries. While Asia has historically been the primary regional focus of Japan's international cooperation, the scope of JICA's activities also covers global issues, shared growth, poverty reduction, governance and human security. Africa is an important region for Japan's international cooperation, and the sharing of East Asian development knowledge and experience with today's developing countries is also important for Japan.

In July 2008, GDF and JICA were invited by Prime Minister Meles Zenawi to initiate a two-track cooperation project consisting of policy dialogue and concrete

industrial support for Ethiopia (kaizen project). After a preparation period, a two-year project between Ethiopia and Japan was conducted from June 2009 to May 2011 with JICA support. The project was also part of the development cooperation package for Africa to which Japan committed in the Yokohama Declaration and the Yokohama Action Plan at the Fourth Tokyo International Conference on African Development (TICAD IV) in May 2008. The two components of bilateral cooperation—policy dialogue and the kaizen project—were interlinked and implemented in regular and close consultation. GDF was mainly responsible for conducting industrial policy dialogue.<sup>1</sup> This report contains materials prepared by GDF and JICA for Ethiopian leaders and policy makers in the two years of industrial policy dialogue, from June 2009 to May 2011, in eight sessions.

## **1-1. Learning East Asian lessons**

Learning lessons from East Asia does not mean copying policies adopted somewhere in East Asia randomly without critical examination of feasibility and desirability of applying them to an African country. The postal saving system of Japan, the New Village Movement of South Korea, the National small and medium enterprise (SME) Development Council of Malaysia, or any other specific policy of East Asia, can hardly be introduced directly to any of the developing countries of today, be it in Africa or elsewhere, because internal and external situations are different from one country to another as well as from one age to another. Moreover, industrial strategies in East Asia have also been diverse. Singapore's state-led approach to human capital development had little similarity with Hong Kong's *laissez-faire* approach to commerce and finance. Malaysia's well-structured policy coordination does not resemble Thailand's more flexible industrial promotion. In fact, East Asia is a region where a variety of approaches to development have been tried. For this reason, there is no single East Asian

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<sup>1</sup> Policy dialogue is one of the key tools used widely in Japanese development cooperation as explained below. Although it can cover any topics related to development, our policy dialogue with Ethiopia focused mainly on industrial issues. The prime minister initially asked JICA to conduct the kaizen project and GDF to engage in policy dialogue. In reality, the two components were intertwined and implemented jointly by JICA and GDF.

model to be emulated at the level of concrete policies.

If there is a lesson Africa can learn from East Asia, it should be how policy is formulated and executed, not what particular countries in East Asia did at certain moments of their history. The lesson is about *mindset* and *methodology* that can instruct an African country to produce a policy package with appropriate contents and sequencing for that country, and ensure its implementation. For collecting specimens of concrete policy models, the search should cover the entire globe and not just East Asia. But once collected, East Asian experiences may illustrate how these models should be selected, combined, modified, and implemented under strong country ownership.

Opening its ports to the mighty West in 1859, Japan was the first country in East Asia to modernize and industrialize its economy to compete on a par with the Western powers. Its colonial policies in the pre-Second World War (WW2) period and its trade, investment and aid policies in the post-WW2 period significantly influenced the development paths and strategies of the rest of East Asia. While Japan's current approach to development assistance shares many commonalities with the Western approach, it also exhibits distinct features derived from Japan's own past as a latecomer country. The following four related aspects of Japan's approach are particularly noteworthy.

- (i) *Target orientation*—industrial policy has a layered structure in which visions, roadmaps, and action plans define relation between objectives and means. Policies are formulated backwards from future goals to the present with long-term goals, intermediate points, and current tools arranged consistently to show the trajectory from here to the destination. Concrete targets, such as construction of a trunk road from point A to point B or promotion of a certain industry within 10 years, are preferred over general improvements in governance or private sector capability.
- (ii) *Field orientation*—Japanese development officials are more concerned with concrete facts and actions at production sites than with crafting policy frameworks or writing reports in the capital city. *Gemba* (pronounced

gain-bah) is the Japanese term for a place of actual operation such as the factory floor or the crop field. The most important work for Japanese experts is visiting or staying at the *gemba* for diagnostics and advice. They are usually obsessed with location, physical dimensions and technology of the project. Problem-solving starts and ends at the *gemba* and not at conferences or donor forums.

- (iii) *Joint work*—development occurs when a developing country learns how to make and execute policies effectively. Policy learning for government and technology absorption for local enterprises are essential. Japanese experts work side-by-side with developing country counterparts at the *gemba* so that local officials, engineers, workers and farmers can learn skills and knowledge through on-the-job training (OJT). Patience is required when the mindset and capacity of the counterparts are weak, but such patience is considered necessary and inevitable. Japan does not wish to set up a parallel mechanism for implementing aid projects offering high salaries; it instead wants to utilize and strengthen the local mechanism even if it is initially slow and inefficient.
- (iv) *Dynamic capacity development*—Japanese cooperation is based on the premise that developing countries will not stay underdeveloped forever. Through policy learning and accumulation of experience, they are expected to take off economically and eventually graduate from aid. Assistance is given for a time to accelerate the day of graduation and not as permanent charity for the poor (Ohno and Ohno, 2008). Many East Asian countries, such as Korea, China, Malaysia, and Thailand, that received large amounts of Japanese ODA previously, are now Japan’s industrial partners as well as competitors. Aid is not meaningful unless the recipient is determined to graduate from it. Political will, national pride, and upward mobility are required for this.

In sum, the Japanese approach emphasizes hands-on effort on the ground rather than the creation of general principles and frameworks. It also stresses policy learning through joint work. These features are expected to enhance policy ownership and

capability of aid-receiving countries toward graduation. It is important to note that this “ingredients” approach should be regarded as complementary to the “framework” approach of the Western donors.<sup>2</sup> Although the two approaches are often contrasted as alternatives and the Eastern way is sometimes supported to discredit the Western way, it is evident that both general frameworks and concrete ingredients are necessary for successful development. In countries where too many frameworks have been imposed, injection of concrete actions at the gamba can help regain balance between theory and practice.

## **1-2. Entry points for Japan’s industrial cooperation in Africa**

Unlike in East Asia where Japanese trade, investment and aid are dominant, Japan is a small donor and a small investor in Africa. In many African countries, Japan ranks below tenth in the disbursement of ODA and Japanese manufacturing foreign direct investment (FDI) is miniscule or even nonexistent. Meanwhile, recent years have seen rising interest in East Asian experiences among African countries as well as a resurgence of growth agenda in the donor community. Moreover, the rise of emerging donors and investors such as China, India, Turkey, Korea, Saudi Arabia, South Africa, Brazil, and so on, which do not follow the Western standards of international cooperation is rapidly changing the developmental landscape of Africa. How can Japan, a non-Western industrial country and a long-term provider of industrial support in East Asia, contribute to African development?

In 2008, GDF organized a series of informal meetings in Tokyo among Japanese officials, experts, businesses and NPOs interested in African development as well as experts from Africa. Based on the views expressed in these meetings, GDF proposed four entry points for Japan’s growth support in Africa (GDF, 2008).

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<sup>2</sup> Yanagihara (1998) distinguishes the “framework” approach of the West and the “ingredients” approach of the East in development assistance. See Ohno and Ohno (1998) for a collection of papers by Japanese officials and economists on the Japanese and East Asian approaches to development.

- (i) *Standard policy tools*—if an African country already possesses reasonable development visions and strategies, Japan should offer industrial support measures from its usual toolbox to align with and realize these visions and strategies. They include, for example, technical education and training of various types and duration, *shindan* (SME diagnostics and advice), *kaizen* (quality and productivity improvement at factories), and the drafting of plans based on industrial expertise and firm surveys. Table 1-1 lists standard measures for enhancing industrial human resource and enterprise capability regularly seen in East Asia. Some of the measures are globally common while others may not be well known in Africa. Some measures exist worldwide but may be implemented differently between East and West.

Table 1-1. Policy Menu for Enhancing Industrial Human Resource and Enterprise Capability

Objective	Policy measure
(1) Legal and policy framework	Provision of necessary laws and regulations
	Designation or creation of lead ministry/agency for priority policy
	Inter-ministerial coordination mechanism
	Effective public-private partnership (PPP)
	Policy structure consisting of vision, roadmap and action plan
	Monitoring and evaluation mechanism
	National standards for quality, safety, skills, environment, etc.
	Framework for technology transfer and intellectual property rights
	Industrial statistics and database
(2) Industrial human resource (education and training)	Strategic mobilization of international cooperation
	Technology and engineering universities and institutes
	Polytechnics and industrial colleges
	Technical support in specialized skills for engineers
	Technical and vocational training for new and/or current workers
	Subsidies and incentives for worker training
(3) Enterprise capability (management and technology)	Skill certification, competition, and awards
	Introduction of kaizen or productivity tools (5S, QC circles, elimination of muri and muda, suggestion box, just-in-time system, etc.)
	Benchmarking, business process re-engineering, and other management tools
	Management or technical advisory service (by visiting consultants, short-term)
	Enterprise diagnostic and advisory system (institutionalized shindan or technical extension services)
	Short-term courses and tours for entrepreneurs and managers
	Quality standards and certification, testing services and centers
	Awards and recognition for business excellence, productivity, competitiveness
	Subsidies & incentives for upgrading management, technology, marketing, ITC...
(4) Finance	Development financial institutions
	Subsidized commercial bank loans for targeted firms (two-step loans)
	Special loans and grants for priority products and activities
	Credit guarantee system
	Equipment leasing
	Enterprise credit information system
	Linking loans with enterprise diagnostic and advisory system (see (3) above)
	Subsidized commercial bank loans for targeted firms (two-step loans)
(5) FDI attraction	Clear announcement of preferred investors, sectors, regions, etc.
	Effective investor information package and website
	Investment promotion seminars, missions and offices abroad
	Provision of high-quality infrastructure services (power, transport, land, water, waste water and solid waste treatment, etc)
	One-stop investor support service (both before and after investment)
	Development and management of industrial estates including EPZs, SEZs and special zones for priority sectors, high-tech firms, etc.
	Rental factories for local and/or foreign SMEs
	Support for labor recruitment, matching, housing, commuting, healthcare, etc.
	Negotiation and provision of special incentives for attracting targeted anchor firms
(6) Marketing and business linkage	Support for domestic and export market development
	Trade fairs and reverse trade fairs
	Enterprise database (SMEs, supporting industries, sectoral)
	Incentives and subsidies for FDI-local firm linkage and technology transfer
	Official promotion/intermediation of subcontracting
	Establishment and strengthening of industry/business associations and local firm networks
(7) Innovation	Business start-up support
	Support for R&D, branding, patenting
	Business incubation centers
	Venture capital market
	Innovation clusters among industry, research institutes and government
	Incentives/subsidies for designated activities and products

Note: These are a subset of industrial support measures aimed at enhancing human and enterprise capabilities. Measures concerning infrastructure, logistics and distribution, social and environmental issues, and regional development are not included.

- (ii) *Policy dialogue*—if development visions and strategies need strengthening, or if the host country wishes to study the East Asian way seriously, Japan can engage in bilateral policy dialogue to inform East Asian development experiences, evaluate existing policies and organizations of the country, and assist in the drafting of key policy documents. Policy dialogue must be flexible and order-made to reflect the capability and needs of the developing country in question. It should not impose Japan’s methods but study policies and experiences of other high-performing economies as well. Japan has conducted policy dialogue with a number of countries in Asia as well as with a few developing countries in other regions (Table 1-2). Ideally, policy dialogue should be linked with concrete cooperation projects of Japan or other developing partners.

Table 1-2. Japan: Policy Dialogue with Developing Countries  
(Selected List)

Country	Period	Head/key players	Purpose and content
Argentina	1985-1987 1994-1996 (follow up)	Saburo Okita (former foreign minister) etc, JICA	Comprehensive study on agriculture and livestock farming, industry, transport and export promotion
Thailand	1999	Shiro Mizutani (former MITI official), JICA	Study on the master plan for SME promotion policy
Vietnam	1995-2001	Shigeru Ishikawa (professor) etc, JICA	Large-scale joint study on macroeconomy, industry, agriculture, enterprise reform, crisis management, etc.
Indonesia	2000	Shujiro Urata (professor), JICA	Policy recommendation for SME promotion
Myanmar	1999-2002	Konosuke Odaka (professor) etc, JICA	Study on agriculture, rural development, industry, trade, finance, ITC, etc.
Mongolia	1998-2001	Hiroshi Ueno and Hideo Hashimoto (ex-World Bank economist and professor), JICA	Study on the support for economic transition and development
Indonesia	2002-2004	Takashi Shiraishi and Shinji Asanuma (professors) & 6 professors, JICA	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) etc, JICA	Study on macroeconomy, finance, state enterprise, FDI and poverty reduction, 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
Ethiopia	2009-2011	GRIPS Development Forum (Kenichi Ohno, Izumi Ohno), Japanese embassy, JICA	Kaizen, basic metals and engineering, productivity movement, policy procedure and organization, etc.

Source: Author’s research.

Abbreviations: MITI (Ministry of International Trade and Industry), SME (small and medium enterprises), JICA (Japan International Cooperation Agency), JETRO (Japan External Trade Organization), JBIC (Japan Bank for International Cooperation), GRIPS (National Graduate Institute for Policy Studies).

Note: This table lists policy dialogues that are large-scale or worthy of special attention. Besides these, Japan offers policy advice through dispatching advisors to heads of state or ministers, expert dispatches, drafting reports on development strategy, training courses and site visits, conferences and seminars, etc. in various scale and duration.



- (iii) *Regional development with core infrastructure*—Japan can build core infrastructure such as power, a transport corridor, or a deep seaport, and use it to develop the surrounding area—which may be a region within a country or an area spanning more than one country. Projects such as SME promotion, skills training, industrial parks, efficient logistics, border crossing, and regional planning should be combined with core infrastructure for comprehensive regional development. The Greater Mekong Sub-region development in Indochina, the Eastern Seaboard development (ESD) of Thailand, the Brantas River Basin development of Indonesia, and the Eastern Region development of El Salvador are examples of comprehensive regional development in which Japan played a major role. In Africa, where Japan’s presence is relatively small, this strategy must be realized jointly with technical and financial assistance of other development partners as well as through public-private partnership.
- (iv) *Enabling environment for Japanese investors*—for Japanese manufacturing companies, Africa is unfamiliar land with high risks. To encourage their investment, the Japanese government should work with Japanese companies considering concrete projects in Africa, evaluate and support investment plans, and remove barriers to entry—be it the lack of transport access, unstable power supply, low skills of workers, or unattractive design of the product. While such assistance serves the commercial interest of Japanese enterprises most directly, it will also have positive spillover effects on local investors and investors from other countries creating a win-win-win situation so long as the principles of open access and non-exclusivity are maintained.

### **1-3. GRIPS-JICA industrial policy dialogue with Ethiopia**

Industrial policy dialogue between Ethiopia and Japan is an attempt to put these entry points into practice. It also aims to transfer the methodology of industrial policy formulation, with the distinct features cited above, from East Asia to Africa in general and to Ethiopia in particular.

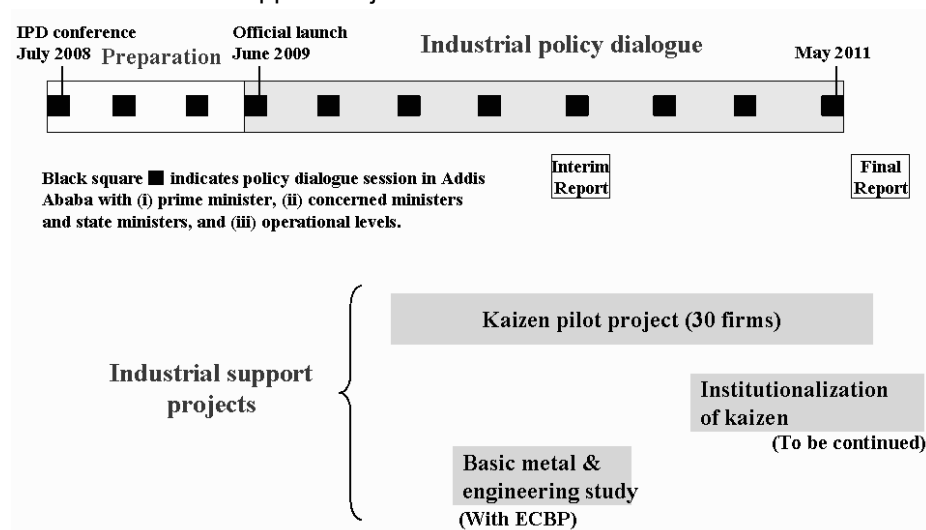
In the TICAD IV hosted by the Government of Japan in Yokohama in May 2008, JICA and JBIC co-organized a symposium on Economic Development in Africa and the Asian Growth Experience. It was chaired by JICA President Sadako Ogata and joined by the distinguished panelists consisting of Ethiopian Prime Minister Meles Zenawi, Tanzanian President Jakaya Mrisho Kikwete, former Mozambican President Joaquim Alberto Chissano, and President of the African Development Bank Donald Kaberuka. As Mr. Meles later recounted, his participation in this symposium in Yokohama convinced him that the time had come for Ethiopia to directly approach Japan for absorbing East Asian development lessons through intellectual exchange.

In the mean time, GDF visited several African countries—the so-called “donors’ darling” countries—and conducted mini policy discussions with governments in search of a suitable candidate for bilateral policy dialogue. In July 2008, GDF researchers and JICA officials attended the African Task Force meeting of the Initiative for Policy Dialogue (IPD), organized by Professor Joseph Stiglitz of Columbia University and supported by JICA, in Addis Ababa. Prime Minister Meles participated in most sessions of this two-day conference. GDF presented a paper on East Asian industrialization featuring Dynamic Capacity Development (Ohno and Ohno, 2008) and offered a book to the prime minister which contained a chapter on JICA’s kaizen project in Tunisia (GRIPS Development Forum, 2008). In the following week, the prime minister requested Mr. Kinichi Komano, the Japanese Ambassador to Ethiopia, to initiate bilateral cooperation with two components: a kaizen project modeled after Tunisia by JICA and policy dialogue with GDF.

Policy dialogue coupled with a concrete industrial project on the African continent was new to Japan. To respond to the prime minister’s request with proper staffing, budgeting, and cooperation schemes, preparatory meetings were held in Tokyo and Addis Ababa between GDF and JICA. The industrial policy dialogue team, consisting of GDF researchers and JICA officials and experts, was organized. This team visited Ethiopia about four times a year to conduct policy discussions, seminars, networking and site visits. The Japanese Embassy and JICA in Ethiopia coordinated closely with GDF and JICA Headquarters to propel this project.

Progress of policy dialogue and individual projects was reported and possible next steps were deliberated regularly between Tokyo and Addis Ababa. Mr. Abdirashid Dulane, the Ethiopian Ambassador to Japan, also exchanged notes with the industrial policy dialogue team.

Figure 1-1. GRIPS-JICA Industrial Policy Dialogue and Industrial Support Projects



Industrial policy dialogue was conducted at three levels: (i) prime minister, (ii) concerned ministers and state ministers, and (iii) heads of directorates and institutes and other officials and advisors in charge of project formulation and implementation on the ground. Prime Minister Meles was so generous as to spare his precious time with us each time, sometimes over two hours, to clarify his policy intentions and set the direction for future bilateral cooperation.<sup>3</sup> These meetings were supplemented by an exchange of letters with the prime minister on such issues as Democratic Developmentalism (DD), Agricultural Development Led Industrialization (ADLI) and strategies for the commercialization of agriculture (chapter 6).

<sup>3</sup> The Japanese delegation met with the prime minister for substantive discussion in July, October, and December 2008; June, September, and November 2009; March and October 2010; and January and May 2011. Average length of meetings was from one-and-a-half to two hours. Long letters from the prime minister were received in June and July 2009.

At the level of ministers and state ministers, our key counterparts were Mr. Newai Gebre-ab, the Senior Economic Advisor to the Prime Minister, and Mr. Tadesse Haile, the State Minister of Industry, who co-chaired the quarterly High Level Forum (HLF) meetings together with Ambassador Komano. After the splitting of the Ministry of Trade and Industry (MOTI) into the Ministry of Industry (MOI) and the Ministry of Trade (MOT) in October 2010, HLF meetings were basically co-chaired by Mr. Newai, new Industry Minister Mekonnen Manyazewal, and new Japanese Ambassador Hiroyuki Kishino. HLF meetings discussed industrial policy issues that were of interest to Ethiopian authorities including the concept and practice of kaizen, basic metal and engineering industries, industrial strategy in the next five-year development plan, methods of drafting industrial master plans and action plans, national productivity movements in East Asia and Africa, international best practices in industrial policy procedure and organization, and so on (Table 1-3). These topics were decided interactively and sequentially to follow the shifting policy interests of the Ethiopian government. Ministers and state ministers from other related ministries such as the Ministry of Finance and Economic Development (MOFED), the Ministry of Agriculture and Rural Development (MOARD), the Ministry of Education (MOE), and the Ministry of Urban Development and Construction (MOUDC) were regularly invited to the HLF meeting or visited individually by the Japanese policy dialogue team in case they were not able to attend the HLF meeting.

Table 1-3. Issues Discussed at High Level Forums

	Presentations by Japanese side	Presentations by Ethiopian side
1st HLF (Jun. 2009)	(1) "JICA's plan to policy dialogue and development study" (Masafumi Kuroki) (2) "ADLI and future directions for industrial development" (Kenichi Ohno)	(1) "Evaluation of current PASDEP focusing on industrial development and related sectors" (HE Tadesse Haile)
2nd HLF (Sep. 2009)	(1) "Cross-cutting issues on industrialization and policy menu under the age of globalization: examples from East Asia" (Kenichi Ohno) (2) "Organizational arrangements for industrial policy formulation and implementation: examples from East Asia" (Izumi Ohno) (3) "Planning and decision-making process for SME policies in Japan" (Go Shimada)	(1) "Comments and feedback by the Policy Dialogue Steering Committee on the presentations by GRIPS and JICA" (HE Tadesse Haile)
3rd HLF (Nov. 2009)	(1) "Designing industrial master plans: international comparison of content and structure" (Kenichi Ohno) (2) "Industrial policy direction of Ethiopia: suggestions for PASDEP II and the next five years" (Izumi Ohno)	(1) "Concept for the industrial chapter of PASDEP II and the formulation plan" (HE Tadesse Haile)
4th HLF (Mar. 2010)	(1) "Basic metals and engineering industries: international comparison of policy framework and Ethiopia's approach" (Toru Homma)	(1) "Draft plan of industry sector for PASDEP II" (HE Tadesse Haile) (2) "Overview, contents of PASDEP II draft of chemical subsector" (Shimelis Wolde)
5th HLF (Jul. 2010)	(1) "Result of basic metal and engineering industries firm-level study – parts conducted by MPDC and JICA" (Toru Homma)	(1) "Report of kaizen training for capacity building of Kaizen Unit and pilot project companies in Osaka, Japan" (Tola Beyene) (2) "Report of kaizen training for capacity building of Kaizen Unit and pilot project companies in Chubu, Japan" (Bekele Mekuria) (3) "Current status of kaizen project and institutionalization of kaizen" (Getahun Tadesse)
6th HLF (Oct. 2009)	(1) "Singapore's experience with productivity development: internalization, scaling-up, and international cooperation" (Izumi Ohno)	(1) "Contents of industry sector in Growth and Transformation Plan" (HE Tadesse Haile) (2) "Singapore's productivity movement and lessons learned" (Daniel Kitaw)
7th HLF (Jan. 2011)	(1) "The making of high priority development strategies: international comparison of policy procedure and organization" (Kenichi Ohno)	(1) "Organizational structure of Ministry of Industry and linkage with other ministries" (Ahmed Nuru)
8th HLF (May 2011)	(1) "Ethiopia's industrialization drive under the Growth and Transformation Plan" (Kenichi Ohno) (2) "Achievements in the Quality and Productivity Improvement (Kaizen) Project" (Go Shimada) (3) "Overview of national movement for quality and productivity improvement: experiences of selected countries in Asia and Africa" (Izumi Ohno) (4) "Taiwan: policy drive for innovation" (Kenichi Ohno)	(1) "MSE development strategy of Ethiopia" (Gabremeskel Challa) (2) "Kaizen dissemination plan and institutionalization plan" (Getahun Tadesse) (3) "Botswana's productivity movement and its Implication to Ethiopia" (Daniel Kitaw)

At the operational level, GDF and JICA held numerous meetings with the officials of the MOTI (later, the MOI), MOARD, MOFED, MOE, and MOUDC. They also worked with the Ethiopian Development Research Institute (EDRI) to organize HLF meetings and exchange researchers. In addition, the Japanese team traveled outside Addis Ababa to visit regional governments, tanneries, shoe and garment factories, metal engineering firms, food processors, agricultural cooperatives, flower farms, coffee growers, tourist establishments, and Japanese cooperation project sites.

The bilateral policy dialogue proceeded in close coordination with Japan's support for kaizen in Ethiopia, which were the two components requested by Prime Minister Meles. From October 2009 to June 2011, the kaizen pilot project, following the standard format of Japanese kaizen assistance, selected and improved 30 local pilot firms by mobilizing Japanese industrial experts working together with young Ethiopian industrial officials. The project produced six "high" achievers and four "good" achievers among 28 companies that completed kaizen consultations, a result quite satisfactory by international standards. It also produced six "level 3" kaizen consultants who could provide consultancy services on kaizen and three "level 2" assistant kaizen consultants who could guide kaizen activities. In addition, a kaizen manual, kaizen videos, and the dissemination plan for kaizen were prepared. Nevertheless, the kaizen pilot project was only the first step in Ethiopia's national movement for quality and productivity improvement, and JICA will continue to support the subsequent phase of the kaizen project. The policy dialogue team closely monitored the kaizen project and organized supportive activities. It hosted open seminars on the concept and adaptability of kaizen, produced a booklet to introduce kaizen (see next paragraph) and initiated policy discussions and internal meetings to narrow the perception gap between the Ethiopian and Japanese side for smooth progress of the kaizen project.

Quick response to information requests was also an important work of the industrial policy dialogue team. At the request of the prime minister, GDF compiled information packages on Japanese technical education, rural life improvement movements in East Asia, global information on basic metal and engineering industries, international comparison of industrial policy formulation methods, and

technology absorption of Japan and Korea through foreign-aided industrial projects. *Introducing Kaizen to Africa*, a booklet explaining the concept of kaizen as well as how it took root in Japan and how it was applied to the developing world with Japanese assistance, was produced as an introductory reference for those unfamiliar with the concept (GRIPS Development Forum, 2009). A handbook of national quality and productivity movements in East Asia and Africa is currently under preparation. National movement for mindset change is our provisional answer to the prime minister's inquiry as to how East Asian governments steered a private sector away from rent seeking and property speculation and toward value creation and competitiveness.

Networking was another important activity for the policy dialogue. Apart from interactions with the Ethiopian leaders and officials mentioned above, meetings were organized with a group of donors supporting Ethiopia's private sector development. GDF and JICA also met with individual donors and programs such as GTZ (now GIZ), World Bank, the Engineering Capacity Building Program (ECBP, a large-scale program run jointly by Ethiopia and Germany), DFID, USAID, UNIDO, UNDP, FAO, China, India, Korea, and the Sasakawa Africa Association. GDF and JICA contacted Japanese firms interested in investing in Ethiopia; held seminars and explored the possibility of research cooperation with Addis Ababa University and the Ethiopian Economic Policy Research Institute; visited Civil Service College and Ethiopian Management Institute; and participated in industrial policy conferences organized by the German Development Institute (DIE) in Bonn and by the African Union in Addis Ababa.

#### **1-4. Features of Ethiopian industrial strategy**

Ethiopia is unique among Sub-Saharan African countries in its bold and determined approach to economic development.<sup>4</sup> Led by a strong and intelligent leader, the country has established a proactive and evolving development orientation expressed in the concepts of DD and ADLI. Ethiopia's ownership of development policy is

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<sup>4</sup> More discussion on Ethiopian policy orientation is given in chapter 4.

strong. It rejects neo-liberal advice for small government and instead opts for private sector-driven growth guided by a strong state. The government is regarded as the principal development agent for replacing rent seeking with value creation, commercializing smallholder agriculture, and promoting agricultural growth that provides conditions for the initial stage of industrialization. Internal value creation is to be realized through acquiring skills and upgrading technology embodied in human capital rather than from extractive resources or capital and aid inflows. This approach has similarities with East Asia's Authoritarian Developmentalism (AD) in the past but there are also differences. In the first few sessions of the bilateral policy dialogue, Ethiopian development philosophy was clarified with the prime minister which provided the background for subsequent policy advice and concrete industrial support. The tentative result of this exchange is contained in chapter 5 of this report.

Another remarkable feature of Ethiopian industrial policy is aggressive policy learning and dynamic linkage between policy learning and expansion of policy scope. It was only several years ago, in the early 2000s, that Ethiopia settled its urgent problems related to national security, such as famine relief and conflict with its neighbor, and began to seriously tackle the issue of long-term economic development. At the outset, Ethiopian policy capability was low and the main policy measures employed for this purpose were a package of generous incentives for a small number of export industries such as leather, garment, agro processing and flowers, and monitoring of progress by the monthly Export Steering Committee chaired by the prime minister. Over time, policy experience was gradually accumulated through self effort and donor support. Tools such as benchmarking, business process re-engineering (BPR), institutional twinning and, most recently, kaizen were added to the industrial policy toolkit. Sectoral master plans were drafted, specialized institutes for priority sectors were set up, and mechanisms such as agricultural extension services, technical and vocational education and training (TVET) system, and public-private dialogue were established nationwide. Scaling up of a small pilot project to different sectors and regions has become a routine procedure. By now, the Ethiopian authorities feel sufficiently confident to take the next step forward in industrial policy formulation. In the Growth and Transformation Plan (GTP) 2010/11-2014/15, the Ethiopian government is



expanding policy support from export sectors to import substitution sectors such as chemicals and basic metal and engineering. It is also launching new initiatives such as the institutionalization of kaizen, the revamping of micro and small enterprise policy, and creation of new industrial zones.

## **1-5. Impacts of industrial policy dialogue**

The two-year bilateral industrial policy dialogue has produced a number of results for both Ethiopia and Japan in the formulation of development and international cooperation policies. They can be summarized as follows.

First, the policy dialogue accelerated Ethiopia's policy learning. Regular visits, intensive meetings and provision of specific information allowed the Ethiopian authorities to select topics and raise questions according to changing policy needs and interests. Ethiopia previously learned the development experiences of Korea and Taiwan through literature and dispatching of several young officials to the Korean Development Institute (KDI) in the late 1990s. However, the Ethiopia-Japan policy dialogue provided far more direct and interactive access to Japanese thinking and East Asian development experiences. Moreover, Ethiopia's inclination for aggressive policy learning was highly consistent with the features of Japan's development support explained above, especially the principle of Dynamic Capacity Development. Issues taken up in the last two years were broad and many. Our discussions started with the clarification of Ethiopia's guiding principles of DD and ADLI. The bilateral policy dialogue then turned to practical advice for expanding Ethiopia's policy space while avoiding known pitfalls, how to design national movements for mindset change, development plans, sectoral and sub-sectoral master plans and action plans, and so on. Although the results of our bilateral discussions are not clearly visible in the GTP (see chapter 3), it is hoped that policy learning in the last few years will produce tangible changes in the years to come.

Second, weaknesses in policy procedure and organization have been identified and communicated to the Ethiopian authorities. This is one of the areas in which

significant improvement is desirable in the coming years. Discussions on a number of sectors and issues such as kaizen, TVET, micro and small enterprises (MSEs), and basic metal and engineering have revealed common methodological problems which prevented effective policy making in Ethiopia (chapters 3, 4 and 7). They included preference of speed over quality in industrial policy formulation, the lack of sufficient consensus building on key policy directions among stakeholders inside and outside government, and the lack of a high-level policy coordination mechanism across ministries and agencies. These problems were detected against the best policy practices of East Asian high-performing economies. An alternative policy arrangement to overcome them, consisting of the three-layer structure of a national council, a planning commission and a policy think tank, was suggested. It is hoped that serious reform in central policy coordination will be undertaken during the GTP period so that the next five-year plan will be produced by a more advanced policy mechanism.

Third, policy dialogue was made effective by its close linkage with JICA's industrial projects (kaizen pilot project, technical assistance for establishing the Ethiopian Kaizen Institute and kaizen institutionalization, and a basic metal and engineering sector survey). Feedback between policy dialogue and concrete industrial projects is a feature not always visible even in Japan's economic cooperation in East Asia. In Ethiopia, the prime minister's initial request for two-track cooperation ensured that the two components would proceed interactively. This arrangement turned out to be highly productive as policy advice could be directly implemented, at least partially, through concrete projects while the latter could be supported by open seminars, policy discussions and institutional adjustments initiated by the policy dialogue. As Ethiopia regards kaizen as the core instrument for national movement for quality and productivity improvement, it is particularly important that problems encountered in kaizen projects be immediately reported and solved by high-level policy makers.

Fourth, the three-level policy dialogue, consisting of the prime minister, ministers and state ministers, and operational people and conducted in the spirit of mutual respect and full candor, provided excellent channels for Japan to know Ethiopia's most pressing policy needs and target its resources toward them. In particular,

regular access to the prime minister and long and substantive exchange with him enabled Japan to identify the most desired contribution to Ethiopia based on its comparative advantage. Similarly for Ethiopia, policy dialogue at all levels enabled the government to relay its policy intention precisely and raise issues flexibly to Japan (and East Asia). This is important because Ethiopia is a country of strong policy ownership with a clear developmental orientation. Pin-point matching of needs and offers has made Ethiopia-Japan intellectual cooperation highly effective and purged all seeds of distrust and misunderstanding. Though all donors are required to align with the national development plan, just reading the GTP will not allow such fine-tuning of development assistance to country needs.

In the eighth—and last—session of industrial policy dialogue in May 2011, the prime minister and the industry minister strongly requested the continuation of policy dialogue with Japan in one form or another. In response to these requests, the Japanese government, JICA and GDF are currently exploring the modality of extension of bilateral policy dialogue. As to Japan's support for kaizen, it will continue into the second phase as was previously agreed regardless of the future modality of policy dialogue.

## **1-6. Guide to chapters**

The rest of this report is organized as follows.

Chapter 2 gives an outline of JICA's KAIZEN project as it was implemented, in parallel with the industrial policy dialogue, from October 2009 to May 2011.

Chapters 3 and 4 are materials prepared for the most recent policy dialogue sessions in January and May 2011. Together they provide a good summary of our policy conclusions and recommendations. Chapter 3 contains assessments of the GTP in light of the previous sessions of bilateral policy dialogue. Chapter 4 discusses problems in policy procedure and organization which were identified as one of the root causes of general policy weaknesses in Ethiopia.

Chapters 5 to 9 are papers submitted to the earlier sessions of policy dialogue before

the content of the new five-year plan was known. Chapter 5 gives our interpretation of DD and ADLI, which are the two highest governing concepts of Ethiopian development. This chapter was drafted for clarifying the basic policy stance of the Ethiopian government at the beginning of the two-year policy dialogue. Chapters 6 and 7 argue cross-cutting issues and organizational arrangements that should be minded in expanding policy scope and instruments as the government's intention to do so in the next five-year plan was known at the time of writing. Chapter 8 includes policy advice in drafting the industrial section of the next five-year plan by the MOTI. Chapter 9, prepared at the request of the Ethiopian government, analyzes how industrial master plans in high-performing economies are structured.

Chapter 10 presents the international comparison of policy framework on the Basic Metal and Engineering Industries (BMEIs) and the highlights of the Firm-level Study on the BMEIs requested by the Ethiopian government and conducted jointly by JICA and the ECBP. The chapter reports only the results produced by JICA along with the review of international experiences and the Ethiopian policy framework for these industries.

The ordering of chapters in this report does not follow time sequence. The outline of JICA's KAIZEN project (chapter 2) and the two most recent papers for policy dialogue (chapters 3 and 4) are placed ahead of others because they contain latest information on Ethiopia's development orientation, especially the GTP and kaizen, and are most relevant to the readers with time constraints. As Ethiopia's policies evolve rapidly, any discussion not reflecting the GTP may fail to give a full picture of where the country is headed. The remaining chapters, however, are also useful as they offer concrete advice on how to improve industrial policy measures, documents and organizations applicable not only to Ethiopia but also to other developing countries provided that appropriate modifications are made. All papers were written for immediate use at policy dialogue sessions or reporting progress to governments and not for academic publication.

Throughout this volume, the reader will notice that the main methodology of persuasion used in the bilateral policy dialogue was international comparison of best

policy practices, gathered mostly from East Asian high-performing economies, so that Ethiopia was provided with solid reference materials with which to build its own policies. The ultimate purpose of studying a large number of international best policy practices is not to copy them randomly and blindly to a different soil but to strengthen Ethiopia's general capability to compose a policy package most suitable for its local context based on the principles of selectivity, modification, and combination.