

# Broadening the Policy Scope: Organizational Arrangements\*

This chapter gives concrete examples of organizational arrangements and related instruments for conducting industrial policies in selected countries in East Asia—Japan, South Korea, Malaysia, and Thailand. Different countries adopted different organizational solutions to facilitate industrial policy making. The type of leadership and its effective alliance with the technocrat team were crucial determinants of each country's organizational arrangements. Special attention will be paid to the two related issues of *inter-ministerial coordination and stakeholder involvement*. We will also examine how these countries executed high-priority programs. While these examples may not be transferred directly to Ethiopia because of differences in the backgrounds of the countries, it is hoped that they will provide concrete suggestions about organizational arrangements that Ethiopia can selectively adopt.

## 7-1. Leadership and the technocrat team

One of the key ingredients of the “East Asian Miracle” was alliance between the leader and the technocrat team (Campos and Root, 1996; Ohno and Shimamura, 2007). All of the countries examined here, with varying degrees of success, had (i) a visionary leadership that led long-term national development, (ii) a team of competent economic technocrats responsible for economic policy making and implementation, and (iii) institutionalization of inter-ministerial coordination and government-business partnership. Central coordination mechanisms were created in

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the government machinery for formulating, implementing, and monitoring development policies (Kondo, 2005).

It is also important to note that high-performing economies in East Asia did not possess strong institutional bases at the beginning of their rapid development. Capability and institutions were strengthened during (and not before) their high growth periods. East Asian experiences confirm that state-building is a dynamic process in which the government has to build up industrial policy capability through focused hands-on efforts in the process of industrialization.

There were significant country variations in leadership type, functions of the technocrat team, and approaches to the sharing of development and industrial visions. Table 7-1 summarizes these differences among Japan, South Korea, Malaysia, and Thailand in their respective high growth periods.

Table 7-1. Alliance between Leadership and Technocrat Teams in East Asia

	Leadership Type	Technocrat Teams	Development & Industrial Vision Formulation
Japan (late 50s-70s)	Organization-al leadership	MOF, EPA, MITI (super-ministry for industrial policy)	Economic and physical plans for vision sharing; industry-specific policies
S. Korea (60s-70s)	Strong personal leadership	EPB (super-ministry)	5-year plans and plans for targeted industries
Malaysia (80s-90s)	Strong personal leadership	Prime Minister's Dept. esp., EPU (super-ministry)	Vision 2020, 5-year plans; and Industrial Master Plans (IMP)
Thailand (80s)	Organization-al leadership	Core macro-economic agencies (no super-ministry)	5-year plans; no industry-wide plan (except after financial crisis)

South Korea and Malaysia had strong *personal leadership*. President Park Chung-hee of South Korea (in power 1961–79) and Prime Minister Mahathir bin Mohamad of Malaysia (in power 1981–2003) were charismatic leaders. They imposed national goals, exercised strong control, and became the driving force of national development and institutional building. The Economic Planning Board (EPB) of South Korea and the Prime Minister's Department (the Economic Planning Unit (EPU) in particular) of Malaysia functioned as super-ministries to centrally coordinate the formulation, implementation, and monitoring of vision documents

and development plans. These super-ministries were technocratic arms to realize leaders' visions.

By contrast, *organizational leadership* was salient in Japan and Thailand. There was no charismatic leader who ruled for a long time and there was no single super-ministry in either country. A number of key economic ministries and agencies worked in close collaboration with political leaders to formulate the vision, which was concretized into various plans and policy measures. In Japan, economic technocrats and businesses shared the idea of industrial catch-up based on economic nationalism. While a number of economic ministries participated in policy making, the Ministry of International Trade and Industry (MITI) played the lead role in coordinating and supporting private sector activities. In Thailand, linkage between macroeconomic agencies and real-sector line ministries was relatively weak, preventing the formulation of effective industrialization strategies. However, close coordination among core macroeconomic agencies provided a stable economic environment conducive for promoting private-sector led growth.<sup>1</sup>

Regardless of such variations in leadership, the governments of successful East Asian economies institutionalized government-business interactions for information sharing and policy coordination (Weiss, 1998; Weiss and Hobson, 1995; Kondo, 2005). Large flows of high-quality information between the government and businesses contributed to building mutual confidence, credible commitments, and predictability between the public and private sectors. Moreover, the nature and intensity of government-business coordination have evolved over time as the private sector has improved its capability (see section 4-3-1 for Korea's HCI drive).

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<sup>1</sup> Organizational leadership refers to "mission-driven control" by powerful groups or organizations, in contrast to "goal-oriented control" by a charismatic figure (Kondo, 2005). In Thailand, the Thaksin administration (2001–06) introduced a charismatic top-down approach based on new public management, but this short period was generally considered an exceptional case in the political history of Thailand.

## **7-2. Mechanisms for inter-ministerial coordination and stakeholder involvement**

Industrial development has multi-sectoral dimensions, involving not only industrialization strategy in the narrow sense but also agriculture (inputs and markets), infrastructure, skill development, science and technology, the environment, and so forth. Moreover, unlike the social or infrastructure sectors, the industry sector is not public-expenditure intensive. Since private agents are the main counterpart of industrial strategy making, consideration must be given not only to budget allocation but also to providing incentives and a regulatory framework conducive to business activities.<sup>2</sup> For these reasons, effective industrial policy formulation and implementation requires (i) inter-agency coordination mechanisms; (ii) constructive and continuous contacts with businesses; and (iii) mechanisms for frequently reviewing and flexibly adjusting policy implementation.

Not all East Asian governments had industry-wide policies or overall industrial master plans. Regardless of the existence of such documents, the governments of successful economies all devised centralized mechanisms for inter-ministerial coordination and instruments for government-business partnership for industrial policymaking and implementation. They included deliberation councils, steering committees at the national or sectoral level, working groups, special task forces, government-business forums, and industry-specific or function-specific institutes. The following accounts give concrete examples of organizational arrangements and instruments adopted by selected East Asian countries.

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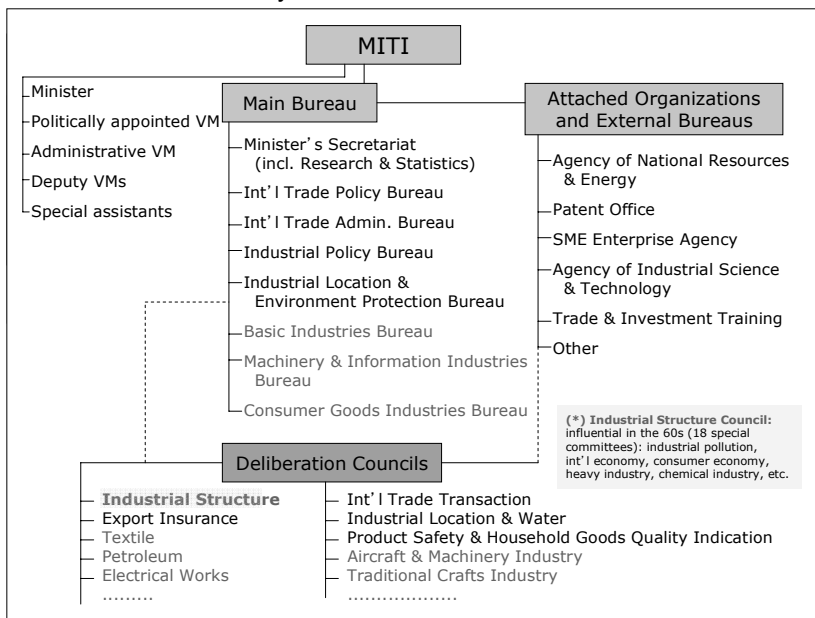
<sup>2</sup> This applies to the productive sector in general, including agriculture. Based on similar analogies, Mick Foster, a proponent for Sector-Wide Approach (SWAp) and new aid modalities such as budget support, pool funds, and so on, recognizes the difficulty in introducing agricultural SWAp in Sub-Saharan Africa compared with using SWAp in the health and education sectors (Foster, et. al. 2001).

### **7-2-1. Japan: MITI and the use of deliberation councils in a bottom-up approach**

Japanese economic ministries in the late 1950s to the 1970s included the Economic Planning Agency (EPA) under the Prime Minister's Office, the Ministry of Finance (MOF), and the Ministry of International Trade and Industry (MITI, currently the Ministry of Economy, Trade and Industry), which collectively assumed the primary role in formulating medium- and long-term national visions and economic plans. In addition, the EPA and, subsequently, the Land Agency (established in 1974) under the Prime Minister's Office, formulated spatial plans that included corridors, industrial zones, and land and regional development plans. Responsible ministries or agencies organized deliberation councils whose members were representatives from other ministries, business leaders, experts, and academicians. In Japan, deliberation councils functioned as the key instrument for vision making, policy consultation and coordination, and information sharing within and outside the government.

Based on a shared vision and shared policy directions, MITI assumed full responsibility in industrial policy formulation and implementation. According to Okimoto (1989), MITI was the *de facto* super-ministry for industrial policy. Compared to the more fragmented industrial policy making mechanism in the United States (US), MITI was distinctive in: (i) having broad jurisdiction over many industrial and functional sectors from small and medium enterprises (SME) to basic industries such as petroleum and steel, international trade, and even environmental protection; and (ii) having both vertical (industry-based) and horizontal (functional or cross-industrial) bureaus (Figure 7-1).

Figure 7-1. Japan: The Structure of the Ministry of International Trade and Industry

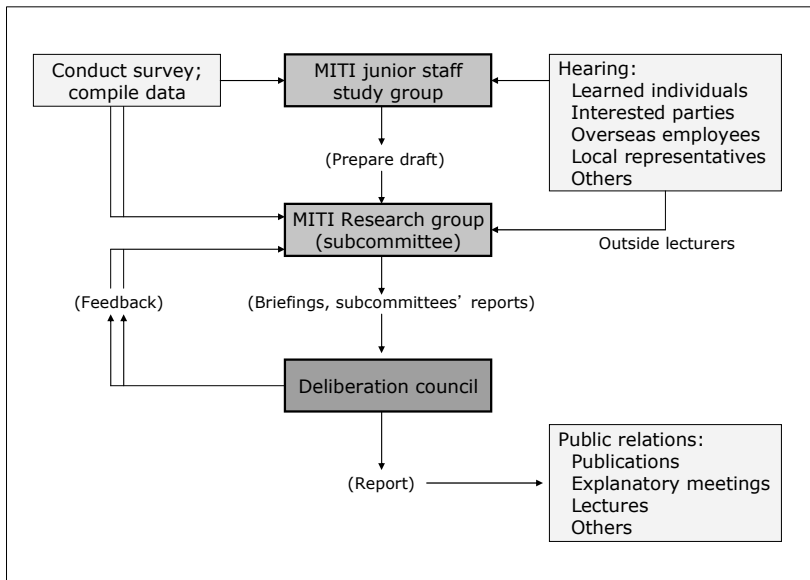


Source: Adapted from Okimoto (1989), p.117, Figure 3.2.

Deliberation councils were extensively used by MITI as a policy making instrument. Deliberation councils were managed by a secretariat staffed by MITI officials. With members from private businesses, deliberation councils provided a forum in which the government and businesses met and discussed policy issues and business trends, promoting consensus-building (World Bank, 1993). Moreover, the structure of deliberation councils reflected both vertical and horizontal bureaus within MITI. This contributed to enhancing MITI's capacity to aggregate diverse interests (Okimoto, 1989). Among deliberation councils, the Industrial Structure Council, established in 1964, was most influential as it managed the industrial policy in its entirety by the participation of representatives from the public and private sectors (Johnson, 1986). The Industrial Structure Council drafted a vision for industrial policies for each decade. It published the vision of Heavy and Chemical Industry (HCI) in the 1960s, knowledge-intensive industries in the 1970s, creativity and knowledge-based industries in the 1980s, and better quality of life in the 1990s (Kawakita, 1991). The Industrial Structure Council also discussed measures to support pioneer industries and ensure the transition of sunset industries.

Japan's policymaking process was characterized by a bottom-up approach in which policy formulation started with MITI's junior officials gathering and analyzing data and information and conducting intensive hearings from various stakeholders, especially the business community (Figure 7-2). The information collected served as the basic input for subsequent discussions in the subcommittee and the deliberation council, which respectively drafted and finalized policy recommendations. Throughout the process, deputy division directors (officials in their mid-thirties) were at the center of communication flows both inside MITI and between MITI and the private sector and thus had a considerable voice in determining the policy direction (Okimoto, 1989).

Figure 7-2. Japan: MITI's Deliberation Council and Policy Formulation (late 1950s–early 1970s)



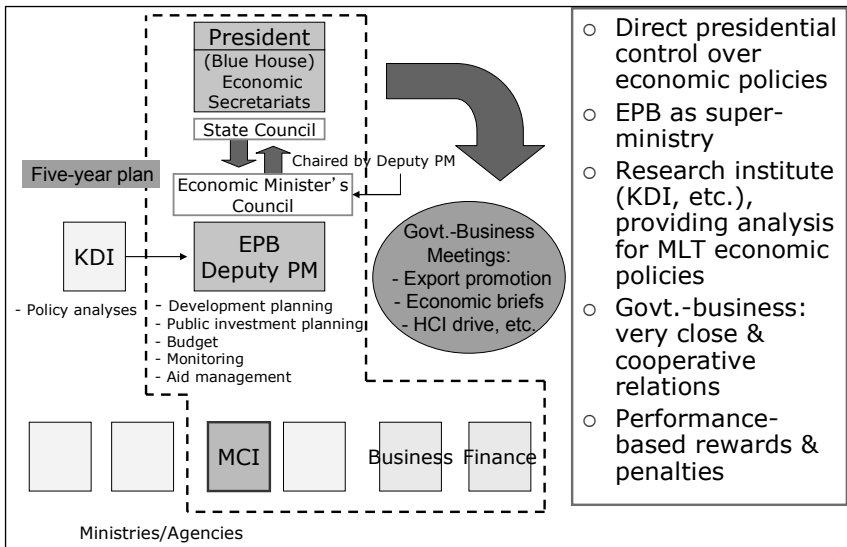
Source: Ono (1992).

### 7-2-2. South Korea: the super-ministry and the top-down approach

During the 1960s and 70s, President Park Chung-hee exercised strong personal leadership. This was a top-down approach to economic policy making,

implementation and monitoring (Figure 7-3). The EPB, created in 1961, was designated as a super-ministry integrating development planning, budget control, aid management, overall policy coordination, and monitoring.<sup>3</sup> Headed by the Deputy Prime Minister who chaired the Economic Minister’s Council and directly reporting to the President, the EPB was above other ministries and agencies. Policy research institutes also played an important role in applying specialized knowledge and expertise to produce analyses of long-term issues. Among them, the Korean Development Institute (KDI), established in 1971, assisted the EPB in formulating medium- and long-term economic policies.<sup>4</sup>

Figure 7-3. South Korea: Development Vision and Government-Business Partnership (1960s–70s)



Source: Author.

<sup>3</sup> EPB combined several strategic functions previously entrusted to different ministries. These included: (i) development planning, which was originally with the Ministry of Reconstruction working with USAID in the aftermath of the Korean War; (ii) budget formulation; (iii) collection and evaluation of census and other statistics that was originally done by the Ministry of Internal Affairs; and (iv) jurisdiction over the inflow of foreign capital and technology (Kim and Leipzig, 1993).

<sup>4</sup> Stimulated by KDI's success, other ministries also established institutes under their jurisdictions. These included the Korean Education Development Institute (KEDI) in 1972 by the Ministry of Education, the Korean Rural Economics Institute (KREI) in 1978 by the Ministry of Agriculture and Fishery, and the Korean Institute for Human Settlement (KIHS) in 1978 by the Ministry of Construction. By 1992, there were at least 10 policy research institutes in the Korean government (Kim and Leipzig, 1993).



From the mid 1960s to the early 1980s, a close and cooperative relationship existed between the government and private businesses. Meetings were held frequently and regularly between leaders of both groups. The Monthly Export Promotion Meeting was particularly important in coordinating the export drive. It was presided over by President Park and attended by selected business association leaders, governors of financial institutions, major export enterprises, and economic ministries. In the meeting, President Park would first be given briefings on the achievement of export targets from every business receiving subsidized policy loans. Second, members discussed problems of specific industries. Third, business members expressed their views on export market trends and examined the drafts of regulations and policies. Fourth, based on the opinions of the business community, President Park ordered relevant departments of the ministries to adopt remedial measures. In subsequent meetings, ministries were obliged to report on their actions and industry performance (World Bank, 1993; Cheng, et. al., 1996; Kondo, 2005).

To prepare for these meetings, the Ministry of Commerce and Industry (MCI) collected information from individual exporters on a monthly, weekly, and sometimes even daily basis. It also monitored and analyzed market conditions. Moreover, lower-level meetings among middle managers in private industries, middle-level officials in the government, and experts and academicians supplemented the Monthly Export Promotion Meetings. These meetings took place in the form of industrial discussion groups, divided into either functional or sectoral groups depending on the issue (Campos and Root, 1996).

President Park also organized the Monthly Economic Briefing. Like the Monthly Export Promotion Meeting, the briefing was attended by the President, EPB, business leaders, and representatives of financial institutions. While the Monthly Export Promotion Meeting focused on devising countermeasures to eliminate impediments to export growth, the Briefing paid more attention to analyzing and monitoring economic performance regarding exports (Kondo, 2005).

### **7-2-3. Malaysia: A super-ministry and multi-layered, inter-ministerial coordination**

Since independence in 1957, the successive Prime Ministers in Malaysia have generally exercised strong leadership, and technocrats have served as the support arm to realize the leader's vision. The organizations responsible for policymaking were mainly in the Prime Minister's Department such as the Economic Planning Unit (EPU), the Implementation and Coordination Unit (ICU), and the Public Service Department, in addition to the MOF. The EPU in particular functioned as a super-ministry, taking a lead in the formulation of long- and medium-term plans and reviews, public investment planning and development budget, as well as in aid management.

Malaysia established a multi-layered, inter-ministerial coordination mechanism for each of the planning and implementation functions. The National Planning Council (NPC) was placed at the highest level of decision-making with regard to socio-economic matters. Chaired by the Prime Minister and comprised of key economic ministers, the NPC served virtually as the economic committee of the Cabinet. Below the NPC was the National Development Planning Committee (NDPC), a working level planning committee chaired by the Chief Secretary to the government and consisting of the heads of all ministries. The EPU acted as the secretariat, and a similar planning setup existed at the state and district levels. The National Action Council (NAC), chaired by the Prime Minister, had the highest authority over the overall implementation and coordination of development strategies. It met regularly with selected government agencies for intensive review of progress of and problems with development strategies. The ICU served as the secretariat. A similar institutional setup was copied at the state and district levels.

During the 1971–1985 period, *Bumiputra* or the New Economic Policy (NEP) was the overriding policy framework in Malaysia.<sup>5</sup> The government-business relationship became somewhat antagonistic because the NEP favored the ethnic

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<sup>5</sup> The NEP (or *Bumiputra* policy) was an affirmative action plan aimed at poverty problems and imbalances among ethnic groups in favor of indigenous Malay. It was formulated in 1971 in response to the 1969 ethnic riot.

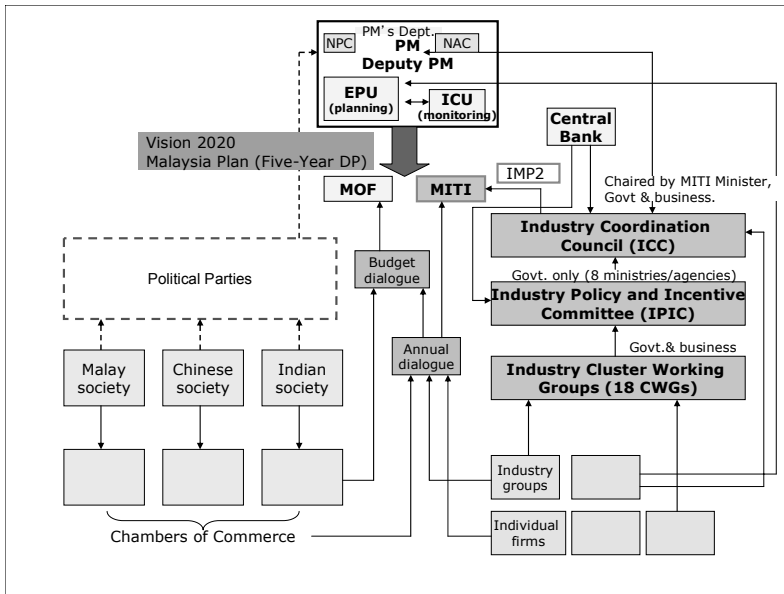
Malay and the government also established a number of state-owned enterprises. A major breakthrough in industrial policy was made in 1981 when Prime Minister Mahathir took office. Mahathir renovated economic policies and institutional arrangements for a strategic government-business relationship. In 1981 he launched the Look East Policy, which urged Malaysians to learn from the Japanese and Korean experiences in economic development. He launched the Vision of Malaysia Incorporated in 1983 and started Vision 2020, with a pro-business orientation, in 1991. The Ministry of International Trade and Industry (MITI) of Malaysia formulated the first Industrial Master Plan (IMP1, 1986–95), which laid the foundation for manufacturing to become the leading sector of the economy.

To realize Vision 2020, the second Industrial Master Plan (IMP2, 1996–2005) aimed at improving the competitiveness of manufacturing by broadening and raising its activities along the value chain curve. Its two key thrusts were “manufacturing plus plus” and “cluster-based industrial development” (Ohno, 2006). The background paper was prepared by a researcher at the Malaysian Institute of Economic Research (MIER). IMP2 paid greater attention than IMP1 to the institutionalization of policy coordination mechanisms and established the following three-layered bodies (Figure 7-4).

- (i) The Industrial Coordination Council (ICC), aimed at monitoring the progress of IMP2 and examining problems raised by the subordinate committees. It was chaired by the Minister of the International Trade and Industry and included eight officials from MITI, EPU, MOF, Central Bank, related economic ministries (at the level of permanent secretary), and 15 business representatives (Chamber of Commerce, Federations of Malaysian Manufacturers, major industrial associations).
- (ii) The Industrial Policy and Incentive Committee (IPIC), aimed at examining investment promotion policies. IPIC members were limited to economic technocrats (officials from eight ministries and agencies).
- (iii) The Public-Private Cluster Working Group (CWG) and the Strategic Thrust and Initiative Task Force (STITF). The members consisted of both

government officials and business representatives. As subordinate groups to IPIC, the former discussed the promotion of 18 targeted sectors in IMP2, while the latter examined policy measures to build up international competitiveness and prepare for economic globalization (Torii, 2000; Kondo, 2005).

Figure 7-4. Malaysia: Mechanisms for Industrial Policy Coordination (1991–)



Source: Adapted from Torii (2000), p.166, Figure 2.

Another important instrument for realizing Vision 2020 was the Vision of Malaysia Incorporated, which regarded the government-business relationship as a firm-type organization. Although announced in the early 1980s, its institutionalization began only in 1991 when Vision 2020 was launched. Similar to IMP2, the Vision of Malaysia Incorporated established multi-layered bodies.

At the highest policy level, the Malaysian Business Council (MBC) was established in 1991 to share problems and information on industrial development among political, government, and business leaders. Modeled on Korea’s Monthly Export Promotion Meeting, the MBC was chaired by the Prime Minister and managed by

the Prime Minister's Department. The members included 10 key ministers and 10 officials, 55 business representatives, and some representatives from labor. MBC facilitated direct communication among big businesses, labor, and the Prime Minister. At the working level, the Malaysia Incorporated Officials' Committee was established in 1993. The Committee was chaired by the Chief Cabinet Secretary of the Prime Minister's Department, and the members included government officials, business associations, and business leaders. It was modeled after Japan's government-business relations.

Furthermore, all government branches and federal states were requested to establish government-business councils and annual forums. Although the frequency of their meetings varied among agencies, well-known examples included the annual budget dialogue organized by the MOF to seek business opinions prior to budget formulation, and the annual trade industrial dialogue organized by MITI, which had started even before 1991.

#### **7-2-4. Thailand: National and sectoral steering committees for Industrial Restructuring Plan**

Unlike the three countries mentioned above, the Thai government traditionally had no industrial sector planning and no industrial targeting strategy (Christensen, et. al., 1993). Policies were most effective in maintaining macroeconomic stability, which was conducive to trade, investment, and private sector growth. No single super-ministry existed, and until the late 1990s the core macroeconomic agencies—the National Economic and Social Development Board (NESDB), the Bureau of the Budget, the Fiscal Policy Office (FPO), and the Bank of Thailand—collectively exercised strong power and shared responsibilities for economic policymaking.

The Asian financial crisis that erupted in July 1997 prompted the Thai government to conduct a comprehensive industry review. Pressed by the circumstances, the government quickly formulated the Industrial Restructuring Plan (IRP) for enhancing industrial competitiveness with due attention to social conditions. The IRP consisted of the Master Plan, the Strategic Plan, and the Action Plan for

industrial restructuring, and it included as its objectives upgrading labor skills in target industries, supporting small and medium enterprises, relocating high pollution industries, and promoting clean technology. The Ministry of Industry (MOI) was the leading ministry, and it organized the involvement of various stakeholders such as the public sector, businesses, and academicians. Although the IRP was formulated and implemented within the frameworks of structural adjustment loans from the World Bank and the Asian Development Bank, the Thai government took full initiative in developing the content of the Master Plan, the Strategic Plan, and the Action Plan.

The IRP was formulated in the following steps (Figure 7-5).<sup>6</sup> First, MOI reviewed industrial research from several sources, such as the Thailand Development and Research Institute (TDRI) and the Chulalongkorn University, and drafted the guidelines for industrial restructuring in consultation with the agencies concerned. The Cabinet approved the guidelines, and the National Industrial Development Committee was established in September 1997 to supervise and manage the formulation of the IRP. The Committee was chaired by the Deputy Prime Minister and managed by MOI with the participation of related ministries, businesses, and academicians. In January 1998, the Industrial Restructuring Master Plan was approved by the Cabinet.

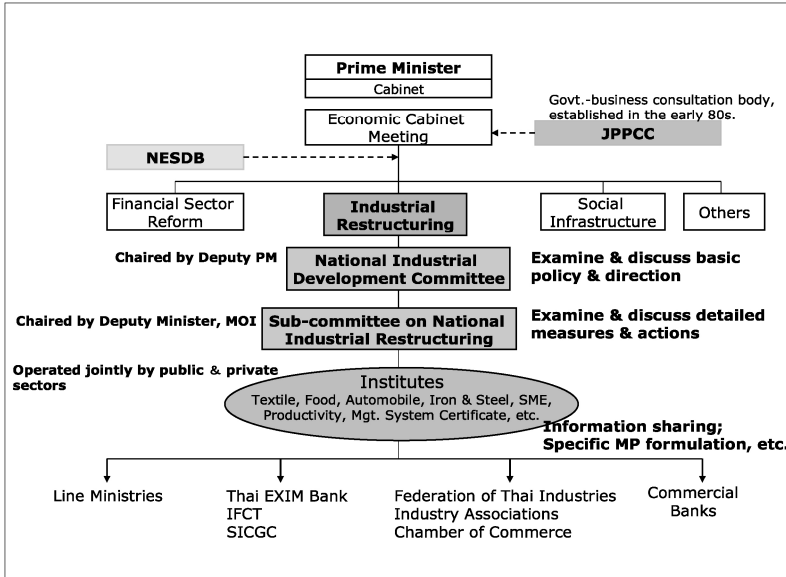
The National Industrial Development Committee appointed a subcommittee to prepare the Strategic Plan and the Action Plan for Industrial Restructuring. The subcommittee was chaired by the Deputy Minister of MOI. The Director General of the Office of Industrial Economics and a representative from the Industrial Promotion Department acted as the secretariat and prepared these plans in consultation with the public and private sectors, investment promotion agencies, and academicians. Workshops were held for this purpose. The Strategic Plan, approved by the Cabinet in March 1998, provided a framework for the restructuring of 13 industrial sectors. Guided by this framework, the Action Plan was drafted and approved by the National Industrial Development Committee in June 1998, and

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<sup>6</sup> Based on the Industrial Restructuring Plan (1998–2002), the National Industrial Development Committee, unofficial translation by Vibool Chandrangu, as a contribution of Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG) and the Regional Advisory Service Project.

subsequently by the Cabinet.

Figure 7-5. Thailand: Formulation and Implementation of IRP (after 1997)



Source: Adapted from Higashi (2000), p.166, Figure 3.

Furthermore, ten specialized “institutes” were established to design concrete promotional measures for targeted industries and themes and to cope with problems in the IRP implementation process. They were operated jointly by the public and private sectors, each with its own staff and board. They acted as a hub of information sharing and consultation between government and businesses and in some cases formulated industry-specific master plans (e.g., Thai Automobile Master Plan 2002–2006). Some institutes originated from the Industry Promotion Department of the MOI while others were transformed from different existing agencies or established by donor assistance.

Table 7-2 shows these ten specialized institutes. They included six industry-specific institutes (textile, food, automobile, electrical and electronics, cane and sugar research, and iron and steel) and four thematic institutes (productivity, technical and vocational education and training (TVET), management and

certification, and SME development).

Table 7-2. Thailand: Institutes Created as Part of IRP (as of Oct. 1999)

Name	Start-up Date	Organizations
Thailand Productivity Institute	June 1995	Originated from MOI industry promotion dept. 20 Board members, 161 staff.
Thai-German Institute	Nov. 1995	Financial cooperation from KfW, GDC. Technical training (CNC, CAM/CAD, etc.), 12 Board members, 79 staff, 5 German experts.
Thailand Textile Institute	June 1997	Based on MOI industry promotion dept. and industry association. 20 Board members, 27 staff.
National Food Institute (NFI)	Oct. 1996	Based on MOI industry promotion dept. and industry association. 20 Board members, 27 staff.
Management Systems Certification Institute (MSCI)	March 1999	Originated from Thai Industrial Standard Institute (TISI). 14 Board members, 55 staff.
Thailand Automotive Institute (TAI)	April 1999	Supporting industry development. 20 Board members, 28 staff
Electrical & Electronics Institute (EEI)	Feb. 1999	Supporting industry development. 29 Board members, 28 staff.
Foundation for Cane & Sugar Research Institute	April 1999	Originated from Cane & Sugar Research Institute. 13 Board members.
Institute for SME Development	June 1999	Modeled on Japan's SME Univ. Operated by Thammasat Univ. in cooperation with 8 local universities. 21 Board members.
The Iron & Steel Institute of Thailand	Dec. 1998 (cabinet approval)	Aimed at joint marketing promotion of four steel companies (oversupply)

Source: Higashi (2000). Reprinted from Table 4-1.

### 7-3. Mechanisms for executing high priority programs

Successful East Asian economies organized special task forces and national committees to plan, implement and monitor high-priority programs. As the examples below show, these task forces and committees were closely supervised by top leaders, and their decisions were often accorded cabinet-level authority.



Secretariat teams were established in relevant ministries and agencies and given the strong authority to manage the entire process and do the necessary inter-agency coordination and stakeholder consultations. In many cases, the process combined both top-down and bottom-up approaches. This strategy facilitated the gathering of high-quality information, “fast-track” decision-making, and rapid problem-solving.

### **7-3-1. South Korea: Special task forces for export drive and HCI drive**

As mentioned, in South Korea, the export drive was one of the highest national priorities under the Park administration. The President chaired monthly export promotion meetings at which MCI served as the secretariat. The meetings monitored export performance, identified bottlenecks, and discussed concrete measures for promoting exports. A notable point was that the President imposed rigid performance standards on subsidized businesses under a strict monitoring mechanism. The government and businesses assumed mutual responsibilities. On the one hand, ministries were ordered by the President to take measures and report the results at the next meeting. On the other, businesses were rewarded and penalized according to their export performance; high performing companies were not only given financial and fiscal incentives but also awarded medals.<sup>7</sup> As explained above, this top-down approach was complemented by a range of bottom-up activities coordinated by MCI with the involvement of businesses, concerned ministries and academicians at the operational level.

The HCI drive was another high-priority program during 1973–79. Under the promotional laws, six strategic industries were targeted including industrial machinery, shipbuilding, electronics, steel, and petrochemicals. The Third Five-Year Plan (1972–76) set specific targets for physical quantities of steel, ships, automobiles, and so on, to be produced by 1980.

To implement this program, the HCI Promotion Committee was established in 1973.

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<sup>7</sup> In the Confucian culture, public recognition by the president has special meaning with high prestige.

Chaired by the President himself, the Committee was given the highest authority, equal to the State Council. At the working level, a special task force, called the HCI Planning Team, was established with the membership of high-level economic technocrats from the Economic Secretariat of the Blue House, the EPB, and MCI. Because the HCI Planning Team was headed by the Presidential Secretary of Economic Affairs of the Blue House, the HCI program was entirely under the direct control of the President (Hong, 1997). Massive government support, including import protection, tax incentives, and most importantly, preferential access to the credit of the National Investment Fund, was provided to strategic industries.

It must be admitted that the HCI drive provoked controversy. This was partly because the decision making was highly centralized at the Blue House and the MCI, bypassing the more orthodox mechanism led by the EPB. It was also because its large financial and fiscal mobilization forced the EPB to make difficult decisions to balance micro investment planning with macroeconomic management.

The nature of industrial policy making changed significantly under President Chun Doo-hwan (in power 1980–88). A typical example was his semiconductor-related policies. In contrast to the promotion effort up until the 1970s, the government focused on formulating industry guidelines and refrained from actively pushing policy targets. In addition, most of these policies were demanded by the private sector rather than initiated by the government. When the Basic Plan for the Promotion of the Electronics Industry was prepared, MCI formed a working group with sixteen members including the head of MCI's Electric and Electronics Industry Bureau (secretariat), related ministries, private companies, the Korean Institute of Electronics Technology, and the Electronics Industry Association of Korea (Hong, 1997).

### **7-3-2. Thailand: Cabinet-level and national committees for Eastern Seaboard Development**

The 1980s was the time when Thailand made a leap forward in development by adopting export-oriented industrialization. Prior to this, in the late 1970s, the government faced serious balance of payments problems triggered by the oil crises,

and strengthening industrial competitiveness became an urgent goal for the country. Prime Minister Prem Tinsulanonda (in power 1980–88) took the lead in pushing a priority policy agenda and instituted mechanisms for addressing three national priorities: (i) Eastern Seaboard Development (ESD); (ii) government-business consultation; and (iii) rural development. All of these were highlighted in the Fifth National Economic and Social Development Plan (1982–86).

For each of the three priority programs, Prime Minister Prem established a national committee under his chairmanship and entrusted the technocrat teams of NESDB to plan, coordinate and monitor respective programs. Below, we will examine how these committees were organized and functioned for two of the national priority programs, (i) and (ii) above.

As Thailand's first forward-looking strategic initiative for economic take-off, the ESD program was a flagship regional development program that received the highest priority in the Fifth and Sixth Development Plans.<sup>8</sup> Located 80 to 200 km southeast of Bangkok (the Thai capital), the ESD program had an unprecedented scale with numerous project components in infrastructure development including deep seaports, roads, railways, power and communication, etc; industrial zones; urban development; water resources; and environmental management.<sup>9</sup> It aimed to strengthen international competitiveness by building industrial zones and to generate employment outside Bangkok to mitigate concentration of population and industry.

In late 1980, Prime Minister Prem established special coordination and decision-making mechanisms exclusively for the program. These included: (i) the Eastern Seaboard Development Committee (ESDC), a cabinet-level national committee chaired by the Prime Minister and managed by the Secretary General of

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<sup>8</sup> The Fifth Development Plan had one entire chapter dedicated to the ESD program.

<sup>9</sup> The basic plan for ESD was formulated with the funding of the World Bank. Japan provided wide-ranging assistance including both technical cooperation (master plans, feasibility studies, etc.) and financial cooperation. Regarding the latter, during the period of 1982–1993, Japan financed 16 major infrastructure projects amounting to a total loan commitment of 179 billion yen (via 27 loan agreements). The total public investment for ESD-related infrastructure was estimated at around USD1.5 billion, which was largely funded by Japanese ODA loans.

NESDB; (ii) sub-committees chaired by the ministers of government organizations in charge; and (iii) the Office of the Eastern Seaboard Development Committee (OESD) within NESDB to act as the secretariat. The OESD was headed by the Deputy Secretary General of the NESDB.

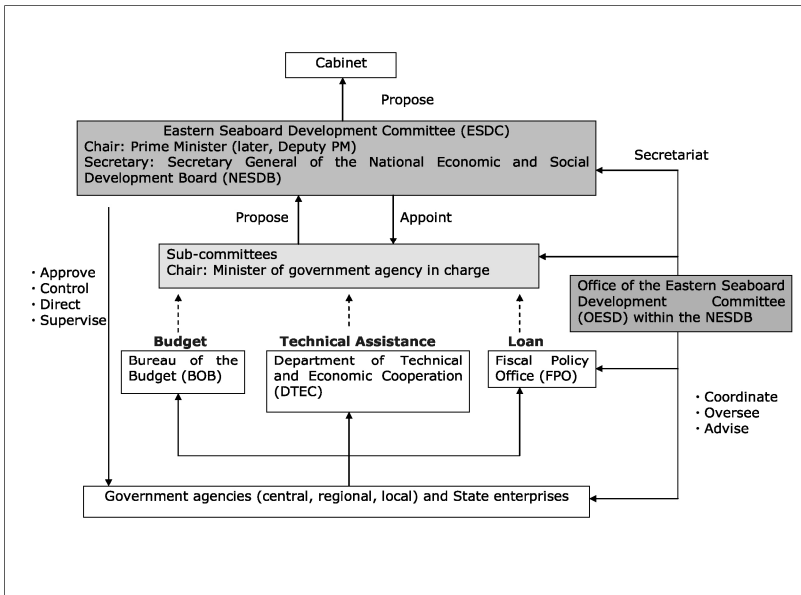
These mechanisms combined top-down (policy issues) and bottom-up (technical issues) approaches and facilitated both vertical and horizontal coordination. The presence of a cabinet-level committee enabled quick decision-making on priority policy issues (*de facto* “fast track” processes) and strategic use of donor assistance. The OESD coordinated the Budget Bureau, the Department of Technical and Economic Cooperation (DTEC), and the Fiscal Policy Office (responsible for loan aid) to work on the details of the budget and aid resource mobilization. In this way, the ESD program was treated as a special program outside the routine policy making channels. The mechanisms also incorporated multi-layered check and balance functions. The NESDB secretariat acted as an influential liaison office to plan and implement the program. Highly motivated and competent technocrats were recruited, many of them seconded from related ministries and agencies, for this task (Ohno and Shimamura, 2007). Figure 7-6 describes the overall decision-making structure for the ESD program.

The National Joint Public and Private Consultative Committee (JPPCC) was the first formal mechanism for public and private sector collaboration in Thailand. Designating the private sector as the engine of growth, Prime Minister Prem established JPPCC in 1981. Like the ESDC, it was chaired by Prime Minister Prem, and the Secretary General of NESDB served as the committee secretary. Other members were deputy prime ministers, ministers and deputy ministers of economic ministries, the Governor of the Bank of Thailand, and the Secretary General of the Board of Investment. The private sector was represented by the Thai Chamber of Commerce, the Federation of Thai Industries, and the Thai Bankers Association.

JPPCC differed from the government-business forums in Japan and Korea examined above. Only matters of general interest were discussed, typically, problems that plagued the majority of (if not all) large firms. Nevertheless, because these forums

were open to the press, they put pressure on the Prime Minister to respond to the reform proposals put forward by the business community. Through JPPCC, information on the impact of regulations, tax measures, and trade policy on the performance of individual firms as well as the national economy was quickly communicated to officials, helping the government to respond to the problems. Big businesses were incorporated into the policymaking process, especially in the making of trade policy (Campos and Root, 1996).

Figure 7-6. Thailand: Coordination and Decision-making for ESD



Source: Masumi Shimamura – drawn upon provisions from the Regulations of the Office of the Prime Minister Governing the ESD (1985) and information provided by NESDB, TICA, BOB, FPO, PDMO and MOI to the GRIPS team.

## 7-4. Implications for Ethiopia

Over the last five years, the Ethiopian government has made impressive achievements in building mechanisms for implementing the Industrial Development Strategy (IDS).

First, the government organized the Monthly Export Steering Committee, chaired by

the Prime Minister and managed by MOTI, with the participation of related ministries and agencies, to review export performance and discuss measures to be taken for export promotion.

Second, MOTI regularly organizes sectoral forums with businesses and meets industrial associations (for example, textile and garment, leather and leather products, agro-processing, horticulture) to discuss export targets of respective industrial sectors.

Third, MOTI has built its structure around “priority” industry departments, based on the strategic vision of IDS, and established industry-specific “Development Centers” to act as a hub of formulating and implementing sectoral master plans, monitoring business performance, supporting problem-solving, and preparing reports to the Monthly Export Steering Committee. Furthermore, sector-specific technology and training institutes, especially the Leather and Leather Products Technology Institute (LLPTI) and the Textile and Apparel Institute, have been established to mobilize donor support and provide technical advice to firms.

Fourth, Ethiopia has devised instruments to gather information on the problems faced by the private sector. These include dialogues between government and chambers of commerce at both national and local levels; the Private Sector Development (PSD) Hub, located in the Addis Ababa Chamber of Commerce, which conducts research and analyses for private sector development; and the PSD Sector/Technical Working Group, which facilitates government-donor aid coordination.

These are laudable achievements in a relatively short period. Nevertheless, as Ethiopia hopes to move up to the next stage of industrial development, continuous efforts are required to build additional policy capability. For this purpose, based on the experiences of East Asia, the Ethiopian government may consider strengthening the following organizational aspects:

- (i) A mechanism for constantly reviewing and adjusting industry-wide policy. This is particularly important as there are ongoing discussions on the possible expansion of the policy scope of the IDS or moving to the “second-

generation” of industrial policy.<sup>10</sup> Such a mechanism would also be useful in coping with unexpected shocks, such as a global financial crisis or an acute foreign exchange shortage.

- (ii) A mechanism for involving various stakeholders—not only businesses as has already been done, but also research institutes, experts, and academicians. East Asian economies have actively mobilized the knowledge and expertise from experts and researchers outside the government and involved them in the policymaking process through deliberation councils, national and sector committees, institutes, and other informal discussion meetings. As suggested in chapter 6, Ethiopian experts and researchers may be mobilized for the evaluation of past and future industrial promotion measures, whose results should serve as analytical input to the industry chapter of the next *A Plan for Accelerated and Sustained Development to End Poverty* (PASDEP) (see (iv) below).
- (iii) A mechanism for addressing cross-cutting or functional issues, in addition to industry-specific issues. Now that MOTI has made progress in building capacity to respond to industry-specific issues, it may also wish to consider how to address cross-cutting issues—for example, quality and safety standards, international trade policy, and industrial location—and make effective links between these perspectives and industry-specific support. This will become important when the planned *kaizen* program, focusing on selected pilot companies with the Japan International Cooperation Agency (JICA)’s technical cooperation, comes to a scaling-up stage and involves a larger number of firms. Cross-cutting perspectives would also be useful for ensuring methodological uniformity on sectoral master plans.
- (iv) A mechanism for strengthening inter-ministerial coordination, especially among MOTI, the Ministry of Finance and Economic Development (MOFED), and the Ministry of Agriculture and Rural Development (MOARD). Collaboration between MOTI and MOFED is crucial as MOTI

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<sup>10</sup> World Bank (2009), Annex 10: Macroeconomic Assessment and Monitoring Arrangements, p.150.

prepares the industry chapter of the next PASDEP and, subsequently, the five-year industrial implementation plan. Moreover, since incentive measures have fiscal and financial implications for both export industry promotion and proposed import substitution, MOFED should be involved in the discussion on the possible expansion of industrial policy scope. Furthermore, to promote ADLI, it is vital that MOTI and MOARD work jointly to concretize several concepts related to the agro- industry sector such as “integrated agro food parks” and “growth corridors.” Moreover, ministries and agencies charged with infrastructure development and regional governments should also be involved when necessary. All these can be achieved by strengthening inter-ministerial coordination mechanisms centered around MOTI.

To achieve these organizational goals, it is important to consider how National Graduate Institute for Policy Studies (GRIPS)-JICA industrial policy dialogue with the Ethiopian authorities may be used for the building of industrial policy capability mentioned in (i)–(iv) above. This is related to the question of how the policy-level forum and the working-level forum (Policy Dialogue Steering Committee) of the bilateral policy dialogue can contribute to promoting industrial policy coordination and stakeholder interactions that include both businesses and researchers.

Additionally, it is also useful to consider the following possibilities: (i) whether MOTI’s Development Centers can in the future assume the role of managing government-business partnership in respective industrial sectors; (ii) whether to establish functional centers similar to Malaysia’s STITF and Thailand’s “Institutes”; and (iii) how the experience of inter-ministerial coordination under the Engineering Capacity Building Program should be used to improve the design of an inter-ministerial coordination mechanism.