

Ethiopia as Japan's Partner in Trade and Manufacturing

A Perspective from Ethiopia-Japan Policy Dialogue



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Topics

- ❑ Ethiopia's weaknesses and strengths
- ❑ Ethiopia-Japan industrial policy dialogue
- ❑ Manufacturing FDI in Ethiopia: current status and future potential
- ❑ The role of Japan and Japanese FDI

For more on policy dialogue see:

- http://www.grips.ac.jp/forum-e/af-growth/support_ethiopia/support_ethiopia.htm
- JICA & GRIPS, *Intellectual Partnership for Africa: Industrial Policy Dialogue between Japan and Ethiopia*, Dec.2011.
- K. Ohno, *Learning to Industrialize: From Given Growth to Policy-aided Value Creation*, Routledge, 2013 (ch.10).

Ethiopia: Negative Aspects

- ❑ Landlockedness
- ❑ Limited natural resources (blessing in disguise?)
- ❑ Business environment is far from satisfactory
- ❑ As one of the poorest countries, the Ethiopian private sector is undeveloped—low technology, subsistence farming, lack of connectivity, etc.
- ❑ Top leaders are generally dynamic but more and better middle level officials & experts are needed
- ❑ Industrial policy is still primitive by East Asian standard—but policy learning is continuing; much better than most other African countries

Positive Aspect 1

Political stability & high diplomatic standing

- Offering stability in a region fraught with instabilities
- African Union headquartered in Addis Ababa
- Leadership in G20, COP, AU often representing Africa
- Smooth transition of power in 2012
- Constant policy direction—developmental state & Agricultural Development Led Industrialization (ADLI)

Positive Aspect 2

Seriousness in learning industrialization

- Ethiopian people are serious and patient; fewer crimes
- Strong determination of top leaders toward industrial development
- Active learning from East Asia (Korea, Taiwan, Japan, Malaysia...)
- High policy attention to priority sectors (leather, textile...) -- incentives, sectoral institutes & twinning, regular firm visits, Export Steering Committee (monthly monitoring), targeted ODA & FDI
- Compulsion to try many policy measures quickly (admirable but a more long-term systematic approach is better)

Positive Aspect 3

(For Japan) Proper understanding of & high expectation from Japanese businesses and cooperation (especially after PM Abe's visit, Jan.2014)

- Expecting quality, not quantity, in trade, FDI and ODA with Japan (mindset, knowledge, technology, etc.)
- Willingness to hear Japanese advice in policy dialogue
- Serious high-level effort in scaling up kaizen to national movement (supported by JICA)
- Creating champion products for Japanese market & attracting Japanese FDI (supported by METI, MoFA, JICA, JETRO)

PM Hailemariam (Feb.25, 2014) "It is my ambition to receive more Japanese FDI & traders in Ethiopia. Japanese presence provides a roll model for our firms to follow. Other nationalities cannot do this."

Ethiopia-Japan Policy Dialogue

How It Started

- PM Meles attended TICAD IV in Yokohama (May 2008)
- IPD-JICA Africa Taskforce meeting chaired by J. Stiglitz and attended by PM (Addis Ababa, July 2008) – GRIPS team explained E. Asian development & presented a book to PM
- PM Meles requested two-part cooperation from Japan (kaizen & policy dialogue): “I have learned from Taiwan and Korea. Now I feel it is time to learn directly from Japan.”

[**Phase 1: 2009-2011**
[**Phase 2: 2012-ongoing**

IPD: Initiative for Policy Dialogue, a policy-oriented research project organized by Prof. Joseph Stiglitz of Columbia University.

Ethiopia-Japan Policy Dialogue

Two Pillars

Kaizen (JICA)

- ❑ A continuous teamwork approach to eliminate *muda* (unnecessary action, time, process, etc.) from workplace and improve efficiency
- ❑ Developed in Japan in the late 1950s; now spread to the world through official aid & private teaching
- ❑ 30 pilot firms targeted, Ethiopian KAIZEN Institute established (Phase 1)

Industrial Policy Dialogue (GRIPS & JICA)

- ❑ Quarterly/semi-annual sessions at three levels—PM, ministers & operational
- ❑ Pragmatic discussion in Ethiopian context; studying best & not-so-good policy practices in Asia & Africa
- ❑ To covert talk into reality, JICA & JETRO selectively offer concrete industrial projects

2008 2009 2010 2011 2012 2013 2014

PM Meles

PM Hailemariam



TICAD IV
May 2008

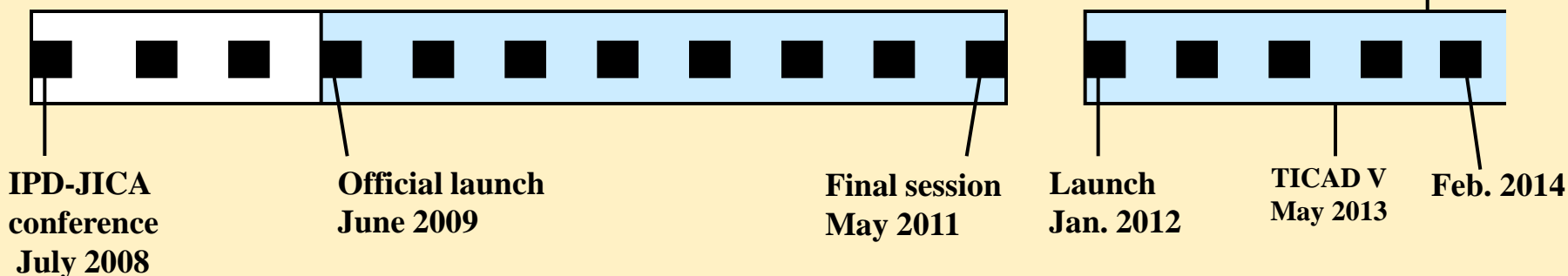
Industrial policy dialogue (GRIPS & JICA)

PM Abe visits
Ethiopia
Jan. 2014

Preparation

Phase 1

Phase 2



Industrial projects (JICA)

Kaizen phase 1
(30 pilot firms)

Kaizen phase 2
(creating institution & experts)

Basic metal & engineering study

Export promotion
(champion products)

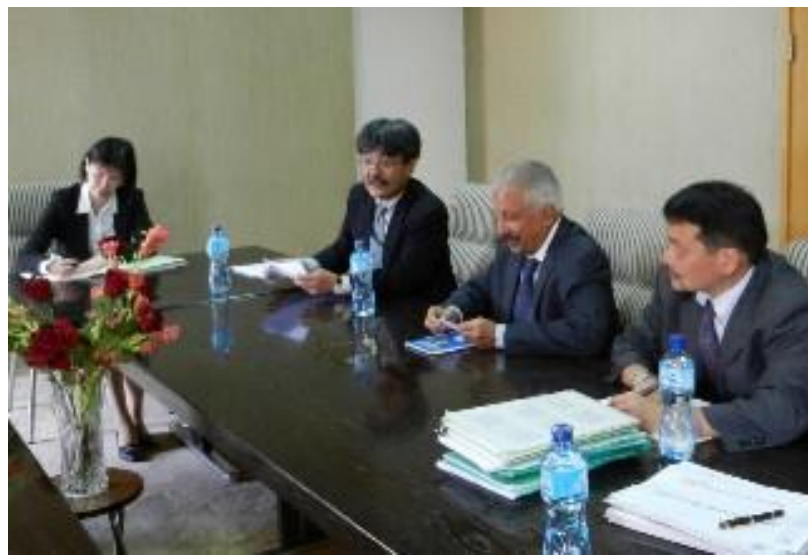
(With Germany)

Note: Black squares indicate policy dialogue sessions in Addis Ababa with PM, concerned ministers and state ministers, and officials and experts at operational levels.

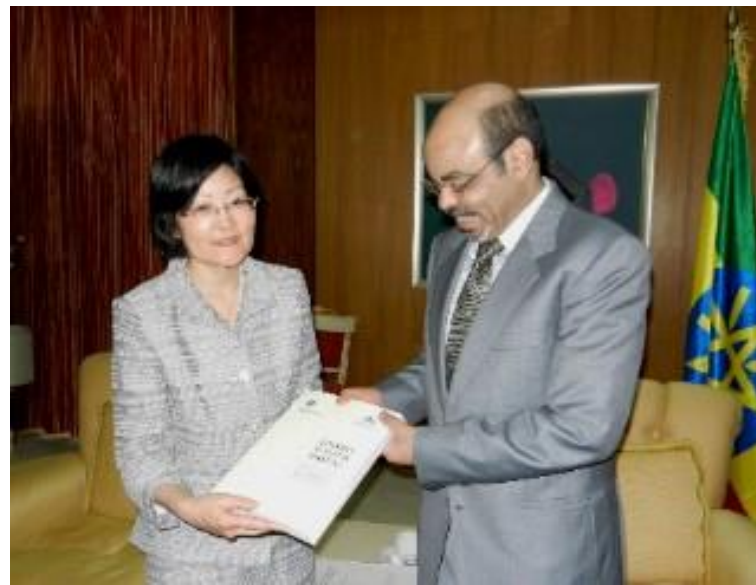


At the Prime Minister's Office

Meeting with Senior Economic Advisor to PM



Presenting JICA's Kaizen Report to PM





High Level Forum (minister & state minister level)



Meeting with Industry Minister



At the Ministry of Finance,
Economy and Development

Issues Discussed at High Level Forums (Phase I)

- ❑ Ethiopia's development philosophy—Democratic Developmentalism (DD) & Agriculture Development Led Industrialization (ADLI)
- ❑ East Asia's industrial policy methods (procedure, organization, documentation...)
- ❑ Kaizen and its transferability to Ethiopia; national productivity movements in Asia & Africa
- ❑ Country studies, policy missions & expert invitation—Japan, Singapore, Taiwan, Korea, Malaysia, Thailand, India, Mauritius, Botswana, Burkina Faso...
- ❑ Advice on 5-year plans (current & next)
- ❑ Basic metal & engineering survey

Our Evaluation (Phase I)

- ❑ Policy dialogue is not easy. We visited many African countries for a policy dialogue partner. We chose Ethiopia because of its commitment & readiness (also there was PM request).
- ❑ We were impressed by the positive attitude of PM & ministers toward industrialization.
- ❑ For results, mindset needs to be combined with policy capability on the ground. Japan wants to help Ethiopia in policy learning.
- ❑ While Japan is a small donor and investor in Ethiopia, our policy dialogue is deep and intensive. Sincerity, candidness and mutual respect are key.

Current Discussion (Phase II)

Planning method

- Planning Commission, Ministry of Industry
- Including productivity & quality targets and actions into the next 5-year plan (incl. kaizen)

Concretizing PM's idea to "become the leader of African light manufacturing by 2025"

- Data comparison on manufacturing performance – Africa & Asia (Ethiopia has a long way ahead)
- Attracting labor-intensive FDI from high-wage Asia while avoiding future problems

Specific measures (with possibility of Japanese aid)

- Creating champion products for Japanese market
- FDI attraction (especially Japanese firms)

PM Hailemariam in TICAD V (Yokohama & Tokyo, May 2013)



- Mr. Hailemariam represented Ethiopia as well as Africa because Ethiopia was AU's chair in 2013.
- Repeated statements that Ethiopia was committed to industrialization, and Japanese FDI and technology were strongly needed.
- Ethiopian investment seminar at JETRO Headquarters with packed audience.
- Requesting assistance of GRIPS Development Forum in formulating the next 5-year plan (integrating kaizen into the plan, Planning Commission & think tank).

PM Abe's Visit to Ethiopia

(Addis Ababa, Jan. 2014)



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- ❑ Recognizing importance of ongoing kaizen & policy dialogue
- ❑ Mr. Hailemariam strongly requested establishment of JETRO office in Addis Ababa
 - ➔ Produce visible results; bring Japanese FDI
- ❑ Ethiopian Airlines will have direct flights to Narita
 - ➔ Don't fly empty; fill with passengers & cargo
- ❑ Abe's speech at AU: Japan's cooperation will provide human touch & bottom-up focus, which are common features of Japanese firms.

Japanese FDI in Ethiopia

Still Tiny, Must Increase

- ❑ Turkey has over 400 FDI projects (125 in operation); India and China also have hundreds of projects, many of which are light manufacturing.
- ❑ Japan had no manufacturing FDI in Ethiopia until recently. In 2013, Hiroki, a Yokohama leather shop, invested in Addis after careful preparation. It trained workers at LIDI and will start operation soon. It will export highest quality leather jackets, bags, etc.
- ❑ Japanese investors' interest in Ethiopia (and Africa in general) is rising. We will create a mechanism to let various Japanese organizations work together to turn this interest into real investment.

Manufacturing FDI in Ethiopia

Current Status and Future Potential

Manufacturing FDI is coming from Turkey, India, China, Korea, Pakistan, Sri Lanka... Some are large-scale labor-intensive OEM producers of brand apparel & shoes.

- ❑ **Ayka**, a Turkish knitted apparel maker produces 30,000-40,000 pieces/day & hires over 5,000 workers. Products are sold in EU & US markets via a German distributor. Ayka is expanding & more textile firms are arriving from Turkey.
- ❑ **Huajian**, a Chinese shoe maker producing Western brand shoes, hires 1,750 workers and is expanding.
- ❑ **George Shoe**, a Taiwanese firm soon producing high-end shoes and hiring 2,000 workers. Ethiopia is its third global production site after Taiwan & China.

Ethiopia's Attraction

Manufacturing FDI attracted to Ethiopia because of:

- ❑ Low wage by African standard (\$50/month)
- ❑ Serious and disciplined workers
- ❑ Political stability and personal security
- ❑ Government committed to industrialization; Ethiopia expects much from FDI firms, and in turn takes care of them with support and trouble-shooting (if you are a priority FDI firm).
- ❑ Easy access to EU market by air & sea.
- ❑ Landlocked? Access problem?—Two-day trucking from Djibouti Port to Addis adds about 2% to the cost of mid-range apparel (\$3,000/14ft container). Reported irregularity in transport was corrected by MOI.



Ayka Addis,
vertically
integrated,
producing
knitted goods,
employing over
5,000 workers

FDI activities



Eastern Industrial Zone by China



Helen Hai, CEO, Huajian Ethiopia
©FT



Rental factories for
FDI at Bole Lemi
Industrial Park

Local Firms (JICA-supported kaizen introduced)

Tire factory



PVC pipe factory





Nutrition
food &
edible oil
factory



Tannery

Local Firms



Leather shoe
factory





Rose cultivation



TVET (Germany-assisted)

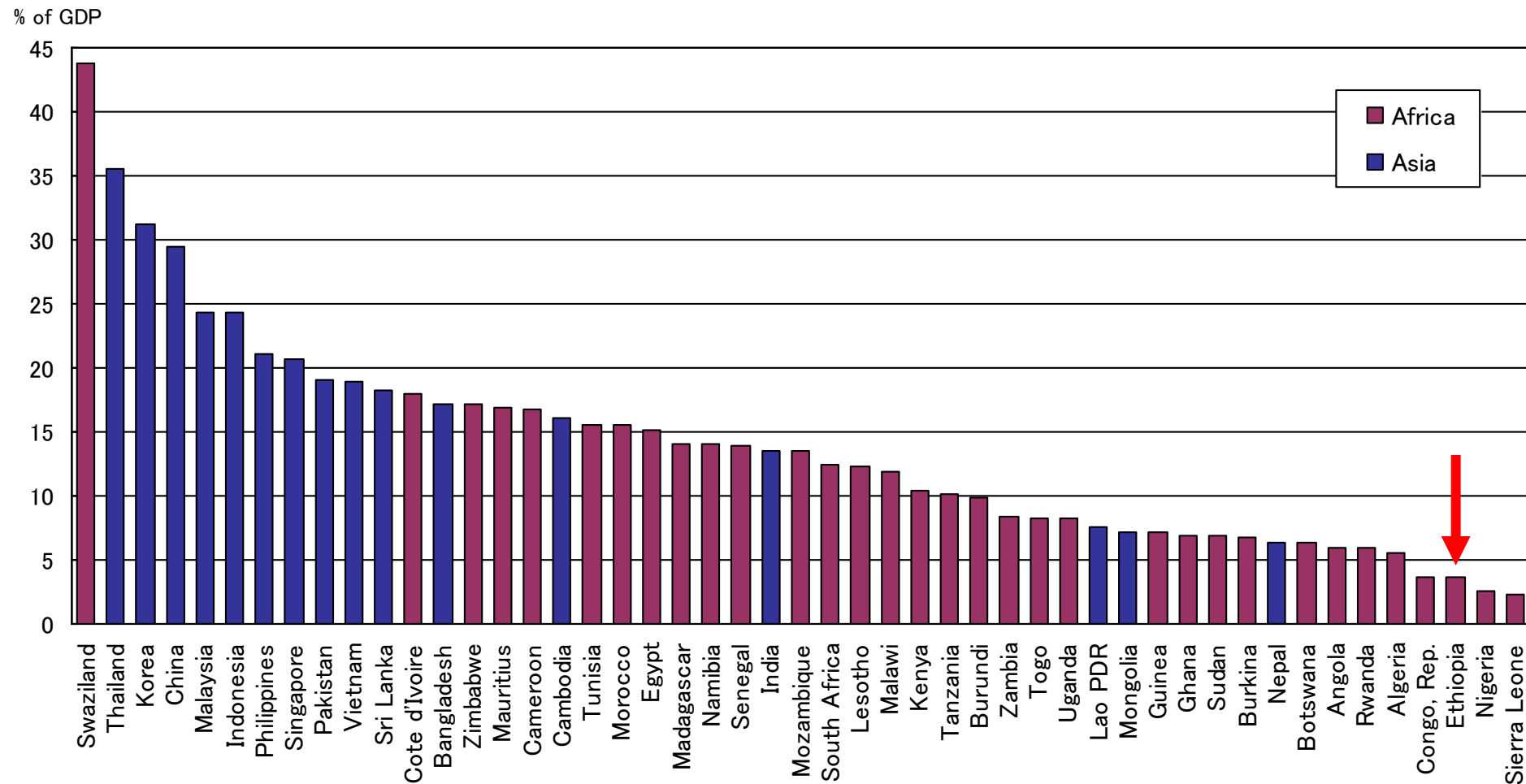


Leather product workshop



Manufacturing Value Added

(% of GDP, latest available data)

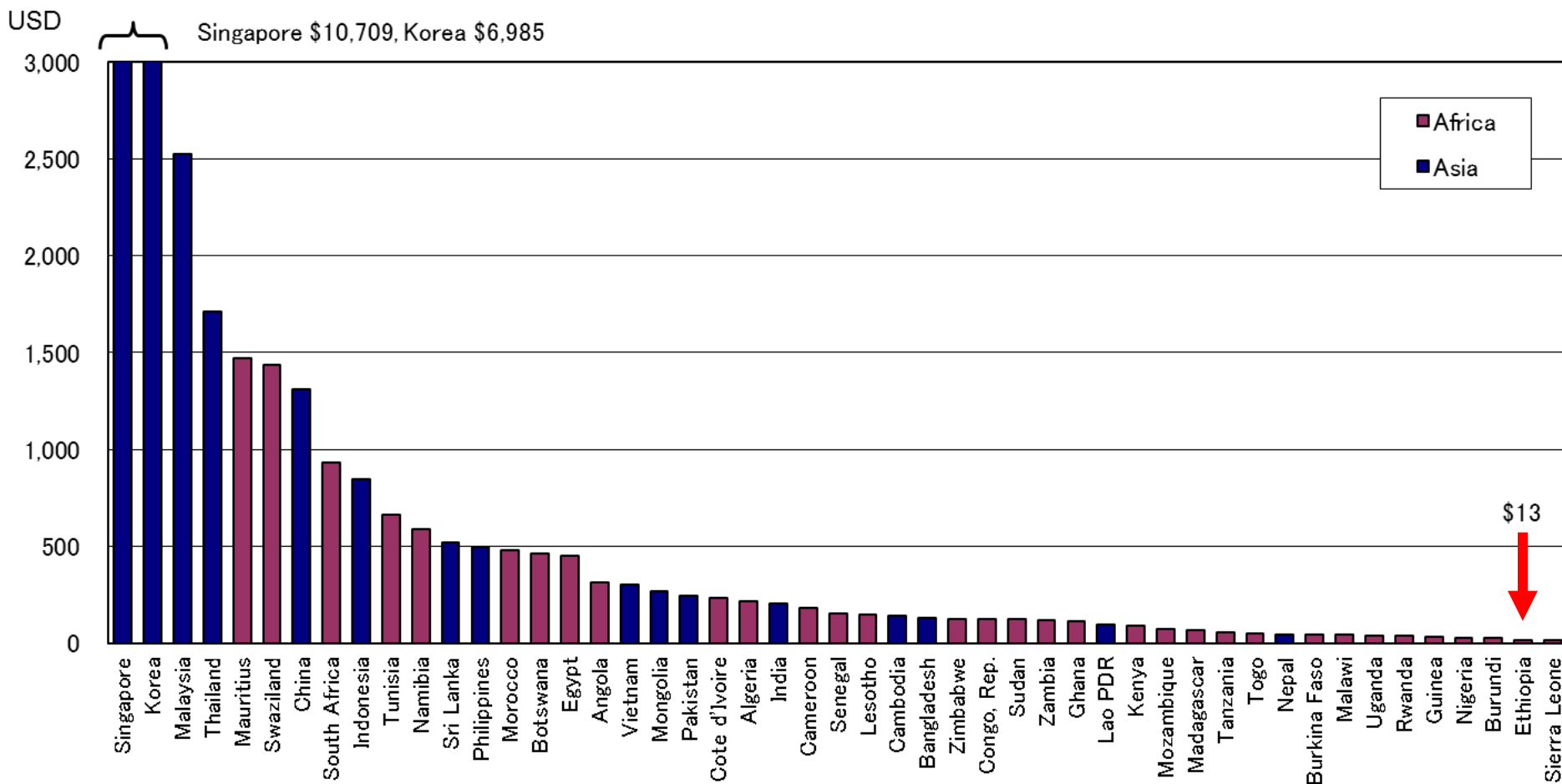


Source: World Bank, World Development Indicators database (accessed Oct.30, 2013).

Note: Data are for 2012. For countries with no 2012 data, data for the latest available year are used.

Manufacturing Value Added per Head

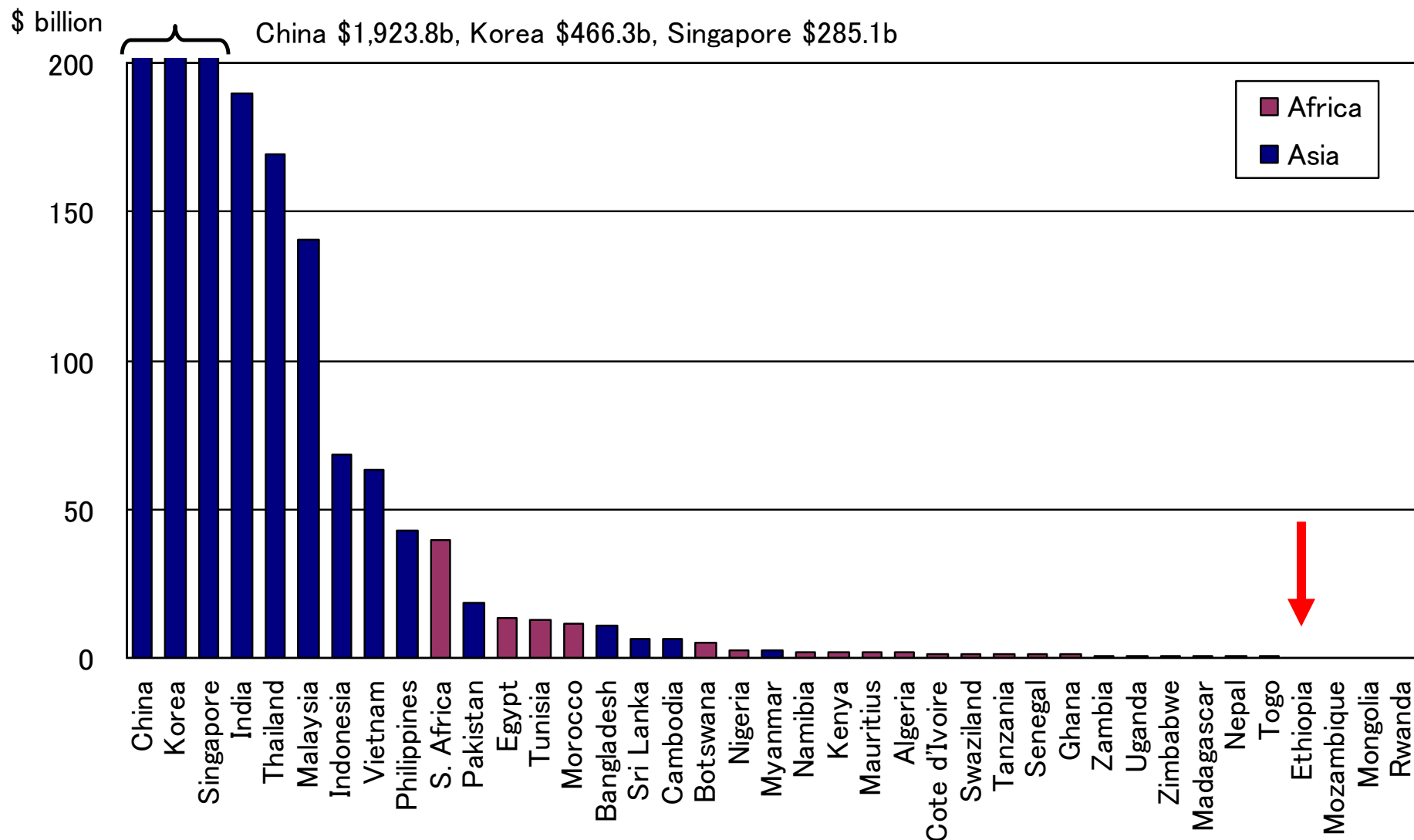
(USD, latest available data)



Source: World Bank, World Development Indicators database (accessed Oct. 30, 2013).

Note: Data are for 2012. For countries with no 2012 data, data for the latest available year are used.

Manufactured Export (USD billion)

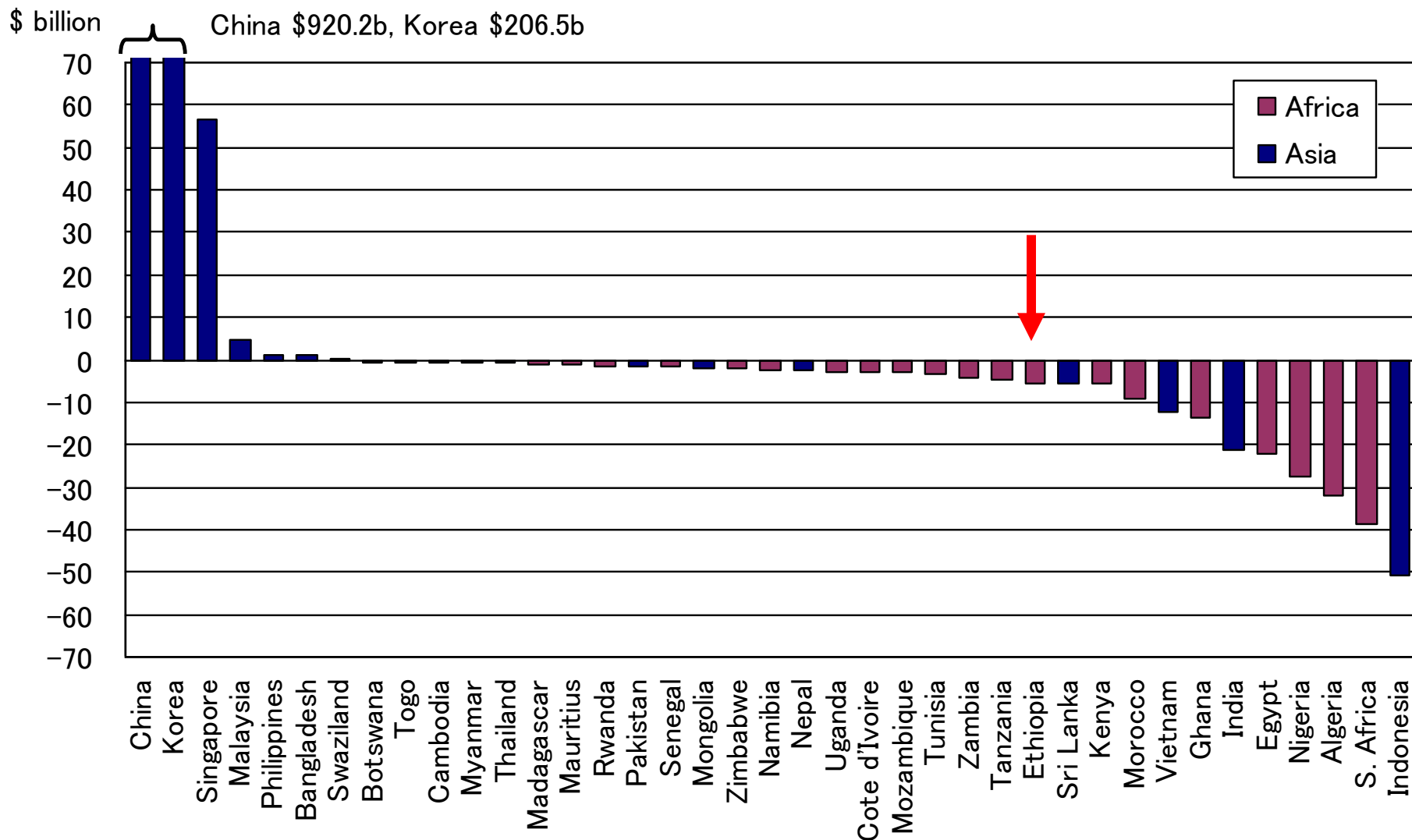


Source: World Bank, World Development Indicators database (accessed Oct. 30, 2013).

Note: Data are for 2012. For countries with no 2012 data, latest available data are used.

Net Manufactured Export (USD billion)

(Manuf. export - manuf. import)



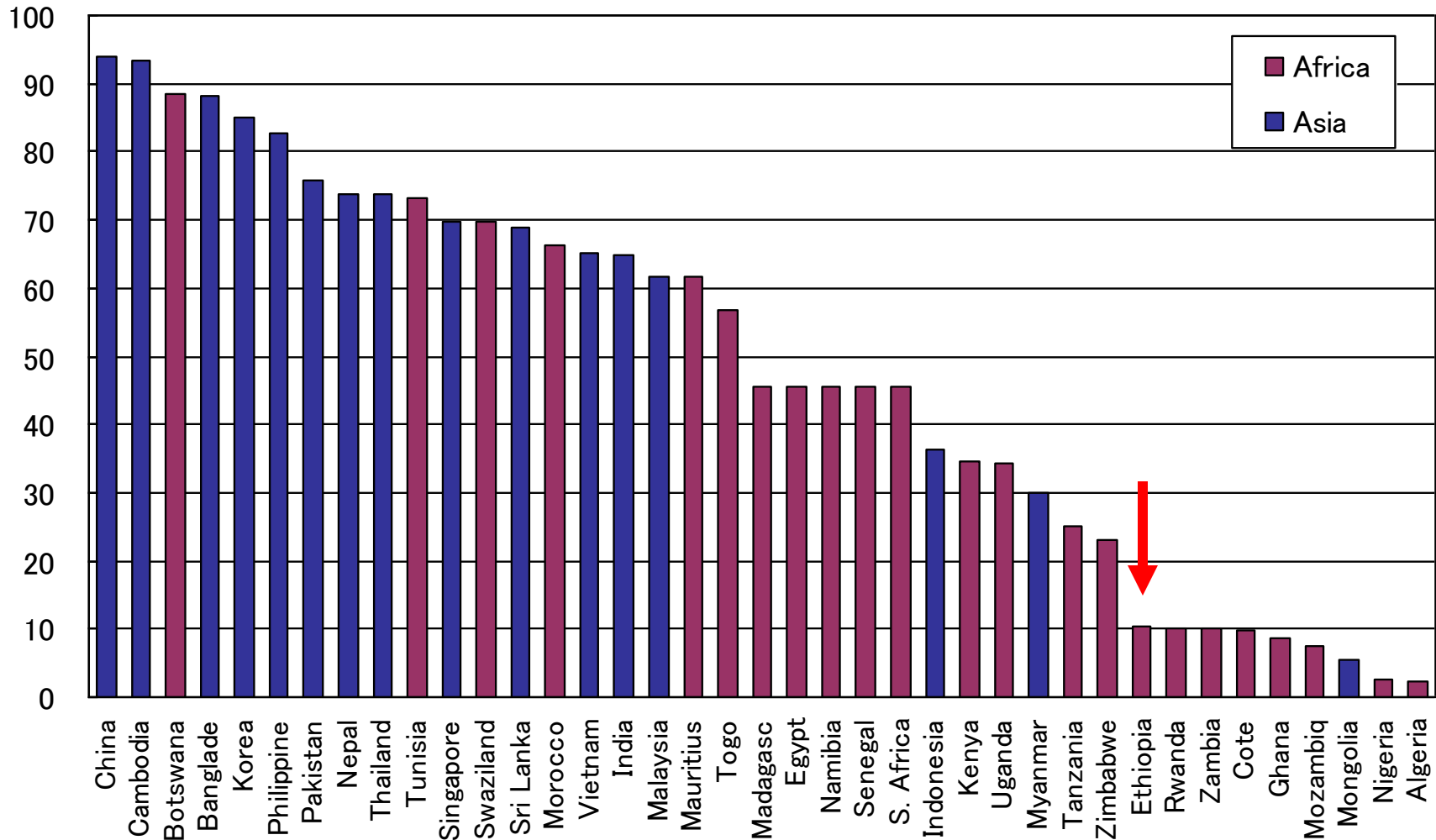
Source: World Bank, World Development Indicators database (accessed Oct. 30, 2013).

Note: Data are for 2012. For countries with no 2012 data, latest available data are used.

Manufactured Export

(% of total export, latest available data)

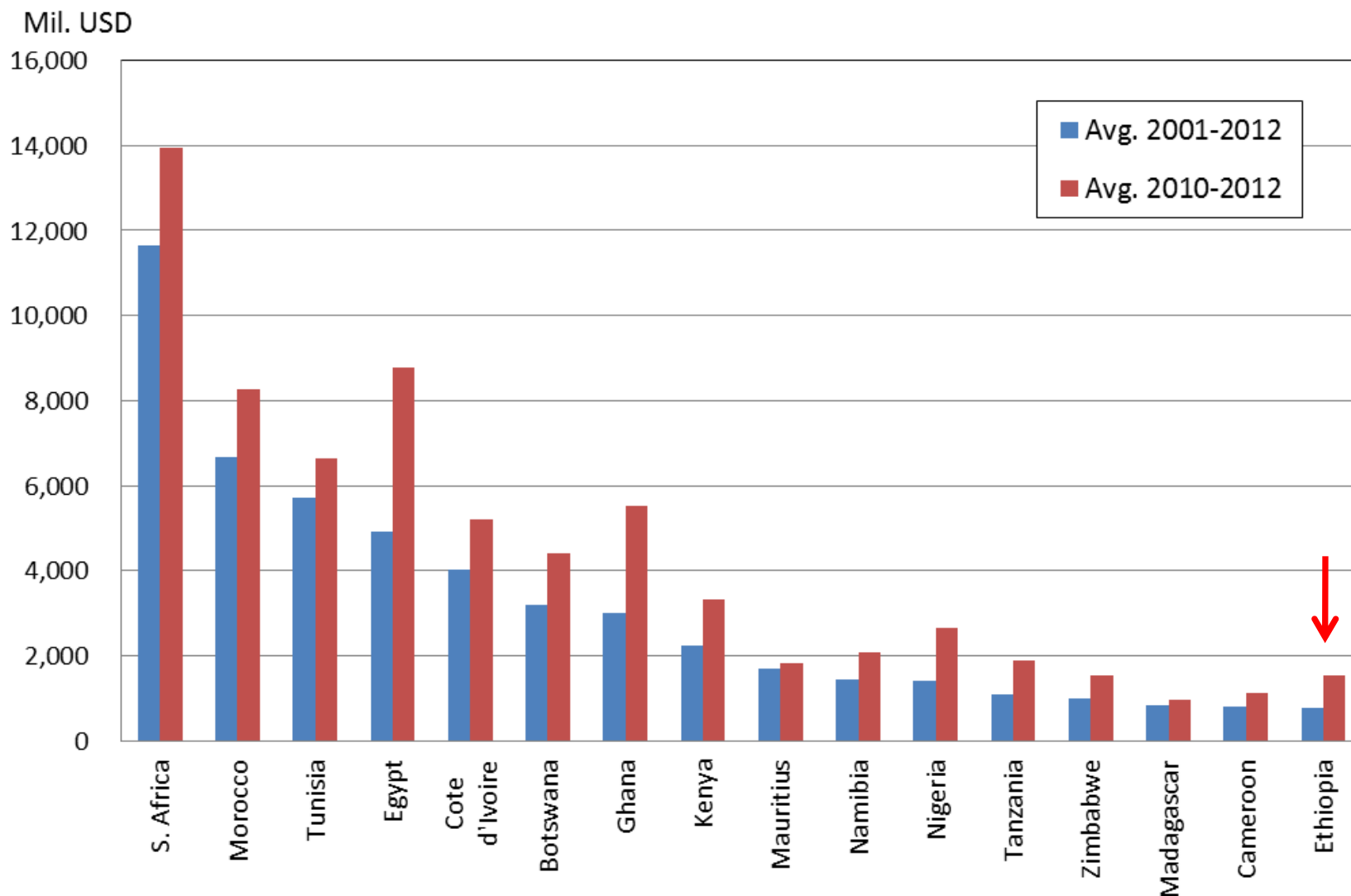
% of total export



Source: World Bank, World Development Indicators database (accessed Oct. 30, 2013).

Note: Data are for 2012. For countries with no 2012 data, latest available data are used.

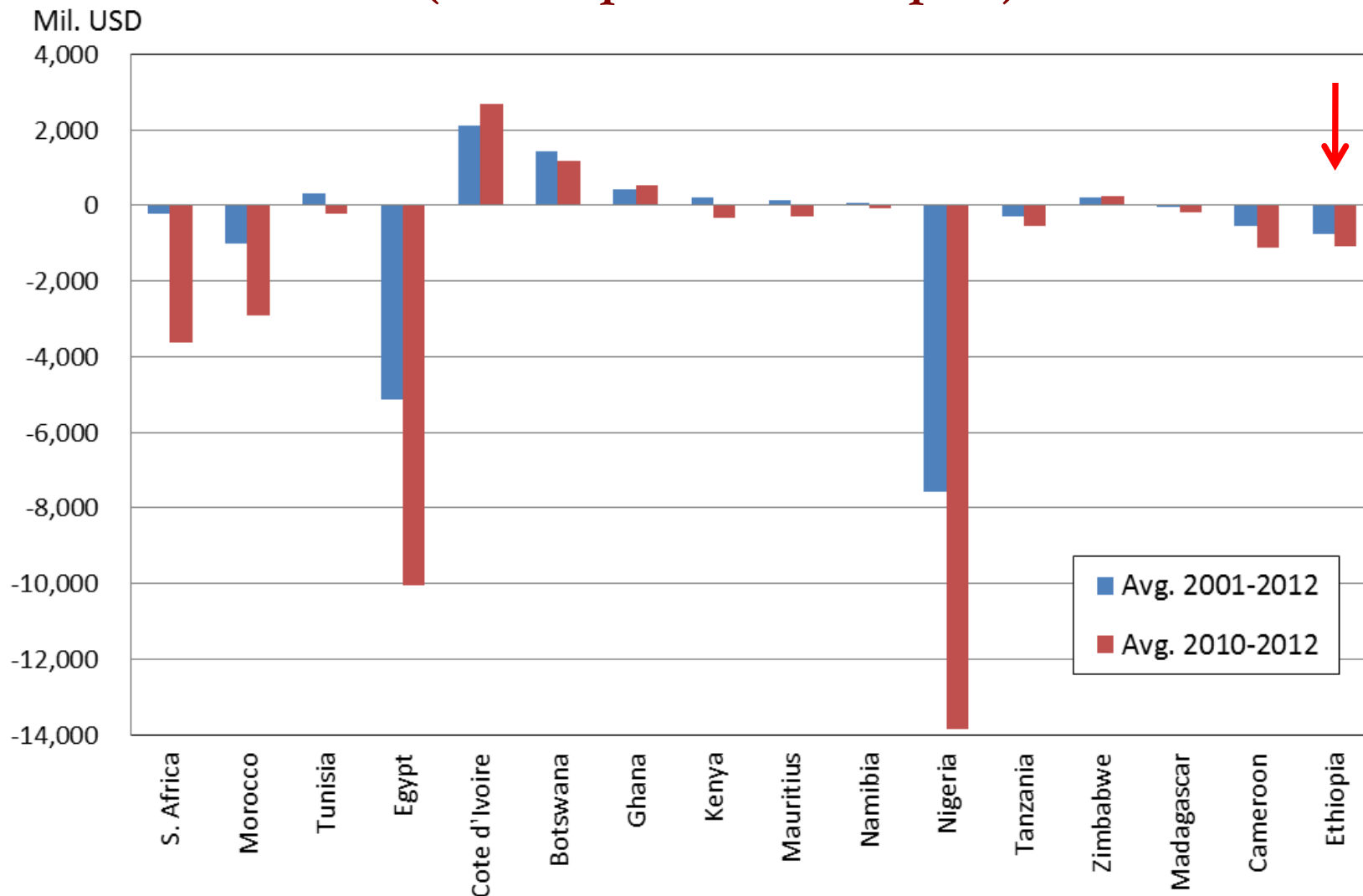
Africa: Light Manufactured Export



Source: UNCTADstat, accessed Nov. 2013. Light manufacturing is defined using SITC as shown in previous slide

Africa: Net Light Manufactured Export

(LM Export – LM Import)

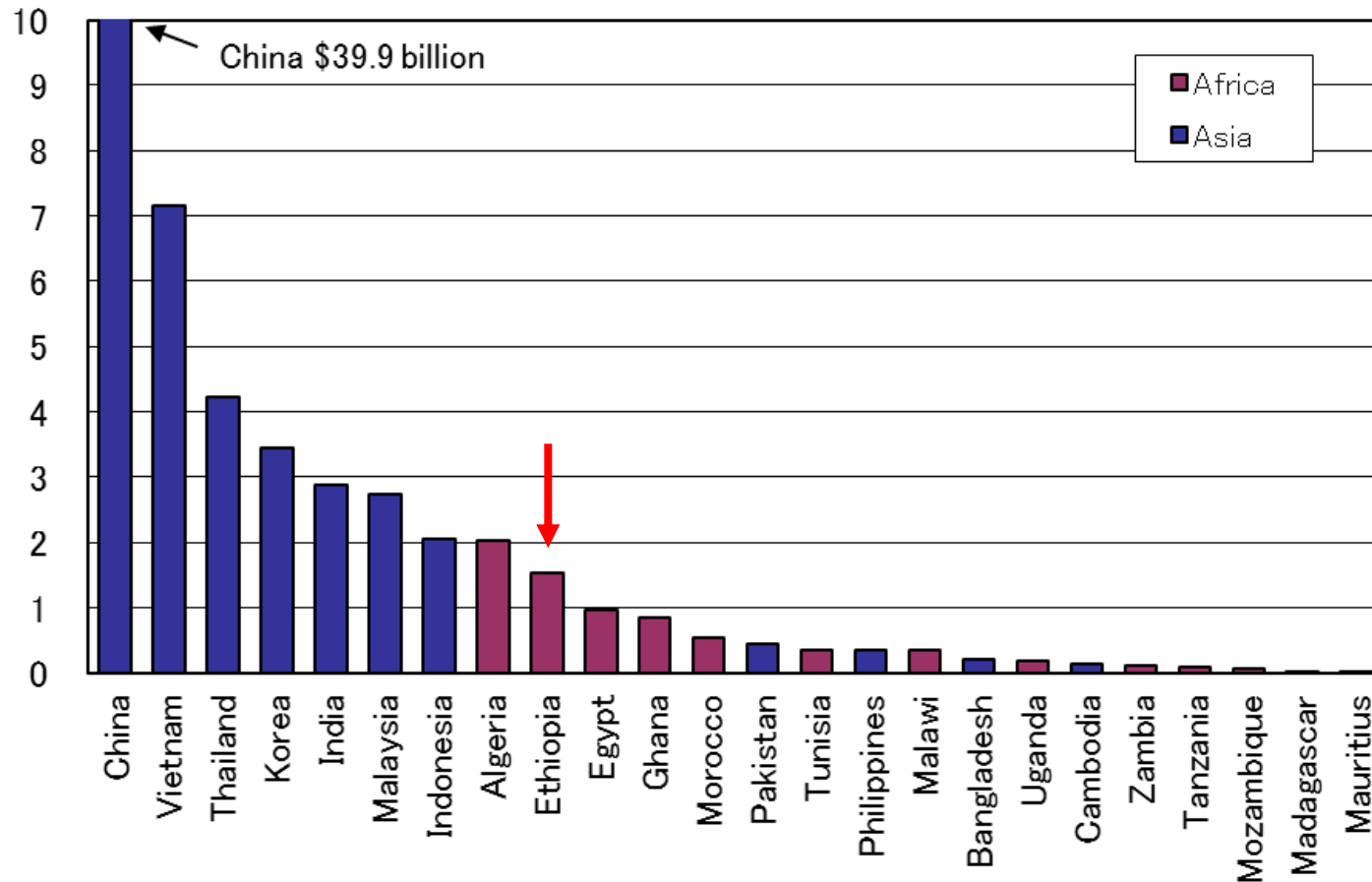


Source: UNCTADstat, accessed Nov. 2013. Light manufacturing is defined using SITC as shown in previous slide

FDI Inflow in Secondary Industries

(Annual Average of 2003-2012)

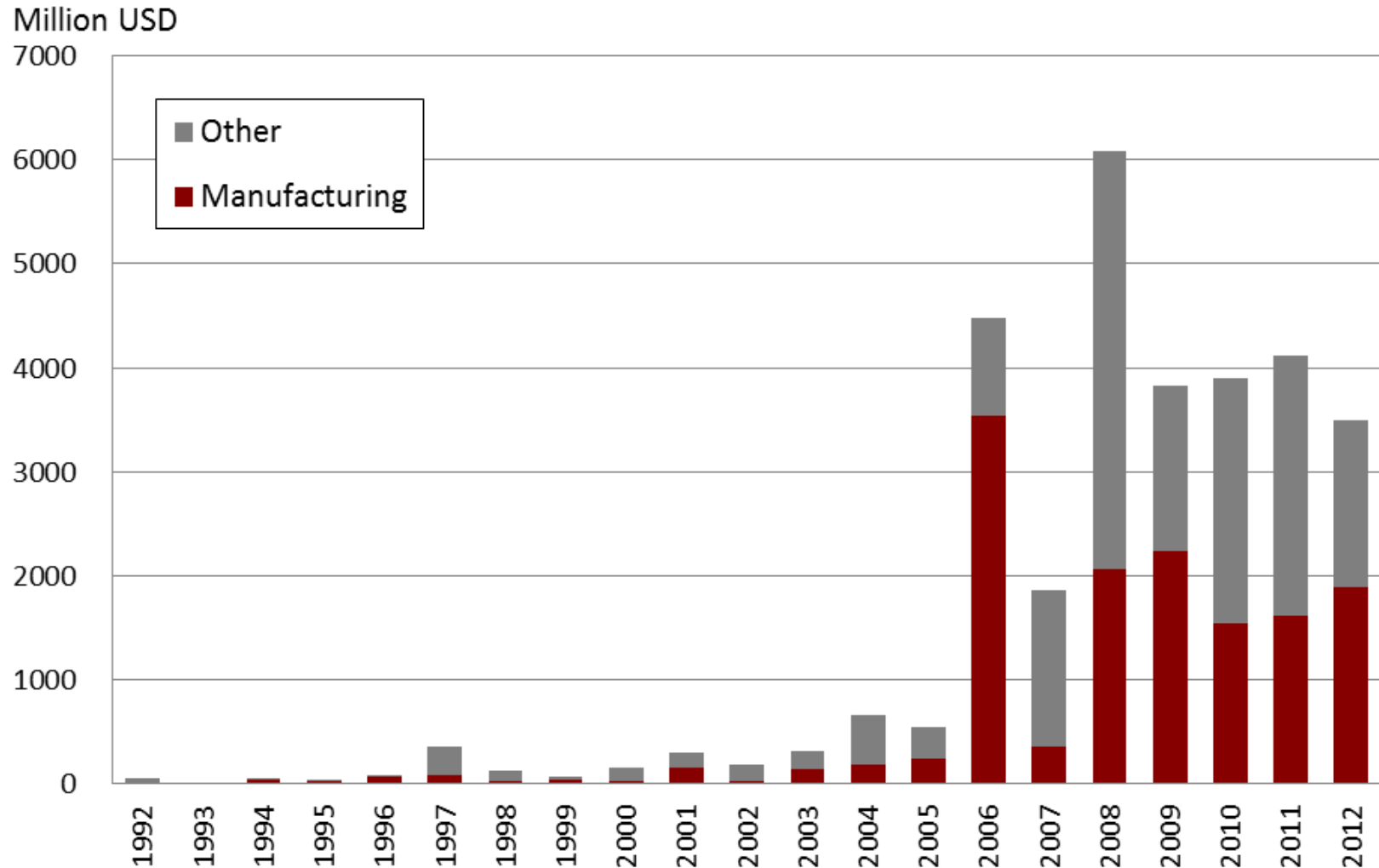
Unit: USD billion



Sources: International Trade Centre (World Bank and UNCTAD) and Ethiopian Investment Agency.

Note: Preliminary calculation from ITC database. Average inflow during 2003–2012. Average of available years only when there are missing data. Data definition and quality need to be confirmed. For Ethiopia, average manufacturing FDI inflow for 2004–2013 (EIA data).

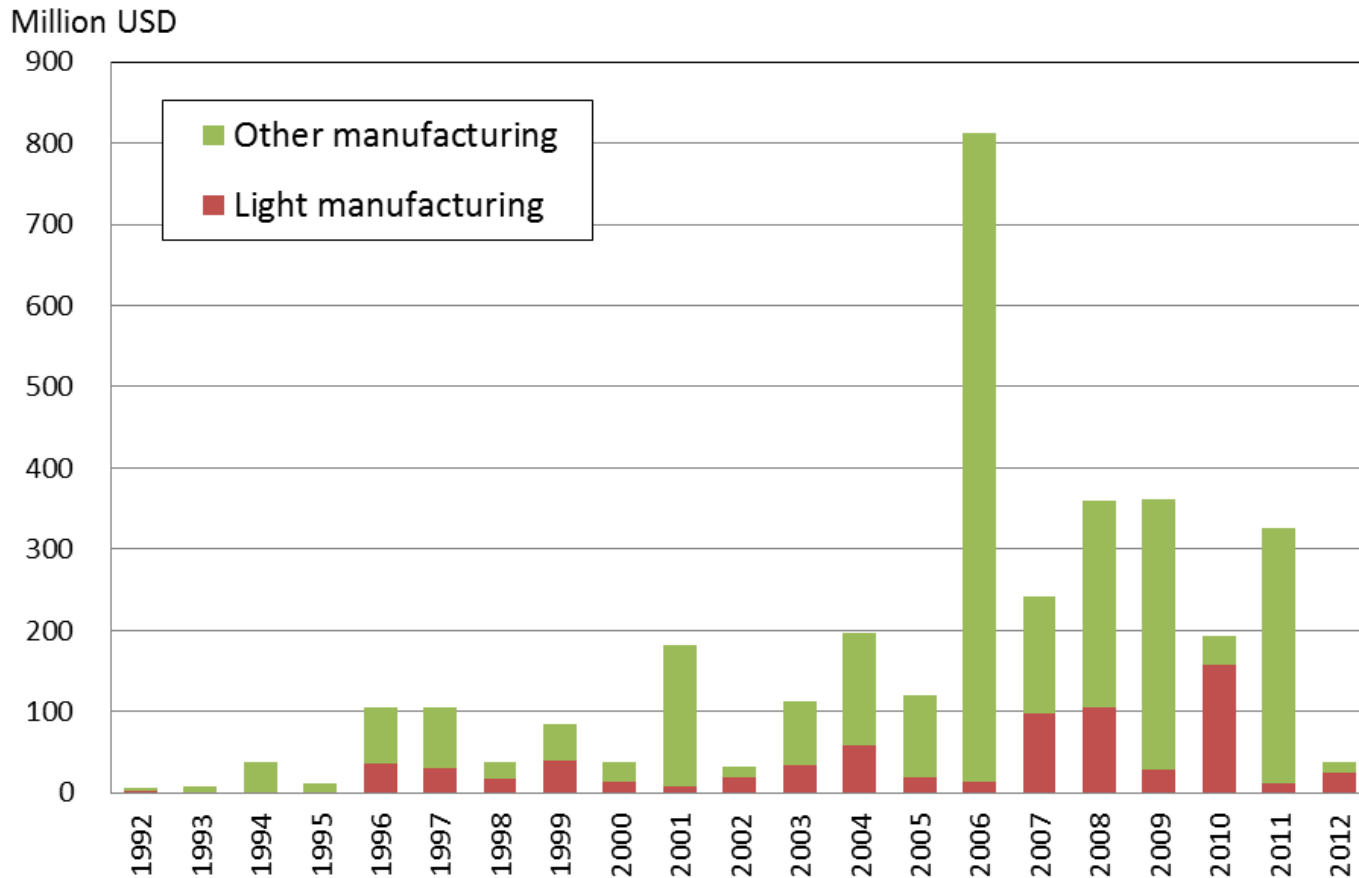
Ethiopia: FDI Inflow (National Data)



Source: Ethiopian Investment Agency.

Ethiopia: Light Manufacturing FDI Inflow

(Calculated from EIA data on individual projects)

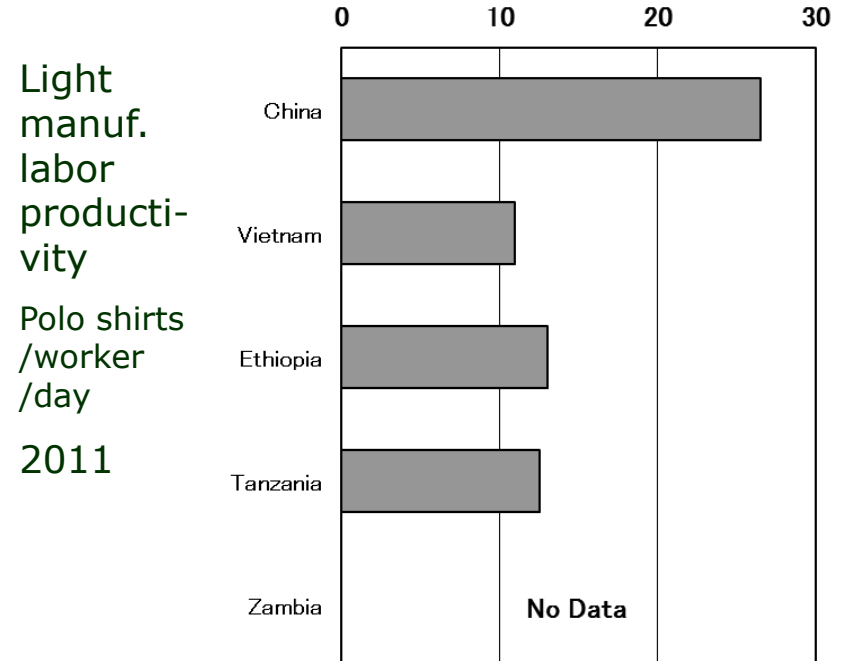
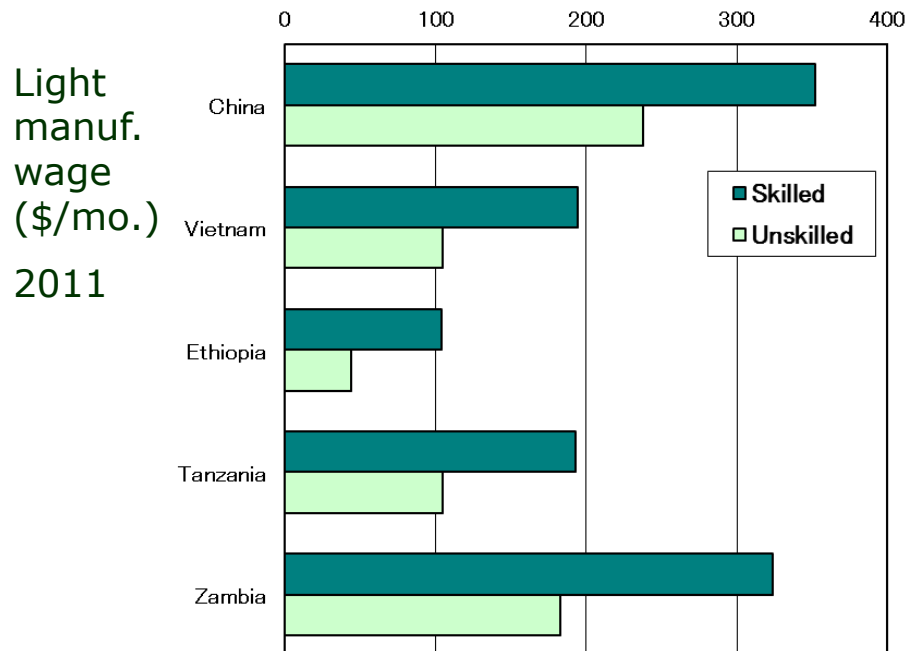


Note 1. Light manufacturing is defined as products of food, textile, leather, wood, furniture & jewelry. "Other" manufacturing does not include machinery assembly.

Note 2. Figures here are far smaller than manufacturing FDI in the previous slide. The gap is too wide (5-8 times in recent years) to be explained by differences in definition.

WB “Light Manufacturing in Africa” (2012)

- Comparing Africa (Ethiopia, Tanzania & Zambia) and Asia (China & Vietnam) with special attention on Ethiopia.
- Analyzing Ethiopia’s five light industries (apparel, leather products, wood products, metal products, agro-business).
- Ethiopian wage is $\frac{1}{4}$ of China & $\frac{1}{2}$ of Vietnam. Labor productivity is $\frac{1}{2}$ of China & same as Vietnam. Policy can expand this sector.



Summary

Policy Should Make A Difference

- ❑ Ethiopia's current manufacturing capability is very limited. There is a long way ahead.
- ❑ However, recent arrival of light manufacturing FDI and rising investor interest are good signs.
- ❑ Ethiopia may take off as Africa's leading light manufacturing exporter if **good policy** (business conditions, FDI marketing, post-investment support...) is combined with **current advantages** (low wage, political stability...)

Uniqueness of Japanese FDI

The Japanese business model is unique among global players:

- Manufacturing-focus—not so much trade, mining or property
- *Monozukuri* (manufacturing) spirit—proud of efficient factory floor; endless pursuit of quality & customer satisfaction
- Long-term orientation—last in coming to new frontier but once invested, staying long against difficulties
- Private assistance—providing training to local firms and workers for building long-term reliable relationship
- Legal compliance—good observance of local labor, tax, environment laws

These features should be highly desirable for African businesses wanting to improve skills & technology for long-term rather than pursuing short-term profits.

Proposal for Japanese Firms

In Investing in Ethiopia in Particular and Africa in General

- ❑ Initial conditions are less favorable than in East Asia. But patience and trust-building should open up new frontiers in the long run—as in China, Vietnam, etc. before.
- ❑ Japanese cannot be like Chinese, Korean or Europeans. Our business style is slow but sincere. Let us keep this feature in going to Africa.
 - Do FDI and trade for long-term mutual benefits
 - Improve local capability to produce high-quality products
 - Add value by Japanese methods and technology
 - Respect local laws, culture & rules as much as possible
- ❑ Work with kaizen centers, experts and factories.
- ❑ Work with Japanese embassy, JICA, JETRO, (even GRIPS) for solving policy-related problems.
- ❑ Publicize the Japanese way across Africa.