

Japan's Industrial Policy Dialogue with Ethiopian Prime Ministers and Industrial Officials: Impacts and Limits



Kenichi Ohno & Izumi Ohno
GRIPS Development Forum
March 2023

Japan's Policy Dialogue: Overview

Japan's Policy Dialogue: A Selected List

Country	Phases	Key members from Japan	Remark
Argentina	1985-1987 1994-1996 (follow up)	Saburo Okita (former foreign minister, IDCJ); Hirohisa Kohama (IDCJ), Akio Hosono, Kotaro Horisaka (professors); JICA	Agriculture & livestock farming, industry, transport, export promotion (Okita Report). Follow-up phase studied measures to strengthen economic ties with Japan/East Asia.
Vietnam	1995-1996 1996-1998 1998-1999 1999-2001	Shigeru Ishikawa, Yonosuke Hara (professors); JICA	Large-scale joint study on macroeconomy, industry (with in-depth studies of selected sectors), agriculture, enterprise reform, and financial crisis management (Ishikawa Project).
Paraguay	1998-2000	Kagehide Kaku (DIR), Hidesuke Kotajima (DIR); Akio Hosono (professor); JICA	Economic development, competitiveness, and export promotion (including clusters and agro-industry chain).
Thailand	1999	Shiro Mizutani (former MITI official); JICA	Study on SME promotion policy (Mizutani Plan)
Indonesia	2000	Shujiro Urata (professor); JICA	Policy recommendations for SME promotion
Myanmar	1999-2002	Konosuke Odaka (professor); JICA	Agriculture, rural development, industry, trade, finance, ICT, etc.
Mongolia	1998-2001	Hiroshi Ueno and Hideo Hashimoto (ex-World Bank economists and professors)	Study on economic transition and development
Indonesia	2002-2004	Takashi Shiraishi, Shinji Asanuma, Shujiro Urata (professors); JICA	Macroeconomic management, financial sector reform, SME promotion, private investment promotion, democratization, decentralization, human resource development
Laos	2000-2005	Yonosuke Hara (professor); JICA	Macroeconomy, finance, state enterprises, FDI, poverty reduction.
Vietnam	2003-present	Keidanren, Japanese embassy, JICA, JETRO, JBIC	Bilateral joint initiative to improve business environment with action plans and 2-year monitoring cycles
Ethiopia	2009-2011 2012-2016 2017-present	Kenichi Ohno, Izumi Ohno (GRIPS professors); Japanese embassy, JICA	Policy methods and organizations, kaizen, export promotion, champion products, FDI policy and support, SME support, productivity, automotive assembly, inviting Japanese FDI, etc.
Myanmar	2012-2015	Konosuke Odaka, Shigeru Matsushima, Toshihiro Kudo (professors); METI, JICA	Supporting economic reform program covering finance, trade, investment, SMEs, agriculture, rural development.
Laos	2019-2020	Toshiro Nishizawa, Terukazu Suruga, Takuji Kinkyō, Kazue Demachi, Fumiharu Mieno (professors), MOF, JICA	Joint policy research and dialogue for fiscal stabilization, fiscal & debt management, resource export, balance of payments, financial system development.

References

For comparative analysis of Japan's policy dialogue with Argentina, Vietnam, Thailand & Ethiopia, see

- (1) I. Ohno, K. Amatsu & A. Hosono, eds. (2022), *Policy Learning for Industrial Development and the Role of Development Cooperation*, Volume 1, JICA Ogata Sadako Research Institute for Peace and Development.
- (2) K. Ohno, A. Hosono, K. Amatsu & M. Yamada (2023), "Bilateral Policy Dialogue: Japanese Cooperation for Enhancing Industrial Policy Capacity," Ch.5 in I. Ohno, K. Jin, K. Amatsu & J. Mori, eds. *Introducing Foreign Models for Development: Japanese Experience and Cooperation in the Age of New Technology*, Springer (forthcoming).

Japan-Ethiopia Industrial Policy Dialogue is explained in

- (3) Kenichi Ohno and Izumi Ohno (2019), "A Japanese Perspective on Ethiopia's Transformation," chapter 47, F. Cheru, C. Cramer and A. Oqubay (eds.) *The Oxford Handbook of the Ethiopian Economy*, Oxford University Press.
- (4) Kenichi Ohno and Izumi Ohno (2022), "Ethiopia-Japan Industrial Policy Dialogue: Learning Eastern Methods through Intensive Discussions and Concrete Cooperation," chapter 8 of (1) above.

Features of Japan's Industrial Cooperation

Incl. Industrial Policy Dialogue

1. National customization

Policy must fit the reality of each nation. Because each nation is different, locally suited policy must be created after studying foreign benchmark practices.

2. Pragmatic real-sector approach

Long-term vision and sector-by-sector support are critical. We care about product design, quality, logistics, marketing, and other practical issues. Rapid liberalization and integration without fostering competitiveness is unwise.

3. Gemba orientation

Japanese officials and experts prefer hands-on support at *gemba* (factories, farms, etc.) instead of producing theories, frameworks or English reports.

4. Creation of wise government

Policy quality is not given but can be learned and improved. Japan wants to help create a wise government, not a small and detached one.

Policy Dialogue Modality

- Japan conducts policy dialogue with developing countries only if a **top national leader** requests it. We do not promote it worldwide.
- To be useful, our dialogue is **continuous, interactive and flexible** regarding topics, members, duration, frequency, etc.
- We talk to as **many stakeholders** as possible from national leaders to ministers, key officials, technical experts, firms, business associations, universities, researchers, development partners, etc.
- **Ground data** (firm- and sector- level) must be collected before designing a policy because each country is different.
- **Benchmark countries** must be selected carefully (not just Japan but other countries). Study tours to third countries are organized for this purpose.
- We follow up the dialogue with **JICA's concrete cooperation projects** and (if possible) Japanese business actions (trade and investment).

Ethiopia-Japan Industrial Policy Dialogue

Three Phases, 2008-2023

Ethiopia-Japan Industrial Policy Dialogue

(Three Phases, 2008-2023)

- ❑ In July 2008, PM Meles requested Japanese cooperation in kaizen and policy dialogue. Both projects began officially in 2009.
- ❑ We had 8 dialogue sessions with PM Meles and 12 sessions with PM Hailemariam, each lasting 1.5 to 2 hours. But we had no direct contact with PM Abiy.
- ❑ We were asked to be frank and honest. The two PMs were also direct and raised many questions and requests.
- ❑ Minister-level discussions (High Level Forums) were held regularly. Additional workshops and meetings were arranged with ministries, high officials, institutes, firms, universities, development partners, local authorities, etc.
- ❑ Discussions were often followed up by new policies and cooperation by both sides. Talk did not just remain talk but led to concrete actions.



With PM Meles



High Level Forums
(ministerial level)



With PM
Hailemariam

**Phases
1 & 2**



Lecture at
Civil Service
University



At MOFED
(now MOF)



Automotive Seminar at MOI



Mr. Asnake, director of Kaizen Excellence Center



MOI Minister Melaku

Phase 3



MOF State Minister Eyob

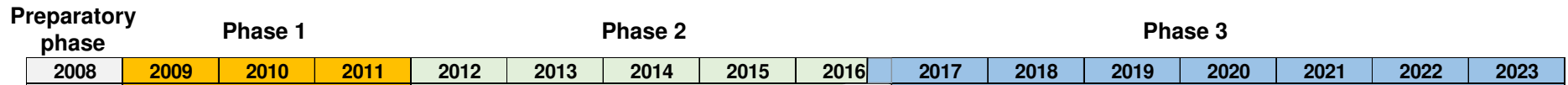


With Former President Mulatu

Planning and Development Minister Fitsum

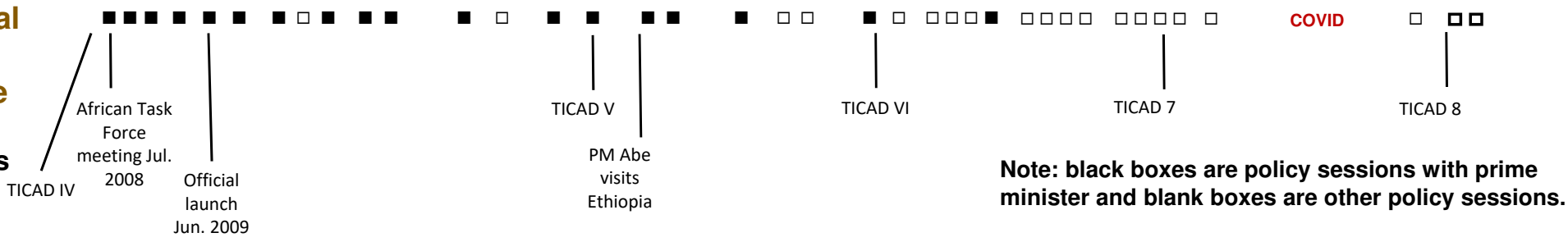


Timeline: Policy Dialogue and JICA Projects



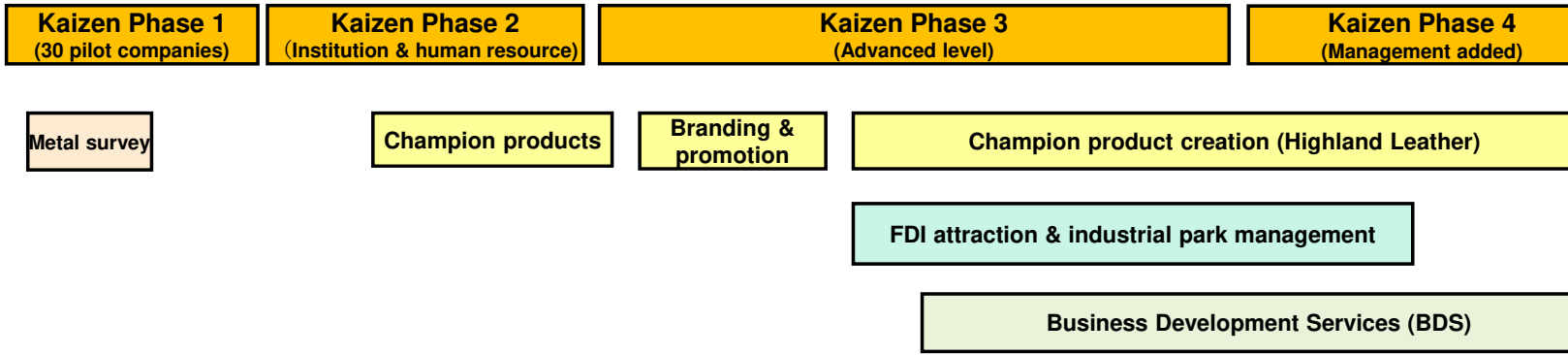
Industrial policy dialogue

Events



Note: black boxes are policy sessions with prime minister and blank boxes are other policy sessions.

JICA's industrial cooperation



Dialogue Methodology: Assisting “Translative Adaptation”

Careful collection of foreign models →
Assist construction of Ethiopia’s own model

1. Discover and agree on a critical policy issue for Ethiopia.
2. In view of Ethiopia’s reality and our knowledge of developing countries, select a few appropriate benchmark countries (especially from Asia and Africa).
3. Based on our knowledge or a new third-country study, offer relevant policy information of benchmark countries to Ethiopia.
4. Discussion—what Ethiopia should learn from foreign models, and how to combine and modify them to create a model suitable for Ethiopia.
5. Make a policy action to realize the model (with Japanese support if necessary).

This is an ideal sequence but reality may proceed otherwise. Japan should be a guide and supporter from the sideline.

Some Highlights

Phase 1 (2008-2011)—Mutual learning about East Asian policy methods and Ethiopia's policy orientation; kaizen cooperation started; metal industry survey; advice on next five-year plan (GTP I).

Phase 2 (2012-2016)—Introduction and deliberation of concrete projects: champion export product (Highland Leather), one-stop investor service, SME handholding support, industrial park management, FDI attraction, automotive assembly; advice on GTP II.

Phase 3 (2017-2023)—PSI-GRIPS Joint research on productivity and FDI policy; commenting on Homegrown ERA & 10-year plan, supporting interested Japanese firms and FDI; policy study on automotive assembly, apparel, etc.

On average, four missions were dispatched annually to Ethiopia (substituted by online works during COVID time). Besides these, 16 third-country missions were organized to Asia and Africa on various policy issues. A study visit to Japan for MIDI officials was also arranged to learn Japanese SME support, metal, machinery & automotive sectors.

Statements of Prime Ministers in the Dialogue

PM Meles (in power 1991-2012)

- Ethiopia aims at (i) promotion of value creators and elimination of rent seekers; (ii) political support from small farmers; and (iii) Agricultural Development Led Industrialization (industrialization based on strong agriculture-industry linkage).
- Firms should be given both carrots and sticks. To promote leather export, I introduced rules and restrictions for domestic processing, but also assist producers with technical, training, matching, institutional and ODA support.



PM Hailemariam (in power 2012-2018)

- Just learning 5S for cost reduction is not enough. Kaizen is not a convenient tool but a philosophy. Our support institutions must understand this. I always talk about it in media. Kaizen is an important national agenda and we can overcome difficulties.



PM Hailemariam (cont.)

- I am requesting JETRO Office to be established in Ethiopia. I believe JETRO will persuade Japanese firms to come to Ethiopia. When they come, they will be role models for our companies [In response, JETRO Addis Ababa was established in July 2016].

PM Abiy (in power 2018-)

- We did not meet PM Abiy. His interests and governing style are different from the previous two PMs.
- We discussed policies with his **Macroeconomic Team** (Amb. Girma, Dr. Mamo, Dr. Eyob, Dr. Fitsum...) and key officials of MOI and other ministries and commissions.
- COVID and Northern Conflict prevented travel and direct contact for two years (early 2020-early 2022). Work continued online.
- Frequent government restructuring with accelerating speed made it difficult to perform policy dialogue effectively.

Highlights of Phase 3

Three-part Structure of Phase 3

Policy Dialogue Became One Component of JICA's Industrial Promotion Project (since 2017)

1: Industrial Policy Dialogue (C/P: PM Office + EDRI, MOI)

- ✓ Policy Dialogue for promoting implementation and monitoring of GTP II and Ten Year Plan
- ✓ Research and surveys for industrial policy design (e.g. study on productivity, FDI policy)
- ✓ Study and trial support of Champion Companies
- ✓ Linkage with other component of the program
- ✓ Inputs on automotive policy, garment industry promotion, etc.



2: Investment Promotion and Industrial Park Development

(C/P: EIC + IPDC)

- ✓ Improvement of investment promotion
- ✓ Improvement of OSS for investors
- ✓ Regulation and supervision of IPs
- ✓ Improvement of business climate
- ✓ Improvement of planning, development, promotion, operation, maintenance of IPs.
- ✓ Improvement of facilitation and aftercare service (incl. linkage) to investors at IPs



3: Export Promotion through Champion Product Approach

(C/P: MOT, LIDI and ELIA)

- ✓ Promotion of export of Champion Product
- ✓ Study and analysis of competitiveness of potential champion products
- ✓ Improvement of brand management of Ethiopian Highland Leather
- ✓ Analysis and tackling of bottlenecks for trade promotion

Note: The names of C/P institutions are those at the time of R/D signing between FDRE & JICA on July 5, 2016.

1. Policy Discussion

- ❑ Direct dialogue with **PM Hailemariam** at PMO (until Nov. 2017) and letter exchange (March & Aug. 2017)
- ❑ Since 2018, discussion with the **Macroeconomic Team** (Amb. Girma, Dr. Mamo, Dr. Eyob, Dr. Fitsum, EIC Commissioner Abebe & Lelise, and others).
- ❑ **Policy forums** to discuss priority policy agenda with the participation of Ministers and State Ministers (instead of previous HLFs):
 - **High Level Forum (HLF)**: 2 sessions (Feb. & Nov. 2017) co-hosted by EDRI & JICA with the participation of MOI Minister, State Ministers, and others
 - **Development Policy Forum (DPF)**: 4 sessions (Feb. & Aug. 2019, Feb. 2020, Jan. 2022 (online)) co-hosted by PSI & GRIPS with the participation of PDC Commissioner Fitsum, and others.
 - **Industry-specific seminars** at MOI/MOTI (1 textile & garment, 3 automotive)
 - **Discussions** with industry-related institutes (EKI, MIDI, ETIDI, etc.)
 - **Open Workshop on Policy Inconsistencies** at the request of MOI Minister

High Level Forum (co-hosted by EDRI & JICA)

	Topics presented by the Japanese side	Topics presented by the Ethiopian side
HLF #1 Feb. 2017	(1)Japan's industrial cooperation for GDP II (2)Asian experience of high growth & income polarization /equalization	(1)Anti-export bias & effects of export incentives (2)Youth Revolving Fund (3)Impact of urban job application assistance
HLF#2 Nov. 2017	(1)Productivity in Ethiopia & Sri Lanka (2)Productivity issues in Vietnam (by VN expert)	(1)Productivity of garment & metal sectors (2)Mini review of productivity studies & data

Development Policy Forum

(co-hosted by PSI & GRIPS, supported by JICA)

	Objective	Topics presented by the Japanese & Ethiopian sides
DPF #1 Feb. 2019	Ethiopia Productivity Interim Report	(1)Introduction, Concepts and Importance of Productivity, Ethiopia's Productivity in International Comparison (PSI) (2)Preliminary Analysis of Firm and Worker Survey (PSI)
DPF#2 Aug. 2019	Ethiopia Productivity Report (final validation with stakeholders)	(1)Policy Measures to Enhance Productivity (GRIPS) (2)Labor productivity: data analysis (PSI) (3)Summary of field survey on apparel industry (PSI)

DPF (cont.)

	Objective	Topics presented by the Japanese & Ethiopian sides
DPF#3 Feb. 2020	Launch of the Ethiopia Productivity Report	(1) Ethiopia Productivity Report (GRIPS) (2) Ethiopia Productivity Report: Ten uncovered facts (PSI & GRIPS)
DPF#4 Jan. 2022	Launch of the Ethiopia FDI Policy Report (online webinar)	(1) Ethiopia FDI Policy Report 2022: Main Findings and Recommendations (GRIPS) (2) Dynamics of FDI in Ethiopia: Bridging the Balance of Payments Gap and Enhancing the Role of FDI in Technology and Knowledge Transfer (PSI) (3) Pursuit of Product Quality and Ethical Correctness in Developing the Garment Industry (GRIPS) (4) Ethiopia in the Industry 4.0 and Post-Pandemic Age (JICA)
DPF#5 Dec. 2022	Policy Trade-off and Inconsistences (open policy workshop hosted by MOI)	(1) Policy Inconsistences in Ethiopian Manufacturing Industry Growth (PSI) (2) Resolving Policy Trade-offs and Inconsistences: Ethiopia's Mechanisms and Asian Experiences (GRIPS)

2. Advice on Industrial Plans and Strategies

The dialogue team offered advice and comments on various policy documents:

- **Hawassa Industrial Park: Impression from a Japanese perspective**, submitted to Minister Arkebe & EIC (Feb. 2017).
- **Ideas for Stimulating the Ethiopian Economy**, submitted to PSRC Director Ahmed (Sept. 2018).
- **Preliminary assessments on Homegrown Economic Reform Agenda**, submitted and discussed jointly with PMO, MOF, EIC, and separately with PDC (Oct. 2019).
- **Comments on 10-year Perspective Development Plan 2021-2030**, submitted to PDC, PMO, EIC (June 2020).
- **Comments on MOTI's 10-year Perspective Development Plan 2021-2030**, submitted to MOTI (Aug. 2021) .
- **A series of automotive industry promotion analyses and proposals**, submitted to MOTI/ MOI, EIC & PMO (Feb. 2018, Mar., Nov. & Dec. 2020, Sep. 2022).
- **Policy Trade-off and Inconsistency Workshop** in support of Ethiopia Tamirt Movement at the request of MOI Minister Melaku (Dec. 2022).

Assessments on Homegrown Economic Reform Agenda

The policy matrix presented at a joint meeting with Dr. Mamo (PMO), Dr. Eyob (MOF) and Mr. Abebe (EIC) as well as at a separate meeting with Dr. Fitsum (PDC) in October 2019

	Washington Consensus	PM Meles	Homegrown Economic Reform Agenda
Macro economic stability	Top priority: bold budget cuts, tight money, flexible exchange rate as preconditions for reform and growth (IMF)	Coping with crises as they arise (inflation, fuel & sugar shortage, F/X allocation, etc.)	Concern indicated but effective and concrete enough? F/X, finance, inflation, debt sustainability, etc. (5 slides)
General improvements on business conditions	Big-bang liberalization: Liberalize, privatize, integrate, good and level investment climate asap	Maintaining tight controls (banking, telecom, SOEs, etc.); no long-term liberalization plan shown	Will to SOE reforms, better infrastructure services expressed, with WB support (WB EDB ranking also targeted) (1 slide)
Selective industrial concern & promotion	Undesirable; don't do it Government is unwise & policies are captured by interests (Anne Krueger)	Strong state guidance & support on priority sectors; learning how to do this from East (incl. Kaizen)	Listed but details unknown; still general--agriculture, manufacturing, mining, tourism, ICT (1 slide each)
Remark	Traditional IMF & WB and most Westerners; criticized for damaging real economy in Africa, L. America, Former USSR, Asian crisis countries	Despite serious policy learning, targeted manufacturing sectors remained weak and visible transformation did not occur	Weights and depths of 3 pillars unknown; General and Selective should both be pursued strongly and in balance (Framework or Ingredients approach?)

Automotive Policy Discussions

- Since 2018, the policy dialogue team has conducted automotive discussions with MOTI/MOI & EIC. Japanese automakers were interviewed, MIDI officials were invited to Japan, four seminars were held at MOTI/MOI, Kenya and Myanmar were visited, and a series of policy proposals were submitted.
- Four impediments to Japanese SKD were identified: (i) F/C shortage, (ii) used cars [already solved], (iii) lack of incentive for domestic assembly, and (iv) small demand.
- Isuzu already assembles trucks in collaboration with Kaki (local firm) but volume remains tiny due to the lack of foreign currency, proper incentive, etc.
- We also discussed regularly with Germans which showed interest in Ethiopia, but their automotive interest evaporated by 2022.

At Moenco



At EIC

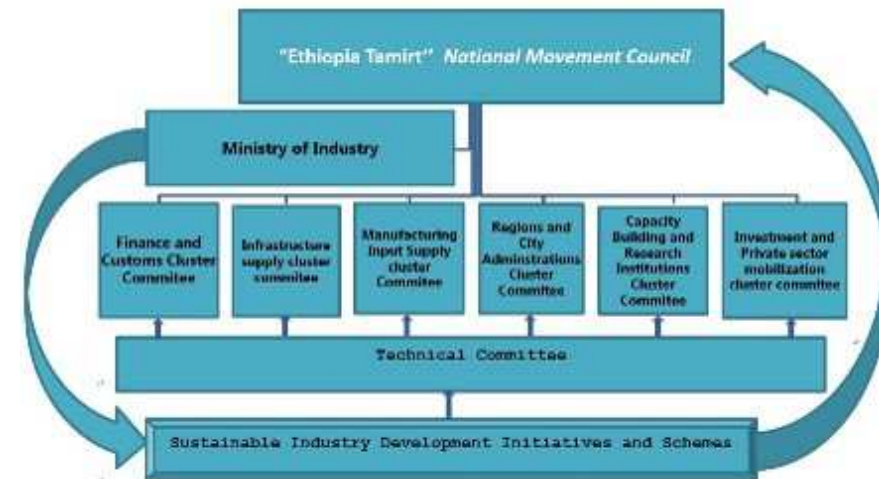


Workshop on Policy Inconsistencies (Organized by MOI in cooperation with PSI, JICA & GRIPS)



- ❑ MOI has drafted new **Manufacturing Industry Policy** replacing the old strategy of 2002 (final draft presented to Cabinet in Dec. 2022).
- ❑ To effectively implement the new Industrial Policy and the Ten-year Plan, **National Manufacturing Industry Movement (Ethiopia Tamirt)** was launched by PM Abiy in May 2022. MOI Minister Melaku oversees implementation.
- ❑ Minister Melaku considers inter-ministerial policy inconsistencies as one of the causes of stagnant manufacturing.
- ❑ At his request, we and MOI organized an open workshop and shared Asian experiences in coping with policy inconsistencies (Dec. 2022). Representatives of ministries, private sector & development partners attended.

Ethiopia Tamirt Movement Structure



Source: MOI, "Manufacturing Industry Movement Plan: Concept Note," April 2022.

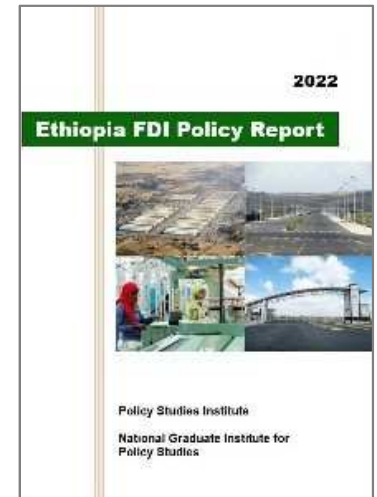
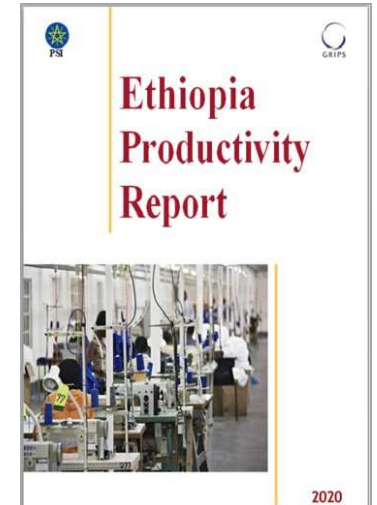
3. Joint Policy Research with PSI

Ethiopia Productivity Report (Jan. 2020)

- First comprehensive productivity analysis of Ethiopia using standard statistical methods, international comparison and firm surveys
- Labor issues and sources of weaknesses are explored
- Received wide media coverage; World Bank and MCC invited lead author to Washington DC to present the report (Feb. 2020)

Ethiopia FDI Policy Report (Jan. 2022)

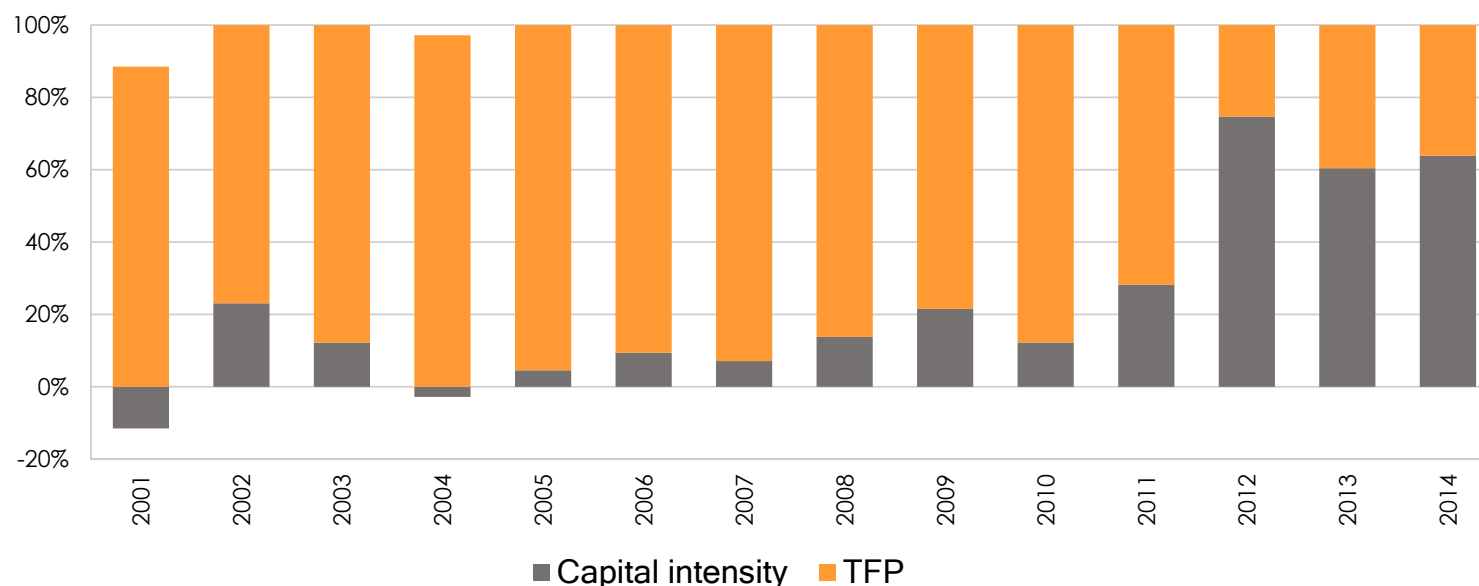
- Ethiopia's FDI policy and performance are reviewed
- FDI's impacts on balance-of-payments and technology transfer are studied with international experiences
- Garment performance is compared among Ethiopia, Vietnam and Bangladesh
- A companion FDI policy paper was also released (GDF, Oct. 2021)



Finding: Heavy Investment as a Driver of Labor Productivity

Contribution shares of capital intensity and TFP to Ethiopia's labor productivity, 2000-2014 (%)

Note: Labor productivity = capital intensity + TFP



Source: Authors' calculation based on PDC data, World Bank's WDI and the Penn Tables.

Recently, the driver of labor productivity has shifted from TFP growth to capital deepening. That is, true efficiency improvement slowed while heavy investment in infrastructure and other physical assets raises labor productivity (more machines and buildings per worker). This is alarming for Ethiopia. Part of the inefficiency maybe explained by government inefficiency. As Ethiopia is still at its early stage of development, capital investment may still continue.

Finding: Risk of Premature De-industrialization as Rural Labor Migrates to Services

Decomposition of labor productivity growth by shift-share method (2004-2016)

	Sources of labor productivity growth (%)			Contribution share to labor productivity (%)		
	Agriculture	Industry	Service	Agriculture	Industry	Service
Within effect	46.31	12.14	21.05	58.25	15.28	26.48
Shift Effect	-8.03	5.89	28.82	-30.08	22.08	108.00
Interaction Effect	-7.21	6.56	16.16	-46.47	42.28	104.18

Source: Authors' computation from PDC data and World Bank's WDI.

- **Structural transformation is not visible (unlike East Asia) despite continued high growth and government's long support for manufacturing.**
- **Agricultural labor moves mostly to services, and only modestly to industry. Within industry, labor is largely moving to construction rather than manufacturing.**
- **Ethiopia's internal labor migration not only is small, but does not follow the standard pattern of agriculture to manufacturing (and only later to services). This is a sign of "premature de-industrialization" which many middle income economies face.**

4. Visiting Benchmark Countries for Policy Lessons

- In Phase 3, we organized four research missions to third countries (with the participation of PSI researcher):
 - **Sri Lanka** (Oct. 2017): apparel industry, EPZ, industry-supporting institutions
 - **Kenya** (Aug. 2018): automotive industry, industry associations
 - **Djibouti** (Feb. 2019): logistics, port facilities
 - **Myanmar** (Nov. 2019): automotive & apparel industries, investment promotion & SEZ

The findings were shared with Ethiopian policymakers at HLF & DPF sessions and in writing.

- A **study visit to Japan** was organized for four officials of MOTI's Metal Industry Development Institute (MIDI) to study Japan's SME policy and situations of metal, machinery and automotive sectors (June 2018).

5. Assisting Japanese Firms Interested in Ethiopia

- ❑ We believe improving policy to attract and support concrete business projects (FDI, buyers, JV, etc.) is more effective than policy reforms designed by government and academicians alone.
- ❑ Our team supports Japanese firms (large and small in various sectors) seriously or potentially interested in Ethiopia. Automotive and apparel firms were supported in Phase 3.
- ❑ We provide policy information, suggest government contacts, organize workshops for government and Japanese firms, and propose policies to attract and retain Japanese FDI.
- ❑ Related seminars and discussions were held at MOTI/MOI (next slide).
- ❑ **However, the attraction of Japanese FDI has not been successful so far.**

Seminars for Linking Japanese Firms with Ethiopian Government

- **Textile and Garment Seminar** in collaboration with **Itochu Corp.** (Japan's leading garment trader) co-organized by MOI, JICA, GRIPS and UNIDO at MOI (Aug. 2018): **on global garment business and how Japan can come to Ethiopia**
- **Automotive Industry Seminar**, co-organized by MOTI, JICA, GRIPS and UNIDO at MOTI (Feb. 2019): **“The Prospects of Japanese Automotive Assembly in Ethiopia: Policy Issues and Concrete Problems”**
- **Automotive Industry Seminar**, co-organized by MOTI, JICA and GRIPS at MOTI (Feb. 2020): **“Myanmar's automotive policy and lessons for Ethiopia”**
- **Automotive Industry Seminar**, organized by MOI with presentations by GRIPS and JICA at MOI (Sep. 2022): Also inviting Japanese and local automotive firm representatives: **“Ethiopian Automotive Policy in the African Automotive Market”**
- **Linkage Policy Seminar**, co-organized by MOI, JICA and GRIPS at MOI (Dec. 2022): **“FDI-Local Firm Linkage Development: East Asian Experiences and Suggestions for Ethiopia”**

Issues, Achievements and Challenges

1. Difficulty of Policy Dialogue and the Need for Selectivity

- ❑ Policy dialogue requires conditions which are difficult to satisfy:
 - Serious interest and commitment by top leader (PM or President)
 - Bureaucrats with proper mindset and capacity (above minimal level)
 - A country without political or macroeconomic crisis
- ❑ Few developing countries satisfy these conditions. Policy dialogue can't be conducted widely with all developing countries.
- ❑ The Japanese side must also fulfill certain conditions:
 - Serious preparation and long-term engagement
 - Speed and flexibility to discuss most relevant topics at any time
 - The host country is politically and/or economically important for Japan
- ❑ The Japanese embassy and JICA should engage in dialogue with government whenever possible. If the top leader shows serious interest, formal policy dialogue should be organized quickly.

(Cont.)

- ❑ Even after dialogue is started, success is not guaranteed. It is often disrupted by:
 - Frequent changes of top leaders, ministers or officials
 - Macroeconomic problems – inflation, negative growth, debt crisis, etc.
 - Social, political or even military instabilityEthiopia had all these.
- ❑ Even if a developing country makes great effort, it may fail in their learning for various reasons. It may not be able to overcome a middle income trap (or poverty trap).
- ❑ However, when successfully done, policy dialogue can bring great benefits to both the developing country and Japan:
 - Host country: effective policies, with Japanese support for execution
 - Japan: cooperation projects that align top leader's concern
 - Bilateral partnership beyond industrial policy

2. Building Confidence and Trust

- ❑ Building confidence and trust at all levels, from top leader to ground officials, experts and researchers, is crucial for policy dialogue. When solid human relations are established, they will become long-lasting assets. Without them, dialogue becomes superficial and mechanical.
- ❑ Japanese officials, experts and consultants must possess the right attitude. They should work for the welfare of the host country and its people with passion, dedication and patience. This will be noticed by the other side.
- ❑ Long-term presence and engagement are essential. Japanese ambassadors and JICA officials rotate too quickly (2-3 years). They should stay longer or repeated times.
- ❑ Devoted academicians can engage longer – e.g., Prof. Shigeru Ishikawa (Vietnam), Prof. Yonosuke Hara (Laos), Professor Shoji Shiba (India), GDF (Ethiopia).

3. Linking Talk with Industrial Cooperation Projects

- ❑ A very important feature of Ethiopia-Japan Industrial Policy Dialogue was the close link between policy discussion and JICA's subsequent industrial cooperation projects. Talk does not end as such but leads in many cases to concrete projects that assist the execution of policies just discussed.
- ❑ In Ethiopia, follow-up projects included kaizen (Phases 1, 2, & 3), metal industry survey (Phase 1), export champion products and branding (Phases 2 & 3), FDI attraction and industrial park management (Phases 2 & 3), and BDS support (Phase 3). The JETRO Addis Ababa office was established in July 2016 at the strong request of Prime Minister Hailemariam.
- ❑ Japan's policy dialogue in Argentina (1985-87), Vietnam (1995-2001) and Thailand (1999) also spawned many related JICA projects. JICA is usually alert and eager to create projects consistent with policy dialogue.
- ❑ This linkage encourages both parties to seriously engage in policy dialogue.

4. Country Ownership versus Well-thought Advice

- ❑ Respecting the policy ownership of host government seems obligatory for development partners. However, this principle is not easy to implement because the host government is not always right.
- ❑ Our advice, though imperfect, is backed by many observations and studies in a large number of developing countries. We stand by them whether or not they are immediately accepted.
- ❑ The question is how to inspire and guide national leaders and officials to abandon unrealistic ideas and choose better goals and methods without offending or discouraging them. Their learning process must generate a sense of pride and achievement rather than inferiority and humiliation.
- ❑ Good policy dialogue must observe diplomatic protocol and courtesy. Yet it must speak out (in a polite way) when ideas presented by the counterpart are contrary to global practice or industrial common sense.

5. Commonalities and Unique Factors

- ❑ In international comparison, the common objection is that “each country is different and the time has also changed, so this foreign model is not applicable to our country.” But the statement is superficial.
- ❑ The important thing is for the policy designer to clearly recognize what is common and what is unique in each case. If this is done, a valid starting point is established for formulating policies suitable for the home country.
- ❑ Late 19c Japan and post-WW2 Taiwan and Korea may seem too remote for today’s latecomer country. But dedicated technocrats, engineering education, skilled labor, competitive firms, public-private partnership which they promoted—mostly successfully—are not outdated. These are necessary elements for any latecomer country at any time.
- ❑ We recommend **translative adaptation** (select and modify foreign models to create your own model) as the basic development strategy. This is also what we advised to Vietnam, Thailand, Ethiopia, etc.

6. Evaluating Policy Dialogue

- ❑ Development projects are expected to produce “visible results” within a few years. If the technique and methods are standard and predictable, such requirement is reasonable. But policy dialogue is quite opposite of standard projects.
- ❑ As stated earlier, policy dialogue must be sensitive and flexible. Success depends on many factors beyond control. Sustainable growth and stronger relations are slow to emerge and difficult to quantify.
- ❑ Policy dialogue should not be evaluated by the number of letters, reports, workshops, books, lectures, visits and other activities which are merely instruments to achieve the ultimate goals.
- ❑ Ethiopia-Japan Industrial Policy Dialogue faced many difficulties but also produced some achievements. It was neither brilliant success nor complete failure. This is what we expect from any (good) policy dialogue.

7. General Questions about Modality

- ❑ When the government of a developing country is not perfect, and when donor resource is limited, what is the best way to conduct policy dialogue?
- ❑ If the government is weak, should we work with private-sector organizations such as business associations, NPOs and even individual firms? (Maybe work with both, in separate projects)
- ❑ How to cope with frequent changes of government and the resulting loss of institutional memory and policy interests?
- ❑ Reports, workshops and study tours about good practices are not enough to produce good policies. How much deeper should we go to help the government construct policies effectively—from mere knowledge to concrete action?