

The Quality of Industrial Policy

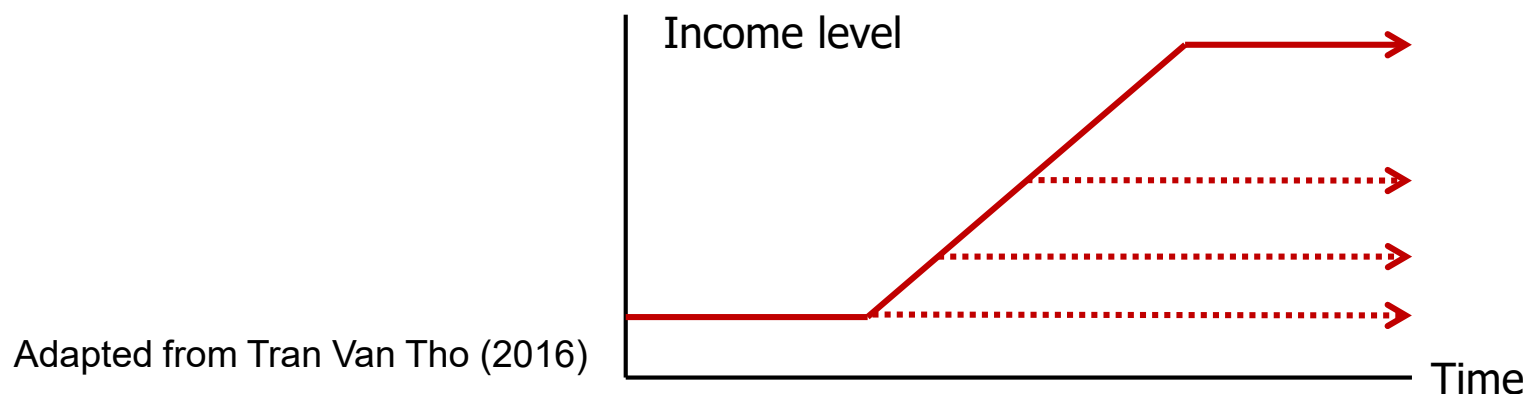
How Government Can Improve It and How Foreign Experts Can Assist It



Policy Design and Formulation in Developing Countries

Nations Are Not Equal, and Policy Learning Is Critical

- Development performance differs greatly across nations. Some quickly reach high income while others slow down or stagnate at low or middle income.



- This fundamentally reflects differences in **private dynamism** and **policy quality**—not amounts of aid, trade, FDI, natural resources; not even colonial history or difficulties at the time of independence.
- Nations must learn **mindset** (heart) and **method** (brain) to attain high growth. Active and wise policy is needed.

Learning to Industrialize: From Given Growth to Policy- aided Value Creation

By Kenichi Ohno Routledge (2014)
[Open Access \(free download\)](#)

This book proposes a pragmatic way of economic development which features policy learning based on a comparison of international best practices. Countries wanting to adopt effective industrial strategies but not knowing where to start will benefit greatly by the ideas and hands-on examples presented.

Policy learning experiences in Meiji Japan, Singapore, Taiwan, Malaysia, Vietnam and Ethiopia are discussed in concrete detail.

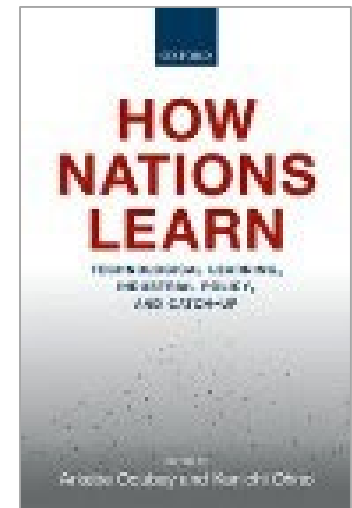


How Nations Learn: Techno- logical Learning, Industrial Policy, and Catch-up

Edited by Arkebe Oqubay & Kenichi Ohno
Oxford University Press (2019)

Middle-income economies are many, but very few have risen to attain truly high income and technology leadership. The book examines key structural and contingent factors that contribute to dynamic learning and catch-up.

Rejecting both the “one-size-fits-all” approach and the agnosticism that all nations are unique and different, it uses historical as well as firm, sector and country evidence to identify the sources and drivers of successful learning.



Working Hypothesis

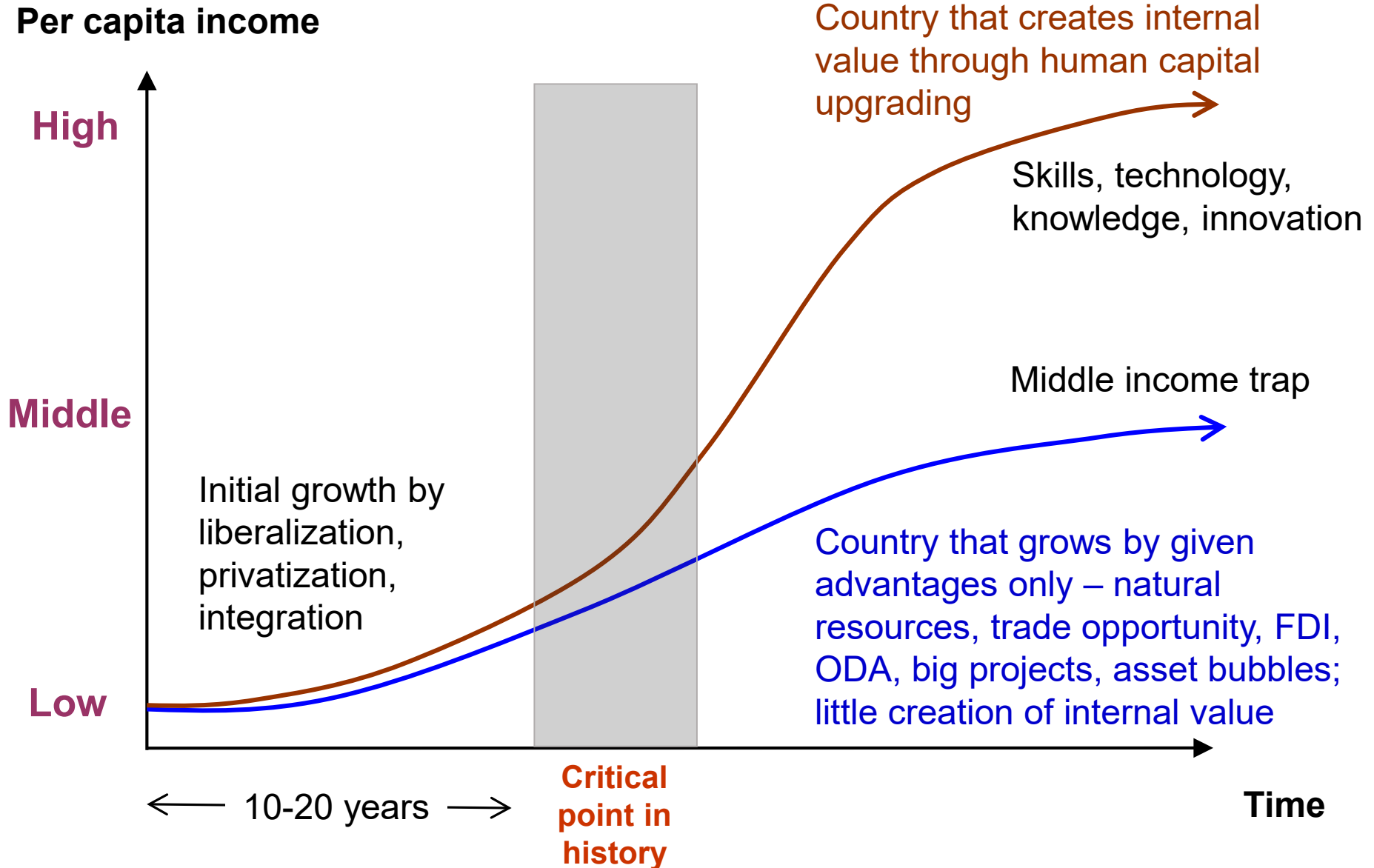
Hypothesis—The lack of quality in industrial policy is the main cause of a middle income trap (or any other long-term growth problem).

- Countries stagnate not so much because they don't know **WHAT** to do to attain high income and technology, but because they don't know **HOW** to design and implement these necessary policies.
- If you don't know how to learn and improve policies, recommended methods are (i) **international comparison**, (ii) **attention to details** and (iii) **proper tutoring** by foreign experts.

Middle Income Traps (structural definition)

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

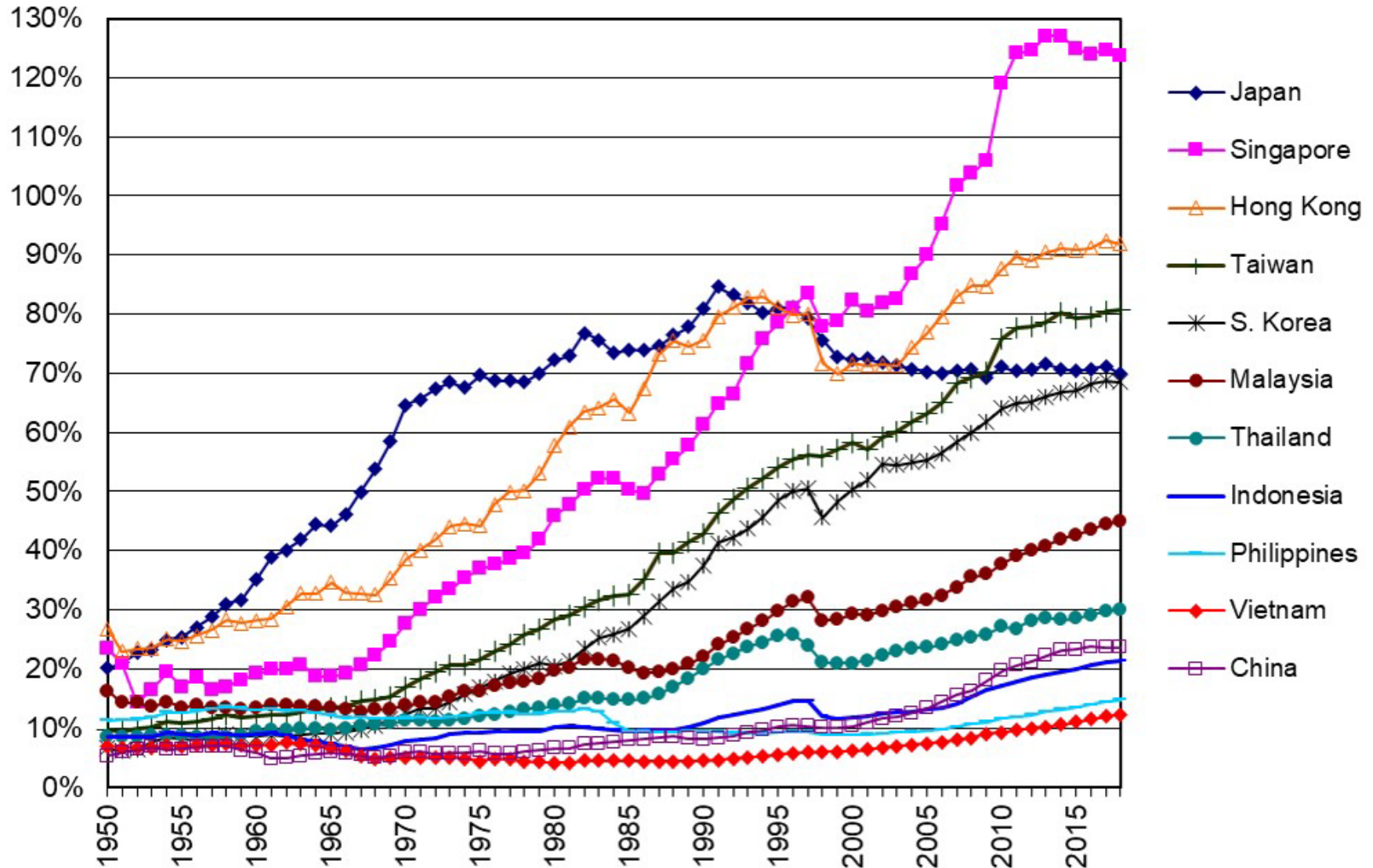
Why Do Countries Diverge?



Speed of Catching Up: East Asia

Per capita real income relative to US

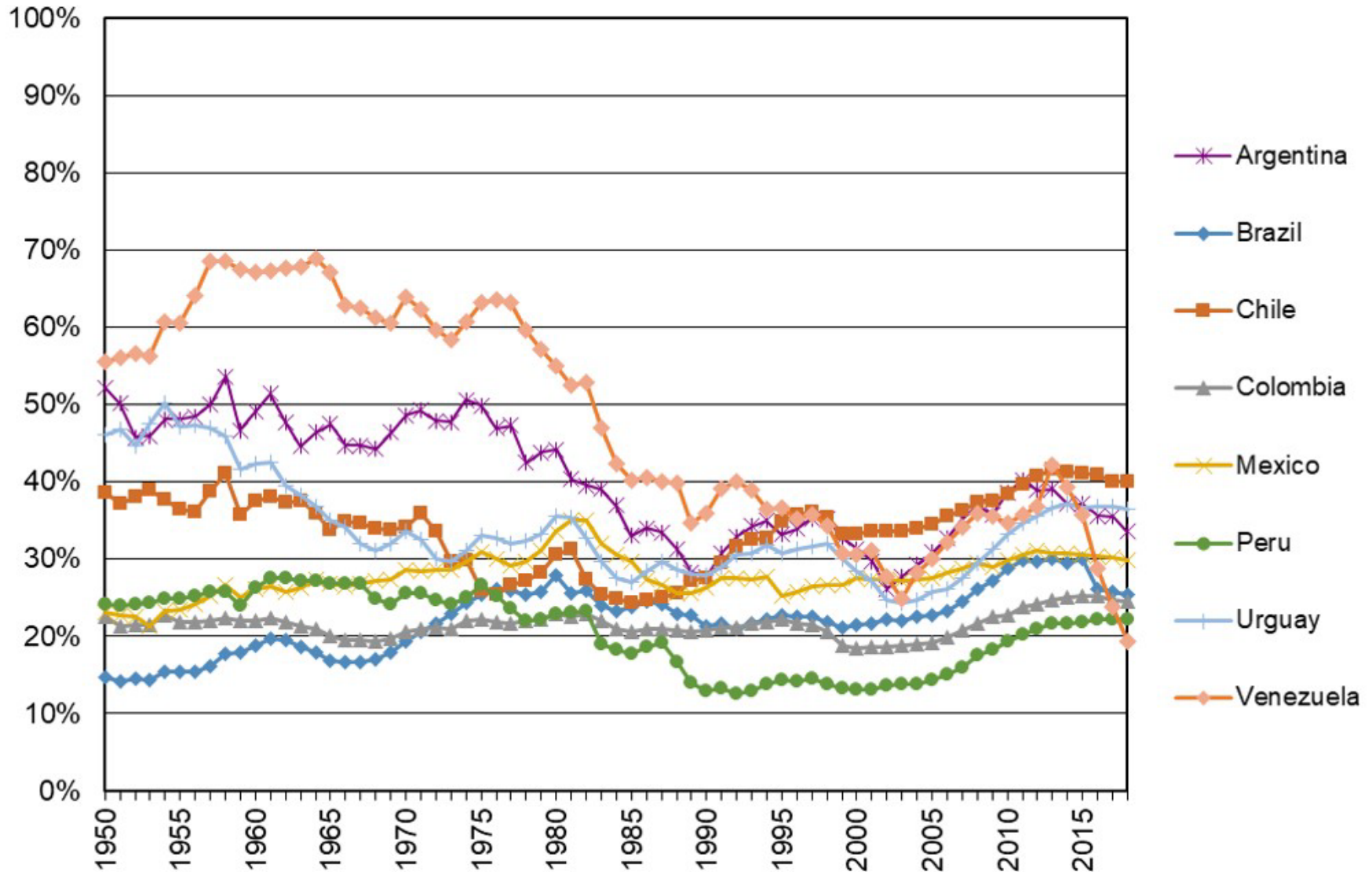
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Latin America

Per capita real income relative to US

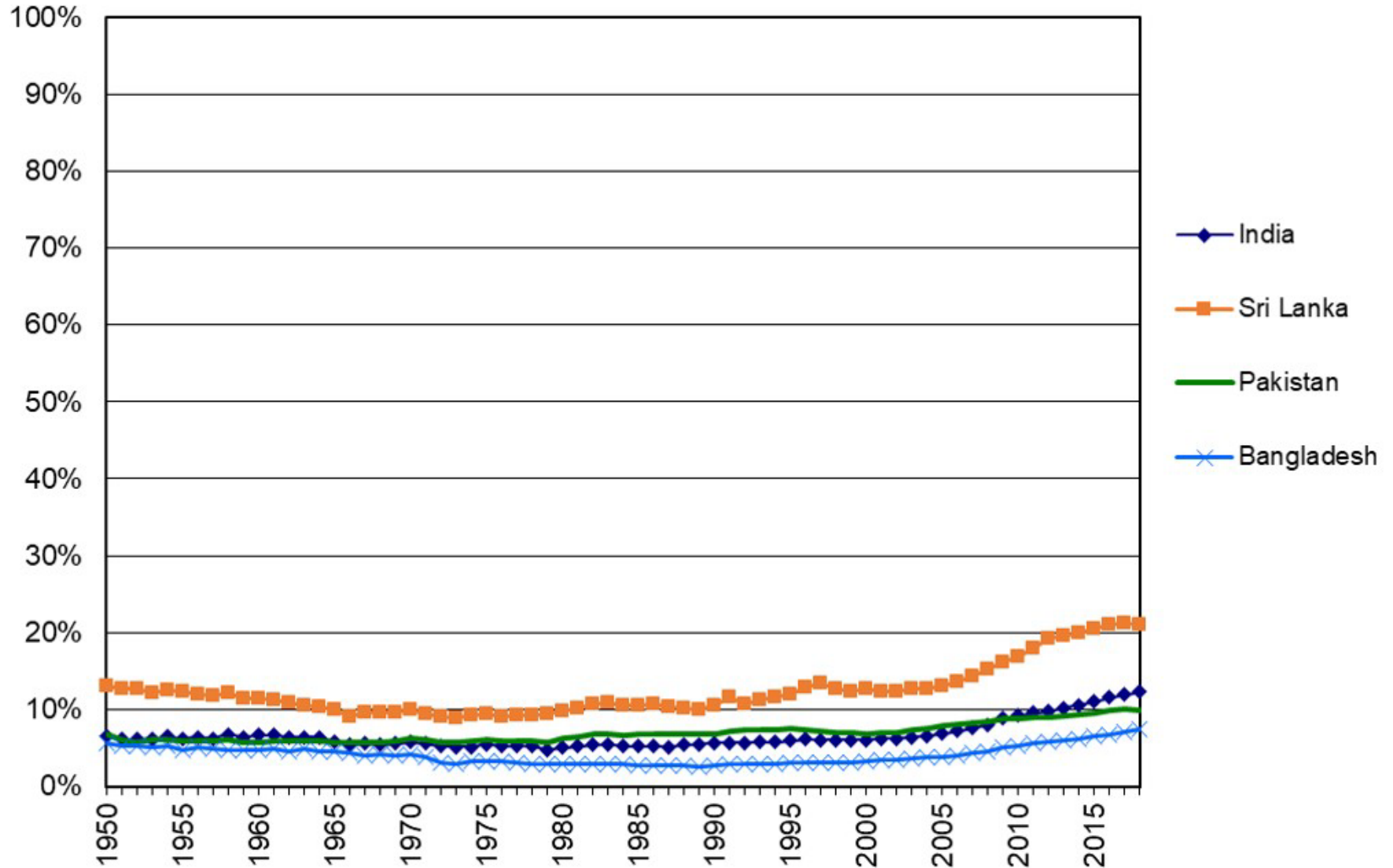
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South Asia

Per capita real income relative to US

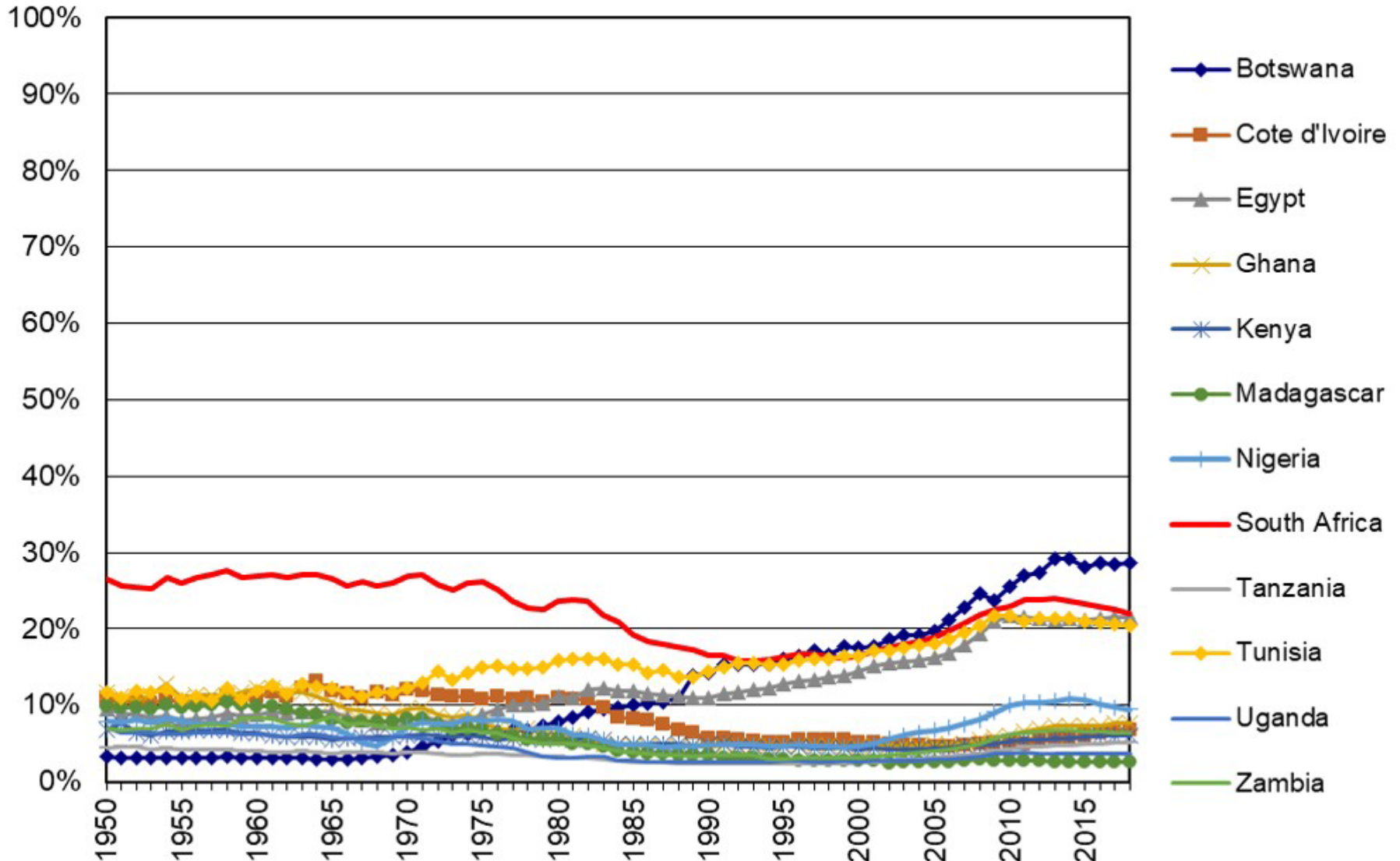
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Africa

Per capita real income relative to US

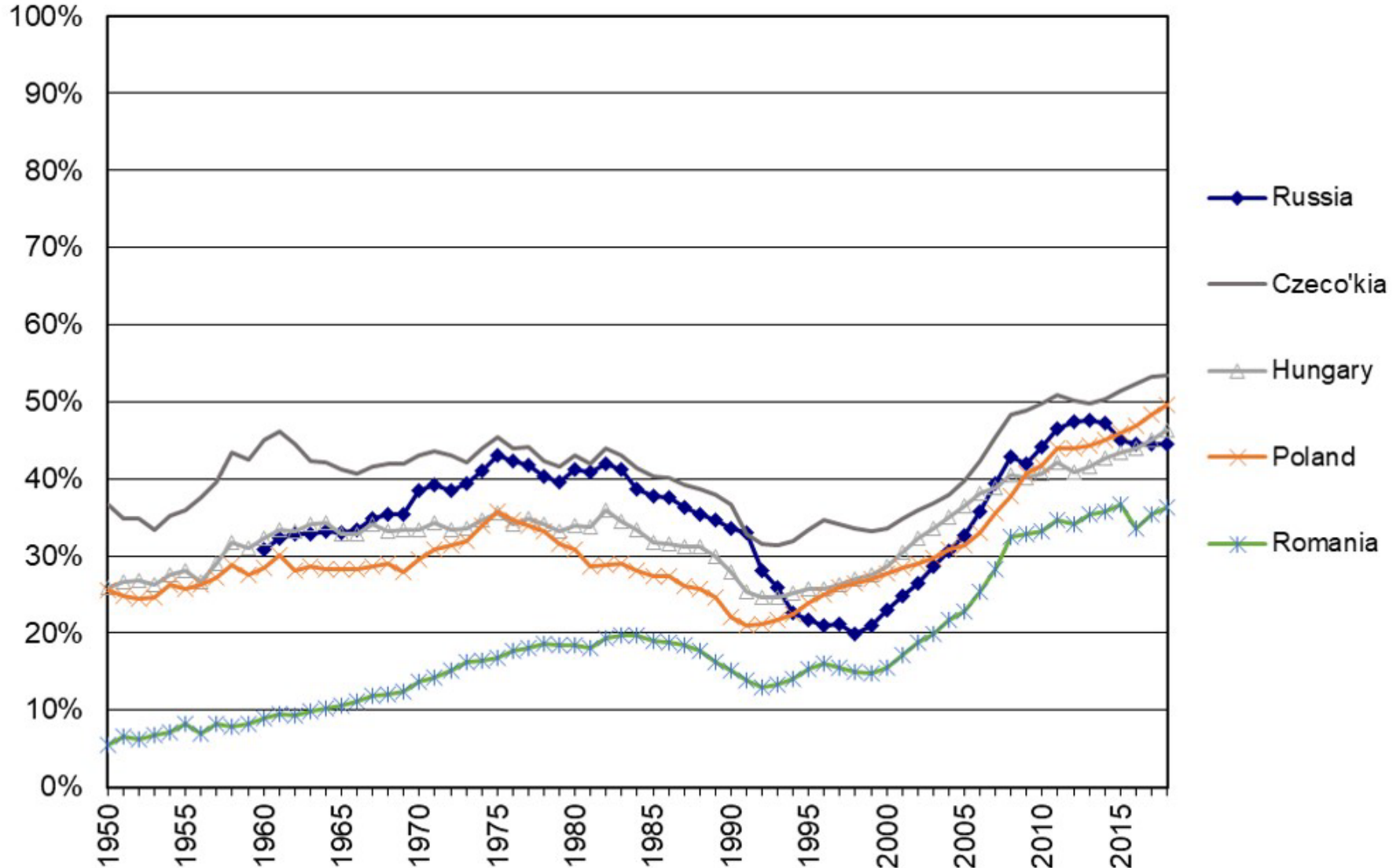
(Measured by the 1990 international Geary-Khamis dollars)



Russia & Eastern Europe

Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)



Three Major Causes of Middle Income Traps

1. Economic

Inability to produce competitive firms and products, and the lack of proper policy support

- Business climate, bureaucracy, corruption, distortive intervention
- Ability for Innovation and frontline technology

2. Social

Inability to effectively ameliorate problems caused by fast growth—income and wealth gaps, environmental damage, congestion, materialism, corruption, cultural change, etc.

3. Political

Increased political suppression beyond middle income level which deters private sector freedom, competitiveness and innovation

International Comparison of Industrial Policy Quality

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

How Do You Measure Industrial Policy Quality? (Tentative)

Grading

- 5 – Excellent
- 4 – Good
- 3 – Moderate
- 2 – Some
- 1 – Little
- 0 – Nothing or worse

Policy areas

1. Industrial human resource
2. Domestic enterprise development
3. Business climate
4. Power & logistics
5. Export promotion
6. Strategic FDI marketing
7. Industrial parks
8. Supporting industries & FDI-local firm linkage
9. Productivity, technology & innovation
10. Standards & testing



Functional aspects

1. Policy ownership
2. Vision & commitment of top leader(s)
3. Policy drafting procedure
4. Authority & capacity of policy organizations
5. Mindset & competency of implementing officials
6. Budgeting & staffing
7. Inter-ministerial coordination
8. Involvement of key non-official stakeholders
9. Monitoring & evaluating mechanisms
10. Impact on the real economy



The Scorecard for Vietnam

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

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

Notes:

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

The Scorecard for Ethiopia

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

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

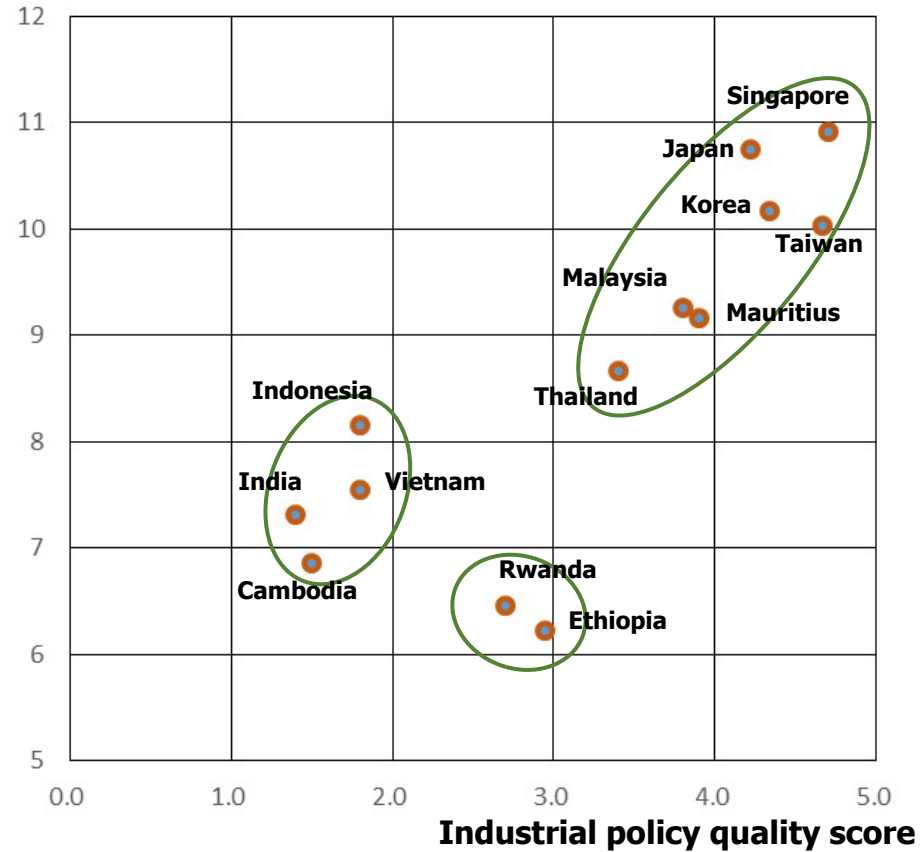
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Industrial Policy Quality: Summary

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

Log of per capita income



(Correlation = 0.815)

Observations

- Governments are not created equal. There is a huge gap in industrial policy quality from excellent to poor.
- Industrial policy quality and income level are positively correlated (0.815). This suggests, but does not prove, causality.
- Within each country, policy quality is often similar across different sub-components. If one policy or ministry is bad, others are also likely to be bad in the same way. There is a common policy culture that permeates the entire government.

Solution 1. Proactive Industrial Policy

Combining market power and wise state

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

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

Solution 2. Policy Learning

Collecting international experiences and conducting translative adaptation

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

Confucius (551-479BC): 「子曰学而不思則罔思而不学則殆」

“Learning without thinking is useless; thinking without learning is precarious.”

Solution 3. Policy Dialogue with International Experts

Initial policy learning with the help of competent foreigners

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

Japan's Industrial Policy Dialogues: 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 Kinkyo, 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.

Comparison of Japan's Four Policy Dialogues

	Argentina Okita Project 1985-87, 94-96	Vietnam Ishikawa Project 1995-2001	Ethiopia GRIPS & JICA 2008-2023	Thailand Mizutani Plan 1999
Motivation for inviting Japan	Find middle way between Wash. Consensus & protectionism	Counter-balancing IMF & WB's macro and liberalization conditionalities	To learn East Asian approach; rejecting IMF & WB	Real sector reconstruction after the Asian financial crisis
Committed national leader(s)	President Alfonsin, President Menem	Communist Party General Secretary Do Muoi	PM Meles, PM Hailemariam	PM Chuan, PM Thaksin
Japanese team leader	Former Foreign Minister Saburo Okita	Prof. Shigeru Ishikawa (Hitotsubashi U.)	Kenichi Ohno, Izumi Ohno (GRIPS)	Former MITI official Shiro Mizutani
Major agenda	Macro, agri., livestock, industry, transport, export; targeted sector promotion under competition	Promoting heavy industries with great care; well-prepared regional integration with scenarios	Learning Asian methods; Kaizen, export, FDI, industrial parks, productivity, car assembly	Ind. Restructuring Plan; SME policy; factory evaluation system; car component suppliers

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, construction sites, etc.) instead of producing theories, frameworks or colorful 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.

Ethiopia-Japan Industrial Policy Dialogue (2008-2013)



- 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 (current leader).
- 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 industrial cooperation by both sides. Talk did not just remain talk but led to concrete actions.



With PM Meles



With PM Hailemariam

High Level Forums (ministerial level)

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

MOF State Minister Eyob

Phase 3

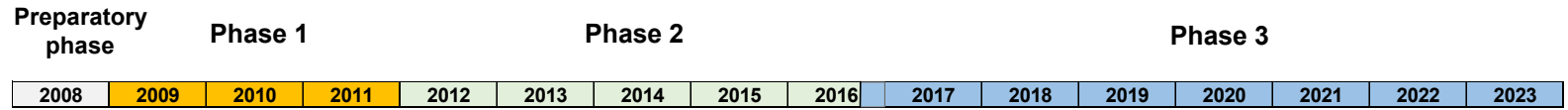


With Former President Mulatu

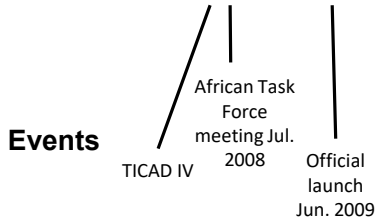
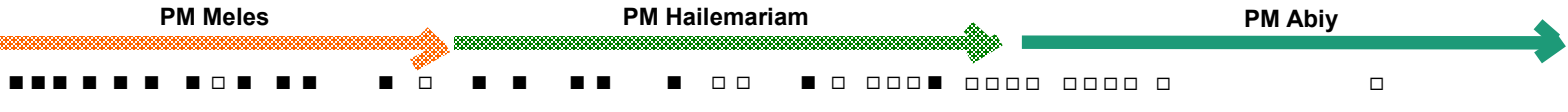
Planning and Development Minister Fitsum



Timeline: Policy Dialogue and JICA Projects

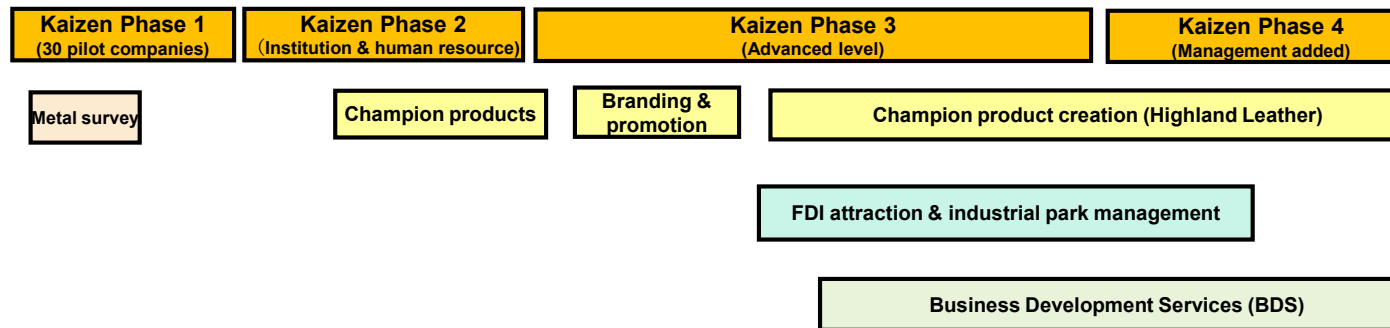


Industrial policy dialogue



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 many developing countries, select a few appropriate benchmark countries (especially from Asia and Africa).
3. Based on our knowledge or new third-country studies, convey 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.

Three Phases

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.
- 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].



Phase 3 Highlights (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.
 - **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

Phase 3 Highlights (2): Advice on Industrial 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).

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.



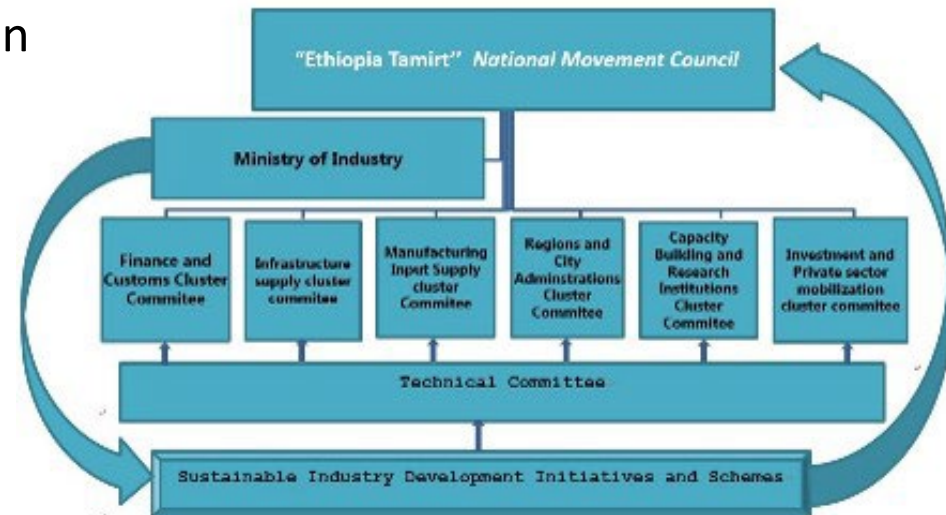
Workshop on Policy Inconsistencies

(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.

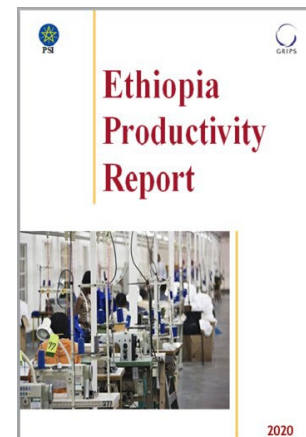
Ethiopia Tamirt Movement Structure



Phase 3 Highlights (3): Joint Policy Research with Government Think Tank (PSI)

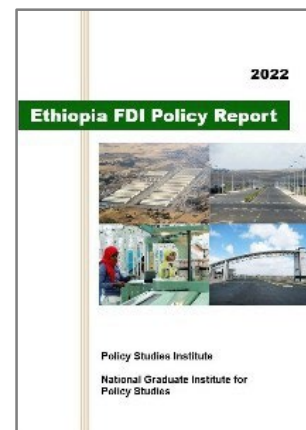
Ethiopia Productivity Report (Jan. 2020)

- 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)



Phase 3 Highlights (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).

Phase 3 Highlights (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.**

Ethiopia: Remaining Challenges

Leaders' mindset was impressive but practical knowledge was missing

- National leaders have strong will and ownership for economic development, but they lack business experience or industrial knowledge. Policies are created with great haste without pragmatism or proper localization.
- The capacity of middle and low level officials is low. They are unable to effectively draft documents, implement measures and make adjustments, consult with the private sector, monitor progress, etc.
- As a result, policies do not fit Ethiopia's reality. They are either unimplementable or ineffective even when implemented. Deeper policy learning is necessary.
- In addition, political and ethnic instability has accelerated under the Abiy administration (since 2018) which makes policy implementation more difficult.

Policy Dialogue: Issues in Methodology

- **Need for country selectivity**—policy dialogue does not produce results unless the top national leader (president or PM) is fully committed.
- **Trust and confidence**—building long-term trust and confidence is more important than visible short-term results.
- **Policy actions**—talk must be followed by policy actions and aid projects so both partners become serious about dialogue.
- **Balance between country respect and assertion**—country ownership and external advice must be balanced. The host government is not always right.
- **Commonality and uniqueness**—international comparison always carries both aspects. Policy learning must clearly recognize this.
- **Project evaluation**—policy dialogue should be assessed by long-term contribution to development orientation and bilateral relationship rather than visible outputs within 2-3 years.