Chapter 5
Bilateral Policy Dialogue: Japanese Cooperation for Enhancing Industrial Policy Capacity

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5.1 Introduction

Bilateral policy dialogue is one of the schemes of Japanese development cooperation that has arisen naturally from Japan's long and extensive economic support to latecomer countries. It is neither purposefully contrived nor standardized. It typically starts with an earnest request by a top national leader—often the president or the prime minister—of a developing country who covets practical policy knowledge from Japan to accelerate economic growth or overcome an economic difficulty. Internal policy contests or external pressure from international organizations are usually the background to such requests. The Japanese government normally responds positively by deciding the most appropriate topics, modality, frequency, duration, dialogue partners, and team leaders on the Japanese side. An appropriate cooperation scheme is chosen as JICA has no preset scheme for bilateral policy dialogue per se. Through preliminary consultation and agreement, dialogue details are customized to the unique needs and situations of the candidate country rather than set in a prearranged format.

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Japan's policy dialogue is different from the 'policy dialogues' conducted by other advanced nations or international organizations. It is not an offering of reports, workshops, and study tours to show off the wonderful past achievements of a donor country. Japan often recommends benchmark countries other than itself to deal with problems in developing countries because Japanese models are sometimes too remote or different for others to emulate. This is possible because Japan has over the years accumulated broad and deep knowledge of many developing countries, especially in Asia, and can select the best model for each case from among them. Japan's approach is also unlike an intensive negotiation of policy conditionalities of international organizations as a quid pro quo for loans to finance a flagship project or a balance-of-payments gap. Japan does provide technical assistance and loans to support policies discussed in policy dialogue but this is in the spirit of realizing bilaterally agreed actions rather than ensuring the repayment of the loans provided.

This chapter explains the characteristics of Japan's policy dialogue with the governments of developing countries.[1] After an overview (Sect. 5.2), it presents four concrete cases from Argentina, Vietnam, Ethiopia, and Thailand to verify the common features of the Japanese approach as well as to demonstrate how dialogues are customized to each country's particular circumstances (Sects. 5.3–5.6). We focus on industrial policy in which Japan has a comparative advantage and most policy dialogues are conducted, but the scope of policy dialogue may also extend to agriculture, services, finance, macroeconomic issues, and others depending on the host country's request.

5.2 Features of the Japanese Policy Dialogue

Table 5.1 is a selected list of countries with which Japan has officially conducted bilateral policy dialogue with sufficiently strong high-level mutual commitments and large resource mobilization. There are also numerous other projects in which Japanese officials and experts have studied, discussed, and/or recommended development policies in less systematic or continuous ways. Whether large or small, Japan's bilateral policy dialogue with developing countries exhibits the following features as distinct from other donors and international organizations.

The first salient feature is country customization. Japanese development officials and experts know very well that Japanese methods, no matter how effective they were at home, cannot be copied and pasted to another country with a different history, culture, and social fabric. In introducing a Japanese model, they pay great attention to transferability and the need to adjust to local conditions. Such adjustments should in principle be done locally rather than imposed from outside, but this may not happen automatically in many developing countries. In such circumstances, Japanese

[1] This chapter is a condensed summary, with a new introduction and additional explanation, of the four chapters contained in Ohno et al. [28]: Chaps. 6 (Argentina), 7 (Vietnam), 8 (Ethiopia), and 9 (Thailand).

Table 5.1 A selected list of Japan's development policy support

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 and 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

(continued)

Table 5.1 (continued)

Country	Phases	Key members from Japan	Remark
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 and debt management, resource export, balance of payments, financial system development

Source Authors' research based on JICA information
Abbreviations DIR (Daiwa Institute of Research), GRIPS (National Graduate Institute for Policy Studies), IDCJ (International Development Center of Japan), JBIC (Japan Bank for International Cooperation), JETRO (Japan External Trade Organization), JICA (Japan International Cooperation Agency), METI (Ministry of Economy, Trade, and Industry), MITI (Ministry of International Trade and Industry), MOF (Ministry of Finance), SMEs (Small and Medium-sized Enterprises)
Note This table lists Japan's bilateral policy dialogues that are large-scale and/or worthy of special mention. Besides these, Japan also offers policy advice by dispatching advisors to heads of state or ministers, ministries, and agencies; reports on development strategy; training courses and site visits; conferences and seminars, etc. in various scales and durations

experts usually conduct in-depth surveys of the local situation and talk to many local stakeholders to explain the Japanese model and encourage them to consider its suitability and the need for modification. This strategy of importing foreign things with local adjustment, called *translative adaptation* [23] was continually practiced throughout the two millennia of Japanese history during which the nation vigorously imported advanced institutions and technologies, first from China and India and later from the West, but only after modifying them to suit the existing Japanese social landscape. Japan wants to practice the same when it assists today's latecomer countries.

The second feature is real-sector orientation. Japanese experts hardly deny the importance of macroeconomic stability, a favorable investment climate, and a sound financial system as the preconditions of growth. However, their main concern and assistance center on real-sector issues such as quality, productivity, product development, marketing, competitiveness, and structural transformation. Competitiveness must be fostered not generally but concretely for chosen sectors, whether these are garments, automobiles, or software development. Japanese officials and experts go to *gemba* (places where production takes place such as factories and farms) to work with locals rather than managing projects and drafting papers at offices and hotels. They are not very good at writing documents for reporting or dissemination. Japan habitually argues that targeted sectors and firms must be strengthened before an economy jumps into liberalization, privatization, or global and regional integration. The speed of such opening measures must be paced to the improvement of domestic competitiveness. The Japanese typically advise the setting of long-term goals and working backwards from these to determine actions needed today and tomorrow instead of myopic muddling through to deal with the problems at hand. However, Japan seems somewhat worried and puzzled at the emergence of Industry 4.0 and other advances in information and communications technology (ICT) that may result in an entirely

new way of manufacturing. It is unclear whether the Japanese *gemba* approach loses validity or remains equally effective in this new technology environment.

Third, a wise state is advocated, not a small one. Official intervention in selected sectors has been strongly discouraged by the World Bank and the International Monetary Fund (IMF) as impractical and risky. The Washington Consensus argued that governments generally lacked information on truly prospective industries and were often hijacked by political interests [22]. These are indeed serious problems, but we also witness governments that have overcome these challenges. Policy capability is not given but mutable. Policy learning through trial and error is not only possible but vital for national development as exemplified by many governments in East Asia. Faced with significant policy risks, Japan's advice is to learn and improve rather than shrink and stand still. The whole idea of bilateral policy dialogue is based on the premise that policy capability can be improved rather than an unalterable destiny.

These are the features clearly visible in the four country cases presented below as well as in numerous other cases which are omitted due to space limitations. Among these cases, particularly noteworthy are Japan's own experience of recovery from the total war defeat in the late 1940s in which Saburo Okita, the head of policy dialogue with Argentina (Sect. 5.3), played a key role [30], Japan's criticism of the World Bank policy which culminated in the East Asian Miracle report [37], Japanese cooperation with developing countries in serious indebtedness or systemic transformation in the 1980s and 90s, and Japanese advice to the heads of African states at the Fourth Tokyo International Conference on African Development (TICAD IV) meeting in Yokohama [20].

The validity of bilateral policy dialogue must be assessed from the perspective of nation-building (for the developing country) and strengthening mutual relationship (for both parties), not just as one of the many donor-supported projects whose performance can be monitored with short-term performance indicators. With policy dialogue, the process is far more important than the results—contribution to growth, technology upgrades, industrialization, and so on—which are usually not obtainable in the short run and difficult to measure even in the long run. Furthermore, personal bonding and trust between national leaders and the Japanese dialogue team are critically important as evidenced by the concrete cases below. While some may argue for neutrality and arms-length dealings in development cooperation, policy dialogue is all about solidifying personal relations without which success can hardly be obtained.

It must also be admitted that success is not always guaranteed. Policy dialogue is very difficult to start, sustain, and produce results in comparison with building infrastructure according to a blueprint or training officials using standard materials and format. Because its content and modality are variable and because personal rapport is critical, the dialogue may easily lose momentum in a change of government or key dialogue partners. Furthermore, there is no one correct answer to the kind of questions raised by policy dialogue, be it the selection of priority sectors, the type of institution, or the proper sequencing of policies. Multiple future paths are open to a nation provided that the policy to support them is well prepared. Moreover, appropriate choices constantly shift as circumstances and national interests evolve. The effectiveness of a development model depends not only on the suitability of the

model to the country but also on the commitment and effort of the host government to make it work.

Whether the (modified) foreign model takes root in the domestic society is unpredictable as its adoption is an interactive process between two different cultures with no assurance of compatibility in advance. Local adjustment of a foreign model must be attained through trial and error and learning by doing. For better or worse, foreign model adaptation frequently produces unexpected turns. Local adjustments are imperative but wrong revisions that kill the policy essence must be avoided. Nowadays, country ownership is regarded as the golden rule of development cooperation, but local mindset and ideas are not always right. The development path is also influenced by such non-economic factors as politics, pressure from interest groups, a misconception by the official in charge, and so on. The golden rule must sometimes be bent, and well-informed foreigners must lead temporarily when the host country lacks the necessary knowledge and motivation. This is a subtle operation riddled with many risks. High diplomatic skill is needed to perform this graciously without marring the relationship with the partner country.

We may even ask why foreign help is needed when the government of a developing country must be the architect of development policy. The best solution may be to let local leaders and officials take up the challenge and struggle for themselves. But foreigners may be useful under certain conditions. First, there may be too few competent domestic technocrats or experts, and qualified people may be discouraged to serve the government. Second, in some countries, foreign advice (with possible financial support) is valued more highly than domestic one, generating a greater impact on policy speed and scale. Third, foreign assistance may push the country in the right direction when there is internal policy competition. Fourth, foreigners may play the role of a catalyst before locals can fully assume the policymaking responsibility. It must be added that the best a foreigner can do is to support domestic efforts from the sideline rather than become a key player or manager. Without domestic effort, external help is hardly effective.

Some critiques question the replicability of bilateral policy dialogue as a development cooperation scheme beyond a few exceptional cases. Their concern is reasonable but that does not undermine the validity of policy dialogue. This is a cooperation method not designed to be universally applicable, not a scheme to be marketed to all developing countries. Time, resources, mindsets, and conditions demanded on both sides of the dialogue are formidable, and dialogue should not be started unless both parties are equally ready and committed. Japan should not engage in policy dialogue unless a top national leader earnestly desires Japan's intellectual assistance. At present, the number of eligible dialogue requests remains small and manageable.

5.3 Argentina, 1985–1987 and 1994–1996

5.3.1 Background

The manufacturing sector of Argentina gradually grew as a result of the industrialization drive that began prior to World War II. By the end of the 1970s, the share of manufacturing in GDP had increased to 36% while that of agriculture had declined to 12%. Argentina then had a higher share of manufacturing in GDP than Brazil though manufactured exports had a smaller share of Argentina's total exports than Brazil's. At this time Argentina's export was dominated by agricultural and livestock products such as beef, wheat, maize, foraging crops, seeds for vegetable oil, and so on, which contributed 78% of exports while industrial products accounted for 22%. On the import side, the share of consumer goods was small thanks to the ongoing import substitution of such goods. Intermediate goods and capital goods accounted for 73% of total imports in 1979. Imports of fuel were also low because the country was self-sufficient in petroleum [10].

However, the prolonged import substitution strategy had an adverse effect on the Argentine economy. From the second half of the 1950s, Argentina frequently experienced growth stagnation. In the mid-1970s, the economic crisis was aggravated by high inflation, negative growth, and political turmoil. A chain of military leaders ruled the nation. General Jorge Rafael Videla staged a military coup in 1976. The Videla administration liberalized the economy but failed to control inflation. In 1980, the country faced balance of payments difficulties. General Roberto Eduardo Viola took office in 1981, but the economic and political crises continued. General Leopoldo Fortunato Galtieri succeeded Viola at the end of 1981, but the economic crisis further deepened due to the War of the Malvinas (Falklands War) against the United Kingdom. In 1982, many Latin American countries, including Argentina, were hit by a serious external debt crisis. Faced with the debt crisis and defeat in the Malvinas War, the military government had no choice but to relinquish power. At the end of 1983, Raul Alfonsin was elected as the first president of the new democratic era. He formulated a new development strategy and requested Japanese cooperation. JICA dispatched a Japanese study team that commenced work in August 1985.

The Study on Economic Development of the Argentine Republic, or the Okita Report for short, was Japan's first large-scale development policy support to a developing country. The Japanese team was headed by Saburo Okita, a renowned economist and statesman who was an architect of the Japanese postwar economic recovery program in the late 1940s and subsequently served as Foreign Minister.

The Argentine economy was going through another difficult period as Japanese cooperation began. Five months before the Japanese team arrived, the IMF suspended its standby credit to Argentina because of the country's non-fulfillment of the loan conditionality. In protestation against the deteriorating economy, workers staged general strikes. In June 1985, the Austral Plan, a drastic austerity policy, was introduced to suppress inflation. This was a shock therapy that reduced the currency denomination by 1,000% in the switch from the peso to the new austral, with a

general freeze of prices and public utility charges. The JICA cooperation was carried out during the Austral Plan period when inflation was brought under control by these severe measures. The Okita Report was submitted to President Alfonsin in January 1987.

5.3.2 Main Pillars and Recommendations

During the first phase of the Okita Report cooperation (1985–1987), intensive policy dialogues were held between President Raul Alfonsin and Saburo Okita alongside meetings with the Minister of Economy and the Minister of the Planning Secretariat. About 30 Japanese experts, mostly economists, and about 30 Argentine counterparts participated in the study.

The main agenda was agreed upon by both parties at the outset: macroeconomic issues, agriculture, livestock, industry, transport, and exports. In close cooperation with the Argentine counterparts, the Japanese mission evaluated the structural characteristics of the Argentine economy and productive sectors. Policy measures were explored to remove barriers to development. The Japanese team emphasized the importance of the market economy and a reform process that should redefine economic policies [7]. The promotion of external trade and foreign direct investment (FDI) was considered essential. The Okita Report stated that Japanese experiences in the post-World War II period could offer policy options and possible measures for industrial development and export promotion. A special volume summarizing the Japanese experience was prepared as part of the Okita Report.

Apart from high-level meetings, the Japanese team frequently met scholars, NGOs, enterprises, and industry associations to exchange views on economic development from a long-term perspective. Among them, the mission had close contact with *Fundación Mediterranea*, a think tank headed by Domingo Cavallo, who later served as the Minister of External Relations and the Minister of Economy in the Carlos Menem administration that succeeded the Alfonsin administration. Among enterprise associations, interactions with the Sociedad Rural Argentina (Argentine Rural Society) and the Union Industrial Argentina (UIA) were most significant. The president of the former was Guillermo Archouron, who later became the first President of Fundación Okita (the Okita Foundation) as explained below.

The Okita Report emphasized industrial development and export promotion. ‘Based on Japanese experience during postwar economic development, but with the awareness of the different circumstances between Argentina and Japan, the study team has tried to present policy implications and suggestions for the said five sectors’ [10]. The Report made proposals on the future directions of the Argentine economy, the role of government, and the dynamism of the private sector. With regard to the first, the restructuring of the industrial sector was urged through increased competition, gradual liberalization, and selective industrial policy to promote strategic sectors. It was argued that foreign exchange earnings from traditional agriculture were not enough to activate the entire economy and that more focus should be given to the

industrial sector. For this, competition must be introduced with a clear scenario for steady but not-too-hasty liberalization in the medium to long run. Argentina was endowed with fertile land (Pampas), petroleum, natural gas, and well-educated people. These endowments had to be utilized effectively. An industrial policy that selectively promoted the agro-industry, the petrochemical industry, the computer industry, the machine tool industry, and the bio-industry was recommended.

Concerning the role of the government, the Report stressed transparency in providing an economic perspective as 'it is of primary importance that the government ensures the continuity and consistency of basic economic policies it pursues… One effective way to ensure overall continuity and consistency of economic policies is to formulate a medium- and long-term plan based on the national consensus. The plan should offer the framework and standards with which the private sector can envision its future business prospects and make investment decisions accordingly. Argentina at this stage will need an economic plan that contains specific policy statements and concrete commitments' [10].

To activate the private sector, the Report highlighted the market mechanism, the privatization of public enterprises, support systems for research and development, and the development of efficient infrastructure. 'It is important to the Argentine economy to create an environment where the market mechanism functions properly. For this purpose, it will be necessary to establish competitive conditions in the domestic market by withdrawing the excessive protection given to domestic industries' [10]. The Report also emphasized the importance of advanced technology and innovation as well as a partnership between government, the private sector, and universities.

Specific recommendations were also made for agriculture, industry, transport, and exports. For example, a study reviewed the past trends and the structural characteristics of the industrial sector and examined the current situations and future prospects of its pre-selected three subsectors, namely, petrochemicals, electronics, and agro-industry. It then analyzed small and medium industries that the Argentine government considered important in its industrial promotion.

More generally, the Report offered the following advice for the new Argentine industrial policy: (i) identify clear guidelines for industrial promotion; (ii) introduce competitive conditions for industrial production; (iii) formulate government policies through consultation with the private sector; (iv) enhance the confidence of foreign capital; (v) strengthen support systems for technology development; and (vi) establish a long-term capital market. These key messages reflected the economic philosophy of Okita himself who had managed Japan's postwar economic crisis and staged a subsequent high growth period.

5.3.3 How the Report Was Received

The Okita Report was prepared in the mid-1980s during Argentine's debt-ridden lost decade. The orthodox approach to crisis management at that time advocated liberalization, privatization, and small government. Let us see how the Okita Report was received by Argentina's economists and national leaders.

Jorge Vasconcelos of *Fundación Mediterranea* considered the Okita Report, which condemned import substitution and heavy protection, to be more 'orthodox' than the previous state-led and domestic market-oriented approach. However, he added that it was heterodox in relation to the supposition that a simple change in the rules of games would suffice to relaunch the Argentine economy. The Report was averse to quick economic liberalization and recommended selective promotion of strategic industries. Notably, 'it warned that restructuring of the industrial sector should be realized through strengthening its competitiveness in domestic and foreign markets' [36].

Aldo Ferrer, a well-known economist, published a comprehensive review of the Okita Report [3]. He stated that 'orthodox bias had been prevailing since the mid-1970s in the political economy of Argentina' and that 'the Okita Report's perspective provokes significant convergence with the heterodox visions of Argentine authors' including himself. He pointed to the outstanding function performed by the Japanese public sector in technological development and integrating actors including enterprises, the scientific community, and political power. Ferrer also argued that 'Japan never handed over to the static comparative advantage revealed by the international division of labor and resource endowments in a static scheme' and that 'Argentina's economic development demands the active presence of the State in a market economy.'

According to Nélida B. Mairal, adviser of the Ministry of Economy, the sectors that made the biggest efforts following the Okita Report were agriculture and the computer industry [1]. Juan Carlos Yamamoto, a former deputy representative of the JICA Argentina Office, echoed that agriculture was most active in implementing the Okita recommendations which led to the development of biotechnology and the strengthening of the National Institute of Agricultural Technology (INTA).[2]

Okita on several occasions exchanged views with Domingo Cavallo, a well-known economist of the orthodox approach. When Cavallo was appointed the Minister of External Relations of the Menem government, he invited Okita to Argentina in September 1990 to receive a decoration from his government and present the Okita Report to a wider audience.[3] Later, in 1992, Cavallo became the 'Super Minister of

[2] This is based on an interview transcript titled "Entrevista con Juan Carlos Yamamoto" [Interview with Juan Carlos Yamamoto], which appeared in an Argentine newspaper Clarín on September 23, 2006.

[3] According to Okita [30], the Menem government wanted to revisit the Okita Report. President Menem made the opening speech of the two-day seminar at which Okita presented the first report. Okita passed away in February 1993.

Economy' and the promoter of the Convertibility Plan which generated economic growth for several years known as the 'Miracle of La Plata.'

Alejandro Mayoral, Undersecretary of the Ministry of Economy, Public Works, and Services, stated that '[i]n 1985, as a result of the Okita I: Study on Economic Development of the Argentine Republic, our country received valuable information and recommendations, most of which have been implemented since 1989 and formed important lines of thinking for the modernization of Argentina… In 1989, Argentina initiated deep economic reforms [the Convertibility Plan] to stabilize, deregulate and open its economy' [32]. Mayoral went on to say that the country made steady efforts to promote trade and attract FDI, created and joined MERCOSUR (Southern Common Market consisting of Argentina, Brazil, Paraguay, and Uruguay), and initiated a new approach to Japan and East Asia. President Menem, Minister of Economy Cavallo, and other officials and business people began to travel frequently to this region.

5.3.4 The Follow-Up Reports and Sectoral Cooperation Projects

These remarks confirm that the Menem administration inherited the Okita Report as a valuable asset. After implementing the Convertibility Plan, President Menem, and Minister of Economy Cavallo in 1992 asked the Japanese government to cooperate with the second Okita study on the economic development of Argentina focusing on exports and FDI. The government wanted to ensure sustained growth and develop the export potential of Argentine products. The new study, the Study on Economic Development of the Argentine Republic (Okita Report II), was prepared jointly by JICA and the National Undersecretary of External Trade of the Ministry of Economy during 1994–1996. It analyzed the macroeconomic and sectoral environment after the Convertibility Plan of 1989. It also examined the possibility to expand export markets to Japan and other East Asian countries and increase FDI from this region [32]. These measures helped Argentina to have a global perspective and new export options. For this, the lack of competitiveness of Argentine products and the need to upgrade physical and institutional infrastructure were identified as the main challenges.

JICA introduced new cooperation projects in Argentina partly to realize the recommended actions of Okita Reports I and II. In the industrial sector, the Project of Center of Technology of Containers and Packing (1989–1993), the Project of Upgrading of Design and Manufacturing of Industrial Machinery (1995–1998), and the Project of Energy Saving in Industries (1995–2000) were conducted through the National Institute of Industrial Technology (INTI). For promoting industrial SMEs, the Study on the Promotion of Total Quality Control for Small and Medium Scale Industries and Certification System for Industrial Export Products (1989–1990) and the Study on Revitalization of Small and Medium Enterprises (2004–2006) were implemented. The Project of Training Center for Informatics was executed through the

National Institute of Technological Education of the Ministry of Education (1991–1996). Many projects in agriculture, livestock, and fishery were implemented through INTA and other institutions. Several projects were implemented in the mining sector as well.

One important event was the establishment of the Okita Foundation in 1991 in Buenos Aires to disseminate and follow up on the Okita Report. The Japan Advisory Committee of Okita Foundation (FO-JAC) was set up in Tokyo as a counterpart organization to the Okita Foundation.

Another follow-up study was started in 2002 to update Okita Report II in the aftermath of Argentina's financial crisis of 2001 by identifying challenges faced by specific productive sectors. This was sponsored by JICA and supported by the Okita Foundation, the Buenos Aires Office of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), and others.

5.3.5 Assessment

Argentina in the early 1980s was in transition from military governments to civilian rule and faced enormous economic challenges of low growth, low competitiveness, lack of economic transformation, a debt crisis, and hyperinflation. An overhaul of policy direction away from deep-rooted and inefficient import substitution was called for. The Okita Report continued to be used by Argentina as one of the basic references for development and industrial strategies for some decades. It also served as the guideline for Japan's economic cooperation in Argentina from this time onwards. The Report also spawned many other Japanese policy support programs in Latin America with various purposes, scales, participants, and duration.

It is worth reiterating the special place the Okita Report occupies in the history of Japanese development cooperation. It was Japan's first coherent and large-scale policy advice not directed to itself or its former colonies and exhibited various common features shared by Japan's subsequent bilateral policy dialogues. They included country customization, real-sector orientation, backward targeting to reach long-term goals, selective sector promotion, and the importance of the state's capacity in terms of policy contents as well as the importance of top leaders, mutual trust and commitment, policy action to follow the talk, interviews with diverse stakeholders, and flexible modality and methods. However, this does not necessarily mean that Japan's subsequent policy dialogues benchmarked the Okita Report in their formulation and execution. The similarity in Japanese policy dialogue contents and methods reflects the inherent Japanese development mindset that permeates across generations, of which Okita's was one prominent example, rather than the fact that Okita was the first to apply it to development cooperation. Essentially the same policy orientation was visible as far back as the nineteenth century if not before, and there

is little evidence that the designers of subsequent bilateral policy dialogues took cues from Okita's arguments and cooperation framework.[4]

On the other hand, the Okita Report stood out in certain aspects from other policy dialogues. First, the high esteem Okita commanded as the savior of the postwar Japanese economy and as Foreign Minister produced an impact on Argentina's policy and bilateral relationships to a degree that no other dialogue has been able to produce. Second, the topics were broad and touched not only on macroeconomic and sectoral issues but also on fundamental national directions such as protection versus opening and agriculture versus industry. Third, the Okita Report chose postwar Japan as the benchmark for Argentina, unlike other policy dialogues which looked to many latecomer countries other than Japan to produce the most fitting recommendations for the particular countries and sectors in question. This may have been partly due to Okita's deep personal involvement in Japanese development and partly due to the lack of time and resources to collect and analyze information from other countries.

5.4 Vietnam, 1995–2001

5.4.1 Background

The Economic Development Policy in the Transition toward a Market-oriented Economy in the Socialist Republic of Viet Nam,[5] or the so-called Ishikawa Project, was JICA's policy support to Vietnam from 1995 to 2001. The policy research philosophy of Professor Shigeru Ishikawa, its leader, guided its execution. Vietnam at the time was both a low-income country and a country in systemic transition where productivity improvements and the wholesale reform of economic institutions were simultaneously required.

In 1986, Vietnam officially launched the Doi Moi (renovation) reform to modify its socialist economic management, which had failed to work, by gradually introducing the market mechanism. Progress was initially slow. By the early 1990s, the collapse of the Soviet Union, Vietnam's largest patron, and the withdrawal of Vietnamese troops from Cambodia prepared the stage for the country to rejoin the Western world. In the mid-1990s, inflation subsided and official development assistance (ODA) and FDI began to arrive, but fiscal and trade deficits remained considerable. Vietnam was

[4] Three of the four co-authors of the present chapter were a leader or active participants in the four bilateral policy dialogues detailed in this chapter. None of us detected any direct influence of the Okita Report in the subsequent project design and some were even unaware of its structure or content. Nonetheless, different bilateral policy dialogues spontaneously converged on the same Japanese norm.

[5] The official name of the project was slightly revised for each subsequent phase.

very poor,[6] domestic savings were low, and the government did not have a clear idea as to how economic development and systemic transition should be simultaneously pursued [11, 38].

The World Bank and the IMF assisted Vietnam with a wide range of reform programs and financial support in fiscal reform, monetary policy, financial sector reform, trade reform, rural support, price liberalization, exchange rate management, and state-owned enterprise reform. In 1993, a standby credit was arranged with the IMF. In 1994, the World Bank provided structural adjustment credit (SAC) and the IMF agreed to an extended structural adjustment facility (ESAF). Through these programs, however, a policy gap between Vietnam and the international organizations became apparent. According to then Minister of Planning and Investment Tran Xuan Gi, 'tensions were mounting between the Vietnamese Government and the International Financial Institutions (IFIs) over conditionality.' The Vietnamese government felt that 'the long lists of conditions imposed by the Bank and the Fund were painful and humiliating.' The negotiations for SAC II broke down. The reform packages that seemed moderate to the World Bank and the IMF were considered drastic by Vietnam.

The Vietnamese government sought a 'third-party opinion' as it prepared the Sixth Five-Year Development Plan 1996–2000 (FYP6) with the slogan of *Industrialization and Modernization* by the year 2020 and an ambitious growth target [12]. Meanwhile, in Japan, JICA's Country Assistance Study on Vietnam was being drafted by a team headed by Shigeru Ishikawa, an economist with a profound knowledge of Chinese economic development. The Study was needed to formulate a country assistance strategy as Japan resumed ODA to Vietnam. It was completed in 1995 and handed over to Do Muoi, the General Secretary of the Communist Party of Vietnam, via diplomatic channels. Do Muoi was greatly impressed with its deep insights and pertinent recommendations. He met Ishikawa on a visit to Tokyo and invited Ishikawa to Vietnam to advise on the draft FYP6. Vietnam then submitted an official request for Japanese policy support and the Ishikawa Project began.

In June 1995, Ishikawa visited Vietnam to discuss with the Vietnamese counterpart the drafting of FYP6 which had to be submitted to the National Assembly by October 1995. The Vietnamese urgently requested Ishikawa to assist in the finalization of the draft, but the Japanese side felt that the time was hardly enough to do decent work. The two sides eventually agreed on a two-step approach. First, the Japanese team would prepare written comments on some key issues that should be included in the draft FYP6. Then it would comment on the three issues raised by the Vietnamese side concerning global and regional economic forecasts, tax reform, and the budget law. Japan also agreed to conduct a fuller study on the Vietnamese economy and submit a report by April 1996. This was later called Phase 1 (1995–1996), followed by Phase 2 (1996–1998). Subsequently, a follow-up study was produced in 1998–1999 to cope with the Asian financial crisis of 1997–1998, and further work was

[6] According to the World Bank national accounts data accessed in March 2020, Vietnam's per capita GDP was mere 95 USD in 1989. It was still as low as 277 USD in 1995 when the Ishikawa Project started.

conducted in Phase 3 (1999–2001). After the completion of the Ishikawa Project, four thematic policy research projects were spun off and continued until early 2004 that investigated issues related to agriculture, personal income tax, monetary policy (dollarization), and industrialization.

5.4.2 A Penchant for Heavy Industries

Vietnam's economic policies in the mid-1990s were forged by responses to immediate crises and emerging issues as well as external pressure mainly from the World Bank and the IMF, which made economic management rather complicated. Ishikawa and his team believed that Vietnam needed a long-term reform and development scenario and a concrete way to achieve it apart from short-term responses and pressure. China, which initiated systemic reform in 1978 and formulated a comprehensive reform plan by 1993, was regarded as the benchmark country for this purpose. While China took 15 years to draft a roadmap, Vietnam might be able to shorten the period with the advantage of a latecomer learner [9].

Furthermore, Vietnam's long-term scenario had to be realistic. The Vietnamese government expected the industrial sector to grow at 14.5% per year from 1996 to 2000 and contribute 31.5% of GDP by 2000. FDI attraction, the promotion of the non-state sector, and the competitiveness of state-owned enterprises were to be prioritized. Both import substitution and export-led industrialization were targeted [14]. With its legacy of economic planning, Vietnam had a strong inclination toward quantitative targeting. In the draft FYP6, targets were meticulously set for consumer products, oil refinery, urea fertilizer, petrochemicals, machinery, electrical and electronics, construction materials, iron and steel, and so on. Most of the targets appeared too ambitious to the Japanese economists and officials. Setting too many high goals in all sectors was likely to result in the achievement of none. Vietnam experienced an investment boom in 1994 just before the Ishikawa Project began as foreign investors re-discovered the country. This may have biased the Vietnamese government to be overly optimistic about the future of Vietnamese industrialization.

Confidence and ambition were often expressed in meetings with the Japanese team. The initial draft of FYP6 contained large-scale investment projects in steel, oil refinery, ethylene center, and so on that would use domestic natural resources. The Vietnamese team said that the era of textile and garment was over, and that the era of the high-tech industry would come. To the eyes of the Japanese, however, Vietnam's textile and garment industry was still embryonic with great potential to grow into the nation's leading export sector. At about the same time, a foreign firm that promised to invest in an oil refinery in Vietnam announced its withdrawal from the project, which raised concern within the government about the feasibility of the heavy industrialization plan of the draft FYP6. Policymakers who had high hopes of attracting large-scale foreign investment became confused. Although this incident was not sufficient to dislodge the upbeat projects from the draft FYP6, a careful review of their selection and implementation became necessary.

The Ishikawa Project team was requested to study the best path for Vietnam's heavy industrialization by assessing the potential of the steel, oil refining, petrochemicals, urea fertilizer, and cement industries highlighted in the draft FYP6. Ishikawa made some initial observations before undertaking this study. First, Vietnam was in the early stage of industrialization where a modern industry sector had not yet emerged, a situation similar to China in the early 1950s. Second, the two theoretical models of economic development, the dual economy model of Arthur Lewis featuring agriculture and industry and the Feldman model featuring consumer goods and capital goods, should be combined to interpret the challenges Vietnam faced. Third, both modern industries and local SMEs needed to be considered, as both would play crucial roles in industrialization. Fourth, the historical experiences of East and Southeast Asia would be very helpful in mapping the future, including the tendency of simple labor-intensive exports to be in time replaced by more sophisticated but still labor-intensive industries [12, 13].

5.4.3 Three Phases

The Ishikawa Project covered agriculture, industry, enterprise reform, tax reform, macroeconomic management after the Asian financial crisis, and so forth. The account below is limited to industrial policy discussion to highlight the basic character of this policy dialogue within the limited space. The focus of the joint industrial studies shifted gradually in response to the changes in the domestic and external conditions surrounding Vietnam.

In Phase 1, the current status of Vietnam's industrial sector and industrialization policy were reviewed, and the main issues were identified, with particular attention given to the capital-intensive industries. To assist the Vietnamese government that lacked practical knowledge for industrialization but was keen to pursue it, the successes and failures of other countries were reported and conditions necessary to avoid investment failures were spelt out. This included the examination of industrial structure, product types, expected profit margins and costs, technical options, domestic demand and supply, and planned investments in neighboring countries that might compete with Vietnam, for each targeted industry. By providing these facts and data, the Japanese team tried to help the Vietnamese policymakers to evaluate with scientific evidence the feasibility of their planned investments.

Phase 2 added the perspective from the international and regional economic integration in which Vietnam was engaging such as the ASEAN Free Trade Area (AFTA), the Asia–Pacific Economic Cooperation (APEC), and the World Trade Organization (WTO). Among these, AFTA was the most imminent and binding issue for Vietnam. It required Vietnam to lower tariffs to the 0–5% range by 2006 for products included in the Common Effective Preferential Tariff (CEPT) schedule. The Ishikawa Project continued to study specific industries with expanded coverage. At the request of the Vietnamese side, the automotive industry, and industries with high export potential—electrical and electronics, tool and die, textile and garment, and ship repair—were

added to the original list of five capital-intensive industries. The Vietnamese government was also assisted to understand the concrete commitments required by AFTA, the policy measures permitted for industrial promotion and those that were prohibited, and what shape industrial policies should take before and after 2006. The Japanese team reiterated the need to have credible long-term industrialization scenarios and even suggested some scenarios for targeted industries with updated information and analyses, knowing that Vietnam's policy scope would become narrower under the AFTA commitments.

In Phase 3, additional sectoral studies were conducted, and the industrialization scenarios were elaborated. Information on ongoing and planned investments in neighboring countries was updated. FDI attraction became a core issue as multinational corporations were establishing and rearranging international and regional production networks. It was pointed out that Vietnam's negotiations for WTO accession and AFTA-CEPT trade liberalization were not consistent with the industrialization strategies of the key industries. The latter had to be more concrete with a roadmap to show when targeted industries were expected to become competitive and self-standing. Policy to attract large FDI projects must also be timed properly to the trade liberalization schedule.

5.4.4 Industrial Policy Controversies and Japan's Position

There were controversial arguments surrounding industrial policy in general and Vietnam's heavy industry drive in particular. They were the issues regarding horizontal and vertical industrial policy, stance toward regional and global economic integration, and the infant industry argument.

5.4.4.1 Horizontal Versus Vertical Industrial Policy

An industrial policy that affects all sectors such as improving the business climate, SME support without specifying sectors, and general education and training is called horizontal, and an industrial policy targeting specific sectors is called vertical. Vietnam had a strong vertical orientation toward heavy and chemical industries. However, these industries required huge capital investments but generated relatively few jobs in a country where labor was abundant, and capital was scarce. Such investments were therefore very risky for Vietnam. The Japanese team noted the following three facts. First, historically, almost all industrialized countries had employed protection policies to foster heavy and chemical industries. Second, given the population size of Vietnam, it was not realistic to advise Vietnam to abstain from having any capital-intensive industries in the future. Third, the Vietnamese government was determined to develop capital-intensive industries no matter what the Japanese team said, and the best thing that Japan could do was to help avoid serious mistakes in such investments [13].

The Japanese team was greatly concerned about the technical and financial appropriateness of each investment plan. It advised Vietnam to first get a better understanding of the specific industries it wanted to develop by studying the appropriate type, timing, and scale of investment as well as reliable forecasts of domestic and international demand. Macroeconomic stability was also needed for the success of large projects. With these preparations, Vietnam should be able to make prudent judgments about large projects and minimize the risk of costly failures [13].

By giving conditional approval and much-needed analyses, the Ishikawa Project escaped the simplistic and diametrical debate on horizontal versus vertical industrial policies. It did not reject the aspiration of the Vietnamese government for heavy industrialization, nor did it encourage it unconditionally. Meanwhile, the horizontal perspective was not overlooked. The importance of creating a favorable business environment for all firms was stressed throughout the three phases. Interviews were organized with foreign investors to identify the bottlenecks in FDI attraction. Support for SMEs and indigenous industries was also discussed during Phases 1 and 2.

5.4.4.2 Global and Regional Integration

Vietnam had no choice but to join the international and regional economy. However, economic integration was fraught with risks as well as opportunities for developing countries. Ishikawa emphasized the need to properly evaluate the pros and cons of global and regional economic participation. As Vietnam was the latest comer in the existing international frameworks, it faced more serious challenges than the early joiners.

Specifically, the policy circumstances changed considerably from the 1960s to the 80s when the first batch of ASEAN countries was industrializing. The permitted policy scope became narrower as the global development trend shifted and the WTO began to impose stricter rules. For the early comers, the standard policy sequence was to start with import substitution which gradually shifted to export orientation. However, in the 1990s when Vietnam started industrialization, the international policy community was more 'neoclassical' and did not look kindly on selective protection policies even to promote exports, let alone import substitution.

The Japanese team provided theories and data needed to design a proper integration plan. The requirements of AFTA, APEC, and WTO were explained. The trade creation effect and the trade diversion effect were lectured, and the dynamic externality and the disciplining effect of free trade were explained. The infant industry argument was deepened by studying the Mill-Bastable criterion, market failures, government failures, and the criteria for priority industry selection. The experiences of Japan, China, and the ASEAN neighbors were compared. Many policy papers were written by Japanese economists for these purposes.

Vietnam had three options. The first was to strictly follow the tariff reduction schedule of AFTA in both letter and spirit. The second was to find the maximum number of loopholes to actively implement infant industry promotion. The third was a hybrid approach that combined the first two by devising policy space for selected

sectors only but faithfully following the trade liberalization rules for other sectors. Ishikawa recommended the third option. As explained above, Japanese experts delivered many lectures to share the knowledge of AFTA, APEC, and WTO, the advantages and disadvantages of Vietnam's participation in these frameworks, and other theoretical considerations. The Japanese intention was to encourage Vietnam to craft a balanced integration strategy without going to either of the extremes of back sliding or jumping in without preparation [17].

5.4.4.3 The Infant Industry Argument

The infant industry argument was deliberated on mainly in Phase 2. Under the AFTA framework, each member country was to classify products into three categories: the Inclusion List (IL) with tariff rates of 5% or lower, the Temporal Exclusion List (TEL) with delayed execution, and the Exclusion List (EL) for a few items to be protected permanently. However, all items in TEL had to be moved to IL following the committed tariff reduction schedule. For Vietnam, IL initially included 857 items (39.1%) and TEL 1,189 items (54.2%). The question was at what speed Vietnam should complete conversion from TEL to IL. If this was done too rapidly, there would be little scope for infant industry promotion. If too slow, Vietnam's move toward free trade and active competition would be significantly delayed.

The Ishikawa Project advised against rapid trade liberalization without preparation. It strongly recommended that the long-term strategies for industrialization in general and specific industries in particular, with trade liberalization as one of their key components, should be formulated as Vietnam proposed the conversion schedule from TEL to IL. This would concretely define which industries were to be fostered as infants (with limited time given by AFTA) and which industries were to be exposed to international competition immediately [15]. The movement of automobiles from TEL to IL was one of the burning issues, and the Japanese team urged Vietnam to come up with a realistic strategy combining automotive promotion and trade liberalization. However, no such strategy emerged, and Vietnam's regional automotive tariffs were lowered to zero in 2018 without clear policy direction.

5.4.5 Characteristics of the Ishikawa Project

The implementation of the Ishikawa Project was guided by the Japanese development principles in general and Professor Ishikawa's personal beliefs in particular. Its characteristics included joint research, an attempt to deeply understand the internal situation of Vietnam, maximum respect for the will of the Vietnamese government, and attentive responses to Vietnamese inquiries and requests.

5.4.5.1 Joint Research

Joint research was practiced in the entire Ishikawa Project. Japanese researchers and experts and Vietnamese policymakers worked together. All related tasks, including the analysis of the current situation, the setting of policy goals, and the interviews of domestic and foreign firms, were conducted jointly. Moreover, the policy option approach was adopted where both sides cooperated to draw up multiple industrialization scenarios by identifying possible options and examining the pros and cons and political, economic, and social implications of each option while leaving the final decision to the Vietnamese side. Policy proposals were thus jointly created instead of the Japanese side unilaterally recommending the solution it considered best for Vietnam.

Take the development of the steel industry scenario in Phase 2, for example. First, the current situation of Vietnam's steel industry was researched. Then, the features and possible problems of blast furnace mills which Vietnam was eager to build were studied including the current and future steel demand and planned investments in neighboring countries. Finally, multiple technical options for steel mill construction were carefully examined including blast furnaces, the direct reduced iron (DRI) method, electric furnaces that used imported scrap iron, and rolling mills that used imported billets. All these steps were carried out bilaterally through extensive discussion with Vietnamese industrial officials and the CEOs of the Vietnam Steel Corporation.

5.4.5.2 Understanding Internal Constraints and Respecting the Will of the Vietnamese Government

Vietnam had to operate under certain domestic constraints. They included economic management dictated by Communism, enthusiasm for industrialization, and various internal pressures on policymakers within the ruling system. Vietnam as a developing and transitional economy faced many technical challenges, including the need to define an appropriate long-term development path under the domestic and external circumstances surrounding the country.

The Japanese team accepted these constraints Vietnam faced with care and sympathy. The will of the Vietnamese leaders in setting the national agenda, choosing policy issues to be discussed, and what they desired to learn, were accepted in principle. There were some policy agendas the Japanese side could not support wholeheartedly, but even in such cases, they were accepted conditionally and within certain bounds. Opposing views, if any, were expressed softly and diplomatically. The case of heavy industry targeting was already explained in detail above. Ishikawa said:

> The approach adopted by the World Bank is a theoretical one based on the economic theories developed from the experiences in countries with well-developed market mechanisms. The Japanese team was skeptical about the simple application of those theories. It is essential to study and understand the situation in Vietnam first. This can be named the empirical approach. [19]

It was considered essential to avoid dogmatic arguments and deal with controversial issues practically and realistically without driving Vietnam into a corner. The importance of objective scientific analysis was stressed. Even when there seemed a conflict between Vietnam's policy eagerness and Japanese economic interests, an impartial position was maintained by the Ishikawa Project stressing intellectual cooperation. To convince the Vietnamese policymakers, Japan took the position of the sun in *Aesop's Fable of the North Wind and the Sun*.

5.4.5.3 Responses to Inquiries from the Vietnamese Side

The Vietnamese counterparts in the Ishikawa Project asked many questions to the Japanese side. Most originated from the Politburos of the Central Communist Party. Some of them were ongoing controversies within the government and others were challenges coming from bilateral and multilateral donors. Vietnamese policymakers were under strong pressure to react to them in a timely and appropriate manner, and often turned to Japanese researchers for initial ideas and advice. Professor Ishikawa and his team responded to each of these inquiries with seriousness and sincerity via direct meetings, emails, and facsimiles [19].

5.4.6 Achievements, Lessons, and Remaining Issues

The impact assessment of policy dialogue is difficult when many issues are discussed, many donors are involved, policy adoption is up to the learning government, and most results are long-term and depend on many internal and external factors besides policy. Tangible short-term outcome cannot—and should not—be expected. In drafting FYP6, for example, many Vietnamese officials were involved, and they received multinational and bilateral cooperation from organizations and projects other than Japan's Ishikawa Project. It is impossible to separate the influence of one cooperation project from those of others on the resulting plan. However, there were some exceptional cases where the Ishikawa Project almost certainly made differences in the policy content and the policy learning process of the Vietnamese government.

5.4.6.1 Impact on the Vietnamese Government

One such incident occurred at the outset of the project when Professor Ishikawa lectured to the Politburo members on September 1, 1995. He suggested that (i) the growth target of FYP6 exceeding 10% should be lowered to avoid inflation and balance-of-payments difficulties; (ii) agriculture and rural development needed more emphasis; (iii) domestic savings must be increased; and (iv) the SME and indigenous industrial sectors needed to be developed along with the FDI sector. These suggestions were seriously considered by Politburo. General Secretary Do

Muoi personally informed Professor Ishikawa that the growth target was reduced to the 9% range following the professor's advice.

The subsequent joint research had two effects on the Vietnamese policymakers. The first was the formulation of Vietnam's transition roadmap from plan to market. The reform packages proposed by the IMF and the World Bank focused on macroeconomic stabilization and structural reform. The ideas for creating a market economy and the long-term perspective for nurturing the real sector, which were missing there, were supplied by Japanese economists. Second, the method to design sectoral promotion strategies was also demonstrated by the Ishikawa Project through time-consuming micro-level firm surveys, which were distinctly different from macroeconomic data analysis and the policy templates used by international organizations [9]. Vietnam was able to build its development approach by studying these two policy thoughts.

Ishikawa advised Vietnam, a country in an early industrialization stage, to follow the common path of East and Southeast Asia. Low-tech, labor-intensive, and export-oriented industries should be promoted first which were later to be replaced by more high-tech labor-intensive industries. FDI would play an important role in this process. Global and regional economic integration, especially AFTA, should be committed to and implemented from this perspective. As explained above, the Ishikawa Project prompted consideration of various risks, deflated unrealistic plans, and modified policies for more realism.

5.4.6.2 Lessons for Japan

The Ishikawa Project influenced the design of JICA's subsequent industrial policy dialogue projects in other countries. It became clear that, for successful policy dialogue, certain conditions had to be satisfied. First, the dialogue must be strongly needed and committed by both the learning government and Japan, and it should be started only in countries where such 'inevitability' and passion for mutual exchange were confirmed. Second, building trust is essential not only between two governments but also personally between the top leader of a developing country and the leader of the Japanese team. Professor Ishikawa was highly respected by Communist Party General Secretary Do Muoi, his successor Le Kha Phieu, and other Vietnamese leaders.

Third, the policy dialogue must be open and transparent. There is political sensitivity in any high-level policy discussion, but results must be disclosed as much as possible. The Vietnamese government was initially reluctant to publicize what was discussed between Vietnam and Japan, arousing concern among the World Bank and the IMF that suspected that Japan was urging large and costly industrial projects and import protection to Vietnam. Such misunderstanding gradually melted, especially during Phase 2, as Japan made the utmost effort to explain what it was doing and also asked the Vietnamese government to be more open. The representatives of the World Bank and the IMF were invited to the workshops in Hanoi and Tokyo, and the Japanese team met these organizations on every visit to Vietnam.

Fourth, donors must understand not just economic statistics but also the political, diplomatic, and administrative constraints of the receiving side of intellectual aid. To advise a policy change, it is often more effective to sympathize with the confused leaders and officials, spend sufficient time with them to share their worries, and propose possible options without pushing them too hard. Advice should be offered as multiple choices accompanied by the advantages and disadvantages of each, leaving the final decision to the host government, rather than proposing one-size-fits-all solutions without checking their local suitability. The output of policy dialogue should be published in a form easily readable for busy policy leaders who want concrete advice on the burning issues of the day, not economic journalism or academic papers. To assess the validity of policy dialogue, long-term shifts in the nation's policy quality, as well as the bilateral relationship, are more important than the tangible numbers and quick evidence which normal projects require.

5.4.6.3 Shortcomings

Despite its achievements, the Ishikawa Project also had a few problems. One criticism was directed at the size of reports and their languages. Each phase of the Ishikawa Project produced many thick reports, in Japanese and English but not in Vietnamese, without indicating where to start reading and what the main conclusions were. They simply assembled the writings of all researchers and experts. When put together covering all phases, the Japanese reports spanned 33 cm from side to side. National readers do not read thick reports, especially when they are written in a foreign language. JICA did not produce Vietnamese editions because that was officially the responsibility of the Vietnamese side. The project should have published one or a few flagship reports of reasonable size containing key analyses and policy recommendations with careful editing, nice design, and vivid colors—as virtually all donors and international organizations do—in three languages.

A related problem was the lack of an effective dissemination strategy at the time. As noted above, the Vietnamese authorities were initially reluctant to disclose the content of the bilateral policy discussion and this was one reason why the dialogue was not known by the rest of the Vietnamese government and citizens, the Japanese government, or the international investor and donor community. Neither JICA nor the other participating members systematically publicized their activities to an external audience, and this was another reason for their low exposure. Nowadays it is customary for any international cooperation to organize launching events, workshops, policy sessions, etc., and publish detailed content on the website and through SNS.

Problems were also found in the choice of research partners. The Ishikawa Project designated Ministry of Planning and Investment officials as the research counterpart of Japanese professors and consultants. However, government officials, unless they are specially trained, are usually unable to write research papers, conduct firm surveys, or present findings effectively. Old Vietnamese officials could give long speeches but had never learnt policy research methods. It would have been

better if Vietnamese researchers were mobilized from universities and research institutes to advise their government, with Japan helping to improve their performance. The Japanese development consultants also had limits in their dialogue capacity. They were able to conduct standard surveys but not policy dialogue with a foreign government which required knowledge of development economics and diplomatic skills.

As a result of these shortcomings, the cost-effectiveness of the Ishikawa Project may be questioned. It mobilized two large Japanese consultant firms which took up the bulk of the allocated dialogue budget. It also hired Japanese university researchers on a cost basis to conduct research, surveys, workshops, and conferences. There should have been clear project goals and fewer people carefully selected to execute the dialogue and research more effectively. The budget, staff, and strategies for disseminating the results should also have been prepared in advance.

5.5 Ethiopia, 2008-Present[7]

5.5.1 A Low-Income but Rising Country

With a per capita income of 936 USD as of 2020, Ethiopia remains a low-income country, though a rising one, with a weak private sector, imperfect policy, and poor business conditions. Nevertheless, it embraces a high aspiration for national development and has in the last two decades pursued a development strategy unique in Africa. Prime Minister Meles Zenawi (in power 1991–2012) in his later years and Prime Minister Hailemariam Desalegn (in power 2012–2018) adopted a developmental state model that actively guided and selectively promoted industrial activities. For this purpose, the Ethiopian government sought policy lessons from East Asia while rejecting the neoliberal doctrine of the World Bank and the IMF. Korea first and Japan later were consulted in formulating industrial strategies and concrete policy actions including export promotion, *Kaizen*, and FDI attraction. The construction of power and transport infrastructure also progressed rapidly, often with the support of the Chinese and other bilateral and multilateral partners. From around 2008, foreign investment in light manufacturing began to pour into Ethiopia. The government responded by building a large number of state-owned industrial parks as their receivers. By the late 2010s, Ethiopia had emerged as a dynamic latecomer economy featuring a developmental philosophy, policy effort, and growth performance that resembled those of East Asia's past and present latecomers rather than its African peers.

Despite these achievements, Ethiopia's economic transformation has been slow. Targeted and subsidized manufacturing subsectors such as garment, leather, and food

[7] Substantive policy discussions between Ethiopia and Japan began in July 2008, and the policy dialogue project was officially launched in May 2009. The project is continuing in its third phase at the time of writing this chapter (July 2022) and expected to be completed in the first half of 2023.

processing remain small and stagnant. The manufacturing sector remains small, and its GDP share fluctuates between 4 and 6%. Active promotion of key subsectors has not produced a visible increase in manufactured exports. Exports continue to be dominated by primary commodities such as coffee, sesame, oil seeds, chat, and gold. The overall export trend is flat, and the trade balance is perpetually in huge deficit. These disappointing results are in sharp contrast to the historical experience of high-performing economies in East Asia where rapid rises in manufacturing output and export were attained and economic transformation proceeded rapidly. This lack of industrial performance constitutes a serious challenge for Ethiopia. Moreover, the Abiy administration which came to power in 2018 has faced many serious problems including worsening political instability across ethnicities and regions, internal war with Tigray, withdrawal of US trade privileges over human rights concerns, and economic slowdown coupled with rising inflation and an aggravated foreign currency shortage.

5.5.2 The Evolution of Industrial Policy

Ethiopia's industrial policy has evolved dynamically in the last three decades as policy goals and the economic landscape changed. Under the government of the Ethiopian People's Revolutionary Democratic Front which took power in 1991, policy attention shifted gradually from building a new nation and the resuscitation of the suppressed private sector to promoting economic development and structural transformation. According to then Prime Minister Meles, it was around 2002–2003 that the Ethiopian government judged that the issues related to national survival were largely under control, and that time had come to turn seriously to economic development. A series of strategic documents were drafted including the Ethiopian Industrial Development Strategy, the Urban Development Strategy, and the Rural Development Policies, Strategies, and Instruments.

Ethiopia began to learn about East Asia's developmental experiences from documents and by sending young officials to the Korea Development Institute (KDI) School in Seoul. Prime Minister Meles himself participated in international conferences and research projects on industrial policy. He also spent much time meeting with foreign researchers and investors and exchanging letters and emails with them. As a result of initial learning, the monthly National Export Steering Committee, copied from Korea, was established in 2003 and used actively to monitor progress in export promotion [31]. Separately, directorates and institutes were established to support specific sectors such as textile, leather, metals, and horticulture. These sectors received considerable policy attention, budget allocation, and donor support. Productivity tools including balanced scorecards, business process re-engineering, benchmarking, and institutional twinning were also introduced, often with donor support. None of these, however, had a lasting impact on growth performance or economic transformation.

In 2008, an industrial policy dialogue with Japan was started. In 2009, JICA began to cooperate in the introduction of *Kaizen*, a Japanese method to improve workplace efficiency. At the same time, through Ethiopia's energetic top sales effort and investment promotion, labor-intensive manufacturing FDI began to arrive in Ethiopia from Turkey, India, China, and others. Foreign manufacturers were attracted mainly by Ethiopia's low-cost labor, privileged access to the European Union (EU) and United States (US) markets, and the government's industrial support and commitment even though the general investment climate remained far from satisfactory. Ethiopia thus emerged as one of the favored destinations for light manufacturing. The net inflow of FDI to Ethiopia increased sharply from virtual nil during the 1970s and 80s to 17 million USD in 1994 and peaked at 4.1 billion USD in 2016 (World Bank data). However, the FDI inflow became unstable after 2017 due to various domestic and global woes, and the volume is still small compared with the massive and continued FDI inflows into East Asian economies.

As the prospect of FDI-led industrialization emerged, the government introduced several policy initiatives to seize this opportunity. FDI policy has been liberalized in steps and centrally managed by the Ethiopian Investment Commission (EIC). State-run industrial parks and the Industrial Park Development Corporation (IPDC) were created, and a one-stop investor service was adopted. The Hawassa Industrial Park specializing in textile and garment became Ethiopia's flagship industrial estate which quickly attracted many FDI projects [31]. Other parks specializing in agro-processing and SMEs are also under preparation, and a large integrated steel mill and a petrochemical complex are being planned. However, the quality and productivity of industrial workers have become critical issues. Meanwhile, aggressive public investment programs built hydraulic power plants, expressways, railroads, airports, etc. often with the support of China and other donors. This has however caused rising inflation and a serious balance-of-payments crisis.

While coping with these macroeconomic problems, the Abiy government accelerated state enterprise reform by selling—or planning to sell—such enterprises and/or introducing competition. Meanwhile, the long-term development vision and action plans for industrial promotion were slow to emerge. Sufficient details were not given in such key policy documents as A New Horizon of Hope (Spring 2019), the Homegrown Economic Reform Agenda (September 2019), and the Ten Year Development Plan (approved in March 2021). To fill this gap, the Ministry of Industry began to revise the Industrial Development Strategy of 2002 and launched the National Industrial Movement in 2022.

5.5.3 Systematic Learning from Japan and East Asia

In May 2008, Japan hosted the Fourth Tokyo International Conference on African Development (TICAD IV) in Yokohama, inviting 40 African heads of state including Prime Minister Meles. Subsequently, in July 2008, Professor Joseph Stiglitz of

Colombia University organized the third Africa Task Force meeting of the Initiative for Policy Dialogue, which was financially supported by JICA, in Addis Ababa. Prime Minister Meles attended most sessions of this meeting where the Japanese presenters from National Graduate Institute for Policy Studies (GRIPS) explained the concept of Dynamic Capacity Development and the East Asian way of learning-by-doing [26]. The GRIPS team also offered a book on East Asian lessons for African growth to the prime minister which contained a chapter on JICA's *Kaizen* cooperation in Tunisia[8] (see Chap. 7). In the following weeks, Prime Minister Meles requested to the Japanese government two-part bilateral industrial cooperation consisting of a quality and productivity (*Kaizen*) project, just as JICA had provided in Tunisia, and regular policy discussion with GRIPS. Prime Minister Meles explained that TICAD IV and discussion with GRIPS researchers had convinced him that the time was ripe for direct intellectual exchange with Japan, the country that led the East Asian miracle. In 2009, Japanese industrial cooperation with the two requested components was officially launched.

Ethiopian participants in the bilateral industrial policy dialogue were many and multi-layered, including Prime Minister Meles himself, and economic cabinet members. On the Japanese side, GRIPS and JICA jointly managed the policy dialogue with the additional participation of the Ministry of Foreign Affairs, the Ministry of Economy, Trade, and Industry (METI), and the Japan External Trade Organization (JETRO). The high-level policy dialogue was held four times a year, supplemented by a large number of research projects, additional mutual visits, exchange of policy letters, and research missions to third countries in Asia and Africa [4, 5]. Prime Minister Meles (from 2008 to 2012) and Prime Minister Hailemariam (from 2012 to 2017) participated in high-level discussions with zest and seriousness. 18 such sessions, usually lasting one to two hours, were arranged with these prime ministers. Separately, 19 High Level Forums with ministers, state ministers, officials, and experts were held in Addis Ababa. Besides these, there were numerous visits to offices, factories, and project sites; discussions with international organizations and other bilateral donors; regional trips inside Ethiopia and Japan; and invited lectures at ministries and universities. 19 policy research visits to third countries in Asia and Africa were organized (not counting mutual visits between Ethiopia and Japan).

Meetings with the national leaders were used not only to convey requested knowledge to Ethiopia but also to test and propose new policy areas that were missing but considered necessary by the Japanese side. Some topics were directly suggested by top leaders and senior policymakers while others emerged from operational-level discussions. Sharing of policy knowledge was mutual rather than unilateral from Japan to Ethiopia because Japan also had to learn about Ethiopia's policy intentions. Discussions were not confined to the experiences of Japan or the countries that Japan had assisted to develop. A large number of concrete cases were drawn from Asia and

[8] *Kaizen* is a Japanese word for improvement, which means continuous improvement in quality and productivity with the participation of an entire company to establish a spontaneous and permanent process of eliminating *muda* (any thing or action that adds no value to the product, often translated as waste). *Kaizen* requires enthusiasm, teamwork, and persistence but not large investment in capital equipment.

Africa. Industrial officials and experts from Malaysia, Thailand, and Vietnam were invited to present their practices and research.

Dialogue modality changed in 2018 with the inauguration of Prime Minister Abiy who had a different governing style from his predecessors. He left economic management to the Macroeconomic Team consisting of high officials of the Prime Minister's Office, the Ministry of Finance, the National Bank, the Ministry of Planning and Development, and the Ethiopian Investment Commission instead of personally directing policies by himself. The Japanese team began to meet selected members of the Macroeconomic Team on such concrete issues as productivity, automotive assembly, FDI policy, and the apparel sector.

The prominent features of the Ethiopia-Japan industrial policy dialogue are as follows. First, many of the proposed policy actions were actually adopted, either partially or fully, by the Ethiopian government. Second, from the beginning, Ethiopian leaders wanted Japanese researchers to be direct and frank rather than polite and diplomatic, and discussion has always been held in this spirit. Third, the Japanese side often stressed quality over speed in policymaking, an idea which Ethiopians did not accept. This different stance over policy speed was never resolved, and Japan accepted this tension as a given. Fourth, topics were selected carefully and interactively a few months prior to the discussion to identify the burning issues of the day rather than deciding on many topics in advance. Fifth, Japanese resources and industrial projects were mobilized to realize some—but not all—of the proposals made during dialogue sessions, so talk led to action instead of remaining just talk. This made both parties more serious and committed to the policy dialogue. Sixth, past East Asian experiences have increasingly become pertinent to Ethiopia as it focuses on skills, productivity, value creation, and attracting high-quality manufacturing FDI. Seventh, Japanese policy support has been conducted within a broader network of private and public actors from Japan and other advanced or emerging economies because, unlike in Southeast Asia, Japan is a small player in Africa and cannot achieve its cooperation purposes by bilateral efforts alone.

It is also important to recognize that Ethiopia is learning from many nations, not only from Japan or East Asia. Many bilateral and multilateral development partners are active in Ethiopia. Two things can be said about this. First, while virtually all donors now engage in industrial support unlike in the years past, most newcomer donors have little ground knowledge of industries and rely heavily on consultants, NPOs, and matching funds for project implementation. This is not the case with JICA or German Corporation for International Cooperation (GIZ), both of whom have extensive hands-on experience in industrial promotion around the globe. Second, Japanese industrial cooperation stresses quality, productivity, competitiveness, and other product-related aspects while Europeans and Americans are focused more on labor, social, and environmental correctness. This difference is clearly visible in the apparel sector of Ethiopia [27]. Ethiopia needs to understand this difference among the donor groups and needs to learn from both.

The most essential element of the Ethiopia-Japan industrial policy dialogue has been the seriousness and eagerness of Ethiopian national leaders to learn from East Asia. The learning proceeded under strong country ownership and was followed up by actions to realize the localization of foreign models by both sides.

5.5.4 *The Dialogue Agenda*

In the first phase of the Ethiopia-Japan Industrial Policy Dialogue (2009–2011), the two sides deepened their knowledge of each other. The Ethiopians explained their policies such as Agricultural Development Led Industrialization (ADLI) and the current and future five-year plans while the Japanese team explained how East Asia and the rest of Africa designed and implemented policies and how they made necessary institutional arrangements for policy coordination. The Ethiopian government was deeply interested in the practical aspects of strategy formulation. The Japanese side responded by offering an international comparison of industrial master plans with close attention to drafting methods and stakeholder consultation. Prime Minister Meles additionally requested detailed information on many industrial subjects he wanted to investigate, and they were compiled and sent to him (Fig. 5.1).

As Japanese *Kaizen* cooperation started simultaneously with policy dialogue, much time was spent on how *Kaizen* should be localized and expanded in Ethiopia. Separately, in response to another Ethiopian request, Japan and Germany conducted a joint survey on the current status of the Ethiopian basic metal and engineering industries. The advice was also given on the preparation of the next five-year development plan (Growth and Transformation Plan I, 2010/11–2014/15). Many ideas were offered, including quality and productivity targets, but the final document

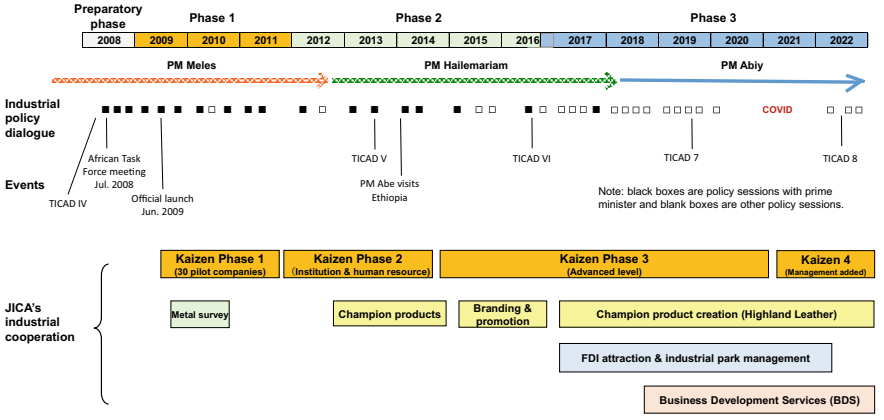

Fig. 5.1 Ethiopia and Japan: policy dialogue and industrial cooperation (*Source* Elaborated by the author)

contained none of these. This was questioned by the Japanese side, and the Ethiopian leaders subsequently promised that this would not happen again. In April 2013, Prime Minister Hailemariam requested that the GRIPS team continue to assist in the formulation of the next five-year plan (Growth and Transformation Plan II, 2015/16–2019/20).

The second phase (2012–2015) began with a proposal to enhance export promotion. This was to be done through the creation of culture-laden, high-quality champion products with new branding (for example, Ethiopian Highland Leather). JICA's project was launched, and Ethiopian private firms enthusiastically welcomed the idea of champion products. Japan intended to broaden the scope of Ethiopian policy from *Kaizen*, which dealt with supply-side efficiency, to demand-side and customer orientation which had hitherto been missing. Another important theme was improving FDI policy and industrial park operation as manufacturing FDI was accelerating in Ethiopia. International experiences and JICA's standard cooperation package in this area were explained. In 2013, a large Ethiopian delegation, headed by a State Minister of Industry and including a person who was later appointed as the Ethiopian Investment Commissioner, was dispatched to Malaysia to learn FDI and export promotion methods. In Addis Ababa, other related issues such as one-stop investor service, SME handholding support, and FDI-local firm linkage creation were also discussed.

The Japanese team also advised on the proposed content of GTP II as requested by Prime Minister Hailemariam. Unlike the previous plan, many recommendations made it to the final document including the light manufacturing vision, the *Kaizen* philosophy and targets, and extensive use of the phrase 'quality, productivity and competitiveness (QPC)' throughout GTP II. However, the Ethiopian government was not yet sure what this phrase would entail in terms of concrete policy measures and requested Japan's further cooperation [4].

The third phase starting in 2017 turned to productivity and the attraction of Japanese FDI as core issues. The important link between labor productivity and wages and relevant Asian experiences had already been discussed in the second phase. Additionally, Ethiopia's past productivity tools—*Kaizen*, benchmarking, and twinning—were critically assessed; the manufacturing census database was checked, cleaned, and re-formulated into a panel dataset; and an apparel sector survey was conducted in Bole Lemi, Hawassa, and Mekelle. These works led to the joint drafting of the Ethiopia Productivity Report by the Policy Studies Institute (PSI), a government think tank recently created by merging two existing institutions, and the GRIPS Development Forum in 2020. This was Ethiopia's first scientific research applying standard analyses to Ethiopian productivity such as TFP and two decompositions of labor productivity growth, which identified both achievements and challenges. The deep involvement of Ethiopian researchers in industrial policy dialogue as well as productivity research was another feature in the third phase. This report was followed by another PSI-GRIPS joint research on the Ethiopian FDI Policy Report in 2022.

The policy dialogue team also assisted Japanese investors interested in Ethiopia by offering policy information, organizing workshops with key Ethiopian officials, and providing the Ethiopian government with concrete policy advice to bring and retain Japanese and other investors. It is hoped that Ethiopia would recognize and prepare

conditions conducive to high-quality FDI, and Japanese investors in turn would have a deeper understanding of Ethiopia's policy and build a fruitful relationship with the host country. Japanese automotive and apparel firms were assisted by this mechanism. The investment project in the automotive sector is ongoing but the one in the apparel sector was suspended due to the eruption of an internal war in Tigray. Thus, policy dialogue grew to cover wide policy areas combining talk with official cooperation projects and the business actions of Japanese firms. JICA provided an array of industrial cooperation projects in Ethiopia including policy dialogue, advanced *Kaizen*, industrial park management, investment promotion, export promotion, business development service (BDS), start-up business competition, and support for Japanese SMEs interested in Ethiopia. For JICA, this is the broadest industrial cooperation package in Africa, similar to those offered to latecomer countries in Southeast Asia.

An additional remark on *Kaizen* is warranted. Policy dialogue initially discussed various practical aspects of *Kaizen* including transferability from Japan to Ethiopia, compatibility with other productivity methods, and the incentivization of Ethiopian *Kaizen* consultants. But as experience and knowledge accumulated, day-to-day management and troubleshooting were delegated first to JICA experts, then to the Ethiopian Kaizen Institute (EKI) which was strengthened by JICA experts. Ethiopians became able to not only manage domestic *Kaizen* activities but also teach *Kaizen* to other Africans bilaterally and through the African Union Development Agency-New Economic Partnership for Africa's Development (AUDA-NEPAD). Even so, both Prime Minister Meles and Prime Minister Hailemariam continued to be highly concerned about the sustainability of *Kaizen*. To them, *Kaizen* should not be a convenient productivity tool to be forgotten quickly but an engrained national philosophy and mindset to be practiced endlessly.

5.5.5 Remaining Challenges

Apart from the lack of political and macroeconomic stability, which are prerequisites for growth in any country, the Japanese policy dialogue team identified the following three challenges in Ethiopia's development policymaking. First, despite recent high growth and much policy learning, Ethiopia is still a low-income country on a long journey to full industrialization. The private sector is weak and industrial policy remains unsophisticated by East Asian standards. Such weaknesses are visible in the low labor skill and discipline, low productivity, and the stagnant output and trivial exports of the manufacturing sector. The business climate is very unfavorable. Development policy must be drafted in a pragmatic way to overcome this reality. Leapfrogging to the technology frontier is difficult unless the human resource is fostered, and basic institutional foundations are laid first.

Second, technocrats must be strengthened. Top leaders are dedicated to national development but extremely busy. Below them, there is only a thin layer of competent middle officials in ministries and development agencies, a situation that prevents effective policy formulation and implementation. Ethiopian policies are often made hastily without deep consideration of appropriate design or suitability to Ethiopian reality. Speed is stressed over quality. Detailed fact-finding surveys necessary for policy formulation are often skipped or unheeded. In high-performing East Asian governments, policies are created interactively in both top-down and bottom-up directions. In Ethiopia, such interaction does not occur as competent technocrats are few. Bold administrative reform is needed to significantly boost the capacity and salaries of government officials while reducing their number.

Third, Ethiopia's industrial growth is taking place in Africa where conditions are quite different from East Asia. The principal difference is the absence of the regional *flying geese pattern* where a leading nation (which used to be Japan) generates structured layers of followers (Taiwan, Korea, Southeast Asia, China, etc.) through dynamic intra-regional trade, investment, aid, human exchange, and technology transfer. Despite many regional mechanisms and the inauguration of the African Continental Free Trade Area (AfCFTA) in 2021, Africa generally lacks such intra-regional linkages in substance. This implies that Ethiopia must industrialize as a solitary bird, directly facing the pressure and competition of the global economy without intra-regional cover, linkage, or learning models. This calls for adjustments in adopting East Asian lessons, especially regarding the formation of a foreign partnership in global marketing and knowledge transfer.

5.6 Thailand, 1999[9]

5.6.1 The Situation Before the 1997 Crisis

The case of Thailand is different from the other three cases because Japanese cooperation was provided in response to a severe economic crisis that demanded quick action, and also because Thailand and Japan had very close economic ties with the thousands of Japanese firms operating in Thailand[10] that played an important role in the provision of support.

From the early 1970s, Thailand continued to industrialize even with occasional setbacks [8]. The manufacturing share of GDP rose from 13.0% in 1961 to 25.9%

[9] 1999 was the year in which Japan's crisis response support culminating in the Mizutani Report was conducted. Additional and related Japanese cooperation was extended both before and after 1999 as this section explains.

[10] In April 2022, the Japanese Chamber of Commerce in Bangkok counted 1,642 member firms. Some Japanese FDI firms operating in Thailand have not joined this chamber.

in 1996. Thanks to a generally open and favorable business environment, Thailand became a popular investment destination for foreign enterprises including the Japanese. Pushed by a large appreciation of the Japanese yen from 1985, many Japanese manufacturers, including carmakers, came to Thailand to establish new production sites [6]. By the early 1990s, automotive production in Thailand had exceeded 500,000 units. However, the Thai economy suffered from structural vulnerability including high dependence on imported materials and components (this is called the absence of 'supporting industries' or domestic suppliers of materials and components) and persistent current account deficits. Moreover, the country faced increasing competition from China, Mexico, and other emerging economies. Even before the eruption of the Asian currency crisis (see below), its manufactured exports had begun to weaken.

In the 1950s, the Japanese government began industrial cooperation with Thailand and other Southeast Asian countries as Japanese enterprises became active in the region. JICA's industrial support for Thailand initially focused on hard technology such as metalworking and machining, but it gradually expanded to policy and institution areas such as export promotion and supporting industry development. In 1995, JICA published comprehensive recommendations for Thai industrial development, some of which were adopted by the Thai government. Most notably among them, the Bureau of Supporting Industry Development (BSID) was created under the Department of Industrial Promotion (DIP) of the Ministry of Industry (MOI) [16]. In the private sphere, the Technology Promotion Association (TPA) was founded in 1973 by former Thai students who studied in Japan to strengthen bilateral ties and spread Japanese-style manufacturing in Thailand [21]. TPA continuously offered various industrial services to Thai enterprises via training, publication, consultation, Japanese language courses, and the establishment of the Thai-Nichi Institute of Technology (TNI), a private university specializing in Japanese manufacturing technology, in 2007 (see Chap. 8 for TPA and TNI).

5.6.2 Responding to the Asian Financial Crisis

In July 1997, Thailand was hit by an acute currency crisis which prompted a huge and sudden withdrawal of the short-term foreign funds that had entered the country. International reserves were depleted, the baht depreciated by more than 50%, domestic demand collapsed, and production fell as much as 7.6%. The crisis quickly spread to the rest of Asia with Korea and Indonesia particularly hard hit. The IMF and the World Bank extended financial support to the crisis-ridden countries in exchange for fiscal and monetary belt-tightening actions. However, these policy measures designed to cope with traditional macroeconomic imprudence had the effect of aggravating the private capital-driven crisis which this situation was [35].

The crisis demanded decisive responses. Since the Thai government had been well aware of the structural vulnerability mentioned above, it quickly established the National Industrial Development Committee (NIDC) in August 1997 [34]. The

Subcommittee for Industrial Restructuring Plan under this committee formulated the Industrial Restructuring Plan (IRP) which was approved by the cabinet in early 1998. Its eight pillars were productivity, technological capabilities, labor skills, SMEs, marketing, rural development, FDI, and environment protection. The plan scope was up to 2002, and concrete annual implementation plans were made from 1999. Financial support was provided by the World Bank, the Asian Development Bank, and Japan.

IRP incorporated many recommendations JICA had offered. Its drafting was supported by a Japanese advisor from MITI who emphasized the importance of grasping the actual situation of Thai enterprises before identifying and helping viable enterprises to survive the crisis. The Thai government recognized that macroeconomic responses were not enough to address the real sector problems faced by individual sectors and enterprises. There were also political factors as the Thai Rak Thai Party led by Thaksin Shinawatra emphasized SME support, and MOI also hoped to increase its influence within the government.

The institutional setting for the industrial policy was also strengthened. As recommended by the JICA study in 1995, MOI drafted the SME Promotion Act and submitted it to the parliament in April 1999. The Act led to the creation of (i) the SME Promotion Committee and its secretariat office, (ii) the SME promotion fund, and (iii) the SME promotion action plans. Additionally, MOI, in collaboration with the private sector, established the Thai Automotive Institute (TAI) and the Electric and Electronic Institute (EEI) as new sectoral implementation agencies [16].

The Thai government compared the SME policies of many countries and decided to invite Japanese cooperation which focused on the real economy and the performance of individual firms in contrast to the macroeconomic framework approach of the World Bank and other international organizations. Thailand-Japan cooperation in SME promotion was agreed upon by Prime Minister Chuan and the Japanese Minister of Trade and Industry. It must be added that, during and after the crisis, virtually all Japanese FDI firms remained in Thailand without leaving, and they expected the Japanese government to support their local partner firms. The Japanese policy towards ASEAN also stressed strengthening all domestic industries (including SMEs) instead of just export firms. The following subsections present three concrete policy actions that Thai MOI took and to which Japan extended intensive support.

5.6.3 The SME Promotion Master Plan

The Japanese government pledged to support the ASEAN countries suffering from the economic crisis at the first ASEAN Economic Ministers-METI Economic and Industrial Cooperation Committee (AMEICC) meeting in November 1998. For Thailand, MITI dispatched Shiro Mizutani, a high-ranking MITI official and the former Representative of the JETRO Bangkok office, as an advisor to the Minister of Finance and the Minister of Industry. Between January and June 1999, Mizutani visited Thailand five times (55 days in total). Close to 100 Japanese experts were mobilized from

various SME-support organizations including the Japan Small Business Corporation, the Japan Small and Medium Enterprise Management Consultant Association (J-SMECA), and the Shoko Chukin Bank, a financial institution dedicated to SME finance. At the end of his mission, Mizutani submitted the draft SME Master Plan (the 'Mizutani Plan') to the Thai government. To support Mizutani's work, JICA conducted a follow-up survey and provided recommendations on the SME Master Plan as well as implementation plans for the newly established sectoral Institutes (TAI and EEI).

This cooperation had several characteristics. First, the mobilization of a high-ranking official such as Mizutani attracted strong and quick actions by the Thai side. Second, as this was a crisis response, work was done quickly in contrast to other policy dialogues which had a longer time horizon. Third, detailed information on Thai industries was collected by many Japanese experts which was supplemented by the data routinely gathered by the Japanese Chamber of Commerce in Bangkok. Fourth, based on the collected information, suitable Japanese models were selected and localized to fit the Thai context. Japanese experts did not simply copy and paste them. Fifth, due to the short duration, there was not enough time for the Thai counterparts to learn the policy technique or offer sufficient comments. The localization of the Japanese model was done mostly by Japanese experts.

The Mizutani Plan consisted of two pillars. The first pillar, 'measures for solving problems faced by Thai SMEs,' addressed such issues as finance, management, and technology for all SMEs. The introduction of the factory evaluation system was proposed as the precondition for implementing all other SME promotion measures. The second pillar, 'SME policies for realizing vigorous economic and social systems,' targeted specific segments of the economy. This reflected the Japanese idea that 'horizontal' (general) measures were not enough and that targeted 'vertical' measures, such as supporting industry promotion, were essential for industrial upgrading.

With these inputs from Japan, MOI drafted the SME Master Plan which was approved by the Cabinet in April 2000. While its contents basically followed the Japanese recommendations, the coverage was limited to SMEs in the manufacturing sector in keeping with MOI's jurisdiction [18]. There were some important details with local adjustment by the Thai side. For example, the comprehensive on-site technical guidance program proposed by the Mizutani Plan was not adopted in its original form. The Master Plan proposed the 'development of a consulting system for improving businesses and solving problems' which had a more general orientation (see also the next subsection). Meanwhile, coordination among stakeholders was stressed and business clusters were added as one of the seven strategies. Furthermore, the establishment of micro and small enterprise cooperatives in rural areas was included in MOI's Master Plan. This was an item deliberately deleted from the Mizutani Plan because the Japanese experts did not think it would fit the Thai reality.

In addition to Japan, other development partners may have influenced MOI's policy. The International Labour Organization (ILO) and the United Nations Development Programme (UNDP) jointly implemented the 'Micro and Small Enterprises Development and Poverty Alleviation in Thailand Project' which discussed many 'international best practices.' It advised business development services (BDS) to be

left to the private sector and SME policies to remain holistic and broad, to also include the informal sector, rather than selective and specific [2]. The World Bank conducted a large-scale enterprises survey and organized the SME Master Plan seminar. Thus, the World Bank did pay attention to the real economy in addition to the macroeconomic framework although its scope may have been more general than the Japanese. Domestically, a paper prepared by the Institute for Population and Social Research of Mahidol University raised questions about the appropriateness of target sector selection and urged the government to hear domestic voices in the formulation and monitoring of the Master Plan [33].

In February 2000, the SME Master Plan was approved, and the SME Promotion Act was promulgated which established the Office of SME Promotion (OSMEP) in November 2000. OSMEP was mandated to cover SMEs in all sectors including manufacturing, trade, and service. It was to formulate and monitor comprehensive SME Master Plans with detailed action plans. The Cabinet approved the first SME Master Plan by OSMEP in May 2003. It combined MOI's Master Plan, opinions of international and domestic stakeholders, and the policy direction of the Thaksin administration which came to power in 2001. In comparison with the Mizutani Plan, the OSMEP's Master Plan had the following features. First, while both plans had the two pillars of general measures and targeted measures, targeted sectors were different. The Mizutani plan targeted concrete industrial sectors while OSMEP specified targeted sectors functionally, including export enterprises and new enterprises. Second, the factory evaluation system was not discussed in the OSMEP Master Plan except in a very vague way. Third, OSMEP additionally emphasized the business environment for SMEs, public–private partnership, inter-enterprise linkages, and entrepreneurship. It also aimed to improve the quality of life of SME employees, a perspective not found in the Japanese recommendations.

5.6.4 The Factory Evaluation System

The enterprise evaluation system (*shindan*) is one of the measures that contributed greatly to SME development in post-war Japan. In the Japanese system, persons with sufficient knowledge and skills for diagnosing and advising enterprises are certified and registered by the state as '*shindan-shi*.' Japan also has institutions to train, test, and re-train them. *Shindan-shi* conduct comprehensive analyses of enterprise performance from managerial and financial perspectives, identify challenges and opportunities for growth and provide general hints for addressing the challenges and seizing the opportunities. Their broad instructions can be combined with the assistance of more specialized business service providers. *Shindan-shi* evaluation and guidance also greatly facilitate SMEs' access to bank finance. A *shindan-shi* as a general practitioner is often likened to a home doctor rather than a specialized surgeon.

In Thailand, the factory evaluation system was one of the 24 projects included in the 1999 IRP implementation plan. MOI set up the Committee for Promoting the

SME Evaluation Program inviting members from public organizations and private stakeholders. The BSID under DIP of MOI was made responsible for the program. The actual implementation was delegated to TPA, an NPO mentioned above. Japan also provided intensive support. A Japanese advisor, the Mizutani Plan, and the JICA's follow-up survey offered information on the objective and institutional design of this system, criteria for selecting eligible SMEs, program content, and so on. The training of evaluators and the trial implementation of factory evaluation were conducted in four phases from July 1999 to March 2002 during which 115 Japanese experts were mobilized, 479 associate *shindan-shi* were trained, and close to one thousand factory evaluations were made. Beneficiary SMEs were generally satisfied with the evaluation work conducted on them.

However, there was a problem with the implementation mechanism on the Thai side. The project office at TPA was staffed by Japanese experts with few Thai participants. The responsible BSID official was too busy to pay enough attention to the daily operation of the program. The Japanese experts were frustrated with the frequent changes of Thai counterparts at TPA. Moreover, the Japanese experts had to lead the design as the *shindan* system was new to Thailand. Learning by Thai consultants and the local adjustment of the Japanese model did not progress as planned [39].

After the economic crisis subsided and Japanese intensive support ended, the factory evaluation system evolved in a way considerably different from Japanese expectations. The authority to establish the system was transferred from MOI to OSMEP but the latter attached low priority to this project. There was also some reservation within the Thai government to legislate a system that could lead to the monopolization of enterprise evaluation services by certified individual consultants. Coordination became necessary between this system and other business consulting services. For these reasons, the Thai *shindan* system turned out to be informal without state guidance, criteria, or certification. From the Japanese viewpoint, such an informal system failed to ensure the quality of the consulting services [18].

Meanwhile, MOI continued to use trained associate *shindan-shi* for its policy implementation even after Japan's intensive support ended. Their diagnosis was required before firms applied for such MOI projects as 'Invigorating Thai Business Targeting Rural SMEs.' MOI also trained evaluators at the regional level using programs with a shorter training duration than the Japanese. Responding to the political trend that emphasized rural industries and the above-stated need to coordinate various consulting services, MOI began to strengthen the supporting institutions for regional SMEs. With continued support from JICA, MOI established the Regional Integrated SME Promotion (RISMEP) system nationwide by linking various BDS providers to offer collective support to SMEs in each region. As the policy focus shifted from urban industries to rural SMEs, responsible sections within MOI also changed from BSID to the section in charge of industrial and enterprise development in general.

The Thai *shindan* system thus has become more informal with a rural focus, but some of the original traits remain. Just as Japanese *shindan-shi* act as general practitioners attending to the diverse needs of SMEs and referring them to appropriate specialists, Thai consultants in the RISMEP network collectively help SMEs

by bringing diverse expertise. Another surprising development was that TPA that initially trained *shindan-shi* for MOI and TNI, the private university created by TPA, continued *shindan* consultation and *shindan-shi* education in their programs and curricula [29]. A few other universities also offered *shindan-shi* training. The evolution of the Thai *shindan* system, though unforeseen by the Japanese, may have made itself more suited to Thai reality.

5.6.5 The Automotive Supporting Industries

Supporting industries (*susono sangyō* in Japanese) refer to producers located in the country—regardless of the nationality of the firm—that supply materials and components with high quality, low cost, and on-time delivery (the QCD requirement) to final assembly firms operating in the same country. Their existence broadens the industrial base, reduces reliance on imported inputs, increases domestic value creation, and boosts the competitiveness of assemblers which are often FDI firms. As Thailand began to attract many foreign assemblers of automobiles, consumer electronics, machinery, etc., especially from Japan, the thinness of the Thai supporting industries was identified as a barrier to the further growth of both Thailand and FDI firms. The economic crisis of 1997–1998 highlighted the necessity of developing the supporting industries for the survival and future prosperity of mechanical industries in Thailand.

The Thai government created two sectoral Institutes for the automobile and electronics industries (TAI and EEI) in 1998. Beyond that, however, the 1999 IRP implementation plan did not propose any concrete projects for supporting industry promotion. By contrast, the Japanese businesses became more serious about developing supporting industries partly for the benefit of Thailand but mostly for their survival. In 1998, Japan announced a plan to assist the automotive supporting industries in four ASEAN countries including Thailand. In 1999, the Mizutani Plan proposed a comprehensive on-site technical guidance program for supporting industries. Local enterprises with future potential were to receive on-site technology transfer from experienced international experts. The assumption was that on-site technical guidance was more effective than off-site seminars and classroom training.

This cooperation started with the Automotive Expert Dispatching Program from October 2000 to September 2005 in two phases. Experts from Japanese automotive firms, in collaboration with TAI, provided technical support to about two hundred local automotive parts manufacturers. Initial hitches over the selection of target companies and the limited number of Thai consultants to accompany Japanese experts were solved over time. The program was highly evaluated for concreteness and relevance by both Thai component manufacturers and their business partners, especially the Japanese automotive assemblers [24].

The Thai automotive sector not only survived the economic crisis but began to expand strongly. Prime Minister Thaksin set the goal of Thailand becoming the 'Detroit of Asia.' The inflow of Japanese automotive FDI accelerated after 2002 with the expectation of Thailand becoming the hub of the automotive industry in

Southeast Asia. Thai automotive production not only recovered but exceeded the 1 million-unit mark in 2005, ahead of the plan target.

The Automotive Expert Dispatching Program was succeeded in 2005 by a scaled-up and broader initiative of the Automotive Human Resource Development Project featuring the experts from Toyota, Honda, Nissan, and Denso to train Thai trainers in their respective assigned fields: Toyota Production System, skills certification, mold and die technology, and mindset and manufacturing skills, with TAI serving as the secretariat [25]. Separately, TAI continued to train automotive engineers and technicians through 26 open courses and 68 in-house courses, combining Japanese management methods it has learned and other topics. Although the on-site guidance program initiated by Japan in the aftermath of the economic crisis was not institutionalized as originally envisaged, TAI has incorporated its lessons in their daily work in the promotion of the Thai automotive sector.

5.6.6 Lessons

The three specific projects of Japanese industrial cooperation discussed above identify four factors that contributed greatly to the effective execution of crisis response actions. They are the seriousness of both private and public stakeholders to collaborate and cope with the crisis, a strong commitment at the highest level (prime minister), the mobilization of competent Japanese experts in large numbers and from many relevant organizations, and the collection of real-economy sector-specific information insisted by the Japanese team which was needed to adjust the Japanese model to Thai reality. In addition, three conditions that existed even before the crisis also had favorable influences. They were the awareness of the structural vulnerability of Thai industries among Thai leaders and officials, the long-term multi-faceted bilateral relationship based on trust, and the presence of a large number of Japanese enterprises operating in Thailand. The last generated an expectation among Japanese FDI firms of strong policy cooperation by the Japanese government as well as their willingness to contribute to crisis management, especially in the automotive sector.

It must be admitted that, in the cooperation projects examined here, the proper balance between Japanese leadership and Thai ownership took some time to emerge. In all cases, donor-driven aspects were visible at the outset which were however reduced over time as the Thai side gradually regained commitment and ownership. This may have been inevitable because speed was imperative in crisis response and there was little time to forge mutual understanding and agreement on project details. Thailand learned the Japanese models, modified them to local conditions, and fashioned new models. This was so in the creation of the SME Master Plan, the factory evaluation system, and the automotive training mechanism. Due to the short project duration, the level of Thai participation in the fieldwork was mixed and sometimes very low but this did not prevent Thai learning in the long run. In the end, institutional development took many unexpected turns for Japanese officials and experts.

For proper translative adaptation, ownership and effort must be exerted by local hands, not by well-meaning foreign experts.

5.7 Conclusion

This chapter offered the four case studies of Japanese policy dialogue accompanied by concrete industrial cooperation projects. They revealed the unvarying philosophy of Japanese development cooperation such as country customization, real-sector orientation, and the creation of a wise state rather than a small one. At the same time, each case was unique and different because countries wishing to learn from Japan faced different challenges and circumstances, and policy dialogue had to respond to this diversity. This chapter has also made clear that successful policy dialogue requires certain basic conditions. They include request and commitment at the highest level, ultimate country ownership, mutual respect and trust, concrete actions and cooperation projects to realize proposed ideas, local adjustment to the imported model, and the deep knowledge of the host country, benchmark countries, and the industry in question as the background information for effective local adjustment. These are also the conditions necessary for translative adaptation, a concept emphasized in our study.

The fundamental complexity of policy dialogue comes from the dynamic interaction of two distinct socio-economic cultures which often generates conflicts and unexpected turns and results. To cope with this complexity, comparative perspective and relativism are indispensable instead of absolute advice presented as 'international best practice' and 'foreign experts know better.' The comparative perspective is needed across countries, across time, and across regions, sectors, and firms within one country. In any comparison, both common and unique features are present. The important thing is not just to know this general truth but to identify exactly what is common and what is unique in constructing a model most fitting to one's society. This calls for an enormous amount of knowledge, experience, and trial and error. This is why policy dialogue requires much research, patience, flexibility, discovery, and innovation on both sides. The two attitudes that surely fail are the refusal to learn from others because 'our country is unique, and nothing can be learned from others' and a copy-and-paste strategy without scrutinizing the local and foreign contexts. Policy dialogue demands far more knowledge and thinking than either.

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