Japan International Cooperation Agency

No.

Evaluation by Third Party

Thematic Evaluation on Economic Partnership

Social Capacity Development in Trade Sector and Development Assistance

Final Report

March, 2006

Joint Venture of
Hiroshima University
Mitsubishi Research Institute, Inc

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Preface

An independent administrative institution, Japan International Cooperation Agency (JICA), is promoting external specialists' participation in the project evaluation from the perspective of improvement of the objectivity of the evaluation and betterment of the quality of the evaluation by securing a professional knowledge. Especially, the evaluation, consigned to external organizations such as a university and a consultanting firm that has the professional knowledge for the theme concerned, is executed in a program level evaluation such as a theme-specific evaluation. This report, specific theme evaluation "economic partnership", wraps up the result of the evaluation that was consigned to and executed by the Joint Venture of Hiroshima University and Mitsubishi Research Institute, Inc. as a part of the external evaluation.

Recently, capacity development in a trade sector of developing countries has been valued in line with the progress of the economic partnership among countries along with the trade liberalization. In response to this movement, the specific theme evaluation of this report analyzes and evaluates the JICA's cooperation in the four ASEAN countries (Indonesia, Thailand, Philippines, and Malaysia) where JICA has provided assistance in the relevant field over many years, based on the process of capacity development of each country. This evaluation also extracts proposals and lessons for the future cooperation.

About implementing the evaluation, the discussion from a framework of the evaluation to the result of the evaluation has been held by establishing the evaluation/examination commission composed of specialist evaluation committees, evaluation advisors, JICA-related departments, and observers from related government ministries and agencies, in addition to the national search and the field investigation by the Joint Venture of Hiroshima University and Mitsubishi Research Institute, Inc. The report has been completed through these examinations.

JICA has adopted the "external specialists' review" on every theme-specific evaluation since 2003 and has posted the result of the review by specialists of the related sectors on a report. In this evaluation, the review was kindly provided by Mr. Kuchiki Akifumi, Director of Japan External Trade Organization, and Mr. Teruyuki Tanabe, Director of Japan Bank for International Cooperation Development Finance Institute. I am deeply grateful to both of them for having agreed with the purpose of the review and graciously written it.

Finally, I would like to express my sincere gratitude to everybody who have cooperated and

provided assistance toward this research.

Seiji Kojima
Director of Japan International Cooperation Agency
March, 2006

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Acronyms

ACCCIM	Associate Chinese Chambers of Commerce and Industry of Malaysia
AC	Asian Cooperation Project
ADB	Asian Development Bank
AEM-METI	ASEAN economic ministers and minister of economy, trade and industry of Japan consultations
AOTS	The Association for Overseas Technical Scholarship
ASEAN	Association of South-East Asian Nations
BDS	Business Development Service
BETP	Bureau of Export Trade Promotion
BKPM	Badan. Koordinasi Penanaman Modal
BOI	Board of Investment
BSID	Bureau of Supporting Industry Development, Department of Industrial Promotion, Ministry of Industry
BSMED	Bureau of Small and Medium Enterprise Development
CD	Capacity Development
CDIP	Capacity Development for Investment Promotions
CIDA	Canadian International Development Agency
CITEM	Center for International Trade Expositions and Missions
CLMV	Cambodia, Lao People' Democratic Republic, Myanmar and Vietnam
DEP, MOC	Department of Export Promotion, Ministry of Commerce
DFID	Department for International Development
DTI	Department of Trade and Industry
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FMM	Federation of Malaysian Manufacturers
FTA	Free Trade Agreement
FTI	Federation of Thai Industries
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HACCP	Hazard Analysis and Critical Control Point
HCBI	Human Capacity Building Institute
IETC	Indonesia Export Training Center
IFC	International Finance Corporation

ILO	International Labour Organization
IMP	Industrial Master Plan
ISO	International Organization for Standardization
ITC	International Trade Center
ITTC	International Trade Training Center
ITTI	International Trade Training Institute
JAMA	Japan Automobile Manufactures Association
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
JJC	Jakarta Japan Club
JODC	Japan Overseas Development Corporation
KADIN	Kamar DagDag dan Industri Indonesia
LDC	Least Developed Country
MAICCI	Malaysian Associated Indian Chambers of Commerce and Industry of Malaysia
MATRADE	Malaysia External Trade Development Corporation
MCCM	Malay Chamber of Commerce Malaysia
MICCI	Malaysian International Chamber of Commerce and Industry
MIDA	Malaysian Industrial Development Authority
MIDF	Malaysian Industrial Development Finance Berhad
MITI	Ministry of International Trade and Industry
MOC	Ministry of Commerce
MOI	Ministry of Industry
MOIT	Minister of Industry Trade
MOT	Minister of Trade
MTCP	Malaysian Technical Cooperation Programme
NAFED	National Agency for Export Development
NAFTA	North American Free Trade Agreement
NCCIM	National Chamber of Commerce and Industry of Malaysia
NEAC	National Economic Action Council
NEDA	National Economic Development Authority
NEDO	New Energy and Industrial Technology Development Organization
NEXI	Nippon Export and Investment Insurance
NIEs	Newly Industrializing Economies
NPC	National Productivity Corporation
ODA	Official Development Assistance

OECD DAC	Organization for Economic Cooperation and Development, Development Assistance Committee
OSMEP	Office of Small and Medium Enterprises Promotion
PCCI	The Philippine Chamber of Commerce and Industry
PDDCP	Product Development and Design Center of the Philippines
PDF	Partnership Development Facility
PPP	Purchasing Power Parity
PTTC	Philippine Trade Training Center
REPC	Regional Export Promotion Center
RETPC	Regional Export Training and Promotion Center
SCA	Social Capacity Assessment
SCD	Social Capacity Development
SE	Sectoral Enhancement
SI	Supporting Industry
SIRIM	Standard and Industrial Research, Institute of Malaysia
SME	Small and Medium Enterprise
SMIDEC	Small and Medium Industries Development Cooperation
SIAP	The Strategic Investment Action Plan
SITC	Standard International Trade Classification
TCC	Thai Chambers of Commerce
TCD	Trade Capacity Development
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USAID	US agency for International Development
WTO	World Trade Organization

Japan International Cooperation Agency (JICA)
Thematic Evaluation on Economic Cooperation
Social Capacity Development in Trade Sector and Development Assistance

Summary of Final Report

Introduction

This evaluation study, "Thematic Study on Economic Cooperation: Social Capacity Development in Trade Sector and Development Assistance", was commissioned by Japan International Cooperation Agency (JICA) to the Joint Venture of Hiroshima University and Mitsubishi Research Institute, Inc. During the period from February 2005 to March 2006, Joint Venture implemented 4 field surveys in total in Indonesia, Malaysia, and the Philippines and Thailand, which are the targeted countries of this study. In addition, the Joint Venture implemented questionnaire surveys in those four countries with cooperation from local institutions. Through those surveys as well as literature review, the Joint Venture analyzed and evaluated social capacity development and development assistance in those four countries.

During the course of the evaluation study, the Evaluation Committee was set up with the members from the Joint Venture evaluation team and evaluators with expertise in trade, investment and development as well as evaluation advisors commissioned by JICA and JICA's Office of Evaluation, Department of Planning and Cooperation, and Group 1 (Economic Policy and Private Sector Development), Department of Economic Development, and relevant governmental organizations. The Evaluation Committee was convened six times altogether by the end of the study period. This report has been finalized through those undertakings.

1. Background, objectives and framework of evaluation

1.1 Background and objectives

In the East Asia region, the development of Economic Partnership Agreements (EPAs), including Free Trade Agreements (FTAs), is accelerating among ASEAN countries, Japan, South Korea and China. The effect of EPA's conclusion is expected to lead to the activation of the economy of the region, including Japan.

Japan, since the 1980's, has implemented technical cooperation in the trade and investment sector.

JICA's technical cooperation in this sector has included assistance for developing training centers for trade business such as "trade center" [1] projects which were implemented as project-type technological cooperation (currently called technical cooperation project) and technical cooperation centered on Capacity Development (CD) for Indonesia, Thailand, the Philippines, and Malaysia.

In the meantime, the trade and investment environment in the East Asia area has greatly changed. As mutual dependence in the region deepens, the new ways of cooperation and interdependence have been sought to develop. Under such circumstances, it is necessary for JICA to continue to implement its assistance in order to better serve the demands of building institutions necessary for free and efficient competitive markets, enhancing balanced economic infrastructure, and strengthening competitiveness in the private sector under the circumstances where moves for economic partnership have been accelerating. At the same time, changes in the trade and investment environment have affected the ways of development assistance. In the 1980s, JICA's assistance mainly focused on industrial promotion in specific sectors; on the other hand, in recent years, major focuses have been placed on how to respond to the World Trade Organization (WTO) and EPAs/FTAs, which seek to promote economy based on market principles.

In light of the aforementioned background, JICA commissioned the Joint Venture of Hiroshima University and Mitsubishi Research Institute, Inc., a their party, to implement this evaluation study with the following three main purposes:

（1） Identify and map out factors of Social Capacity that promote economic cooperation from the perspectives of actors including the Government and the Firms, and analyze how these factors affect the total system of trade and investment.

（2） Identify development stages of Social Capacity in trade and investment in the targeted four countries, namely Indonesia, Malaysia, the Philippines and Thailand, evaluate the impact of JICA's assistance on Social Capacity Development of those countries, contemplate what kind of roles JICA's assistance including trade center projects should play in the future

1 As a result of research in the field, we confirmed that these centers do not focus on training only. For instance, Malaysia External Trade Development Corporation (MATRADE) does some training but its main activities are sending trade missions, organizing trade fairs, and promoting exports by providing related information. Also The Regional Export Training and Promotion Center (RETPC) which is the target of phase 3 of Indonesian trade center project holds training in export and promotion of export as its two main activities, as its name suggests. Therefore, to view these as a "trade training center approach" is not appropriate. We will perform the evaluation by regarding them as a "trade center approach" which includes trade promotion as well.

(self-sustainability). In evaluating JICA's assistance, assistance by other Japanese governmental organizations such as Japan Bank for International Cooperation (JBIC) and Japan External Trade Organization (JETRO) were also considered.

（3） Propose recommendations for JICA's future assistance in order to better serve the demands of building institutions necessary for free and efficient competitive markets, enhancing balanced economic infrastructure, and strengthening competitiveness in the private sector under the circumstances where moves for economic partnership have been accelerating.

1.2 Framework of evaluation

Since the beginning of the 1990s, it has been pointed out that the development of developing countries' own macro (social) capacity based on their ownership is essential for creating their sustainable development performance, and that the CD approach is important for such a purpose （Fukuda-Parr ed 2002）.

This report will propose Social Capacity Assessment (SCA) as a methodology of the CA that is necessary to materialize the CD approach. It will identify developing countries' export capacity of its society as a whole, and evaluate required amounts of aid inputs to achieve aid effectiveness and contribution of aid to social capacity development. The SCA method has been developed by the 21st century COE program of Hiroshima University "Social Capacity Development for Environmental Management and International Cooperation." The basic framework of SCA is as follows.

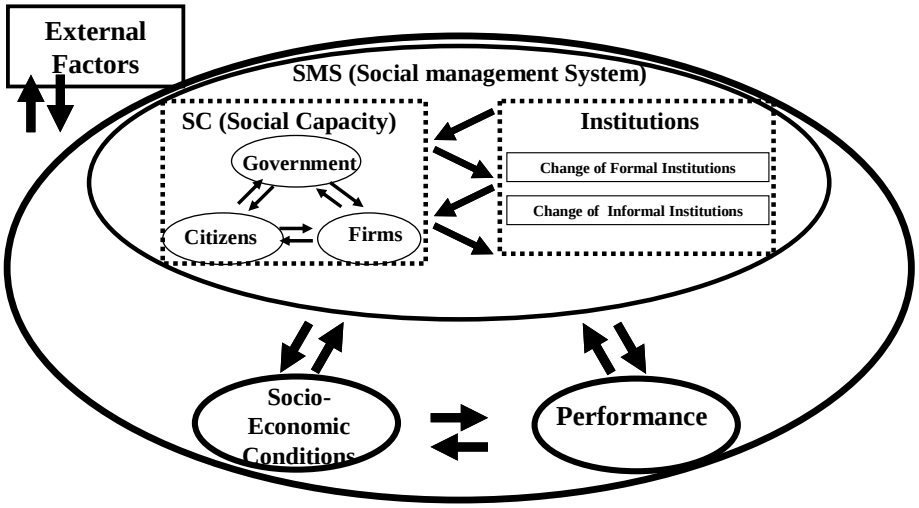
To begin with, social capacity is defined as the capacity to solve the problems of development of each social actor, composed of the government, the firms, and the citizen, and also the comprehensive capacity that includes the interaction of each actor. There are some caveats when this concept of social capacity is applied to Trade Capacity Development (TCD); these caveats include:

(1) For the trade and investment, the firms play a greater role and the government plays a more limited role than for the other development issues such as environment, education, and health.
(2) The citizens play an even more limited role than the other actors in the trade and investment.
(3) Impact of development assistance and economic cooperation on performance is relatively limited. (Other factors such as exchange rates, economic performance of export markets, and relative competitiveness compared with other countries have more impacts.)

The interaction of social capacity and institution is grasped as a Social Management System (Matsuoka and Kuchiki eds 2003). As shown in the figure S.1, the Social Management System is

defined in the mutual relationship with the socioeconomic conditions and the performance. Also, it seems to have the similar relationship with the external factors. The social system as a whole is called Total System (Matsuoka and Kuchiki eds 2003, Matsuoka et al 2005).

Figure S.1 Total System and Social Management System



Source: Matsuoka et al 2005

With this evaluation framework, we set the Evaluation Questions and conducted evaluation. The question system of this evaluation including medium and small items is shown in Table S.1.

Evaluation Questions:

Large item: Was a series of JICA's cooperation centering on the trade sector (such as "Trade Center") in four countries effective for each country's Trade Capacity Development? At that time, did JICA consider consistency with local government's policy system and coordination with other donor agencies?

Table S.1 Question system of this evaluation

Evaluation item：Large items

Was a series of JICA's cooperation centering on the trade sector (such as "Trade center") in 4 countries effective for each country's Trade Caoacity development? At that time, did JICA consider consistency with local government's policy system and coordination with other donor agencies?

Evaluation items		Necessary information and data	Source	Data collection method
Middle items	Small items			
1. Have impacts of JICA's assistance in such the trade sector been appropriate in relation to time, quantity, quality and the local government's policy and input of other donors?	1.1 Was there compatibility between social capacity development and development stage?	2.4 data, JICA related cooperation project	Related documents JICA	Documents review Interview
	1.2 Was there consistency between local government and policies?	JICA related cooperation project, Local governmental policy	Related documents Related ministries, departments	Documents review Interview
	1.3 Did JICA work together with Japanese other organizations and Foreign donors?	JICA and other donors related cooperation project	Related documents Other donors	Documents review Interview
	1.4 Was there consistency in Japanese higher policies?	JICA related cooperation project, Japanese government policy	Related documents	Documents review
2. What kinds of relationship were there among social capacity development, social economic situation and export performance?	2.1 How have total social capacity development of government and companies changed?	3.1, 3.2, 4.1, 4.2 data		
	2.2 How have social economy situation changed?	Related data (income level)	Statistical materials	Documents review
	2.3 How have export performance changed?	Related data (industrial export ratio)	Statistical materials	Documents review
	2.4 What kinds of relationship were there among social capacity, social economic situation and export performance?	2.1-2.3 data		
3. How have company's export capacity been developed?	3.1 How have company's each capacity element been developed? ・Formulation and implementation of measures ・Human resources and Organization ・Knowledge and Technology （Know-how and Information）	Situation of Capacity development in each capacity element	Statistical materials Companies	Documents review Interview Questionnaire survey
	3.2 What kinds of relationship are there between company's attribute (industry,scale,capital structure) and capacity development?	Company attribute and Situation of capacity development	Companies	Questionnaire survey Interview
	3.3 How have economic and industrial group and export support industry (management consultant, training service, trading company) contribute? ・Policy recommendation ・Export support service	Activity condition Evaluation by Companies	Related documents Economic and Industrial groups Related ministries, departments Companies	Documents review Interview Questionnaire survey
	3.4 How did government's policies affect capacity development of export companies?	Evaluation by Companies	Companies	Questionnaire survey
4. How have capacity to promote government's export been developed?	4.1 How have government's each capacity element been developed? ・Formulation and implementation of measures ・Human resources and Organization ・Knowledge and Technology（Know-how and Information）	Situation of Capacity development in each capacity element	Statistical materials Companies	Documents review Interview Questionnaire survey
	4.2 Have coordination between related policies such as development of SME, attraction of investment and organizations been appropriate?	Improvement condition of each measure Activity condition in Related ministries and departments	Statistical materials Related documents Related ministries, departments	Documents review Interview
	4.3 Have export promotion activity of "Trade Center" been appropriate?	Activity condition of "Trade Center"	Statistical materials Related documents "Trade Center"	Documents review Interview

Source: the author

The targeted countries of evaluation are Indonesia, Malaysia, the Philippines, and Thailand. These four countries have close economic relations with Japan through trade and investment, and Japan has extended its assistance to those countries in the area of trade and investment. Therefore, four countries are desirable for investigation in order to evaluate how development assistance is placed in the trinity of assistance, trade and investment.

ASEAN cooperation projects by the then Ministry of International Trade and Industry (MITI) under the trinity of assistance, trade, and investment began in 1982. In 1983, the Trade center, which is the main project of evaluation, was first founded in Thailand. Japan’s cooperation in the field of trade, including JICA’s, began to take full effect at this time. Therefore, we set the period of evaluation

mainly from 1980 to 2005.

During this period, JICA's assistance in trade has been mainly targeted at local small and medium enterprises (SMEs) in the manufacturing sector. Promoting SMEs is important in terms of not only promoting trade but also reducing poverty through job creation; therefore, SMEs promotion has its significance in the context of socio-economic development. Taking these factors into consideration, this evaluation is mainly targeted at SMEs in the manufacturing sector.

"Trade sector" narrowly means the direct export-promotion such as the trading business, the provision of marketing services for companies, and the development of the trade-related law. In addition, the assistance for the fosterage of SME/supporting industry, which is the indirect export-promotion like improving the companies' competitiveness, is also included in this evaluation scope. Such inclusion is necessary because those latter items are important for improving export performance, not to mention the importance of capacity development in the narrow meaning of trade sector.

2. Method of Evaluation

2.1 Social Capacity Assessment (SCA)

(1) Actor-Factor Analysis

The Actor-Factor Analysis consists of Actor Analysis and Factor Analysis. Actor Analysis deals with the level and condition of social capacity from the standpoint of the condition of each social actor (government, export industry, private export service provider). Factor Analysis adopts the following three factors: (1) "capacity to plan and implement policies and measures (policies/measures factor = 'P' factor)"; (2) "human, financial, and physical resources in organization that embody capacity (human, financial, and physical resources in organization factor = 'R' factor)"; and (3) "knowledge, information, and skills required as basis for the other factors (knowledge/skills factor = 'K' factor)". These three factors are identified, taking into consideration implementation of concrete policies and measures. For instance, even if "P" factor is improved to some extent in the form of laws and policies, they cannot be smoothly implemented without sufficient "R" factor or "K" factor. All the three factors of capacity are necessary to improve performance.

With regard to export capacity of the Firms, it was difficult to obtain indicators of three factors for all the four countries throughout the target period. Therefore, we adopted proxy variables for the

three factors. First, “labor productivity (value added/ number of employees) in the manufacturing sector” was adopted as a proxy variable for “P” factor. Second, “the ratio of employment in the manufacturing sector to the total employment[2]” was adopted as a proxy variable for “R” factor. Third, “gross enrollment ratio of the secondary education[3]” was adopted as a proxy variable for “K” factor.

With regard to the Government, we adopted the following variables for the three factors. First, “enactment of relevant legislation such as export promotion act and SMEs promotion act, making of mid-term plans for export promotion and SMEs development” was adopted as a variable for “P” factor. Second, “establishment of trade center, export promotion agency, specialized ministry and agency for SMEs promotion” was adopted as a variable for “R” factor. Third, “existence of statistics and white papers on trade and manufacturing, and issuance of annual reports by government ministries and agencies in charge of trade, manufacturing, and SMEs” was adopted as a variable for “K” factor.

In addition, with regard to mutual relationships between the government and the firms, conditions of having dialogues and meetings were also examined.

(2) Development Stage Analysis

The development stage of social capacity is divided into the System-Making Stage, System-Working Stage, and Self-Management Stage, and we seek to make clear at which stage the current social capacity standard is. We also analyze how it got to that stage, and the next rational goal of social capacity standard and path. Moreover, we construct the prerequisite for making clear the quality and quantity, timing and sequence of assistance for the program of development policy and aid policy.

In the development stage analysis for the four countries, the transitions from the system-making stage to the system-working stage and from the system working stage to the self-sustainable stage are shown, based on the evaluation of Actor-factor Analysis (2 actors x 3 factors and their mutual relations).

2.2 Social capacity development in trade and evaluation of JICA’s assistance

[2] In more details, we also need to take into consideration physical aspects, which could be measured by capital stock, and financial aspects that include policy financing.
[3] Gross enrollment ratio is the number of students enrolled in a level of education, whether or not they belong in the relevant age group for that level, as a percentage of the population in the relevant age group for that level. On the other hand, net enrollment ratio is the number of students enrolled in a level of education who belong in the relevant age group, as a percentage of the population in that age group.

As a viewpoint of evaluation, two large points, "total evaluation of JICA's assistance in the field of trade" and "the contribution of JICA's assistance in the social capacity development of the targeted country" are set. For each viewpoint evaluation standard which has relation to the OECD DAC 5 items were set. The items which are important to the goal of this evaluation are taken into account. The standard of evaluation is as follows.

(1) Contribution (effectiveness, efficiency) of assistance to Social Capacity Development (in the government sector): Evaluate mainly direct contribution of assistance to CD.
(2) Consistency with the development stage of social capacity (timing of assistance entry and exit: relevance): Make clear at what stage the entry and exit of the assistance were performed, and evaluate the consistency of timing, quantity, quality (targeted actors and factors) and sequence of each assistance with social capacity development stages.
(3) Partnership with other Japanese organizations and coherence with Japan's upper-level policies (relevance): The characteristic of Japan's higher policy in the area of trade and investment is "growth-oriented development strategy through the trinity of assistance, trade and investment". Evaluate whether JICA's assistance has been consistent with this policy, and whether there have been sufficient partnerships with other Japanese organizations.
(4) Consistency with the policy of targeted countries (relevance): Evaluate relevance between JICA's assistance and development policies of targeted countries. Development policies in developing countries have two aspects. First, development policies are materialized in accordance with unique characteristics and development stages of those countries. Second, long-term development goals and external competitive factors also affect the making process of development policies.

With regard to (1) and (2), we decided to analyze both "contribution of assistance to social capacity development (in the government sector)" and "consistency of assistance with social capacity development stages", taking into consideration the importance of grasping social capacity development and aid inputs from multiple perspectives. With regard to (1), in particular, it was difficult to obtain detailed data of aid inputs, such as amounts and staff-months, dating back to 1980; therefore, we evaluated based on the number of projects in each year. We collected and sorted out the number of projects based on Institute for International Cooperation, Japan International Cooperation Agency (2003) and other materials, and listed the projects with confirmation from JICA local offices in the four countries. Although it is desirable to quantify the aid input based on the characteristics of each project[4], we cannot adopt "the number of projects" due to data limitation. However, input in

[4] It is not enough even if amount of money input of each project is obtained. We need to multiply coefficients by

four countries can be regarded as more similar, compared with developing countries in other region. We believe that we have been generally successful in evaluating contribution of assistance to capacity development and effectiveness and efficiency of assistance.

From the next section, we explain the result of survey and analysis in the four countries by evaluation framework and methodology mentioned in section 1 and 2.

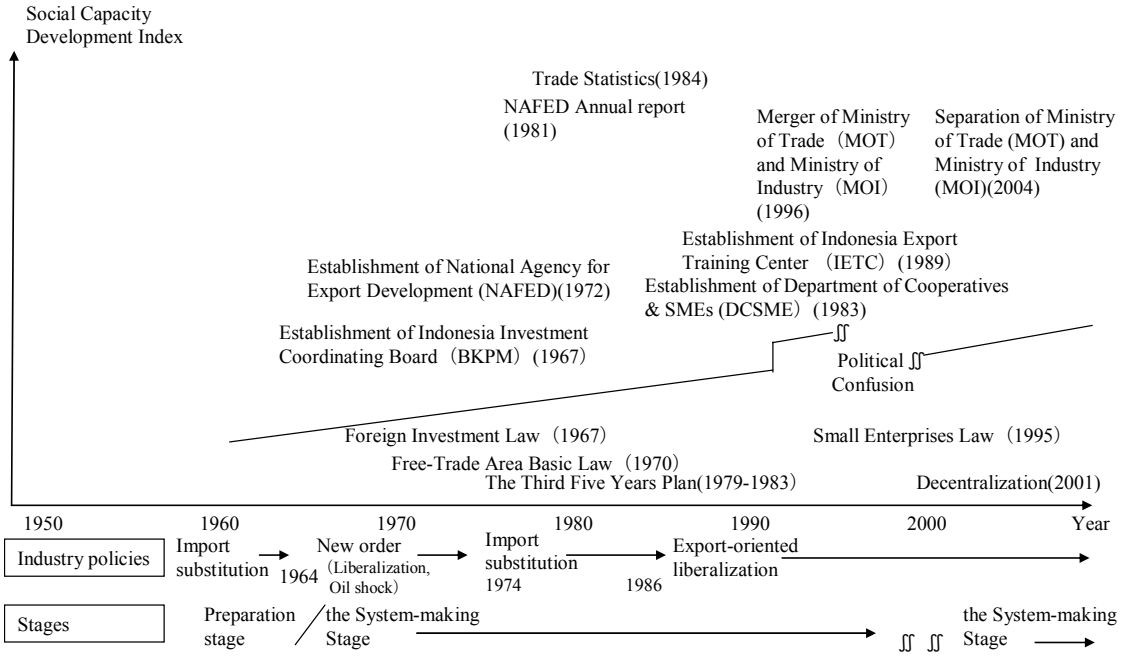
3. Indonesia

3.1 Social capacity development path and development stages

Figure S.2 shows Indonesia's social capacity development path based on the analysis of the government and the firms sectors. Indonesia made progress in social capacity development in either the government sector or the firms until the mid-1990s. However, much of what had been gained before the mid-1990s was lost in the climate of political confusion and economic crisis in the late 1990s. Indonesia experienced setback in social capacity development during this period, and now is finally closing its System-(Re)Making stage.

input type such as development survey and technical cooperation project, to conduct analysis more appropriately in accordance with the real situation.

Figure S.2 Indonesia's social capacity development in trade-related field



Source: The author based on an interview survey and several documents

With regard to the development of capacity factors in the governmental sector, "policies/measures factors ('P' factors: the formulation of medium-to-long-term plan of industry/trade [National Development Policy] and fundamental law and basic plan of export/SME promotion)" have steadily achieved the benchmark. "Human, financial, and physical resources in organization factors ('R' factors: the establishment of export-promoting agencies [the establishment of foreign and local offices, SME promoting agencies, and the organizational restructuring adapting to environmental changes])" have not accomplished its organizational restructuring in response to the changes of environment. Decentralization to local governments and splits and mergers of government ministries has caused confusions; thus, the stagnation of "R" factors is considered to have hindered development of the other two capacity factors. "Knowledge/skill factors ('K' factors)" have met a certain standard of the establishment of statistics. As to the white papers and annual reports of related organizations, there are rooms for further improvements. It is conceivable that the limiting factors rest in the room for improvement because the publication of the two reports needs more political and strategic judgment compared to the establishment of statistics.

In terms of the firms sector, compared to the situation in 1980 each capacity factor shows steadily growth, though it does not score a high standard. It seems the inducement of foreign direct investments (FDIs) became the facilitating factors that reflect the impact of "K" factors on two others. The relationship between the government and firms (including economic organizations) was

reinforced recently because the past chairman of Indonesian Chamber of Commerce and Industry (KADIN) became a Coordinating Minister for Economy in 2004.

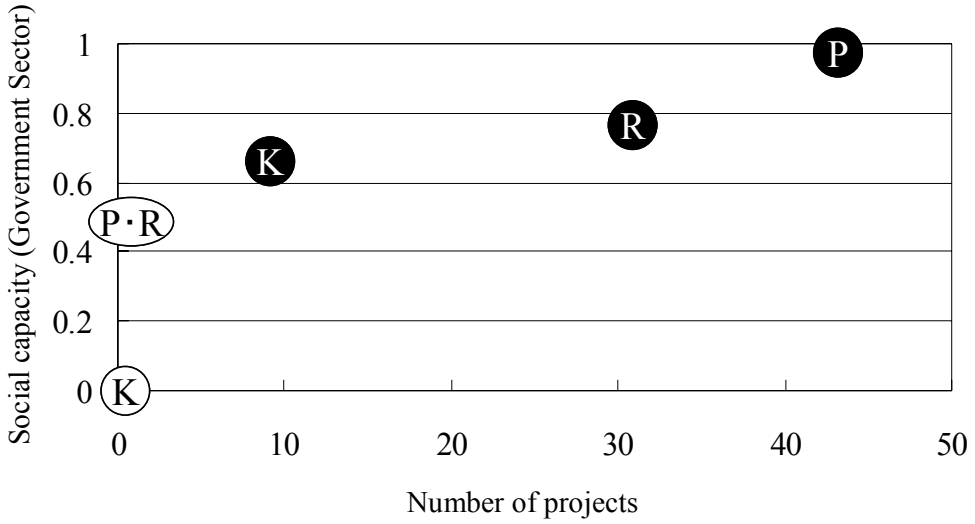
3.2 Contribution of JICA's assistance to capacity development of the government

In order to examine contribution of JICA's assistance to capacity development of the Indonesian government[5], we plotted the number of projects in the horizontal axis and the social capacity (the government) in the vertical axis in Figure S.3, showing changes by capacity in 1980 and in 2005. Here, the projects are sorted out based on capacity factors and counted in each year (Table S.2). With regard to the social capacity (the government), based on the benchmark of achievements, each factor is graded either 1 (achieved) or 0 (not achieved) and the average scores are calculated for each factor category.

As a result, it turned out that Indonesia has advanced its capacity in the factors that JICA has extended a lot of inputs, which indicates that JICA's assistance has been effective. "K" factors of the Indonesian government have remained at a low level; however, the growth rate of this factor category is high in spite of relatively small inputs of JICA's assistance, which indicates that JICA's assistance has been efficient.

[5] We focused on the government's export promotion capacity, because JICA's assistance has mainly input into government sector.

Figure S.3 Contribution of JICA's assistance to capacity development of the Indonesian government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

Table S.2 JICA's assistance inputs in Indonesia by development themes

Capacity factor	Development themes	Name of projects	1980	1985	1990	1995	2000
Policies and measures (P)	Export-promoting development plan	The Second Phase of the Follow-up Study on the Development of Supporting Industries in Indonesian Export Promotion					
	Establishment of trade-related legislation	Improvement of Customs System in Indonesia					
		The Capacity Building Program on the Implementation of the WTO Agreements					
		Improvement of Customs Procedures on Special Fields (Intellectual Property Rights)					
		Management of Export Credit Agency					
		Improvement of Trade Environment in capital region					
	Promotion and development of SMEs, supporting industry and industry	Project on Promotion of SMEs					
		Industrial Sector Promotion and Development Project					
		Plan making of Human Resources Development in Skills and Technique Sector					
		Industrial Promotion and Development Plan (Supporting Industry)					
		The First Phase of the Follow-up Study on the Development of Supporting Industries in Indonesian Export					
		Support for SMEs' promotion					
		Project on Supporting Industries Development for Casting Technology					
		Support for SMEs					
		Enhancement of SMEs Cluster Project					
	Establishment of Industry-related legislation	Promotion of Industrial Standardization and Quality Control Project					
		Industrial Property Rights Administration					
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development	Improvement of Trade Procedures Administration Project					
	Assistance for trade center	Indonesia Export Training Center (Phase1)					
		Indonesia Export Training Center (Phase1 Follow-up)					
		Indonesia Export Training Center (Phase1 Aftercare)					
		Indonesia Export Training Center (Phase2)					
		Indonesia Export Training Center (Phase2 Follow-up)					
		Regional Export Training and promotion Center					
	Promotion of SMEs, supporting industry and industry	Establishment of Metal Processing Promotion Center					
		Establishment of Industrial Technique Information Center Project					
		SMEs' human resource development project					
		SMEs' human resource development project (Follow-up)					
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information and skills	Development of trade commerce statistics system					
		Export promotion (Market analysis, development)					
		Industrial Project Development Basic Study (Improvement of Trade Environment in Indonesian capital region)					
		Promotion of trade, investment and industry					

Note: the names of the projects are not necessarily the same as the official titles of these projects because the official titles are not always kept well in record especially as for old projects. The official titles are used to the extent the evaluation team was able to specify them.

Source: the author

3.3 Consistency of social capacity development stages and JICA's assistance

Table S.3 shows Indonesia's social capacity development stages and JICA's assistance inputs. During the period from 1980 to 2005, Indonesia was in its System-making stage; therefore, all JICA's assistance inputs are shown under its column. JICA's assistance inputs have sorted out in accordance with relevant capacity factors.

Table S.3 Social capacity development stages in Indonesia and JICA's assistance inputs

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan	2		
	Trade-related legislation (Response to liberalization and facilitation such as WTO)	13		
	Promotion and development of SMEs, supporting industry and industry	24		
	Establishment of industry-related legislation	4		
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)	1		
	Assistance for Trade Center (Export-support, information, training for private companies)	22		
	Promotion of SMEs, supporting industry and industry	8		
	SMEs promotion organization	0		
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information (such as statistics) and skills	9		
	Acquisition, analysis and release of industry-related information (such as statistics) and skills	0		
Support for south-south cooperation		0		

Note. The numbers are the total number of projects

Source: the author

In concert with the change to export-oriented industrialization in the mid-1980s, JICA began assistance programs focused on small and medium-sized enterprises development, industrial development and also created the trade training center. These inputs are thought to have made a significant contribution to Indonesia's system formulation. As a result of the confusion after the economical crises in 1997 and afterwards, it became necessary to rebuild the system and regain what was lost. For this purpose JICA implemented various additional programs including those aimed at trade-related legislation, establishment of organization, and human resource development.

Social capacity development in trade has not been necessarily sufficient in Indonesia[6]; therefore, it is

[6] This assessment is just in comparison with more advanced developing countries such as Thailand and Malaysia.

still in the phase where focused capacity development is necessary in order to achieve transition to the system-working stage. Also, as Indonesia has much larger land and population than the other three countries, namely Thailand, Malaysia, and the Philippines, the country needs more resources inputs. Accordingly, it is necessary for the international community as well as Indonesia itself to invest more resources inputs for capacity development. It should be also noted that, at the project level, there are successful cases in promoting capacity development such as Indonesian Export Training Center (IETC), which has graduated from JICA's assistance, expanded to operate at local levels, and is considering South-South cooperation towards Africa.

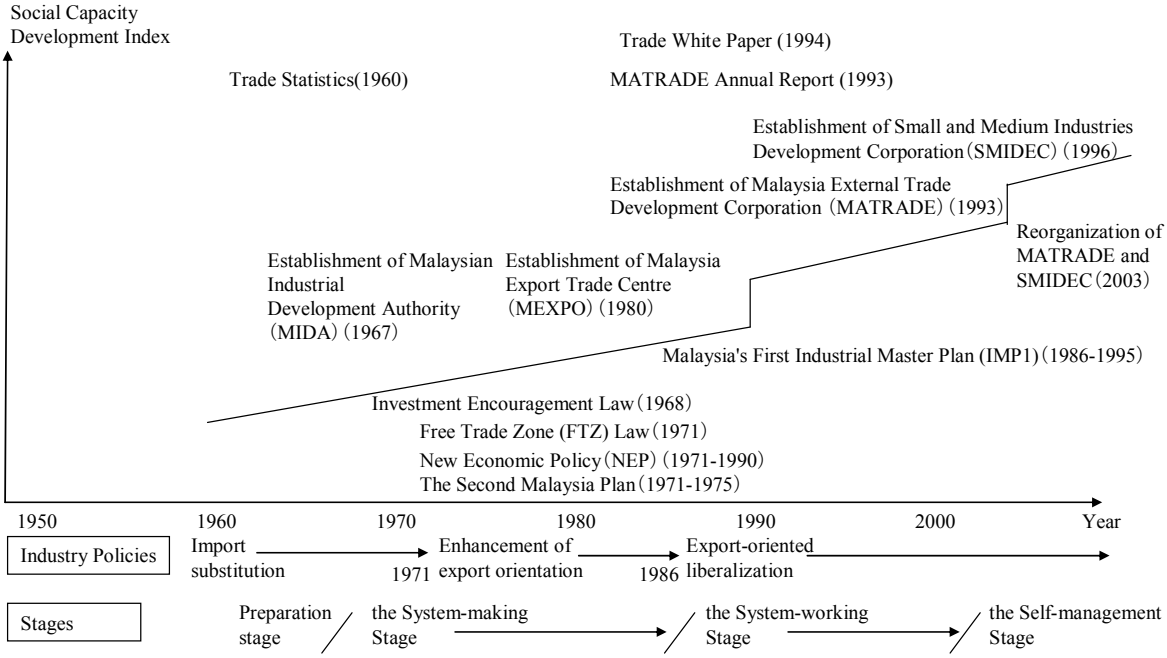
There is no doubt that Indonesia has improved its social capacity better than other developing countries in general. JICA's assistance should be evaluated in its role to have contributed to Indonesia's capacity development to reach the final phase of the System-making stage.

4. Malaysia

4.1 Social capacity development path and development stages

Figure S.4 shows Malaysia's social capacity development path based on the analysis of the government and the firms sectors. Malaysia has steadily advanced social capacity development in both the government and the firms sectors. Malaysia moved from its system-making stage to system-working stage in the early 1990s and has been in transition to its self-management stage in the years after 2000.

Figure S.4 Malaysia's social capacity development in trade-related field



Source: The author based on an interview survey and several documents

With regard to the development of capacity factors in the government sector, legal systems and planning (policies/measures = "P" factors) developed to a basic level until the mid 1980s. In terms of institutions (human, financial, and physical resources in organization factors = "R" factors), relevant government organizations such as Malaysia External Trade Development Corporation (MATRADE) and Small and Medium Industries Development Corporation (SMIDEC) have been smoothly established.

In terms of the firms sector, all three factors indicate steadily transition in the capacity level and growth. It seems the inducement of FDIs became the facilitating factors that reflect the impact of

"Knowledge/skill factors" on the two others. Malaysia had the highest export capacity in 1980 among four comparable countries. The level of its capacity after 2000 has grown steadily, though it is still lower than the most developed countries. Not only has the trade capacity of individual enterprises increased, but major industrial association such as Federation of Malaysian Manufacturers (FMM) have gained capability in both proposing policies to the government and providing services for local companies.

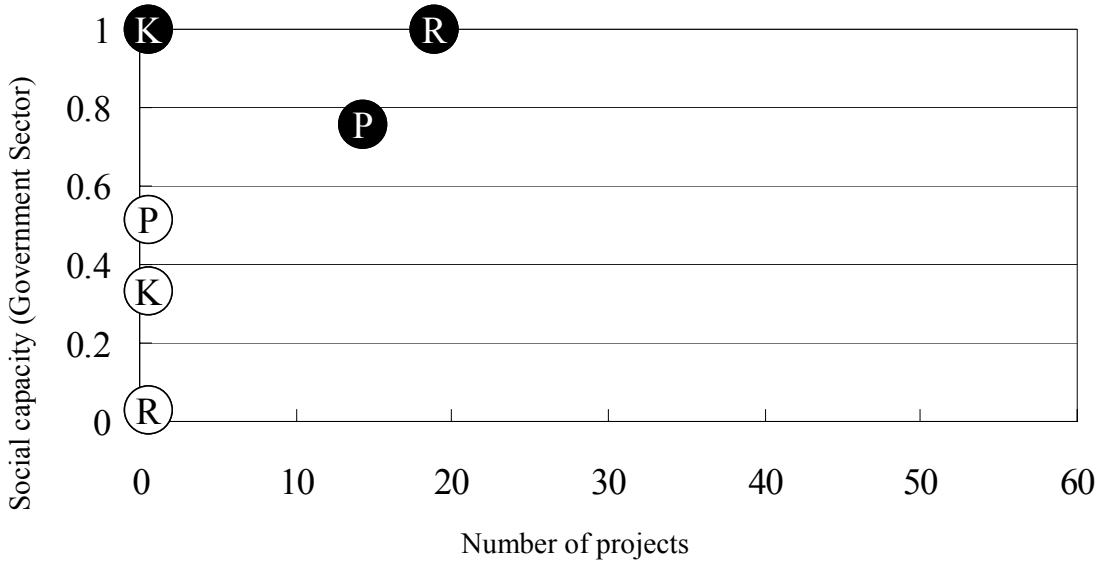
The relationship between the government and firms (including industrial association) seems to have met a certain level. This is exemplified by that fact that MATRADE has been established based on the recommendation of FMM, and their tight collaboration has been going on.

4.2 Contribution of JICA's assistance to capacity development of the government

In order to examine contribution of JICA's assistance to capacity development of the Malaysian government, in the same way as we did for Indonesia, we plotted the number of projects in the horizontal axis and the social capacity (the government) in the vertical axis in Figure S.5, showing changes by capacity in 1980 and in 2005. The number of projects is, as shown in Table S.4, the total number of projects in each year based on the categories in accordance with relevant capacity factors.

As a result, it has become clear that Malaysia has smoothly developed its social capacity in spite of relatively little aid inputs from JICA. It is assumed that Malaysia itself has had strong ownership and led its capacity development on its own; therefore, development assistance has been extended at a minimum level required.

Figure S.5 Contribution of JICA's assistance to capacity development of the Malaysian government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

Table S.4 JICA's assistance inputs in Malaysia by development themes

Capacity factor	Development themes	Name of projects	1980	1985	1990	1995	2000
Policies and measures (P)	Establishment of trade-related legislation	The Capacity Building Program on the Implementation of the WTO Agreements					
	Promotion and development of SMEs, supporting industry and industry	Promotion and Development of industry sector					
		Construction of Kulim Hi-Tech Park					
		Promotion and Development of industry sector (Supporting industry)					
		Supporting Industry Technology Transfer Project					
		Formulation of Action Plan to Develop Advisory Capabilities of Malaysian Development Financial Institutions for SMEs					
Human, financial, and physical resources in organization (R)	Assistance for trade center	Malaysia External Trade Development Corporation					
	Promotion of SMEs, supporting industry and industry	Metal Industrial Technology Center					
		Research on Fine Ceramics					
		Casting Technology Center					

Note: the names of the projects are not necessarily the same as the official titles of these projects because the official titles are not always kept well in record especially as for old projects. The official titles are used to the extent the evaluation team was able to specify them.

Source: the author

4.3 Consistency of social capacity development stages and JICA's assistance

Table S.5 shows Malaysia's social capacity development stages and JICA's assistance inputs from 1980 to 2005. During this period, Malaysia moved from its system-making stage, to system-working stage, and to self-management stage; therefore, JICA's assistance inputs are plotted under corresponding stages. Assistance inputs are sorted out in accordance with capacity factors of "P" factors, "R" factors, and "K" factors.

Table S.5 Social capacity development stages in Malaysia and JICA's assistance inputs

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan			
	Trade-related legislation (Response to liberalization and facilitation such as WTO)		2	2
	Promotion and development of SMEs, supporting industry and industry	5	3	2
	Establishment of industry-related legislation			
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)			
	Assistance for Trade Center (Export-support, information, training for private companies)		3	
	Promotion of SMEs, supporting industry and industry	15	1	
	SMEs promotion organization			
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information (such as statistics) and skills			
	Acquisition, analysis and release of industry-related information (such as statistics) and skills			
Support for south-south cooperation				

Note. The numbers are the total number of projects

Source: the author

From the system-making stage to system-working stage in Malaysia, JICA implemented projects for industrial promotion including promoting SMEs and supporting industries. Then during the transitional period from system-working stage to the self-management stage, JICA provided support programs related to trade such as assistance to MATRADE and WTO capacity building programs. Compared with the situation in Indonesia and the Philippines, JICA projects in Malaysia have successfully come to exits, and it seems that JICA effectively organizes the schedule of its projects according to the social capacity development stages of the recipient country.

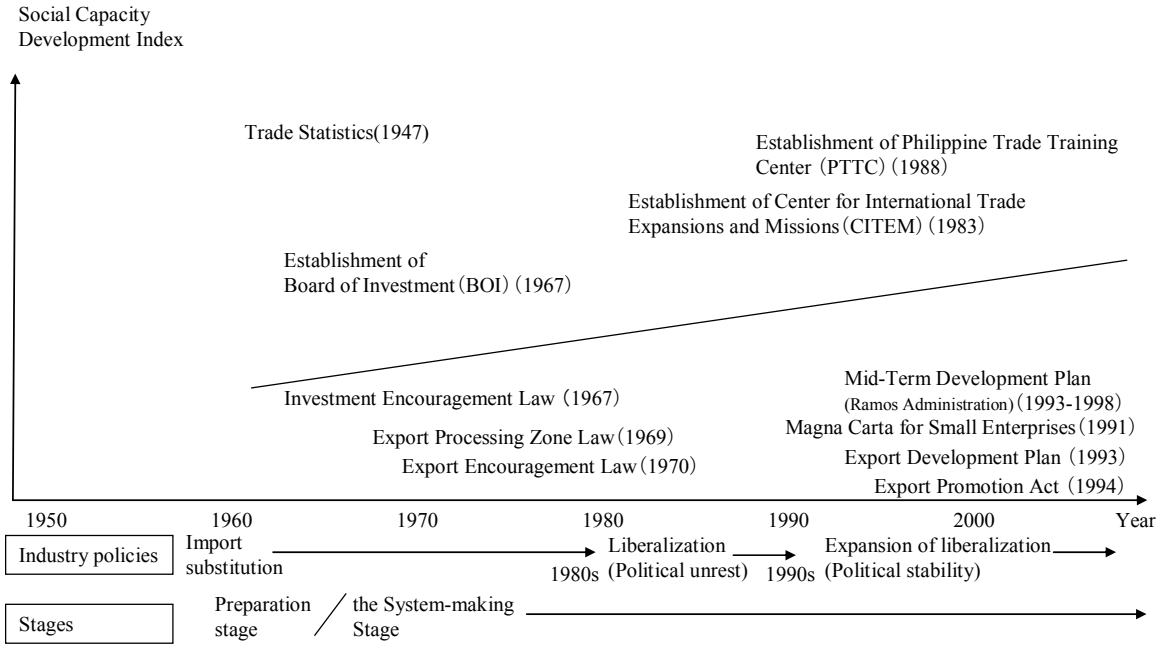
As Malaysia's capacity development has shifted to the self-management stage, JICA actively promotes South-South cooperation under Malaysian Technical Cooperation Programme (MTCP) scheme. In terms of trade and investment sector, Ministry of International Trade and Industry (MITI), Malaysia Industrial Development Authority (MIDA), and National Productivity Corporation (NPC) have accepted trainees. Support by JICA in trade and investment is under consideration for promoting Malaysia's South-South cooperation.

5. Philippines

5.1 Social capacity development path and development stages

Figure S.6 shows the Philippines' social capacity development path based on the analysis of the government and the firms sectors. With regard to the social capacity of the Philippines, both the government and the firms have made some achievements in policy-planning, organization building, and educational development at least in their formality; however, these achievements have not led to social capacity development to enhance export performance. Accordingly, it is concluded that the Philippines has not reached its system-working stage.

Figure S.6 Philippine social capacity development in trade-related field



Source: The author based on an interview survey and several documents

With regard to the development of capacity factors in the governmental sector, "policy/measures factors ("P" factors: the formulation of medium-to-long-term plan of industry/trade [National Development Policy] and fundamental law and basic plan of export/SME promotion)" have steadily achieved the benchmark. Among "human, financial, physical resources in organization factors ("R" factors: the establishment of export-promoting agencies [the establishment of foreign and local offices, SME promoting agencies, and the organizational restructuring adapting to environmental changes])", the item of export-promoting agencies seems to be inferior when compared to the other three countries (in fact, Center for International Trade Expositions and Missions (CITEM) does not

have overseas offices.). The stagnation of capacity development of "human, financial, physical resources in organization factors" is considered to be the limiting factors of capacity development of the other two factors.

"Knowledge/skill factors ('K' factors)" have met a certain standard of the establishment of statistics. As to the white papers and annual reports of related organizations, there should be ameliorations. It is conceivable that the limiting factors rest in the room for improvement because the publication of other two reports needs more political and strategic judgment compared to the establishment of statistics.

In terms of the firms sector, the capacity development has seen sluggish growth though it had desirable initial condition (in 1980). "Knowledge/skill factor (represented as gross enrollment ratio of secondary education)" has kept the top position among four countries during the period of the project, but it does not contribute to the capacity development related to "R" factor (as manufacturing employment rate out of all employment)". It does not reflect on "P" factor (as labor productivity) either.

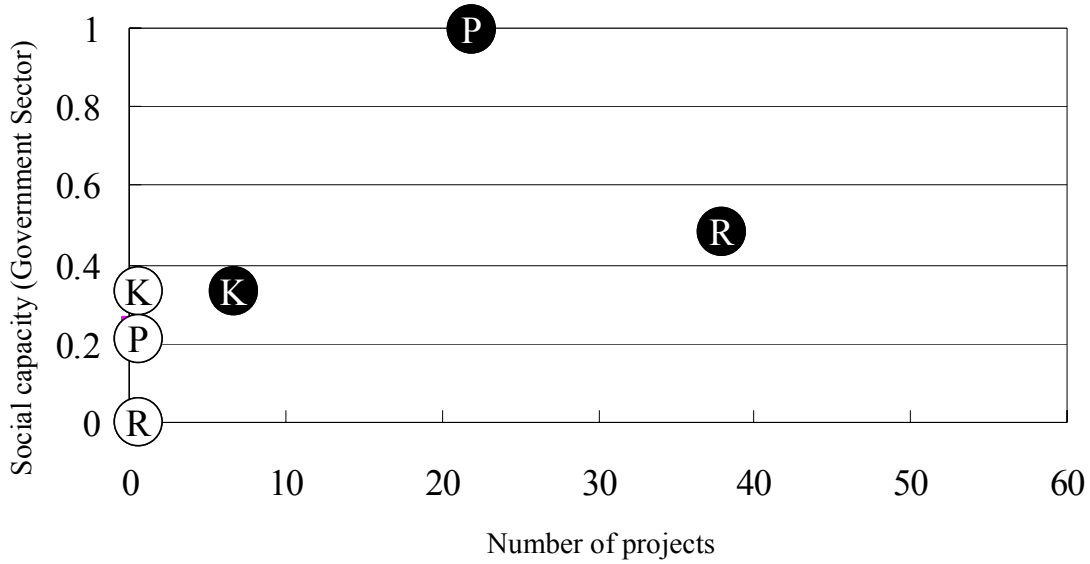
The relationship between the government and firms (including economic organizations) seems to have kept a certain standard. The Export Development Council consisting of representatives of public and private has established in 1994 and the foundation to accept policy proposals made by private agencies has developed.

5.2 Contribution of JICA's assistance to capacity development of the government

Figure S.7 shows the situation of Philippine social capacity development stages and JICA's assistance inputs from 1980 to 2005. The number of projects is, as shown in Table S.6, the total number of projects in each year based on the categories in accordance with relevant capacity factors.

There has not been necessarily seen sufficient contribution of JICA's assistance to social capacity development in the Philippines when it is compared to the other three countries. There are several constraints that have hindered contribution of JICA's assistance to the Philippines' social capacity development; for instance, the country has received a relatively small number of projects compared to Indonesia and Thailand; and its government sector has limited human and financial resources.

Figure 7 Contribution of JICA's assistance to capacity development of the Philippine government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

Table S.6 JICA's assistance inputs in the Philippines by development themes

Capacity factor	Development themes	Name of projects	1980	1985	1990	1995	2000
Policies and measures (P)	Export-promoting development plan	Development of Cavite Export Processing Zone and Investment Promotion Plan					
	Establishment of trade-related legislation	The Capacity Building Program on the Implementation of the WTO Agreements					
	Promotion and development of SMEs, supporting industry and industry	Master Plan of Coal Industrial Technology Development					
		Promotion and Development of industry sector					
		Industrial Environment Management Study					
		Plan-Making Support of SMEs Development					
	Establishment of Industry-related legislation	Industrial Standardization and Quality Control Project					
		Industrial Property Modernization					
Human, financial, and physical resources in organization (R)	Assistance for trade center	Trade Training Center					
		Trade Training Center (Follow-up)					
	Promotion of SMEs, supporting industry and industry	Metal and Casting Technology Center					
		Industrial Standardization and Electric Testing Technology					
		Software Development Training Center					
		Improvement of Mold Technology					
		Electronic Products Testing Technical Cooperation					
		Improvement of Regional Food Packing Technology					
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information and skills	Study on Measurement of the Time Required for Trade					
	Acquisition, analysis and release of industry-related information	Production Statistics Development Plan					
		Production Statistics Development Plan Follow-up Study					

Note: the names of the projects are not necessarily the same as the official titles of these projects because the official titles are not always kept well in record especially as for old projects. The official titles are used to the extent the evaluation team was able to specify them.

Source: the author

5.3 Consistency of social capacity development stages and JICA's assistance

Table S.7 shows the Philippines' social capacity development stages and JICA's assistance inputs from 1980 to 2005. During this period, the Philippines has been in its system-making stage; therefore, all JICA's assistance inputs are shown under its column. JICA's assistance inputs have sorted out in accordance with relevant capacity factors.

Table S.7 Social capacity development stages in the Philippines and JICA's assistance inputs

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan	1		
	Trade-related legislation (Response to liberalization and facilitation such as WTO)	4		
	Promotion and development of SMEs, supporting industry and industry	10		
	Establishment of industry-related legislation	7		
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)			
	Assistance for Trade Center (Export-support, information, training for private companies)	8		
	Promotion of SMEs, supporting industry and industry	30		
	SMEs promotion organization			
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information (such as statistics) and skills	2		
	Acquisition, analysis and release of industry-related information (such as statistics) and skills	5		
Support for south-south cooperation				

Note. The numbers are the total number of projects

Source: the author

Overall, a variety of assistance was provided to the Philippines at the same time after 2000 as was done for Indonesia. Economic cooperation in the trade and investment from Japan includes not only the Philippine Trade Training Center (PTTC) project but also reinforcement of customs systems, WTO capacity building. In addition, JICA plans to implement food packaging technical cooperation projects. A lack of assistance to the supporting industries seems to reflect the fact that foreign capital is not as active as in other target countries.

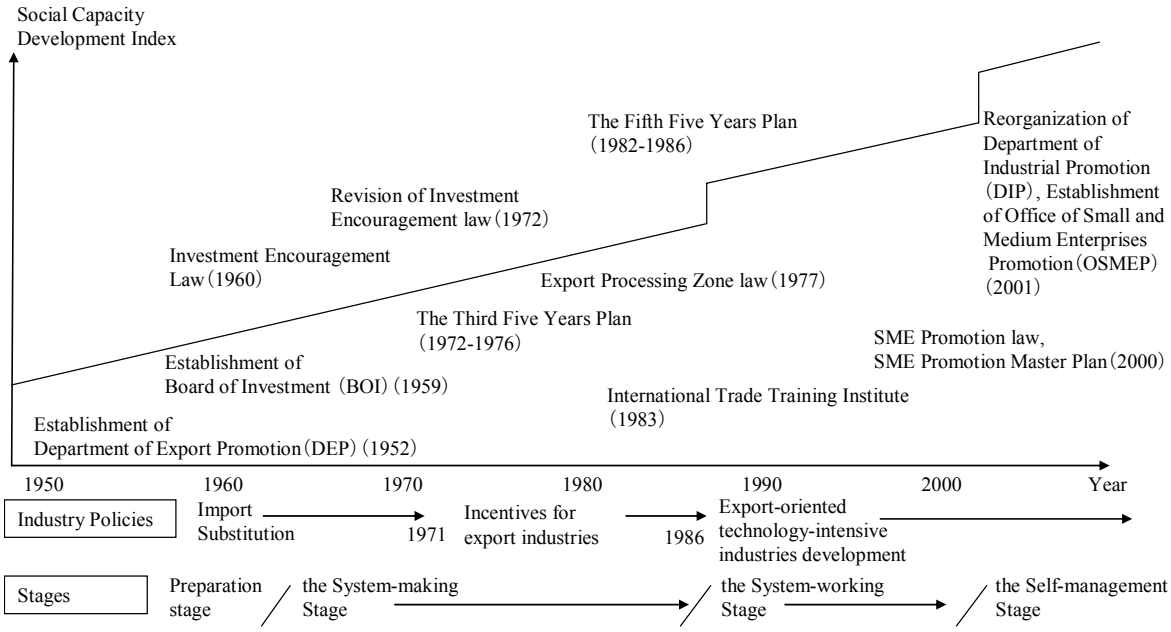
What it comes down to is that JICA's trade sector assistance in the Philippines needs additional and intensive inputs to actualize the transition to the system-working stage because the Philippines' social capacity has not sufficiently developed compared to Malaysia and Thailand. The country is still in the phase where focused capacity development is necessary in order to achieve transition to the system-working stage. Accordingly, it is necessary for the international community as well as the Philippines itself to continue to invest more resources inputs for capacity development.

6. Thailand

6.1 Social capacity development path and development stages

Figure S.8 shows Thailand's social capacity development path based on the analysis of the government and the firms sectors. Thailand has steadily advanced social capacity development in both the government and the firms sectors. Thailand advanced from the system-making to the system-working stage in its economic development in the 1990s and is shifting into the self-management stage in 2000s.

Figure S.8 Thailand's social capacity development in trade-related field



Source: The author based on an interview survey and several documents

With regard to the development of capacity factors in the governmental sector, almost all items have steadily achieved the benchmark. Concerning legal system and planning, government capacity for export promotion was fully developed by the middle of the 1980's. Concerning the organizational aspect, the Ministry of Commerce and Ministry of Industry, and particularly related organizations including Department of Export Promotion (DEP) of Ministry of Commerce (MOC) and Office of Small and Medium Enterprises Promotion (OSMEP) have been steadily developed.

The export capacity of the firms has been relatively high since the 1980's among the four targeted countries. Although the standard found after the year 2000 is still low compared to developed

countries, it has been steadily growing during this period. The capacity standard and growth of all three factors, which have not come up to those of Malaysia, shows the favorable transition. The gross enrollment ratio of secondary education which was adopted as a proxy variable of "knowledge/skill ('K' factors)" shows the significant growth. It is presumable that the potentiality of improving capacity is increasing because the role of the secondary education in the capacity development of manufacturing field is important. Not only individual firm-level efforts but the works of powerful industry organizations as represented by the Federation of Thai Industries (FTI), build capacity in both policy recommendation and services for firms.

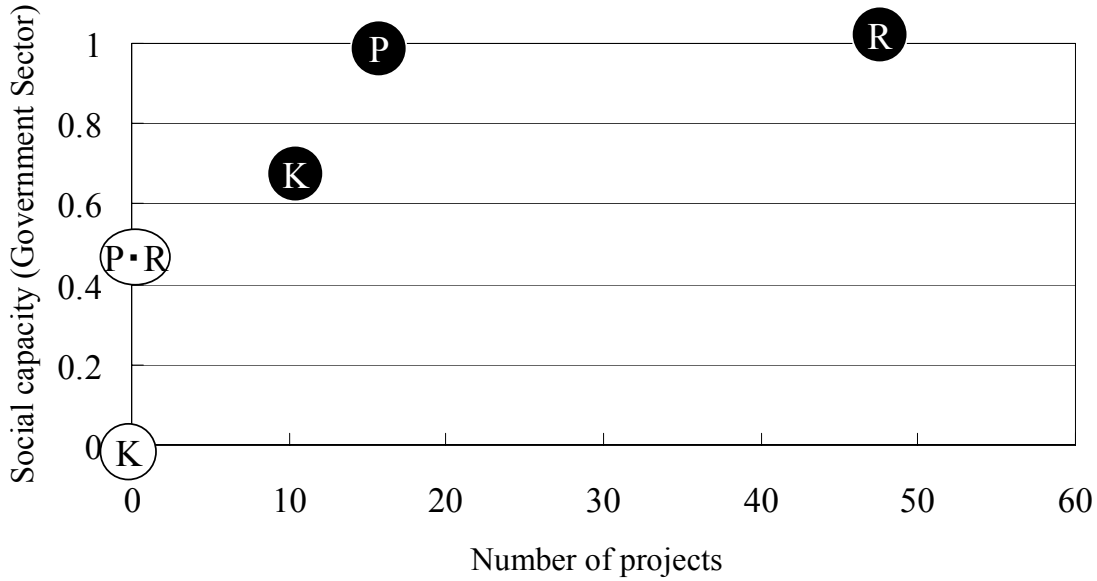
The relationship between the government and firms (including economic organizations) seems to have kept a certain standard. The joint acceptance and dispatch of missions by FTI, DEP, and BOI has brought the results.

6.2 Contribution of JICA's assistance to capacity development of the government

In order to examine contribution of JICA's assistance to capacity development of the Thai government, in the same way as we did for the other countries, we plotted the number of projects in the horizontal axis and the social capacity (the government) in the vertical axis in Figure S.9, showing changes by capacity in 1980 and in 2005. The number of projects is, as shown in Table S.8, the total number of projects in each year based on the categories in accordance with relevant capacity factors.

In the case of Thailand, capacities have been more developed where JICA has extended more inputs, which indicates effectiveness of JICA's assistance. Although "K" factors remain at relatively low level compared to the other factors, this factor category has shown high increase from 1980 to 2005 in spite of relatively low level of aid inputs from JICA.

Figure S.9 Contribution of JICA's assistance to capacity development of the Thai government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

Table S.8 JICA's assistance inputs in Thailand by development themes

Capacity factor	Development themes	Name of projects	1980	1985	1990	1995	2000
Policies and measures (P)	Establishment of trade-related legislation	Capacity Building Program on the Implementation of the WTO Agreements					
	Promotion and development of SMEs, supporting industry and industry	Promotion and Development of industry sector					
		Promotion and Development of industry sector (Supporting industry)					
		Development of Consulting Service for Thai SMEs Cluster and Regional Development					
	Establishment of Industry-related legislation	Industrial Standards and Testing and measurement System Development Study					
		SMEs Promotion Support					
		Management consulting of SMEs					
Human, financial, and physical resources in organization (R)	Assistance for trade center	Trade Training Center					
		Trade Training Center (Follow-up)					
	Promotion of SMEs, supporting industry and industry	Metal Processing and Machine Industry Development					
		Industrial Standardization Test Training Center					
		National Computer and Software Training Center					
		North Ceramic Center					
		Increase of Productivity					
		Institution-building of SMEs' management consulting					
		Improvement of mold technology					
		Industrial Standardization Test Training Center (Aftercare study team)					
Knowledge and skills (K)	Acquisition, analysis and release of industry-related information	Industrial Property Information Center					
		National measurement standard institution					

Note: the names of the projects are not necessarily the same as the official titles of these projects because the official titles are not always kept well in record especially as for old projects. The official titles are used to the extent the evaluation team was able to specify them.

Source: the author

6.3 Consistency of social capacity development stages and JICA's assistance

Table S.9 shows Thailand's social capacity development stages and JICA's assistance inputs from 1980 to 2005. During this period, Thailand moved from its system-making stage, to system-working stage, and to self-management stage; therefore, JICA's assistance inputs are plotted under corresponding stages. Assistance inputs are sorted out in accordance with capacity factors of "P" factors, "R" factors, and "K" factors.

Table S.9 Social capacity development stages in Thailand and JICA's assistance inputs

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan			
	Trade-related legislation (Response to liberalization and facilitation such as WTO)		2	2
	Promotion and development of SMEs, supporting industry and industry	4	2	2
	Establishment of industry-related legislation		4	
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)			
	Assistance for Trade Center (Export-support, information, training for private companies)	7		
	Promotion of SMEs, supporting industry and industry	16	26	2
	SMEs promotion organization			
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information (such as statistics) and skills			
	Acquisition, analysis and release of industry-related information (such as statistics) and skills		7	3
Support for south-south cooperation				

Note. The numbers are the total number of projects

Source: the author

Overall, it seems that necessary assistance has been sequentially provided as done in Malaysia. Specifically speaking, in the 1980s, along with the expansion of export orientation, the assistance inputs to the International Trade Training Center (ITTC, currently International Trade Training Institute (ITTI)) started. Then, several development survey and technical cooperation projects for the promotion of industry, SME, and supporting industry was conducted. During the transitional period from system-working stage to the self-management stage, JICA implemented projects related to policies and measures such as assistance for WTO capacity building, development of consulting services to promote SME cluster and regional development, Thai measurement and standards organization project.

7. Evaluation results, lessons and recommendations

7.1 Social capacity development in trade and evaluation of JICA's assistance

7.1.1 Contribution of JICA's assistance to capacity development of the governments

As mentioned above, we compared the capacity levels and JICA's assistance inputs as of 1980 and as of 2005, and examined contribution of JICA's assistance inputs. In this section, we will show the capacity development situations of individual countries, and accordingly analytical results.

Table S.10 shows the development of the government's capacity factors. First, "policy/measures factors ("P" factors: the formulation of medium-to-long-term plan of industry/trade [National Development Policy] and fundamental law and basic plan of export/SME promotion)"have been steadily developed overall in all the four countries. On the other hand, there are gaps between the Malaysia-Thailand group and the Indonesia-Philippine group in the other two factor categories of "human, financial, physical resources in organization factors ('R' factors: the establishment of export-promoting agencies [the establishment of foreign and local offices, SME promoting agencies, and the organizational restructuring adapting to environmental changes])" and "knowledge/skills factors ('K' factors: existence of statistics and white papers on trade and manufacturing, and issuance of annual reports by government ministries and agencies in charge of trade, manufacturing, and SMEs)." With regard to the relationships between the government and the business (including industrial associations), all the four countries have reached a certain level.

Table S.10 Social capacity development in trade in the four targeted countries
(Capacity of the government sector and government-business relationships)

Capacity Factors	Check items of capacity evaluation	Indonesia		Malaysia		Philippines		Thailand	
		1980	2005	1980	2005	1980	2005	1980	2005
Policies and Measures (P)	Medium and long-term plan-making (National development plan) on industry and trade	✔	✔	✔	✔	✔	✔	✔	✔
	Establishment of basic laws on export promotion	✔	✔	✔	✔	✔	✔	✔	✔
	Establishment of basic laws on SMEs promotion		✔				✔		✔
	(Relationship between the government and enterprises) Dialog and meeting between the government and enterprises		✔		✔		✔		✔
Human, financial and physical resources in organization (R)	Establishment of export promotion organization	✔	✔	✔	✔		✔	✔	✔
	Establishment of overseas office of export promotion organization	✔	✔		✔			✔	✔
	Establishment of SMEs promotion organization		✔		✔		✔		✔
	Self-management organization				✔				✔
Knowledge and skills (K)	Publication of statistics		✔	✔	✔	✔	✔		✔
	Publication of trade white paper				✔				
	Publication of annual report by export promotion organization		✔		✔				✔

Note 1. Cells are checked when items are achieved.

Source: the author

With regard to the firms sector, as shown in Table S.11, Malaysia, Thailand and Indonesia have displayed smooth increase in capacity factors; Malaysia has achieved high marks in all three factors; and Thailand and Indonesia follow in the order. On the other hand, the Philippines has been unable to develop its capacity smoothly although it was enjoying high performance as of 1980.

Table S.11 Social capacity development in trade in the four targeted countries
(Capacity of the business sector)

	Policies and measures (P) (Labor productivity of manufacture industry constant 2000 US$)	Human, financial and physical resources in organization (R) (Ratio of employees in manufacture industry to employees in total, %)	Knowledge and skills (K) (Enrollment rate of secondary education, %)
Indonesia	1,628 (1981)	8 (1981)	29 (1980)
	3,932 (2003)	13 (2002)	61 (2002)
Malaysia	10,316 (1981)	15 (1982)	48 (1980)
	16,935 (2004)	21 (2004)	70 (2002)
Philippines	6,754 (1981)	10 (1981)	64 (1981)
	6,507 (2004)	10 (2004)	84 (2002)
Thailand	4,842 (1981)	7 (1981)	29 (1980)
	10,052 (2004)	15 (2004)	81 (2002)

Source: the author

In order to examine contribution of JICA's assistance to capacity development of the governments of the four countries, we plotted the number of projects in the horizontal axis and the social capacity (the government) in the vertical axis. As a result, we have found that levels of individual capacity factors have improved in the four countries, and JICA's assistance has been one of the contributing factors for such improvements (See Figure S.3, Figure S.5, Figure S.7, and Figure S.9). In Indonesia and Thailand, improvements of social capacity levels are proportionate with the amount of JICA's assistance inputs, which indicates JICA's assistance has been relatively large. On the other hand, Malaysia has been successful in developing its capacity in spite of low level of JICA's inputs; among others, capacity development in "R" factors has been remarkable in Malaysia. In the Philippines, there has not been seen sufficient contribution of JICA's assistance; among others, the country has shown little increase in "R" factors and "K" factors.

7.1.2 Consistency of social capacity development stages in trade and JICA's assistance

Based on the social capacity development stage analysis of the four countries, we will evaluate consistency of JICA's assistance with the social capacity development stages in the four countries. JICA's assistance will be classified into two categories based on the characteristics of inputs in hindsight; "additional input" type and "sequential input" type. These two types are referred to as a hint to evaluate consistency of JICA's assistance.

In the first type, the focus of assistance will shift according to social capacity development stages

and following assistance will be implemented. Among targeted countries, Malaysia and Thailand are categorized in this type, and JICA's assistance towards Malaysia and Thailand are evaluated to be consistent with their development stages. In Malaysia, JICA implemented industrial development assistance from the system-making stage to the system-working stage, and then it implemented trade promotion assistance (MATRADE) in the system-working stage. Subsequently, it started assistance for enhancing trade institutions in Malaysia's self-sustainable stage. In Thailand, assistance for industrial development and trade institution enhancement was implemented in the same manner as in Malaysia. With regard to the trade center project, it was implemented in the system-making stage.

The second-type is, due to the insufficient development of social capacity, one in which various types of assistance are implemented at the same time at a certain stage. This type is called "additional input" type assistance. Indonesia and the Philippines are considered to be the second type. These two countries have not sufficiently developed their social capacity; therefore, concentrated inputs have been seen as total efforts of both the countries themselves and development assistance in order to move their capacity development stage to the system-working stage.

Examining consistency of JICA's assistance with social capacity development stages in hindsight, it can be concluded that "sequential input" type assistance implemented in Malaysia and Thailand seems to have been more desirable in terms of efficiency and ensuring ownership. However, it is more fit in with the reality to say that efficient assistance has been possible because those countries have had strong ownership. In the cases of Indonesia and the Philippines, JICA's assistance has been consistent with development stages in a sense that it has been in line with the reality of the countries. However, more efforts are required to promote self-help of developing countries and facilitate capacity development based on their ownerships.

7.1.3 Coherence with higher policies and partnership between JICA and other agencies

Japan has conducted international cooperation based on the policy of "the trinity of assistance, trade and investment". This policy typically materialized in the Southeast Asian countries. Japan's assistance has led to improving the investment climate, which fosters foreign direct investment, and to promoting export. Ultimately this strategy leads to contribute toward the economic growth of developing countries. For example, economic infrastructure development cooperation in areas such as roads, railways, ports, airports, transport/communication and power, contributes to investment climate improvements. In addition, training for engineers and managers by Association of Overseas Technical Scholarship (AOTS) and JICA, and expert dispatch programs by Japan Overseas Development Corporation (JODC) contribute to human resources development in the trade area of

developing countries.

The sharing of assistance by Japanese assistance-related organizations is summarized as follows. First, for the capacity development of the Government, JBIC has played a major role in the "hard" aspect by supporting infrastructure building, and JICA has played a major role in the "soft" aspect by assisting institutional building. In terms of assistance for trade-related policy making and implementation, JICA and partly JETRO have played important roles. In addition, assistance to the government for enhancing its export promotion services has been implemented mainly by JICA and partly implemented by JETRO as its cooperation with export promotion organizations. With regard to SMEs capacity development, JETRO, JODC and AOTS have played major roles in extending assistance. Assistance to private industrial associations have been mainly charged with JETRO

With the above mentioned sharing of roles, the coordination among JICA and other assistance related agencies has been effective. Furthermore, in each developing country, the ODA task force among embassies, JICA, JBIC and JETRO is held and the coordination among agencies is strengthening. However, for further development, it is necessary to discuss more effective ways of sharing roles without sticking to each agency's formulated roles.

Looking at the trends in the donor community, in order to solve the problems of limiting the aid channel only to "G to G", it has become mainstreamed to pursue a "best-mix" assistance of "G to G" and "G to B" in accordance with unique conditions and development stages of developing countries. (With regard to assistance in the area of trade and investment, in most cases end-beneficiaries are the private sector. However, we focus on "direct" beneficiary when we discuss whether beneficiaries are the government or the private sector.) In pursuing such best-mix assistance, if roles of individual agencies are fixed, it is difficult to respond the needs of a host country flexibly, due to the shortcomings of schemes of individual agencies. For instance, JICA mainly implements G to G projects and it uses relatively long time to prepare for the start of projects, and JETRO expert are targeted at short-term needs. In a country where social capacity is not developed smoothly, such as the Philippines and Indonesia, it is necessary to consider the new channel through which Japan's assistance is input to a private sector. Furthermore, in addition to existing cooperation roles of each agency, the new role sharing needs to be formulated for the new international cooperation.

7.1.4 Consistency with a developing country's development policy

The four countries we evaluated in this report adopted export-oriented industrialization policies by the mid-1980s. More specifically, the governments encouraged investment in export-oriented

industries by policy measures such as low-interest policy financing as well as provided subsidies and lowered export-tariffs. In addition, as trade liberalization advanced in the world through the WTO, FTAs, and EPAs, the governments have shifted their focuses from export promotion assistance targeting at individual industries/companies to establishment and improvement of the system and environment to promote capacities in the private sector.

In the meantime, Indonesia and the Philippines, faced with strong competitors such as Malaysia and Thailand in the neighborhood, set the same targets as those relatively advanced countries. Such target settings were not only pursued by the local governments themselves but also strategically encouraged by the donors. In that sense, donors' assistance was consistent with development policies of those countries. However, it need to be carefully reviewed whether development policies of Indonesia and the Philippines themselves were appropriate, taking also into consideration domestic protectionist policies of these countries.

In a country where industrial development has been achieved to a certain level and its national income is relatively high, such as Thailand and Malaysia, social capacity has also been developed to some extent. Therefore, the focus of the recipient government's policy is to grow high value-added industries based on the already developed social capacity. Accordingly, assistance to these countries should focus on the firms sector, rather than on the government sector, to promote direct investment and imports. Development assistance to Thailand and Malaysia is already shifting in this direction. Also, these countries are expected to become a center for South-South cooperation toward less developed countries, which is a challenge for these countries. JICA is already considering how to promote South-South cooperation by these countries.

7.2 Lessons learned and recommendations

In this section, based on the lessons learned from evaluation results for the four countries, we set forth recommendations for enhancing aid effectiveness especially in the situations where social capacity is not smoothly being developed. More specifically, we point out the importance of accurately identifying social capacity development stages, conducting ex-ante program planning, actively seeking to adopt “G to B” approach, and extending well-targeted assistance that matches the country’s social capacity with a proper consideration of the local strategies.

(1)Toward program-based assistance

Based on the evaluation results of Indonesia and the Philippines, JICA’s assistance has made contributions to the governments’ capacity development to some extent. However, when considering consistency of JICA’s assistance with capacity development of the whole society including the business sector, these countries have not been able to reach the system-working stage. Therefore, assistance inputs are required to enhance ownership of the targeted countries. In sum, it is necessary to plan assistance programs that take into consideration comprehensive social capacity development, which is social capacity development that comprises three capacity factors and two actors in this evaluation.

When actually making programs, we need to consider capacity levels that are identified based on the Social Capacity Assessment, and development assistance’s timing, quantity, quality, and sequence based on the development stages. Above all, major focus is placed on what kind of assistance is necessary to advance the development stages from the system-making stage to the system-working stage. After the end of each assistance input, developing countries themselves are expected to invest resources as required.

The initial period of the system-making stage or the period from pre-system-making stage to the self-management stage may last a few decades; therefore, it is not realistic to expect one program is sufficient. In the four countries from 1980 to 2005, focuses of development assistance shifted from industrial development to responsive measures for trade liberalization. As seen in such a shift, it is inevitable to change programs in response to the environmental changes. In fact, programs would have mid-term goals such as shift to the system-working stage, covering the period of 5 to 10 years.

However, here we show a long-term cooperation program in order to show the overall picture covering from the system-making stage to the self-manegement stage. Based on the evaluation

results of the four countries as well as OECD (2001) and IFIC-JICA (2003), the overview of trade-related cooperation programs in accordance with social capacity development stages is shown in Table S.12. This is taken as a conceptual model as it may not be applied as it is to any countries and regions.

Table S.12 Development assistance programs that correspond to social capacity development stages

Social capacity development stage		Preparation stage	System-making stage	System-working stage	Self-management stage
Trade sector					
Policies and Measures（P）	Export-promoting development plan	■			
	Establishment of trade-related legislation (Response to liberalization and facilitation such as WTO)		■	□	
Human, financial and physical resources in organization（R）	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)		■	□	
	Assistance for Trade Center (Export-support, information, training for private companies)		□	■	
Knowledge and skills（K）	Acquisition, analysis and release of information such as statistics		■		
Support for south-south cooperation					■
Industry promotion sector					
Policies and Measures（P）	Promotion and development of SMEs, supporting industry and industry		■	■	
	Establishment of industry-related legislation		■	□	
Human, financial and physical resources in organization（R）	Promotion of SMEs, supporting industry and industry		■	■	
	SMEs promotion organization		□	■	
Knowledge and skills（K）	Acquisition, analysis and release of information such as statistics		■		
Support for south-south cooperation					■

Note: dark gray indicates that focused inputs are required; light gray indicates that preliminary or follow-up inputs are required.

Source: the author

Cooperation programs can be classified into two types. Programs which directly deal with export promotion and programs which aim at enhancing competitiveness of firms in a host country.

In trade related area (in a narrow sense), Master Plan on export promotion should be formulated at the Preparatory Stage. Master Plan is a basic policy for developing social capacity and clarifies areas which require assistance. Master Plan should be formulated in consideration of enhancing firms' competitiveness. Based on Master Plan, from the system-making stage to the system-working stage, assistance, which are related with three factors such as "policy and measure"("P" factors), "human, financial, and physical resources in organization" ("R" factors) and "knowledge and skills"("K" factors), should be input. At the system-making stage, assistance for development of trade-related law system (P), organization and human resources development in customs/quarantine or trade finance agencies (R), statistical data collection/analysis/publishing support (K), should be input.

When capacity development assistance achieves a certain results (this period is considered as the latter part of the System-Making Stage), assistance for development of trade-facilitation law ("P" factors) and establishment of "trade centers" ("R" factors), should be input. As the experience of Thailand shows, to make assistance more effective, assistance toward export promotion agencies should be implemented at the same time. Training center and export promotion organization should be managed as one entity. Through capacity development in three factors in the government sector, the government becomes able to support capacity development in the firms sector. With developing related capacity, firms can contribute to the advancement of capacity development. It can be assistance that JICA can newly cooperate with a host country in the following fields; Formulating Master Plan, Promoting participation in law-formulation process, enhancing understanding on the legal system and fostering firms' feedback to services provided by related organizations.

At the early system-working stage, assistance, which was input at the late system-making stage, should be implemented continuously. As the case in Indonesia shows, at the completion of capacity development, extending the scope of trade center projects from the capital to the regions could have larger impacts. When the capacity development stage enters the self-management stage, Japan's assistance should focus on fostering South-South cooperation.

On the other hand, sequential inputs are basically required in the area of industrial development.
At any rate, trade promotion (in a narrow sense) and SMEs/supporting industries promotion should be closely connected each other to enhance export performance.

In addition, in order to ensure effectiveness of development assistance programs, overarching perspectives are necessary; in other words, it is important to consider not only trade promotion, and SMEs/supporting industries promotion but also public sector reform and improvement of market conditions. It is also important to consider priorities of trade promotion in the country-level

development plans.

Also, there are possibilities that the region can not enjoy efficient resource allocation when individual countries pursue independent programs on their own. In this regard, it may be necessary for countries to undertake policy coordination and to make cooperative programs at the regional level with due consideration to benefits of individual countries. As far as the four countries in this evaluation are concerned, it is expected that the frameworks of Association of Southeast Asian Nations (ASEAN) and the East Asian Community will be utilized to discuss export promotion and SMEs promotion policies that benefit individual countries.

(2) From "government to government (G to G)" to "G to G plus government to business (G to B)"

The most important point in assisting capacity development is to develop all of the society's capacity by utilizing various actors. It is necessary to choose the best actors among them, without limiting the choice to the targeted actor. As the Philippines case shows, to put assistance into the firms sector could be a more efficient way if there was severe human and financial constraints in the government sector.

In 2001, the World Bank, International Financial Corporation (IFC), International Labor Organization (ILO), United States Agency for International Development (USAID), Department for International Development (DFID), and German Technical Cooperation (GTZ) held a Small Firm Promotion Donor Committee. The committee published "Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention 2001 Edition", in which assistance to BDS facilitators, not to BDS providers, is emphasized. Currently each assistance agencies are implementing projects based on the guideline. It can be said that G to B assistance is established as a dominant option, based on international discussion. However, here we have to note that assistance to BDS providers should not be dismissed completely.

Canadian International Development Agency (CIDA) has implemented provider-assistance in Indonesia and the Philippines. In the case of Private Enterprise Accelerated Resource Linkages Phase II (Pearl 2) Project in the Philippines, target organizations are decided based on the proposals from chambers of commerce and industrial association. Competitive environment is created by limiting assistance according to the quarterly results. It may be effective to input assistance only a provider is expected to continue its activity after the termination of assistance. When the provider becomes able for providing service, the focus of assistance should be shifted to the facilitator. The relationship between provider assistance and facilitator assistance is not a trade off but a

complementary one. Assistance should be implemented with it in mind.

(3) Applying past experiences to South-South cooperation

The EPA between Japan and East Asian countries has been criticized for its ineffectiveness because of a prolonged negotiation process and many exemption items. To improve the situation, it is necessary to foster capacity development assistance in the trade-related area in least developed countries such as Cambodia, Laos, Myanmar, and Vietnam (CLMV). Under the circumstance, Thailand and Malaysia are especially expected to play a major role to implement South-South cooperation. The importance of such activity is rising to proceed toward the future "East Asian Community".

From a wider perspective, all the four countries are expected to play important roles to implement South-South cooperation for African development which is the most important issue in development assistance. Malaysia has already been accepting trainees as already discussed. MATRADE is starting to accept trainees from Year 2006. IETC of Indonesia plans to start cooperation towards Africa with the support of JICA.

JICA and other Japanese agencies have the assistance experience of "placing importance not only development results but also capacity development process." Supporting South-South cooperation is a challenge for these organizations to change the quality of their activities. It is also to the benefit of the four countries to implement South-South cooperation, which requires them to review their past policies and improve their policy making and implementation process more efficiently and effectively. For Indonesia and the Philippines, which are still in the process of moving from the system-making stage to the system-working stage, South-South cooperation may be inevitably limited in its scope and effectiveness, but reviewing their experience at this stage and conveying their experiences to other countries is an important learning process and is expected to enhance their ownership.

No matter what regions, CLMV or Sub-Saharan Africa, we consider to apply the experiences of the four countries, there remain issues for serious consideration such as including social capacity development in the agricultural sector in scope in addition to the manufacturing sector.
For instance, there is necessity to fully explain the difference between Asia and Africa and the applicability of the Asian development experience to African counties based on their intrinsic efforts (ownership). Furthermore, it is essential to secure consistency with each targeted country's policy and coordination among donors.

To conclude, it is important to re-classify Japan's cooperation experiences in the trade sector and the East Asian countries' development experience, and to use the lessons derived from these experiences as a guide for South-South cooperation.

Chapter 1

Chapter1　Goal, background, subject of evaluation

1.1　Background of evaluation

In the East Asia region, the development of EPAs (Economic Partnership Agreements), including Free Trade Agreements (FTAs), is accelerating among ASEAN countries, Japan, Korea and China. The effect of EPA's conclusion is expected to lead to the activation of the economy of the region, including Japan.

Japan, since the 1980's, has implemented technical cooperation in the trade and investment sector. .JICA's technical cooperation in this sector has included assistance for developing training centers for trade business such as "trade center".[1] projects which were implemented as project-type technological cooperation (currently called technical cooperation project) and technological cooperation centered on Capacity Development (CD) for Indonesia, Thailand, Philippines, and Malaysia.

In the meantime, the trade and investment environment in the East Asia area has greatly changed. As mutual dependence in the region deepens, the new ways of cooperation and interdependence in this region have been sought to develop. Under such circumstances, it is necessary for JICA to continue to implement its assistance in order to better serve the demands of building institutions necessary for free and efficient competitive markets, enhancing balanced economic infrastructure, and strengthening competitiveness in the private sector under the circumstances where moves for economic partnership have been accelerating. At the same time, changes in the trade and investment environment have affected the ways of development assistance. In the 1980s, JICA's assistance mainly focused on industrial promotion in specific sectors; on the other hand, in recent years, major focuses have been placed on how to respond to the World Trade Organization (WTO) and EPAs/FTAs, which seek to promote economy based on market principles.

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1 As a result of research in the field, we confirmed that these centers do not focus on training only. For instance, the MATRADE of Malaysia does some training but its main activities are sending trade missions, organizing trade fairs, and promoting exports by providing related information. Also The Regional Export Training and Promotion Center （RETPC） which is the subject of phase 3 holds training in export and promotion of export as its two main activities, as its name suggests. Therefore, it can be assistance that to view these as a trade training center approach is not appropriate. We will perform the evaluation by regarding them as a trade center approach which includes trade promotion as well.

In light of the aforementioned background, JICA commissioned the Joint Venture of Hiroshima University and Mitsubishi Research Institute, Inc., a their party, to implement this evaluation study with the following three main purposes:

（1） Identify and map out factors of Social Capacity that promote economic cooperation from the perspectives of actors including the Government and the Firms, and analyze how these factors affect the total system of trade and investment.

（2） Identify development stages of Social Capacity in trade and investment in the targeted four countries, namely Indonesia, Malaysia, the Philippines and Thailand, evaluate the impact of JICA's assistance on Social Capacity Development of those countries, contemplate what kind of roles JICA's assistance including trade center projects should play in the future (self-sustainability). In evaluating JICA's assistance, assistance by other Japanese governmental organizations such as Japan Bank for International Cooperation (JBIC) and Japan External Trade Organization (JETRO) were also considered.

（3） Propose recommendations for JICA's future assistance in order to better surve the demands of building institutions necessary for free and efficient competitive markets, enhancing balanced economic infrastructure, and strengthening competitiveness in the private sector under the circumstances where moves for economic partnership have been accelerating.

1.2 Framework of evaluation

1.2.1 Basic concept of social capacity assessment

This report aims to evaluate Japan's cooperation that is done mainly by JICA in the field of trade, from the standpoint of capacity development, and to show lessons for the future. We will use the method of Social Capacity Assessment as developed by the 21st century COE program of Hiroshima University "Social Capacity for Environmental Management and International Cooperation" for the capacity development of the trade area, and we will set three agendas of analysis.

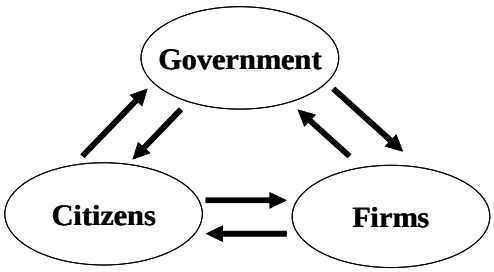
The objectives of the COE program are to formulate integrated index of social capacity for environmental management (SCEM), to develop a model for social environmental management system and to generate an effective approach for international environmental cooperation assisting SCEM in developing countries.

The approach to analyze CD and international cooperation which uses the concept of "social

capacity" (See Chapter 2 of this report), is effective not only in environmental issues but also in other fields of development and aid. In this evaluation we applied the CD model which the COE program has been developing to the Capacity Development in the field of trade.

This report will propose Social Capacity Assessment (SCA) as a methodology of the CA that is necessary to materialize the CD approach.To begin with, Social Capacity is defined as the capacity to solve the different problems of development of each social actor, composed of the government, the firms, and the citizen, and also the comprehensive capacity that includes the interaction of each actor. (Figure 1-1)

Figure 1-1 Social Capacity



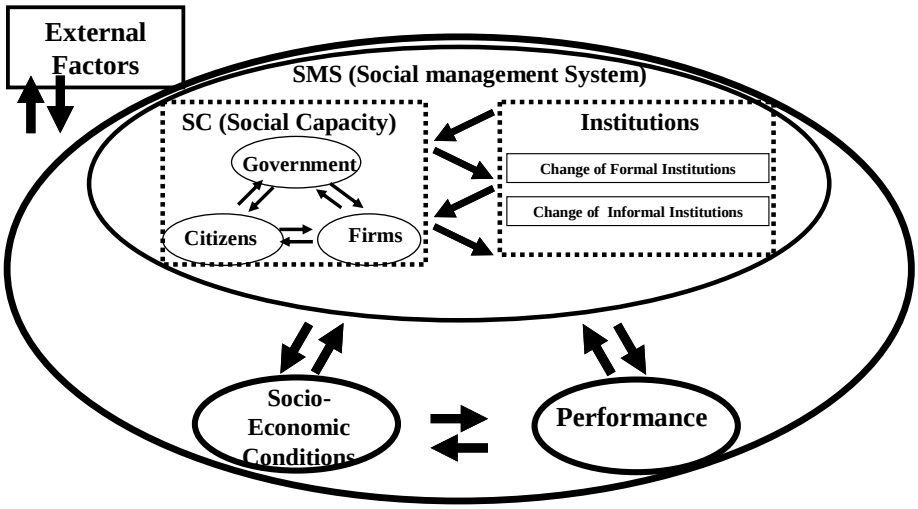
Source: the author from Matsuoka, Kuchiki, (2003)

There are some caveats when this concept of Social Capacity is applied to Trade Capacity Development (TCD); these caveats include:

(1) In the trade and investment sector, the firms play a greater role and the government plays a more limited role than in the other development sectors such as environment, education, and health.
(2) The citizens play an even more limited role than the other actors in the trade and investment sector.
(3) Impact of development assistance and economic cooperation on development (trade) performance is relatively limited. (Other factors such as exchange rates, economic performance of export markets, and competitive relations with other countries have more impacts.)

The interaction of social capacity and institution is grasped as a Social Management System (Matsuoka and Kuchiki eds 2003). As shown in the figure S.1, the Social Management System is defined in the mutual relationship with the socioeconomic conditions and the environmental quality. Also, it seems to have the similar relationship with the external factors. The social system as a whole is called Total System (Matsuoka and Kuchiki eds 2003, Matsuoka et al 2005).

Figure 1-2Total Systems and Social Management System



Source: Matsuoka, others(2005)

The factors affecting trade performance include long term development vision of society and economy, political leadership realizing the vision, efficient government, effective management of foreign currency, cooperation between government and private sector and political stability. In this study, we use the analytical concept to interpret those factors. The approach enables us to clarify key factors for develop trade performance through the historical example of the countries in terms of development process of social capacity.

1.2.2 Evaluation Questions

The system of questions is shown in Table 1-1

Evaluation Questions:
Large term: Whether the aid which JICA performed in the four countries (such as trade centers) was effective for Trade Capacity Development; and whether the consistency with the policies of the government and cooperation with other aid organizations was considered.

Medium term: question No.3 and 4 cover social capacity (Figure 1-1) and total system (Figure 1-2). Analysis of those questions leads the evaluation of question1 based on JICA's actual aid inputs.

Table 1-1 Question system of this evaluation

Evaluation item：Large items

Was a series of JICA's cooperation centering on the trade sector (such as "Trade center") in 4 countries effective for each country's Trade Caoacity development? At that time, did JICA consider consistency with local government's policy system and coordination with other donor agencies?

Evaluation items		Necessary information and data	Source	Data collection method
Middle items	Small items			
1. Have impacts of JICA's assistance in such the trade sector been appropriate in relation to time, quantity, quality and the local government's policy and input of other donors?	1.1 Was there compatibility between social capacity development and development stage?	2.4 data, JICA related cooperation project	Related documents JICA	Documents review Interview
	1.2 Was there consistency between local government and policies?	JICA related cooperation project, Local governmental policy	Related documents Related ministries, departments	Documents review Interview
	1.3 Did JICA work together with Japanese other organizations and Foreign donors?	JICA and other donors related cooperation project	Related documents Other donors	Documents review Interview
	1.4 Was there consistency in Japanese higher policies?	JICA related cooperation project, Japanese government policy	Related documents	Documents review
2. What kinds of relationship were there among social capacity development, social economic situation and export performance?	2.1 How have total social capacity development of government and companies changed?	3.1, 3.2, 4.1, 4.2 data		
	2.2 How have social economy situation changed?	Related data (income level)	Statistical materials	Documents review
	2.3 How have export performance changed?	Related data (industrial export ratio)	Statistical materials	Documents review
	2.4 What kinds of relationship were there among social capacity, social economic situation and export performance?	2.1-2.3 data		
3. How have company's export capacity been developed?	3.1 How have company's each capacity element been developed? ・Formulation and implementation of measures ・Human resources and Organization ・Knowledge and Technology （Know-how and Information）	Situation of Capacity development in each capacity element	Statistical materials Companies	Documents review Interview Questionnaire survey
	3.2 What kinds of relationship are there between company's attribute (industry,scale,capital structure) and capacity development?	Company attribute and Situation of capacity development	Companies	Questionnaire survey Interview
	3.3 How have economic and industrial group and export support industry (management consultant, training service, trading company) contribute? ・Policy recommendation ・Export support service	Activity condition Evaluation by Companies	Related documents Economic and Industrial groups Related ministries, departments Companies	Documents review Interview Questionnaire survey
	3.4 How did government's policies affect capacity development of export companies?	Evaluation by Companies	Companies	Questionnaire survey
4. How have capacity to promote government's export been developed?	4.1 How have government's each capacity element been developed? ・Formulation and implementation of measures ・Human resources and Organization ・Knowledge and Technology（Know-how and Information）	Situation of Capacity development in each capacity element	Statistical materials Companies	Documents review Interview Questionnaire survey
	4.2 Have coordination between related policies such as development of SME, attraction of investment and organizations been appropriate?	Improvement condition of each measure Activity condition in Related ministries and departments	Statistical materials Related documents Related ministries, departments	Documents review Interview
	4.3 Have export promotion activity of "Trade Center" been appropriate?	Activity condition of "Trade Center"	Statistical materials Related documents "Trade Center"	Documents review Interview

Source: the author

1.2.3 The subject of evaluation

The subject of evaluation is Indonesia, Malaysia, Philippines, and Thailand. These four countries have close economic relations with Japan through trade and investment, and Japan has extended its assistance to those countries in the area of trade and investment. These four countries are desirable subjects for evaluation in order to evaluate how development assistance is placed in the trinity of assistance, trade and investment.

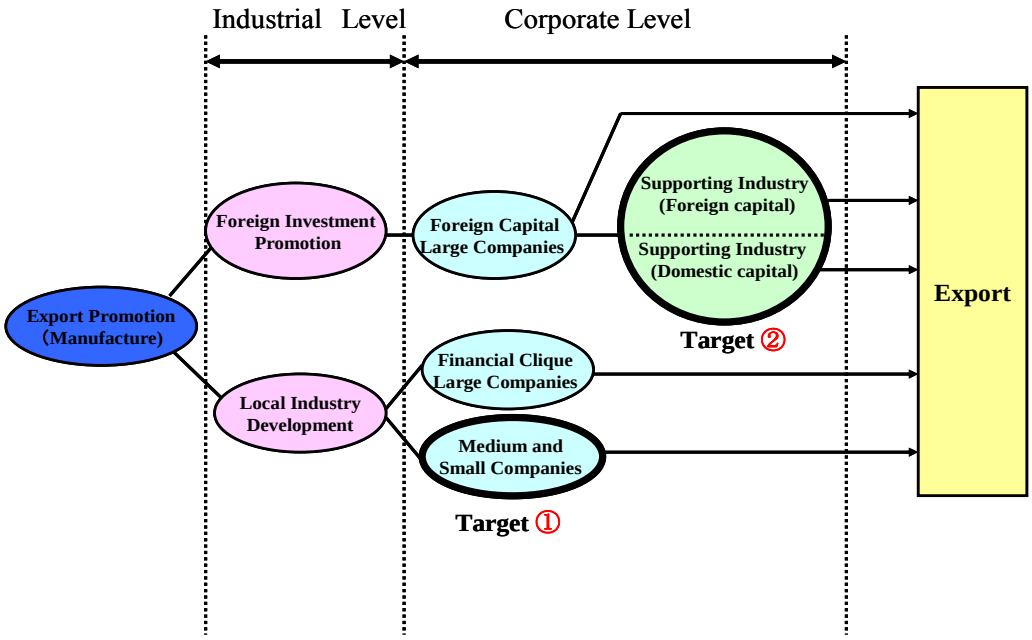
ASEAN cooperation projects by the then Ministry of International Trade and Industry (MITI) under the trinity of assistance, trade, and investment began in 1982. In 1983, the Trade center, which is the

main project of evaluation, was first founded in Thailand. Japan's cooperation in the field of trade, including JICA's, began to take full effect at this time. Therefore, the period of evaluation will be mainly from 1980 to the present (2005).

During this period, JICA's assistance in trade has been mainly targeted at local small and medium enterprises (SMEs) in the manufacturing sector. Promoting SMEs is important in terms of not only promoting trade but also reducing poverty through job creation; therefore, SMEs promotion has its significance in the context of socio-economic development. Taking these factors into consideration, this evaluation is mainly targeted at SMEs in the manufacturing sector.

"Trade sector" narrowly means the direct export-promotion such as the trading business, the provision of marketing services for companies, and the development of the trade-related law. In addition, the assistance for the fosterage of SME/supporting industry, which is the indirect export-promotion like improving the companies' competitiveness, is also included in this evaluation scope. Such inclusion is necessary because those latter items are important for improving export performance, not to mention the importance of Capacity Development in the narrow meaning of trade sector.

Figure 1-3 Setting of target groups



Source: the author

1.2.4 Process and organization for the study

The study team consists of analysts from Hiroshima University and Mitsubishi research institute, external advisers (professors, JICA members etc.). The study meetings were held six times in the last 12 months. In addition, study team (Hiroshima University and Mitsubishi research institute) conducted field research 5 times including interview surveys (face to face interview and mail questionnaire survey.

The schedule of the survey is as follows.

Figure 1-4 Time table of the study

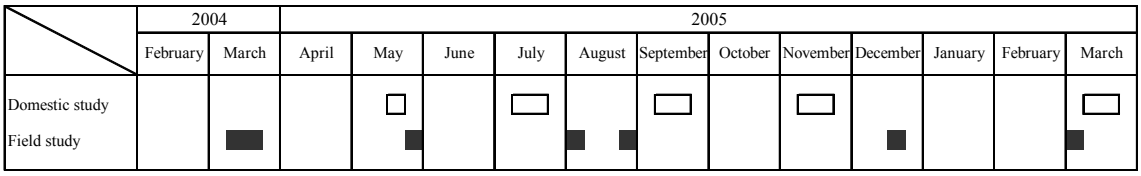


Figure 1-5 Organization of the study

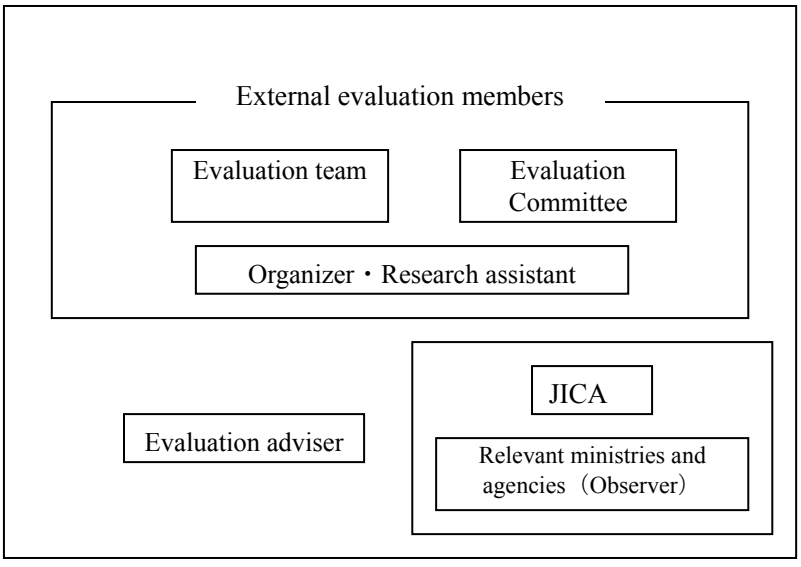


Table 1-2 Evaluation Committee Member

1. Hiroshima University-Mitsubishi Research Institute, Inc. Joint Venture Evaluation Team (Concurrently served as Evaluation Committee members) Shunji Matsuoka Professor, Graduate School for International Development and Cooperation, Hiroshima University (Leader of the Evaluation Team, Evaluation method expert, Chairman of Evaluation Committee) Mamoru Kobayashi Research Director, Mitsubishi Research Institute International Project Center (Sub-Leader of the Evaluation Team, Economic cooperation expert) Yoshi Takahashi Associate Professor, Graduate School for International Development and Cooperation, Hiroshima University (Human development expert) Shinichi Mizuta Policy Analyst, Mitsubishi Research Institute International Project Center (Trade policy expert) Katsuya Tanaka Assistant Professor, Hiroshima University, Graduate School for International Development and Cooperation (Economic policy expert)
2. Evaluation Committee Members Akihumi Kuchiki Director-General, Research Planning Department, Institute of Developing Economy, Japan External Trade Organization (Until July 2005) Executive Vice President (in charge of Institute of Developing Economy), Japan External Trade Organization (Since July 2005) Visiting Professor, Hiroshima University, Graduate School for International Development and Cooperation Atsushi Suzuki Senior Coordinator, Planning Division, Japan External Trade Organization Yasuhiro Yamada Director General, Administrative Affairs Department, Japan External Trade Organization Hisatsugu Yoshida Statutory Auditor, Japan Indonesia Petrochemical Investment Corporation

3. Evaluation Adviser Shujiro Urata Professor, Graduate School of Asia-Pacific Studies, Waseda University Tango Keiichi Senior Executive Director, Japan Bank for International Cooperation (Until September 2005) Teruyuki Tanabe Executive Director, JBIC Institute, Japan Bank for International Cooperation
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1.2.5 Discussions over CD

Discussions over CD have evolved as follows. Looking back on the field of development and aid from the standpoint of CD, the 1990s were a time when limits on the replacement approach became clear.（Fukuda-Parr *et al.* 2002）The replacement approach is one that imports the knowledge and technologies of the developed countries to replace those of developing countries. It has been pointed out that instead of the replacement approach, the development of social capacity according to the ownership of the developing countries is essential for continuing development performance, and that the Social Capacity Development approach is important for such.（Fukuda-Parr *et al.* 2002）

The development of the Capacity Assessment method, which is indispensable for the realization of the CD approach, has shown some progress in stakeholder (institutional, organizational) analysis, and institutional analysis, though a total methodology has not been fully discussed.（Morgan and Taschereau 1996, Lopes and Theisohn 2003）.

The JICA Task Force on Aid Approach/Strategy (2004) points out that the aid organizations and international organizations of Europe and the US emphasize reform of institutions. JICA's technology cooperation project emphasized the development of capacity of individuals and

organizations. However, as to the definition of capacity, it is bound by the framework of individual, organization, society/institution. As to the proposal of CD, it adopts another axis involving the government, profit private sector, and non-profit private sector, and analyzes capacity. But here again, the relation between the divisions is not presented.

According to the OECD (2001), CD became a main approach at the end of the 1990s. It became known as a kind of total approach related to total development goals and strategy for reduction of poverty[2]. The OECD (2001) was published in this context. This guideline described the prerequisite[3] of the Trade Capacity Development (TCD), and the factors of an effective trade policy process[4] as shown in Table 1-3, and each country is organized by type and each priority policy is shown. But it does not describe the method of evaluating the social capacity which is necessary as a precondition of aid that takes CD into consideration.

The resistance from developing countries against economic partnership and free trade system is still active while economic partnership had been accelerating among countries. The objection to economic partnership comes from the understanding that it worsens poverty issue in developing countries. Trade capacity development is important to eliminate such a miss understanding Japan has been seeking for developing economic partnership rather than simple free trade system through promotion of free trade system sustained by aid for capacity development. In this sense assessment of JICA's assistance based on capacity development is important as well.

[2] According to the OECD (2001), after the 1970's, there existed movements written below in the aid regarding trade investment promotion. First, in the 1970's, it was popular to perform aid for export industries in marketing in foreign markets. It focused on development of "off shore markets" so it did not lead to the development of wide scope capacities of exports which included the product development that met the market needs. In the 1980's and early 1990s, free trade was promoted. This was performed as a part of a structure adjustment program, but it resulted in the fact that some countries gained interest in trade and investment and other countries did not. In the 1990s this backlash was widely recognized, and many movements toward free trade were slowed down by mitigation of loans. After this, to replace free trade, the promotion trade came to the forefront. Particularly with the aim of cutting down costs of handling trade, and to make familiar the rules, processes, and institutions of the international trade system, WTO, UNCTAD, UNDP, and ITC performed aid for developing countries.

[3] There are five particular items. 1.Trade and its liberalization contributes to development. 2 The developing countries want integration with the global economy. 3. The new rules of a global economy promise a big occasion and present a large problem to be solved.4. The formulator of trade policy has a large role in developing the capacity related to the trade of developing countries. 5. To deal with trade problems that the developing countries face, the donor countries can contribute to the strengthening of the trade system of countries.

[4] A coherent trade strategy which has consistency with the total development strategy of the developing countries. 2 An effective consultation mechanism among three different groups, governments, corporations, and civil society. 3 An effective mechanism which adjusts policies inside the government division. 4 A strategy for effective acquisition, exploitation, and analysis of trade-related information. 5 The networking of trade promotion organizations and trade policy development which is a precondition of local organization of research. 6. Linkage with the private sector. 7. A strategy which takes into account the change of external environment such as the global trade system and the local trade system of every major beneficiary.

Table 1-3 Policies of the priority seen by types of aid-receiving countries.

COUNTRY-TYPE /REGION	NATIONAL PRIORITIES				INTERNATIONAL	
	Traditional trade agenda		New trade agenda		Traditional trade agenda	New trade agenda
	POLICY	INSTITUTIONS	POLICY	INSTITUTIONS		
Low income countries, weak institutions (Sub-Saharan Africa)	Lower tariffs;dispersion;shift to domestic	Strengthen customs;drawback;temporary admission	Measures to enhance efficiency of transport and transit regimes; phase out monopolies	Develop national capacity to design regulatory policies; protect indigenous knowledge, assets	Build capacity to participate in negotiations	Assess development relevance of international co-operation; impact of regulatory norms (SPS, TBT)
Low income countries, strong government (Southern Africa)	Reduce border barriers	Reduce red tape;adopt Kyoto trade facilitation measures	Services liberalization; emphasis on competition as opposed to change in ownership	Upgrade public standards setting and enforcement bodies; protect indigenous knowledge, assets; pro-competitive regulation	Use international agreements to reduce border barriers	Use international agreements as anchors for domestic policy
Transition (Europe and Central Asia)	Maintain relatively low and uniform tariffs	Develop customs and related infrastructure; regulations	Develop legal and regulatory regimes for services	Develop national capacity to design regulatory policies	Build capacity to participate in negotiations	Use international agreements as anchors for domestic policy;negotiate improved market access for natural persons
Middle income countries, low protection (Latin America & Caribbean, E. Asia & Pacific)	Limit extent of discrimination resulting from RIAs	Adopt Kyoto trade facilitation measures	Enhance technology policies; E-commerce; develop competition policy	Develop WTO-legal,appropriate IPR regime and institutions;	Explore scope for common standards and trade procedures	Explore scope for common standards in regulatory areas affecting trade and investment
Middle income countries, high protection (Middle East & North Africa)	Significantly reduce border barriers; limit discrimination from RIAs	Reduce red tape;adopt Kyoto trade facilitation measures	Services liberalisation;end monopolies;draft competition law	Pro-competitive and prudential regulation;establish competition authorities	Use RIAs to reduce red tape,facilitate trade	Use international agreements as focal points and anchors for domestic policy

Source: the author

Chapter 2

Chapter2 Method of Evaluation

This evaluation was conducted in two stages.

1. Conduct capacity assessment (Social Capacity Assessment in this report) in the field of trade in the country of subject.
2. With the result of the capacity assessment, evaluate the relevance of the necessary aid and its contribution for social capacity development for achieving Aid effectiveness.

Each method is explained below.

2.1 Social capacity assessment

2.1.1 Applying social capacity assessment method in the field of trade.

By Analyzing the relationship among the social management system, social economic condition, performance, and also the capacity of each social actor which constitutes the social-management system, and its relationship with institutions, the SCA method makes clear the standard of the country's social capacity, and the development path. The analysis consists of Actor Factor analysis, Path analysis, and Development stage analysis. The main method analysis will be discussed later on.

On the other hand, as to the development of medium and small-sized corporations and supporting industry, which is the main subject of evaluation, some research is already presented. This includes questionnaire research to corporations.

Levy, Berry *et al.*（1999）conducted a questionnaire research to corporations, as to the evaluation of export aid service(marketing aid, financial aid, technological aid) provided to middle and small-sized manufacturing corporations(includes supporting industry). The subject was countries and sectors which were considered as success in previous research.(Indonesia: clothes, latan furniture, wooden carving furniture Colombia: clothes, machines, leather goods Korea: fabric, automobile parts, electronics parts, factory automation Japan: fabric, automobile parts, artillery) As a result, the conclusion that appropriate employment of collective support is most important in achieving export promotion, was derived. Especially, as to the marketing side the period of entry when the dealing costs are high, and as to the technical side, when the development of network is not enough, are cases when the collective support is effective.

But the provider of aid service does not have to be the government. For instance the representative means of collective support regarding marketing is the trade fair. It is sometimes more effective done by industry groups, local governments, chamber of commerce and trade. And the average effect of collective support is lower than the private or market base aid, some are used as a supplement for the trade fare and are highly valued.

Urata (2000) is a proposal relate to middle and small-sized corporations policy, but it evaluates export aid as well. Five problems are pointed out. (1)export activity(maintenance of information, routes of export, marketing)and activities of the ministry of export promotion(information on export market, trade fairs) is not enough.(2)development of human resources: IETC, which provides practical studies, should be more active.(3)trade finance :middle-sized and small-sized corporations have no method for using banks so they have difficulty getting loans.(4)management procedures by government: It takes a long time for customs procedures (particularly with imports), and export incentive institutions are not well maintained.(5)rural problems: many export promotion institutions are maintained, but the combination of those institutions is not going well and is not used properly. And it proposes that viable SMEs should be the only subject of aid and not all small and middle-sized corporations should be the subject[11].

This previous research, points out some problems and solutions, but it does not make clear which solution should be made a priority and when it should be applied. The analysis with the SCA method can contribute in this point.

We will discuss the analysis tool of SCA below.(Matsuoka, others 2005)

2.1.2 Actor Factor Analysis

The Actor Factor Analysis consists of Actor analysis and Factor analysis. Actor analysis, analyzes the level and condition of social ability from the standpoint of the condition of each social actor (government, export industry, private export service provider) and its relation, and makes clear which actors are strong or weak, and their relations.

Factor Analysis analyzes the present status from the standpoint of the components of social capacity

[11] The Overseas Economic Cooperation Fund（1999）gathered from research of corporations the answers for the decline in the trade expansion rate. The main factors are a decline of need in the export market (China), the difficulty of searching for funds(Indonesia), the development of competitive powers of other countries, and the lack of export market information(China).

and points out the factors capacity development standard and its problems [12]. In practice, we make and evaluate the matrix of issue and the factors of capabilities. The three factors adopted are(1)abilities to plan and perform policies,(2)resources of humans and organization(3)knowledge, information, and technology needed for its basis.

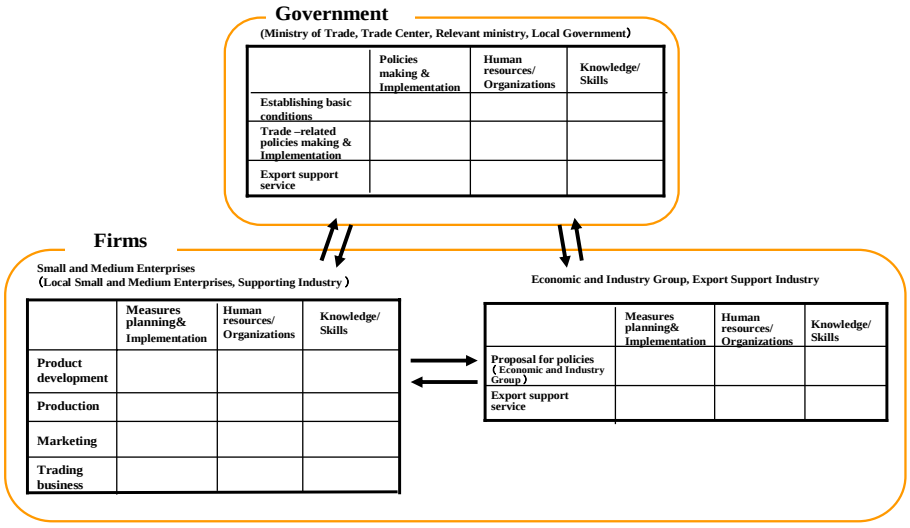
As to the government, the issued are maintenance of basic conditions, planning and employment of trade related policy, service for trade aid. As to the export corporations, the factors are product development, production, marketing, trade. As to the provider of private export service, the issued are policy presenting, trade aid service (see
Figure 2-1**)**

Especially as to the condition of social capability of the recent years (2000 and 2004), the policies of every actor, and the data of human, organizational resource, data of knowledge and technology was taken out from the questionnaire results which was performed in each country. On the other hand, for it was difficult to find data regarding the period from 1980 to present, we used a more easy method as to the Actor Factor analysis (See

[12] To measure the social capacity more objectively, Indicator Development is required. Indicators express the accumulation level of capacity based on the basic variables that define the social capacities derived from the Actor Factor analysis written above. It is particularly important how to measure the capacity standard which constitutes the capacity of the social actors. In this evaluation, Indicators are not made because it is difficult to obtain data for a long period.

Table 2-1).

Figure 2-1 Actor Factor Analysis: in depth



Source: the author from Institute for International Cooperation Japan International Cooperation Agency(2003) , Lawrence

Table 2-1 Actor Factor Analysis: simple analysis

	Policies and measures	Human resources/ Organization	Knowledge/Skills
Government	Related-law/ Mid-term Plan	Related-specialty organizations	Related statistics/ white papers
Firms	Productivity	Ratio of manufacturing employment to total employment	Educational Level
Government-Firm Relations	Dialogue and Meetings between Government and firms	—	—

As to the companies it was difficult to obtain the indexes of the three factors for the 4 countries during the study. Due to this, we use labor productivity for “P” factor, employment ratio for “R”factor in manufacturing sectors and gross enrollment ratio to secondary education.

As to governments we use regal infrastructure on trade promotion, small and medium enterprise midterm plan for trade promotion and small and medium enterprise for “P” factor, trade training center, trade promotion agency, financial institution for small and medium enterprise. We also use statistics and reports on trade and manufacturing by governments for “K” factor.

Table 2-2 Evaluation Items in Actor Factor Analysis

Government

Policy and Measure (P)	・Formulation and implementation of Medium and long-term plan（National development plan) on industry and trade ・Formulation and implementation of export promotion policies (basic plans） ・Establishment and operation of export-related law system and basic law
Human, Financial and Physical Resources in Organization (R)	・Human resources: Personnel distribution in each department relevant to export promotion policies ・Financial and Physical resources: Fiscal measures required for export promotion policies ・Organization: （1） Establishment of export promotion organization and overseas office （2） Establishment of organization which utilize human and physical resources and knowledge, skills and information （3） Promotion of pertnership in the natinal and local government
Knowledge and Technology (K)	・Statistical information, documents, manual, study and research data

Company

Policy and Measure (P)	・Formulation and implementation of measures related to management strategy ・Acquisition of ISO9000 and 14000
Human, Financial and Physical Resources in Organization (R)	・Human resources: Personnel distribution in each department relevant to management strategy ・Financial and Physical resources:Expansion of facilities, equipments, materials, capital ・Organization （1） Establishment of department related to management strategy （2） Implementation of TQC（Total Quality Control）, personnel system, knowledge management
Knowledge and Technology (K)	・Management and sales know-how, production technology, manual

Relationship between the government and companies

Policy and Measure (P)	・Meeting between government and companies
Human, Financial and Physical Resources in Organization (R)	・(Government side) Meeting company's needs in training by the government（Trade center） ・(Company side) Participation in training by the government（Trade center） ・Mobility of human resources between the government and private companies
Knowledge and Technology (K)	・(Government side) Meeting company's needs in provision of information by the government (trade center) ・(Company side) Use of information provided by the government (trade center)

Source: The author, Institute for International Cooperation, Japan International Cooperation Agency (2005), JICA assistance approach/strategic task force (2004), Murakami/Matsuoka (2005)

The analysis using a same kind of matrix is done in JICA Task Force (2004) on Aid Approaches/Strategy “Capacity Development Handbook for JICA staff: For Improving the Effectiveness and Sustainability of JICA's Assistance” In the case of vocational training, it is organized by two axis. The actors, government, profit private sector, non-profit private sector, and individual, organization, society. In the analysis of this evaluation, three points are different. The relationships of the actors are stated as the factors of social capabilities, the factors of the capabilities are defined as three factors, and there are special issues for every actor[13].

2.1.3 Development stage analysis

The development stage of social capability is divided into the System-Making Stage, System-Working Stage, and Self-Management Stage, and we seek to make clear at which stage the current social ability standard is. We also analyze how it got to that stage(regarding the Path analysis), and the next rational goal of social capacities standard and path. Moreover, we construct the prerequisite for making clear the quality and quantity, and timing of aid for the program of development policy and aid policy.

(1) The System-Making Stage is the period when the discipline for social management system is developed. For instance, in the case of capacity development of the government sector, the implementation of trade laws, trade promotional organizations, and mid-term plans for trade promotion is the benchmark. However, in the implementation of these, great contributions are possible from export corporations and private export aid service providers. In this sense, though the capacity is realized in the capacity of the administrative division, it is plausible to assume there is a large social capacity in the background. We will consider that the synchronicity has started when either of these benchmarks have been implemented. When every benchmark has been implemented, it is thought that the critical minimum for a social system has been achieved, and the stage moves to the next System-Working Stage.

(2) The System-Working Stage occurs when after the implementation of institutions, exports are promoted on a full scale. The performance of export shows the tendency for improvement. It is a

[13] While we do not adopt an Institutional Analysis due to the restrictions in data, such an analysis forms a counterpart to the Actor Factor Analysis.
In an Institutional Analysis, the institution as a rule regulates the social actors (players), and as a medium for social capacity, is analyzed. The institutions that define the current social capacities and the necessary reform to form the next social capacity are identified. Not only formal institutions such as law, but also informal institutions such as social norms are analyzed. Furthermore, the bundle of institutions and complementibility and substitutability of institutions will be considered.

process in which, following the accumulation of export experience by corporations and the trade aid by governments, know-how as a society is accumulated and capacities to solve different problems are developed. When it becomes possible to change the organization in response to change in problems it confronts(both governmental, corporate) it can be said that it has moved to Self-Management stage.

(3) The Self-Management Stage is the period when interrelationships between government and corporation have become strong, and the system develops autonomously. From the standpoint of international corporations, it is important that the developing countries can utilize capital and resources without the aid of other countries in the transition to Self-Management.

2.2 The evaluation of contributions in Japan's cooperation for developing export capacities in trade sector

2.2.1 The viewpoint of evaluation and the standard of evaluation

In Table 1.1, We have organized the viewpoint and the standard of evaluation as a precondition to present the method of evaluation.

As a viewpoint of evaluation, two large viewpoints, "Total evaluation of JICA's aid in the field of trade" and "The contribution of JICA's aid in the social capacity development of the country of subject" are set. In the latter view, the government division and the corporation division are analyzed in relation to the actors.

For each viewpoint evaluation standard which has relation to the OECD, DAC5 items were set. The item which is important to the goal of this evaluation is taken into account. The standard of evaluation is as follows.

(1) The consistency with the development stage of social capacity.(timing of aid entry and exit, relevance)
(2) Contribution of aid to Social Capacity Development (effectiveness, efficiency)
- Capacity development of government: effectiveness and development of export promotion capabilities of government, development of administrative capabilities, solution capabilities to new problems, consistency with government acceptance capabilities.
- Capacity development of the corporate sector: effectiveness and the development of export capacity, development of competitive power of corporations, incentive for export,

consistency with the maturity of industry.

(3) Partnership with domestic organizations and coherence with superior policies (relevance)

(4) Consistency with the policy of the country of subject (relevance)

We analyze JICA's contribution to social capacity development (government) and JICA's aid consistency to social capacity development stage.

The analysis on the former is conducted based on number of projects[14] since it is very difficult to obtain detailed data on M/M and budget. We recognize that those approaches can be appropriate for analysis.

Table 2-3 Matrix of viewpoint and standard of evaluation

Evaluation view \ Evaluation criteria		Effectiveness	Efficiency	Impact	Sustainability	Validity
Evaluation of JICA's Assistance in Trade sector		・Improvement of Social Capacity (Transition of Development Stage)	・Improvement of Social Capacity Rate /Project Input ・Compare Efficiency with another assistance form	・Poverty Reduction, Contribution to Social Economic Development (=Social Economic Situation)	・Formulation of Self-directed mechanism for Social Capacity Development (Transition to Self-directed Period)	・Compatibility with Social Capacity Development Stage (Timing of Project Input and Withdrawal) ・Consistency with Local Policy ・Coordination with relevant authorities and other donors ・Consistency with higher policies
Effect of JICA's Assistance on Social Capacity Development	Government	・Improvement of Government's Export Promotion Capacity	・Efficiency of Government's Export Promotion Capacity Improvement	・Impact on other government institutions ・Improvement of Administrative capacity	・Capabilities to cope with new problems	・Consistency with Government's Acceptance Capacity
	Companies	・Improvement of Company's Export Promotion Capacity	・Efficiency of Company's Export Promotion Capacity Improvement	・Improvement of Company's Competitiveness	・Incentives for Export Promotion	・Consistency with Industry Sector Maturity

Source: the author

2.2.2 Evaluation of contribution to development of social capacity.

In 2.2.2 the subject of evaluation was whether the JICA project has consistency with the development stage of social capacity. In this item, we will evaluate how the project contributed to CD.

These contents will be discussed.

1 Direct contribution to CD from a project

2 Indirect contribution to CD as a spill-over effect of a project

3 Contribution to CD from synergetic effects from other countries

In the actual analysis, (1) and (2) (Where it is possible) are focused on and evaluated. (3) can be included in (1) and (2), so it is not considered an independent subject.

[14] The projects continue over 3 years are, for instance, counted for 3 projects

Specifically, information on contributions to CD from existing reports are extracted and evaluated, regarding projects by JICA. The evaluation will be done for each actor (government, corporation）, factor (policy and measures, human resources and organization, knowledge and skill), and issue (implementation of basic conditions, implementation of systems for the management of trade-related policies and institutions, trade export services)

2.2.3 Consistency of aid with the development stages of social capacity

This section is to make clear at what stage the entry and exit of the aid(organized by type) were performed, and to evaluate the consistency of timing, quality(form of entry, actor) of each aid with social capacity development stages. This evaluation, in DAC 5 categories, is regarded as an evaluation of relevancy.

As to the typology of aid we take up the following items following the discussion of JICA Institute for International Cooperation (2003)

Type according to issues
(1) The enhancement of trade aid service capacity(trade center)
(2) Implementation of trade institution and development of human resources (development of response capacities to international trade and investment rule)
(3) Planning and implementation of investment promotion policy.
(4) Planning and implementation of industry promotion policy.

Categories based on each issue
1. Trade sector
（1） Policy/measure factors
(a) Export-promoting development plan (master plan)
(b) Trade-related legislation (liberalization and facilitation)
（2） Human resource/organization factors
(a) Trade legislation / Human resource development (such as customs/quarantine and trade finance. Including the enhancement of capacity to respond to the international trade/investment rules)
(b) Aid for providing export-support services to the private companies (Trade center)
（3） Knowledge/skill factors
(a) Assistance to gather, analyze, and disclose information such as statistics

2. Industry (SME/supporting industry) promotion sector

（1） Policy/measure factors

(a) Development plan of SME/supporting industry/industrial promotion

(b) SME/supporting industry/industrial promotion

(c) Industrials-related legislation

（2） Human resource/organization factors

(a) Aid for providing export-support services to the private companies (SME promoting agency)

（3） Knowledge/skill factors

(a) Assistance to gather, analyze, and disclose information such as statistics

2.2.4 The consistency with higher level policy and the partnership of JICA and domestic organizations[15]

Aid policy in the field of trade in Japan has the characteristic represented in the new aid plan of 1987, "development strategy oriented to growth through the trinity of aid[16] trade, and investment" We evaluate whether JICA's actual aid has consistency with these higher level policies and whether it has a full partnership with domestic organizations.

2.2.5 Consistency with policies of developing countries

We evaluate the consistency of Japan's aid policies with policies of developing countries.
It can be said that policies are planned according to the conditions and development stage of each country, or according to long-term goals and external competitive conditions. For instance, if a country has competitive power in agricultural goods, one judgment would be to adopt a policy with emphasis on agriculture, and another would be to promote other industries such as the manufacturing industry. Either way the focus of evaluation is on whether Japan's aid was performed according to the actual policies.

[15] Tomimoto(2005) writes that there are two views for the definition of Policy Coherence: (1) The view of "development absolutism" proposed by the OECD. To achieve the development goals(development of social economy and elimination of poverty), the policies of the developing countries should be set so as to multiply the effect of the policies of the developed countries.
(2) Policies formulated by developed countries to secure national interests and ODA policies also contribute to the development target of developing countries. In this evaluation, we will consider coherence (1).

[16] In the aid of the New Aid Plan, aid other than ODA by the ministry of industry and trade is also included.

Chapter 3

Chapter3 Indonesia

3.1 Trade sector assistance from Japan

This chapter will give a general overview of Japan's assistance to Indonesia's trade sector. Trade sector assistance for industrial development comes in many forms, including investment promotion, the fostering of small and medium-sized enterprises and supporting industry, and assistance for industrial development in addition to direct aid for trade promotion.

3.1.1 Trade sector assistance provided by JICA

JICA's main trade sector assistance to Indonesia from 1980 onward is shown in projected-base (Table 3.1). The Trade Commerce Statistical System Development Project, conducted from 1981 to 1982, is one of the projects that was implemented before Indonesia's Trade Training Center Project (IETC), which is during our principle evaluation period. The Trade Training Center Project, Phase 1 Project was carried into effect in 1988. After Phase 2(1996), the District Trade Training Development Center Project (RETPC) was implemented in 2002 as a local development project.

The volume of JICA's trade sector assistance has increased since the late 1990s. For instance, from 1997 onward, a technical cooperation project (then known as the project for technical cooperation) called the Custom Improvement Investigation, and an investigation development called the Custom System Improvement Investigation were implemented. Then, from 2000 onward, assistance programs with the direct purpose of promoting the government's ability formation like the WTO's capacity building program and those concerned solely with environment improvements such as Trade Environment Improvement Investigation have come into force. Hence, JICA's trade sector assistance has come to have more variety.

Now let us turn to JICA's assistance directed at fostering local-based small and medium-sized enterprises and supporting industry. According to Table 3.1, as an early form of technical cooperation JICA started a small and medium-sized enterprises' development project in 1984, which ran until 1986. This project's purpose was to foster small and medium-sized enterprises. From the late 1980s to the late 1990s, however, technical cooperation projects and development investigations designed to assist small and medium-sized enterprises were not carried into effect, and it was only after the late 1990s that JICA started to put importance in the field. Similarly, development investigation and technical cooperation for supporting industry were implemented only after the late 1990s onward. Japanese companies branching out into Indonesia from the 1980s to the early 1990s can be considered a sign of the recognition of the importance of fostering supporting industry.

Meanwhile, what can be said about JICA's assistance to industrial development in general? In the 1980s, JICA was engaged in the foundations Metallization Industry Development Center and Industrial Technique Information Center, and functional assistance. From 1989 to 1991, the Industry Sector Growth and Development Project was implemented as an industrial promotion project with the main aim of fostering export industries. This project was innovative in the sense that JICA formed a Joint Venture with the private sector in order to be engaged in development investigations. However, after the late 1990s onward, industrial promotion assistance has not been implemented as part of an ambitious project including development investigation and technical cooperation, . The major emphasis has shifted to the developments of the above mentioned small and medium-sized enterprises and supporting industry.

Table 3-1 JICA's main assistance in the performance of trade and investment, fostering small and medium-sized enterprises and supporting industry, and industrial development sector (plan's name and the conducted year)

1.Trade and Investment

(1) Trade Training Center

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Indonesia Export Training Center (Phase1)	Technical Cooperation Project									■	■	■	■	■	■												
Indonesia Export Training Center (Phase1Follow-up)	Technical Cooperation Project														■	■	■										
Indonesia Export Training Center (Phase1 Aftercare)	Technical Cooperation Project																			■	■						
Indonesia Export Training Center (Phase2)	Technical Cooperation Project																	■	■	■	■	■					
Indonesia Export Training Center (Phase2 Follow-up)	Technical Cooperation Project																						■	■			
Regional Export Training and promotion Center	Technical Cooperation Project																							■	■	■	■

(2) Establishment of Trade System and Human Resources Development

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Trade Commercial Statistics System Development Project	Technical Cooperation Project		■	■																							
Indonesia Trade Sector Human Resources Project	Technical Cooperation Project																		■	■	■	■	■	■			
Improvement of Trade Procedures Administration Project	Technical Cooperation Project																										■
Improvement of Customs System in Indonesia	Development Study																		■	■	■						
Capacity Building Program on the Implementation of the WTO Agreements	Development Study																						■	■	■	■	
Improvement of Trade Environment in capital region Project	Development Study																									■	■
Export Promotion (Market Analysis & Development)	Senior Volunteer																						■	■	■		
Improvement of Customs Procedures on Special Fields (Intellectual Property Rights)	Short-term Dispatch of Experts																							■			
Management of Export Credit Agency	Long-term Dispatch of Experts																							■	■	■	
Promotion of Trade, Investment and Industry	Promotion of Assistance Efficiency																								■	■	■

2. Promotion of SMEs and Supporting Industry

(1) Promotion of SMEs

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Project on Promotion of SMEs	Technical Cooperation Project					■	■	■																			
Promotion of SMEs	Short-term Dispatch of Experts																				■	■					
Support for SMEs	Promotion of Assistance Efficiency Project																					■	■	■			
Enhancement of SMEs Cluster Project	Development Study																						■	■	■	■	
SMEs Human Resources Development Project	Development Study																								■	■	

(2) Promotion of Supporting Industry

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Project on Supporting Industries Development for Casting Technology	Technical Cooperation Project																				■	■	■	■	■		
Industrial Promotion and Development Plan (Supporting Industry)	Development Study																■	■									
The First Phase of the Follow-up Study on the Development of Supporting Industries in Indonesian Export Promotion	Development Study																			■							
The Second Phase of the Follow-up Study on the Development of Supporting Industries in Indonesian Export Promotion	Development Study																				■	■					

3. Industrial Sector Promotion

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Industrial Sector Promotion and Development Project	Development Study										■	■	■														
Promotion of Industrial Standardization and Quality Control Project	Development Study														■												
Industrial Property Rights Administration	Long-term Dispatch of Experts																						■	■	■		
Development of the Manufactured Foods Products	Senior Volunteer																						■	■			

Note: the name, Project Method Technical Cooperation is unified as Technical Cooperation Project

Source: A.Ministry of International Trade and Industry, *The conditions and matters in economic assistance* (each year's version)

B. Ministry of Foreign Affairs, *Official Development Assistance(ODA White Book)* (each year's version)

C. JICA(2003), *Effective Approach to Development Subjects: trade and investment promotion*

Research group was formed based on the articled above. The performance of Technical Cooperation Project was not mentioned in details document A and B, therefore based only on C.

Meanwhile, JICA's acceptance of trainees' in trade and investment, small and medium-sized enterprises sector is shown in Table 3.2. Its acceptance of trainees improves the capability of staff members working for Indonesia's government-affiliated organizations. Participation rates in the 1980s show that training for trade-related organizations has been conducted consistently and that the scale of the acceptance has expanded from 1999 onward. On the other hand, although there were nine acceptances in 1999 for the small and medium-sized enterprises' development sector, there have been either zero or one acceptances in every other year since the program was implemented ,. As a whole, the acceptance rate remains low.

Table 3-2 JICA's acceptance of trainee's from Indonesia's trade and investment, small and medium-sized enterprises' sector

(number of trainees)

	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	80～05 total
SMEs	1	0	1	1	1	0	0	0	0	0	0	0	1	0	0	0	1	1	1	9	1	1	0	0	0	0	19
Investment	0	0	0	0	0	0	1	2	1	2	2	1	2	1	1	3	2	3	0	3	2	5	3	5	3	1	43
Export	0	0	0	0	1	1	1	0	1	2	1	0	1	4	1	0	0	0	1	4	1	1	1	0	29	0	50
Trade	5	4	8	4	1	5	2	2	3	4	7	4	5	2	1	1	1	3	3	23	5	13	6	19	4	2	137
Total	6	4	9	5	3	6	4	4	5	8	10	5	9	7	3	4	4	7	5	39	9	20	10	24	36	3	249

Source: JICA's data

3.1.2 Assistance from Japan in trade expansion

Apart from JICA, technical cooperation by Japan External Trade Organization (JETRO), the Association for Overseas Development Corporation (JODC), the Association for Overseas Technical Scholarship (AOTS) and as a fundamental condition for trade and investment, the Japan Bank for International Cooperation (JBIC)'s yen-loan-financed service are also considered to be Japanese trade sector assistance[17]. These programs are surveyed below.

(1) JETRO

Table 3.3 shows JETRO's assistance to Indonesia. JETRO was an organization originally aimed at developing Japan's trade, but under the influence of economical globalization, it has enhanced other countries' industrial infrastructure and implemented assistance to reinforce exporting capability especially in Asian areas, to which many Japanese companies have branched out.

The industry development plan conducted from 1989 to 1991 is a striking example in the history of its relationship with JICA. This is because JETRO formed a consortium with the private sector and

[17] There are more Japanese government agencies that are associated with trade and investment promotion JBIC which focuses on international finance(export finance, overseas investment finance, and so on) and NEXI which offers trade and investment insurance. Cited in JICA(2003)

worked on a development investigation.

Table 3-3 JETRO's main assistant performance for Indonesia's trade and industrial development

Trade and Industry Promotion Center Project in Developing Countries (AC Project : Asian Cooperation Project, 1982～2000)	▪ Promotion of local small and medium enterprises - Development of local small and medium enterprises - Spreading appropriate technology of small and medium enterprises - System Standard Technology Information Cooperation Project ▪ Development of Product Export Project - Instruction for Product Improvement - Instruction for Trade Promotion
Supporting developing countries' local industrial basis project（1996～）	Implementation of support for automobile and devices, electric and electronic product and devices sector ▪ Instruction for development of local industries - Dispatch of experts to strengthen basis of industrial activities - Dispatch of technical guidance experts - Support for training of industrial trainers ▪ Promotion of local industrial exchanges - Promotion of industrial exchanges - Holding wide-area industrial exchanges events
Strengthening developing countries' supporting industries project (SI Project: Supporting Industry, 1994～)	JETRO's assistance includes studies on situations of supporting industries, dispatch of experts, acceptance of trainees for development of supporting industry. In Indonesia, JETRO's assistance includes studies, dispatch of experts and acceptance of trainees in such sector as press working and plastic processing.
Participation in JICA's Industrial Promotion Development Study	JETRO organized JV with private companies for Studies on Asian export promotion based on the New Aid Plan in 1987 and participated in JICA's Development Study as a consultant. JETRO conducted studies on handicraft, rubber products, aluminum ware, and ceramic products in Indonesia from 1989 to 1991.
Training of Trade Promotion Organizations' staff（1988～2002）	JETRO invited middle-management executives in Indonesian trade promotion organization and implemented training in Japan. JETRO accepted trainees in 1988,1989,1991 from Indonesia.

Source: JETRO (2000) "forty-year footprint of JETRO"

(2) JODC and AOTS

JODC's performance in dispatching experts and AOT's acceptance of trainees are shown in Table 3.4 and 3.5. In order to assist the development of economy, trade and industry human resources in developing countries, to facilitate Japanese company's local operational presence and to assist business management and technical advancement, JODC, which is an accepting corporation for Japanese companies in developing countries and local companies not sponsored by Japan, has been dispatching experts with specialized abilities and operating aid programs to increase productivity, improve product quality and business management of accepting corporations. Experts were dispatched to a wide array of manufacturing businesses in Indonesia, including those in the textile, electron-and-electric, car, and chemical products industries. In recent years, experts have also been

dispatched to the service sector and the total number of mid-and-long-term experts dispatched from 1979 to 2004 is at least 1100.

On the other hand, AOTS is accepting and training overseas industrial technique trainees in order to promote international economic assistance and to contribute to the promotion of mutual economic development and friendly relationships. Its field of acceptance is also wide-ranging. The total sum of Indonesians trained by AOTS from 1980 to 2004, trained both in Japan as a part of trainees' acceptance project and overseas by dispatched tutors, is over 12,000.

Table 3-4 JODC's TA professionals sent to Indonesia

Year	1979～1988 tota	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1979～2004 total
Long-term Experts (number of experts)	202	61	35	41	55	41	59	36	34	63	48	32	12	9	3	20	27	778
Short-term Experts (number of experts)	52	5	12	12	8	2	8	4	2	5	45	45	23	36	53	17	10	339
Total	254	66	47	53	63	43	67	40	36	68	93	77	35	45	56	37	37	1,117

Note: Short term is within one year. Long term is longer than one year and shorter than two years. The figure is the number of professionals newly dispatched every year.

Source: JODC

Table 3-5 The number of participating AOTS trainees from Indonesia

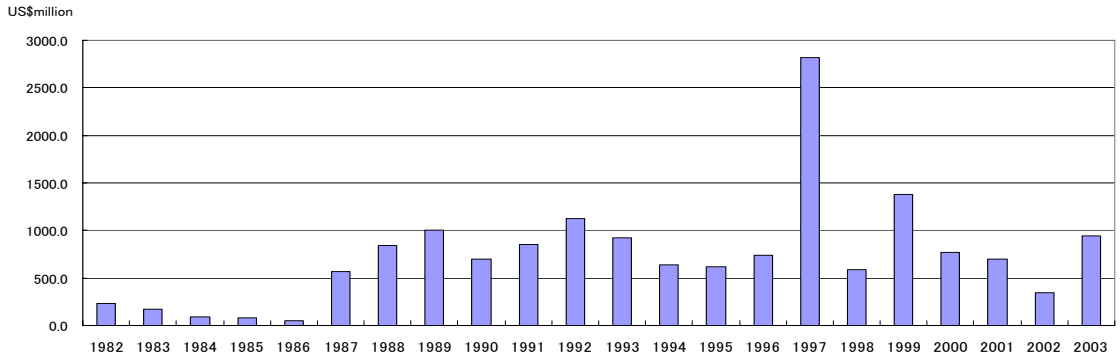
Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1980-2004 Total
Acceptance of Trainees (number of trainees)	341	260	348	317	367	307	265	287	262	299	432	421	450	438	484	673	612	542	351	409	385	268	229	237	251	9,235
Overseas training (number of trainees)	42	50	50	37	50	41	0	170	22	30	60	126	98	165	293	264	250	172	157	75	373	180	176	338	449	3,668
Total	383	310	398	354	417	348	265	457	284	329	492	547	548	603	777	937	862	714	508	484	758	448	405	575	700	12,903

Source: AOTS

(3) JBIC

Although it is not a direct form of assistance to the trade sector, JBIC has been active in providing yen loans for Indonesia's economical-infrastructure improvement which is essential for industrial development. Figure 3.1 shows the change in the amount of yen loan since 1980. Here we can see that the yen loan program includes assistance to social service sectors like medical-and-health and education. The main destinations, however, are infrastructure improvement projects: electricity, roads, railways, harbors, and water and sewerage systems.

Figure 3-1 Performance of yen loans to Indonesia



Note: calendar year、DAC counting based, net inflow

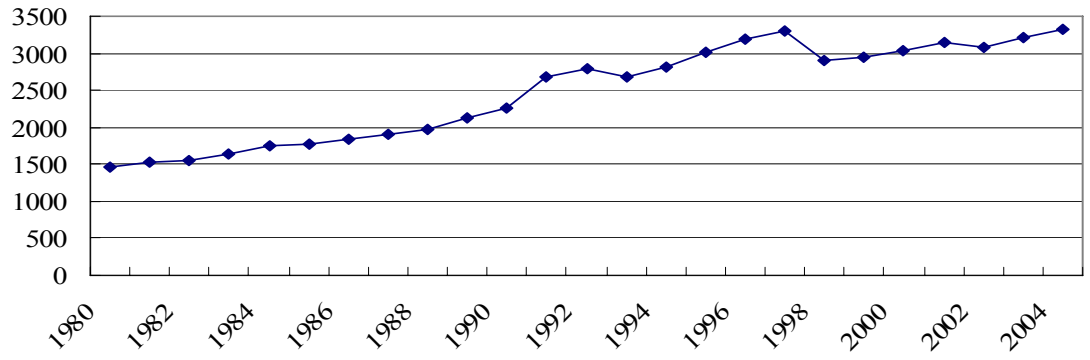
Source: Ministry of Foreign Affairs

3.2 Economic development, trade and investment trends

3.2.1 Economic development

First, let us look at Indonesia's economic development by its per capita GDP using Purchasing Power Parity (PPP). Using the year 2000 as base, Indonesia's per capita GDP in real terms was $1,500 in 1980, but gradually upturned and went over $2,000 in 1990. Followed by further growth in the early and mid 1990s, it reached a level of over $3,000. However, as Indonesia was affected by the Asian economic crisis in 1997, growth reversed and GDP fell back under 3000$ for a time. After an initial recovery to $3,000, it has since been shifting in between $3,000 and $3,500.

Figure 3-2 Indonesia's per capita GDP (PPP, Constant 2000 international $)



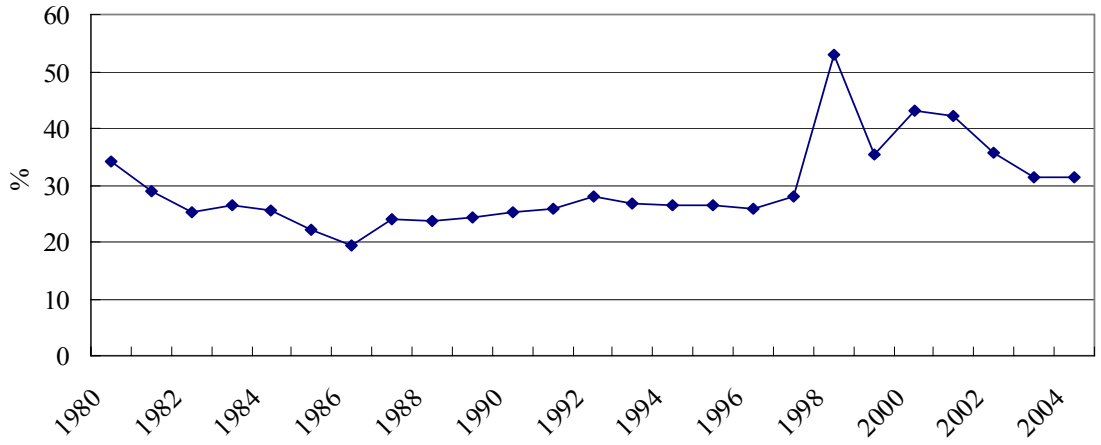
Source: World Development Indicators

3.2.2 Trade and direct investment

(1) Trade trends

Figure 3.3 indicates the transit of Indonesia's commodity and service export to GDP ratio. The rate of exports to total GDP was 34% in 1980, but later dropped below 30% and in 1986 it dropped to a level under 20%. The background cause of this decline, was the deterioration in the world market of oil, which was Indonesia's major export commodity item. In 1986 the crude oil price plunged particularly far. Hence, it is clear that the world's market deterioration directly affects Indonesia's exports.

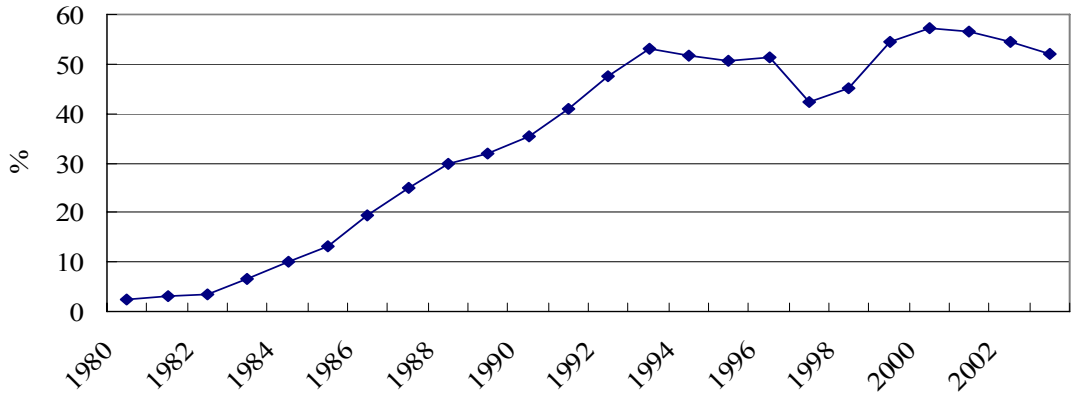
Figure 3-3 Shift of Indonesia's commodity and service export to GDP ratio



Source: World Development Indicators

The slowdown of Indonesia's export of oil and gas, however, was coupled with its non-oil and gas export's growth, and brought about change in the country's export structure as a result. In the early 1980s, when oil and gas exports started to falter, it was the nonmanufacutring industries such as raw materials (natural rubber) and oil from animals and plants(palm oil) which were expect to pick up the slack and shore up the export decline.

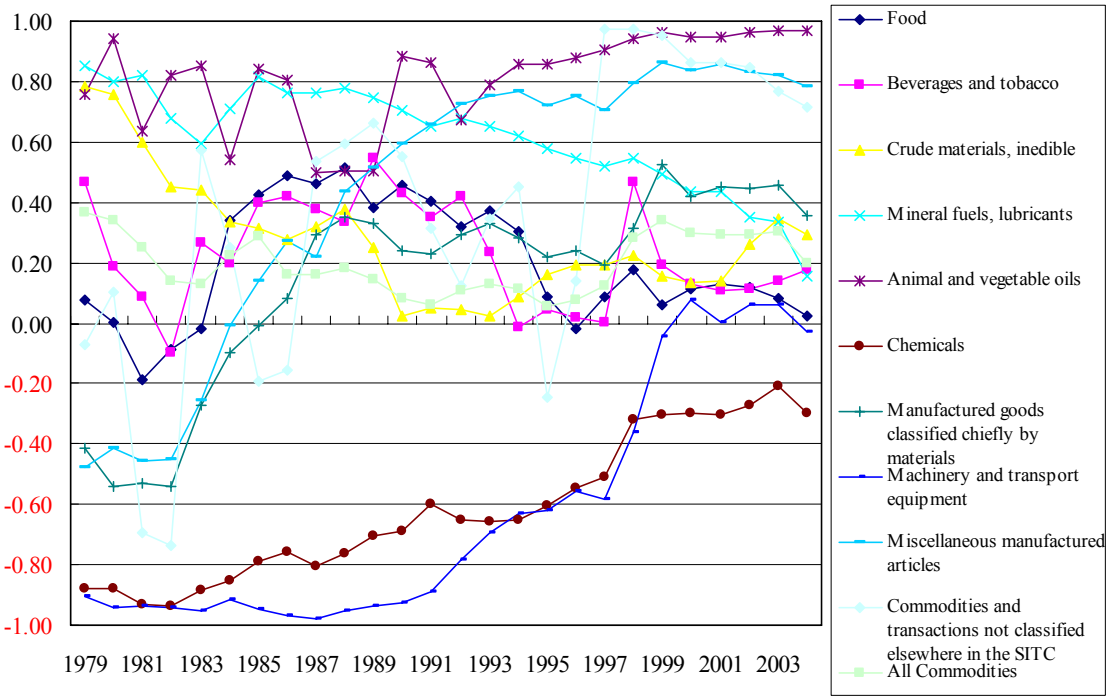
Figure 3-4 Rate of Indonesia's manufacturing exports among commodity exports



Source: World Bank, World Development Indicators

But then, exports in the manufacturing sector, for instance, textiles, started to grow. As shown in Figure 3.4, The percentage of total exports coming from the manufacturing sector was less than 3% in 1980. However, it went over 10% in 1984, and reached 30% in 1989. The sector continued to grow rapidly and in 1995, was the origin of over 50% of Indonesia's total exports.

Figure 3-5 International competitiveness of Indonesian export items (SITCI assortment)



Source: United Nations, Commodity Trade Statistics Database (COMTRADE)

Lastly, by looking at the transition of the global competitiveness index (export – import) / (export + import), let us discuss the changes in Indonesia's ability to compete in overseas markets in the trade sector, particularly in the manufacturing sector. Among the product assortments shown in Figure 3.5, chemical products, raw material products, machine and transportation equipment, and miscellaneous manufacturing goods are considered comprise this sector. Among all these products, Indonesia had a high level of global competitiveness in miscellaneous manufacturing goods such as textiles, accessories, and house furniture. In the miscellaneous manufacturing goods trade, Indonesia started to run surpluses in the mid 1980s and boasted a high level of global competitiveness from the late 1980s till the 1990s. These days, however, Indonesia is losing its strength in this field due to the appearance of competitors: China and Vietnam.

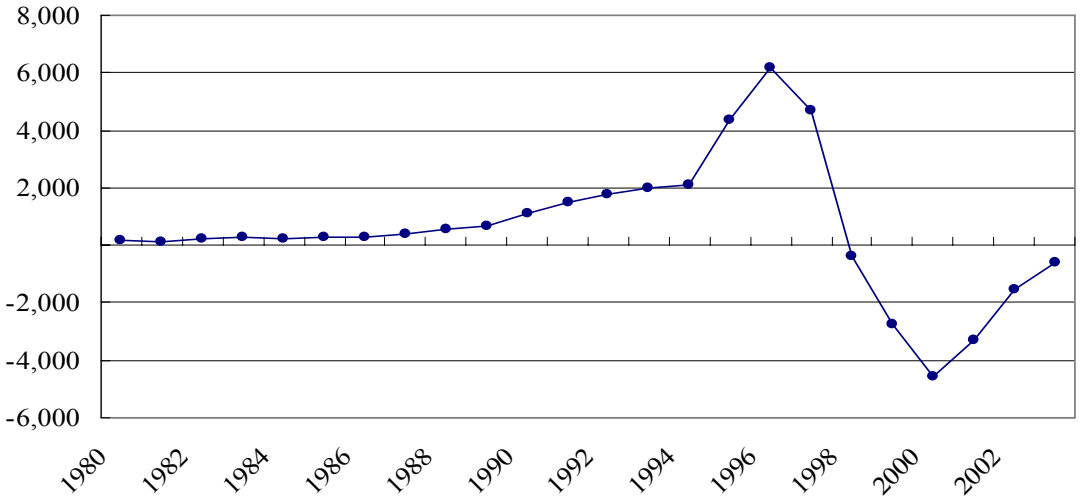
Meanwhile, within Indonesia's manufacturing sector, the machine and transportation equipment industry boosted its competitiveness in the 1990s. While Indonesia exports electronics and car parts, it also imports half-finished and finished products. In 2004, exports and imports in the machine and transportation equipment industry sector were almost equally balanced. Compared to the years before the 1990s, exports from this sector have developed considerably, and shown significant growth.

(2) Direct investment

According to Indonesia's balance of payments statistics, the net inflow of direct investment in 1980 was $180,000,000. Throughout the 1980s, the inflow increased dramatically and it reached a level of approximately 3 billion dollars in the mid-1980s. After the 1985 Plaza Accord, the direct investment net inflow exploded further partly because of an influx of capital from Japan and as a result, it crossed the 10 billion mark. Direct investment accelerated still further in the 1990s. It went over 20 billion dollars in 1993 and exceeded $40 billion in 1995. It surpassed $60 billion in 1996.

But after the outbreak of Asia's economic crisis (1997),outflows exceeded inflows and the net inflow rate thus became negative. After the collapse of the Soeharto administration in 1998, Indonesia's domestic affairs went through a period of continuing in stability, and dark clouds hung low over direct investment. The waves of outflow briefly calmed down in 2001, but the downturn of direct investment is still on going. Some factors such as the fact that decentralization is encouraging district-level corruption; the increase of industrial disputes as the result of the legalization of the formation of labor unions after 1998's collapse of Soeharto administration; and the delay in realizing a new investment law which incorporates clear-cut rules to equally deal with foreign and domestic capitals, are offered up as potential explanations for this downturn.

Figure 3-6 Foreign direct investment net inflows to Indonesia (net inflows, BoP, current US$)



Source: World Bank, World Development Indicators

3.3 Trade capacity building in firms

3.3.1 Small and medium-sized enterprises (SMEs) and business organizations

(1) Small and medium-sized enterprises

This evaluation project's main scope is to look at the capability formation [18] of small and medium-sized enterprises (in the manufacturing sector). Therefore, the survey is to overview the private sector based on the fundamental data of small and medium-sized enterprises.

The number of establishments by size of firm, number of employees, and value added in the manufacturing sector are summarized in Table 3.6. The number of large and medium-sized enterprises as well as the number of establishments they own and individuals they employee is growing. In contrast, while the number small-sized enterprises' as well as their additional values is increasing, the number of their employees is decreasing. (This is thought to be the result of the usage of narrow range criteria.) Household-sized enterprises make up large share of total industries. They made up about 90% in 2000. As for the number of employees, large and medium-sized enterprises are extending their share of total employees, but still the household enterprises still employee the largest share.. Behind these figures, we can see the fact that most of the manufacturing traders in the district are household-sized enterprises.

Table 3-6 The number of establishments in Indonesia's manufacturing sector's by size of firm, number of employees, and the additional values

Year	Number of establishments			Number of employees			Value added (Billion Rupiah)		
	Large / Medium	Small	Household	Large / Medium	Small	Household	Large / Medium	Small	Household
1979	7,960	113,024	1,417,802	827,035	2,794,833	4,491,887	160	187	291
1986	12,765	94,534	1,416,636	770,144	2,714,264	5,175,843	9,348	775	1,254
1991	16,494	122,681	2,350,984	2,993,967	978,506	3,786,326	29,948	1,608	2,404
1996	22,997	228,978	2,501,569	4,214,967	1,915,378	4,075,763	93,332	4,612	4,094
2001	21,396	230,721	2,307,562	4,385,923	1,761,510	4,348,548	269,630	12,012	14,794

Note: large/medium is over 20 employees, small is from 5 to 19, household is 5

Source: Central Bureau of Statistics, *Statistics Indonesia*, (each year's version)

Since large and medium-sized enterprises are defined as having more than 20 employees in Table 3.6, excluding small ones, most enterprises are counted in this classification. This makes it difficult to

[18] Indonesia's definition pf small and medium-sized enterprises adopts the definition based by the number of employees; large-sized(100 and over); medium-sized(over 20, less than 100); small-sized(over 5, less than 20); household-sized(over 1, less than 5)

capture the actual conditions of small and medium-sized enterprises. Therefore, although there is a constraint of period (from 1995 onward), more detailed classifications are adopted in Table 3.7. What is peculiar about the number of establishments is that, the majority has shifted from enterprises with more than 100 and less than 500 employees(1995) to the ones which are considerably smaller-sized with more than 30 and less than 50 employees(from 2000 onward). Similarly, regarding the share employees', companies with between 100 and 499 employees made up the greatest proportion in 1995, but from the year 200s onward, small enterprises with 30 to 49 employees and large enterprises with more than 500 have come to have a bigger share. Finally, the additional value have increased remarkably within the large sized enterprises.

Table 3-7 numbers of establishments by size of firm, employees, and additional values among large and medium-sized enterprises

	Number of Employees	Share in total (%)	Share in total (%)	Share in total (%)
1995	20～29	1.0	0.1	0.0
	30～49	11.6	2.3	0.4
	50～99	22.5	8.9	5.3
	100～499	60.2	63.2	53.5
	500～	4.6	24.9	40.0
2000	20～29	3.7	0.5	0.1
	30～49	62.2	12.1	5.4
	50～99	3.4	1.0	2.4
	100～499	18.4	30.6	33.9
	500～	12.3	55.8	57.5
2002	20～29	3.3	0.4	0.1
	30～49	61.5	11.5	5.2
	50～99	3.2	0.9	1.7
	100～499	17.6	28.4	28.8
	500～	14.3	58.8	63.2

Source: Central Bureau of Statistics, *Statistics Indonesia* (each year's version)

In what ways do small and medium-sized enterprises contribute in the export field? Since the official statistics of small and medium-sized enterprises are not yet developed in Indonesia, the data is quoted from Urata (2000) (Table 3.8). Exports from small and medium-sized enterprises are defined as those that come from locally-based companies. It is also necessary to note that not only direct exports but also indirect exports are included. The share hovers around the 5% level. It went up temporarily right after the Asian economical crisis, but cannot be considered to have a major contribution.

Table 3-8 Share of small and medium-sized enterprises among Indonesia's exports

(Unit: US $ millions)

	1993	1994	1995	1996	1997	1998	1999
Total Export (A)	36,823	40,053	45,418	49,814	63,444	48,848	25,922
Exports of Small Industry and Small Trade (B)	1,685	2,214	2,160	2,503	2,522	3,646	1,205
(B)/(A)	4.6%	5.5%	4.8%	5.0%	4.7%	7.5%	4.6%

Source: Urata(2000)

(2) The situations of economic groups

In Indonesia, The Indonesian Chamber of Commerce and Industry(KADIN) has the biggest voice. It was established in 1987, and nowadays, it has a network that covers 30 states, and 442 regions and cities, with 160 economic groups under its umbrella. Its main role is to make policy recommendations based on the views collected from all member enterprises, including small and medium-sized ones. In addition installing the past chairperson of KADIN as the Coordinating Minister for Economic Affairs under the Yudhoyono premiership, the Government has accelerated operations to promote trade investments. In October 2004, it published a book of policy recommendations (*"Revitalization of Industry and Investment").*aimed at improving the macroeconomic situation from 2004 to 2009 This was published with the advice given by the experts dispatched from JETRO. KADIN is continuingly asking JETRO to dispatch experts in order to prepare for the development of industrial statistics.

3.3.2 The progress of export capacity development

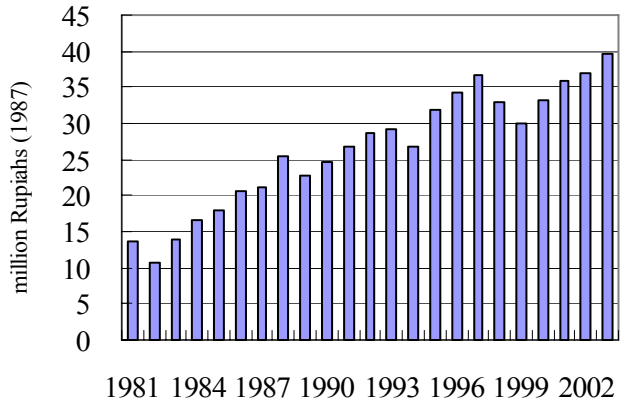
To adequately discuss the formation of enterprises' sector export capabilities, the first thing to be done is to analyze the process of formation based on actor/factor analysis (a simplified way). Alternative indicators were settled on to indirectly measure the three constituent factors that make up export capability; 'policy and counter plan (factor "P")', 'human resource: and organization(factor "R")', and 'knowledge and technique(factor "K")'. To put it another way, the manufacturing industry's labor productivity (additional values/ number of employees) was used as a proxy for 'policy and counter plan(factor "P")', the percentage of total employees employed by a particular industry for 'human resource: and organization(factor "R")', and secondary education enrollment rate for 'knowledge and technique(factor "K")'.

By selecting these indicators, there was an attempt to capture the potential capability, not only in the enterprises that are actually exporting, but also in others. Since it is difficult to set up an indicator that evaluates enterprises' plans comprehensively, productivity was adopted as a result. In addition,

due to the restriction of the data, indicators for 'policy and counter plan' and 'human resource: and organization' had to include, not only small and medium-sized enterprises, but the entire manufacturing industry, and to measure 'knowledge and technique' had to adopt general indicators which cover, not only the manufacturing industry, but the whole economy. Each is believed to have a certain degree of validity regardless.

Reflecting the decline of additional values, associated with the economic downturn, there are some cases in which labor productivity is lower than the previous year. However, despite the downturn in the days after the economic crisis, it has now recovered its previous level. As a whole, it can be said that it has been growing steadily throughout the period from 1981 onward. But the level is still lower than that of the advanced nations. For instance, Indonesia's labor productivity in 2000 was US$3,932 using year 2000 dollars, but Japan's was $73,864[19]. The difference of capital intensity caused by labor costs may explain this difference, but nevertheless, the gap is still huge .

Figure 3-7 Labor productivity in Indonesia's manufacturing sector



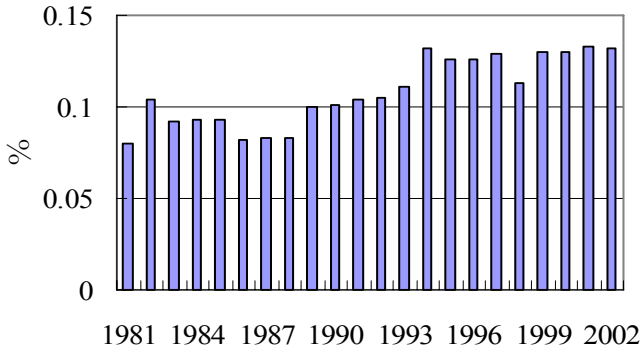
Source: World Development Indicators, ABD Key Indicators

The percentage of total employees in the manufacturing industry passed 10% in the early 1990s, and dropped only once immediately following the economic crisis. Since then, it has being hovering around the low 10%s. Compared to 1980, the most recent figures indicate improvement, but in the contrast with the other evaluated countries and the industrialization experiences of advanced nations, its standard level is not necessarily high.[20]

[19] The figures were calculated based on the data cited in Ministry on Internal Affairs and Communications, Bureau of Statistics (2006)

[20] As for Japan, productivity had already reached 30.7% by 1962. It reached its mazimum in 1973's with 36.6, it kept on out flowing to the Third Industry (What is the third industry? That is not a common term in English.) and the numbers are down to 27.5% in 2004.

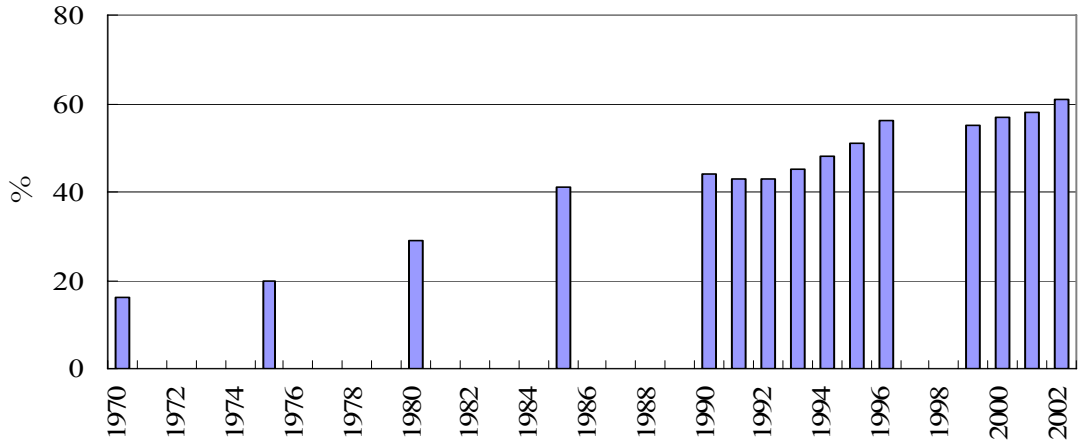
Figure 3-8 The proportion of total employees in the manufacturing sector in Indonesia



Source: World Development Indicators, ABD Key Indicators

Last of all, the secondary education enrollment rate has doubled throughout the period: from 1980 and 2002. Moreover, it is growing steadily in general. However, it is only about 60% and remains lower than in other countries.[21]

Figure 3-9 The secondary education enrollment rate in Indonesia



Source: Global Education Database

To sum up, from the viewpoints of 'policy and counter plan', 'human resource: and organization', and 'knowledge and technique', enterprises' export capabilities are growing steadily, but remain at a low level compared with the advanced nations.

[21] The secondary education enrollment rates in advanced nations are followed: Japan 100%, Canada 98%, UK 95%, France 92%, Korea 91%, Australia 90%, Germany 88%, US 87% .(Global Education Database)

3.3.3 Self-analysis of trade capacity by enterprise

A questionnaire, which asked the respondents to self-evaluate their own competitive strengths, was conducted as a part of this evaluation project. Based on the results of this questionnaire, we discuss below the present condition of enterprises' export capability, particularly in small and medium-sized enterprises.

In Indonesia, a small and medium-sized firm are defined as having less than 100 employees. However, for the sake of comparison with other nations, the World Bank's standard, in which small and medium-sized enterprises are defined as those having less than 300 employees, is adopted for selection. (Hereinafter small and medium-sized enterprises refer to enterprises with less than 300 employees.)

(1) General overview of responded enterprises

The questionnaire study in Indonesia was conducted from September 2005 to October 2005 on about 400 users of the Indonesia Trade Training Center. As a result, it received 132 answers in total. Among all respondents, 72 out of a total 122 in the year 2000 and 83 out of 132 in 2004 were small and medium-sized enterprises.[22] Based on the results of the study, these small and medium-sized enterprises are classified according to their characteristics in four areas; business styles, areas of industry, major markets, and foreign fund rates.

(a) Business model

For business styles, respondents were asked to describe themselves as either ; (1)manufacturers and direct exporters; (2)manufacturers and indirect exporters; (3) non-manufacturers and exporters; or (4) others. In 2004, 75.5% of the total answered (1)manufacturer and direct exporters. Followed by 11.9% for (2)manufacturer and indirect exporters, and 7.7% for (3) nonmanufacturer and exporters.

At same time(2004) among small and medium-sized enterprises 71.4% answered (1)manufacturer and direct exporters, 12.9% answered (2)manufacturer and indirect exporters and 10.3% answered (3) nonmanufacturer and exporters. In other words, more than 70% of the responding enterprises as well as more than 70% of small and medium-sized ones are manufacturer and direct exporters.

(b) Industry

[22] The numbers of enterprises does not always match the total sum of responding, since dome did not give us a valid answer for all of the questions and for some of the questions, multiple answers were allowed

The responding enterprises came from a broad spectrum of industries but on the whole, very few categorized themselves as belonging to the four machinery areas and many responded that they belonged to light industries such as textiles, clothing and wooden products. Many chose 'others' as their answer, but as the segmental breakdown in Table 3.10 shows, the percentage of light industries, including furniture and textiles, is high.

Table 3-9 Industries reported in answers

Company Scale	Food	Apparel and textile	Pulp and paper	Chemical	Medical goods	Petroleum and coal product	Wood product	Rubber product	
Small and Medium (under 300 people)	6	12	2	4	1	2	26	2	
Large (more than 300 people)	4	9	0	0	1	0	8	2	
Company Scale	Glass, soil and stone product	Iron and steel	Nonferrous metal	Metal products	General machinery and parts	Electric equipment and parts	Transport equipment and parts	Precision equipment and parts	Others
Small and Medium (under 300 people)	5	2	5	0	1	3	0	0	28
Large (more than 300 people)	0	1	0	2	1	2	3	0	14

Source : The questionnaire interview by the study team

Table 3-10 Detailed categorization of "other" in 2004

Breakdown of Others (Medium and Small Companies)

Types of Industries	
Handicraft	8
Furniture	7
Rattan Product	2
Pump Dispenser	1
Vegetables & Fruits	1
Photo Album	1
Bag & Suitcase	1
Ornament	1
Household goods	1
Shoes	1
Pottery	1
Sea Grass & Bamboo	1
Leather (Imitation)	1
Spices, Herbs	1

Breakdown of Others (Large Companies)

Types of Industries	
Garment (underwear)	3
Shoes	3
Furniture	3
Pharmaceutical	1
Decorative Glass	1
Ceramics	1
Writing Instruments	1
Electronic Musical	1

Source : The questionnaire interview by the study team

(c) Export destination

Among the respondents, areas such as ASEAN, Japan, Middle East, Eastern and Western Europe, Northern America, Latin America were common destinations for export. According to Indonesia's trade statistics, exports to ASEAN, Japan and Northern America are increasing. Therefore, the result of this investigation is consistent with official trade trends. Western Europe is also a big market, but the statistics tell us that the export value of the whole region is still under or at least not above ASEAN, Japan and Northern America[23]. This result may be due to the fact that multiple answers were allowed.

Table 3-11 Distribution of major trade destinations in 2004

Major export market	Small and medium companies	Total
ASEAN	30	48
Japan	26	45
China	6	13
South Korea	9	18
Central Asia	8	11
South Asia	4	7
Middle East	23	40
Western Europe	38	70
Eastern Europe	17	28
Africa	9	17
North America	15	37
Central and South America	20	36
Oceania	10	21
Others	1	5

Source : The questionnaire interview by the study team

[23] Albeit Western Europe was the popular answer, this is possibly due to the fact that the questionnaire allowed multiple answers and there are many enterprises that exports to any of, although the size of it may be small, the countries that constructs Western Europe which numbers a lot.

(D) Foreign ownership

80% of the responding enterprises were regional and hade no foreign funds. Among small and medium-sized enterprises, more than 90% were regional. The rate is also high among large enterprises with more than 300 employees, but compared to the small and medium-sized ones, the percentage with foreign funds was higher.

Table 3-12 Foreign ownership (2004)

Small and medium	Foreign capital ratio	0%		50%			80%	95%		100%	計
	Number of companies	61		2			1	1		2	67
Large	Foreign capital ratio	0%	35%	50%	60%	74%		95%	99.96 %	100%	計
	Number of companies	25	1	4	1	1		1	1	6	40

Source : The questionnaire interview by the study team

(2) Analysis of export capacity of SMEs based on questionnaires

The questionnaire also asked the respondents to self-evaluate their own competitive power, which includes production, product development, marketing and trading affairs, considering three factors: (a) total competitiveness, (b) the number of skilled technical staff members and (c) technical know-how. Respondents were asked about (b) the number of skilled technical staffs and (c) technical know-how because these are the factors that as seen as constituting (a) total competitiveness. Since it is a self-evaluation by enterprises, the measure of export capability cannot be assumed to be objective. Yet, the transition can be determined from a comparison of 2000 with 2004, and the results generated by analysis of the 3 factors with each of the 4 items indicate the differences in the relative degree of capability formation.

Comparing answers from 2000 and 2004, we see that the average evaluations in most items and factors improved in 2004. Taking a closer look at each enterprise, however, many were evaluated the same. Most of them considered their own competitiveness to be equal to that of other domestic enterprises in the same trade. There were some but not many that acknowledged themselves as the top-leading enterprises within the country.

Looking at each factor that forms capability separately, we see that in 2000, more respondents rated

themselves highly in production than in any other field. This is followed by research development, marketing and finally trading affairs. However, research development overtakes production by a narrow margin in 2004. Turning to the evaluation of total competitiveness, the result was the same in 2000 and 2004: technical know-how ＞ the number of skilled technical staff members ≧ total competitiveness. In consequence, it can be inferred that the technical know-how and human resources which accumulated in-house are not always combined with competitiveness.

Small and medium-sized enterprises that showed high-performance in growth of sales and export values from 2000 to 2004 were selected from among the respondents. Table 3.13 shows such enterprises' self-evaluations.

Based on their self-evaluations, enterprises are divided into two groups. One contains those that evaluated any of the factors, production, product development, marketing and trading affairs, as a five (very high: the red-shaded part), and the other contains those that did not. In Table 3.13, enterprises that produce processed products such as handicraft and clothing are numbered 1 to 22 and the ones that produce minimally processed products like coal, spices and plastic, stone products are numbered 23 to 29. According to this table, enterprises producing processed products tend to have a high opinion of factors that construct their own capability.

In other words, the performance of companies that produce minimally processed products' is greatly affected by external factors such as supply-and-demand and currency exchange matters in exports. In contrast, the performance of enterprises dealing with processed products is more affected by their own capability. Expanding the debate, if Indonesia is to make the most of its processed products (which are generally high-value additional) for economic development and achieve the industrial advances through export promotions, it is essential that enterprises' self-evaluations improve .

Note that, among the enterprises which deal with processed products, home furniture makers neither have high self-evaluations (No2, 5, 10, 11, 14, 15) nor do they match the tendency mentioned above. This is possibly due to the structural characteristics of Indonesia's furniture industry (i.e. operations to specialize in minimally processed products, family-oriented management, small-sized enterprise or contract manufacturing delivery system, etc...). In any case, these points need further investigation.

Table 3-13 Answers on export performance and self evaluation on trade capacity

	Products (2004)		Sales amount (million rupiah)			Export value (million rupiah)			Production		Product Development		Marketing		Trading business	
	Items	attribute (note)	2000	2004	Increase	2000	2004	Increase	Number of Skilled/Specialized Staff	Technology/Know-how	Number of Skilled/Specialized Staff	Technology/Know-how	Number of Skilled/Specialized Staff	Technology/Know-how	Number of Skilled/Specialized Staff	Technology/Know-how
Company 1	Basket & Flower Vase	1	5,000	150,000	2900.00%	5,000	150,000	2900.00%	5	5	4	4	4	4	5	4
Company 2	Furniture & Handicraft	1	50	950	1800.00%	50	950	1800.00%	4	4	4	4	4	4	4	4
Company 3	Copper Rod	1	494,591	3,633,053	634.56%	.	2,777,489	-	4	4	4	5	4	5	4	4
Company 4	Door Handle	1	861	2,719	215.74%	88	813	819.79%	2	3	2	3	2	3	2	2
Company 5	Rattan Furniture	1	100	300	200.00%	100	300	200.00%	3	3	3	4	3	3	3	4
Company 6	Handicraft	1	1,000	2,400	140.00%	.	700	-	4	5	5	5	5	5	3	5
Company 7	Instant Coffee	1	10,000	22,000	120.00%	10,000	22,000	120.00%	4	5	4	5	5	5	5	5
Company 8	Decorative Glass	1	93,200	200,150	114.75%	93,200	200,150	114.75%	5	5	4	4	5	4	4	4
Company 9	Doctor Clothes	1	10,000	20,000	100.00%	10,000	20,000	100.00%	4	N/A	N/A	N/A	4	N/A	N/A	4
Company 10	Rattan Furniture	1	500	1,000	100.00%	500	1,000	100.00%	3	3	3	3	3	3	3	3
Company 11	Furniture	1	2,750	5,000	81.82%	2,000	3,000	50.00%	4	4	3	3	3	3	3	3
Company 12	Furniture	1	2,000	3,000	50.00%	2,000	3,000	50.00%	4	2	3	3	3	2	2	2
Company 13	Pearl	1	1,000	1,500	50.00%	500	600	20.00%	4	5	4	4	4	5	4	5
Company 14	Carving & Furniture	1	250	350	40.00%	250	350	40.00%	4	4	4	4	3	3	3	3
Company 15	Furniture	1	7,500	10,000	33.33%	7,500	10,000	33.33%	4	4	4	4	4	4	4	4
Company 16	Underwear	1	4,000	5,007	25.18%	4,000	5,007	25.18%	2	3	2	3	1	2	2	3
Company 17	Basket & Flower Vase	1	900	1,100	22.22%	800	1,000	25.00%	5	5	5	5	4	4	4	4
Company 18	Food & Infant Milk	1	3,500	4,000	14.29%	900	1,200	33.33%	4	5	5	5	3	4	1	4
Company 19	Shoes & Sandals	1	5,000	5,500	10.00%	5,000	5,500	10.00%	3	3	N/A	1	2	3	3	2
Company 20	Garment & Textile	1	7,500	7,650	2.00%	7,500	7,650	2.00%	4	4	5	4	4	4	4	4
Company 21	Handicraft	1	50	50	0.00%	20	30	50.00%	4	4	4	4	4	3	4	3
Company 22	TV Rack	1	2,000	2,000	0.00%	1,500	2,000	33.33%	5	4	5	4	4	4	5	4
Company 23	Dammar, Betelnut Formicacid, Coal	2	500	2,800	460.00%	500	2,800	460.00%	2	2	2	4	2	3	2	3
Company 24	Spices & Argo Products	2	500	2,000	300.00%	500	2,000	300.00%	3	3	3	3	3	3	3	3
Company 25	Iron Pipe	2	3,000	7,000	133.33%	3,000	7,000	133.33%	4	4	4	4	4	4	4	4
Company 26	Daily Goods & Natural Products	2	5,000	7,000	40.00%	5,000	7,000	40.00%	N/A	N/A	N/A	N/A	4	4	4	4
Company 27	Plastic	2	3,000	4,000	33.33%	1,000	1,500	50.00%	2	3	N/A	N/A	1	2	3	3
Company 28	Stone Product	2	100	125	25.00%	100	125	25.00%	4	3	4	3	4	3	3	4
Company 29	Vegetables	2	110,000	120,000	9.09%	110,000	120,000	9.09%	4	4	3	4	4	4	3	4

Note: 1= High degree processing products , 2= Low degree processing products

Column1: Case studies of Indonesian enterprises

Alongside the questionnaire investigation, interviews were directly conducted with some enterprises. Based on the interviews , selected cases that show Indonesian enterprises' export trends and capability are listed below.

1. Indonesian enterprise A (location: Surabaya, major exported goods: handicraft)

Enterprise A is a small and medium-sized enterprise established in 1993. Its products are iron-made handicrafts and small-sized furniture. When the business started, there were five employees, but now there are twenty. This May, it founded SME's Gallery for exhibitions and sales, together with another handicraft trader and a small-scale apparel company. It is in the middle of an expansion of operations. Recently, it received an inquiry from a Japanese Enterprise for its' metallic decorated door-handle.

Presently, it has sales of 500 billion Rp. (about 5 billion yen) per year. Through an association with a US trading company (buyer) based in Yogyakarta, it began exporting in 2000. Exports make up 60 % of total sales and domestic sales make up 40%. The company utilizes buyers like the one mentioned above in several in nations, and its major markets are India (40%), US (20%), Canada (20%) and others (20%). The said enterprise frequently takes advantage of the training at REPTC in Surabaya. They are satisfied with the training received so far price decision, and management and internet (collecting information and building up a website) programs. The company expressed its willingness to participate in training programs in accountancy, or stock control and design if such programs are offered in the future, . Enterprise A participates in the sale and exhibit (Jakarta) sponsored by NAFED. Similarly, it has taken part in the International Trade Fair in Makuhari, Japan, and is making good use of the government's service.

The enterprise highly evaluates RETPC's training service and has demonstrated its strong trust in RETPC by printing RETPC's logo (P3ED) on the opening memorial brochure of its SME's Gallery (a shop selling its own products and the exhibited handicraft products made by nearby small manufactures.

2. Indonesian enterprise B (location: Jakarta, major export goods: rubber-made fenders and buoys)

Enterprise B is a local industry founded by its ex-president in 1954. Its main products are rubber-made fenders and buoys used in harbors and government-backed construction such as bank protection work and port construction work. There were 140 employees in 2000, and that number

remained basically unchanged in 2004. The company's capital fund is 16 billion Rp. and its sales ranged from 180 to 200 billion Rp./year from 2000 to 2004.

Apart from producing and selling its own products (50% of the sales), Enterprise B also engages in trade by importing and selling related products (50 % of the sales). 90% of the products it produces or imports are sold domestically and the rest are exported. Since the Asian Currency Crisis, the company has adopted the policy of producing and selling onshore procurement products. It does not have a stable market, but has exported to markets in Europe and Singapore. In the last few years, they have on occasion also made deliveries to places like Myanmar and Taiwan.

Training conducted by experts dispatched from a Swedish company, which is one the enterprises' customers, has been useful in enhancing its production know-how . It once sent an employee to the Trade Training Centre (IETC)'s for training, but the trained employee left the company after the program. Ever since, they have struggled with the question of how best to utilize training programs. The company is under the impression however, that IETC is out of date both in terms of its quality-testing machines for rubber-related products and its facilities. Furthermore, the enterprise has tried training programs offered by KADIN and some economic groups, but felt that the costs of participation outweighed the benefits. Enterprise B said that generally, training is noticed only through the press. Furthermore, the company believes that in order to improve training programs, organizers must listen to the needs and complaints of participants, but said that the organizers lacked the desire to actively communicate with participants.

All in all, it is this 'attitude' that matters in the government's assistance towards enterprises. For instance, a consultant, trying to acquire ISO, asked a government-related consultant for it only to find out that it was waste of money and time. The consultant re-asked a private consultant in Singapore and finally got it. In addition to this "let them wait," attitude, corruption is still strongly-rooted in governmental services. Likewise, in the case of ODA, there is no room for local industries in the yen loan program, since consultants bid based on a specific Japanese company's specifications. To make things worse, after the AFTA, the import tax on rubber-related products in ASEAN will drop down to 0% from 5%. Noticing the situation in Malaysia, where local industries are protected by imposing a 40% tax, Enterprise B expressed its displeasure with the Indonesian government and questioned whether it had any interest in protecting indigenous industry. 'No revolution in public services, "we don't have any desire to accept government services ' is the enterprises' candid opinion., Briefly, the enterprise received assistance from foreign nations 2 years ago through UNDP's free equipment and material provision.

3. Indonesian enterprise C(location: Jakarta, main export goods: furniture for office and general use)
When the business started in 1971, 2 employees were producing and selling cassette tapes. It then

expanded its business to CD racks, office furniture and furniture in general. In peak periods, the export sales of its own brand goods reached $180 million, but it now exports only half as much. This decline can be explained by the sharp competition it faces from products made in China and Malaysia. However, the situation is changing for the better, since the two countries' products have been detected in Middle East markets for using illegally logged materials. Its major markets are the US, Middle East and the Western EU. The enterprise relies on agents for its sales and its buyers are companies, hotels and the consumer public. Exports make 70% of total sales and it is said that domestic sales are stable. 400 employees are currently working for the enterprise, but ever since the Currency Crisis, the number has been reduced. (However, it becomes 'large-sized' with more than 25,000 employees, if we include the employees of its 5 related-companies, which deal with bed clothes products, exhibition projects and so on…) It used to export to Japan, and has a patent permitted by Japan's Patent Agency.

The enterprise has sent 3 or 4 employees to IETC's training scheme (basic export procedure course and product management course). Enterprise C's impressions were: 'IETC should try harder to inform user enterprises about what kind of training courses it has.': 'ISTC should communicate intimately with users'. Additionally, Enterprise C took several jabs at NAFED's trade fair (offered with a subsidized participation fee) stating that it was ill-prepared for buyers' participation and that there was sometimes no response on buyer's information. 'Compared to this, IETC is doing OK' the enterprise said. According to the said enterprise, private services conducted by economic groups' have shown no improvement and cannot be evaluated. (Being affiliated, but we have not made any contact so far, and does not know that KADIN's service exists) It has used JETRO's service and is going to participate in the exhibition in Tokyo.

3.4 Capacity building of the government to expand Indonesian export

3.4.1 Government agencies provide service related to export

Based on JICA (2003), the functions of trade-related government agencies are organized in Table 3.14. The larger items in the table are ‘basic condition improvements’, ‘formulation of trade-related polices and developing systems to operate them adequately’ and ‘export assistance service’. “Basic condition improvements” include improvements in fundamental economic infrastructure, the legal system, and education. “Formulation of trade-related polices and developing systems to operate them adequately” indicates specialized policies for trade, development of the legal system and trade-related procedures. Export assistance service can be divided into “soft” and “hard” programs. The former covers commodity fairs, fair trades, and providing information about overseas trade policies and procedures. On the other hand, the latter includes various types of technical assistance for enhancing international competitiveness.

The main regulating authorities for each item are shown in Figure 3.14. But the MOT and the MOI are considered to be most important programs for the formulation of policies for trade and small and medium-sized enterprises and the development of systems to operate them adequately. .

Table 3-14 The list of government agencies related to trade in Indonesia

Government function in trade sector (Large items)	Government function in trade sector (Small items)	Examples	Regulating authority
Establishing Basic Conditions	Legal System Development for Commercial Transactions	Development of Civil laws, Commercial laws, Registration laws, Rehabilitation, reorganization and Bankruptcy law, Antitrust law, Immigration law and alien registration law	
	Provision of Economic Infrastructure	Transportation Infrastructure, Electricity generation, Transmission and Distribution Infrastructure, Telecommunication Infrastructure, Financial System, Standards and conformity Assessment System, Intellectual Property Rights, Statistics	Ministry of Transportation
	Creation of Business Environment for Domestic Industries	Various forms of deregulation to promote new entries into the market, Establishing financial institutions, Promoting research and development activities, Supporting business services for small and medium enterprises	DGSMSIT,
	Industrial Human Resources Development	Human resources development for science and mathematical education, as well as information technology education at elementary and intermediate levels of schooling, and High level specialized skills, English education, Certified engineers systems, Vocational training and job matching	IETC, Ministry of National Education
Establishing System for Formulating Trade-related Policies and Institutions and their Proper Implementation	Formulation and Implementation of Industrial and Trade Policies Based on Medium- to Long term Perspectives	Formulate and implement their industrial and trade policies and implement WTO agreements	Bureau of Planning (MOT), Bureau of Planning (MOI)
	Establishment of Trade related Laws, Regulations, and Institutions	Basic Laws on Export and Import, Basic Laws on customs, Import-related laws （Quarantine Law), Export processing zone, Trade-related financial system(Trade insurance, export finance), Establishment of export promotion organization	Bureau of Planning (MOT), NAFED
	Trade-related procedures	Test, Inspection, Custom, Quarantine	DGIT （MOT）
Export support service	Providing information on the overseas markets	Organizing marketing seminar, trade shows and exhibitions of products	IETC
	Providing information on Foreign and domestic trade procedures, Incentives	Foreign trade system, procedure and business custom, Information on incentives, Strengthening of functions of trade promote organization	NAFED
	Fostering Viable Private Sector	Management and technical guidance, Training for Product development and agrotechny	IETC

Source: the author

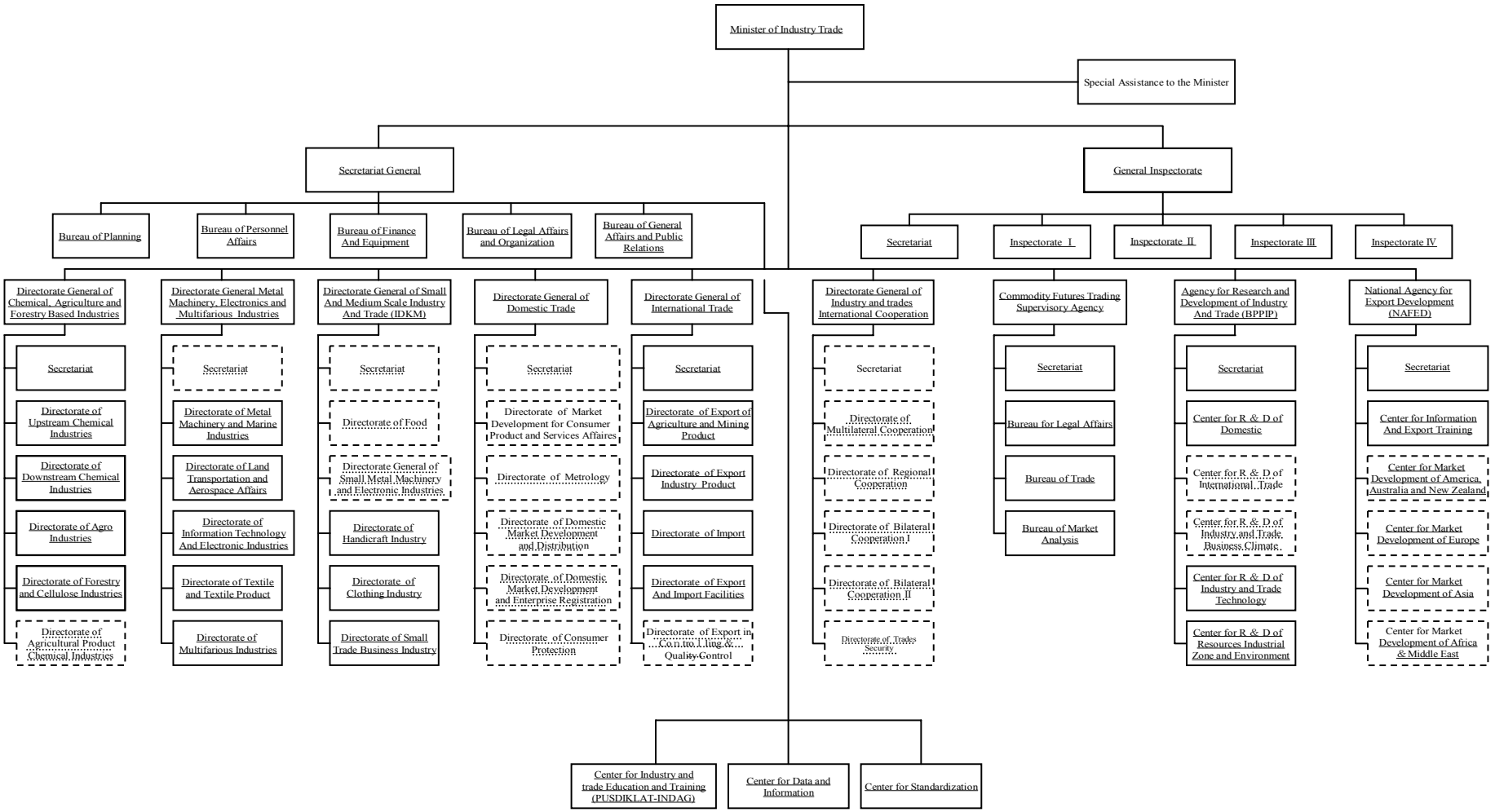
MOT and MOI merged to form MOIT in 1996, in order to implement policies of trade promotion and industrial development as a unit (refer to Figure 3.10). However, after the inauguration of the new government in 2004, it was re-divided and is still in the middle of organizational restructuring. The reason for its re-division has not been announced yet, but it is sensed that it was mainly because this would allow them to create more cabinet posts. Some administration officials have also questioned the necessity of re-division.

MOT's present organizations take over with those of the Department of Trade and Industry for the most part. MOI's present organization is shown in Figure 3.11.

MOT has not been significantly affected by the re-division. In fact, some even appreciate the re-division saying that MOT has become more nimble as a result. The draft of MOT's five-year-plan (from 2005 to 2009) has just been put together, with a numerical target of 10.1% growth in the export rate. As actual tactics to enhance competitiveness, cluster advancement and brand enhancement are emphasized. Moreover, there is a request to accept JICA's experts in the Bureau of Planning, in order to gain advices on policymaking and MOT has acted energetically.

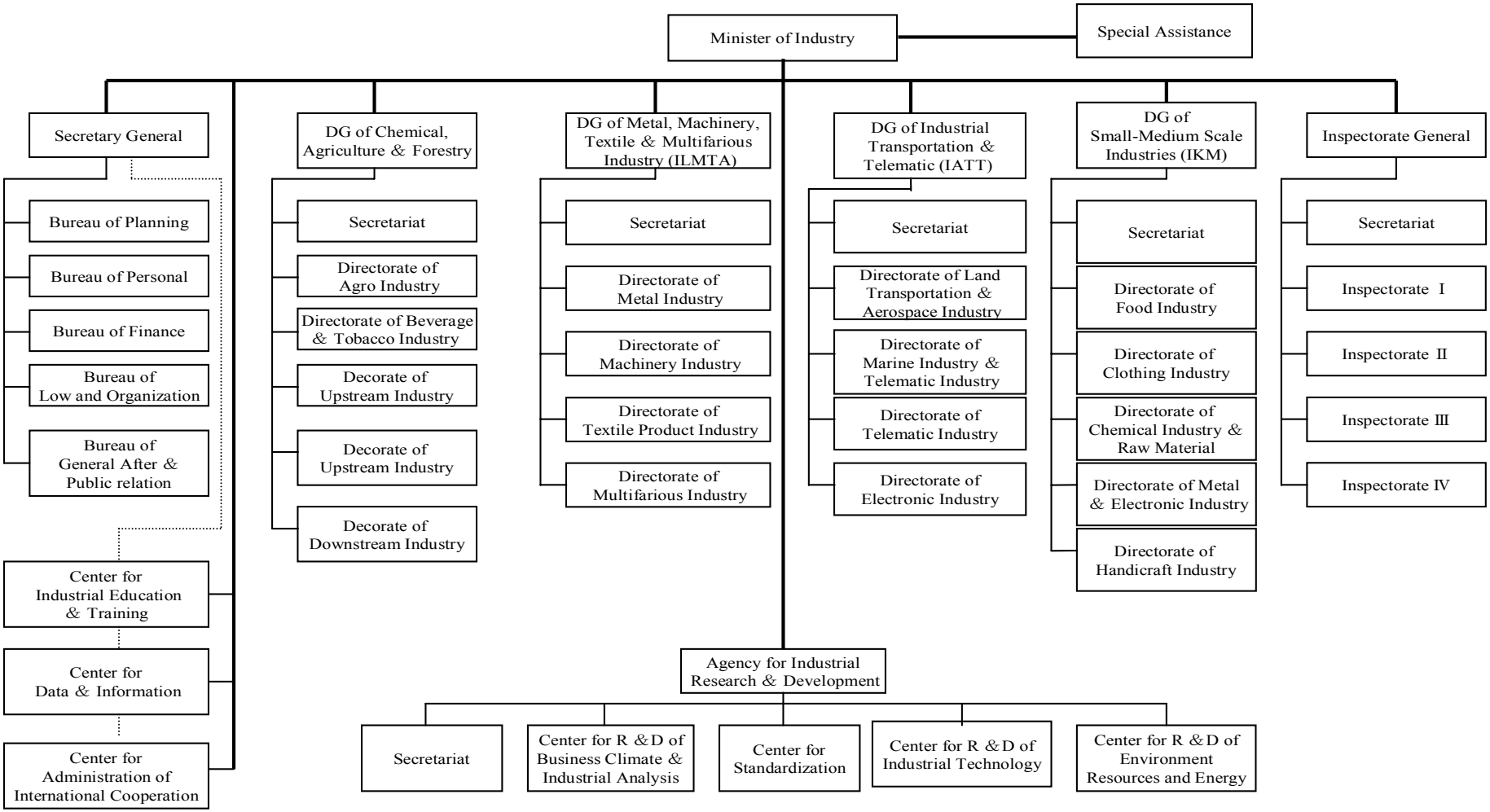
On the other side, MOI's organization was badly affected by the division from MOT. It took almost a year after the re-division to decide personnel affairs above the level of division chief and is at last finalizing its organizational system. Though their mid-term industry development policy is nearly finalized it is apparent that there are still serious problem with their approach., By loosening its control over its local agencies through a process of decentralization, it puts emphasis on local government functions and coordination between the center and the regional governments. But in fact, the contradiction of the two goals are actually obvious. While the Ministry argues for the promotion Makassar's metal processing industry as the emphasis of their cluster approach for activating local industries, the local government desires the fostering of agro industry.

Figure 3-10 Organizational structure of Ministry of Industry and Trade (at the point of 2004's division)



Source: the author based on documents from MOI

Figure 3-11 Organizational Figure of Ministry of Industry



Source: the author based on documents of MOT

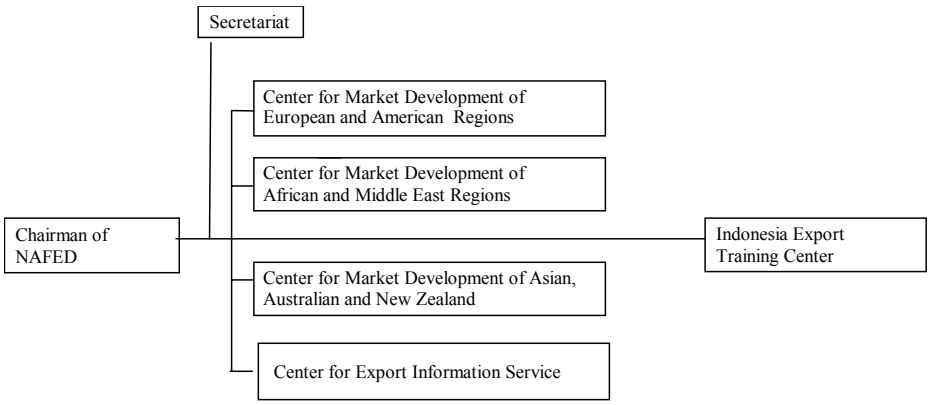
We now shift focus to NAFED, which provides export development service to non-oil and natural gas product manufacturers.

When founded in 1971, NAFED was a semi-governmental organization under the direct control of the President, but in 1976, it was put under the control of the Ministry of Trade. During this period, it opened its first overseas office in Hamburg, Western Germany (1973), and by 1997,it had opened an additional twelve overseas branches. Though all offices were closed down due to the economical crisis (1997), six were re-opened in 2002 in cities like Osaka, and five are planned to be opened in 2006. At the time of this study (2005), there were 382 employees, roughly the same number as there were in 1995. This is because the organization has not recruited any new members since then.. There is a concern that many will reach the official age limit and retire in the mid-term and that technical transfer will become inadequate a as result.

NAFED's present organization Figure is shown in Figure 3.12. Up until the establishment of the Minister on Industry Trade in 1995, NAFED was organized around a product-by-product but after this point, it was reorganized around a market-by-market . This reorganization was not only based on enterprises' requests. It is said to have a strong political reason; to prevent overlaps with the former Ministry of Industry. There was further reorganization in 2004, but the market-by-market framework has remained. MATRADE, which is discussed below, has lines for both market-by-market and product-by-product, but it is difficult for NAFED to do this because of its resource: constraints and it is still not at the stage were it can begin product development and foster industries tactically, based on the market's demand.

The Trade Training Center (IETC), which was created in cooperation with JICA, also belongs to NAFED and plays an overall role related to trade development. Table 3.15 and 3.16 indicate the growth of its main activity: export forums and commodity fairs. The steady growth of its establishment is significant.

Figure 3-12 Organizational Structure of NAFED



Source: NAFED's papers

Table 3-15 Numbers of NAFED-sponsored export forums and participants (1991-2003)

Year	Market Survey/Market Breif (Number)	Participants (Numeber)
1991	76	349
1992	22	386
1993	36	377
1994	48	375
1995	27	360
1996	24	450
1997	47	504
1998	21	541
1999	30	562
2000	42	588
2001	50	600
2002	42	500

Source: NAFED's papers

Table 3-16 Numbers of exhibitors and buyers at NAFED-sponsored commodity fairs and the amount of trade transactions (1986-2003)

Year	Exhibitors	Buyers	Trade Transaction (US$ Million)
1986	210	150	10.7
1987	304	303	87.4
1988	340	649	54.4
1989	359	1,301	67.9
1990	424	1,616	76.6
1991	550	2,580	105.3
1992	611	3,201	131.0
1993	621	4,055	155.9
1994	650	4,525	162.1
1995	Joining Indonesian Development Exhibition'95	1,249	28.9
1996	549	3,725	34.6
1997	604	2,626	54.6
1998	800	2,799	71.3
1999	919	3,158	53.5
2000	1,100	5,364	103.0
2001	919	4,335	47.2
2002	1,187	2,501	72.4
2003	1,182	3,843	95.8

Source: NAFED's papers

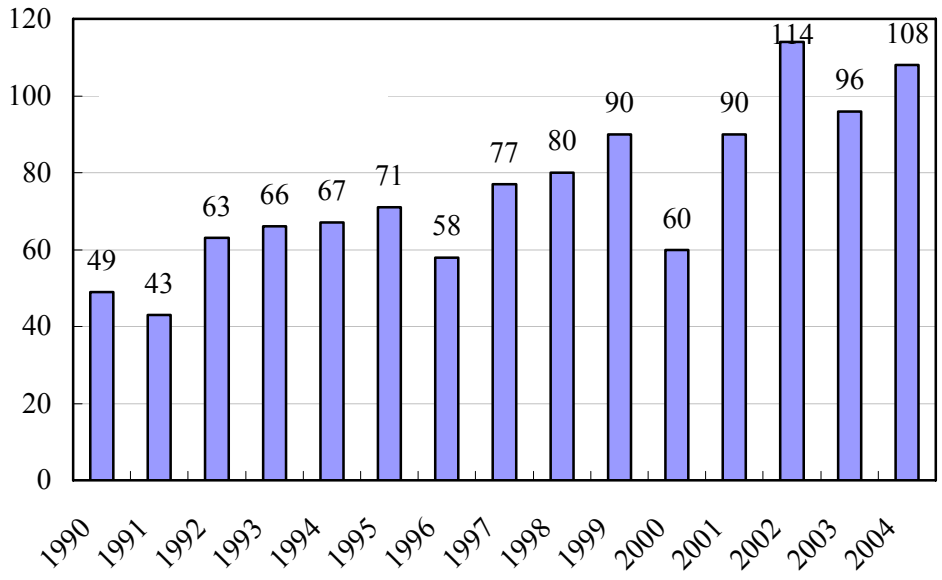
Alternatively, as noted above, it is IETC's role to develop human resources in individual enterprises.

The IETC's main activities are trading practice, quality management programs, exhibitions, and foreign language training programs. The development of these programs is shown in Figure 3.13 and 3.14. As a whole, IETC has steadily expanding its activities. Main users are private enterprises (refer to Figure 3.15).

IETC was implemented by JICA's Technical Cooperation Project (now known as the Project for Technical Cooperation) in 1988 and is currently in Phase 3 (2002-2006), The RETPC Project is in operation. The goal of this project is to improve techniques in trade training, business Japanese, export inspection and exhibit training (Phase 1), to improve capacity to set up and run trade training programs (Phase 2) and to expand IETC's achieved-results in the regions (Phase 3).

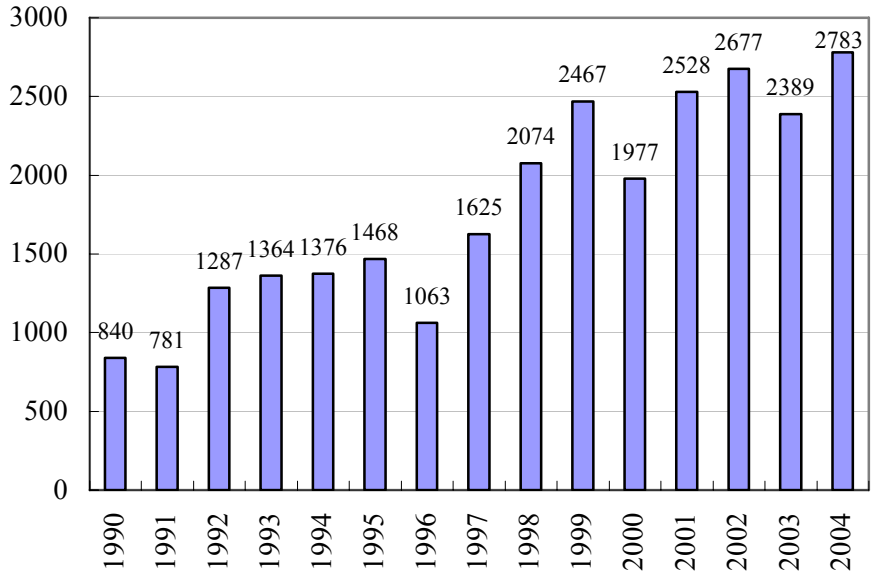
In Phase 3, trade training, and market information and trade development services are provided to four regions (Surabaya, Medan, Makassar and Banjarmasin). Table 3.17 and 3.18 indicate the expansion of RETPC's activities in Surabaya, which is high in demand and growing steadily.

Figure 3-13 Trends in the numbers of training programs sponsored by IETC



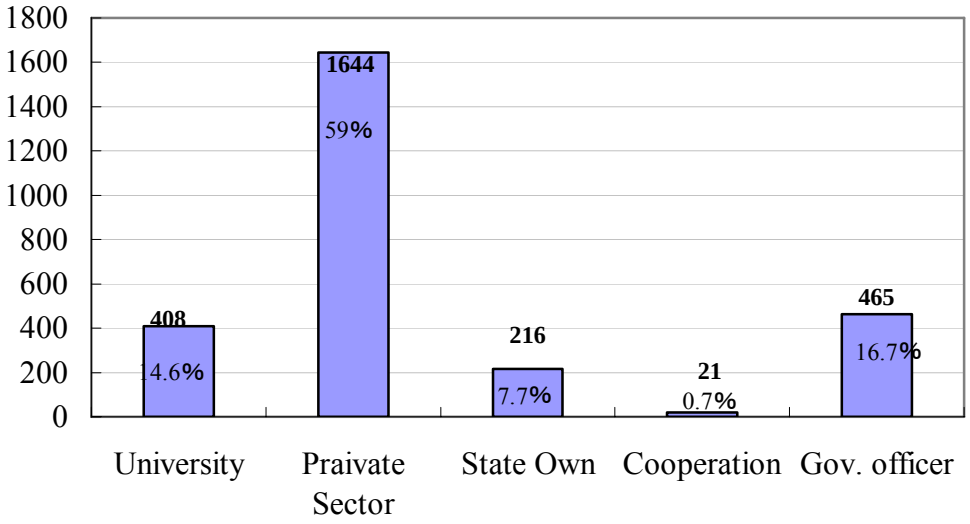
Source: IETC's papers

Figure 3-14 Trends in the number of IETS-sponsored training participants



Source: IETC's papers

Figure 3-15 Categories of IETC-sponsored training participants (2004)



Source: IETC's papers

Table 3-17 Trade information and trade promotion activities sponsored by RETPC

Activity	2002	2003	2004	2005 Plan	Until
I Export Information					
1. Library					
Books, Magazines, etc	394	770	1208	1250	201
Visitors	133	746	620	750	239
2. Print Out Information					
Brochure and Leaflet	1150	3684	1689	2000	1086
Library Leaflet and Mini	1150	3235	705	1000	1274
Catalogue Product Display	300	300	905	1000	581
RETPC Info	-	-	2000	2000	1000
3. Internet Information					
Inquiry / Buyer Need	-	15	129	150	168
Other Trade News	-	6	6	10	5
II Export Promotion					
1. Mini Display					
Mini Display Participants	32	37	50	50	33
Visitors	72	701	620	750	233
2. Fasilitation Fair Participants					
- National Exhibition	-	1	3	3	1
- Foreign Exhibition	-	-	-	1	-
3. Business Consultation					
Marketing	6	48	47	50	15
Exhibition	1	6	5	10	8
Product	2	7	15	10	3
4. Business Contact/Buyer Reception Desk/BRD	1	5	9	10	-
5. Workshop (Seminar, Information Dissemination)	-	6	14	15	12

Source: REPTC, Surabaya's papers

Table 3-18 Trade training programs sponsored by RETPC

Activity	2002	2003	2004	2005 Plan
1. Export Training Implementation	12	19	15	17
Trade Training (Class)	8	12	7	9
IT Training	3	4	4	4
Distance Learning (TV-C)	1	3	4	4
2. Number of Participants	294	523	387	475
3. Number of Instructors	29	32	21	25
Local (Surabaya)	10	16	6	15
Jakarta	15	14	6	5
Foreign Country (Japan and Australia)	4	2	9	5
4. Training Text Book	12	19	15	17
5. Training Need Survey by Questionnaire	150	300	250	300
6. Cooperation Training (With Region/City)	-	3	5	6

Source: REPTC, Surabaya's papers

3.4.2 Trade promotion capacity development in the government sector

In the governmental section, as mentioned, capacity development is analyzed by using benchmarks correlating to the capacity constituent factors listed below.

Necessary factors to build-up a system

1. 'Policies and measures': Trade Development Law, Basic Law covering Small and Medium-sized Enterprises
2. 'Human resource: and organization': trade training center, government agency and financial institutions specialized in small and medium-sized enterprises
3. 'Knowledge and skill': mid-term projects for export development and small and medium-sized enterprises

The system shifts to System-working Stage only when all these conditions are met

Legally speaking, in the case of Indonesia, legislation concerning the promotion investment and export was formulated in the late 1960s and Small Company law in 1995. From an institutional standpoint, certain progress has been made." From an institutional standpoint, certain progress has been made. However, the further amendment is needed in terms of the delay of the constitution of new investment law and the incompleteness of the SME law. As for the medium-term plan, it was innovative that exportation of nonoil/natural gas was reinforced in the third five-year plan. As to the Action Plan of each ministry, it has not necessary consolidated systematically until recent years. At present, Ministry of Technology has been organizing Industrial Policy Medium-term Plan, Cooperative Corporation/Ministry of SME has been working on Medium-term Action Plan, and Ministry of Commerce has also working on formulation of the similar Medium-term Plan.

Regarding organizational development, specialist organizations such as NAFED (1972) and DCSME (1983) were established in considerably early years. However, as is apparent from the merger (1996) and split-up (2004) of the Ministry of Trade and Ministry of Industry, the whole government is still engaging in trial and error in its attempts to build-up the system (i.e. it is in the System formulation stage). Coordination of exports and small and medium-sized enterprises has been difficult in the case of central government, which has many related players in the organization. Given the emergence in 2001 of newly-empowered local governments as a consequence of decentralization, coordination has become more important than ever.

In terms of the knowledge/skill factor, a statistics was already established in 1980, but white books

which require the analysis of the related areas has not been published at this point. NAFED has been bringing out annual reports since the beginning of the 1980s and Export Information Center has been maintaining the market information for the domestic export-industry and the foreign buyers. However, further improvement is needed to provide the information that includes business analysis.

Figure 3-16 Trade capacity building in the government sector

	1960	1970	1980	1990	2000
Policies and measures（Related laws）	Foreign Investment Law(1967)	Free-Trade Area Basic Law(1970)			Small Enterprises Law(1995)
Human resources and organizations （Related specialized organization）	Indonesia Investment Coordinating Board (1967)	Indonesia Credit Insurance Public Corporation (1971)	National Agency for Export Development (1972)	Department of Cooperative SMEs(1983)	Ministry of Industry and Trade (1996) Indonesia Small and Medium FirmsDevelopment Public Corporation(2000) Decentralization (2001) Division of Ministry of Trade and Industry(2004) Indonesia Export Training Center (1989)
Knowledge and skills （Mid-Term Plans in related sectors）			The Third Five Years Plan(1979-1983)		Ministry of Trade Five Years Plan(2005-2009) Mid-Term Plan of Ministry of SMEs and Cooperatives(2005－2009)

Source: the author

3.4.3 Evaluation by private sector of the government in supporting export

We now turn to an analysis of the government's export promotion policies, trade-related services and economic group's trade-related services, using the results collected from the enterprise questionnaire.

Satisfaction with most government programs improved (refer to Table 3.19). Those programs and services which showed improvement were further classified into three groups according to whether respondents: (1)Noted further improvement to a previously satisfactory program (2)Shifted their evaluations from a negative to positive rating or (3) Noted improvement but still rated the service unsatisfactory Examples for each classification are as follows: (1)Infrastructure (communication and water supply), human resource: development (university education for employees), set-up and running export processing zones: (2)certification system of governmental standards, human resource: development (all three items apart form university education which was originally evaluated as plus: (3)industry and trade development policies (capital support, tax benefits), efficiency of customs procedures.

Respondents saw no improvement in the legal system and its operation, certain types of infrastructure (commodity distribution, electricity supply), and industry and trade development (financial support, tax benefits). With the exception of "energy supply," these programs and services received below-average ratings (<3), and thus it seems that there are still concerns to be addressed.

As a whole, significant improvements were seen in many areas. Most notably, all human resource: development programs now receive a positive rating. In contrast, complaints remained in parts of infrastructure and trade-related items. The worst-rated programs/services were capital support, tax benefits and customs procedures, the latter of which was thought to be inefficient.

Table 3-19 Evaluation of policy measures to support export

			Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged*
Evaluation of The Government's Export Promotion Measures	Improvement of legal systems					◎(－)
	Infrastructure building	Logistics				◎(－)
		Electricity				◎(＋)
		Communication	◎			
		Water Supply	◎			
	Standard certification system			◎		
	Human resources development	Elementary and secondary education		◎		
		College/University education		◎		
		Vocational education		◎		
		Training programme for engineers		◎		
	Industrial and Trade development policy	Financial support				◎(－)
		Tax preferences				◎(－)
	Response to the trade liberalization	Reduction of import tariffs for raw materials			◎	
		Reduction of obstacles for foreign export			◎	
	Establishment and operation of the export processing zone		◎			
	Efficiency of the customs procedure				◎	

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3. ◎(-) indicates that the average score was below three and the sample did not improve after four years.

4. ◎(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author makes the table according to the research.

Next we shall compare the evaluations of the government's trade-related service to those offered by economic groups'(refer to Table 3.20).

Among government programs, commodity fairs and exhibitions in marketing fell into group (1), information supplements in manufacturing into group (2) and individual consultation in manufactory activities, all marketing programs with the exception of commodity fairs and exhibitions, and individual consultation in trade business fell into group (3). Respondents saw no significant improvements in training seminars in manufacturing. To sum up, services have improved but there are still complaints about many items.

On the other hand, among services offered by economic groups, commodity fair and exhibition in marketing fell into group (1), information supplements in both manufacturing and product development, all three items except commodity fairs and exhibitions in marketing, and all three items in trade business fell into group (2) and individual consultation and training seminars in both manufacturing and product development fell into group (3) Respondents saw significant

improvements in all areas.. To summarize, while there are still complaints to deal with in some areas, all programs have shown improvements, respondents expressed greater satisfaction and most programs had plus ratings. As a whole, private sector services are more appreciated.

When one compares the evaluations of the government's trade-related services with those of the economic groups' services, one can see that there are still many items that have complaints to be addressed on the governmental side. Furthermore, many economic groups' items received plus ratings and on a whole were given high marks.

Table 3-20 Evaluations of trade related services provided by the government and the local business groups

			Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged*
Evaluation of trade-related services for companies by the government	Production	Individual counseling, Consulting			◎	
		Training, Seminar				◎(－)
		Provision of information		◎		
	Product development	Individual counseling, Consulting			◎	
		Training, Seminar			◎	
		Provision of information			◎	
	Marketing	Individual counseling, Consulting			◎	
		Training, Seminar			◎	
		Trade Fair, Exhibition	◎			
		Provision of information			◎	
	Trading business	Individual counseling, Consulting			◎	
		Training, Seminar		◎		
		Provision of information		◎		
Evaluation of Trade-Related Services for Companies by the Business Sector	Production	Individual counseling, Consulting			◎	
		Training, Seminar			◎	
		Provision of information		◎		
	Product development	Individual counseling, Consulting			◎	
		Training, Seminar			◎	
		Provision of information		◎		
	Marketing	Individual counseling, Consulting		◎		
		Training, Seminar		◎		
		Trade Fair, Exhibition	◎			
		Provision of information		◎		
	Trading business	Individual counseling, Consulting		◎		
		Training, Seminar		◎		
		Provision of information		◎		

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3. ◎(-) indicates that the average score was below three and the sample did not improve after four years.

4. ◎(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author makes the table according to the research.

3.5 Indonesia's capacity development in trade and evaluation of support from Japan

3.5.1 Social capacity building path and development stages

Here we discuss development path of trade social development and development stage.

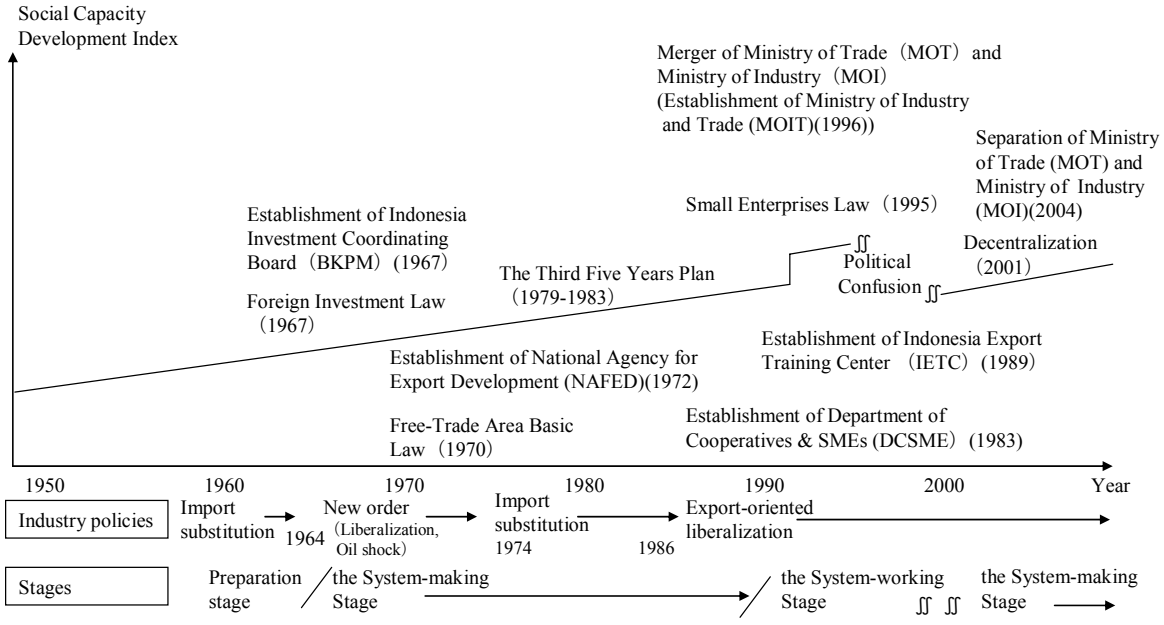
(1) Historical assessment based on development stage analysis
(2) Assessment of social capacity based on actor/factor analysis
(3) Analysis on cause-effect relation between socio-economic development level and export performance as basis for the discussion on social capacity development

Figure 3.17 shows Indonesia's social capacity formulation path organized according to enterprise and government divisions.

In the enterprise division, labor productivity (policy and measures) and academic level (knowledge and skill) are growing steadily. However, their standards are not as high as in advanced nations. The growth of the employment rate in the manufacturing sector is less impressive and its standard remains low. In the government division, system formulation and operation, which showed some progress during the Soeharto administration, have suffered from the break down in system maintenance caused by political and economic confusion. As of late, the legal situation has improved to some extent and the groundwork has been laid for the systematic implementation of concrete development plans

In total, Indonesia made little progress in social capacity development in either the government sector or private enterprise until the mid-1990s. Much of what was initially gained was then lost in the climate of political confusion and economic crisis in the late 1990s. Today Indonesia has rebounded somewhat and has almost advanced out of the System-re-making stage.

Figure 3-17 Indonesia's social capacity development in trade-related field



Source: the author

Secondary we study current social capacity of Indonesia based on actor/factor analysis. Table 3.21 indicates the achievement level of Indonesia's social capacity development by using a checklist. Facilitating and limiting factors of the capacity development are also examined with the result of analysis. We also mention factors related to promotion and deterioration of capacity development.

Table3-21 Social Capacity Development in the trade sector (Government capacity and relationship between Government and Enterprise)

Capacity Factors	Check items of capacity evaluation	Indonesia	
		1980	2005
Policies and Measures (P)	Medium and long-term plan-making (National development plan) on industry and trade	✔	✔
	Establishment of basic laws on export promotion	✔	✔
	Establishment of basic laws on SMEs promotion		✔
	(Relationship between the government and enterprises) Dialog and meeting between the government and enterprises		✔
Human, financial and physical resources in organization (R)	Establishment of export promotion organization	✔	✔
	Establishment of overseas office of export promotion organization	✔	✔
	Establishment of SMEs promotion organization		✔
	Self-management organization		
Knowledge and skills (K)	Publication of statistics		✔
	Publication of trade white paper		
	Publication of annual report by export promotion organization		✔

Note 1. Cells are checked when items are achieved.

Source: the author

Regarding to the development of capacity factors in the governmental sector, “policy/action factors (“P” factor : the formulation of medium-to-long-term plan of industry/trade [National Development Policy] and fundamental law and basic plan of export/SME promotion)” have steadily achieved the benchmark. “Human resources/organization factors (“R” factor factor the establishment of export-promoting agencies [the establishment of foreign and local offices, SME promoting agencies, and the organizational restructuring adapting to environmental changes])” have not accomplished its organizational restructuring in response to the change of environment. The stagnation of “human resources/ organization” factors (“R” factor) is considered to be the limiting factors of capacity development of other two factors.

“Knowledge/skill factors” (“K” factor) have met a certain standard of the establishment of statistics. As to the white books and annual reports of related organizations, there must be ameliorations. It is conceivable that the limiting factors rest in the room for improvement because the establishment of other two reports needs more political and strategic judgment compared to the establishment of

statistics.

In terms of the business sector, compared to the situation in 1980 each capacity factor shows steadily growth, though it does not score a high standard (Table 3.22). It seems the inducement of foreign direct investments (FDIs) became the facilitating factors that reflect the impact of "K" factors on two others. The relationship between the government and enterprises (including economic organizations) was reinforced recently because the past chairman of Indonesian Chamber of Commerce and Industry (KADIN) became a Coordinating Minister for Economy in 2004.

Table 3-22 Social Capacity Development in the trade sector (Companies' capacity)

Policies and measures (P) (Labor productivity of manufacture industry constant 2000 US$)	Human, financial and physical resources in organization (R) (Ratio of employees in manufacture industry to employees in total, %)	Knowledge and skills (K) (Enrollment rate of secondary education, %)
1,628 (1981)	8 (1981)	29 (1980)
3,932 (2003)	13 (2002)	61 (2002)

Source: the author

As to government sector the System-making stage was transited System-making stage to System-working stage under Suharto administration until turmoil by Asian financial crisis in 1997 and 1998. Indonesia's social capacity stage set back to System-making stage due to the turmoil. Indonesia is now reconstructing social capacity through development of regal infrastructure and implementation of development plan.

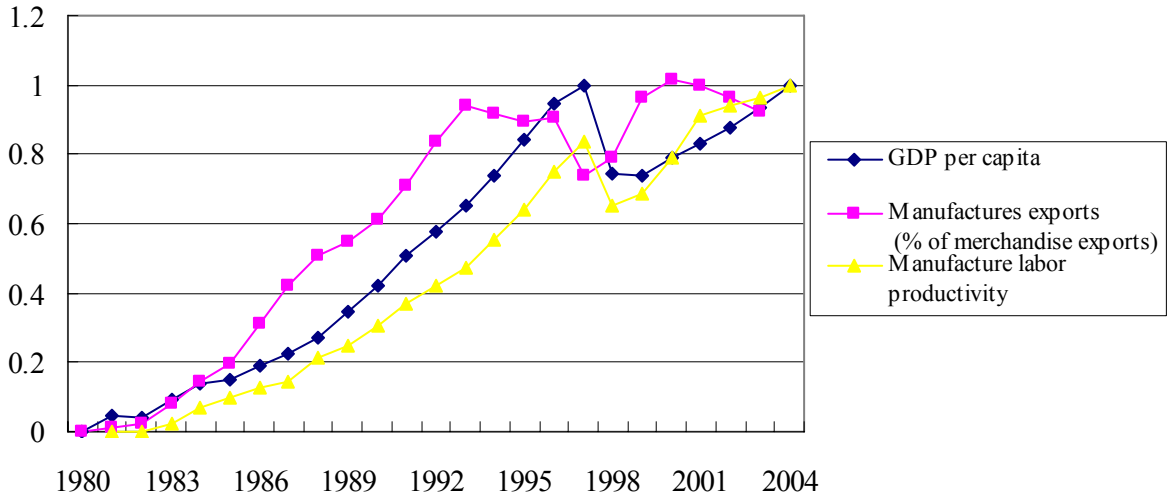
As to business sector labor productivity "P" factor and education level, "K" factor are steady growing while they are not sufficient. The employment ratio in manufacturing sector ("R" factor) is also in the similar situation.

Next, the relationship that social capacity mutually defines the socioeconomic standard and the export performance during the course of social capacity development will be ascertained.

For Indonesia, the development process of the total system is composed of three factors (refer to Figure 3.18). Items mentioned above are indexed. Labor productivity ("P" factor) in the manufacturing industry was adopted as the standard of capacity, GDP per personas the standard of

socioeconomic status, and industrial export rate as the standard of performance. As one can see, during the period up until the mid-1990s, all three standards improved. Bolstered by the weakness of the rupiah after the economic crisis, industrial exports increased and propelled the standards of social capacity and socio-economic status upward.

Figure 3-18 Total System Indexes measuring the social capacity development



Source: the author

3.5.2 Contribution of JICA's assistance to capacity development of the government

We discuss how JICA's aid inputs have contributed to social capacity development of the government. Figure3-19 shows chronological inputs of JICA's aid by the social development factors. The number of the projects is classified into the factors and summed up annually.

Figure 3-19 JICA's assistance inputs in Indonesia by development themes by capacity factor

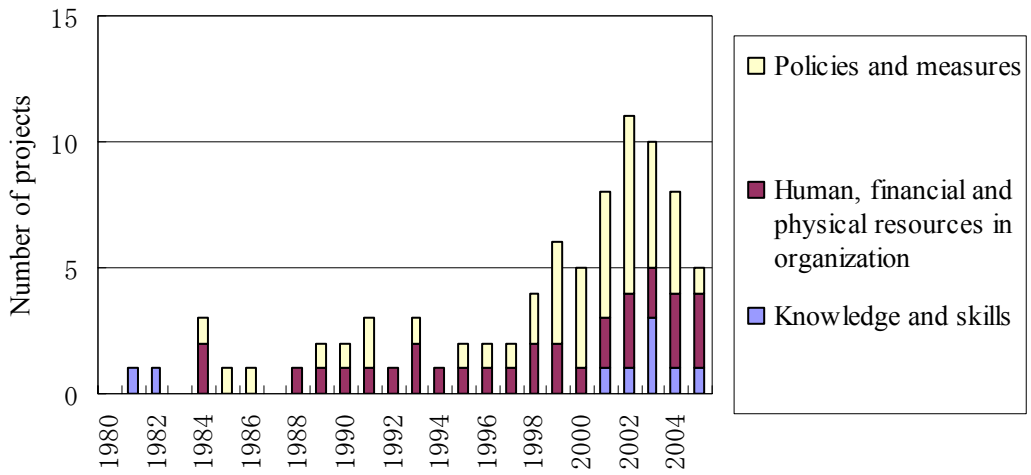


Table3-23 shows the inputs of the projects in detail.

Table 3-23 JICA's assistance inputs in Indonesia by development themes

Capacity factor	Development themes	Name of projects	1980	1985	1990	1995	2000
Policies and measures (P)	Export-promoting development plan	The Second Phase of the Follow-up Study on the Development of Supporting Industries in Indonesian Export Promotion					
	Establishment of trade-related legislation	Improvement of Customs System in Indonesia					
		The Capacity Building Program on the Implementation of the WTO Agreements					
		Improvement of Customs Procedures on Special Fields (Intellectual Property Rights)					
		Management of Export Credit Agency					
		Improvement of Trade Environment in capital region					
	Promotion and development of SMEs, supporting industry and industry	Project on Promotion of SMEs					
		Industrial Sector Promotion and Development Project					
		Plan making of Human Resources Development in Skills and Technique Sector					
		Industrial Promotion and Development Plan (Supporting Industry)					
		The First Phase of the Follow-up Study on the Development of Supporting Industries in Indonesian Export					
		Support for SMEs' promotion					
		Project on Supporting Industries Development for Casting Technology					
		Support for SMEs					
		Enhancement of SMEs Cluster Project					
	Establishment of Industry-related legislation	Promotion of Industrial Standardization and Quality Control Project					
		Industrial Property Rights Administration					
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development	Improvement of Trade Procedures Administration Project					
	Assistance for trade center	Indonesia Export Training Center (Phase1)					
		Indonesia Export Training Center (Phase1 Follow-up)					
		Indonesia Export Training Center (Phase1 Aftercare)					
		Indonesia Export Training Center (Phase2)					
		Indonesia Export Training Center (Phase2 Follow-up)					
		Regional Export Training and promotion Center					
	Promotion of SMEs, supporting industry and industry	Establishment of Metal Processing Promotion Center					
		Establishment of Industrial Technique Information Center Project					
		SMEs' human resource development project					
		SMEs' human resource development project (Follow-up)					
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information and skills	Development of trade commerce statistics system					
		Export promotion (Market analysis, development)					
		Industrial Project Development Basic Study (Improvement of Trade Environment in Indonesian capital region)					
		Promotion of trade, investment and industry					

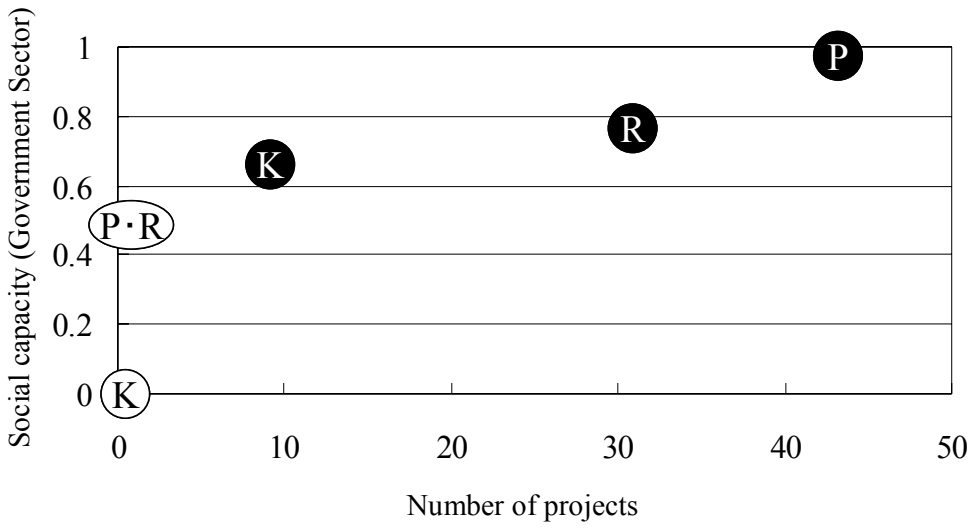
Source: the author

In order to examine contribution of JICA's assistance to capacity development of the Indonesian government, we plotted the number of projects in the horizontal axis and the social capacity (the government) in the vertical axis in Figure S.3, showing changes by capacity in 1980 and in 2005.

Here, the projects are sorted out based on capacity factors and counted in each year (Table S.2). With regard to the social capacity (the government), based on the benchmark of achievements, each factor is graded either 1 (achieved) or 0 (not achieved) and the average scores are calculated for each factor category.

As a result, it turned out that Indonesia has advanced its capacity in the factors that JICA has extended a lot of inputs, which indicates that JICA's assistance has been effective. "K" factors of the Indonesian government have remained at a low level; however, the growth rate of this factor category is high in spite of relatively small inputs of JICA's assistance, which indicates that JICA's assistance has been efficient.

Figure 3-20 Contribution of JICA's assistance to capacity development of the Indonesian government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

3.5.3 Consistency with Indonesia's social capacity development stages

Table 3-24 shows Indonesia's social capacity development stages and JICA's assistance inputs. During the period from 1980 to the present (2005), Indonesia was in its System-making stage; therefore, all JICA's assistance inputs are shown under its column. JICA's assistance inputs have

sorted out in accordance with relevant capacity factors.

Table 3-24 Stages of social capacity development and JICA's support

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan	2		
	Trade-related legislation (Response to liberalization and facilitation such as WTO)	13		
	Promotion and development of SMEs, supporting industry and industry	24		
	Establishment of industry-related legislation	4		
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)	1		
	Assistance for Trade Center (Export-support, information, training for private companies)	22		
	Promotion of SMEs, supporting industry and industry	8		
	SMEs promotion organization	0		
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information (such as statistics) and skills	9		
	Acquisition, analysis and release of industry-related information (such as statistics) and skills	0		
Support for south-south cooperation		0		

Note. The numbers are the total number of projects

Source: the author

In concert with the change to export-oriented industrialization in the mid-1980s, JICA began assistance programs focused on small and medium-sized enterprises development, industrial development and also created the trade training center. These inputs are thought to have made a significant contribution to Indonesia's system formulation.

Once Indonesia entered the final phase of the system-making stage in the mid-1990s , JICA responded by developing assistance programs geared toward enhancing the trade system and human resources. Moreover, now that the assembly industry's FDI has increased, JICA has also started to work on the development of supporting industry. As a result of the confusion after the economical crises and afterwards, it became necessary to rebuild the system and regain what was lost. For this purpose JICA implemented various additional programs including those aimed at investment promotion. This is different from what occurred in Malaysia and Thailand, where according to plan, assistance was expanded stage by stage as the countries progressed.

The transition from the system-making stage to the system-working stage is the significant landmark for both the aid input and the export promotion including the engagement of the local government and enterprises. Therefore, both qualitatively and quantitatively intensive inputs of resources are required if necessary. If these inputs and Indonesia's self-help efforts pays off and the transition of capacity development succeeds, it can be concluded that the secular variation of the input amount has been relevant.

Inputs to the trade training centers (IETC, RETPC) can be considered reasonable, given that the needs for trade training was and still is great in the region However, given Indonesia's performance and given the money, time and resources that have been expended on this program over a nearly 20 year period it could be argued that there is a need to review the effectiveness and relevance of the entire export development project.

What it comes down to is that JICA's trade sector aid in Indonesia, additional and intensive aid inputs to actualize the transition to the System-Working Stage was needed because the Indonesia's social capacity has not sufficiently developed compared to Malaysia and Thailand. This type of inputs, which can be found in the case of the Philippines, is called "additional input" aid[24]. In the case of Malaysia and Thailand, additional and intensive inputs of aid are not necessary to complete the transition of the development stage of social capacity. As the capacity development progresses, the main aid-targeted area shifts, and sequentially, the addressed aid carries out. This is called "sequential input" as opposed to Indonesia.

Considering each project conducted in Indonesia, there are some cases of "sequential-input". At the phase 1 of IETC, establishing IETC itself and putting external services on track were the main focus. At the phase 2, the focus was shifted into fostering human resources. At the phase 3, IETC became sufficient to achieve self-income based on evolving its training business, and progressed into RETPC. In local areas, Surabaya, where previously being provided aid, has independently proceeded, and it is trying to play a role to support other RETPC. RETPC project as a whole has faced its completion and is shifting its goal to support Africa.

[24] When compared to Malaysia and Indonesia, it can be said that Indonesia has not developed social capacity. On the other hand, compared to the developing country in general, Indonesia has achieved a remarkable progress. JICA's aid is evaluated as adequate for Indonesia's capacity building in the final stage of System-Making Stage.

3.5.4 Consistency with Indonesia's development policy and the cooperation of JICA with other Japanese agencies

In Indonesia, there was no choice but to set up a similar strategic target such as Malaysia and Thailand that are accumulating enough export capacity. To put it another way, the governments of the four countries have a common goal: fostering export industries to earn foreign currency and by using that as leverage, improving the whole economy. Therefore, offering corporative assistance to each country was a valid strategy.

Japan considers the ASEAN four as a whole because, these countries are vital to Japanese national interest. Thus Japan has implemented the same type of inputs in each country. Under this assumption shared by all Japanese stakeholders, it can be regarded that the coordination between JICA and other domestic organizations and the consistency of JICA's effort with the local government's policy have been ensured. There is also a fact that there has been a gap between the community's acceptance capacity and the local government's political direction.

As a movement to consistency to Indonesian development policy and corroboration between Japan and Indonesia, the Government and Private Sectors Forum was launched in December, 2004. Governments and enterprises from both Japan and Indonesia meet up at the Forum. The chairperson of Japan's and Indonesia's Economy Committee and the executive head of JJC are the co-chairs and within the forum several group meet including: 'official gathering', the 'planning and coordination committee' and the 'working groups' (tax system, labor, infrastructure, industry competitiveness and small and medium-sized enterprises). When President Yudhoyono visited Japan, the SIAP, a policy agreed to by both PMs, was added to the agenda (June, 2005). The observation of SIAP's implementation as well as the debate on important items like judicial reform and capacity formulation will take place in the coordination committee.

The working group of industry competitiveness and small and medium-sized enterprises has forged an action plan (Table 3-25) and is carrying it into effect step by step.

Table 3-25 Government and Private Sectors Forum

Action plan of the working group of industry competitiveness and small and medium-sized enterprises

Theme	Large items	Middle items	Small items	Implementing agency	Implementing date
Competitiveness / SME	Formulation of industrial strategy to improve Indonesian competitiveness	Formulation of strategy for major industries （Electric and electronic equipment, Automobile, Textiles and Garment ）	Review and analysis of competitiveness in each sectors by public and private dialog, Writing report	Ministry of Industry （Indonesia chamber of commerce, Jakarta Japan Club, JETRO）	Report by October 2005
			Increase the local supply rate, technology transfer, dialog between public and private for supplier development, research and development	Ministry of Industry, National Development Planning Agency, Research and Technology Agency	Review by March 2006
		Analysis of export industrial product competitiveness in global market	Establishment of survey team	Ministry of Commerce （Indonesia chamber of commerce,JETRO）	Report by October 2005
		Promotion of cluster development	Formulation of Action Plan based on past survey	Cooperative union, Ministry of SME, Ministry of Industry, Minister of Economic Adjustment、National Development Planning Agency	Start in July 2005
	Promotion of Supporting Industry	Enhancement of policy adjustment in government	Establishment of working group for close coordination among ministries	Minister of Economic Adjustment	by the middle of 2005
		Capacity Development on marketing, Design, packaging technique for Indonesia's SME		Ministry of Industry （Supported by JICA）	Start by October 2005
		Promotion of human resources development	Establishment of team and center for introduction of SME management consultants	Ministry of Industry （Supported by JICA）	by the middle of 2005 （Establishment of Human Resource Development "Clinic" and Team ） within 2006 (Establishment of Center)
			Improvement of human resources development by private Sector	Matsushita Gobel Education Foundation （YPMG） , （YDBA） （Supported by JETRO）	October 2005
		Implementation of Supporting Industry Programme （SIP）	Formulation of technical support programme for SIP program	Ministry of Industry （SIP team）	by May 2005
			Holding Fair in Jakarta and Bringing SME mission from Japan	Ministry of Industry, Ministry of Commerce （SIP team）	October 2005
			Holding of investment seminar in Japan	Ministry of Commerce, Investment Coordinating Board (Supported by JETRO)	July 2005 （after submission of Investment law draft is desirable）
	Improvement of services for investors by Investment Coordinating Board	Formulation of integrated investment policies	Deliberation on New Investment law, One-Roof service and tax preference	Minister of Economic Adjustment, Ministry of Commerce, Ministry of Finance	Ongoing （focus on tax incentives in forum this year ） ,by July 2005 （submit investment law draft）
		Improvement of BKPM's investment promotion	Establishment of Help desk in BKPM	Investment Coordinating Board	After establishment of new Investment law
			Making Investment Rule Book	Investment Coordinating Board （Supported by JICA）	Start in 2005
	Intellectual property protection in domestic market	Proper implementation of intellectual property laws	Development of information sharing system, building intellectual property rights data base, training for	Ministry of Legal and Human Rights, Ministry of Industry （Supported by JICA）	Start in 2005
	Introduction of International Industrial Standards	Harmonization of industrial standardization in ASEAN area	Introduction of EURO fuel standard	Ministry of Industry, Ministry of Commerce, Ministry of Energy and mineral resource, Agency of National Standard, Upstream petroleum gas Control Organization, Ministry of Environment	Start in 2005
		Start investigation on certification system including industrial standard test system by private test center and Registration Foreign Certification organization （RFCO）	Establishment of Survey team	Ministry of Industry, National Standard Agency	by July 2005
	Enhancement of Public understanding on Economic Partnership Agreement (EPA)	Holding of EPA seminar in major cities		Ministry of Commerce （Supported by JICA）	Start in April 2005, Finish in March 2006

Source: Jakarta Japan Club website

3.6 Lessons learned and recommendations

1. Program-based aid

In Indonesia, like in the other objective countries, cooperation has been implemented in order to have the positive effects of the trinity of assistance, trade and investment. Looking back ex post, projects have been implemented in order of their perceived necessity However, since the gap between target settings and capacity standards was considerably large assistance programs were not implemented according to an efficient and effective schedule like in Thailand and Malaysia. To realize efficient and effective inputs and to carry forward the intended program, it is crucial to pay attention to the timing. For the future it might be considered additional input will be necessary. More importantly, however, effective and efficient input can be emphasized the good example for that is ITC, which has realized autonomy and operational development. The case shows us significance of capacity development and ownership toward aid program rather than individual aid project.

2. From "G to G" to "G to G plus G to B"

Experiences in Indonesia demonstrate the futility of crafting stand-alone aid projects solely for the government sector, in an environment where enterprises suffer from insufficient capacity. In these cases, promoting inputs into non-government sectors is a valid strategy, as we shall see later when we study cooperative programs such as CIDA[25]. This case shows it is possible for nongovernmental sector to play as a BDS provider and/or facilitator. This is one of the options for aid program for social capacity development.

[25] Though CIDA is authorized by the government, it actually conducts the Private Enterprise Participation Program that is adopting G to B (Government to Business) approach for the private agencies (chamber of commerce and industrial institutions). One of its components, Institutional Strengthening, implements the organizational reinforcement of the Indonesia Womens' Business Association(IWAPI), the Sulawesi Regional Economic Board (KAPET), and other economic organizations. This project includes Technical Assistance to Micro-enterprises and SME Clusters. It brings the results by conducting the product development and the technical cooperation in coordination with the organizational reinforcement.
Not only the engagement by a single donor but also the collaborative program among donors is being carried out, and Japan is also participating in it. In 2003, International Finance Corporation (IFC) has launched the Program for Eastern Indonesia Small and Medium Enterprise Assistance (PENSA) that aims at fostering the medium-sized companies (about 20 to 100 employees) in East Indonesia. In addition to Japan, Australia, Canada, Holland, Swiss, and Asian Development Bank (ADB) invest in the trust fund. The program has five offices in Indonesia and conducts the project for facilitating access to the finance and inter-industrial relationship. In the program, Handicraft Export Promotion Program implementing in Bali directly aims at the export promotion. In addition to the comprehensive technical-cooperation to the pilot groups, the program provides training to the whole industries, consulting to the indigenous industries, and fostering the support agencies. In July 2005, under the joint auspices of the program and JICA, a seminar named Marketable Handicraft's Design Access for Japan and Production Skills was organized.

3. The strategic positioning of trade sector assistance: Application to the least developed countries: CLMV countries and African areas

In the days ahead, it is important to implement assistance, not only in Indonesia's capacity formulation in the aforesaid sectors, but also under the strategic aim to apply them in the least developed countries in East Asia. IETC's officials as well as Thailand's ITTI and Philippines's PTTC have joined the human resource: development working group which was launched in 1992 under the AEM-METI,.

Assisted by AOTS, IETC has been working on the third country training and these experimental cases are expected to develop in the related fields.

For example, IETC has processed a partnership with the Kenya's African Institute for Capacity Development（AICAD）that was supported by Japan's charge-free/technical cooperation project. In September and October 2005, IETC conducted the survey of trade training needs in Tanzania and Uganda. In November 2005, IETC dispatched the training inspectorates to the East African three countries including Kenya. These south-south cooperation by Indonesia expects to contribute to the capacity development of Indonesia itself through the realignment of own experiences.

Chapter 4

Chapter4 Malaysia

4.1 Trade sector assistance from Japan

The first section of this chapter provides a general overview of trade sector assistance to Malaysia from Japan. On top of direct assistance, it includes the promotion of direct investment, fostering of SMEs and supporting industries, and other support for industry development.

4.1.1 Trade sector assistance provided by JICA

Table4.1 lists the most important of JICA's post-1980 assistance projects directed at Malaysia. JICA carried out the MATRADE project from 1997 to 1999. The project will be discussed in a latter section of this report. From 2001 to 2004, JICA conducted the WTO Capacity Building Assistance Program to help the Malaysian government implementing a WTO agreement. JICA's recent assistance in trade expansion mainly focuses upon capacity building in the government sector to fuel Malaysia's sustainable economic development.

In industrial development, JICA provided assistance in 1980's and 1990's when Malaysia had heavily fostered export-oriented industries. Some programs focused on individual industries such as metal and ceramics, while others, including the Industrial Development Plan between 1987 and 1990, supported multiple industries. In the IDP project, based on the New Aid Plan released in 1987 from Japanese Ministry of Economy, Trade, and Industries (METI), JICA lead an industrial development study while JETRO formed a consulting JV with private sector companies.

Since the early 1990's, JICA has shifted its priority from general industrial development toward the fostering of supporting industries and SMEs.

Table 4-2 shows the historical record in accepting trainees in the expansion of trade / direct investment, and fostering of SMEs. JICA's training program helps the work force of governmental agencies in their capacity building. The number of trainees from Malaysia in each assistance program changes over time. In the SME program, a small but stable number of trainees had participated in the 1980s, but after seven were accepted in 1992, that number declined. It becomes more frequent that no Malaysians participated in the JICA's program. In the trade expansion program, between 1986 and 1992, the average number of trainees that participated was two. Each year participants came from the Ministry of International Trade and Industry (MITI) and the Industries Development Corporation. The total number of trainees from Malaysia between 1980 and 2005 amounts to just 98, the lowest number among Thailand, Indonesia, and Malaysia.

Table 4-1 JICA's most important assistance programs in trade / direct investment, the fostering of SMEs and supporting industries, and industrial development (the project name and the year)

1. Trade

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Malaysia External Trade Development Corporation	Technical Cooperation Project																										
Capacity Building Program on the Implementation of the WTO Agreements	Development Study																										

2. Promotion of SMEs and Supporting Industry

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Metal Industrial Technology Center	Technical Cooperation Project																										
Casting Technology Center	Technical Cooperation Project																										
Formulation of an Action Plan to Develop Advisory Capabilities of Malaysian Development Financial Institutions for SMEs	Development Study																										
Industrial Promotion and Development Plan (Supporting Industry)	Development Study																										
Supporting Industry Technology Transfer Project	Development Study																										

3.Industrial sector Promotion

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Research on Fine Ceramics	Technical Cooperation Project																										
Promotion and Development of industry sector	Development Study																										
Construction Project of Kulim Hi-Tech Park	Development Study																										

Note: The former "Technical Assistance in Project Form" is now called the "Technical Assistance Project".

Source: METI "Current status and issues of economic cooperation" every year, MOFA "ODA white paper", JICA and Institute for International Cooperation, "Effective approach toward development Issues", Records other than Technical Assistance Project and Feasibility Study are based only upon the listed MITI and MOFA information.

Table 4-2 Historical number of JICA trainees from Malaysia in trade / direct investment, and SMEs development

(number of trainees)

	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	80～05 total
SMEs	1	0	1	1	2	1	1	1	0	0	1	1	7	0	0	0	1	0	0	0	0	1	0	1	0	0	20
Investment	0	0	0	0	0	0	0	1	1	1	0	0	1	2	1	1	1	1	0	1	3	0	0	0	0	2	16
Export	1	0	1	1	1	1	0	1	0	0	0	0	0	1	0	5	4	5	5	1	0	1	0	1	1	0	30
Trade	3	0	0	1	1	0	3	2	2	1	2	1	2	0	1	1	0	0	0	1	2	0	2	2	2	3	32
Total	5	0	2	3	4	2	4	5	3	2	3	2	10	3	2	7	6	6	5	3	5	2	2	4	3	5	98

Source: JICA

4.1.2 Assistance from Japan in trade expansion

In addition to JICA's technical assistance, Japan provides TA from the Japan External Trade Organization (JETRO), Japan Overseas Development Corporation (JODC), and Japan Overseas Development Corporation (AOTS), and yen loans via the Japan Bank for International Cooperation (JBIC) in infrastructure development, which is necessary to enhance trade and investment.[26]

(1) JETRO

Table 4.1.3 describes JETRO's assistance programs in Malaysia. The original purpose of JETRO was to expand Japanese trade, but as the world economy has gone global, JETRO also provides assistance especially in Asia where many Japanese private sector corporations operate. JETRO's programs help developing countries strengthen their industrial infrastructure and build exporting capacity. The feasibility study in industrial development is a prominent achievement related to JICA. In this project, JETRO formed a consulting joint venture with private sector companies. In JICA's project to assist MATRADE, JETRO members made significant contribution as a JICA's professional.

[26] Examples of assistance from Japanese agencies in trade / investment promotion are; JBIC's international finance (investment and loans to trade activities and infrastructure projects), NEXI's trade and investment insurance. Source: JICA 2003.

Table 4-3 JETRO's records in assistance of Malaysian trade and industrial development

Participation in JICA's Industrial Promotion Development Study	JETRO organized JV with private companies for studies on Asian export promotion based on the New Aid Plan in 1987 and participated in JICA's development study as a consultant. JETRO conducted studies on pottery (including glassware), mold, electronics (OA equipment, PC), rubber products, casting products in Malaysia from 1988 to 1990.
Trade and Industry Promotion Center Project in Developing Countries (AC Project : Asian Cooperation Project, 1982～2000)	✚ Promotion of local small and medium enterprises - Development of local small and medium enterprises - Spreading appropriate technology of small and medium enterprises - System Standard Technology Information Cooperation Project ✚ Development of Product Export Project - Instruction for Product Improvement - Instruction for Trade Promotion
Training of Trade Promotion Organizations' staff (1988～2002)	JETRO invited middle-management executives in Malaysian trade promotion organization and implemented training in Japan. JETRO accepted trainees in 1988,1989, 1991, 1993, 1994 from Malaysia.
Supporting developing countries' local industrial basis project (1996～)	Implementation of support for automobile and devices, electric and electronic product and devices sector ✚ Instruction for development of local industries - Dispatch of experts to strengthen basis of industrial activities - Dispatch of technical guidance experts - Support for training of industrial trainers ✚ Promotion of local industrial exchanges - Promotion of industrial exchanges - Holding wide-area industrial exchanges events
Strengthening developing countries' supporting industries project (SI Project: Supporting Industry, 1994～)	JETRO's assistance includes studies on situations of supporting industries, dispatch of experts, acceptance of trainees for development of supporting industry. In Malaysia, JETRO's assistance includes studies, dispatch of experts and acceptance of trainees in such sector as mold and press working.

Source: JETRO (2000) "forty-year footprint of JETRO"

(2) JODC and AOTS

Table 4-4 and Table 4-5 list records of JODC's professional dispatch programs and AOTS's training programs.

JODC's dispatch program sends Japanese technical experts as TA professionals to local enterprises, either Japanese or non-Japanese, in developing countries. JODC's TA professionals help such local enterprises improve productivity, product quality, and management. This dispatch program is welcomed in various manufacturing sectors from textile, electronics, automobile, chemical, and recently, in the service sector. The accumulated number of JODC TA professionals sent to Malaysia between 1979 and 2004 adds to 296, and this is small in comparison with Indonesia and Thailand, both of which have welcomed more than a thousand JODC professionals.

AOTS' training programs have enhanced the economic cooperation between Japan and developing countries with the aim of fostering mutual economic development and good relationships. Various industries enjoyed AOTS training programs, as the number of Malaysian trainee surpasses nine thousand when totaling that of both domestic and overseas programs.

Table 4-4 JODC's TA professionals sent to Malaysia

Year	1979～1988 total	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1979～2004 total
Long-term Experts (number of experts)	10	2	3	9	5	4	6	4	14	7	4	7	7	12	2	13	9	118
Short-term Experts (number of experts)	32	2	2	1	0	1	0	9	2	3	43	14	14	13	28	5	9	178
Total	32	2	2	1	0	1	0	9	2	3	43	14	14	13	28	5	9	178

Note: Short term is within one year. Long term is longer than one year and shorter than two years. The figure is the number of professionals newly dispatched every year.

Source: JODC

Table 4-5 The number of participating AOTS trainees from Malaysia

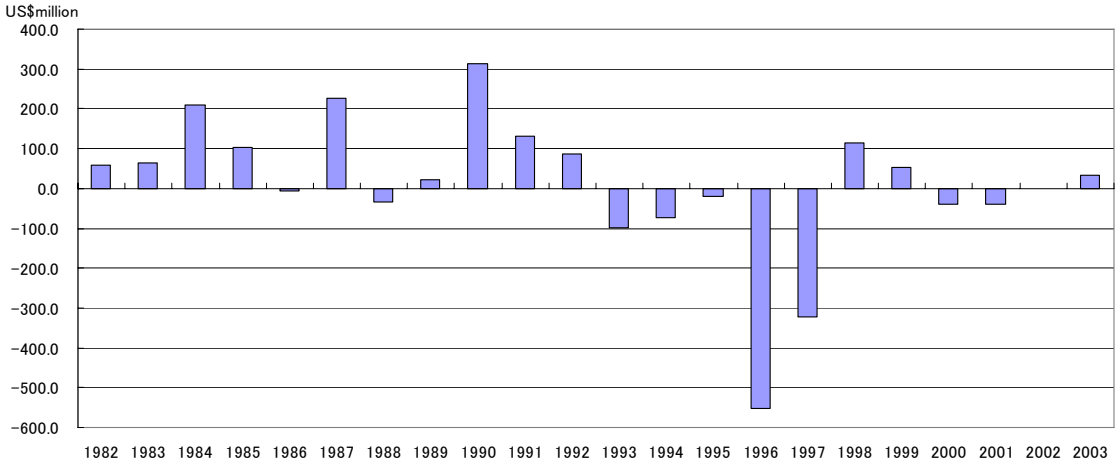
Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1980-2004 Total
Acceptance of Trainees (number of trainees)	95	124	278	409	485	288	256	201	231	252	291	335	264	331	264	309	312	246	173	205	205	165	149	150	154	6,172
Overseas training (number of trainees)	0	35	40	0	86	40	36	0	32	153	31	89	141	124	285	0	155	142	168	145	326	131	235	406	554	3,354
Total	95	159	318	409	571	328	292	201	263	405	322	424	405	455	549	309	467	388	341	350	531	296	384	556	708	9,526

Source: AOTS

(3) JBIC

In addition to the direct trade assistance described above, between 1970s and 1980s, Japan had actively provided yen loans to Malaysian economic infrastructure development, which is indispensable in the promotion of trade and investment, and industrial development. Since1990, however, with Malaysia having already enjoyed significant economic growth, the passage of years has seen the annual net outgoing amount of yen loans become negative, and the outstanding amount of yen loans decrease. Though a small portion of yen loans still remain in infrastructure, recent loans toward Malaysia place more emphasis on intangible or educational projects such as sending Malaysian students to Japan under the Look East Policy.

Figure 4-1 Annual net outgoing amounts of yen loans to Malaysia



Note: Calendar year, DAC counts, netting disbursement and repayment

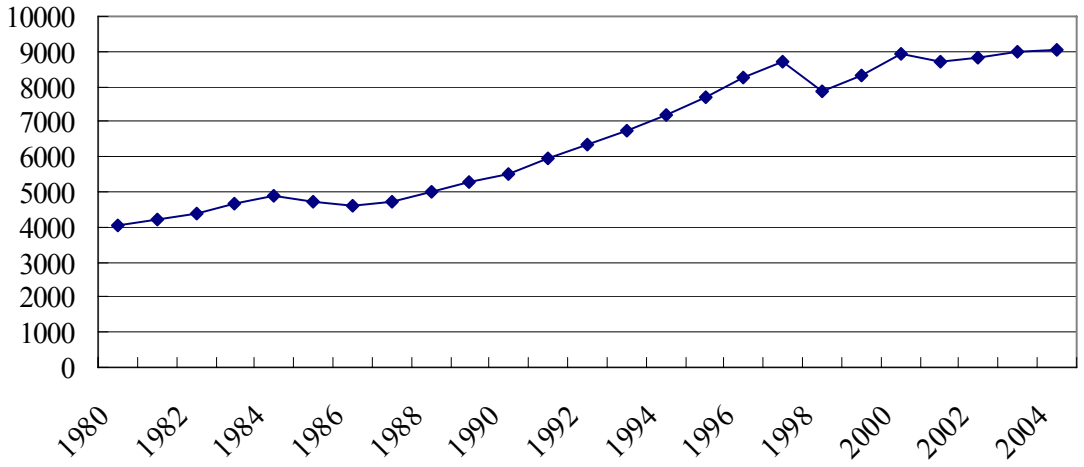
Source: MOFA "ODA data book" each year

4.2 Economic development, trade, and direct Investment

4.2.1 Economic development

By 1980, Malaysia's GDP per capita based upon PPP (Purchasing Power Parity) had surpassed $4,000 (in Constant 2000 international dollar). It continued to increase and reached $ 6,000 in the early 1990s, and $8,000 in 1996. Though the 1997 Asian financial crisis slowed the economic growth, per capita GDP has steadily maintained a level over $8,000.

Figure 4-2 Malaysian per capita GDP (PPP, Constant 2000 international $)



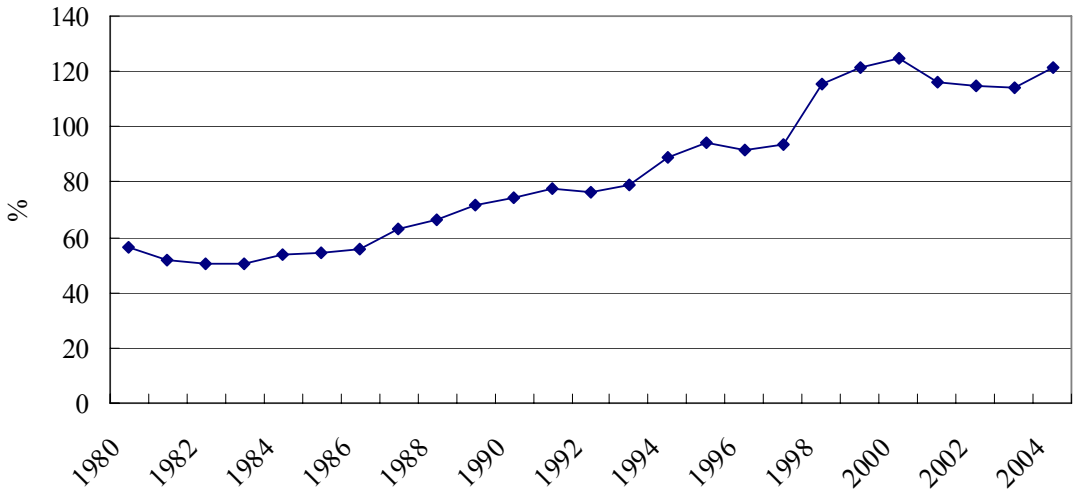
Source: World Bank, World Development Indicators

4.2.2 Trade and direct investment

(1) Trade (export)

Figure 4.3 shows the historical records of the ratio of Malaysian product / service export to GDP. The ratio had already reached 60% level in 1980s. Then the decline in international markets of primary commodities such as rubber and tin, which were at that time Malaysia's major export items, restrained exports. From the late 1980s to 1990, manufacturing pushed up the ratio.

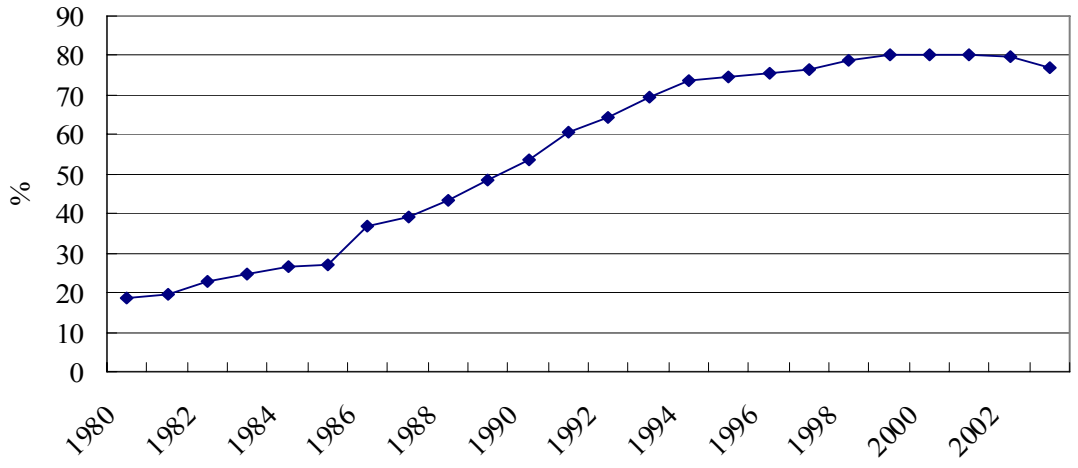
Figure 4-3 The ratio of Malaysian product / service export to GDP



Source: World Bank, World Development Indicators

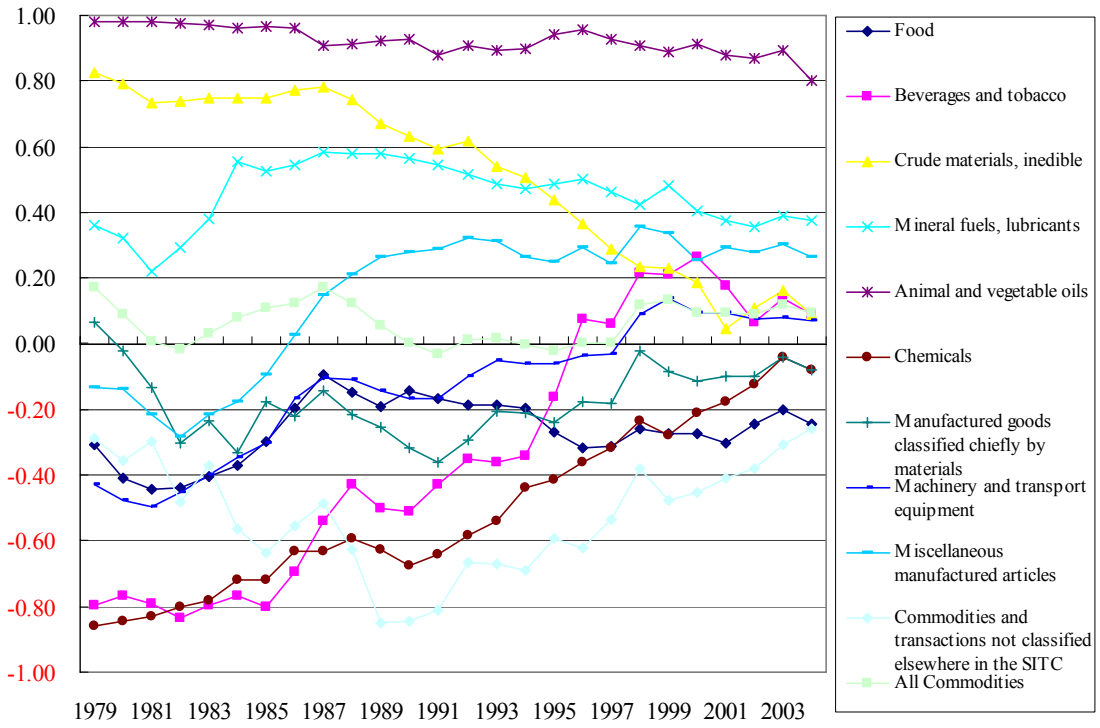
The rate of manufacturing sector in Malaysian export is shown in Figure 4.4, which clearly depicts the manufacturing sector has lead the export expansion in Malaysia. The ratio was in 20% level in early 1980s. It grew dramatically to 70% in the middle of 1990s, and surpassed 80% in early 2000s.

Figure 4-4 Rate of manufacturing sector in Malaysian export



Source: World Bank, World Development Indicators

Figure 4-5 International competitiveness of Malaysian export items categorized by SITC1



Source: United Nations, Commodity Trade Statistics Database （COMTRADE）

The international competitiveness index is defined as the difference of exports and imports divided by the sum of exports and imports. Figure 4.5 shows the historical shift in Malaysia's international competitiveness. The manufacturing sector includes chemical, machinery / automobile, and other manufacturing industries. The largest manufacturing industry in export is electronics, which accounted for more than 50% in total manufacturing export. Figure 4.5 is based upon SITC1 category, and shows the index of machinery / automobile was negative as imports surpassed export in 1980s. It became positive after late 1990s as the machinery and auto industries in Malaysia gained competitiveness. Other manufacturing industries, mainly textiles, maintain an international presence, and its index has been positive since 1980s.

(2) Direct Investment

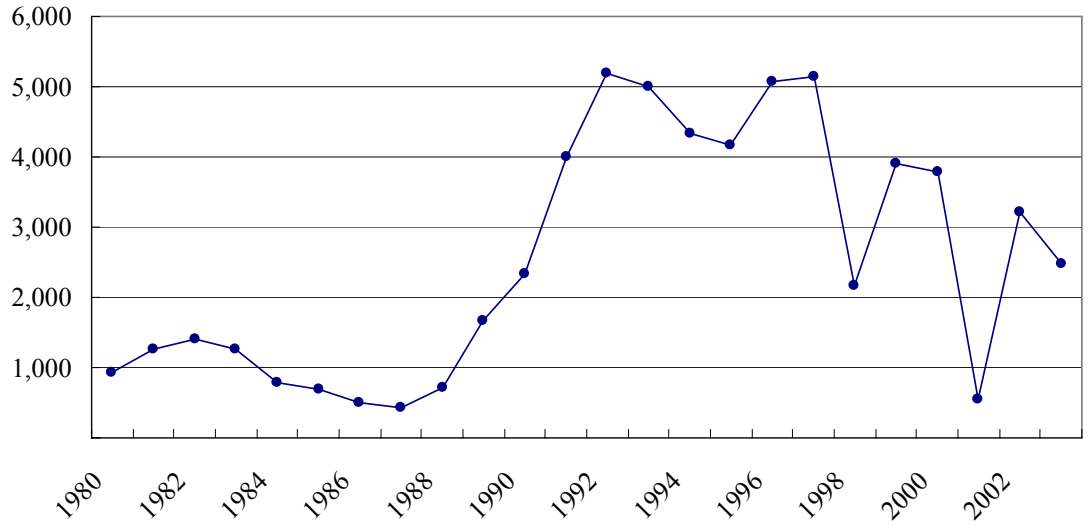
Malaysia has seen tremendous development in its electronics industry and has taken special effort to invite actively foreign direct investment into that industry since the 1970s. However, between the early and late 1980s, Malaysia declined in its competitiveness as investment destination, since incentives provided by the government for investors during 1970s expired, and Malaysian domestic labor cost had increased. Therefore, foreign direct investment decreased.

Then the Malaysian government took active measures and proposed new incentives to regain its

ground in inviting FDI. An increased number of international companies including Japanese ones preferred Malaysia. Japanese companies in particular expanded overseas operation, and invested in Malaysia as the yen had appreciated after 1985 Plaza Accord. FDI increased dramatically until the early 1990s.

The mid-90s saw a stable FDI rate, but it decreased in the late 1990s, when the Asian financial crisis in 1997 and the foreign exchange and investment controls imposed by the Malaysian government in 1998 decreased investment from Asian and other countries. FDI turned around in 2000 and 2001, but investment in the manufacturing sector decreased in 2002. The electronics industry decreased dramatically and chemicals / petroleum became the top export industry instead. However, in 2004 investment in the electronics industry doubled, and Malaysia has since increased its competitiveness in the industry.

Figure 4-6 Foreign direct investment inflow to Malaysia (net inflows, BoP, current US$)



Source: World Development Indicators

4.3 Trade capacity building in firms

4.3.1 Small and medium-sized enterprises (SMEs) and business organizations

(1) SMEs

The main issue of this report is the capacity building of local small and mid size enterprises or the local manufacturing sector and this section discussed the issue based upon the fundamental data of SMEs.

Table4.6 shows the number of business establishments in the Malaysian manufacturing sector.[27] Readers should be advised that the Censuses of 1981 and 2000 are the only full informational resources covering all sizes. In other years, information in small or home categories is limited. But as a whole the data shows an upward trend in the ratio of large and middle size enterprises.

Table 4-6 The number of business establishments in the manufacturing sector

	Number of establishments		
	Large / Medium	Small	Household
1981	4,696	6,917	8,816
1985	3,926	1,824	70
1989	4,308	1,719	65
1990	4,949	1,720	62
1991	5,717	1,700	44
1993	6,320	1,920	66
1994	6,333	1,928	67
2000	13,811	5,378	2,802

Note: 1981 and 2000 are Census data. Large and middle size are defined as ten million ringgit in revenue or employment over 51 persons. Small size is defined as between 250 thousand and ten million ringgit in revenue or employment between five and fifty persons. Home is less than 250 thousand ringgit in revenue or employment below five persons.

Source: Department of Statistics, Annual Survey of Manufacturing Industries, each year

In Table 4.6, large and mid size companies are grouped together, but Table 4.7 shows their numbers in separate categories. Comparing 1995 and 2000, the share of companies with less than 20 personals declines, while all categories above 20 personals increased their shares. After 1990, both large and middle size enterprises increased their shares. New employment data shows a similar trend. The only difference is that the category with more than 500 employees slightly loses shares. Data from 2004 have a different basis, but are included as a reference.

While the government's official statistics do not show the proportion of SMEs' export in total export, a report by Yamamoto and Igusa (1996) described the proportion of SMEs in total export in 1994 was 15%. Malaysian Small and Mid-size enterprises Development Corporation (SMIDEC) reported that 26% of all SMEs exported their services or products.

[27] More detailed data and research on Malaysian SMEs can be referred to JICA's report in 2003.

Table 4-7 Share of each size of enterprises in the number of business establishments, new employment, and added value in Malaysian manufacturing sector

	Number of Employees	Share in total (%)	Share in total (%)	Share in total (%)
1995	～19	66.2	6.4	2.7
	20～49	13.1	6.7	5.1
	50～99	8.7	10.0	8.8
	100～499	9.8	32.5	32.7
	500～	2.2	44.4	50.7
2000	～19	56.1	4.8	2.8
	20～49	16.7	6.8	4.1
	50～99	11.3	10.1	7.3
	100～499	13.1	34.3	29.5
	500～	2.8	44.2	56.4
2004	Employees: ～149 Annual sales: ～24 million RM	N.A.	31.4	25.9
	Employees: ～150 Annual sales: 25 million RM～	N.A.	68.6	74.1

Source: Department of Statistics, Malaysia, "Annual Survey of Manufacturing industries"（2004 data is provided by SMIDEC）

(2)Business groups

This section describes the major business and industry groups in private sector and their relationship with the Malaysian government.

① NCCIM (National Chamber of Commerce and Industry of Malaysia)

NCCIM was established in 1962 by merging four major domestic business groups; Malay Chamber of Commerce Malaysia （MCCM）,The Associated Chinese Chambers of Commerce and Industry of Malaysia （ACCCIM）, Malaysian Associated Indian Chambers of Commerce and Industry of Malaysia （MAICCI）, and Malaysian International Chamber of Commerce and Industry （MICCI）. In 1974, FMM（Federation of Malaysian Manufacturers）joined NCCIM.

NCCIM's main role is to mediate in providing political proposals, and participates in working groups or discussions with government including annual talks with the Ministry of Finance and the Ministry of International Trade and Industry. It joins international associations such as chambers of commerce in ASEAN or pan Asian-Pacific regions. While NCCIM does not provide direct service to specific companies, it hosts conventions and seminars for the benefit of the private sector in general.

② FMM（Federation of Malaysian Manufacturers）

FMM was founded in 1968 by local manufactures. All manufactures whether export oriented or domestically focused, are welcome to join. Currently 80% of the members are export oriented enterprises. 50% of the members are SMEs, and 20-30% are foreign affiliates. FMM currently describes itself as "the most active business group in Malaysia", as it has the largest association with 2,157 members in 2004 and 140 staff members. There are twenty four working groups under FMM categorized by industry, and they actively support the corporate activities of SMEs and coordinate

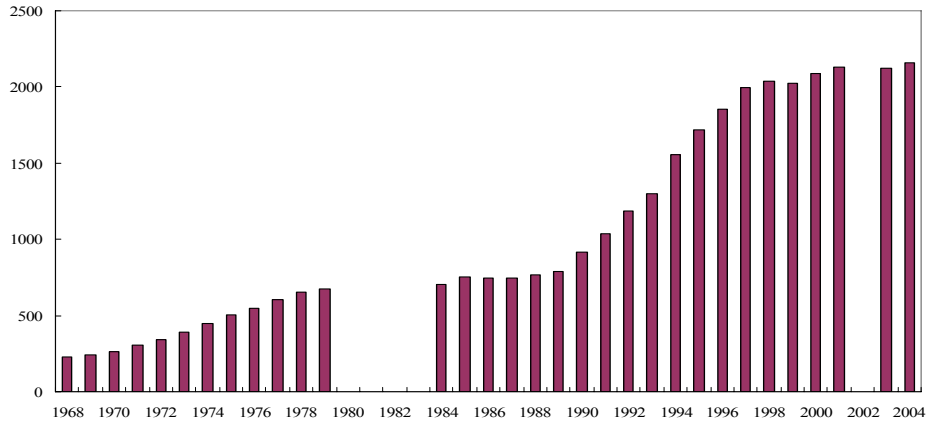
proposals to the government.

FMM basically welcomes Manufacturing ++ policy, under which the Malaysian government tries to develop both manufacturing and related service industries. However, it requires the government to lift or ease protective measures for industrial development.

The relationship between FMM and government agencies remains intimate. MATRADE was established based upon a FMM proposal, and MATRADE and FMM issue a corporate directory in partnership. FMM appreciates SMIDEC as it unifies policy measures for SMEs which used to be divided into many different agencies. FMM regularly holds meeting with MATRADE and SMIDEC, and proposes to improve their operation and function.

FMM's support for corporate activities includes business missions overseas and international conventions. FMM has an independent training affiliate that provides business training programs such as trade operation. The affiliate was once a department within FMM, but it became an independent entity as its operations expanded.

Figure 4-7 The historical number of FMM members



Note: Data could not be found between 1980 and 1983, and 2002

Source: Annual Report of FMM, each year

③ SMI Association of Malaysia

SMI started as a private organization neither controlled nor protected by law, and was approved and registered by the government. Its registered members are 450, and participants to SMI events reach 2,800 enterprises. SMI's activity is on a project basis, and it relies upon donations from large corporations for its financial base. Industries in which SMI puts emphasis on expand exports are; (1)Food, (2)Shoes, (3)Wooden products, (4)Automobiles, and (5)Steel products.

To strengthen the relationship with the government, SMI became a member of National Economic Action Council in 1998. It hosts an annual conversation with the Minister of Finance, Minister of

International Trade and Industries, Minister of Entrepreneurs, and the Minister of Human Resource, while it regularly meets with officers from ministries.

4.3.2 Trade capacity building of the private sector

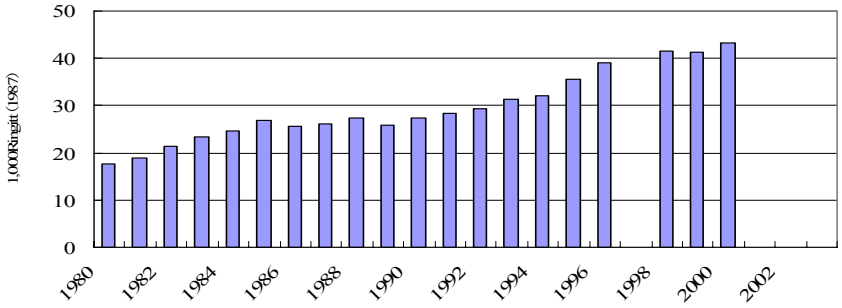
The first part of this section analyzes the process of trade capacity building in the private sector based upon actor factor analysis (easy version). The analysis defines the trade capacity of a company as being comprised of three factors; "Policy and measures ("P" factor)", "Human resources and organization ("R" factor)", "Knowledge and skills ("K" factor)", and selects an alternative index for each component. The alternative index for "Policy and measures ("P" factor)" is labor productivity, which is the amount of added values divided by the number of employees in manufacturing industries. The index for "Human resources and organization ("R" factor)" is the ratio of employees in manufacturing sector in total employees. The index for "Knowledge and skills ("K" factor)" is the school enrollment rate in secondary education.

When selecting those alternative indexes, the analysis considers not only the trade capacity of the currently exporting companies, but also the potential capacity of all companies. For "Policy and measures ("P" factor)", since it is difficult to determine an index that captures comprehensive measures of companies, the analysis uses labor productivity as an alternative. Due to limitations in data collection, the indexes for "Policy and measures ("P" factor)" and "Human resources and organization ("R" factor)" are based upon not only SMEs, but all manufacturing companies, while the index for "Knowledge and skills ("K" factor)" has to include all industries. In spite of such data limitations, the analysis still maintains its validity.

Labor productivity remained stagnant between mid-1980s and early 1990, but it has consistently grown over the whole period, though the level of productivity is still low compared with developed countries. For example, Malaysia's labor productivity in 2000 in US dollar terms was $13,545, while Japan's productivity was$73,864 using the same measurement.[28] Indonesia's same index in the same year is only 3,932, and Malaysia shows high productivity compared with surrounding countries. However, the difference in labor productivity between Malaysia and Japan is still large as Malaysia has to bear with low capital efficiency in production due to cheap labor

[28] Calculated with data provided by Ministry of Internal Affairs and Communications, 2006

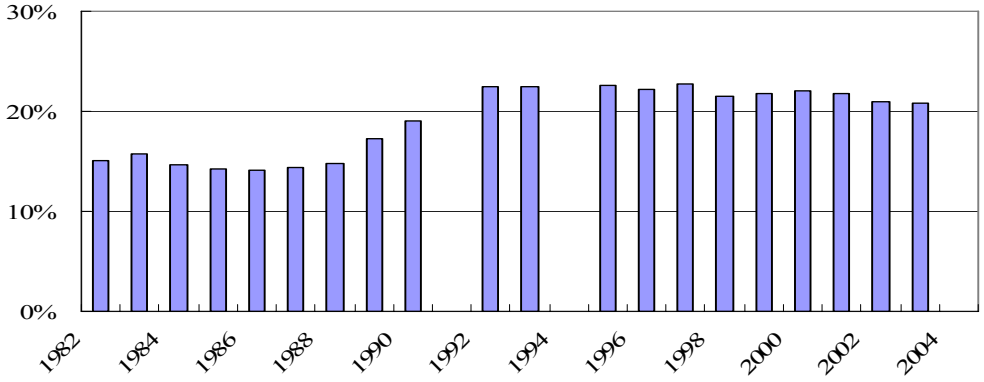
Figure 4-8 Labor productivity of Malaysian manufacturing sector



Source: ADB Key Indicators

The proportion of employees in the manufacturing sector in total employees is considered to be stable in the early 1990s. Only in the period just after the economic crisis did the proportion of the primary sector increased. The third sector has increased its shares steadily, showing a similar trend to that of developed countries. One difference is that the peak of the index has become stable at a lower level, though it is higher than in the comparable three countries.

Figure 4-9 The proportion of employees in the manufacturing sector in Malaysia

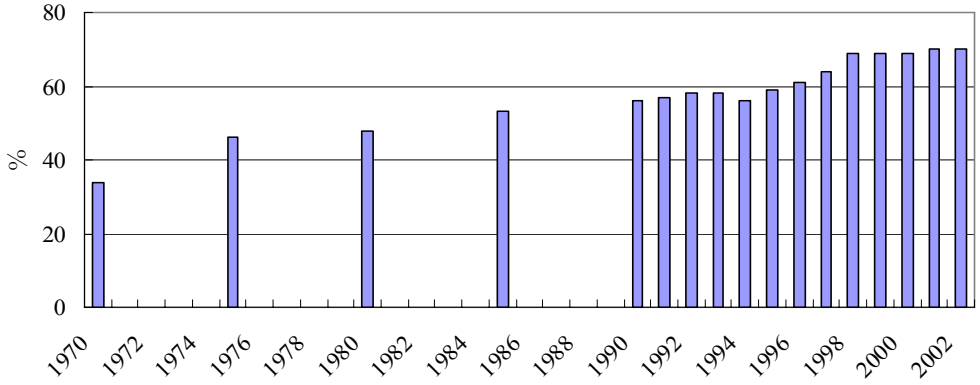


Source: ADB Key Indicators

Finally, the school enrollment in secondary education reached 50% in 1980, and increased to 70% by late 1990s. However the index has little progress afterwards, remaining at a lower level than in developed countries.[29]

[29] School enrollment rate in developed countries are as follows; Japan 100%, Canada 98%, Britain95%, France 92%, Korea 91%, Australia 90%, Germany 88%, and USA 87% (Global Education Database)

Figure 4-10 The secondary school enrollment in Malaysia



Source: Global Education Database

In sum, the analysis of "Policy and measures", "Employment and organization", and "Knowledge and skills" shows that the trade capacity of Malaysian companies was higher in 1980 among comparable countries, and that the capacity has steadily built though the index is at the lower level compared with developed countries. However, in terms of SME manufacturers, supporting industries in the electronics industry, which accounts to nearly 60% of export of manufacturing sector, have not developed yet. Malaysia needs further capacity building.

4.3.3 Self-analysis of trade capacity by enterprises

This evaluation program sent out questionnaires to Malaysian enterprises, and asked them to do a self-analysis of their competitiveness. This section discusses the current trade capacity of Malaysian companies based upon the questionnaire research.

(1) General overview of recipient companies

The questionnaire was sent to 400 companies among user members of MATRADE. The selection of recipients was designed to reflect the real composition of Malaysia's industries. In total twenty two companies answered. Among these, in 2000, twenty one still existed, thirteen are SME[30], and six were large enterprises.[31][32] The following analysis is according to (a)business model, (b)industry, (c)major export destination, and (d)foreign ownership.

(a) Business model

The companies were asked to categorize themselves according to their business model and were offered four possibilities: (1) manufacturing / direct exporter, (2) manufacturing / indirect exporter,

[30] SME in Malaysia officially means companies with employees less than 250. However, in this evaluation program, SME are companies with employees less than 300 based upon criterion of World Bank. This rule applies to SME in the latter discussion of this section.

[31] Two companies did not answer about 2000. One did not answer about 2004.

[32] The number of total answers does not match these numbers as some did not cover all questions, and some provide multiple answers in certain issues.

(3) non manufacturing exporter, and (4) others. Twelve companies in twenty two provided valid answers. Ten belong to category (1). One is (2), and another is (3).

(b) Industry

Though the number of responses was small, those companies that did respond belonged to a diverse group of industries. Nine answered “others”. Table 4.9 categorizes “other” industries.

Table 4-8 Industries reported in answers

Food	Apparel and textile	Pulp and paper	Chemical	Medical goods	Petroleum and coal product	Wood product	Rubber product	
1	0	1	2	0	1	2	2	
Glass, soil and stone product	Iron and steel	Nonferrous metal	Metal products	General machinery and parts	Electric equipment and parts	Transport equipment and parts	Precision equipment and parts	Others
0	1	0	2	1	1	0	1	8

Source : The questionnaire interview by the study team

Table 4-9 Detailed categorization of “other” in 2004

Breakdown of Others

Types of Industries	
Home Appliances	1
Healthcare	1
Design Services	1
Clay pottery/planters	1
ICT	1
Internet Protocol TV	1
Agrz Sprayer and tools	1
unknown	1

Source : The questionnaire interview by the study team

(c) Export destination

Most companies chose ASEAN countries, while only two answered that the US was their largest trade partner. The official trade statistics show that the largest export destination from Malaysia is the U.S., but this research shows the different results. The other difference is that few companies selected Japan as an export destination, though Japan is ranked third in the official statistics. Many answers for Middle East and Africa indicate that Malaysia places emphasis on export expansion to those areas.

Table 4-10 Answers for major trade destinations in 2004

Major export market	Number of Companies
ASEAN	11
Japan	3
China	6
South Korea	2
Central Asia	2
South Asia	3
Middle East	8
Western Europe	4
Eastern Europe	0
Africa	5
North America	2
Central and South America	2
Oceania	3

Source : The questionnaire interview by the study team

(d) Foreign ownership

Fourteen answers on foreign ownership in 2004 were valid, and the remaining eight companies did not answer. Among fourteen answers, eight were 100% local companies, three were 100% foreign owned, one was 72% foreign, another 4.46%, and the other 2.89%.

(2) Analysis of export capacity of SMEs based upon questionnaires

The questionnaire asked recipients to conduct a self-evaluation of three factors; (a) general competitiveness, (b) seasoned and skillful human resources, and (c) skills and know-how in each of four business processes; (1) production, (2) product development, (3) marketing, and (4) trade. The questionnaire advised the recipients that (b) seasoned and skillful human resources and (c) skills and know-how are defined to constitute (a) general competitiveness. This research result does not provide an objective portrait of trade capacity of Malaysian enterprises, as it is by definition a self analysis. However, it aims to capture the historical shifts and the relative level of capacity building using four business processes, three factors, measure at two different times: in 2000 and 2004.

The results shown in Table 4.11 indicate that capacity building has improved since all factors in all processes increased from 2000 to 2004. All factors in all processes scored three or higher on average in both points.

Table 4-11 Self evaluation of business capacity

			Satisfaction level further improved	Changed from negative evaluation to positive	Improved but still unsatisfied	Unchanged*
Evaluation of own company's performed work	Production	Overall Competitiveness				◎(＋)
		Number of Skilled/Specialized Staff				◎(＋)
		Technology/Know-how	◎			
	Product Development	Overall Competitiveness	◎			
		Number of Skilled/Specialized Staff	◎			
		Technology/Know-how	◎			
	Marketing	Overall Competitiveness				◎(＋)
		Number of Skilled/Specialized Staff	◎			
		Technology/Know-how	◎			
	Trade business	Overall Competitiveness	◎			
		Number of Skilled/Specialized Staff	◎			
		Technology/Know-how	◎			

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3.◎(－) indicates that the average score was below three and the sample did not improve after four years.

4.◎(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author

Table 4.12 shows the percentage increase in revenue and export of the answering companies from 2000 to 2004, as well as their self evaluation. It is listed according to percentage increase starting with the company with the highest percentage increase.[33]

The field work in Indonesia discussed in section three showed that companies with highly manufactured export items and good export performance evaluate themselves highly in trade capability, while companies with simply manufactured products have low self-evaluations.

In the research for Malaysian companies, due to the limited number of sample answers, it is difficult

[33] Responding companies that did not answer the monetary amount of its export, its industry, or export products are not included in the table.

to confirm whether or not Malaysian companies have similar interrelation between export performance and self evaluation. As for the sixteen companies, many of which produce highly manufactured goods, in Table 4.12, companies that evaluated themselves low improved their export performance, while those that evaluated themselves high declined. Of the two companies that evaluated themselves at the highest score in all factors in all business processes, one doubled its exports between 2000 and 2004, while the other decreased its exports to the half in the same period. This indicates that limited data with sixteen companies are not enough to make a conclusion.

Table 4-12 Answers on export performance and self evaluation on trade capacity

Company	Products (2004)	Sales amount (1,000 Ringgit)			Export Value (1000 Ringgit)			Production		Product Development		Marketing		Trading business	
	Items	2000	2004	Increase	2000	2004	Increase	Number of Skilled/Specialized Staff	Technology /Know-how	Number of Skilled/Specialized Staff	Technology /Know-how	Number of Skilled/Specialized Staff	Technology /Know-how	Number of Skilled/Specialized Staff	Technology /Know-how
Company1	Construction	66,000	201,000	205%	-	-	N/A	3	3	3	3	4	4	3	3
Company2	Automotive Parts	28,000	70,000	150%	5,000	30,000	500%	4	4	4	4	3	4	3	4
Company3	Medical Services	36,000	72,000	100%	.	1,000	N/A	2	3	3	4	3	3	2	3
Company4	Rubber Related Products	20,000	37,000	85%	6,000	12,000	100%	5	5	5	5	5	5	5	5
Company5	Paints, thinner and ink	7,700	13,000	69%		1,200	N/A	3	4	.	.	3	3	.	.
Company6	Chemicals	20,000	30,000	50%	15,000	22,000	47%	3	3	3	3	3	3	3	3
Company7	Chipboard	141,000	209,200	48%	61,750	70,100	14%	3	4	3	4	4	4	4	4
Company8	Design Services	10,000	14,000	40%			N/A	3	4	4	4	3	4	4	4
Company9	Polypropylene Split Yarn	1,894	1,687	-11%	.	.	N/A	4	4	4	4	4	4	4	4
Company10	Earthenware Pottery	2,934	2,558	-13%	2,934	2,558	-13%	4	4	4	4	5	4	5	4
Company11	Water meters	125,593	108,505	-14%	11,260	19,475	73%	2	3	2	3	3	4	4	4
Company12	Office Furniture	2,900	2,400	-17%	1,500	1,200	-20%	3	4	3	2	3	3	3	4
Company13	Wooden Furniture	14,600	10,200	-30%	14,400	9,700	-33%	3	4	3	3	3	3	3	3
Company14	Unpainted & Prepainted G.I Steel	105,000	72,000	-31%	.	.	N/A	3	4	4	4	3	3	3	4
Company15	TV/Aircond	3,000	1,000	-67%	2,000	500	-75%	5	5	5	5	5	5	5	5
Company16	Confectionery (Cookies, Mooncakes)	N/A	588,216	N/A	N/A	1,728	N/A	4	4	4	4	4	4	3	3

Column 2: Case studies of Malaysian enterprises

This research, along with the questionnaire, included interviews with local companies.. Here are the interviewed companies and their case studies.

1. Malaysian Company A (location: suburb of Kuala Lumpur, major export: confectionary)

The company was founded by a CEO who had worked for a company that produced sweets. It is managed by the CEO and his daughter, and can be defined as a family business. It employs thirty five full-time workers (twenty eight at the time of questionnaire) with several part-timers. Most of its full-time workers are the founding members, and only a few have left so far. It is a typical local Chinese small company with registered capital of 100 thousand RM. Total revenue sums to six million RM, including 1.73 million RM from its exports, and it has seen fast growth in its first three years. It produces sweets, mainly Chinese cakes and western cookies.

While most of its revenue derives from domestic sales through department stores and prominent supermarket stores, the dominant export destinations are Britain and Singapore. The CEO expects to start sales in Taiwan and Australia. In Britain and Singapore, the company directly sells its product in response to orders from high-class department stores and prominent supermarkets, and the company's products are placed in their fancy sweet displays. Its original marketing strategy does not involve sales agents overseas, but the CEO is considering selling via local agents in Taiwan, as one trading company in Taiwan is quite interested in the company's products.

The company's distinguishing strategy is seen in its product packaging, while it continues to develop characteristic sweet products. The CEO, was captured by the packages of high-class traditional Japanese sweets, and gains ideas from observing them when he frequently visits Japan.

The CEO appreciated MATRADE's convention the most among all governmental programs to support exports. At these event, he can learn about the packaging of competitive products and the tastes of each country. The CEO believed that in addition to the quality of products, entertaining and beautiful packaging was essential for the company's products to establish its high-class brand.[34] He wanted to continue to learn from Japan, however he became quite upset last year at the World's Sweet Convention in Japan, where the company's products were placed in displays for "dollar shop products". He also remembered that he had been disappointed to see that most Japanese visitors only

[34] Throughout the interview, the CEO repeatedly asked about the cost structure of the packages of high-class traditional Japanese sweets.

visited the booths of famous Japanese sweet companies and did not come to the displays of ASEAN and other countries; such behavior indicated how difficult it is to enter the Japanese market.

Though the company strongly desired that the Malaysian government provide training programs or informational services focusing on product design and packaging technology, it had never found any such program. The CEO did not find it necessary to receive ISO registration, which he believed amounted to little but official approval of the production process. Instead of ISO, the company had taken out HACCP that guarantees safety of food products. In terms of training programs to improve its workers skills, the company had never sent its employees as the cost was unbearable. The CEO did not cover all information of support program available from the government or business groups, and he did not know that SMIDEC provides service for SMEs.

2. Malaysian Company B (location: Kuala Lumpur, major export: apparel product)

The company was originally established in 1990. It sold building materials in the domestic market until the Asian financial crisis. In the crisis the domestic demand dramatically shrank, and the company had no choice but stop its operations. In 1999 it restarted its operations in the production and sale of textile products. Its revenue in 1999 was quite small, and the company did not answer the questionnaire. The company's produces T-shirts and male undergarments, and exports 100% of its products. It is considering selling in the domestic market, where the competition is intense. The number of employees was seven in 1999, and ten in 2004, not including the work force in those production lines owned by a different entity. It had contracted out its production to domestic factories, but it recently opened its own factories in China and Bangladesh. It shifted its production capacity to overseas because an increase in labor and utility costs in Malaysia undermined the company's price competitiveness. The interviewee considered it favorable that Bangladesh was in the Lowest Developed Country category and was given the most preferred tariff and no quantity limitation on textile exports to the US.

The company takes advantage of MATRADE's services including training programs and participation in trade fairs both domestic and abroad. The company appreciates both private and public programs, but it prefers governmental service because of information quality and lower costs. In 1990s, MATRADE did not have English speaking workers, and not match the needs of the private sector. However, in the last five years, the company has appreciated MATRADE for its active support to export expansion.

4.4 Capacity building of the government to expand Malaysian export

4.4.1 Government agencies provide service related to export

Table 4.13 lists government agencies related to trade expansion. The list categorizes agencies by their jurisdiction. The Ministry of International Trade and Industries (MITI) plays the most important role in basic law and basic policy making related to trade. MITI oversees MATRADE whose aim is to expand exports and SMIDEC, which focuses on fosterage of SMEs.

Table 4-13 The list of government agencies related to Malaysia's international trade

Government function in trade sector (Large items)	Government function in trade sector (Small items)	Examples	Regulating authority
Establishing Basic Conditions	Legal System Development for Commercial Transactions	Development of Civil laws, Commercial laws, Registration laws, Rehabilitation, reorganization and Bankruptcy law, Antitrust law, Immigration law and alien registration law	
	Provision of Economic Infrastructure	Transportation Infrastructure, Electricity generation, Transmission and Distribution Infrastructure, Telecommunication Infrastructure, Financial System, Standards and conformity Assessment System, Intellectual Property Rights, Statistics	Ministry of Transport
	Creation of Business Environment for Domestic Industries	Various forms of deregulation to promote new entries into the market, Establishing financial institutions, Promoting research and development activities, Supporting business services for small and medium enterprises	SMIDEC, MIDF
	Industrial Human Resources Development	Human resources development for science and mathematical education, as well as information technology education at elementary and intermediate levels of schooling, and High level specialized skills, English education, Certified engineers systems, Vocational training and job matching	Ministry of Education, Ministry of Human Resources
Establishing System for Formulating Trade-related Policies and Institutions and their Proper Implementation	Formulation and Implementation of Industrial and Trade Policies Based on Medium- to Long term Perspectives	Formulate and implement their industrial and trade policies and implement WTO agreements	Strategic Planning (MITI)
	Establishment of Trade related Laws, Regulations, and Institutions	Basic Laws on Export and Import, Basic Laws on customs, Import-related laws （Quarantine Law), Export processing zone, Trade-related financial system(Trade insurance, export finance), Establishment of export promotion organization	Strategic Planning (MITI)
	Trade-related procedures	Test, Inspection, Custom, Quarantine	Trade Service (MITI)
Export support service	Providing information on the overseas markets	Organizing marketing seminar, trade shows and exhibitions of products	MATRADE
	Providing information on Foreign and domestic trade procedures, Incentives	Foreign trade system, procedure and business custom, Information on incentives, Strengthening of functions of trade promote organization	MATRADE
	Fostering Viable Private Sector	Management and technical guidance, Training for Product development and agrotechny	NPC

Source: JICA, 2003, "Effective approach to issues in development; international trade and foreign direct investment"

MITI takes a major role in international trade, investment, and industry development, and has its central organization with five independent administrative agencies shown in Figure 4.11. The five agencies are; the Malaysian Industry Development Agency (MIDA), which promotes direct investment, the National Productivity Corporation (NPC), which helps the private sector improve productivity, the Malaysian Industry Development Finance (MIDF), which provides finance for industry development, and MATRADE, and SMIDEC, which were described earlier in this section.

A ministry covering international trade and industry was established as the Minstry of Commerce and Industry after Malaysia's independence. Its name was changed to the Ministry of Trade and Industry in 1972. In 1990, the ministry was divided into two: The Ministry of Domestic Trade and Consumer Affairs and the current MITI.

The Strategic Planning Department designs related policies and coordinates among different divisions in MITI. As of August 2005, SPD has already started the Third Industrial Master Plan (IMP3, 2006-2020), and the plan will be officially announced in January, 2006.

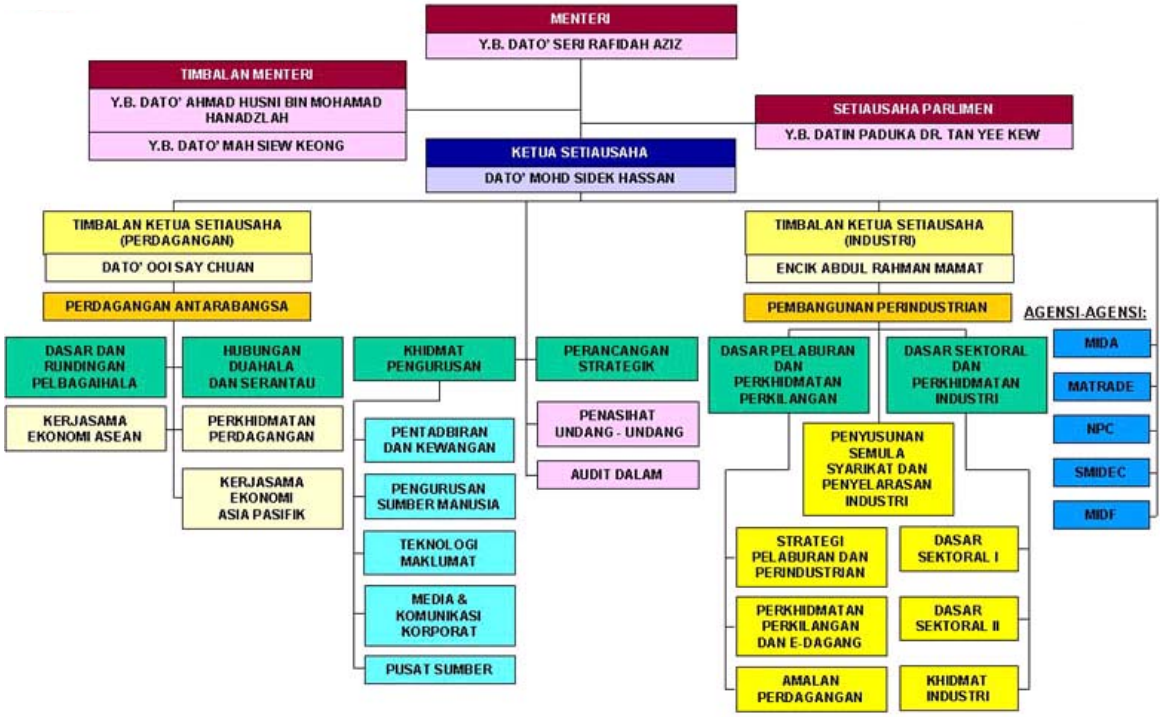
The first plan (IMP1, 1986-1995) was announced in the mid-1980s, when Malaysia had problems in; (1) relying too much on labor intensive industries and primary products, (2) the dominant presence of government affiliates and foreign affiliates, (3) few exports from industries other than electronics and textile, (4) lack of industry network without industries producing intermediate goods and production facilities. IMP had originally been simply an indicative plan to show the private sector the direction, as the plan did not involve legislation or budgetary measures. However, IMP has actually played significant roles in industry policy via making indicative laws such as the 1986 Act of investment promotion.

IMP has steadily promoted development of export-oriented industry from the first IMP to the third, though its approach has changed over time.

From 1986 to 1995, IMP1 supported each sector independently. IMP2 took a cluster or value chain approach in Manufacturing ++ and tried to strengthen industrial networks. The second plan listed three clusters and aimed to improve industrial accumulation. The three clusters were; (1) globally linked clusters such as the electronics industry, (2) clusters lead by the government including the automobile industry, (3) clusters such as the wood industry that take advantage of domestic primary products. The purpose of Manufacturing ++ is to boost highly value-added R&Ds and to improve

logistics. IMP2 also aims to develop knowledge intensive industries.[35] IMP3, taking a similar approach to the former plans, will place more emphasis on the service sector.

Figure 4-11 Organizational structure of MITI



Source: MITI Website

Among five MITI agencies, MATRADE is to expand exports and has similar functions to Japan's JETRO. MATRADE specializes in export from Malaysia according to its development stages.

The Malaysian Export Promotion Organization (MEXPO), the former incarnation of MATRADE, was established in 1980. MEXPO consisted of three units; the trade information unit, the exporters registry unit, and the exhibition unit, but had no overseas office. In response to requests from private business groups such as FMM, which was described earlier in this chapter, MEXPO was reorganized in 1993 as a government agency to provide service to private sector in the aim of export expansion. MEXPO was renamed MATRADE, and it has built its capacity sometimes. JICA provided support in certain periods. MATRADE has organically improved its organization in accordance with the shifting needs of private sector in 2003.

Figure 4.12 shows the current organizational structure of MATRADE. Under the central office in

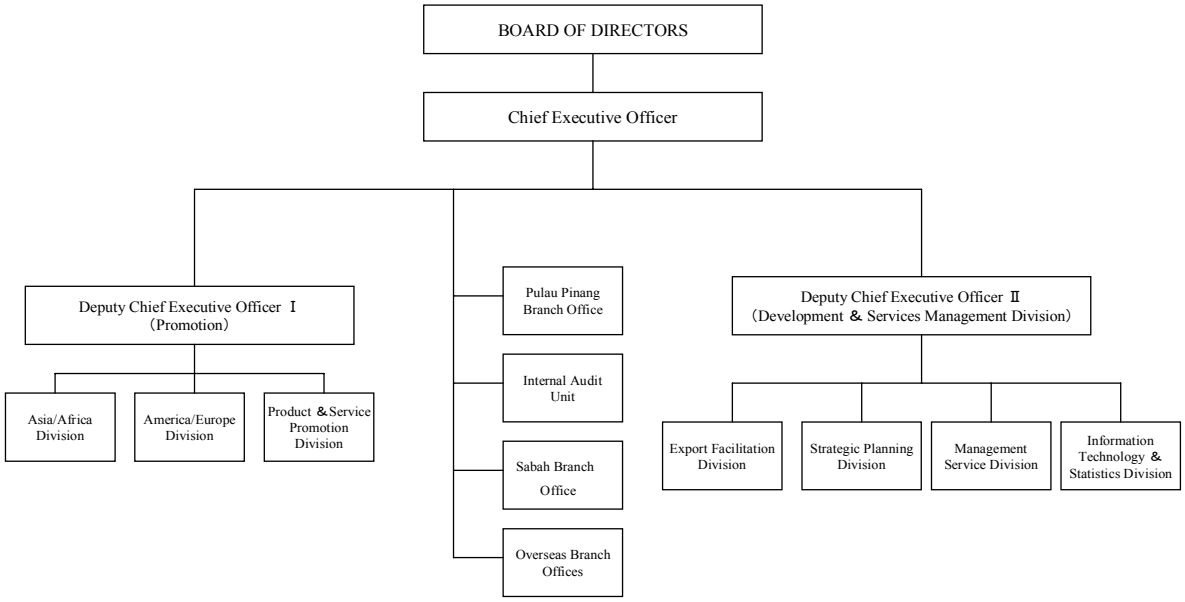
[35] Takeuchi (1998) describes the purpose of IMP1 and IMP2 in detail, and provides general information of IMPs.

Kuala Lumpur, it has two domestic (Penan and Saba) and thirty overseas offices. Total employees has grown from twenty at the foundation of MEXPO to over four hundred now, including one hundred staff members in overseas offices. The number of registered membership companies has surpassed 8,000, as shown in Figure 4.13. Figure 4.14 depicts the historical trends of the number of export marketing seminar and study groups. The number fluctuates in some periods, but the overall trend is steadily upward.

MATRADE has independently run a booth at conventions in Japan since 2000. There are some activities in which MATRADE performs better than JETRO. It has, for example expanded its export promotion activities in the service industry. Malaysian private sector entities have made positive comments about MATRADE;

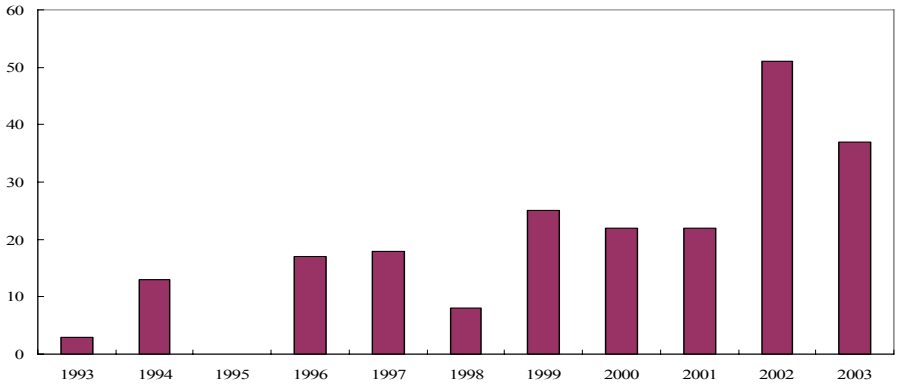
> NCCIM: MATRADE has streamlined its organization to focus trade promotion and has operated efficiently since the reorganization of MEXPO into MATRADE in accordance with requests from private sector.
>
> FMM: MEXPO as one division of the government was only a passive agency that displayed its service and information and took no active roles. After the corporatization, MATRADE has positioned itself closer than before to companies and actively provided support to private sector. It sometimes takes a leading role in international missions. FMM maintains a close partnership with MATRADE, as it sends board members to MATRADE and issues a corporate directory together.
>
> SMI Association of Malaysia: The quality of service provided by MATRADE has become better, but it still has room for improvement compared with similar organizations in Singapore and Hong Kong. Management of the agencies in such countries and regions actively listens to the voices of individual companies and rethinks their activities.

Figure 4-12 Organizational structure of MATRADE



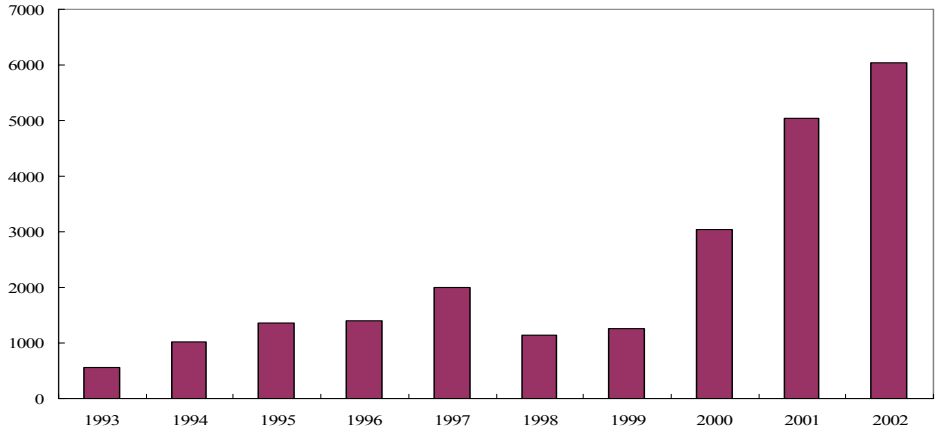
Source: MLAYSIA International Trade and Industry Report 2004

Figure 4-13 Changes in the number of registered membership companies of MATRADE



Source: Annual report of MATRADE, each year

Figure 4-14 The historical number of export marketing seminars and study groups hosted by MATRADE



Source: Annual report of MATRADE, each year

The following is a description of important divisions of MATRADE, focusing upon newly established divisions in reorganization in 2003.

(1) Services and Product Promotion Division

This division was newly established in September, 2003 and consists of six operational units according to industries. Its mission is to satisfy the needs of individual industries, which the regional desks could not fully meet before. It promotes participation of private sector companies in international delegation and convention by partnering governmental agencies in each industry and business group. The division placed more emphasis on: the health care industry in Vietnam and Bangladesh; the construction in Qatar, Bangladesh, and Pakistan; management consulting services. In order to evaluate its activities, the division uses the number of conventions as an indicator. It does not follow how much participants increase their export.

In terms of future capacity building, the division is considering hiring engineers. Current employees hired at the founding of the division are mostly from finance and trading companies. Its future challenge lies in linking international resources with export expansion of domestic enterprises. One program may be accepting overseas professionals to support individual companies. This derives from a bitter experience when MATRADE failed to provide market information for domestic companies to expand their exports to the EU when the EU considered anti-dumping measures against shoe imports from China creating missed business opportunities for the Malaysian shoe industry.

(2) Planning and Strategy Division

Planning and Strategy Division was set up in September, 2003, at the same time that the Services and Product Promotion Division was formed. MATRADE highly appreciates JICA as its support has been the building blocks of the resource center managed by this division. The reorganization in 2003 was the first since the founding of MATRADE, and the objective was to create an independent division to develop MATRADE's strategy and action plans for service to Malaysian industries, especially non-manufacturing.

As a result of the division, there are now 3 types of MATRADE independent plans under IMP; five-year middle term plans, three-year strategic plans, and annual action plans. It does not disclose its plans in a publication. The evaluation measurement for this division is cost effectiveness, which is gauged by the inputs and outcome. The outcome can be measured by the number of companies that exploit its services.

(3) Export Facilitation Division

The goal of the export facilitation division is to give useful advice concerning export for the member companies. Using the detailed list of the member companies, the division tries to respond sincerely to the questions from its members. It publishes directories and other works, provides useful information via internet, and hosts seminars.

The export training unit is found in this division. The unit hosts thirty six training seminars with various curriculums in a year. Seminars are one to one and a half days long. The entrance fee for those seminars hosted by MATRADE is around 100RM, much less expensive than that of seminars hosted by private business organizations (On average 1,000RM). Seminars typically cover a broad range of issues and do not target a specific group of companies. For example, one seminar title was "How to do business in Japan". Participant companies are interested in all regions around the globe, and MATRADE has to meet their diverse needs.

The last part of this section provides a general overview of the Small and Medium Industries Development Corporation (SMIDEC).

SMIDEC, originally a division of MITI, covers the development of manufacturing SMEs. It was newly established as an independent agency with its original seven staff members. Its staff has

grown from 60 to 190 after the reorganization in 2002 when SMIDEC broaden its scope to support Malaysian service sector. This change was in line with the Industrial Master Plan 2 (IMP2) and IMP3 in which the government put emphasis on development of SMEs.

The development of SMEs is one of the top priority policies, and eighteen ministries including the Ministry of Entrepreneurs, the Ministry of Finance, and the Ministry of Human Resources, as well as twelve agencies, and many other related organization take part. Among those agencies, SMIDEC takes the coordinating role, and conducts programs in the fostering of international suppliers, marketing, R&D, and the provision of loans. One example is the industrial linkage program to encourage technology transfer from large companies to SMEs.[36] In terms of introducing overseas resources, SMIDEC hosts the engineering lesson program for local auto-parts manufactures, inviting professionals from the Japanese Automobile Association (JAMA). It further invites support from Korea and Taiwan. Recently local companies are quite interested in product design, packaging technology, and marketing information, and SMIDEC now tries to develop programs targeting such issues.

In 1989, MITI issued the Action Plan for SMI Development 1990-2000. This plan differs from policy measures, active until early 1980, that were part of the social Bumiputraism policy, and reflects discussions after mid-1980s that encouraged small and medium supporting industries.

SMIDEC has itself developed a SMI development plan from 2001 through 2005. This new plan sets a goal in fostering knowledge intensive industries by providing appropriate measures to support internationally competitive SMIs. The quantitative target is to increase production per employee by 50% and added value by 60% from 2000 to 2005. Since IMP3 has an independent program for SMI for the first time, and SMIDEC coordinates a technical resource group to make suggestions for IMP3, there is no plan for SMIDEC to develop its original SMIDP after 2006.

4.4.2 Trade capacity building in the government sector

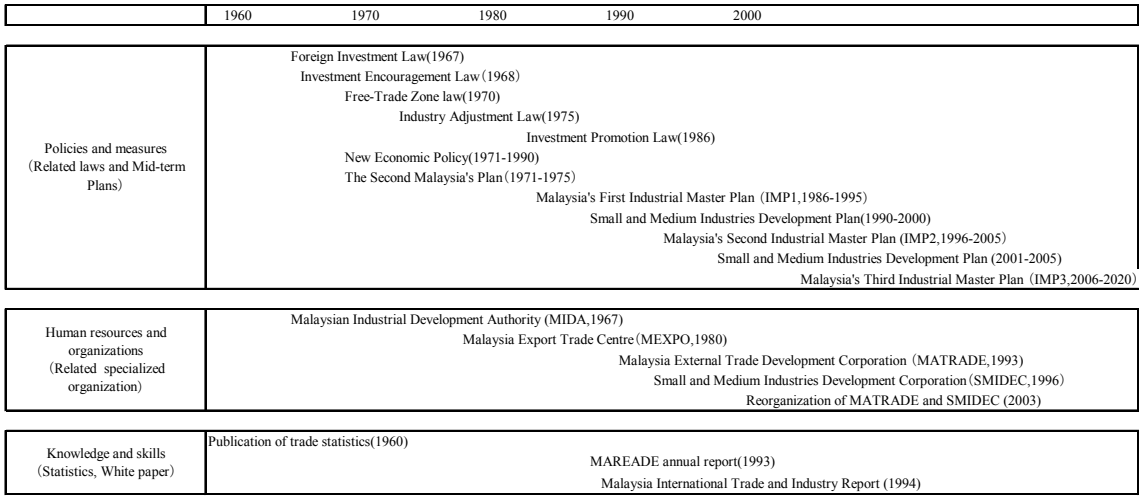
We discuss capacity development based on the benchmark of capacity development factors (figure 4.15).The government and agencies including MATRADE have expanded their capabilities to support exports. In response to industrialization and export-led growth by foreign direct investment in 1980s, the government took policy measures to support Malaysian manufacturing sector for their export. MATRADE was established in 1993, and SMIDEC in 1996. These were milestones that

[36] Policy programs of other government agencies for the development of SMEs are described in details in Japan Development Service (2002) pp.11-15.

showed the dramatic increase in Malaysia's social capacity to export.

JICA's support started during the same period that MATRADE was founded, and it is highly appreciated as JICA had broader scope than trade-supporting agencies from other countries. JICA's contribution has resulted in a reorganization in 2003 that highlighted the service sector.

Figure 4-15 Trade capacities building in the government sector



Source: the author

4.4.3 Evaluation by private sector of the government in supporting export

This section discusses how Malaysian enterprises evaluate policy measures in trade expansion and related service, and service provided by business organizations.

First, we look at answers for policy measures. The evaluation of the policy measures has not improved as shown in table 4.14. No answer was given in category (1): "the level of satisfaction increased", or category (3): "more satisfied but some problems remain." One example that fell in category (2): "changed evaluation from negative to positive," was a technical training program in human resources.

In all but the technical training program answers indicated that there has been no progress. Issues that scored below three on average are; the approval process for governmental standards, the job training program, industrial development program in both budgetary and tax incentives, speeding up tariff process. In sum, there remain many problems in government services, and the evaluation has not improved in general.

As to the knowledge/skill evaluation, trade statistics has already published since 1960. For the white books requiring the analysis in the related-areas, MTTI has put out Malaysia International Trade and Industry Report since the early 1990s. MATRADE and SMIDEC have also published annual reports since their establishment. Acquisition, analysis, improvement, and disclosure of information have been satisfactory.

Table 4-14 Evaluation of policy measures to support export

			Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged
Evaluation of The Government's Export Promotion Measures	Improvement of legal systems					◎(+)
	Infrastructure building	Logistics				◎(+)
		Electricity				◎(+)
		Communication				◎(+)
		Water Supply				◎(+)
	Standard certification system					◎(−)
	Human resources development	Elementary and secondary education				◎(+)
		College/University education				◎(+)
		Vocational education				◎(−)
		Training programme for engineers		◎		
	Industrial and Trade development policy	Financial support				◎(−)
		Tax preferences				◎(−)
	Response to the trade liberalization	Reduction of import tariffs for raw materials				◎(+)
		Reduction of obstacles for foreign export				◎(+)
	Establishment and operation of the export processing zone					◎(+)
	Efficiency of the customs procedure					◎(−)

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3.◎(-) indicates that the average score was below three and the sample did not improve after four years.

4.◎(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author makes the table according to the research.

Second is the comparison between the evaluation of policy measures and that of services by business groups (see table 4.15).

Among answers on evaluation of trade related service of the government, there were none that fell into category (1): the level of satisfaction increased. Examples that fell in the category (2): evaluation changed from negative to positive were; information service in production, training seminars in product development, and information service in marketing. Individual advisory service in product development fell in category (3): improved but problems remain. Programs that had not shown any progress were: training seminars in production, information service in production, all programs in marketing except information service, and all programs in trade operation. All programs except marketing convention and trade fair scored below three on average. To summarize, there were some programs that were appreciated, but many others needed to improve. Local companies in general gave low valuation to the trade related service of the government.

Among recorded answers on the evaluation of the trade-related services of private business organizations, those programs that fell in the category (1): the level of satisfaction increased, were training seminar in product development and trade operation, training seminars in marketing, and conventions and trade fairs. Examples that fell in the category (2): changed valuation from negative to positive, were: all individual advisory service and information service in production, product development, marketing, and trade operation. There were no answers in category (3): improved but problems remain. A program that had not shown any progress was training seminars in production. In sum, all programs except training seminar in production either increased the level of satisfaction or turned around their valuation from negative to positive. Local companies in general gave high valuation to the trade related service of the private business group.

In comparison between the evaluation of policy measures and that of services by business groups, the government receives low valuation and private business groups high. In general Malaysian enterprises are more satisfied with business group than with the government in terms of trade related services.

Table 4-15 Evaluation of trade related services provided by the government and the local business groups.

			Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged
Evaluation of trade-related services for companies by the government	Production	Individual counseling, Consulting		◎		
		Training, Seminar				◎(－)
		Provision of information				◎(－)
	Product development	Individual counseling, Consulting			◎	
		Training, Seminar		◎		
		Provision of information		◎		
	Marketing	Individual counseling, Consulting				◎(－)
		Training, Seminar				◎(－)
		Trade Fair, Exhibition				◎(＋)
		Provision of information		◎		
	Trading business	Individual counseling, Consulting				◎(－)
		Training, Seminar				◎(－)
		Provision of information				◎(－)
Evaluation of Trade-Related Services for Companies by the Business Sector	Production	Individual counseling, Consulting		◎		
		Training, Seminar				◎(＋)
		Provision of information		◎		
	Product development	Individual counseling, Consulting		◎		
		Training, Seminar	◎			
		Provision of information		◎		
	Marketing	Individual counseling, Consulting		◎		
		Training, Seminar	◎			
		Trade Fair, Exhibition	◎			
		Provision of information		◎		
	Trading business	Individual counseling, Consulting		◎		
		Training, Seminar	◎			
		Provision of information		◎		

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3.◎(-) indicates that the average score was below three and the sample did not improve after four years.

4.◎(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author makes the table according to the research.

4.5 Malaysia's capacity development in trade and evaluation of support from Japan

4.5.1 Social capacity building path and development stages

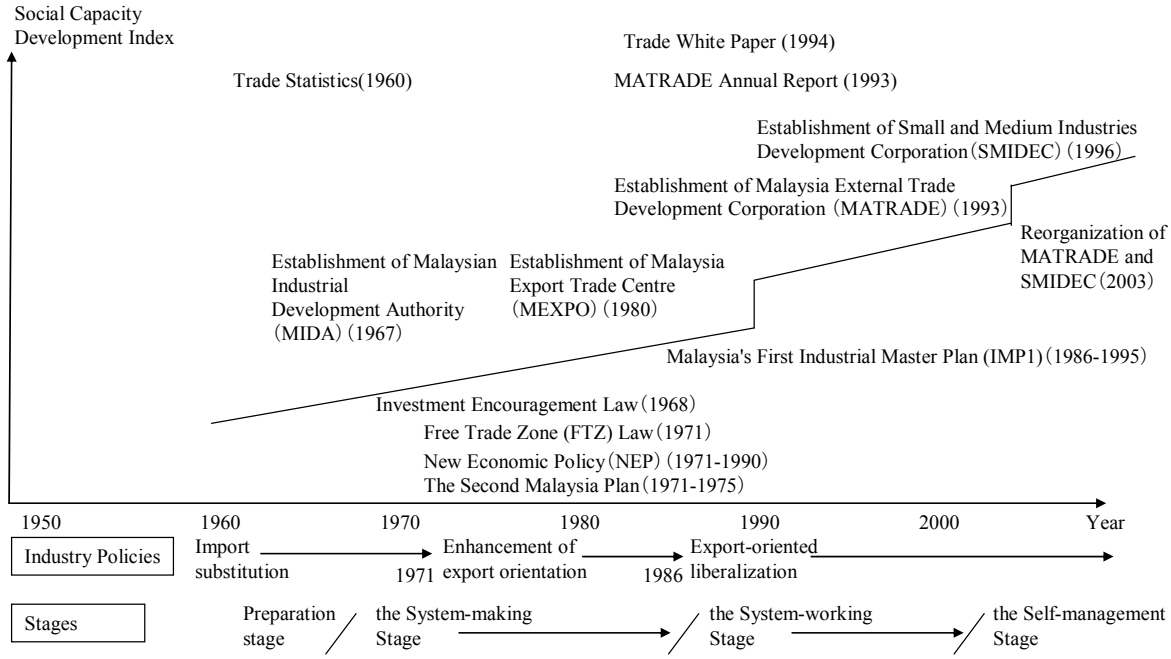
Here we discuss development path of trade social development and development stage.

(1) Historical assessment based on development stage analysis
(2) Assessment of social capacity based on actor/factor analysis
(3) Analysis on cause-effect relation between socio-economic development level and export performance as basis for the discussion on social capacity development

Based upon the analysis on both the private and public sector, the process of social capacity building can be depicted in Figure 4.16. Malaysia has enjoyed social capacity development in business sectors as well as governmental sectors. Malaysia's social capacity development stage had transition

from system-making stage system-working stage. It is supposed to developed into self management-stage.

Figure 4-16 Malaysia's social capacity development in trade-related field



Source: The author created this Figure based on field work, interviews, and related publications.

Secondary we discuss current social capacity based actor/factor analysis.

Table 4.16 shows the achievement level of Malaysia's social capacity development by using a checklist. Facilitating and limiting factors of the capacity development are also examined with the result of analysis.

Table 4-16 Social capacity development in the trade related area
(Government capacity and the relationship between Government and Enterprise)

Capacity Factors	Check items of capacity evaluation	Malaysia	
		1980	2005
Policies and Measures (P)	Medium and long-term plan-making (National development plan) on industry and trade	✔	✔
	Establishment of basic laws on export promotion	✔	✔
	Establishment of basic laws on SMEs promotion		
	(Relationship between the government and enterprises) Dialog and meeting between the government and enterprises		✔
Human, financial and physical resources in organization (R)	Establishment of export promotion organization	✔	✔
	Establishment of overseas office of export promotion organization		✔
	Establishment of SMEs promotion organization		✔
	Self-management organization		✔
Knowledge and skills (K)	Publication of statistics	✔	✔
	Publication of trade white paper		✔
	Publication of annual report by export promotion organization		✔

Note 1. Cells are checked when items are achieved.

Source: The author

Regarding to the development of capacity factors in the governmental sector, legal and policy infrastructure ("P" factor) were basically formulated until mid-80's. Organizational infrastructure ("R" factor) including MATRADE and SMIDEC has been steadily developed as well.

The relationship between the government and enterprises (including economic organizations) seems to have met a certain level. This is exemplified by that fact that MATRADE has been established based on the recommendation of FMM, and their tight collaboration has been going on.

Table 4-17 Social capacity development in the trade related area (Companies' capacity)

	Policies and measures (P) (Labor productivity of manufacture industry constant 2000 US$)	Human, financial and physical resources in organization (R) (Ratio of employees in manufacture industry to employees in total, %)	Knowledge and skills (K) (Enrollment rate of secondary education, %)
Malaysia	10,316 (1981)	15 (1982)	48 (1980)
	16,935 (2004)	21 (2004)	70 (2002)

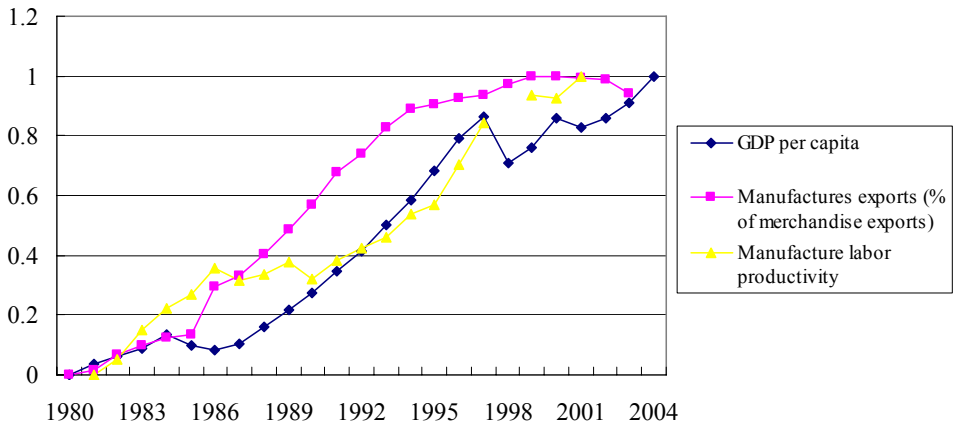
Source: the author

As for business sector, figure 4.17 shows the three factors have been steadily developed while Malaysia was already well-developed in terms of capacity development level as of 1980 among the four countries. Although the level is still lower compared with developed countries, Malaysia has been in an upward position. Major business group such as FMM can also play an significant role in advising policy recommendation to the government as well as in providing consultancy services to individual business.

Figure 4.17 shows the process of social capacity development as Total System. Social capacity is gauged by the measurement of labor productivity in the manufacturing sector. GDP per capita is used to measure social economic status, and to measure trade performance, the proportion of manufacturing goods in all export is used.

Throughout the analyzed period, all three indexes gauging the levels of social capacity, social economic status, and trade performance improved. Among those three, the levels of social capacity and social economic status rose more sharply due to an increase in FDI and exports of manufacturing goods after 1985 Plaza Accord.

Figure 4-17 Total System Indexes measuring the social capacity development

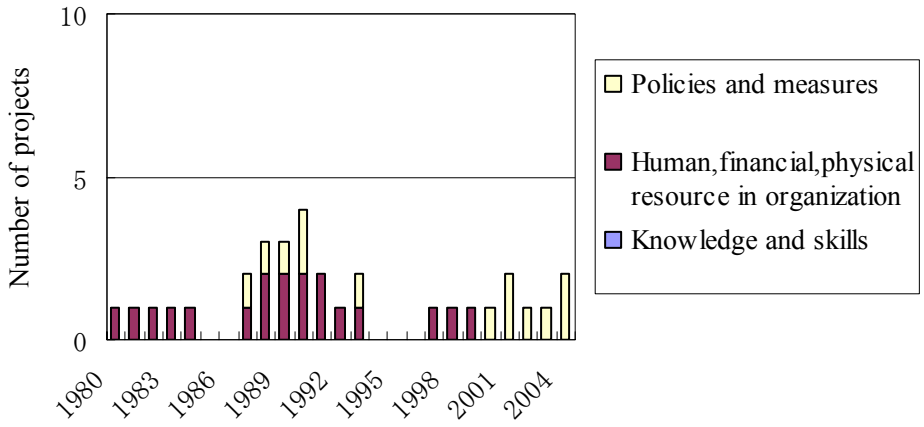


Source: WDI Online and ADB Key Indicators

4.5.2 Contribution of JICA's assistance to capacity development of the government

We discuss how JICA's aid inputs have contributed to social capacity development of the government. Figure3-19 shows chronological inputs of JICA's aid by the social development factors. The number of the projects is classified into the factors and summed up annually.

Figure 4-18 JICA's assistance inputs in Malaysia by development themes by capacity factor



Note: no inputs of human, financial, physical resource in organization during the period

Source: the author

Figure 4.18 shows JICA's aid inputs by project in detail.

Table 4-18 JICA's assistance inputs in Malaysia by development themes

Capacity factor	Development themes	Name of projects	1980	1985	1990	1995	2000
Policies and measures (P)	Establishment of trade-related legislation	The Capacity Building Program on the Implementation of the WTO Agreements					
	Promotion and development of SMEs, supporting industry and industry	Promotion and Development of industry sector					
		Construction of Kulim Hi-Tech Park					
		Promotion and Development of industry sector (Supporting industry)					
		Supporting Industry Technology Transfer Project					
		Formulation of Action Plan to Develop Advisory Capabilities of Malaysian Development Financial Institutions for SMEs					
Human, financial, and physical resources in organization (R)	Assistance for trade center	Malaysia External Trade Development Corporation					
	Promotion of SMEs, supporting industry and industry	Metal Industrial Technology Center					
		Research on Fine Ceramics					
		Casting Technology Center					

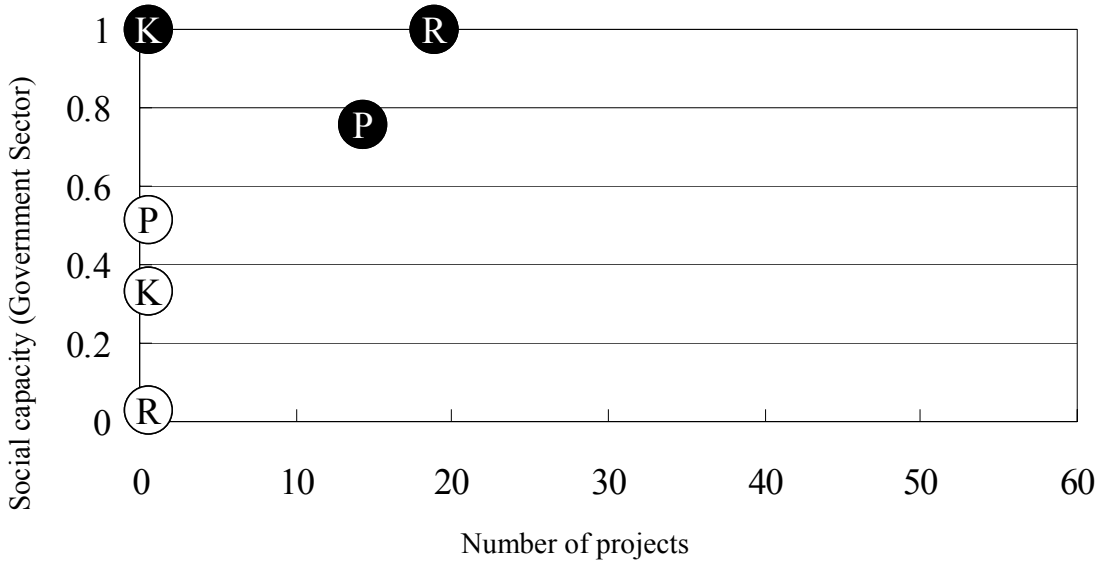
Source: the author

Considering the implication by Figure 4.18 and table 4.16, we can easily understand the situation of JICA's contribution, which is summarized in figure 4.19. It depicts the number of the projects in horizontal axis and social capacity (government) in vertical axis to illustrate transition of the

capacity development factors from 1980 to 2005. The number of the project is in each year based on the categories in accordance with relavant capacity factors. The social capacity level is mapped based on the implementation of the government policy (fully-implemented=1, no implementation=0).

As a result, it has become clear that Malaysia has smoothly developed its social capacity in spite of relatively little aid inputs from JICA. It is assumed that Malaysia itself has had strong ownership and led its capacity development on its own; therefore, development assistance has been extended at a minimum level required.

Figure 4-19Contribution of JICA's assistance to capacity development of the Malaysian government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

4.5.3 Consistency with Malaysia's social capacity development stage

Table 4.19 shows Malaysia's social capacity development stages and JICA's assistance inputs from 1980 to 2005. During this period, Malaysia moved from its system-making stage, to system-working stage, and to self-management stage; therefore, JICA's assistance inputs are plotted under corresponding stages. Assistance inputs are sorted out in accordance with capacity factors of "P"

factors, “R” factors, and “K” factors.

Table 4-19 Malaysia’s social capacity development stages and JICA’s support

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures（P）	Export-promoting development plan			
	Trade-related legislation (Response to liberalization and facilitation such as WTO)		2	2
	Promotion and development of SMEs, supporting industry and industry	5	3	2
	Establishment of industry-related legislation			
Human, financial, and physical resources in organization（R）	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)			
	Assistance for Trade Center (Export-support, information, training for private companies)		3	
	Promotion of SMEs, supporting industry and industry	15	1	
	SMEs promotion organization			
Knowledge and skills（K）	Acquisition, analysis and release of trade-related information (such as statistics) and skills			
	Acquisition, analysis and release of industry-related information (such as statistics) and skills			
Support for south-south cooperation				

Note. The numbers are the total number of projects

Source: the author

Then at the transition stage from the System-working Stage to the Self-management stage, JICA provided support programs related to trade such as assistance to MATRADE and WTO capacity building programs. Compared with the situation in Indonesia and the Philippines, JICA projects in Malaysia have successfully come to exits, and it seems that JICA effectively organizes the schedule of its assistant program according to the social capacity development stages of the recipient country.

As Malaysia’s capacity development has shifted to the Self-management Stage, JICA actively promotes South-South cooperation under Malaysian Technical Cooperation Programme (MTCP) scheme. MTCP originally started in early 1980s, and there are three main programs; providing short term (less than three months) training programs, accepting trainees, and sending professionals to local businesses. The largest program is the short term training program, and the number of participant trainees has increased annually and has reached 1,790 as of October, 2005. Those trainees come from 135 countries and regions, and the largest number of trainees is from ASEAN regions. In

the trainee program, nearly 100% percent of trainees belong to governments or non-governmental agencies, and the Malaysian private sector enterprises kindly accepts some trainees. JICA paid all the expense in the MTCP program until 2001, but after that, under newly a developed scheme called MTCP-TCCP, the Malaysian government and JICA began to split the costs evenly.

In terms of south-south cooperation, JICA helped develop training programs in which MITI, MIDA, and NPC accept trainees from developed countries. MIDA has hosted seminars for LDC on inviting FDI since the late 1990s. MATRADE will start its training program in 2006.[37] JICA is also planning to support to Malaysia in south-south cooperation.

4.5.4 Consistency with Malaysia's development policy and the cooperation of JICA with other Japanese agencies

As described earlier in this chapter, Malaysian government has taken a consistent strategy of export-oriented industrialization from IMP1 (1986-1995) to today. IMP1 took different approaches in different sectors. As for assistance from Japan, in 1983 prior to IMP1, JETRO's ASEAN Cooperation (AC) program started in Malaysia, and the program promoted technology transfer to local enterprises and hosted trade fairs. At that time, JETRO's AC program covered the metal manufacturing industry and the plastic molding industry, both of which were the priority targets in IMP1. Even before AC, JICA had started technical assistance for the metal manufacturing technology center of SIRIM.

In 1987, Japan's Ministry of Economy, Trade, and Industry proposed its new aid plan for the purpose of developing export-oriented industries by boosting "the trinity of trade, direct investment, and economic cooperation". In Malaysia, there were nine industries targeted by the new aid plan; metal molding, metallic auto-parts, ceramic, glass, electronics for business use (CRT) cathode ray rubes, ceramic IC package, rubber shoes, cast, and computers and related machines. JICA conducted feasibility studies on development of these nine industries, paving the way for the later concrete assistance programs of JICA and JETRO.

Later in the IMP1period, FDI peaked out, and other developing countries such as China joined the competition especially in labor intensive industries. In response, Japan's METI announced "1993 Visions for advanced industrialization in ASEAN", which stressed the importance of supporting industries. In 1994, JICA started a development plan for industrialization (supporting industries), and

[37] In 2005, in preparation of new training program, MATRADE hosted seminars in Zambia and Uganda providing lessons from Malaysia's experience. Former MIDA staff member gave lectures there.

JETRO initiated its programs to foster supporting industries (SI). In Malaysia, SI were defined as metal molding, press working, and rubber for industrial use.

After IMP1, IMP2 (1996-2005) shifted strategy and took a cluster and value chain approach, called Manufacturing++. SI and SMEs are essential for Malaysian industry to strengthen its industrial agglomeration and interaction within. JICA's related assistance and METI's 1993 vision were in perfect accordance with the situation. The goal of Manufacturing++ was to build the international competitiveness of the Malaysian private sector by promoting vertical integration and development in R&D, production, logistics, and other parts of the value chain. One example of JICA's programs designed to work un unison with Manufacturing++ was the technical assistance program for SIRIM in R&Ds, as the program aimed to increase competitiveness in local manufacturers. In sum, JICA has remained well coordinated with Malaysia's policy and cooperative with local agencies.

JICA's input to Malaysia was not quite large compared to that to other comparable countries. JICA has conducted a smaller number of projects because some projects conducted in other three ASEAN nations were not implemented in Malaysia. Even compared to Thailand which also received small input from JICA, Malaysia did not need technical assistance in legislation related to industrialization, especially in fields such as standardization, intellectual property, and accounting. It seems that Malaysia had a stronger tendency than other countries to promote industrialization on its own, depending mostly on its private sector. Considering Malaysia's needs, one can state that JICA has provided appropriate inputs in terms of quality, quantity, and timing.

Recently, Malaysia has positioned itself as a powerful nation in non-aligned countries and Islamic countries, and has taken an active role in south-south cooperation. JICA is fully aware that the level of urgency in direct technical assistance is diminished as Malaysia has grown already. JICA tries to maintain accordance with Malaysia's policy for developing countries and emphasizes support for Malaysia's south-south cooperation programs.

4.6 Lessons leaned and recommendations

(1) Program-based aid

All of assistance, trade, and investment has been effective in accordance with the related policy measures of Malaysian government such as IMP. In this sense, one can now recognize that Japan's cooperation had thorough consistency as a "program". Japan was able to select and conduct effective assistance programs in line with local needs. Experience with Malaysia provides useful insights

about the roles of supporting countries and recipient countries.

One valuable lesson from Malaysia is that future assistance should be based upon long-term, consistent strategy that will tie all projects together in accordance with the local policies and situation. No project should be conducted without such strategy or "consistent programs" as a whole.

(2) Strategic positioning of trade sector assistance : application to CLMV countries or African regions.

As described earlier, Malaysia has promoted south-south cooperation, and has already shifted into the operational stage. Malaysia has built a track record in supporting CLMV and African countries. JICA and other Japanese agencies will have to continue to assist Malaysia's south-south cooperation and to take advantage of their experience with ASEAN countries in the "trinity with assistance, trade, and direct investment". In this context, it is important to consider the recent movement of FTA and WTO for applying Malaysia's experience to the assistance. Further information collection and data including research papers and interview with experts is important as well.

Chapter 5

Chapter5 Philippines

5.1 Trade sector assistance from Japan

The first section of this chapter provides an overview of trade sector assistance for the Philippines from Japan. In addition to the direct assistance, it includes promotion of investment, fosterage of small-to-medium-sized enterprises (SMEs) and supporting industries, and other supports in industry development.

5.1.1 Trade sector assistance provided by JICA

Table 5.1 lists the projects of the main trade sector assistance toward the Philippines provided by JICA after 1980. As assistance for the Philippine trade sector by JICA, the project by the Institute for International Studies and Training is the first one, and is the main target of this evaluation.
After a feasibility study on the export processing zone was conducted in 1993, trade sector assistance was not provided by JICA in the 1990s. Since 2000, technical assistance has been provided with the goal of advancement of trade administration capacities and facilitation of trade such as the WTO Capacity Building Assistance Program and research on time required for trade procedures.

As assistance for industry development by JICA, the Metal Casting Technology Center Project was executed in the 1980s to support the improvement of metal mold technology. In the late 1980s, feasibility studies such as the Coal Industry Technology Development Master Plan Study and industrial Standardization and Quality Improvement Plan were implemented. In addition, from 1989 to 1992, the Industrial Sector Growth and Development Plan, which was consulted by a consortium of JETRO and private companies, was conducted based on the new-aid plan presented by the Japanese government in 1987.

JICA's industrial development assistance was also actively implemented in the 1990s. Especially, JICA's assistance for the Philippines focused on electric and electronic product and software industries, in which the Philippines seems to be superior to other countries. The Technical Cooperation Project for the promotion of the food industry in local regions started in 2005 in light of the disparity in wealth between central and local areas.

Table 5.2 presents a past record of accepted trainees by JICA in the field of trade and investment and SME development. JICA's acceptance of trainees assists the upskilling of workers from government agencies. The number of accepted trainees differs in the period of acceptance in all sectors of trade, investment, export, and SME. The trade sector accepted the largest number of trainees in these four sectors. It accepted one to four persons, every year from the 1980s to the early 1990s. Government agencies which sent trainees to JICA were the Ministry of Trade and Industry, Philippine Export Council, Board of Investment, and Center for International Trade Expansions and Missions. From 1998 to 1999, during a period of a project conducted by the Institute for International Studies and Training, a total of five workers from that institution were accepted as trainees.

Table 5-1 JICA's most important assistance programs in trade and direct investment, the fostering of SMEs and supporting industries, and industrial development (the project name and the year)

1. Trade

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Trade Training Center	Technical Cooperation Project							■	■	■	■	■	■																		
Trade Training Center (Follow-up)	Technical Cooperation Project												■	■																	
Capacity Building Program on the Implementation of the WTO Agreements	Development Study																						■	■	■	■					
Study on Measurement of the Time Required for Trade	Industrial Project Formation Basic /Select confirmation Study																							■	■						
Development of Cavite Export Processing Zone and Investment Promotion Plan	Development Study														■																

2. Promotion of SMEs and Supporting Industry

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Plan-Making Support of SMEs Development	Development Study																								■	■					

3. Industrial Sector Promotion

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Metal and Casting Technology Center	Technical Cooperation Project	■	■	■	■	■	■	■																							
Industrial Standardization and Electric Testing Technology	Technical Cooperation Project														■	■	■	■	■	■											
Software Development Training Center	Technical Cooperation Project																■	■	■	■	■										
Improvement of Mold Techenology	Technical Cooperation Project																		■	■	■	■	■	■							
Electronic Products Testing Technical Cooperation Project	Technical Cooperation Project																				■	■	■	■	■						
Industrial Property Modernization	Technical Cooperation Project																				■	■	■	■	■						
Improvement of Regional Food Packing Technology Project	Technical Cooperation Project																										■	■	■	■	■
Master Plan of Coal Industrial Technology Development	Development Study								■	■																					
Industrial Standardization and Quality Control Project	Development Study									■	■																				
Promotion and Development of industry sector	Development Study										■	■	■	■																	
Production Statistics Development Plan	Development Study																					■	■	■							
Industrial Environment Management Study	Development Study																							■	■						
Production Statistics Development Plan Follow-up Study	Development Study																							■	■						

Note: Previous "Technical Cooperation in Project Format" is listed as "Technical Cooperation Project."
Source: Arranged by the research group based on: Ministry of International Trade and Industry "Current conditions and issues of economic cooperation" Annual; Ministry of Foreign Affairs "Official Development Assistance" Annual; Japan International Cooperation Agency and Institute for International Cooperation (2003) "Effective approach for development subject: Trade and Investment Development". The Technical Cooperation Project is based only on information from the Japan International Cooperation Agency and Institute for International Cooperation (2003).

Table 5-2 Historical number of JICA trainees from the Philippines in trade and direct investment, and SMEs development

(number of trainees)

	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	80～05 total
SMEs	0	1	1	1	1	1	1	0	1	0	2	0	2	0	0	0	1	1	1	1	1	1	5	0	0	0	22
Investment	0	0	0	0	1	0	0	1	1	2	1	1	1	2	2	2	2	1	1	0	1	1	2	1	1	2	26
Export	1	1	1	2	0	1	1	1	3	1	1	0	2	2	0	0	0	0	1	1	0	0	1	1	1	0	22
Trade	1	2	3	2	1	1	3	1	1	3	4	2	1	2	0	0	3	1	0	0	1	0	4	3	4	3	46
Total	2	4	5	5	3	3	5	3	6	6	8	3	6	6	2	2	6	3	3	2	3	2	12	5	6	5	116

Source: JICA

5.1.2 Assistance from Japan in trade expansion

In addition to JICA's technical assistance, trade sector assistance by Japan involves the following: technical assistance by Japan External Trade Organization (JETRO), Japan Overseas Development Corporation (JODC), Association for Overseas Technical Scholarship (AOTS), and yen loans by Japan Bank for International Cooperation (JBIC) that supports infrastructure building, a prerequisite for trade and investment[38]. An overview of the assistance is as follows:

(1) JETRO

Table 5.3 lists assistance for the Philippines by JETRO. JETRO is an organization that was originally intended for promoting Japanese trade. As a result of the economic globalization, it started providing assistance for enhancement of industrial infrastructure and export capability in developing countries. A prominent achievement related to JICA is the feasibility study in industrial development. JETRO conducted the feasibility study as a consultant formed as a consortium of JETRO and private companies.

[38] Examples of assistance from Japanese government agencies in trade and investment promotion are: JBIC's international finance (export finance, overseas investment), and NEXI's trade and investment insurance. JICA and Institute for International Cooperation, 2003

Table 5-3 JETRO's records in assistance of Philippine trade and industrial development

Trade and Industry Promotion Center Project in Developing Countries (AC Project : Asian Cooperation Project, 1982～2000)	↓ Promotion of local small and medium enterprises - Development of local small and medium enterprises - Spreading appropriate technology of small and medium enterprises - System Standard Technology Information Cooperation Project ↓ Development of Product Export Project - Instruction for Product Improvement - Instruction for Trade Promotion
Supporting developing countries' local industrial basis project (1996～)	Implementation of support for automobile and devices, electric and electronic product and devices sector ↓ Instruction for development of local industries - Dispatch of experts to strengthen basis of industrial activities - Dispatch of technical guidance experts - Support for training of industrial trainers ↓ Promotion of local industrial exchanges - Promotion of industrial exchanges - Holding wide-area industrial exchanges events
Strengthening developing countries' supporting industries project (SI Project: Supporting Industry, 1994～)	JETRO's assistance includes studies on situations of supporting industries, dispatch of experts, acceptance of trainees for development of supporting industry. In the Philippines, JETRO's assistance includes studies, dispatch of experts and acceptance of trainees in such sector as press working and plastic processing.
Participation in JICA's Industrial Promotion Development Study	JETRO organized JV with private companies for studies on Asian export promotion based on the New Aid Plan in 1987 and participated in JICA's development study as a consultant. JETRO conducted studies on mold, wooden furniture, computer software, chemical product, fashion accessory, stuffed toy in the Philippines from 1990 to 1992.
Training of Trade Promotion Organizations' staff (1988～2002)	JETRO invited middle-management executives in Philippine trade promotion organization and implemented training in Japan. JETRO accepted trainees in 1988, 1989, 1991 from the Philippines.

Source: JETRO (2000) "forty-year footprint of JETRO"

(2) JODC and AOTS

Tables 5.4 and 5.5 summarize the past record of dispatch of JODC experts to the Philippines and acceptance of trainees by AOTS.

JODC has sent technical specialists as JODC experts to Japanese-affiliated firms and non-Japanese-affiliated local companies in developmental countries. The dispatch of experts in the service sectors has been implemented in these years, in addition to the textile industry, electric and electronic industry, and a wide range of manufacturing industries such as automobiles and chemical products. The accumulated number of JODC experts between 1979 and 2004 is 349, which is a small number of people compared to Indonesia and Thailand, where more than 1,000 experts have been dispatched.

AOTS has been accepting industrial-technique trainees from foreign countries in order to enhance economic development and friendly relations between Japan and developing countries by furthering economic cooperation. There are a large variety of areas that accept trainees through AOTS. In the case of the Philippines, more than 8,000 Philippine workers were accepted to either domestic or overseas training between 1980 and 2004.

Table 5-4 JODC's TA professionals sent to the Philippines

Year	1979～1988 total	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1979～2004 total
Long-term Experts (number of experts)	69	2	5	3	5	3	5	3	6	5	5	10	4	8	1	3	13	150
Short-term Experts (number of experts)	67	3	1	4	0	0	5	1	4	6	31	23	10	17	17	9	1	199
Total	136	5	6	7	5	3	10	4	10	11	36	33	14	25	18	12	14	349

Note: Short term means less than 1 year. Long term means between 1 year and 2 years. The number marks a record of new dispatch.

Source: Primary data from JODC

Table 5-5 The number of participating AOTS trainees from the Philippines

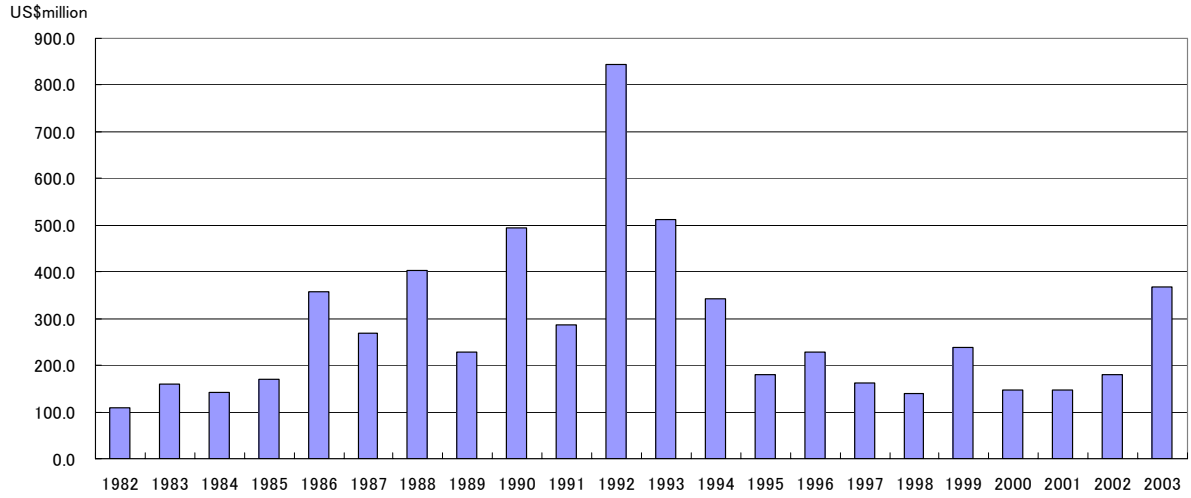
Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1980-2004 Total
Acceptance of Trainees (number of trainees)	71	95	72	80	44	53	37	45	87	117	125	133	215	226	351	332	308	281	371	403	398	419	348	352	250	5,213
Overseas training (number of trainees)	50	0	0	60	0	0	0	0	35	24	135	229	0	99	150	189	258	248	306	149	136	216	60	395	456	3,195
Total	121	95	72	140	44	53	37	45	122	141	260	362	215	325	501	521	566	529	677	552	534	635	408	747	706	8,408

Source: Primary data from AOTS

(3) JBIC

Although it does not offer direct assistance to the trade sector, Japan has taken an active role in cooperation through yen loans to build an economic infrastructure which is integral to trade and investment promotion and industry development in the Philippines. Table 5.6 indicates the transition of provisions of yen loans (net base of expenditure) since 1980. The social-service sectors, including education and the agricultural sector, are included in the entire yen loan. As to the yen loans for the Philippines, They have been fairly provided for infrastructure building such as for electric power, roadways, railroads, harbors, and water and sewage. These are inevitable for economic performance.

Figure 5-1 Annual net outgoing amounts of yen loans to the Philippines



Note: Calendar year, DAC aggregate basis, net base of expenditure

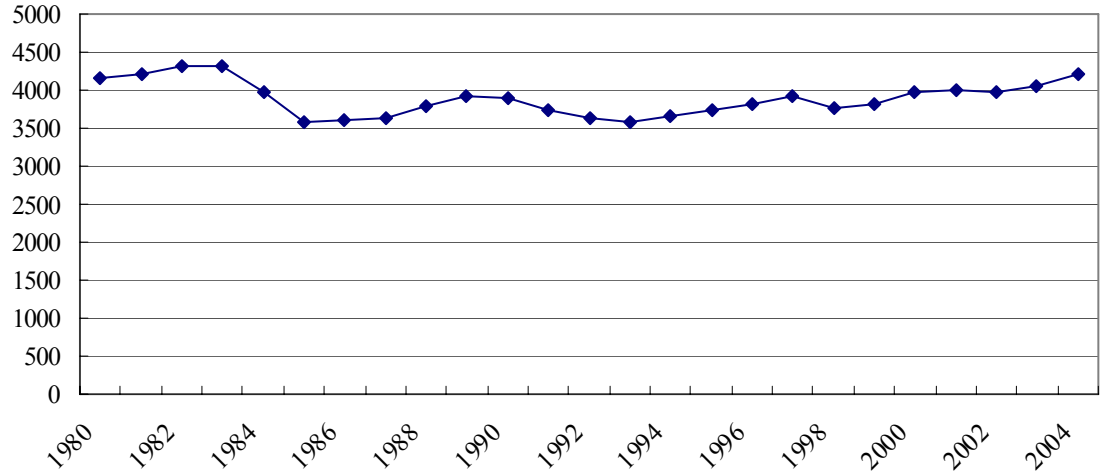
Source: Ministry of Foreign Affairs, ODA Country-by-country data book, Annual

5.2 Economic development, trade, and direct Investment

5.2.1 Economic Development

Philippine GDP per capita based upon Purchasing Power Parity (PPP) has remained at a certain level between the high 3,000 dollars and the low 4,000 dollars since 1980 (real price in 2000). Although the GDP per capita of about 4,000 dollars seems to be a high standard for a developing country, the Philippine socioeconomic level has remained flat over the last 25 years. Also, the Philippines has issues of economic discrepancy between the Manila metropolitan areas and local regions. It is conceivable that the economic level of local areas is far below the standard of 4,000 dollars.

Figure 5-2 Philippine per capita GDP (PPP, Constant 2000 international $)



Source: World Bank, World Development Indicators

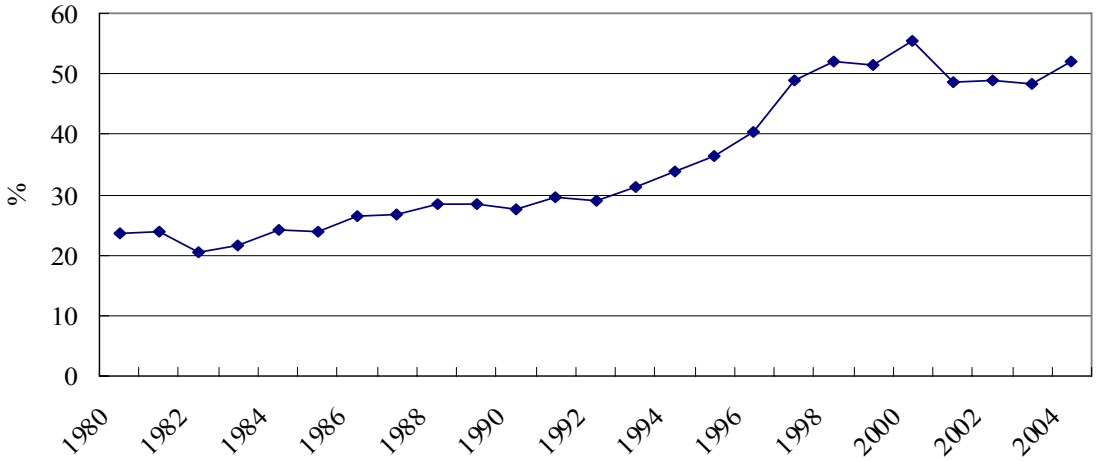
5.2.2 Trade and direct investment

(1) Trade (export)

Figure 5.3 shows transition of the ratio of product and service exportation to GDP in the Philippines. The ratio of exportation that accounts for GDP in the Philippines, which remained around the lower 20% in the early 1980s, gradually increased and exceeded 30% from the late 1980s to the early 1990s. It currently remains at approximately 50% after having rapidly increased between the late 1990s and the 2000s.

The Philippine export structure had widely depended on primary commodities until the early 1970s. Exportation of non-traditional industries such as clothing and electronic components increased in the 1970s. Then, in the early 1980s the ratio of these non-traditional industries rose in ratio to over 50%.

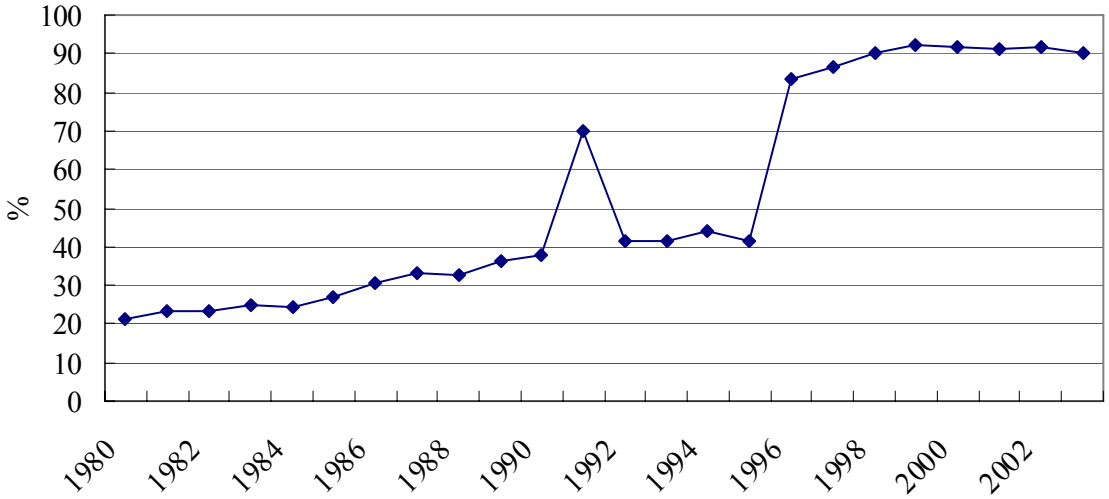
Figure 5-3 The ratio of Philippine product and service export to GDP



Source: World Bank, World Development Indicators

It is considered that Philippine exports saw sluggish growth in the 1980s because it was greatly influenced by the struggling international market of primary commodities at the time. On the other hand, continuous growth of the export of the manufacturing industries such as clothing and electronic components contributed to the modest development of the exports of that time. As a result of the stabilization of the vulnerable political situation in the 1980s and the foreign capital inducement positively initiated by the government, in the 1990s exports shifted favorably against a background of rapid expansion of export-driven industrialization initiated by foreign capital. Particularly in the late 1990s, export of electronic components and products such as semiconductor material and hard disc drives increased with a focus on exporting to the U.S.

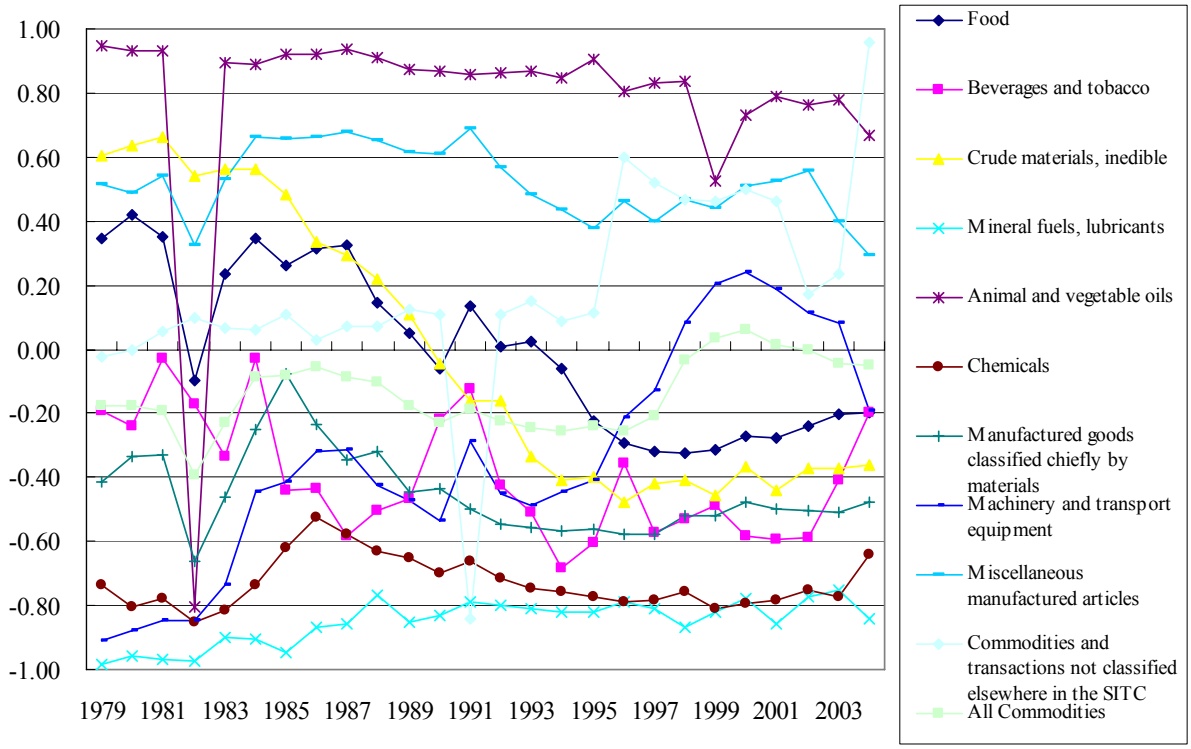
Figure 5-4 Rate of manufacturing sector in Philippine export



Source: World Bank, World Development Indicators

Growth of the manufacturing export in the 1990s is reflected in the transition of the export ratio of the manufacturing industry that accounts for commodity export. Export of electronic and electric equipment and components and auto parts has expanded since the middle 1990s in the Philippines. Because of that, manufacturing export has started taking over more than 80% of the commodity export of the Philippines (Figure 5.4).

Figure 5-5 International competitiveness of Philippine export items categorized by SITC1



Source: United Nations, Commodity Trade Statistics Database (COMTRADE) 2005

Finally, change in the global competitiveness of the Philippine trade sector, especially the sector of manufacturing industry, is examined through fluctuations of the global-competitiveness index [(export-import) and (export+import)]. From among the items presented in figure 5.5, chemical products, manufactured goods classified chiefly by material, machines and transport equipment, and miscellaneous manufactures fall under the category of the manufacturing industry.

It seems that the Philippines has kept a high competitiveness in miscellaneous manufactures (especially in textiles). The Philippines has historically focused on export of light manufacturing outputs for the purpose of an industrialization policy. However, in recent years, the competitiveness index in the textile sector shows a downward tendency, which can be derived from the fact that the competition between the Philippines and advanced developing countries such as China and Vietnam has been toughening, and also from the fact that the industrial structure has been shifting from the textile industry to the electronic and electric industry.

On the other hand, export of machines and transport equipment anchored by the electric and electronic industry has increased its global competitiveness since the 1980s. In particular, the enlargement of the export ratio is notable in the late 1990s. The export of the electric and electronic industry firmed up quickly after its stagnation period when it was hit by the IT slump in the year 2000. The electric and electronic industry showed an excess of imports in 2004 because of the increase in importing electric and electronic components that are assembled in the Philippines. This indicates the enhancement of exporting electric and electronic products of the Philippines.

(2) Direct Investment

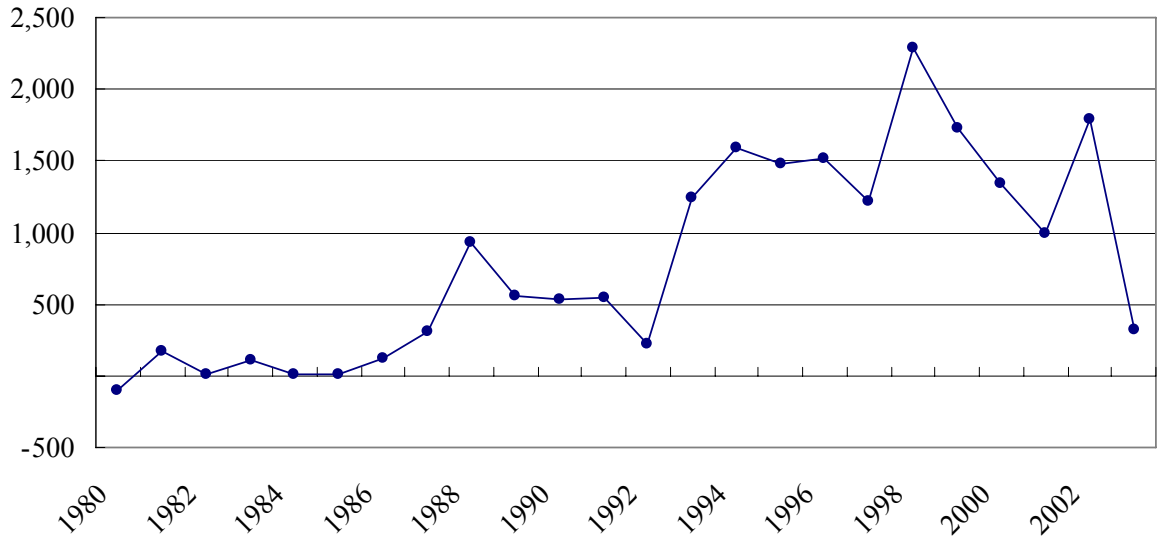
Figure 5.6 shows the net inflow of foreign direct investment into the Philippines. The approved amount of foreign direct investment in the Philippines steadily increased from the late 1970s to the early 1980s. However, then the net amount of direct investment in the Philippines barely grew until

the middle 1980s due to the strained political situation symbolized by the assassination of Benigno Aquino in 1983, and the exacerbated economic situation, such as a boost in prices and unemployment.

The government was stabilized under the Aquino Administration, which replaced the Marcos Administration in 1986, and after this, direct investment from foreign countries showed signs of recovery. The direct investment into the Philippines smoothly expanded with a focus on investment in the manufacturing sector until 1989. However, it decelerated during the presidential election in 1992 because of an aborted coup attempt and natural disasters like the drought, earthquake, and typhoon that struck the Philippines in succession.

The government was stabilized under the Ramos Administration established through an election in 1992. As a result, the Philippines regained the trust of investors. Through the mid 1990s direct investment into the Philippines was positively utilized. Although it slowed due to the influence of the Asian economic crisis in 1998, the inflow amount of foreign direct investment into the Philippines increased through the late 1990s with the IT-related direct investment. However, the worldwide IT slump hit investment in the Philippines, and with the additional destabilization of the political situation, the direct investment slowed down through the year 2003.

Figure 5-6 Foreign direct investment inflow to the Philippines (net inflows, BoP, current US$)



Source: World Development Indicators

5.3 Trade capacity building in firms

5.3.1 Small and medium-sized enterprises (SMEs) and business group

(1) SMEs

As the main scope of this evaluation is a capacity development of local SMEs (manufacturing industry), the corporation sector is reviewed based on the fundamental data of SMEs.

As the table 5.6 describes, the number of establishments and employees in medium-to-large-sized companies (more than 10 employees) increased after the stagnation period of the mid 1980s. The amount of added value has been consistently increasing as well.

As to small companies, the number of both business establishments and employees indicates exceeded growth compared to medium-to-large sized companies since 1988. The value-added amount has been in a stagnation period after the mid 1990s. Small companies have an overwhelming share of the number of establishments, which is 87.3%, while the number of employees undergoes a transition below about one-fourth and the value added never exceeded 5%.

Table 5-6 Establishments, employees, and the value added by size of firm in the Philippine manufacturing industry

	Number of establishments				Number of employees				Value added			
	Large / Medium		Small		Large / Medium		Small		Large / Medium		Small	
1983	5,733				700,894				55,477,503			
1984	5,435				645,516				68,766,417			
1985	5,369				623,671				79,020,469			
1986	5,294				636,219				97,747,092			
1987	5,000				675,206				105,382,060			
1988	11,488	15.2%	64,147	84.8%	856,951	78.5%	234,428	21.5%	133,823,686	97.0%	4,075,974	3.0%
1989	10,154	13.1%	67,651	86.9%	949,488	78.6%	258,311	21.4%	160,021,700	95.4%	7,747,538	4.6%
1990	10,446	12.5%	73,379	87.5%	932,999	76.0%	294,853	24.0%	206,419,446	95.9%	8,790,114	4.1%
1991	11,426	12.9%	76,872	87.1%	946,094	76.6%	289,060	23.4%	239,661,293	95.7%	10,639,422	4.3%
1992	11,764	12.8%	80,022	87.2%	968,628	75.6%	312,704	24.4%	269,100,537	96.2%	10,529,499	3.8%
1993	11,005	12.1%	80,131	87.9%	908,686	74.1%	317,896	25.9%	299,147,649	96.4%	11,013,169	3.6%
1994	10,726	11.6%	81,544	88.4%	895,252	75.7%	287,630	24.3%	325,083,594	95.6%	14,921,601	4.4%
1995	10,219	10.6%	86,484	89.4%	911,319	74.4%	313,019	25.6%	394,018,898	95.6%	18,158,247	4.4%
1996	13,526	12.6%	93,530	87.4%	1,062,985	75.1%	352,798	24.9%	498,310,513	96.3%	19,112,766	3.7%
1997	14,734	12.7%	101,052	87.3%	1,109,676	74.4%	382,610	25.6%	558,643,874	97.0%	17,527,053	3.0%

Source: Republic of the Philippines (2001) Philippine Statistical yearbook

Table 5.7 presents newer data since 2000. As to the number of business establishments, there is no big difference compared to the transition indicated in the table 5.6. As to the number of employees, the ratio of small companies that had increased until 1997 decreased to the level of the late 1980s until 2003[39].

[39] The share that accounts for the whole export of SMEs cannot be obtained from any statistics

Table 5-7 Share of each size of enterprises in the number of business establishments, new employment, and added value in the Philippine manufacturing sector

	Number of Employees	Share in total (%) (Establishments)	Share in total (%) (Employees)	Share in total (%) (Value added)
2000	Employee: 1～9 Asset: ～3 million Peso	86.9	22.3	N.A.
	Employee: 10～99 Asset: 3 million Peso～15 million Peso	11.3	22.3	N.A.
	Employee: 100～199 Asset: 15 million Peso～100 million Peso	0.9	9.5	N.A.
	Employee: 200～ Asset: 100 million Peso～	1.0	45.9	N.A.
2003	Employee: 1～9 Asset: ～3 million Peso	88.2	21.5	N.A.
	Employee: 10～99 Asset: 3 million Peso～15 million Peso	9.9	18.0	N.A.
	Employee: 100～199 Asset: 15 million Peso～100 million Peso	0.8	8.7	N.A.
	Employee: 200～ Asset: 100 million Peso～	1.1	51.7	N.A.

Source: National Statistics Office, "Annual Survey of Establishment" [2000 and 2003 editions are obtained from Bureau of Small and Medium Enterprise Development (BSMED) of Department of Trade and Industry (DTI)]

(2) Business groups

This section introduces activities of the Philippine Chamber of Commerce and Industry (PCCI) as a dominant economic organization.

The current PCCI was established through an affiliation of the Chamber of Commerce of the Philippines and the Philippine Chamber of Industry in 1978. It consists of 102 local chambers of commerce and industry and 142 industry organizations. 18,000 SMEs are affiliated with the PCCI. In addition, cooperative members from 18,000 companies are also associated with it. The main activities of the PCCI are policy recommendation and service provision to the members. Regarding policy recommendation, the PCCI has connections between government agencies such as the National Economic Development Authority (NEDA) and the Department of Trade and Industry (DTI). As to providing services to the members, the PCCI holds trade fairs and facilitates a dispatch of missions to promote exports. Because a large number of SMEs that account for more than 90% of all companies in the Philippines are located in local areas, the PCCI is focusing more on relations with the local governments than with the central government as partners in trade promotion projects.

5.3.2 Trade capacity building of the private sector

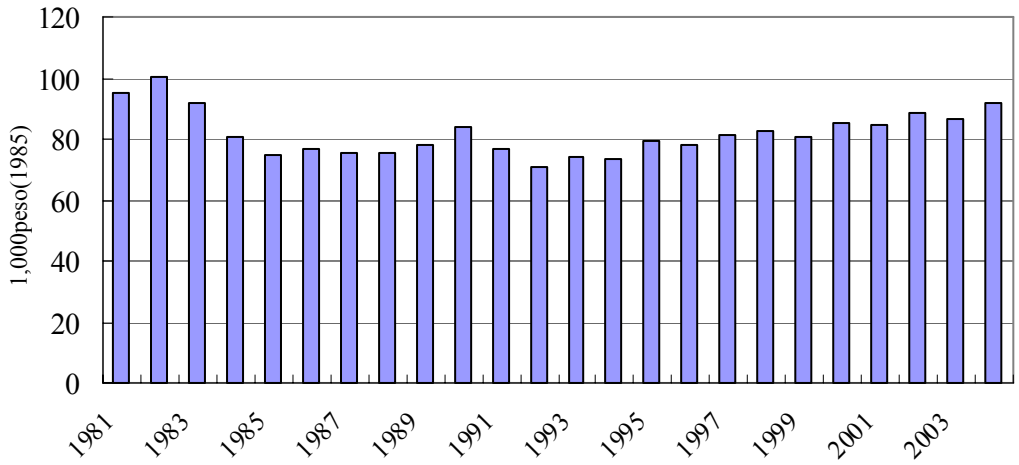
This section analyzes the developmental process of export capacity in a cooperative sector. It is defined that the export capacity of companies consists of 3 factors: "policy and measures ("P" factor)", "human resource and organization("R" factor)", and "knowledge and skills("K" factor)". Alternative indicators for these factors are selected as follows: an alternative indicator for "policy and measures ("P" factor)" is the labor productivity of the manufacturing industry (amount of added value/number of employees); "human resource and organization ("R" factor)" is the ratio of employees in the manufacturing industry that accounts for all employees; and "knowledge and skills ("K" factor)" is the gross ratio of secondary-education enrollment.

While selecting these alternative indicators, we attempt to understand potential capacity in other companies as well as in currently exporting companies. As for "policy and measures ("P" factor)",

labor productivity resulting from action is adopted because it is difficult to set indicators that evaluate actions that are comprehensively implemented by companies. Also, due to the limitation of the data, "policy and measures ("P" factor）" and "human resource and organization ("R" factor）" target not only SMEs but also whole manufacturing companies, and "knowledge and skills ("K" factor）" selects general indicators including other industries as well as the manufacturing industry. In spite of the limitation, it is conceivable that each index keeps relevance to a certain extent.

The Philippines has grown distinctively stagnant in indicators compared to other countries. The labor productivity has yet to retrieve its standard after reaching its peak in 1982. The level of labor productivity has also been low. For example, the labor productivity of the Philippines in 2000 converts to 6,045 US dollars at the going price, while Japan's is 73,864 dollars in a similar conversion[40]. Though the Philippines shows higher labor productivity compared with the standard of Indonesia in that year (3,932 dollars), the price gap is large in any case.

Figure 5-7 Labor productivity of the Philippine manufacturing sector



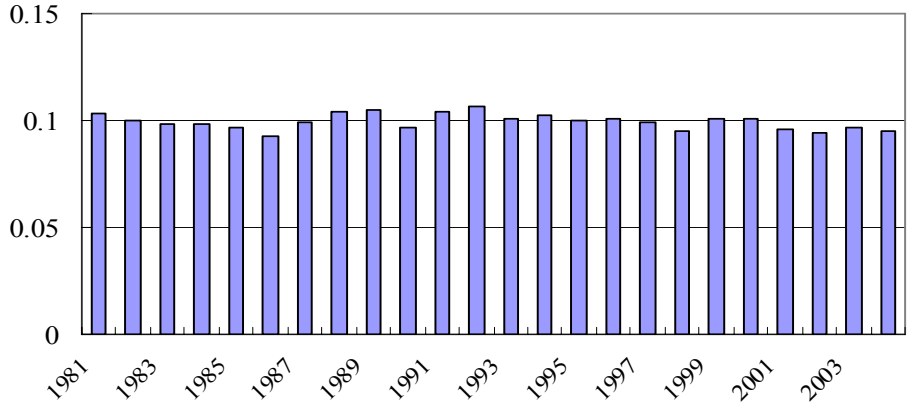
Source: ADB Key Indicators

As for the employee ratio, this undergoes a transition of around 10%. The attempt to create new employment through the facilitation of business promotion, including small businesses, has not sufficiently paid off. The productivity of Indonesia, which was below that of the Philippines in the early 1980s, went over 10% in the early 1990s, and since then has shown around 10% to 15%, which excels the productivity of the Philippines. The standard of employee ratio in the Philippine manufacturing industry is the lowest among the target countries, which points to the existence of large discrepancies in comparison with the industrialization of advanced countries[41].

[40] Derived from the data of Statistics Bureau Ministry of Internal Affairs and Communications (2006)

[41] Japan had already reached 30.7% in 1962, and reached a peak of 36.6% in 1973. Then, with shift into tertiary industries, the employee ratio decreased to 27.5% in 2004.

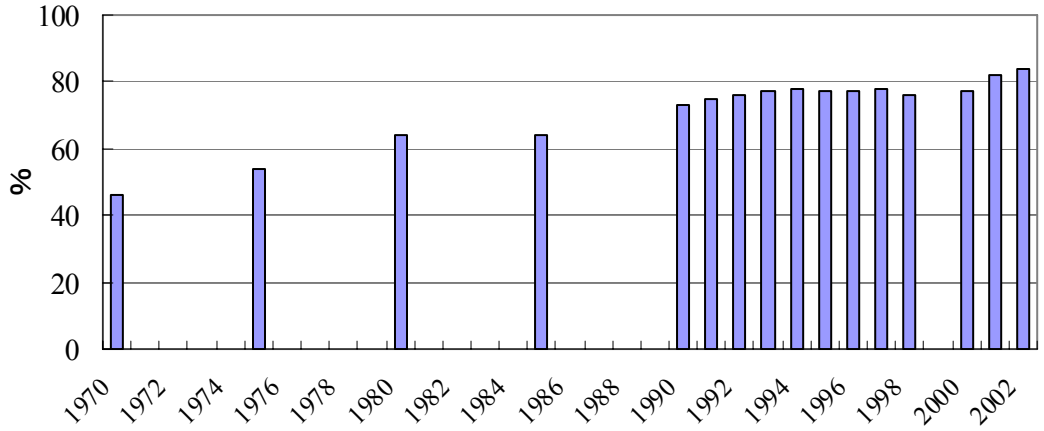
Figure 5-8 The proportion of employees in the manufacturing sector in the Philippines



Source: ADB Key Indicators

The gross ratio of secondary-education enrollment indicates a relatively high level since the 1970s, and it has risen above a major mark of 80% from 2000 onwards. This seems to be favorable when compared to other indicators. Though it has not yet reached the standard of advanced countries[42], the achievement is valuable. However, the accumulation of "knowledge and skills" has not been sufficiently reflected in the capacity development of "human resource and organization" and "policy and measures".

Figure 5-9 The secondary school enrollment the Philippines



The data is not available for 1971,1974,1976~1979,1986~1989,1997,1998
Source: Global Education Database

Not only three indicators covering the private sector, at corporate and industrial levels, the promotion of SMEs and supporting industries and export performance seem to be worse than in other target countries. Taking these prospects into account, the export enhancement system is still in the process of its development.

[42] The gross ratio of secondary-education enrollment of advanced countries in 2000 is as follows; Japan 100%, Canada 98%, England 95%, France 92%, Korea 91%, Australia 90%, Germany 88%, and the USA 87% (Global Education Database)

5.3.3 Self-analysis of trade capacity by enterprises

In the questionnaire survey implemented as part of this evaluation, responding companies were requested to evaluate their own competitiveness. Based on this questionnaire survey, the current situation of export capacity of SMEs is examined as follows.

While SME indicates a company that employs fewer than 200 people in the case of the Philippines, in this survey, SMEs are selected based on the World Bank standard of fewer than 300 people in terms of comparison with other countries. (Hereinafter, SME means a company with fewer than 300 employees.)

(1) General overview of recipient companies

The questionnaire survey in the Philippines was conducted from September to October 2005 for 500 companies that were selected carefully in an industrial classification based on the corporation directory made by the Department of Export Promotion and Philexport. A total of 124 companies replied. Among these responding companies, 77 out of the total of 113 companies that existed as of the year 2000 and 78 out of the total of 124 companies that existed as of the year 2004 are SMEs[43]. Attribution of these companies is outlined below, in which parameters of (a)business model, (b)industry, (c)major export destination ,and(d) foreign-capital ratio are analyzed based on the results of the questionnaire survey.

(a) Business model

Regarding business configuration, the questionnaire asked the companies to choose a matched classification from (1) manufacturing-direct exporter (2) manufacturing-indirect exporter (3) non-manufacturing-exporter, and (4) others. In response to the question, 69.0% of the total responding companies answered as (1) manufacturing-direct exporter, 16.7% as (2) manufacturing-indirect exporter, and 9.5% as (3) non-manufacturing-exporter.

Regarding answers from SMEs on the same questions, as of 2004, 66.32% answered as (1) manufacturing-direct exporter, 18.36% as (2) manufacturing-indirect exporter, and 10.20% as (3) non-manufacturing-exporter. In other words, manufacturing and direct exporters account for more than 65% of both all companies and small-to-medium-sized responding companies.

(b) Industry

The industrial sector of responding companies has spread over almost all areas. As a whole, the number of companies in the 4 machinery areas is small. The ratio of light industry such as textile, clothing, and wood product is high. The ratio of food processing manufacturers is also high. Examining the breakdown of the rest, as responded by many companies, the light industries like furniture and handcrafts account for a high rate.

[43] As for the questionnaire items below, the total number of responses is not consistent with the number of companies because some companies failed to make valid responses to all questions and also several answers were accepted for some questions.

Table 5-8 Industries reported in answers (2004)

Company Scale	Food	Apparel and textile	Pulp and paper	Chemical	Medical goods	Petroleum and coal product	Wood product	Rubber product	Glass, soil and stone product
Small and Medium (under 300 people)	18	16	5	3	0	0	19	2	3
Large (more than 300 people)	2	7	3	0	0	0	4	1	2
Company Scale	Iron and steel	Nonferrous metal	Metal products	General machinery and parts	Electric equipment and parts	Transport equipment and parts	Precision equipment and parts	Others	Total
Small and Medium (under 300 people)	3	2	9	0	0	3	0	33	116
Large (more than 300 people)	0	0	2	0	0	0	0	6	27

Source: The questionnaire interview by the study team

Table 5-9 Detailed categorization of "other" in 2004

Breakdown of Others (Medium and Small Companies)

Types of Industries	
Handicraft	5
Accessories	5
Interior accessory	4
Caps,Hats	2
Bags,Baskets	1
Bags, houseware	1
Bamboo furniture	1
Electronics	1
Phones	1
Houseware	1
Dolls	1
plastic packaging	1
Tin can	1
Hand painted canvass	1
Virgin coconut oil	1
Aqua feeds	1
House plant	1
Garments	1

Breakdown of Others (Large Company)

Types of Industries	
Handicraft	1
Interior accessory	1
Leaf tobacco	1
Dinnerware	1
contact image sensor	1
Basket, lampshade	1

Source: The questionnaire interview by the study team

(c) Export destination

North America is the most selected region as an export market by either all companies or SMEs. For the Philippines, the U.S. is the largest destination for export, which is consistent with the result of this survey. Other than North America, ASEAN, Japan, the Middle East, East and West Europe, and Central and South America are most selected.

Table 5-10 Answers for major trade destinations in 2004

Major export market	Small and medium companies	Total
ASEAN	26	30
Japan	25	31
China	14	14
South Korea	7	7
Central Asia	2	2
South Asia	4	4
Middle East	15	17
Western Europe	30	41
Eastern Europe	17	21
Africa	4	5
North America	50	70
Central and South America	27	32
Oceania	7	8

Source: The questionnaire interview by the study team

(d) Foreign Ownership

As to the foreign-capital ratio of these companies, 64 companies (about 77% of all responding companies) were local companies that have 0% of the foreign-capital ratio. For SMEs, the ratio of local companies was relatively high, and 8 companies (82%) have 0% of the foreign-capital ratio.

Table 5-11 Foreign-capital ratio of the responding companies (2004)

Small and medium Companies	Foreign capital ratio	0%	15%	40%	70%	80%	90%	95%	99%	100 %	計
	Number of companies	64	1	2	1	1	3	0	1	5	78
Large Companies	Foreign capital ratio	0%	15%	40%	70%	80%	90%	95%	99%	100 %	計
	Number of companies	8	0	1	0	0	0	1	2	3	15

Source: The questionnaire interview by the study team

(2) Analysis of export capacity of SMEs based upon questionnaires

This survey required self-evaluation regarding the corporation's competitiveness. Responding companies were asked to consider four items; (1) production, (2) product development, (3) marketing, and (4) trading business, from the perspective of (a) overall competitiveness, (b) the number of experienced and skillful staff, and (c) skill and know-how. The answers were derived with the presumption that (b) the number of experienced and skillful staff and (c) skill and know-how are important factors that build (a) overall competitiveness. The survey does not necessarily indicate the objective standard of the companies' export capacity because it was a self-evaluation by each company. However, changes during the period can be presumed from the differences between 2000 and 2004, and the relative standard of capacity development from the result of 4 items x 3 factors.

When comparing the answers of 2000 and 2004 and the approximate average of all survey results, the evaluation as of 2004 indicates improvements in almost all items and factors if compared to those of 2000. However, individually many companies evaluate 2000 and 2004 the same. Many companies consider their own competitiveness to be at the same level as that of other domestic companies in the same trade. The ratio of answers in which the company claims international competitiveness or the top level of competitiveness in the country is not a small portion, but not so large.

When looking at each factor of capacity (competitiveness, the number of experienced and skillful staff, and skill and know-how), production and product development are relatively high and marketing and trading business are low in both 2000 and 2004. On the other hand, considering the evaluation of [competitiveness], [the number of experienced and skillful staff], and [skill and know-how] through each company's viewpoint of production, product development, marketing, and trading business, production and product development show [skill and know-how] > [the number of experienced and skillful staff] ≧ [competitiveness]. Therefore, it seems clear that the technical know-how and human resources that have built up inside companies have not necessarily resulted in greater competitiveness.

Table 5.12 presents companies selected based on their high performances (positive increase) in terms of an increase in sales and export value between 2000 and 2004. It also shows self-evaluation of the aforementioned companies. In this table, the upper half shows companies that have high self-evaluation (companies that put 5 on at least one item or factor) and the lower half shows companies that have relatively low self-evaluation (do not put 5 on any evaluations).

Regarding correlation between export performance and self-evaluation of capacity, the analysis of the questionnaire survey conducted in Indonesia, which was mentioned in chapter 3, indicates that companies having high export performance and exporting high-quality products estimate higher on self-capacity. Companies that have high export performance but export low-quality products show a tendency to estimate lower on self-capacity.

From the questionnaire survey for the Philippines, on the other hand, a similar tendency is not clearly perceived. For instance, "Company 24" from the table 5.12 produces and exports parts for two-wheeled vehicles and exports high-quality products. It marks 4 (meaning the top class within the country) on the number of experienced and skilful staff in manufacturing, but other than that, it marks less than 3 on other items. In the marketing section, it marks 2 (meaning inferior to other shareholders) on the number of experienced and skillful staff and know-how. In light of these evaluations, "Company 24" seems to efficiently produce designated spec products and export them to specific contractors along the lines of fixed procedures. Based on the analysis of the answers it is speculated that manufacturing capacity is highly evaluated rather than capacity in trading business, and export is expanding due to demand. Meanwhile, as seen in "Company 13", some companies have increased 150% in sales and 100% in exports during the past 4 years, though they mark 3 (meaning equivalent to other shareholders) on all items and factors. This indicates that development of capacity (based on self-evaluation) is not always a prerequisite of improvement in export performance.

Also, there are some companies that have high self-evaluation but whose performances have been deteriorating. For example, there is a company which exports interior decorations. The company marked 5 on capacity as of 2004 in manufacturing, product development, marketing, and trade business, but sales in fact decreased 17% from 200 to 2004. Also, a company exporting pearl adornments marked 5 on manufacturing and skill and know-how of product development as of 2000 and as of 2004, but its exports were down by half from 2000 to 2004.

As just described, according to this questionnaire survey, it turns out that (self-evaluated) capacity

development does not necessarily result in enhancement of export performance, though many companies seem to have improved self-capacity from 200 to 2004. In other words, as to companies responding to this survey, it is conceivable that, in addition to their own capacity, demand and market condition had a great influence on their export performance.

Table 5-12 Answers on export performance and self evaluation on trade capacity

Company	Products (2004)	Sales amount (1,000 peso)			Export Value (peso)			Production		Product Development		Marketing		Trading business	
	Items	2000	2004	Increase	2000	2004	Increase	Number of Skilled/Specialized Staff	Technology/ Know-how	Number of Skilled/Specialized Staff	Technology/ Know-how	Number of Skilled/Specialized Staff	Technology/ Know-how	Number of Skilled/Specialized Staff	Technology/ Know-how
Compnay 1	bamboo furniture	1,800	14,000	678%	1,300	14,200	992%	3	4	4	5	4	4	4	4
Compnay 2	fashion accessories	25,000	126,000	404%	25,000	126,000	404%	4	5	5	5	5	5	4	4
Compnay 3	nata de coco	300	1,300	333%	225	700	211%	4	4	5	4	4	3	4	3
Compnay 4	food mixes and sauces	216,000	411,000	90%	132,000	256,000	94%	5	5	5	5	5	5	5	5
Compnay 5	coco milk/nata de coco	30,000	50,000	67%	30,000	50,000	67%	5	4	4	4	4	4	4	4
Compnay 6	gift boxes	12,000	19,000	58%	1,750	9,072	418%	4	4	5	4	4	4	4	4
Compnay 7	buntal hats	600	950	58%	600	950	58%	5	5	4	4	4	4	4	4
Compnay 8	local woods	3,000	4,000	33%	3,000	4,000	33%	5	5	5	5	5	5	5	5
Compnay 9	home décor	150,318	199,800	33%	150,318	199,800	33%	5	5	5	4	5	5	4	4
Compnay 10	hand painted canvass	2,000	2,500	25%	1,965	2,090	6%	4	5	5	5	5	5	5	5
Compnay 11	paint	650,000	703,000	8%	1,500	22,000	1367%	4	5	4	4	4	4	4	4
Compnay 12	bamboo furniture	1,400	8,300	493%	1,700	8,500	400%	4	4	4	4	4	4	4	4
Compnay 13	home décor	1,000	2,500	150%	1,000	2,000	100%	3	3	3	3	3	3	3	3
Compnay 14	metal, wood handicrafts	2,000	5,000	150%	30,000	55,000	83%	3	3	4	4	3	3	3	3
Compnay 15	bags/baskets	986	2,186	122%	986	2,186	122%	4	4	4	4	4	4	4	4
Compnay 16	leather gloves	14,414	31,724	120%	14,414	30,724	113%	4	4	4	4	4	4	4	4
Compnay 17	sports apparel	100	200	100%	150	250	67%	3	4	3	4	3	4	3	4
Compnay 18	rubber pots	5,433	9,249	70%	23,280	34,954	50%	3	4	3	4	3	4	4	4
Compnay 19	furnitures	5,000	8,000	60%	5,000	8,000	60%	4	4	4	4	4	4	4	4
Compnay 20	native processed food	1,200	1,800	50%	1,000	1,200	20%	3	3	3	3	3	3	3	3
Compnay 21	handicraft	17,500	26,400	51%	17,500	26,400	51%	3	2	4	3	3	2	3	2
Compnay 22	condiments	112,000	165,000	47%	15,000	15,000	0%	3	3	3	3	3	3	3	3
Compnay 23	talahib stick, sea shells	3,500	5,000	43%	322	1,705	430%	4	4	3	4	3	4	3	4
Compnay 24	parts of motorcycle	12,000	14,000	17%	8,000	9,500	19%	4	3	3	3	2	2	3	3
Compnay 25	caps	1,800	2,100	17%	1,650	1,925	17%	4	4	4	3	4	4	4	4
Compnay 26	children's and infant's wear	167,655	186,283	11%	167,655	186,283	11%	3	3	4	4	4	4	4	4
Compnay 27	lingerie	2,551	2,728	7%	1,439	1,877	30%	4	4	4	4	3	3	4	4

Source: the author

Column3: Case studies of the Philippine enterprises

In this research, an interview survey was conducted along with the questionnaire survey for the Philippine companies. Based on the interview survey, the case examples of export trend and export capacity of the Philippine companies are summarized as follows.

1. Philippine Company A (location: Manila, major export: handicraft)

The company. was established in 1996 with a 100% local capital, but the company existed before then. The current chief executive explained the reason as described below. She used to work with the former CTC Export Philippines, Inc. as a local buyer representative for a French buyer. However, since 1993, the former company has broken down and the former CEO run away with the facility and workers left behind. As a result, she took over the management of the company.

The company sells and exports handicrafts made of wood, bamboo, rattan, indigenous materials. These products can be seen at the company's website. Italy, France, Greek are the major markets. Export for East European countries such as Poland and Czech Republic, Turkey, and UAE has started. As for Japan, though the company sent some samples which were requested via web, it has not closed a contract with Japanese buyers.

The number of workers has increased in the past 5 years, and the job separation rate has been low. Most workers make articraft. The company requires these workers have completed primary and secondary education due to the need of read/write, but it does not request the higher educational level. In the export part, the company has rarely used the assistant services from the Government. Although the company has started providing information via web, it has not been able to evaluate the effectiveness of the web and decide whether it needs amelioration.

The company also answered that they felt private economic organizations has started providing a variety of export assistance since 2004. The company said it heard about the situation; under a project of Canadian International Development Agency (CIDA), CIDA has started focusing on functional reinforcement of the intermediate organizations. Competitiveness, level of workers, skill and know-how of this company has improved in the past 5 years, which is mostly based on its self-efficacy.

2. Philippine Company B (location: Manila, major export: metal products)

The company was established in 1981. The company produces and exports metal and plastic products. It is also a SME with a 100% local capital. The company mostly supplied the products to foreign companies in export processing zone as of 1999, but recently the direct export has been increasing. Its export dimension has also enlarged in the past 5 years. The company has obtained "ISO9001" because the destinations for export such as Japanese companies have cared about it. The chief executive complained that it has been difficult to assure benefits of the metal products because the price of the products made based on the specifications of the delivered companies has been cutting down every year. The company also makes plastic products by using its metal molding techniques and sells the products via own roots, which shows higher profit rate.

The company does not evaluate the government's project about export assistance services. It thinks that the government does not work on fosterage of local SMEs, especially in manufacturing business. From its perspective, the government seems to give too much focus on service industry and IT industry. It says the current government's services are less valuable compared to the previous ones. In other words, the company stopped using the government's programs and seminars because they were too general to answer its specific needs. The company is dissatisfied with the services from private agencies as well. Rather, it acquired its know-how through supports from foreign assistance organizations and self efforts. For example, the company has attended the programs of Japan AOTS, Holland CBI, Germany GTZ, and Canada CIDA. The company says that it participated in trade fairs in Hanover three times in the past with the assistance from GTZ, and this experience was helpful to develop products and facilitate marketing.

The chief executive of this company is not a technical expert, but teaches how to develop and design products (with using 3 dimensional CAD) to the employees. (Though, there are many cases that the employees change occupations after mastering these skills.) The chief himself attends trade fairs to learn the standard of international market and the technique level of foreign fellow-traders, and use that experience for developing the products and promoting the manufacturing efficiency.

5.4 Capacity building of the government to expand Philippine export

5.4.1 Government agencies provide service related to export

The government relation to the main trade is summarized in the table 5.13. Though each main regulating authority is listed for its role, the Department of Trade and Industry (DTI), which has primary control over establishment of the trading policy and maintenance of the operation, is the important player.

Table 5-13 The list of government agencies related to Philippine's international trade

Government function in trade sector (Large items)	Government function in trade sector (Small items)	Examples	Regulating authority
Establishing Basic Conditions	Legal System Development for Commercial Transactions	Development of Civil laws, Commercial laws, Registration laws, Rehabilitation, reorganization and Bankruptcy law, Antitrust law, Immigration law and alien registration law	
	Provision of Economic Infrastructure	Transportation Infrastructure, Electricity generation, Transmission and Distribution Infrastructure, Telecommunication Infrastructure, Financial System, Standards and conformity Assessment System, Intellectual Property Rights, Statistics	Ministry of Transportation and Communications
	Creation of Business Environment for Domestic Industries	Various forms of deregulation to promote new entries into the market, Establishing financial institutions, Promoting research and development activities, Supporting business services for small and medium enterprises	BSMED
	Industrial Human Resources Development	Human resources development for science and mathematical education, as well as information technology education at elementary and intermediate levels of schooling, and High level specialized skills, English education, Certified engineers systems, Vocational training and job matching	PTTC, Ministry of Education
Establishing System for Formulating Trade-related Policies and Institutions and their Proper Implementation	Formulation and Implementation of Industrial and Trade Policies Based on Medium- to Long term Perspectives	Formulate and implement their industrial and trade policies and implement WTO agreements	Office of Policy Research (DTI)
	Establishment of Trade related Laws, Regulations, and Institutions	Basic Laws on Export and Import, Basic Laws on customs, Import-related laws （Quarantine Law), Export processing zone, Trade-related financial system(Trade insurance, export finance), Establishment of export promotion organization	Office of Policy Research (DTI)
	Trade-related procedures	Test, Inspection, Custom, Quarantine	BIS（DTI）
Export support service	Providing information on the overseas markets	Organizing marketing seminar, trade shows and exhibitions of products	CITEM, PTTC, BSMED, BETP
	Providing information on Foreign and domestic trade procedures, Incentives	Foreign trade system, procedure and business custom, Information on incentives, Strengthening of functions of trade promote organization	CITEM
	Fostering Viable Private Sector	Management and technical guidance, Training for Product development and agrotechny	PTTC, BSMED, CMDF, PDDCP

Source: Japan International Cooperation Agency, 2003

(1) Department of Trade and Industry (DTI)

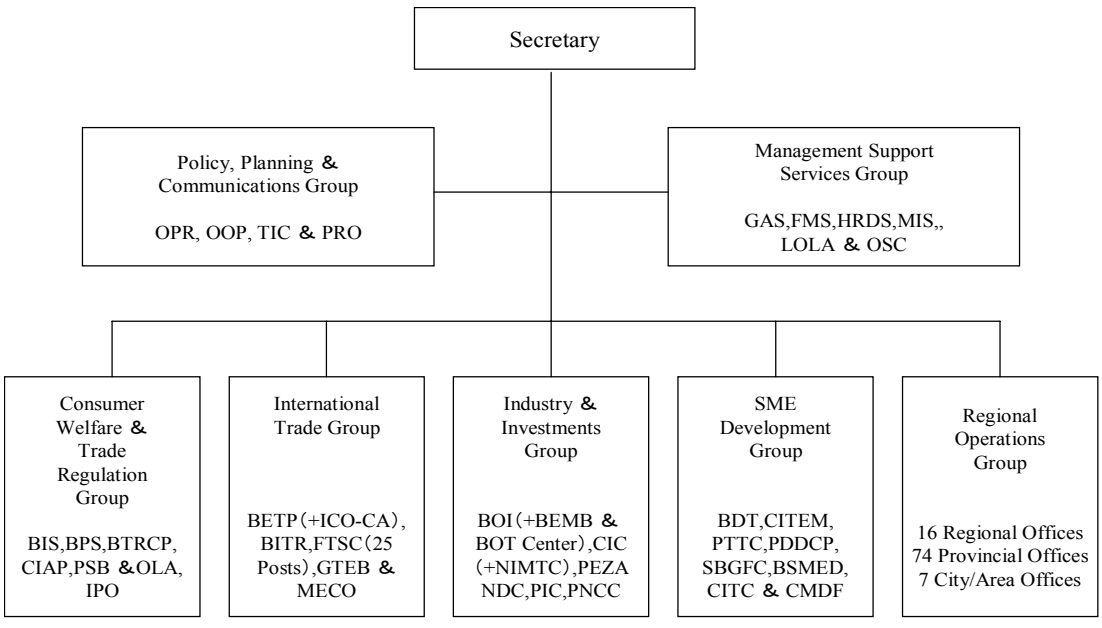
The Department of Trade and Department of Industry affiliated in 1981 and become DTI. As of

August 2004, the number of employees was 4,484, which is 73% of the fixed number of 6,122.

Figure 5.10 presents the organizational chart of DTI. In addition to the 6 groups of line departments; consumer welfare, trade restriction, international trade, industry and investment, development of SME, and local jobs, DTI consists of 2 groups of staff departments; policy and planning and press release and management supporting services.

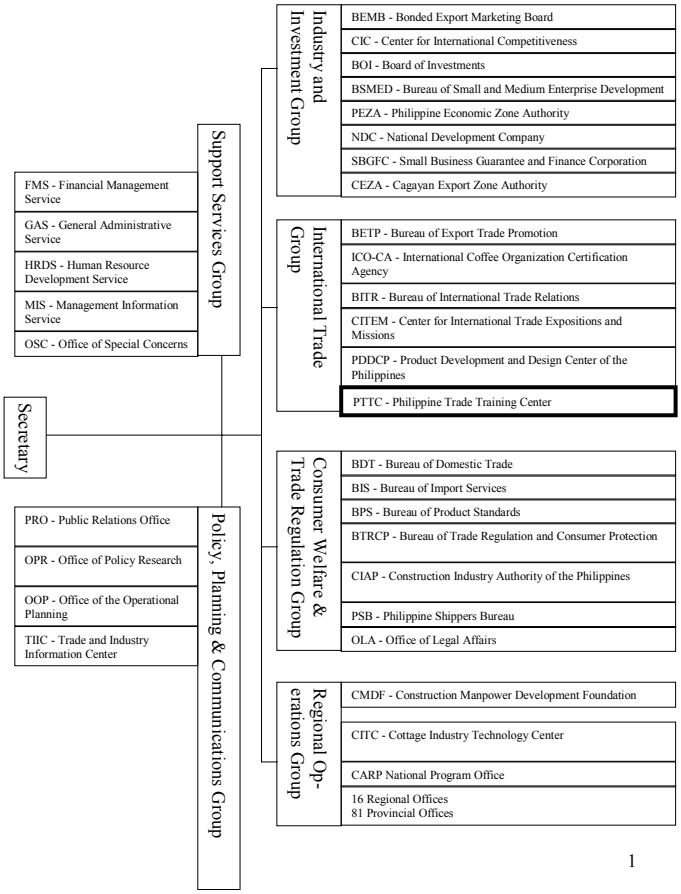
The group for promoting SME was constituted in 2004. Related organizations from the 3 groups of consumer welfare, trade restriction, and industry/investment take part in that group (Figure 5.11; see the organizational chart before reform). In relation to this survey, it is remarkable that PTTC, CITEM, and the Product Development and Design Center of the Philippines (PDDCP) have moved from the international trading group. The focus on fostering export-driven companies as a goal to promote SME is reflected in the organizational restructuring. However, some say the constitution of SMED Group does not necessarily have much impact on the day-to-day operations. It is necessary that an organization belonging to the Industry & Investment Group become more export-oriented in order to work on organizational restructuring.

Figure 5-10 Organizational structure of Philippine Department of Trade and Industry (DTI) (2004 revision)



Source: DTI

Figure 5-11 Organizational structure of Philippine Department of Trade and Industry (DTI) (2004 pre-revision)



Source: DTI

After the inauguration of the Aquino Administration in 1986, the Philippine government established omnibus investment in 1987 and enlarged the investment incentive to promote foreign capital inflow. Along with the Medium-Term Economic Development Program (1987-1992), DTI announced the political outline for industrial development named “Development and Industrialization: Our Vision” in 1989. The main measures of this vision were the development of local small companies, the promotion of domestic commerce and price stabilization, the facilitation of industrial development investment, and the reinforcement of the export sector.

In response to this vision, the policy/organization/plan related to SME and export promotion was organized. In 1991, the “Great Charter” was endorsed by the president in order to implement an SME agenda such as financial, technical, and management guidance. The Council for the Development of Small Companies was established thereafter. Then, the SME Development Strategy

was created in 1998. In accordance with this, the National SME Development Plan was introduced in 2002. The reinforcement of industry linkage, enrichment of financial support, and efficiency of measures are listed as main parameters.

Currently, the National SME Development Plan 2004-2010, which is a replacement plan, is being implemented. In this plan, contribution to the export development is listed as a goal of strategy development. SME development and export promotion are distinctly connected to the development[44]. Currently, creation of an action plan is being implemented in response to the plan.

On the other hand, as to the export promotion, we find enforced the creation of the Export Development Plan, the establishment of the Export Development Council that monitors the practice of the plan, and the export development law defining the preferential treatment to companies engaging in export business. The Export Development Plan is continually revised as the new plan is made every 3 years.

Hereinafter, activities of related departments in DTI are mentioned.

(2) Center for International Trade Expansions and Missions (CITEM)

The CITIM, established in 1983, provides support mainly to SEMs by organizing trade fairs and exhibitions both at home and abroad. It conducted 32 events in 2005, and beyond this, it conducts various activities such as company/market developing programs, product/technique consulting programs, and recognition of exporting companies. CITIM also made the first proposal on PTTC. Due to the limitations on manpower and estimated costs, it seeks cooperation from the aid agency. For example, the fixed number of employees is 194 but the current number is only 130. The budget increased from 50,000,000 pesos in 1998 to 90,000,000 pesos in 2004, which does not indicate business enlargement because it only compensates for the loss of currency exchange. Also, CITIM has a limited function compared to trade promotion agencies in other 3 countries. For instance, it has no choice other than depending on DTI attaché because it does not have its own bases in foreign countries.

The Bureau of Export Trade Promotion (BETP) is an international trade group of CITIM. While CITEM provides exclusive services for its users, BETP operates widely to analyze information and promote exportation. BETP plays a role in connecting foreign support agencies and private

[44] Productivity development, production and sales enhancement, and new business are also listed.

organizations.

In an interview for economic organizations, the following opinion was expressed; the two functions of trade promotion by CITEM and training by PTTC are more efficient and effective if implemented through one organization. Dividing PTTC from CITEM when it was established in fact became a disincentive for capacity development of these two organizations.

Table 5-14 Center for International Trade Expansions and Missions (CITIM); Activity Profile of Exhibitors by Sector, Total 1827 （1999）

Total: 26

Market Weeks (%)	Trade Fair Participation (%)	Trade Missions (%)	Special Projects (%)
8	61	8	23

Source: Center for International Trade Expansions and Missions (CITIM) “Annual Report” (1999)

Table 5-15 Center for International Trade Expansions and Missions (CITIM); Activity Activities Classified by Sector, Total 26 （1999）

Total:26

Agrimarine (%)	Hardgoods (%)	Industrial Goods and Services (%)	Softgoods (%)
38	35	23	4

Source: Center for International Trade Expansions and Missions (CITIM) “Annual Report” (1999)

Table 5-16 Center for International Trade Expansions and Missions (CITIM); Activity Profile of Exhibitors by Size, Total 1827 （1999）

Micro (%)	Small (%)	Medium (%)	Large (%)	Others (%)
5	60	23	7	4

Source: Center for International Trade Expansions and Missions (CITIM) “Annual Report” (1999)

Table 5-17 Center for International Trade Expansions and Missions (CITIM); Activity Profile of Exhibitors by Sector, Total 1827 （1999）

Agrimarine (%)	Hardgoods (%)	Industrial Goods and Services (%)	Softgoods (%)	General (%)
14	80	4	0.4	2

Source: Center for International Trade Expansions and Missions (CITIM) “Annual Report” (1999)

Table 5-18 Center for International Trade Expansions and Missions (CITIM); Activity
Total Negotiated Sales, Total 358.46 Million $ （1999）

Market Weeks	International Trade Fair Participation	Trade Missions	Special Projects	Infolink	Incoming Missions
235.46	60.98	6.08	1.97	52.97	1

Source: Center for International Trade Expansions and Missions (CITIM) “Annual Report” (1999)

(3) Philippine Trade Training Center (PTTC)

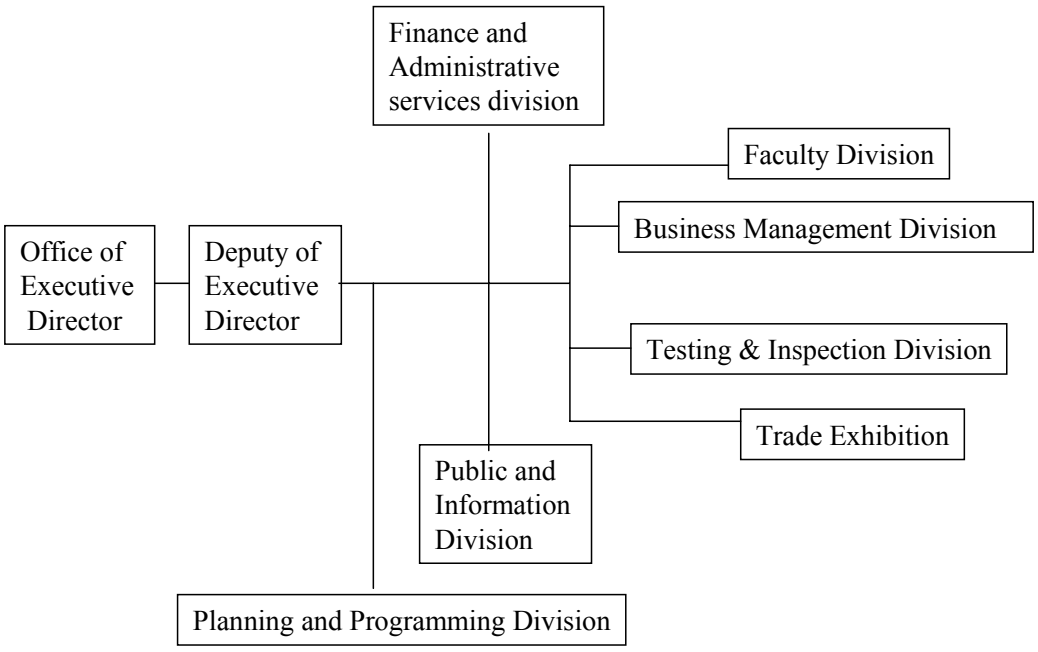
Business surrounding export promotion was emphasized when collaborated with JICA. However, general business-training is recently emphasized, because the promotion of SMEs became a priority under the Arroyo Administration. To be more precise, PTTC targeted 3 sectors of International Marketing, Testing and Inspection, and Trade Exhibition at first before the addition of Production Efficiency, Quality and Productivity Improvement, Entrepreneurship Development, and IT/E-Commerce[45].

A half-day training course (How to Start a Business) costs 50 or 75 pesos and a several-day training course (Export basics, E-commerce) costing from 1,000 to 3,000 pesos. PTTC is also used as an event site for trade fairs at the same time, which are generally better known. When the project was implemented, though 100 people were expected to participate in the training, actually 80 people were the limit. Since then the budget and manpower have decreased, and currently there are 60 employees.

This emphasis on general business-training reflected that the SEM development as well as the direct export promotion gained more focus in DTI. Given that PTTC is a training center affiliated with DTI, PTTC plays a sufficient role. It needs to be mentioned that the needs of the business world are difficult to introduce directly into PTTC. BETP communicates the feedback from exporting companies to PTTC and supports the amelioration of the training curriculum. Meanwhile, economic organizations mentioned that the training program provided by PTTC is too foundational to answer the needs of companies.

[45] The function of export inspection at that time had already moved to the Bureau of Standards. This is because the importance has decreased as the export inspection has shifted into production system evaluation as represented by ISO.

Figure 5-12 Organizational structureof Philippine Trade Training Center (PTTC)



Source: PTTC

(4) Bureau of Small and Medium Enterprise Development (BSMED)

The Bureau of Small and Medium Industry, which is a predecessor of BSMED, was established in 1974 and became the Bureau of Small and Medium Business Development in 1987. It was later reorganized and became the current BSMED in 2002.

The number of people in BSMED has decreased from 60 people as of 1987 to 40 people. Due to the limited governmental budget (25,000,000 pesos), it relies on nongovernmental resources and assistance from donors (like CIDA). Though there is an argument for establishing a Small and Medium Enterprise Board with a central focus on BSMED, this is not easy to make happen. In the existing system of SME export support, while the International Trade Group positively works on marketing, the development of SMEs has not improved. BSMED aims for SME export promotion to improve efficiently through the establishment of SMEDG.

At the local level, the budget of BSMED is given to local and state offices of DTI, in which SEM promotion is conducted. Since 1996, SME Centers which are responsible for provision of information to SMEs and the implementation of the project have been located in each state, a total of 79 places. However, many SME Centers located in the state offices of DTI have not been able to

conduct substantial activities due to a deficiency in budget and manpower. A small portion of them supported by local Chambers of Commerce and Industry have brought the greatest results.

(5) Office of Operational Planning & Office of Policy Research

Both offices belong to the Policy Planning & Communication Group, and the breakdown of medium-term developmental projects and the adjustment of services of each department are their main business. They are trying to make the SME Promotion Master Plan (M/P) established with JICA's assistance into an Action Plan, which is going to be settled in 2005. As for export, they aim to increase 10% of the amount of exports, which seems far from reassuring.

5.4.2 Trade capacity building in the government sector

In the governmental sector, as stated above, capacity development is analyzed by using a benchmark corresponding to factors of the following capacity (Figure 5-13);

Necessary requirements for system development:

Policy/Action ("P" factor): Trade promotion act, Small and Medium-Sized Firm Basic Act
Human resource/Organization("R" factor): Trade Training Center, Export Promotion Agency, Ministry of Small Medium-Sized Firms, Financial Institution for Small and Medium-Sized Firms
Knowledge/Skill("K" factor): Export Promotion Mid-Term Plan, Small and Medium Promotion Midterm Plan
When these requirements are met, transition to system operation happens.

In the case of the Philippines, as to legislation, a law promoting investment and export was enacted in the late 1960s. In addition to this, a law related to SMEs was established from the 1980s to the mid 1990s. At this point, institutional legislation was completed. As a midterm program Philippine has export development plan(1993)and SME development plan 2004-2010(2004). The action plan for these tow midterm program, however, are not finalized yet.

As for organizational improvement, exclusive organizations related to export have been established; CITIM in 1983, PTTC in 1988, and the Export Development Council in 1994.
However, insufficient manpower and budgets limit their activities, as seen in the fact that CITIM does not have its own overseas offices. It should be noted that these are not as good as similar

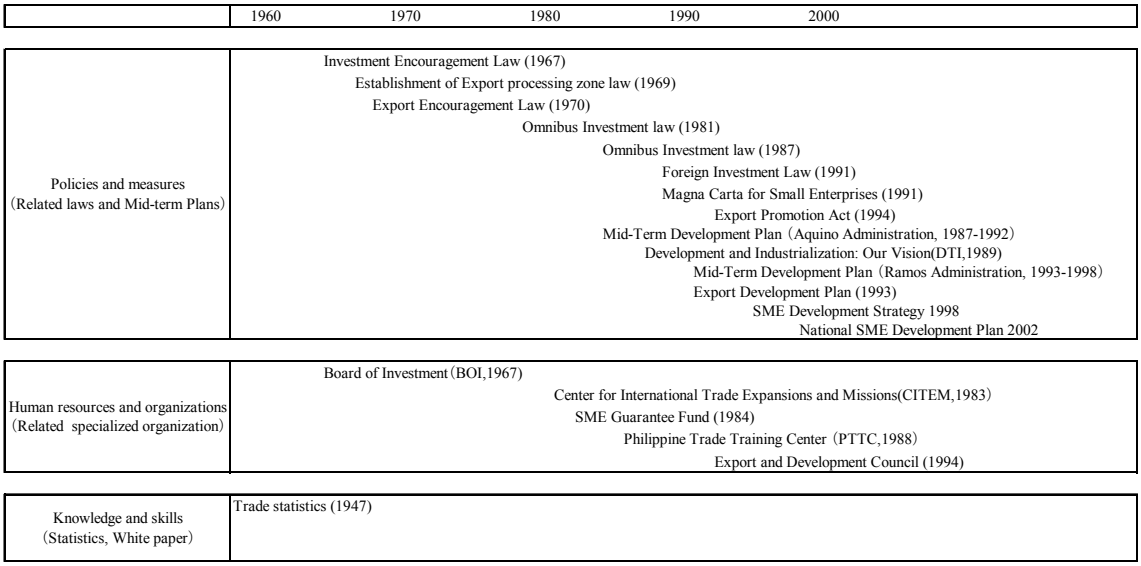
institutions in other target countries. The establishment of "the Small and Medium Enterprise Agency" has been a pending issue. System development continues when seen by all government sectors.

As to knowledge and skills annual reports and white papers are not regularly published by DTI and SITEM while related statistics has been regularly published since the beginning of 1960.

As described above, it seems that the requirements to complete the system development have been improved. However, the Philippine MTI and CITEM have smaller organization compared to similar institutions in other countries. Also, it is not permitted to fill in empty posts with new employment. Satisfying services can not be provided due to the limited budget. As just described, the export development capacity of the government is not necessarily favorable.

While the master plan concerning export and SME promotion has been established, there is considerable difficulty in carrying the plan into effect. The SME Development Group was created in DTI in 2004, and export promotion institutions (PTTC and CITIM) have moved from the International Trade Group to the newly created group. This is because SMEs are the main recipients of the export promotion institution, but it has not been paid off at this point.

Figure 5-13 Trade capacities building in the government sector



Source: The Author

5.4.3 Evaluation by private sector of the government in supporting export

In this section, evaluation of export-promotion policies and trade-related services by the government are examined below. An evaluation of trade-related services by economic organizations is also considered. Note: these evaluations were obtained through the company questionnaire survey.

First, the government's satisfaction level improved in many items in the evaluation for the export-promotion policies (Table 5.19). Breaking down these items into 3 categories, they are classified as (1) items that further improved satisfaction, (2) items that shifted from negative to positive evaluations, and (3) items that still left some complaints even though improved. Category (1) includes infrastructure (communication, water supply) and human resource development other than elementary and secondary education. Category (2) shows legislation and operation, infrastructure (distribution, electricity), certification systems by government standards, human resource development in primary and secondary education, and establishment and administration of export processing zones. As to (3), the category indicates the response to courtesies on tax incentives and deregulation of trade (reducing import customs of primary materials, minimizing export barriers), and facilitation of customs procedures for the industry/trade promotion policies. Meanwhile, the items that have not improved efficiently are financial support for industry/trade promotion policies, which remains at an average of 3 points and under. Therefore, it is conceivable that effective improvement was seen on many items. Especially regarding human resource development, the satisfaction level has increased on all items other than primary and secondary education. However, in industry/trade promotion and trade-related sectors, there remain many unsatisfactory items with low evaluations.

Table 5-19 Evaluation of policy measures to support export

			Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged
Evaluation of The Government's Export Promotion Measures	Improvement of legal systems			◎		
	Infrastructure building	Logistics		◎		
		Electricity		◎		
		Communication	◎			
		Water Supply	◎			
	Standard certification system			◎		
	Human resources development	Elementary and secondary education		◎		
		College/University education	◎			
		Vocational education	◎			
		Training programme for engineers	◎			
	Industrial and Trade development policy	Financial support				◎(−)
		Tax preferences			◎	
	Response to the trade liberalization	Reduction of import tariffs for raw materials			◎	
		Reduction of obstacles for foreign export			◎	
	Establishment and operation of the export processing zone			◎		
	Efficiency of the customs procedure				◎	

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3. (-) indicates that the average score was below three and the sample did not improve after four years.

4. (+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author makes the table according to the research.

Next, the evaluation for trade-related services by the government and economic organizations is compared (see Table 5.20). In the evaluation for trade-related services by the government; (1) There is no answer on the items that further improved satisfaction; (2) 3 items of individual consultation, training and seminar, and information service in the production section are shifted from negative to positive evaluation; (3) Items on individual consultation and information service in the production section and individual consultation in the marketing section still show some complaints even though improved. Also, the items that have not improved efficiently are the trade fair and exhibition in the marketing section, which remains on average 3 points and under. To sum up, many items received positive evaluation and the evaluation as a whole has improved.

In the evaluation for trade-related services by economic organizations; (1) Items that showed improved satisfaction are training and seminar and information services in the production section, individual consultation and information services in the production development section and also in the trade business section, and individual consultation in the marketing section; (2) Items that shifted from negative to positive evaluation are individual consultation in the production section, training and seminar in the production development section and also in the trade business section, and training and seminar and information service in the marketing section; (3) There is no answer on the items that still left some complaints even though improved. The items that have not improved efficiently are the trade fair and exhibition in the marketing section. In summary, we conclude that the evaluation as a whole has improved because all answers are categorized into the (1) items that showed improved satisfaction or (2) items that shifted from negative to positive evaluation except for the item of training and seminar in the marketing section.

In conclusion, the evaluations for trade-related services from the government and economic organizations are compared. While there are some items that still showed complaints in the evaluation of the government's services, the evaluation for the services from economic organizations mostly improved.

Table 5-20 Evaluation of trade-related services by the government and the local business groups

			Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged-
Evaluation of trade-related services for companies by the government	Production	Individual counseling, Consulting			◎	
		Training, Seminar		◎		
		Provision of information			◎	
	Product development	Individual counseling, Consulting		◎		
		Training, Seminar		◎		
		Provision of information		◎		
	Marketing	Individual counseling, Consulting			◎	
		Training, Seminar		◎		
		Trade Fair, Exhibition				◎(－)
		Provision of information		◎		
	Trading business	Individual counseling, Consulting		◎		
		Training, Seminar		◎		
		Provision of information		◎		
Evaluation of Trade-Related Services for Companies by the Business Sector	Production	Individual counseling, Consulting		◎		
		Training, Seminar	◎			
		Provision of information	◎			
	Product development	Individual counseling, Consulting	◎			
		Training, Seminar		◎		
		Provision of information	◎			
	Marketing	Individual counseling, Consulting	◎			
		Training, Seminar		◎		
		Trade Fair, Exhibition				◎(＋)
		Provision of information		◎		
	Trading business	Individual counseling, Consulting	◎			
		Training, Seminar		◎		
		Provision of information	◎			

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3.□(-) indicates that the average score was below three and the sample did not improve after four years.

4.□(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author makes the table according to the research.

5.5 Philippine capacity development in trade and evaluation of support from Japan

5.5.1 Social capacity building path and development stages

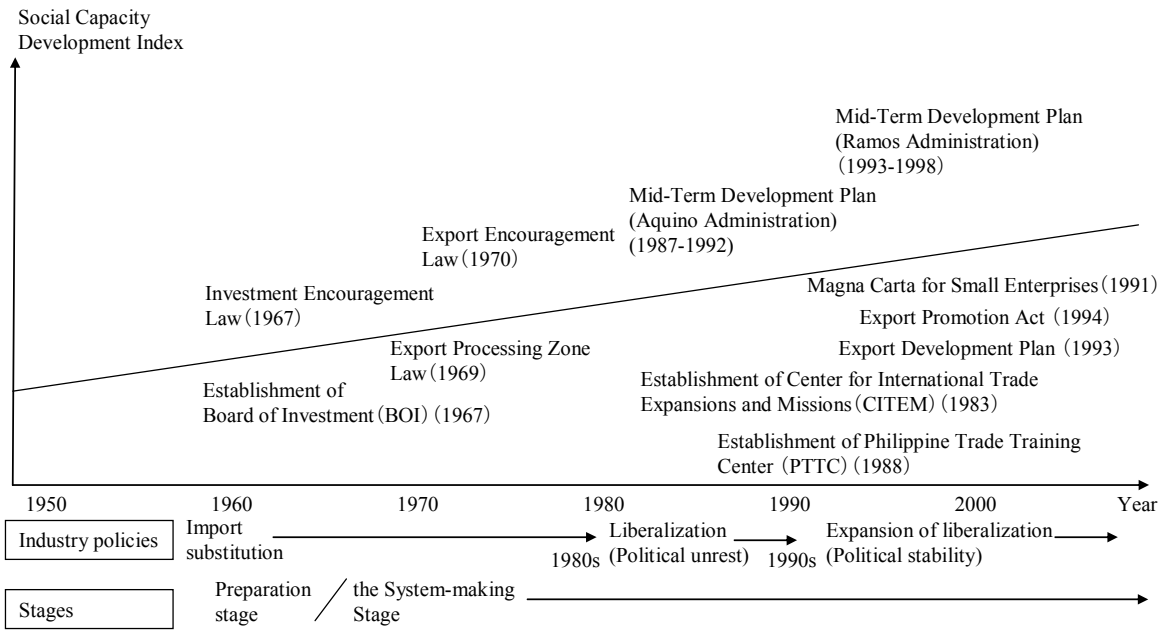
Here we discuss development path of trade social development and development stage.

(1) Historical assessment based on development stage analysis
(2) Assessment of social capacity based on actor/factor analysis
(3) Analysis on cause-effect relation between socio-economic development level and export performance as basis for the discussion on social capacity development

Based upon the analysis in both private and public sectors, the process in social capacity development can be depicted in figure 5. 14.

The Philippine social capacity has provided consistent results regarding educational standards and objective legislation and administrative organization and plan formulation in both the private and public sector. However, there is no capacity leading to enhancement of the export performance. Therefore, The Philippines has not yet reached the System-Working Stage.

Figure 5-14 Philippine social capacity development in trade-related field



Source: The author based on an interview survey and several documents

Table 5-21 Social capacity development in the trade related area

(Government capacity and the relationship between Government and Enterprise)

Capacity Factors	Check items of capacity evaluation	Philippines	
		1980	2005
Policies and Measures (P)	Medium and long-term plan-making （National development plan) on industry and trade	✔	✔
	Establishment of basic laws on export promotion	✔	✔
	Establishment of basic laws on SMEs promotion		✔
	(Relationship between the government and enterprises) Dialog and meeting between the government and enterprises		✔
Human, financial and physical resources in organization （R）	Establishment of export promotion organization		✔
	Establishment of overseas office of export promotion organization		
	Establishment of SMEs promotion organization		✔
	Self-management organization		
Knowledge and skills（K）	Publication of statistics	✔	✔
	Publication of trade white paper		
	Publication of annual report by export promotion organization		

Note 1. Cells are checked when items are achieved.

Source: the author

Table 5.21 indicates the achievement level of the Philippines' social capacity development by using a checklist. Facilitating and limiting factors of the capacity development are also examined with the result of analysis.

Regarding to the development of capacity factors in the governmental sector, "policy/action factors ("P" factor:the formulation of medium-to-long-term plan of industry/trade [National Development Policy] and fundamental law and basic plan of export/SME promotion)" have steadily achieved the benchmark. Among "Human resources/organization factors ("R" factor: the establishment of export-promoting agencies [the establishment of foreign and local offices, SME promoting agencies, and the organizational restructuring adapting to environmental changes])", the item of export-promoting agencies seems to be inferior when compared to other countries (in fact, CITIM does not have foreign of local offices.). The stagnation of capacity development of "human

resources/ organization (“R” factor)” factors is considered to be the limiting factors of capacity development of other two factors.

“Knowledge/skill factors (“K” factor)” have met a certain standard of the establishment of statistics. As to the white books and annual reports of related organizations, there should be ameliorations. It is conceivable that the limiting factors rest in the room for improvement because the establishment of other two reports needs more political and strategic judgment compared to the establishment of statistics.

The relationship between the government and enterprises (including economic organizations) seems to have kept a certain standard. The Export Development Council consisting of representatives of public and private has established in 1994 and the foundation to accept policy proposals made by private agencies has developed.

In terms of the enterprise sector, the capacity development has seen sluggish growth though it had desirable initial condition (in 1980). “Knowledge/skill factor (“K” factor) (represented as approximate enrollment ratio of secondary education)” has kept the top position among four countries during the period of the project, but it does not contribute to the capacity development related to “human resource/organization factor (“R” factor) (as manufacturing employment rate out of all employment rate)”. It does not reflect on “policy/action factor (as labor productivity) (“P” factor) either.

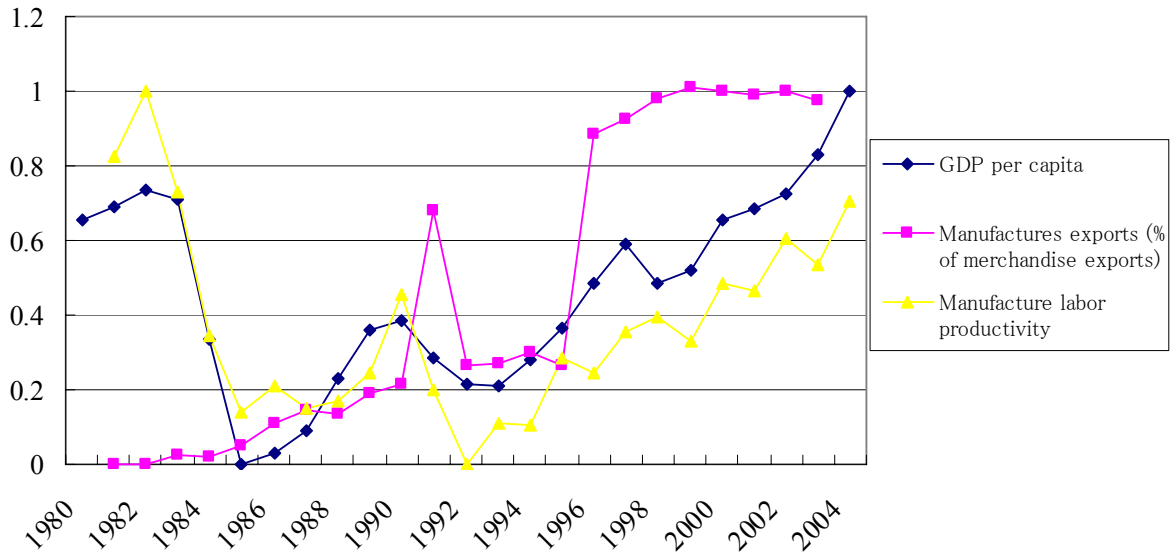
The capacity development process is defined by the interrelation between socioeconomic standards and export performance. The developmental process of Total Systems can be described as figure 5.15. Total System consists of three items (capacity level, socioeconomic level, and export performance level) and these three items are digitalized in that figure. Labor productivity in manufacturing is adopted as the capacity level, GDP per capita as the socioeconomic level, and export ratio of manufacturing products as the export performance level. Compared to the three other countries (Indonesia, Malaysia, and Thailand) , which generally show a positive transition in Total System, the Philippines shows it experienced a slump for ten years following the mid 1980s in all items of capacity level, socioeconomic level, and export performance level. After that, capacity level and socioeconomic level in the Philippines recovered due to the expansion of industrial export, which shows a similar transition in Total System to that of other countries.

Table 5-22 Social capacity development in the trade related area (companies' capacity)

	Policies and measures (P) (Labor productivity of manufacture industry constant 2000 US$)	Human, financial and physical resources in organization (R) (Ratio of employees in manufacture industry to employees in total, %)	Knowledge and skills (K) (Enrollment rate of secondary education, %)
Philippines	6,754 (1981)	10 (1981)	64 (1981)
	6,507 (2004)	10 (2004)	84 (2002)

Source: the author

Figure 5-15 Total System Indexes measuring the social capacity development



Source: The Author

5.5.2 Consistency with Philippine social capacity development stages

We discuss how JICA's aid inputs have contributed to social capacity development of the government. Figure5-16shows chronological inputs of JICA's aid by the social development factors. The number of the projects is classified into the factors and summed up annually.

Figure 5-16 JICA's assistance inputs in the Philippines by development themes by capacity factor

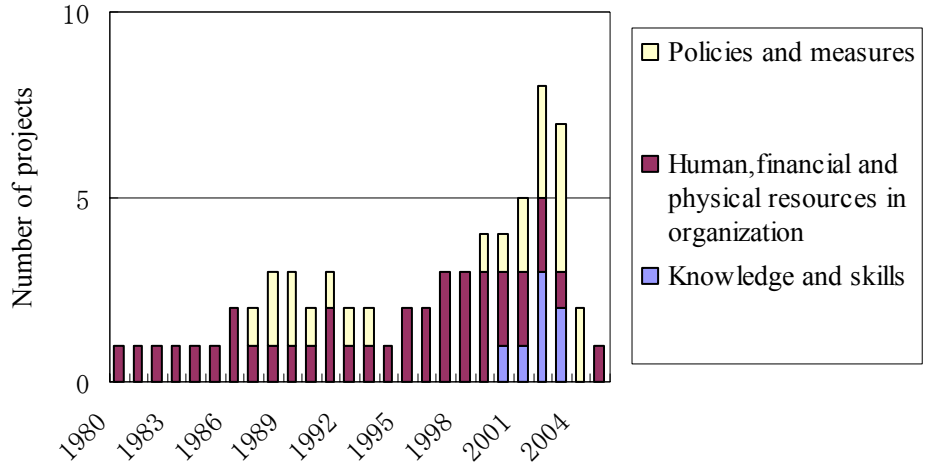


Table 5-23 Philippine social capacity development stages and JICA's support

Capacity factor	Development themes	Name of projects	1980	1985	1990	1995	2000
Policies and measures (P)	Export-promoting development plan	Development of Cavite Export Processing Zone and Investment Promotion Plan					
	Establishment of trade-related legislation	The Capacity Building Program on the Implementation of the WTO Agreements					
	Promotion and development of SMEs, supporting industry and industry	Master Plan of Coal Industrial Technology Development					
		Promotion and Development of industry sector					
		Industrial Environment Management Study					
		Plan-Making Support of SMEs Development					
	Establishment of Industry-related legislation	Industrial Standardization and Quality Control Project					
		Industrial Property Modernization					
Human, financial, and physical resources in organization (R)	Assistance for trade center	Trade Training Center					
		Trade Training Center (Follow-up)					
	Promotion of SMEs, supporting industry and industry	Metal and Casting Technology Center					
		Industrial Standardization and Electric Testing Technology					
		Software Development Training Center					
		Improvement of Mold Technology					
		Electronic Products Testing Technical Cooperation					
		Improvement of Regional Food Packing Technology					
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information and skills	Study on Measurement of the Time Required for Trade					
	Acquisition, analysis and release of industry-related information	Production Statistics Development Plan					
		Production Statistics Development Plan Follow-up Study					

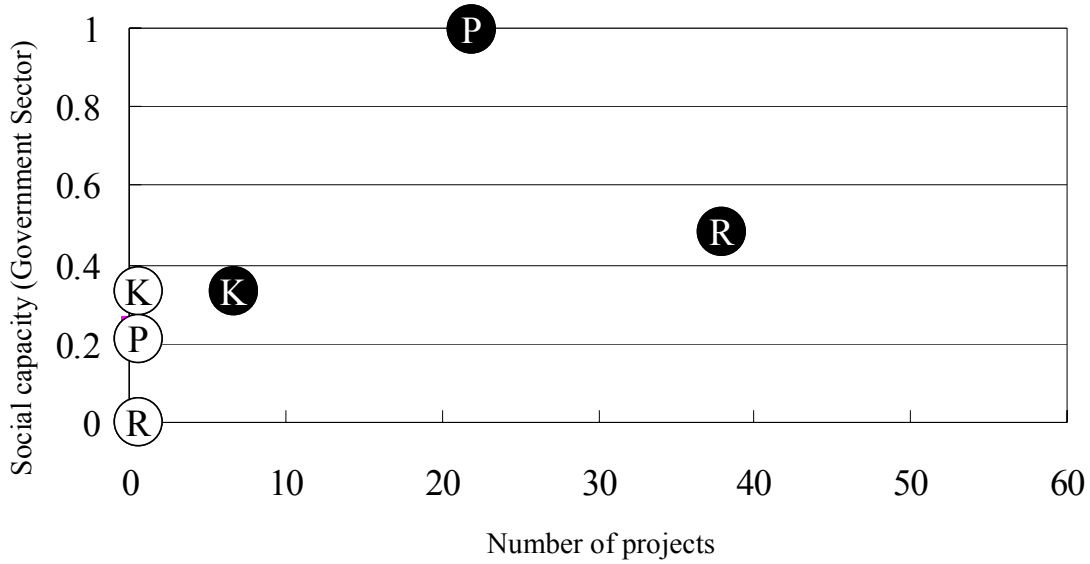
Note: The matrixes colored with gray indicate that JICA provided its service

Source: The Author

Considering the implication by Figure 5.16 and table 5.23, we can easily understand the situation of JICA's contribution, which is summarized in figure 5.17. It depicts the number of the projects in horizontal axis and social capacity (government) in vertical axis to illustrate transition of the capacity development factors from 1980 to 2005. The number of the project is in each year based on the categories in accordance with relavant capacity factors. The social capacity level is mapped based on the implementation of the government policy (fully-implemented=1, no implementation=0).

There has not been necessarily seen sufficient contribution of JICA's assistance to social capacity development in the Philippines when it is compared to the other three countries. There are several constraints that have hindered contribution of JICA's assistance to the Philippines' social capacity development; for instance, the country has received a relatively small number of projects compared to Indonesia and Thailand; and its government sector has limited human and financial resources.

Figure 5-17 Contribution of JICA's assistance to capacity development of the Philippine government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

5.5.3 JICA's contribution to Philippine social capacity development

Table 5.24 shows the Philippines' social capacity development stages and JICA's assistance inputs from 1980 to 2005. During this period, the Philippines was in its system-making stage; therefore, all JICA's assistance inputs are shown under its column. JICA's assistance inputs ("P" factor , "R" factor and "K" factor), have sorted out in accordance with relevant capacity factors.

Table 5-24 JICA's assistance inputs in the Philippines by development themes

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan	1		
	Trade-related legislation (Response to liberalization and facilitation such as WTO)	4		
	Promotion and development of SMEs, supporting industry and industry	10		
	Establishment of industry-related legislation	7		
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)			
	Assistance for Trade Center (Export-support, information, training for private companies)	8		
	Promotion of SMEs, supporting industry and industry	30		
	SMEs promotion organization			
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information (such as statistics) and skills	2		
	Acquisition, analysis and release of industry-related information (such as statistics) and skills	5		
Support for south-south cooperation				

Note. The numbers are the total number of projects

Source: the author

Overall, a variety of assistance was provided to the Philippines at the same time after 2000 as was done for Indonesia. The performance of economic support in the trade investment sector from Japan includes not only the Philippine Trade Training Center (PTTC) project but also reinforcement of customs systems, WTO capacity building. In addition, JICA plans to implement food packaging technical cooperation projects. A lack of assistance to the supporting industries seems to reflect the fact that foreign capital is not as active as in other target countries.

What it comes down to is that JICA's trade sector assistance in the Philippines needs additional and intensive inputs of assistance to actualize the transition to the system-working stage because the Philippines' social capacity has not sufficiently developed compared to Malaysia and Thailand. The country is still in the phase where focused capacity development is necessary in order to achieve transition to the system-working stage. Accordingly, it is necessary for the international community as well as Indonesia itself to continue to invest more resources inputs for capacity development.

In conclusion, JICA's trade sector assistance has been provided when the social capacity is not wholly developed. The Philippines needs intensive assistance from JICA and other donors for transition to system working stage.

5.5.4 Consistency with The Philippines development policy and the cooperation of JICA with other Japanese agencies

The four countries (Indonesia, Malaysia, Thailand and the Philippines) have the common policy of "earning foreign currency through fostering export industry and then trying to develop their economics". JICA's assistance for each country is adequate on that point.

From the survey results, there appears a gap between capacity of accepting assistance and the policies of the local governments. It is easy just to criticize the "additional-input", but that is not enough to learn lessons for the future.

As assistance from Japan, the ASEAN Cooperation Program by JETRO began in the Philippines in 1983. Technical transfer was implemented to the local companies and exhibitions were conducted. At that time, four categories of business, metal processing skill, plastic molding, metal casting, and electric silverizing, were targeted based on the request from local companies. For metal casting, JICA provided assistance to the Metal Casting Technique Center between 1980 and 1984 in coordination with the Philippines.

In 1987, the Ministry of International Trade and Industry of Japan set up a new aid plan with the goal of "the development of the export industry by the trinity of trade, investment, and economic cooperation". Six categories of business - metal molding, wooden furniture, computer software, stuffed toys, costume jewelry, and the oleochemical industry, were targeted in the Philippines. JICA conducted a feasibility study on these businesses, which contributed to the concrete assistance provided later from JICA and JETRO.

"The ASEAN industrial upgrading vision" (1993) established by the Ministry of International Trade and Industry of Japan focused on the importance of assisting supporting industries, after which Supporting-Industry promotion(SI) was begun by JETRO. In SI in the Philippines, press working, plastic molding, and metal casting were targeted business.

As a characteristic of the Philippines, it is pointed out that though export promotion was one of the significant problems under each administration, the manufacturing industry did not account for a large part of export promotion as it did in other countries[46]. Rather, the service industry seemed more

[46] SME Development Agenda implemented under the Arroyo Administration did not necessarily focus on promoting export industry. Because growth of the domestic market is adequately anticipated based on the increase in population 2 to 3 % every year, the industrial market does not gather strength.

promising, taking export feasibility into account. As JICA's assistance considered this characteristic, it seems to have kept the accordance.

Column4: Canadian International Development Agency (CIDA)
Private Enterprise Accelerated Resource Linkages Phase II (Pearl 2) Project;
A successful case of G to B (Government to Business) Assistance

Pearl 2 project, which is a CIDA's project that aims at promoting SMEs, has been carrying out for 5 years from 2002 to 2007 with the estimated budget of 8,600,000 Canada dollars (860,000,000 yen). This project consists of following three sub-projects.

(1) Sectoral Enhancement (SE): this project supports 6 businesses (furniture, food processing, clothing, nature and organic products, gift and domestic house-ware, and IT) out of major 10 businesses of DTI through the economic organizations.

(2) Partnership Development Facility (PDF): this project implements the partnership development based on the proposals from economic organizations and also based on the general principle of cost-share.

(3) Capacity Development for Investment Promotions (CDIP): this project supports the investment promotion agencies that reinforce businesses in which employment creation and investment enlargement are feasible.

Pearl 1, which has been implemented from 1996 to 2001, targeted CCI and NGO for assistance, but Pearl 2 includes economic organizations and investment promotion agencies. This largely impacted on the success of the projects. As of the end of September, 2005, benefited SMEs by assistance form the 47 organizations are more than 3,000 companies. The number of employees of these companies is close to 100,000 people. It becomes about 500,000 people if includes employees from its subcontractor.

As a government agency, DTI and NEDA have participated in the steering committee, but they have not deeply engaged in this project. Because this project is practical and effective, the government which has limitation on resources stands to facilitate it.
In the project of SE, 1,400 companies ate targeted through the 19 economic organizations. CCI and the economic organizations that are benefited from separated-sector strategies are required to submit proposals, then assistance are provided based on the result of the proposals. SE targets the short-term projects like 6 months to 1 year period. Benefited agencies may need to provide counter fund due to the relatively small assistance amount from SE. Benefited agencies also need to submit the business

report every 3 months. SE provides guidance by dispatching consultants and also provides training in Manila and Canada. For example, SE has sent business advisors to the training center in Atheneo University Business School in Davao.

To provide assistance to the local companies through the economic organizations, developing framework of the organization is needed in several cases. Because of that, Pearl 2 project also provides support for labor costs to develop framework of head offices. Christmas Décor Producers & Exporters Association of the Philippines is one of these cases.

This association did not have a permanent head office. It was established each time with the rotation of its chairman. The activities were also influenced by a chairman of that time. Then, with the assistance from Pearl 2, the association became able to employ a chairman of the head office as a full-time staff from October, 2004. In the first year, the project absorbs the entire expenses. Second year and after that, the expenses are going to be divided into halves between the project and the association. Taking advantage of this support, the association has started new businesses. With an initiative of the head office, it has participated in trade fairs in Dubai and Frankfurt. Then, the sales of the companies in the association have increased to twice its amount. In addition, it has been dealing with developing e-commerce website and is going to start its business on March, 2006. Also, the association is going to implement the business training for affiliated companies in 2006. As a result, the number of affiliate companies has increased from 60 to 75, and the ratio of paying membership fee has been increasing.

The Pearl 2 project office is set up in Cebu, in addition to the headquarters in Manila. The headquarters has 8 employees (one is Canadian and the rest are Philippine) and is going to employ 2 more workers in the beginning of 2006.

CIDA takes a stance of carrying out the projects without any restriction if they seem to bring essentially good consequences. In the case of the Philippines that the government has considerable limitation on resources, CIDA thinks that it is more reasonable that the government does not engage in daily administration of the project and the private organizations become direct beneficiaries. Although CIDA focuses on private agencies, it will be a problem if they continuously depend on the assistance from CIDA as the government does. In the DTI office in Visaya state, as the same as Pearl 2 project, DTI has been trying to support fosterage of local companies through CCI. Although it may not directly contribute to the government's capacity development, it can be concluded that the effect of the demonstration by the government has arose.
CIDA has started considering the implementation of the third project in 2007.

5.6 Lessons learned and recommendations

(1) Program-based aid

In the case of the Philippines, assistance has been provided to bring about an effect through the trinity of aid, trade and investment as has been done in other target countries. Projects that seemed necessary from the after-the-fact point of view have been covered.
In order to realize transition from system making stage to system working stage the Philippines may need additional and intensive assistant inputs. In this connection it is better for us to utilize SIDA's experience, which has already provided similar assistance ("G to B" program assistance).

(2) Shifting from "G to G" to "G to G plus G to B"

In the case of the Philippines, "additional input" aid was adopted because it was difficult to throw a stand-alone project mainly into the government sector when companies did not have enough capacity, because of the governments limited resources such as fund and human resources. In this case, as learned from the case examples of the Philippine CIDA, throwing projects into the non-government sector is more effective.

In Actor Factor analysis, which is a technique of social capacity evaluation, capacity among the actors has substitutability. It is not a good idea to limit the target actors of assistance in advance.

There are government-supported SME centers all over the Philippines, the most successful of which is a center in Davao run by the chamber of commerce and industry. This means SME centers run by private initiative are more competent. Japanese agencies including JICA need to actively provide assistance, from which private agencies benefit in the long run. However, because JICA does not have enough know-how in these fields as of today, it is advisable that JICA engage in assistance in cooperation with other donors in the short term.

Chapter 6

Chapter6 Thailand

6.1 Trade sector assistance from Japan

This chapter reviews Japan's major aid to the Thai trade sector. Trade sector aid has taken several forms including direct aid to trade promotion, a variety of types of cooperation such as investment promotion, promotion of small and medium-sized enterprises (SMEs) and supporting industry, and industry development.

6.1.1 Trade sector assistance provided by JICA

Table 6.1 shows JICA's major project-based aid to the Thai trade sector since fiscal year 1980. As a JICA's aid to Thai trade sector, Thai Trade Learning Center Project was the main object of this evaluation and was undertaken from 1983 to 1987 fiscal (or to 1988 fiscal including follow-up) started. After that, JICA' aid stopped and was not provided to this sector during the 1990s. Later, capacity building in developing countries became globally important in order to comply with WTO rules, and the WTO Capacity Building Cooperation Program was implemented from fiscal years 2001 to 2004.

For further industrial development, JICA provided aid to the fields of industrial promotion and SME/supporting industry development in 1980s and 1990s when Thailand had heavily fostered export-oriented industries. As to the industrial promotion, technical cooperation programs in the fields of industrial standardization and software were implemented in the late 1980s and in the mid-1990s. At the same time, from 1989 to1994, the Industrial Sector Growth and Development Plan, which was consulted by a consortium of JETRO and private companies, was conducted based on the new-aid plan presented by the Japanese government in 1987. In the late 1990s, technical cooperation programs relevant to the productivity growth and the industrial property right were enforced.

As to the promotion of SME/supporting industry, JICA has dispatched experts to provide technical and financial aid to SMEs since the early 1980s. From 1986 to 1991, the technical cooperation program for the development of metal processing and mechanical industry started. Since the mid-1990s, several projects for the promotion of SME/supporting industry have been conducted by JICA. Regarding aid for the supporting industry, the Industrial Sector Growth and Development Project (supporting industry) was carried out in 1994 and 1995. The project was very valuable because it defined a direction for the future promotion of not only supporting industry but also SME. Based on the project, several measures and policies have been implemented as "SME promotion cooperation program" until today. The program includes nine assignments (guidance of whole administration, improvement of production process, technical innovation/equipment replacement, fosterage of artisan, promotion of SME/supporting industry, product/market development, decentralization of labor-intensive industry, investment promotion of foreign high-tech industry, and

prevention of pollution). The aid with several schemes, such as the dispatch of experts and senior-volunteers, the feasibility studies, the technical cooperation programs, and the training in a third country, has been conducted for the seven assignments except for technical innovation/equipment replacement and fosterage of artisan.

Table 6.2 shows the results of acceptances of JICA's trainees in the trade/investment, small and medium enterprise sectors. JICA's trainee acceptance leads to foster development of capacity-building of officers in the Thai government and its affiliated-agencies. The Thai trade sector has the highest trainee acceptance rate though it varies by each sector of trade, investment, exports, small and medium enterprise according to the period. During the 1980s, the number of acceptances in trade sector was at its highest rate , with a record six trainees being accepted in a year . A variety of Thai government agencies dispatched officials from such departments as the Department of Export Promotion, Department of Foreign Trade, the Ministry of Industry, and so on, and in fiscal year 1985, during the implementation term of the Trade Learning Center Project, two trainees from the center were accepted.

Table 6-1 JICA's most important assistance programs in trade / direct investment, the fostering of SMEs and supporting industries, and industrial development (the project name and the year)

1.Trade

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Trade Training Center	Technical Cooperation Project																										
Trade Training Center (Follow-up)	Technical Cooperation Project																										
Capacity Building Program on the Implementation of the WTO Agreements	Development Study																										

2. Promotion of SMEs and Supporting Industry

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Metal Processing and Machine Industry Development	Technical Cooperation Project																										
Improvement of mold technology																											
North Celamic Center	Technical Cooperation Project																										
SMEs Promotion Support	Short-term Dispatch of Experts																										
SMEs management consulting	Short-term Dispatch of Experts																										
Institution-building of SMEs management consulting	Short-term Dispatch of Experts																										
Development of Consulting Service for Thai SMEs Cluster and Regional Development	Development Study																										
Promotion and Development of industry sector (Supporting Industry)	Development Study																										

3.Industrial Promotion

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Industrial Standardization Test Training Center	Technical Cooperation Project																										
Industrial Standardization Test Training Center (Aftercare study team)	Short-term Dispatch of Experts																										
National Computer and Software Training Center	Technical Cooperation Project																										
Increase of Productivity	Technical Cooperation Project																										
Industrial Property Information Center	Technical Cooperation Project																										
Promotion and Development of industry sector	Development Study																										
Industrial Standards and Testing and measurement System Development Study	Development Study																										
Industrial Standardization Test Training Center	Development Study																										
Thai National measurement standard institution	Technical Cooperation Project																										

Note: The project formerly known as the "Technical Assistance in Project Form" is now called "Technical Assistance Project".

Source: This Table was created with data from the Ministry of International and Trade Industries (MITI) "The Status and Issues of Economic Cooperation" each fiscal year. and the Ministry of Foreign Affairs (MOFA) "Official Development Assistance (ODA White Paper)" each fiscal year, and JICA and Institute for International Cooperation "Approaches for Systematic Planning of Development Projects –Trade and Investment Promotion" in 2003. Also, regarding technology cooperation projects (former Project Formed-Technology Cooperation) and development researches, data from MITI and MOFA lacks detailed results. In these parts, only the data from JICA and Institute for International Cooperation are used.

Table 6-2 Historical number of of JICA's trainees from Thailand in trade / direct investment, and SMEs development

(number of trainees)

	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	80～05 total
SMEs	1	2	1	1	1	2	2	1	1	2	1	2	1	0	0	0	0	1	0	1	1	1	0	1	2	0	25
Investment	0	0	0	0	0	0	0	3	2	1	2	1	1	2	2	3	2	2	4	3	3	3	0	2	1	2	39
Export	0	2	2	2	2	0	0	2	1	0	1	1	1	1	0	1	0	1	4	2	2	1	2	0	2	0	30
Trade	6	3	3	3	3	6	3	3	2	1	4	2	3	0	1	0	0	2	10	2	0	3	2	6	2	4	74
Total	7	7	6	6	6	8	5	9	6	4	8	6	6	3	3	4	2	6	18	8	6	8	4	9	7	6	168

Source: Data from JICA

6.1.2 Assistance from Japan in trade expansion

In addition to JICA's technological cooperation, Japan's cooperation in the trade sector includes technical cooperation by the Japan External Trade Organization (JETRO), the Japan Overseas Development Corporation (JODC), and the Association for Overseas Technical Scholarship (AOTS) as well as a yen-loan project by the Japan Bank for International Cooperation (JBIC), which supports infrastructure development as a basic condition of trade and investment[47]. These efforts are reviewed in the following sections.

(1) JETRO

Table 6.3 gives an overview of JETRO's cooperation with Thailand. JETRO is a Japanese organization originally aiming at promoting trade in Japan, but due to economic globalization JETRO provides aid to promote and strengthen industrial infrastructure and improve export capacity for Asian countries where a number of Japanese companies set up operations. One project of note undertaken by JICA is the Industry Development and Promotion Plan Study from 1987 to 1990, which was mentioned above. In this study, acting as a consultant JETRO formed a consortium and collaborated with private sector entities in the conduct of development research.

[47] In addition to this, Japanese government agencies related to trade/investment promotion includes international financing (export banking, foreign investment finance. These aids were conducted by JBIC and trade and investment undertakings by Nippon Export and Investment Insurance (NEXI). JICA・ Institute for International Cooperation, 2003

Table 6-3 JETRO's records in assistance of Malaysian trade and industrial development

Participation in JICA's Industrial Promotion Development Study	JETRO organized JV with private companies for studies on Asian export promotion based on the New Aid Plan in 1987 and participated in JICA's development study as a consultant. JETRO conducted studies on mold, toy, textile, furniture, pottery, plastic product in Thailand from 1980 to 1990.
Trade and Industry Promotion Center Project in Developing Countries (AC Project : Asian Cooperation Project, 1982～2000)	↓ Promotion of local small and medium enterprises - Development of local small and medium enterprises - Spreading appropriate technology of small and medium enterprises - System Standard Technology Information Cooperation Project ↓ Development of Product Export Project - Instruction for Product Improvement - Instruction for Trade Promotion
Training of Trade Promotion Organizations' staff (1988～2002)	JETRO invited middle-management executives in Thai trade promotion organization and implemented training in Japan. JETRO accepted trainees in 1988, 1990 from Thailand.
Supporting developing countries' local industrial basis project (1996～)	Implementation of support for automobile and devices, electric and electronic product and devices sector ↓ Instruction for development of local industries - Dispatch of experts to strengthen basis of industrial activities - Dispatch of technical guidance experts - Support for training of industrial trainers ↓ Promotion of local industrial exchanges - Promotion of industrial exchanges - Holding wide-area industrial exchanges events
Strengthening developing countries' supporting industries project (SI Project: Supporting Industry, 1994～)	JETRO's assistance includes studies on situation of supporting industry, dispatch of experts, acceptance of trainees for development of supporting industry. In Thailand, JETRO's assistance includes studies, dispatch of experts and acceptance of trainees in such sector as casting and mold, press working, aluminum die-casting, precision machining.

Source: JETRO (2000) "Forty year footprint of JETRO"

(2) JODC and AOTS

Table 6.4 and 6.5 list the record of JODC's professional dispatch programs and AOTS's training programs.

JODC sends Japanese technical experts to, either Japanese companies or non-Japanese local companies in developing countries, and supports these companies in efforts to improve the productivity, product quality, management, and so on. Experts are dispatched to a wide range of manufacturing industries from textiles electronics, and automobiles, to chemical industries and in recent years they have been dispatched to the service sector as well. From 1979 to 2004, 1023 experts in total have been dispatched to Thailand by JODC for long and medium terms. . The number of the experts dispatched to Thailand is second only to Indonesia among the four ASEAN countries which were included in this evaluation.

AOTS aims at promoting international economic cooperation in order to enhance mutual economic development and friendly relationships between developing countries and Japan through training programs for industrial engineers in these countries. From 1980 to 2004, over 14000 Thai have been trained. This number includes those that participated in training programs in Japan and as well as those who were trained by instructors dispatched overseas, is the largest among the four ASEAN countries.

Table 6-4 JODC's TA professionals sent to Thailand

Year	1979～1988 total	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1979～2004 total
Long-term Experts (number of experts)	60	17	13	21	25	26	34	27	24	54	27	61	22	23	71	25	21	551
Short-term Experts (number of experts)	62	4	7	8	7	13	8	2	12	7	91	61	43	76	4	51	16	472
Total	122	21	20	29	32	39	42	29	36	61	118	122	65	99	75	76	37	1,023

Note: Short term is within one year. Long term is longer than one year and shorter than two years. The figure is the number of professionals newly dispatched every year.

Source: JODC

Table 6-5 The Number of participating AOTS Trainees from Thailand

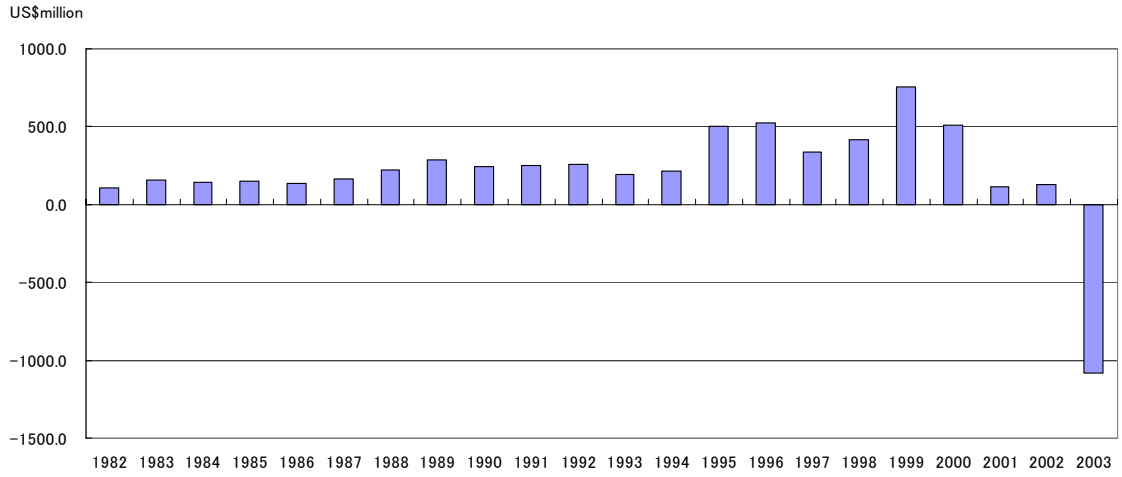
Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1980-2004 Total
Acceptance of Trainees (number of trainees)	123	131	131	144	169	212	207	300	377	470	487	458	440	476	541	533	669	700	420	478	582	517	464	544	741	10,314
Overseas training (number of trainees)	0	0	0	0	0	0	120	44	130	156	102	191	72	109	206	236	245	159	277	243	193	124	243	412	770	4,032
Total	123	131	131	144	169	212	327	344	507	626	589	649	512	585	747	769	914	859	697	721	775	641	707	956	1,511	14,346

Source: AOTS

(3) JBIC

In addition to direct trade assistance, Japan had actively provided yen loans geared toward the development of economic infrastructure, which is essential for Thailand to promote its trade, investment and industry. Table 6.1 shows the shift in the amount provided in yen loans (net outgoing amount) since 1980. These loans include those directed toward social service cooperation such as medical care and agricultural cooperation, but most of the loans are made to assist in the development of essential infrastructure for economic activities such as electronic, roads, railways, gulf coast, and sewerage systems. The yen loan has fulfilled a vital role for economic infrastructure in Thailand. In the mid-1980s, Japan contributed to industrialization of Thailand by yen loans toward the development of eastern coastal-industrial regions such as the maintenance of Laem Chabang Port and the construction of industrial complexes. Also, Japan had provided finance business (two-step loan) to SMEs through the Industrial Finance Corporation of Thailand (IFCT). In fiscal year 2004, for the first time, the amount of yen-loan- financed went negative due to the redemption of past loan and the decrease of the new loans in recognition of Thailand's strong economic growth.

Figure 6-1 Annual net outgoing amount of yen loans to Thailand



Note: Calendar year, DAC counts, netting disbursement and repayment

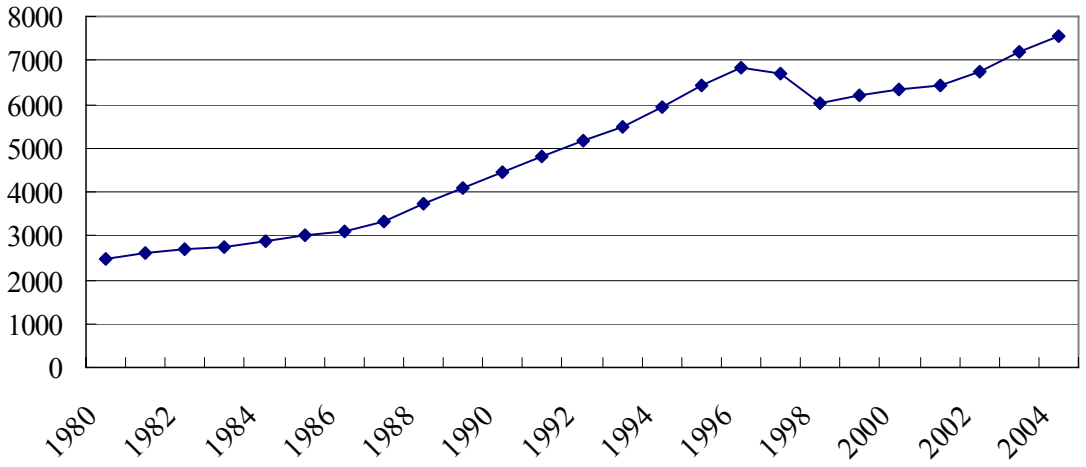
Source: MOFA "ODA data book" each year

6.2 Economic development, trade, and direct investment

6.2.1 Economic Development

At the beginning of the 1980s, GDP per capita in Thailand based on Purchasing Power Parity (PPP) was at the 2000 dollar level. During the 1980s and 1990s, Thailand had continuous economic growth. While GDP per capita declined as a result of Asian currency crisis in 1997, it recovered at the dawn of the century and has now shifted back onto a growth path. From 1980s to 1990, growth was especially significant with GDP per capita reaching a level of more than 6000 dollars.

Figure 6-2 Thai per capita GDP（PPP, Constant 2000 international $ ）



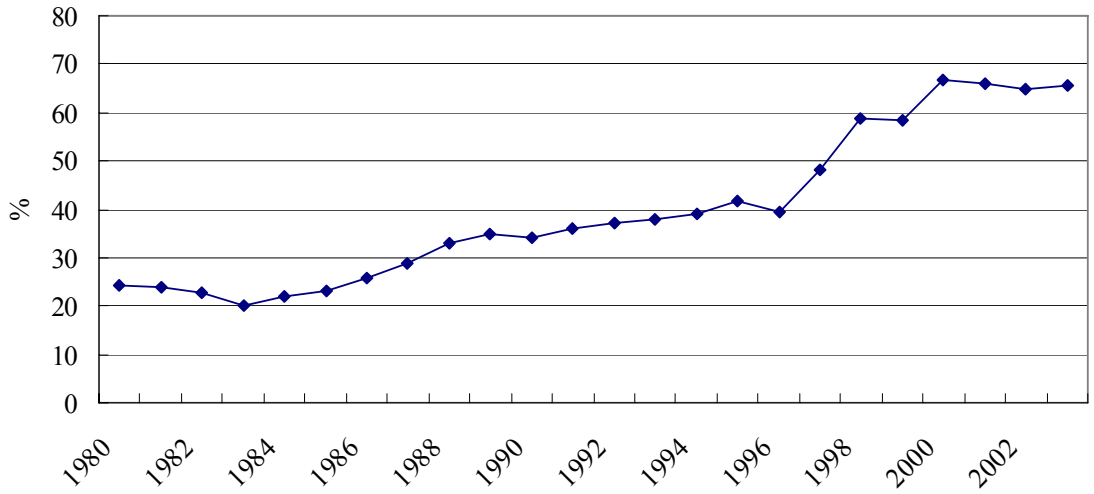
Source: World Bank, World Development Indicators

6.2.2 Trade and direct investment

（1） Trade (export)

Figure 6.3 shows the shift in the ratio of commodity and service exports to GDP in Thailand. The ratio of exports to GDP was only 20%, but from the end of 1980s to the 1990s the ratio increased and in the middle of the 1990s reached more than 50% . From the end of 1990s to the early 21st century, the ratio increased further to 70%. From the 1960s to the 1970s, Thailand promoted a domestic-demand-led economic policy, and exports were mainly primary products such as rice, tapioca, rubber, sugar, and tin. From the 1970s to 1980, the primary product market was sluggish so the policy for export oriented industrialization promotion became important. The remarkable growth in the ratio of exports to GDP during the past twenty five years is a testament to the success of the Thai government's development policy and the further economic growth led by manufacture exports.

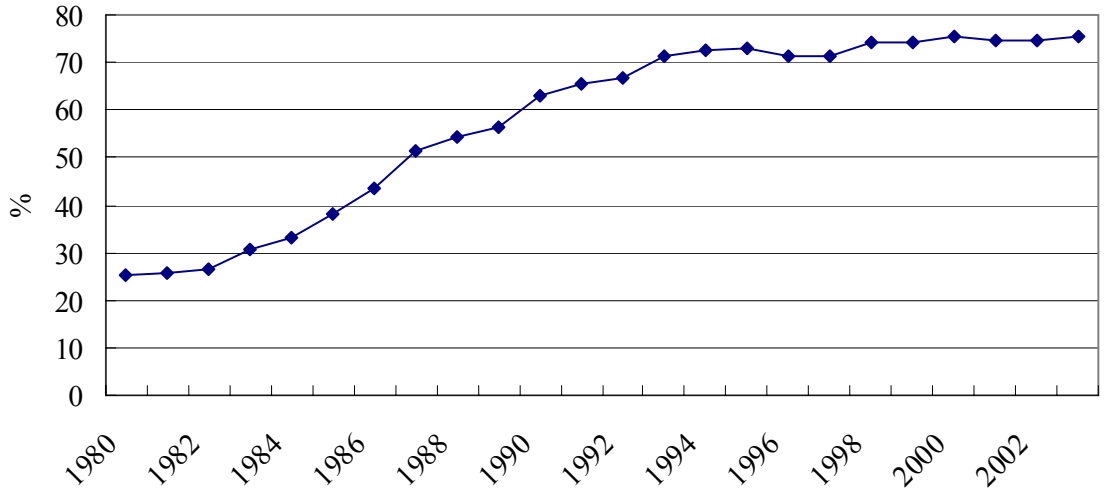
Figure 6-3 The ratio of Thai product / service export to GDP



Source: World Bank, World Development Indicators

The growth of manufacturing exports is clearly demonstrated in figure 6.4, which shows the ratio of manufacturing exports to product exports. The ratio of manufacture exports to commodities was only 20% at the beginning of the 1980s, but by the end of the 1980s it surpassed 50% and in the middle of 1990s it rose above 70%.

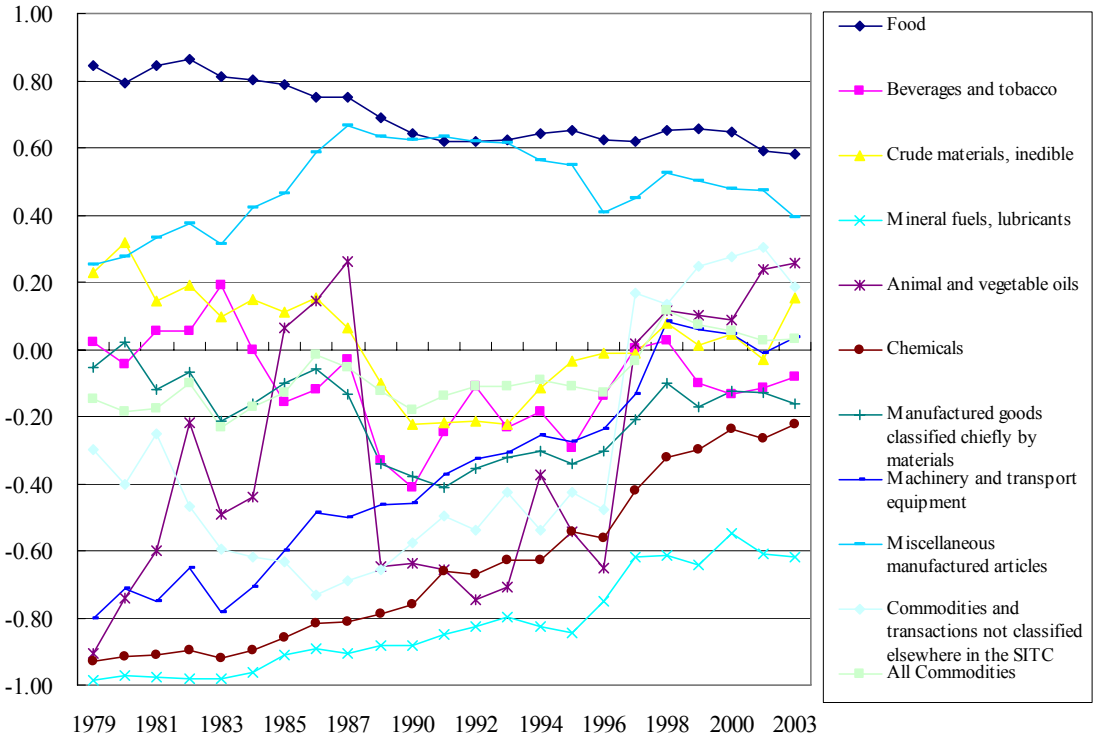
Figure 6-4 Rate of manufacturing sector in Thai export



Note: Information for 2002 was unavailable and thus percentages from 2001 were used instead.

Source: World Bank, World Development Indicators

Figure 6-5 International competitiveness of Thai export items categorized by SITC1



Source: United Nations, Commodity Trade Statistics Database （COMTRADE）

Finally, the shift in international competitiveness in trade sector, especially in manufacture sector, is examined in terms of the international competitiveness indicator, which is calculated by taking the difference between exports and imports and divided it by their sum.

In the classification of items shown in figure 6.5, the manufacturing industry is defined as including chemical products, material products, machinery and transport machinery, and miscellaneous manufacturing. Of these manufacturing industries, miscellaneous manufacturing (mainly textile industry) in Thailand has traditionally, had strong competitiveness, and from the 1980s until now international competitiveness has been growing consistently. In this regard, however, the recent advent of emerging neighboring countries such as China and Vietnam has increased international competitive pressure on the Thai textile industry.

For the past 25 years, the international competitiveness of Thai industries in the chemical products, material products, machinery and transport machinery sectors has consistently increased. The machinery and transport machinery sectors have had the largest export growth. Electronic products computer components, and electronic machinery in particular have boosted exports in this sector.. Also, Thailand has enhanced the industrial agglomeration in automobile sector, which is mainly for production and sales in domestic market. As a result of enhancing agglomeration, exports of automobiles and automotive parts to neighboring countries such as ASEAN countries and China are recently increasing. While Thailand is one of the countries severely affected by the Asian economic crisis in 1997, exports actually increased during this period because the fall of the baht enhanced the competitiveness of Thai exports.

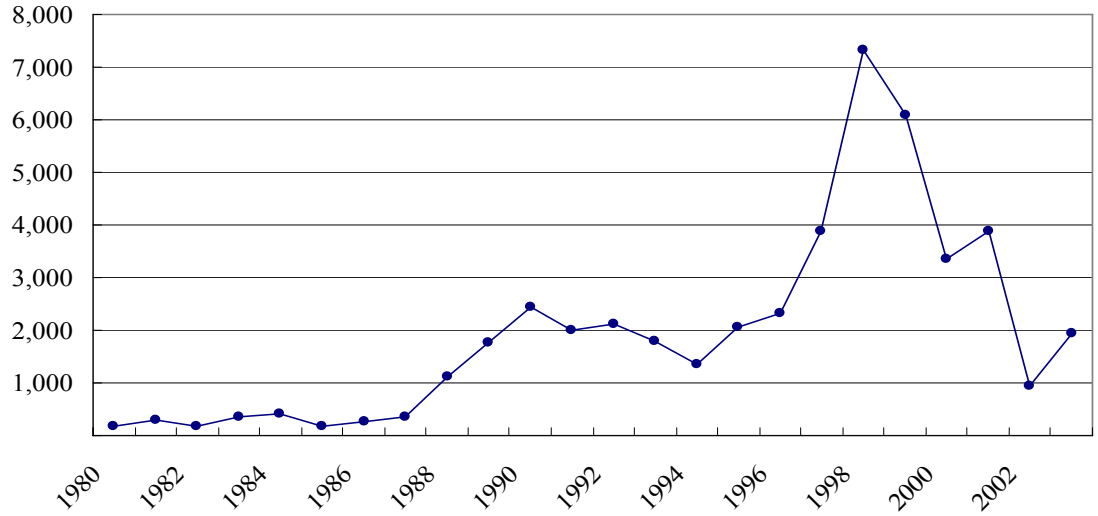
（2）Direct Investment

In the middle of the 1970s, Foreign Direct Investment (FDI) to Thailand dropped, but it recovered toward the end of the decade. It then fell again at the beginning of the 1980s. This was attributed to the fact that the domestic situation in Thailand was unstable and the Indochina situation overall had deteriorated. Otherwise, the stagnation of direct investment is attributed to the import substitution industrialization strategy which Thailand employed at the time. After that, from 1983 to 1984 there was an increase of investment from Japan. The total amount of direct investment however increased only slightly.

Due to the Plaza Accord, during which Japanese companies set up operations overseas, direct investment from Japan into Thailand increased sharply from the end of 1980 to the beginning of 1990's (Figure 6-6). Concurrently, Taiwan was also investing in Thailand next to Japan. Thereafter, the investment boom became calm and investment in Thailand was stable for a while. Since 1996 investment in Thailand started increasing again. In 1997, while Thailand suffered the effects of the Asian economic crisis, investment in Thailand increased due to buyouts of local industries in Thailand and the vigorous exchange of stocks. Later, direct investment to Thailand declined sharply, but in 2003 the amount of investment increased in approval basis compared to the

year before and now there are signs of recovery in direct investment. The recent important investment destinations are the automobile industry and the hard-disc drive sector.

Figure 6-6 Foreign direct investment inflow to Thailand (BoP, current US$)



Source: World Development Indicators

6.3 Trade capacity building in firms

6.3.1 Small and medium-sized enterprises (SMEs) and business group

(1) SMEs

The main focus of this evaluation is on capacity building of local small and medium-sized enterprises, so here the current status of small and medium-sized enterprises is elaborated on utilizing data from "The White Paper on Small and medium-sized enterprises of Thailand in 2003 and Trends 2004" by OSMEP.[48].

According to the industrial structural adjustment plan, enacted after the economic crisis in 1997, the number of small and medium manufacture offices covers 97.6% in 1996. The rate increases to 99.4% in 2004 (Table 6.6). According to sector, every sector of small and medium-sized enterprises has more than 90% share.

[48] Small manufacturers are defined as having less than 50 employees and 50 million baht in capital assets. Medium manufacturers have between 51 and 200 employees and between 50 million and 200 million baht in capital assets.

Table 6-6 The number of large company/small and medium enterprise by sectors in Thailand's manufacture in 2003

Category of business	Total	Large enterprises	Small and medium enterprises	Ratio of SMEs in total in the category	Ratio of SMEs in the category to SMEs in total
Food, Beverages	104,470	268	104,202	99.7%	27.6%
Garment	72,454	177	72,277	99.8%	19.1%
Texitile	57,003	189	56,814	99.7%	15.0%
Automobile, devices	44,894	66	44,828	99.9%	11.9%
Metalworking product (except machines)	27,069	130	26,939	99.5%	7.1%
Houseware	25,294	277	25,017	98.9%	6.6%
Other Nonmetallic product	9,882	73	9,809	99.3%	2.6%
Printing	8,659	66	8,593	99.2%	2.3%
Machinery	5,195	60	5,135	98.8%	1.4%
Leather, bag, shose	4,854	81	4,773	98.3%	1.3%
Rubber, Rubber product	4,906	226	4,680	95.4%	1.2%
Chemical product	3,361	76	3,285	97.7%	0.9%
Paper, paper product	2,137	56	2,081	97.4%	0.6%
Steel	2,052	60	1,992	97.1%	0.5%
Electric engine,tool	2,081	113	1,968	94.6%	0.5%
Radio, TV, Communication device	2,003	179	1,824	91.1%	0.5%
Car, Trailer	1,736	132	1,604	92.4%	0.4%
Other Transport machine	676	13	663	98.1%	0.2%
Tobacco	549	1	548	99.8%	0.1%
Medical instruments	558	26	532	95.3%	0.1%
Other Devices	77	6	71	92.2%	0.0%
Others	413	17	396	95.9%	0.1%
	380,323	2,292	378,031	99.4%	100.0%

Source: OSMEP （2004） The White Paper on Small and Medium Enterprises of Thailand in 2003 and Trends 2004

In 1996, the number of small and medium enterprise employees was 1333.9 thousand ,49.0% of the 2724.6 thousand employees in the manufacturing industry. In 2003, the rate was49.2%, almost the same as in 1996 (ref. Table 6.7). The ratio of small and medium enterprise employees differs greatly by a sector, and ranges from 5.6% to 100%,.

Table 6-7 the number of large enterprise and small and medium enterprise employees by sectors in Thailand's manufacturing industry in 2003

Category of business	Total	Large enterprises	Small and medium enterprises	Ratio of SMEs in total in the category	Ratio of SMEs in the category to SMEs in total
Food, Beverages	485,155	220,188	264,967	54.6%	19.2%
Garment	306,503	121,907	184,596	60.2%	13.3%
Texitile	190,810	50,150	140,660	73.7%	10.2%
Automobile, devices	284,079	151,797	132,282	46.6%	9.6%
Metalworking product (except machines)	245,588	124,349	121,239	49.4%	8.8%
Houseware	130,746	30,284	100,462	76.8%	7.3%
Other Nonmetallic product	196,056	124,079	71,977	36.7%	5.2%
Printing	98,498	36,047	62,451	63.4%	4.5%
Machinery	87,843	30,123	57,720	65.7%	4.2%
Leather, bag, shose	100,493	61,750	38,743	38.6%	2.8%
Rubber, Rubber product	73,282	38,148	35,134	47.9%	2.5%
Chemical product	66,482	35,743	30,739	46.2%	2.2%
Paper, paper product	93,858	65,775	28,083	29.9%	2.0%
Steel	43,829	17,498	26,331	60.1%	1.9%
Electric engine,tool	100,178	74,525	25,653	25.6%	1.9%
Radio, TV, Communication device	44,290	19,609	24,681	55.7%	1.8%
Car, Trailer	198,611	176,459	22,152	11.2%	1.6%
Other Transport machine	32,172	27,327	4,845	15.1%	0.4%
Tobacco	13,698	9,503	4,195	30.6%	0.3%
Medical instruments	1,960	N/A	1,960	100.0%	0.1%
Other Devices	11,989	11,313	676	5.6%	0.0%
Others	7,056	3,259	3,797	53.8%	0.3%
	2,813,176	1,429,833	1,383,343	49.2%	100.0%

Source: OSMEP（2004） The White Paper on Small and medium-sized enterprises of Thailand in 2003 and Trends 2004

Table 6.8 shows the value added by enterprise scale in manufacturing from 1999 to 2003. The value added by the whole manufacturing industry steadily increases. In addition, it shows that during the recovery from the economic crisis small and medium-sized enterprises grew more than large companies and that this continued until 2001.

Table 6-8 The value added by Thailand's manufacture

	1999	2000	2001	2002	2003
GDP（million Baht）	4,637,079	4,923,263	5,133,836	5,451,854	5,939,062
Manufacture value added	1,514,031	1,653,325	1,715,280	1,848,397	2,089,433
Small and Medium Companies	412,996	469,673	495,964	534,534	604,238
Automobile, devices	157,391	177,001	185,975	199,519	225,537
Medium	255,605	292,672	309,989	335,015	378,701
Large Companies	1,101,035	1,183,652	1,219,316	1,313,863	1,485,195
% of GDP	32.7%	33.6%	33.4%	33.9%	35.2%
Small and Medium Companies	8.9%	9.6%	9.6%	9.8%	10.2%
Small	3.4%	3.6%	3.6%	3.7%	3.8%
Medium	5.5%	6.0%	6.0%	6.1%	6.4%
Large Companies	23.8%	24.0%	23.8%	24.1%	25.0%
% of Manufacture value added	100.0%	100.0%	100.0%	100.0%	100.0%
Small and Medium Companies	27.3%	28.4%	28.9%	28.9%	28.9%
Small	10.4%	10.7%	10.8%	10.8%	10.8%
Medium	16.9%	17.7%	18.1%	18.1%	18.1%
Large Companies	72.7%	71.6%	71.1%	71.1%	71.1%

Source: OSMEP（2004） The White Paper on Small and medium-sized enterprises of Thailand in 2003 and Trends 2004

Table 6.9 shows manufacturer exports by company scale. It shows that on a whole manufacturing exports have increased but that small and medium-sized enterprises have had greater growth in exports than larger companies. Small and medium sized enterprises' exports more than doubled between 2000 and 2003, and the ratio of small and medium-sized enterprises' exports to the whole manufacture exports increased to 45.5%.[49] Among export items, the machinery and machine components sector, and the automobiles and automotive parts sector have had conspicuous growth. The manufacturing industry as a whole is comprised of a balanced combination of heavy and light industries (Table 6.10). The top five countries or areas by destinations are Japan, the U.S, Singapore, Hong Kong, and China.

Table 6-9 Exports according to company's scale in Thailand

	2000	2001	2002	2003
Manufacture Export Value (billion Baht)	1,963	2,011	3,164	3,334
Large companies	1,208	1,217	1,954	1,816
Small and Medium Companies	755	794	1,209	1,517
Automobile, devices	38.4%	39.4%	38.2%	45.5%

Source: OSMEP（2004） The White Paper on Small and medium-sized enterprises of Thailand in 2003 and Trends 2004

[49]The report by Yamamoto and Igusa (1996) noted the proportion of small and a medium enterprise in total export in 1994 to be 10%.

Table 6-10 The major export items of small and medium-sized enterprises in Thailand

Items	2002 (million Baht)		2003 (million Baht)		growth rate
Electric and electronic equipment	(1)	209,091	(1)	237,967	13.8%
Machinery, Device	(18)	3,847	(2)	220,604	5634.4%
Textile product	(2)	166,596	(3)	129,092	-22.5%
Automobile, devices	(7)	49,513	(4)	114,450	131.2%
Plastic product	(3)	95,504	(5)	92,682	-3.0%
Grocery	(6)	82,705	(6)	83,692	1.2%
Rubber product	(5)	87,676	(7)	82,254	-6.2%
Jewelry, accessory	(4)	92,419	(8)	58,395	-36.8%
Chemical products	(8)	47,181	(9)	52,854	12.0%
Iron or steel product	(9)	41,042	(10)	36,117	-12.0%
Subtotal of top 10		875,574		1,108,107	26.6%
Others		333,724		408,864	22.5%
Total		1,209,298		1,516,971	25.4%

Note: ( ) show the exports levels by items

Source: OSMEP（2004） The White Paper on Small and medium-sized enterprises of Thailand in 2003 and Trends 2004

(2) Business groups

① Thai Chambers of Commerce（TCC）

The TCC consists of chambers of commerce in each prefecture and 80 economic organizations. In its efforts to promote exports, the TCC cooperates with the government, and accompanies top governmental officials on their travel abroad on dispatch missions. Also, regarding human resource development, TCC provides training and consulting services for member companies.

② Federation of Thai Industries （FTI）

FTI has more than 6000 member companies of which 75% are small and medium-sized enterprises. FTI established the Human Capacity Building Institute (HCBI) which provides training programs for member companies. For example, in 2004, FTI had 76 training programs and 1290 participants. It also has seminars for 4000 participants and industrial plant visit programs for 150 participants. FTI has a close relationship with the Department of Export Promotion (DEP) and the Board of Investment (BOT), both of which corporately accept missions and dispatches. The chairman of FTI also has a position on the BOT.

6.3.2 Trade capacity building of the private sector

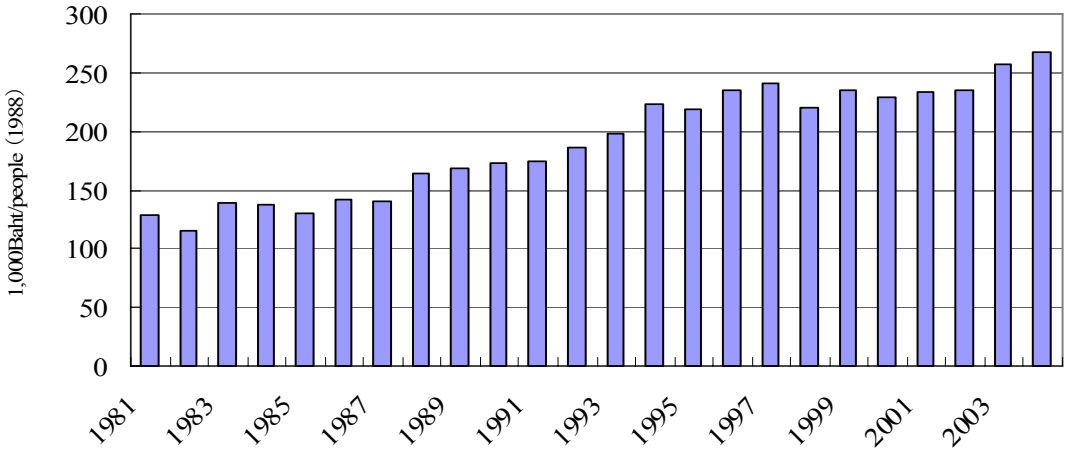
This section analyzes the process of export capability building in the corporate sector based on Actor Factor analysis. The export capability of companies within an industry is judged according to their strengths in three areas: ”policy and measure (“P” factor)”, ”human resource and organization (“R” factor)”, and knowledge and skill (“K” factor), each of which measured by an alternative indicator.

The alternative indicator for ”policy and measure (“P” factor)” is labor productivity in manufacturing (the amount of the value added by employee), for ”human resource and organization (“R” factor)” it is the ratio manufacture employees to all employees in the economy, and for knowledge and skill (“K” factor) it is crude enrollment in secondary school.

In selecting these alternative indicators, special attention was paid to creating indicators that captured not just the capabilities of companies currently exporting , but also the potential capability of all companies. Because it is difficult to set up an indicator for the ”policy and measure” category that gives a comprehensive evaluation of companies’ actions, changes in labor productivity that result from company actions was used. Because of limitation of data collection, the two indicators for ”policy and measure (“P” factor)” and ”human resource and organization “R” factor” include not only small and medium enterprise but also whole manufacture companies. Similarly, the indicator for “education and skill (“K” factor)” includes not only manufacturing but industry in general. It is assumed that each indicator still maintains its relevance.

While the labor productivity in Thailand steadily increased with some variation, the productivity level remained at lower level than in developed countries’. For example, Thailand’s labor productivity in 2000 was 6,616 dollars in terms of current U.S. dollar value, which is higher than Indonesia and Philippines in the same year, while Japan’s labor productivity was 73,864 dollars using the same measure[50]. It is conceivable that the disparity results from the difference in the capital intensity of industrial technology between Thailand and Japan, but in any event the disparity is still huge.

Figure 6-7 Labor Productivity of Thai manufacturing sector

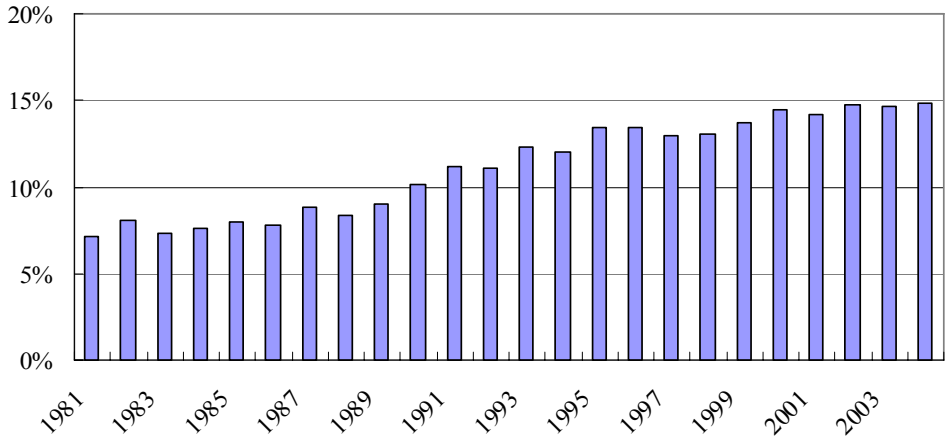


Source: ADB Key Indicators

[50] Calculation based on public data by Ministry of Internal Affairs and Communications, Bureau of Statistics in 2006

The ratio of manufacturing employees to total employees has steadily increased. With the strong competitiveness of agriculture sector, the rate of manufacturing has been stable at a lower level. The rate is lower than in Malaysia and higher than in Indonesia and the Philippines.

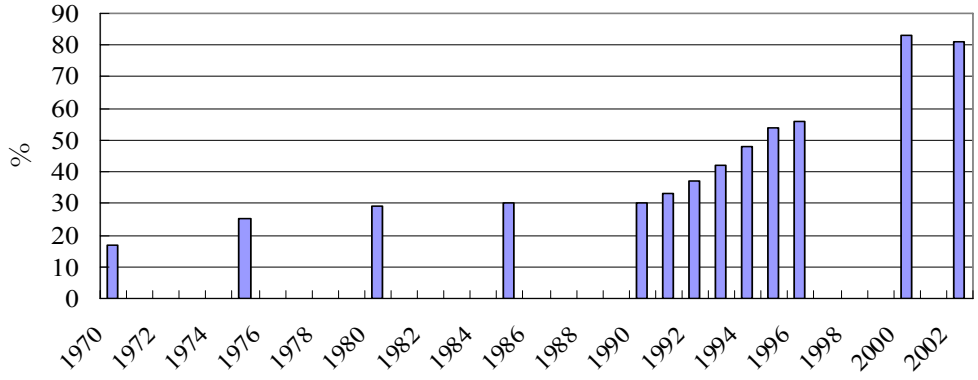
Figure 6-8 The proportion of employees in the manufacturing sector in Thailand



Source: ADB Key Indicators

While it has been pointed out that Thailand's secondary education rate has not kept pace with its economic development, secondary education enrollment has in fact greatly increased since the 1990s. In the beginning of the 1980s, the rate of crude school enrollment was less than 30%, but currently it is more than 80%. While the rate does not reach the level in advanced industrial nations, it is comparable with the Philippines, which had the top level in the ASEAN region for years[51].

Figure 6-9 The secondary school enrollment in Thailand



Note :Data is not available for 1971~1974, 1976~1979, 1981~1984, 1986~1989, 1997,and 1998

Source: Global Education Database

[51] The crude secondary school enrolment rates of developed countries in 2000 are as follows; Japan 100%, Canada 98%, the UK 95%, France 92%, Korea 91%, Australia 90%, Germany 88%, the U.S. 87%(Global Education Database)

Local industries such as small and medium-sized enterprises and supporting industries are more competitive than companies in other countries in this research. In certain industries, it is the case much of the capital comes from foreign investors but in the export sector,to a certain degree local industries make contributions as well. Overall, the Thai trade sector has transitioned from the System-working Stage to the Self-management Stage.

6.3.3 Self –analysis of trade capacity by enterprises

In questionnaire research for enterprises, which was conducted as part of this evaluation, subject enterprises were asked for a self-evaluation of their competitiveness. In the following chapter, the present status of enterprise export capacity is analyzed based on the result of these questionnaires.

(1) General overview of recipient companies

Questionnaires research in Thailand was conducted based on a list of 400 enterprises which Thai Thammast University posses, and 24 enterprises answered. Among these enterprises, eight were small and medium-sized enterprises and seven were large enterprises 2000,[52] and nine were small and medium-sized enterprises and seven large enterprises in 2004.[53][54] Based on the result of the questionnaires the characteristics of small and medium-sized enterprises are analyzed in the terms of (A) business model (B) industry field (C) major export destination ,and (D) foreign capital ratio,.

(A) Business model

In terms of business model, enterprises were asked to categorize themselves into one of four categories, (1) manufacturing and direct exporter (2) manufacturing and indirect exporter (3) non-manufacturing and exporter (4) other (or you can say “none of the above”). Nineteen out of twenty four enterprises answered (1) in 2004. One enterprise answered (2) and two enterprises answer (3).

(B) Industry

All respondents were either from the food industry or the fiber/clothing industry due to the small number of participants. A detailed breakdown of the enterprise categories of those companies that answered “other” is given in Table 6.12.

[52] Although “small” and “medium” refer to enterprises with total assets of less than a billion baht in Thailand, in the interests of comparison with other countries, the World Bank size criterion, which defines such industries as having less than 300 employees, is employed in this chapter.

[53], There were no answers concerning the size the firm from the remaining 8 enterprises in either 2000 or 2004.

[54]Because there are some enterprises which didn’t give valid answers for all items, and there are some questions which allow multiple answers, the total number of answers and enterprises don’t match.

Table 6-11 Industries reported in answers

Food	Apparel and textile	Pulp and paper	Chemical	Medical goods	Petroleum and coal product	Wood product	Rubber product	
12	4	0	0	0	0	0	0	
Glass, soil and stone product	Iron and steel	Nonferrous metal	Metal products	General machinery and parts	Electric equipment and parts	Transport equipment and parts	Precision equipment and parts	Others
0	0	0	0	0	0	0	0	8

Source: The questionnaire interview by the study team

Table 6-12 Detailed categorization of "other" in 2004

Breakdown of Others

Types of Industries	
Plastic ornament	1
Dog food	1
Resin perfume bottle	1
Rice Craclurs	1
Doll toy	1
Unknown	3

Source: The questionnaire interview by the study team

(C) Export Destination

The most common destinations for exports were ASEAN and North America both of which were listed seven times. Other destinations, listed from most to least common were East and West Europe, Latin America, Japan and China. Although the number of sample enterprises was limited, these results are consistent with general export trends in Thailand ,which show strong export activity to Asia centering on ASEAN, America centering on North America, and Europe.

Table 6-13 Answers for major trade destinations in 2004

Major export market	Number of Companies
ASEAN	7
Japan	3
China	3
South Korea	1
Central Asia	0
South Asia	1
Middle East	3
Western Europe	5
Eastern Europe	4
Africa	0
North America	7
Central and South America	4
Oceania	1
	39

Source: The questionnaire interview by the study team

(D) Major destination of export

As for the destination of export, the number of enterprises which answered ASEAN and North America was both seven, and the largest, followed by that of enterprises answered East and West Europe, Latin America, Japan and China. Although the number of sample enterprises was limited, the result that the export to Asia centering on ASEAN, America centering on North America, and Europe was large was consistent with general trend of export in Thailand.

(E) Analysis of small and medium-sized enterprises based on questionnaires

The questionnaire research asked the subject enterprises to evaluate themselves on (1) production (2) production development (3) marketing (4) trade business, in terms of three factors (a) total competitiveness (b) the number of expert and skillful staff members (c) technique and know-how. The questionnaire asked about (b) and (c) under the assumptions that these items are important factors in the development of (a). Due to the limitations of self evaluation the results may not offer an objective standard. However, real change between 2000 and 2004 can be inferred from the difference in responses between 2000 and 2004, and relative standard of capacity building can be inferred from the results of 4×3 factors in the questionnaire.

Comparing answers from the enterprises in 2000 and 2004, all items and factors were evaluated at an average of more than 3 points in both 2000 and 2004, and more than half the items and factors

improved from 2000 to 2004. (Ref. Table 6.14)

Table 6-14 Self evaluation of business capacity

			Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged
.Evaluation of own company's performed work	Production	Overall Competitiveness	◎			
		Number of Skilled/Specialized Staff				◎(+)
		Technology/Know-how				◎(+)
	Product Development	Overall Competitiveness				◎(+)
		Number of Skilled/Specialized Staff	◎			
		Technology/Know-how	◎			
	Marketing	Overall Competitiveness	◎			
		Number of Skilled/Specialized Staff	◎			
		Technology/Know-how	◎			
	Trade business	Overall Competitiveness				
		Number of Skilled/Specialized Staff	◎			◎(+)
		Technology/Know-how				◎(+)

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3.◎(－) indicates that the average score was below three and the sample did not improve after four years.

4.◎(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author

Based on the result of questionnaires, increases in sales and exports from 2000 to 2004 and the self-evaluations of companies that responded both in 2000 and 20004 are shown in Table 6.15. In this figure, enterprises are listed in order based on increases in sales and exports[55].

As for the correlation between export performance and enterprise capacity, the analysis of questionnaire results conducted in Indonesia in chapter three showed that enterprises which have high export performance and export highly-processed products generally have a high evaluation of their capacity, and enterprises which have high export performance but export minimally-processed productsdo not necessarily have a high evaluation of their capacity.

On the other hand, it was hard to analyze whether they have similar tendencies because the small number of sample enterprises and the disproportionate representation of the food and textile industries. However, it is interesting that a positive correlation can be seen between self evaluation of enterprises and export performances. In other words, all enterprises which gave themselves a 5-point score in at least one aspect of their capacity improved their export performance from 2000 to 2004.

[55] Enterprises that didn't answer the export value or business field questions were excluded from the figure

Table 6-15 Answers on export performance and self-evaluation on trade capacity

Company	Products (2004)	Sales amount (1,000 baht)			Export Value (1000 baht)			Production		Product Development		Marketing		Trading business	
	Items	2000	2004	Increase	2000	2004	Increase	Number of Skilled/Specialized Staff	Technology/ Know-how	Number of Skilled/Specialized Staff	Technology/ Know-how	Number of Skilled/Specialized Staff	Technology/ Know-how	Number of Skilled/Specialized Staff	Technology/ Know-how
Company1	frosten food	44,736	161,748	262%	N/A	93,270	N/A	4	4	4	5	4	4	4	4
Company2	resin perfume bottle	5,000	15,000	200%	4,000	15,000	275%	5	4	4	4	5	4	4	5
Company3	Bamboo Shoot/ Mushroom	4,000	7,000	75%	4,000	7,000	75%	4	3	3	3	4	3	3	3
Company4	canned vegetable	60,000	99,000	65%	20,000	32,000	60%	4	4	4	4	5	4	4	3
Company5	coccnut milk product	469,000	722,000	54%	79,300	40,100	-49%	5	4	4	4	4	4	4	4
Company6	fresh vegetable	130,000	200,000	54%	100,000	150,000	50%	4	4	4	4	5	4	5	4
Company7	seasoning	120,000	180,000	50%	5,000	20,000	300%	4	4	4	4	3	3	4	4
Company8	dog food	400,000	580,000	45%	180,000	300,000	67%	4	5	N/A	N/A	4	4	4	4
Company9	cloths	72,000	102,000	42%	55,000	80,000	45%	4	4	4	4	4	4	4	4
Company10	textile	52,000	64,000	23%	48,000	60,000	25%	4	4	4	4	3	4	3	3
Company11	instant noodle	1,298,000	1,575,000	21%	261,000	309,000	18%	5	5	5	5	5	5	5	5
Company12	dried food	50,000	50,000	0%	0	0	0%	4	3	3	4	4	3	3	3
Company13	prawn	1,205,192	1,118,888	-7%	999,658	958,264	-4%	4	4	4	4	4	4	4	4
Company14	doll toy	10,000	8,000	-20%	2,000	1,500	-25%	3	3	3	3	3	3	3	3
Company15	canned fish	106,100	61,300	-42%	N/A	22,800	N/A	4	3	4	3	3	3	4	3
Company16	plastic ornament	194,198	84,770	-56%	194,198	16,986	-91%	4	4	4	4	4	4	4	4

Column5: Case studies of Thai Enterprises

In this research, interviews were conducted parallel to the questionnaire. The following articles are a summary of the export trend and capacity of Thai enterprises based on these interviews.

1. Thai Enterprise A (Bangkok, major exporting product: clothing)

This company manufactures clothing (sweaters) and exports one hundred percent of its products as OEM (brand names such as Adidas). Exports to North America,makes up 80% of the total output with 15% going to Europe, and the remaining 5% to Asian countries including Japan. Although the number of employees was 100 in 1981 when the company was established, due to rapid growth after the middle of 1990s, it grew to 1200 employees in 1999, and now this company has approximately 2000 employees. This company has a factory on the outskirts of Bangkok. It was not affected by the Asian economic crisis because it relies on export and the export destinations were stable. In addition, when it faced difficulty in funding during the currency collapse, received aid from its parent company.

This company received government support from organizations including the Thai Japanese Technology Promotion Institute, and the Thai Productivity Center and private support from, among others, the Thai Garment Manufacturer Association. It was somewhat satisfied with ths support. This company's interest in recent years is in new investment, facility investment, recruiting human resources from other companies, and obtaining ISO (9001), through which this company is increasing its global competitiveness with a focus on exports. Consequently, assuming the present support measures, this company does not much expect from governmental programs in the future.

2. Thai Enterprise B (Bangkok, major exporting products: Air conditioners and their parts)

This company is a typical family business enterprise. It manufactures air conditioners and their parts. It sells 80 percent of its products in domestic markets and exports the rest of them as CKD, OEM and under its own brand name. Its exports is go mainly to the Middle East and India. There are import firms in these counties and this company exports its products by using this sales channel.

At the time of its establishment the company manufactured metal processing parts (metal frames). After procuring compressor from domestic manufacturer[56], it began to manufacture completed products starting in2002 by using the same technique required to manufacture frame parts. Since it was affected by the Asian economic crisis, its production and sales decreased, and its staff declined

[56] According to the interview, there are three Thai domestic companies which have capability to manufacture compressor. From one of these three, this company procures compressors.

from 200 (1999) to 80 through restructuring that include closing one factory.
This company has never used governmental export support programs. As for private sector services, although the Air Conditioning Manufacturer Association provides information and holds seminars, this company does not consider these services to be helpful. Rather, its major desire is for the government to reduce its tax burden; current tax law, requires companies to pay both VAT and luxury tax.

(3) Thai Enterprise C (Bangkok, major exporting product: Frozen food
This company manufactures and exports frozen sea food. It developed from a family business started by Chinese immigrants. This company exports 90% of its products. For example, it purchases fish, processes it by hand, and exports to Kyokuyo Co. Ltd. in Japan. In addition, this company established import firms, and exports to the U.S. market through these firms. Its employees numbered 4500 in 1999, and it currently employs 6000. Because this company relies on exports, it was not affected by the Asian economic crisis, which in fact increased its exports due to the weak baht. This company decided to establish a joint frozen sea food processing corporation with Kyokuyo Co. Ltd. This company has ISO9000 and ISO14001. It is located near Lame Chabang port, which is well-suited for export and allows it to maintain the freshness of its foods. The company basically trains its employees by itself. (However, this company has received Japanese experts in transferring technology from Kyokuyo. Co.) As for government exporting support services, this company has participated in seminars and received information, and is satisfied with these services. This company is ranked within the top five in this field in Thailand, but companies in China and Vietnam are strong competitors in the international market.

6.4 Capacity building of the government to expand Thai export

6.4.1 Government agencies provide service related to export

Trade related government organizations are listed based on JICA(2003) (See Table 6.16)
Although major management organizations are listed on each column concerning roles, in terms of development of fundamental policy and law, the Ministry of Commerce (MOC, Ref. Figure 6.10) and the Ministry of Industry (MOI) are important organizations.

Under the organizational controls in the actual policy system, each ministry develops its own action plan based on the requirements of the National Economic and Social Development Plan. Although both MOC and MIC develop these plans, they are not made public. For example, in the case of MOI, issued policy directives are compiled in the ““policy and measures” of the Ministry of Industry”

report.

After the inauguration of Taksin Administration in 2001, the government amended its exclusive devotion to “foreign capital/foreign demand (single track)”, and adopted “dual track agenda” that put emphasis on the balance between foreign capital/foreign demand and domestic capital/domestic demand. There is no question as to the importance of development of the domestic capital. As to the domestic demand, both domestic and foreign markets are under global competition in the liberalization, the capacity development that is conscious of global competition is needed. It is particularly noted that the government, as “a global leader of the niche market”, has concretely selected its future critical industry. Especially, food, automobile, sightseeing, fashion, and software (graphic design) are selected as the top priority. It is remarkable that electronics industry that is a main export industry of Thailand is not included in the critical industry[57].

[57] JETRO (2004)

Table 6-16 The list of government agencies related to Thai international trade

Government function in trade sector (Large items)	Government function in trade sector (Small items)	Examples	
Establishing Basic Conditions	Legal System Development for Commercial Transactions	Development of Civil laws, Commercial laws, Registration laws, Rehabilitation, reorganization and Bankruptcy law, Antitrust law, Immigration law and alien registration law	
	Provision of Economic Infrastructure	Transportation Infrastructure, Electricity generation, Transmission and Distribution Infrastructure, Telecommunication Infrastructure, Financial System, Standards and conformity Assessment System, Intellectual Property Rights, Statistics	Ministry of Transportation
	Creation of Business Environment for Domestic Industries	Various forms of deregulation to promote new entries into the market, Establishing financial institutions, Promoting research and development activities, Supporting business services for small and medium enterprises	OSMEP
	Industrial Human Resources Development	Human resources development for science and mathematical education, as well as information technology education at elementary and intermediate levels of schooling, and High level specialized skills, English education, Certified engineers systems, Vocational training and job matching	ITTI, Ministry of Education
Automobile, devices	Formulation and Implementation of Industrial and Trade Policies Based on Medium- to Long term Perspectives	Formulate and implement their industrial and trade policies and implement WTO agreements	Policy and Strategy Bureau (MOI), Office of the Export Planning (DEP)
	Establishment of Trade related Laws, Regulations, and Institutions	Basic Laws on Export and Import, Basic Laws on customs, Import-related laws （Quarantine Law), Export processing zone, Trade-related financial system(Trade insurance, export finance), Establishment of export promotion organization	Office of the Export Planning (DEP)
	Trade-related procedures	Test, Inspection, Custom, Quarantine	DTN(MOC), DIP (MOC)
Export support service	Providing information on the overseas markets	Organizing marketing seminar, trade shows and exhibitions of products	ITTI
	Providing information on Foreign and domestic trade procedures, Incentives	Foreign trade system, procedure and business custom, Information on incentives, Strengthening of functions of trade promote organization	DEP
	Fostering Viable Private Sector	Management and technical guidance, Training for Product development and agrotechny	ITTI, Product Development Center (DEP)

Source: JICA-Institute for International Cooperation (2003) "Approach for systematic planning of development projects (Trade and Investment Promotion)"

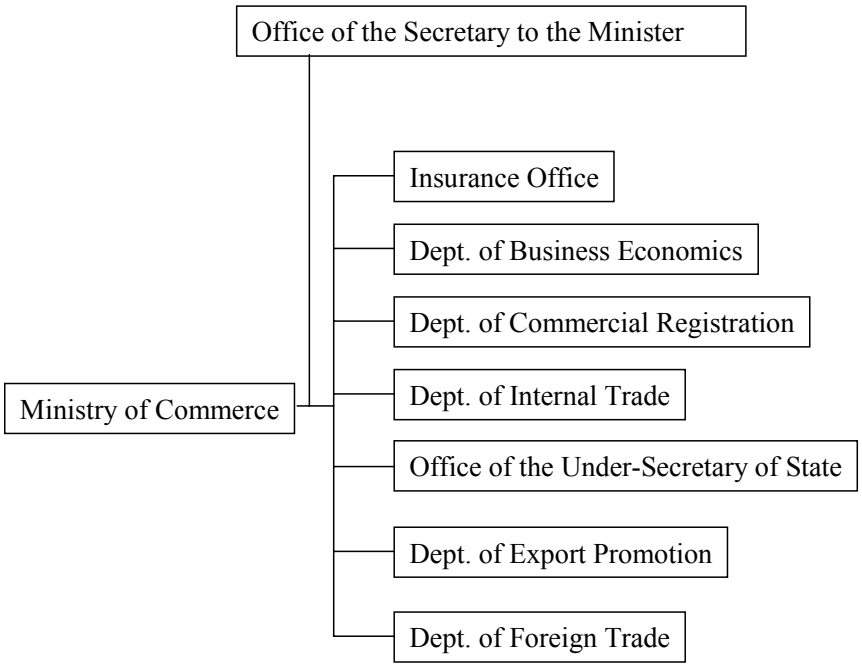
（1） Department of Export Promotion （DEP）, Ministry of Commerce

The DEP was established in 1952, and since then the number of its officials increased from around 50 to 833 (with 216 working overseas). During this period, export promotion policy evolved from the research-centered system of the 1950s to the mature export-oriented policy of the 1980s.

Recently, the Office of OTOP and the Office of Special Taskforce were established, and the number of offices increased to 18. (Ref. Figure 6.12)　The integration of MOC and MOI, which is planned for after March 2006, is expected to improve efficiency. Since 1999, its annual budget has remained at 0.9 billion baht. Although its Roadmap is produced as a part of the National Economic and Social Development Plan (under the control of NESDB), it is not made public.

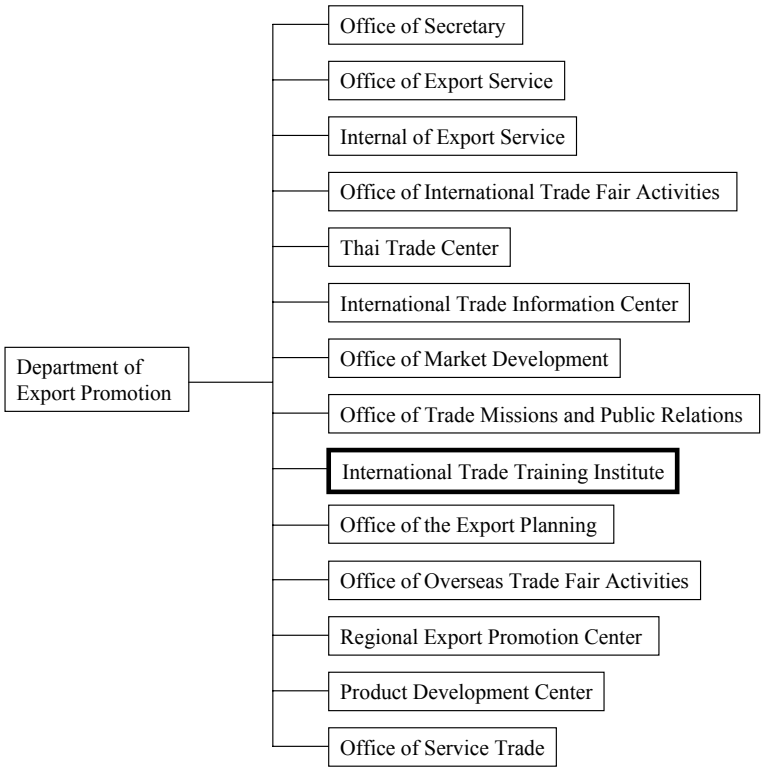
The Trade Training Center established by Japanese grand aid and JICA-support has now become the International Trade Training Institute (ITTI). While ITTI does not provide training on a large scale, it has accepted trainees from CLMV countries since three or four years before (described later). DEP has in the past accepted cooperation from JETRO, Dutch CBI, and the International Trade Center (ITC).

Figure 6-10 Organization of the Thai Ministry of Commerce



（Source）MOC Website

Figure 6-11Organization of the Department of Export Promotion （DEP）, Ministry of Commerce



Source: DEP Website

（2） International Trade Training Institute （ITTI）, Department of Export Promotion （DEP）, Ministry of Commerce

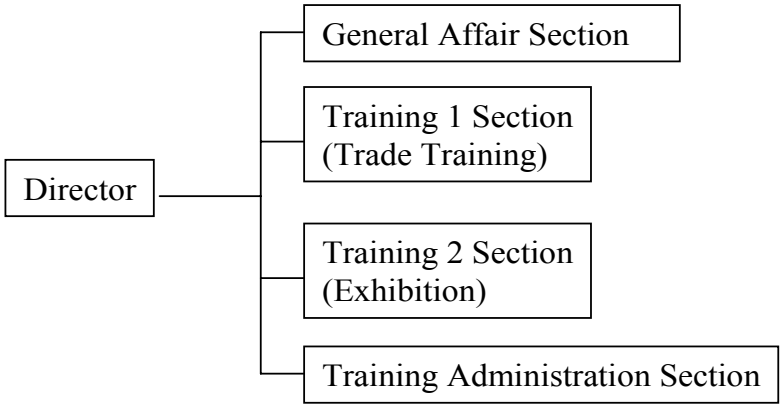
ITTI (former ITTC (International Trade Training Center) implements 86 training courses and seminars per year. It employees 25 staff members, who are in charge of planning and implementing these training courses・seminars. They rely on outside instructors, 80 percent of which are assigned by private organizations, and 20 percent of which come from governments. Export inspection training, which was implemented at that time of the projects, is no longer carried out. The inspection instruments provided by our country were transferred to MOI. JICA and JETRO supported ITTI shortly after the project ended, but they don't have a direct co-operative relationship at present. ITTI doesn't receive support from other countries. Although its conference halls and attached seminar rooms are well maintained, there are only two of the latter,, which makes it small in comparison to centers in other countries. In the exhibition hall, an exhibition booth displaying export products was permanently installed and many people visited. After the Plaza Accord in 1985, the trade investment environment in Thailand dramatically changed, and it cannot be denied that the position of ITTC has

become relatively smaller since then.

The Regional Export Promotion Center (REPC) was established simultaneously with the DEP around 15 years ago and has offices in the same five locations as the latter.. Not only local export promotion operations, but also training courses・seminars are held using ITTI resources. The total number of training courses and seminars when summed over all offices, is fifteen per year.

Government organizations like ITTI implement training about fundamental know-how such as export procedures. However, because quality improvement and expert knowledge is essential for enterprises, private training organizations began responding instead to these needs.

Figure 6-12 Organization Table of International Trade Training Institute in Thailand



Source: Documents of ITTI

Table 6-17 Summary of export promotion activities by Department of Export Promotion (DEP) in Thailand (2003)

	Exhibitor (Number)	Attendant (Number)	Sales Worth (US million	
			Actual	Potential
International Exhibition in	3636	15640	21	120
Bangkok Gems and Jewelry Fair	1264	20750	257	515

	Participant Company (Number)
Overseas International Trade Exhibition	1252

	Participant/Buyer (Number)
Trade Mission	29000

Source: Based on Annual Report（2003）of Department of Export Promotion（DEP）

Related government organizations other than DOC are as follows

（3）OSMEP (Office of Small and medium-sized enterprises Promotion）

OSMEP was established in 2001 as a focal point not only for the manufacturing industry but also for the comprehensive promotion of small and medium-sized enterprises (SMEs) including the commercial・service industry. There were 60 officials at the time of establishment and , that number has since increases to 237. Among officials, less than 10 are from the government and the rest of them are from private groups. OSMEP develops the SME promotion master plan and action plan. The goal for the first plan from 2002 to 2006 was 6 percent growth of the SME export rate, but in 2004, it met and exceeded this goal, with a 22 percent growth over the previous 2 years. OSMEP is now planning its second plan, and it plans to narrow down priority industries, then develop a detailed plan taking into account entrepreneurial and growth periods. Although there are around 50 government・non-government organizations which are targeted in Master Plan (MP), since OSMEP has no authorization for budget allocation, it will face difficulties in implementing the plan. OSEMP does not have any record of receiving support.

（4）BSID (Bureau of Supporting Industry Development, Department of Industrial Promotion, Ministry of Industry）

The Industrial Service Division (former BSID) began its work more than 30 years ago, and at the time specialized in metal processing. It became an independent bureau in 1988, established a new division including plastic molding in 1996, and became the present BSID. BSID mainly targeted agricultural machines at that time, but has shifted its emphasis to the auto industry and metal molding at present. BSID receives support from the New Energy Development Organization, and JETRO besides JICA. In FY 2004, it had 138 officials and a budget of 100,000 baht, but in FY 2005, its budget is expected to be cut in half because the budget will be directly allocated to implementing organizations such as the Thai German Institute. OSMEP and DEP do not necessarily have a close coalition.

6.4.2 Trade capacity building in the government sector

Starting with the Department of Export Promotion (DEP), export promotion capacity by the government sector has steadily been developed. Export-oriented industrialization begun in the 1970s supports the exports of not only foreign-capitalized enterprises but also domestic enterprises, and in this context, support to the Trade Training Center was implemented in 1983. The Small and Medium Enterprise Promotion Law was enacted in 2000, the Office of Small and medium-sized enterprises Promotion (OSMEP) was established in 2001 as a focal point of small and medium enterprise

promotion, and the organization of DOI was reformed to emphasize small and medium-sized enterprises and supporting industries. Consequently, these reforms enabled the autonomous development of a system which supports businesses from both sides by strengthening the competitiveness of enterprises (small and medium enterprise promotion) and through foreign marketing (narrowly defined export promotion) about export of small and medium-sized enterprises. The staff at the DEP and OSMEP has sufficient expertise, and are eager to work.

Although some believe that the DOC and DOI should be integrated, strong leadership from the Office of the Prime Minister during the Thaksin administration has generated a productive coalition between the two departments, and as such talks of a merger have so far been moot.

Figure 6-13 Trade capacities building in the government sector

	1960	1970	1980	1990	2000
Policies and measures (Related laws and mid-term plans)	Investment Encouragement law (1960)				
		Revision of Investment Encouragement Law (1972)			
			Export Processing Zone Law (1977)		
			Investment Promotion Law (1977)		
					Small and Medium Enterprises Promotion law(2000)
			The Fifth Five Years Plan (1982-1986)		
					Small and Medium Enterprises Promotion Master Plan(M/P)(2000)
Human resources and organizations (Related specialized organization)	Department of Export Promotion (DEP, 1952)				
	Board of Investment (BOI, 1959)		International Trade Training Institute (ITTI, 1983)		
					Office of Small and Medium Enterprises Promotion (OSMEP, 2001)
					Reorganization of Department of Industrial Promotion (2001)
Knowledge and skills (Statistics, White paper)			Annual Trade Statistics(1983)		
				DEP Annual report(1998)	
					OSMEP White paper (2004)

Source: The author

6.4.3 Evaluation by private sector of the government in supporting export

In this chapter, ,government export promotion policy and trade related services, and the trade related services of industrial organizations are investigated and evaluated based on the results of questionnaires given to enterprises

When evaluating government export promotion measures enterprises expressed improved satisfaction with more than half the policies/services about which were asked. (Ref. Table 6.18) Policies/services that showed improved satisfaction were further categorized into three groups divided according to whether the evaluators: (1) Noted further improvement to an already satisfactory rating, (2) Shifted their evaluations from a negative to positive evaluation rating, or(3) Rated it improved but still unsatisfactory. Certain types of infrastructure (communications, water service) fell into category (1), Logistic infrastructure, certification systems for government standards,

training programs for engineers in human resource development, response to trade liberalization (reduction of tariffs for material imports, removal of export interference), establishment and operation of export processing zone, and facilitation of customs procedures fell into category (2). Legal systems and operations, human resource development other than training programs for engineers, and industry and trade promotion policy (financial support and tax incentive) fell into category (3). On the other hand, electricity supply infrastructure was rated as having shown little improvement, and respondent saw reform efforts as having little real effect.

In summary, effective reform can be seen in many areas, especially in infrastructure development and trade related items. However, human resource development services other than training for engineers and industry and trade promotion are still rated poorly although there has been some improvement in the satisfaction level with these programs.

Table 6-18 Evaluation of policy measures to support export

			Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged
Evaluation of The Government's Export Promotion Measures	Improvement of legal systems				◎	
	Infrastructure building	Logistics		◎		
		Electricity				◎(+)
		Communication	◎			
		Water Supply	◎			
	Standard certification system			◎		
	Human resources development	Elementary and secondary education			◎	
		College/University education			◎	
		Vocational education			◎	
		Training programme for engineers		◎		
	Industrial and Trade development policy	Financial support			◎	
		Tax preferences			◎	
	Response to the trade liberalization	Reduction of import tariffs for raw materials		◎		
		Reduction of obstacles for foreign export		◎		
	Establishment and operation of the export processing zone			◎		
	Efficiency of the customs procedure			◎		

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3.◎(-) indicates that the average score was below three and the sample did not improve after four years.

4.◎(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author makes the table according to the research.

The evaluations of trade related services provided by government and industry organization were compared in Table 6.19. As for the evaluation of government-provided trade-related services, no services fell into category (1) (Improve satisfactory rating). Training seminars about production, and the provision of information about product development and marketing fell into category to(2) (Shifting negative to positive evaluation). All three programs dealing with individual consulting about manufacturing and product development, individual consulting about marketing and training seminar, and trading business fell into category(3) (Remain in unsatisfactory condition in spite of

improvement) On the other hand, the provision of information about production, training seminars for product development, and marketing fairs and exhibitions were all rated as having had little improvement. Among these, the provision of information for manufacturing and the training seminar for manufacturing averaged ratings of less than three points, and seem to remain in unsatisfactory condition. In summary, although there are some positive evaluations, because there are many unsatisfactory items including some which remained below average and saw little improvement, the overall evaluation of government-provided trade-related services is low.

As for the evaluation of trade related service by private sectors such as industry organization, no services fell into category(1) (Improved satisfactory rating). Other than marketing fairs and exhibition, all items fell into category(2) (Shifted from a negative to positive evaluation). There were no items in category (3) (Remains in unsatisfactory condition in spite of improvement). Marketing fairs and exhibitions were judged as having had little effective improvement and on average were rated below three points . In summary, all items except marketing fairs and exhibitions received positive evaluations, and thus the overall evaluation of these services has improved.

While many government-provided services received poor evaluations, most private services provided by industry organizations were evaluated positively, and more highly evaluated overall. Thus private-sector services are comparatively well-rated

Table 6-19 Evaluation of trade-related service provided by governments and the local business groups.

			Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged*
Evaluation of trade-related services for companies by the government	Production	Individual counseling, Consulting			◎	
		Training, Seminar		◎		
		Provision of information				◎(－)
	Product development	Individual counseling, Consulting			◎	
		Training, Seminar				◎(－)
		Provision of information		◎		
	Marketing	Individual counseling, Consulting			◎	
		Training, Seminar			◎	
		Trade Fair, Exhibition				◎(＋)
		Provision of information		◎		
	Trading business	Individual counseling, Consulting			◎	
		Training, Seminar			◎	
		Provision of information			◎	
Evaluation of Trade-Related Services for Companies by the Business Sector	Production	Individual counseling, Consulting		◎		
		Training, Seminar		◎		
		Provision of information		◎		
	Product development	Individual counseling, Consulting		◎		
		Training, Seminar		◎		
		Provision of information		◎		
	Marketing	Individual counseling, Consulting		◎		
		Training, Seminar		◎		
		Trade Fair, Exhibition				◎(－)
		Provision of information		◎		
	Trading business	Individual counseling, Consulting		◎		
		Training, Seminar		◎		
		Provision of information		◎		

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3.◎(-) indicates that the average score was below three and the sample did not improve after four years.

4.◎(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author makes the table according to the research.

6.5 Thai capacity development in trade and evaluation of support from Japan

6.5.1 Social capacity building path and development stages

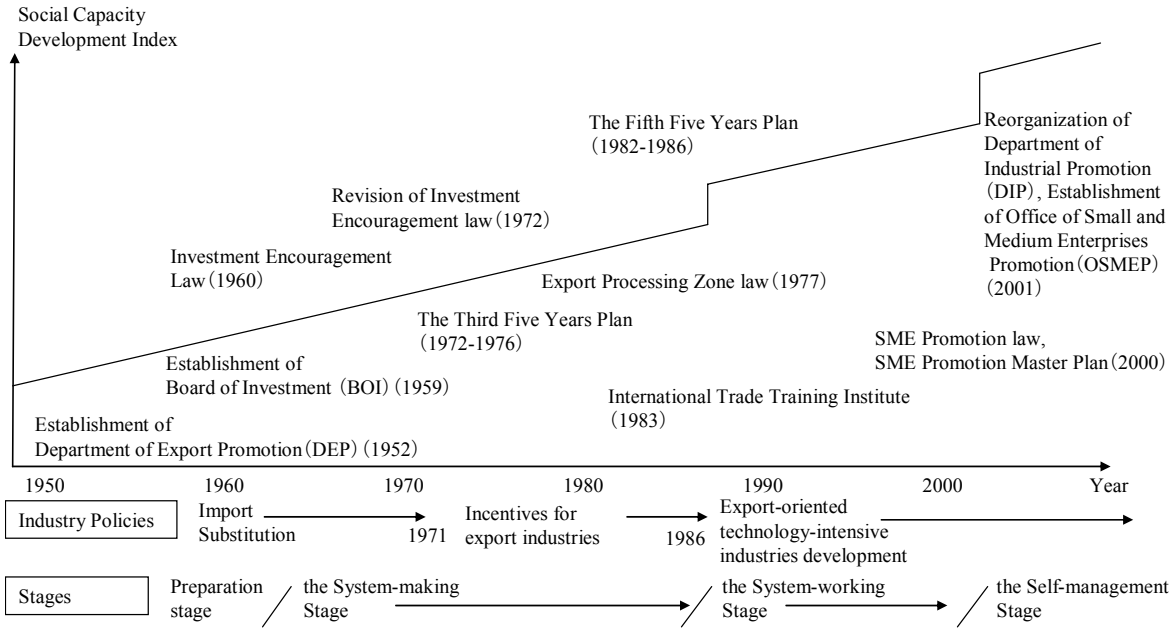
Here we discuss development path of trade social development and development stage.

(1) Historical assessment based on development stage analysis
(2) Assessment of social capacity based on actor/factor analysis
(3) Analysis on cause-effect relation between socio-economic development level and export performance as basis for the discussion on social capacity development

Figure 6.14 shows Thailand's social capacity development path based on the analysis of the government and the firms sectors. Thailand has steadily advanced social capacity development in both the government and the firms sectors. Thailand advanced from the system-making to the

system-working stage in its economic development in the1990s and is shifting into the self-management stage in 2000s.

Figure 6-14 Thai social capacity development in trade-related field



Source: Field interview and other documents

Table 6-20 Social capacity development in the trade related area

(Government capacity and the relationship between Government and Enterprise)

Capacity Factors	Check items of capacity evaluation	Thailand	
		1980	2005
Policies and Measures (P)	Medium and long-term plan-making (National development plan) on industry and trade	✔	✔
	Establishment of basic laws on export promotion	✔	✔
	Establishment of basic laws on SMEs promotion		✔
	(Relationship between the government and enterprises) Dialog and meeting between the government and enterprises		✔
Human, financial and physical resources in organization (R)	Establishment of export promotion organization	✔	✔
	Establishment of overseas office of export promotion organization	✔	✔
	Establishment of SMEs promotion organization		✔
	Self-management organization		✔
Knowledge and skills (K)	Publication of statistics		✔
	Publication of trade white paper		
	Publication of annual report by export promotion organization		✔

Note 1. Cells are checked when items are achieved.

Source: the author

The relationship between the government and enterprises (including economic organizations) seems to have kept a certain standard. The joint acceptance and dispatch of missions by FTI, DEP, and BOI has brought the results.

Regarding to the development of capacity factors in the governmental sector, legal and policy infrastructure ("P" factor) were basically formulated until mid-80's. Organizational infrastructure ("R" factor) including ministry of commerce, ministry of industry, DEP and OSMEP has been steadily developed as well.

In terms of the enterprise sector, the capacity standard and growth of all three factors, which have not come up to those of Malaysia, shows the favorable transition. It is conceivable that, in addition to the inducement of FDI, indigenous manufacturing industries (both large companies and SMEs) became facilitating factors that reflect the impact of "knowledge/skill factors" on other two factors. The approximate enrollment ratio of secondary education which was adopted as a proxy variable of "knowledge/skill ("K" factor") shows the significant growth. It is presumable that the capability of improving the potential capacity is increasing because the role of the secondary education in the capacity development of manufacturing field is important. Major business group such as FTI can also play a significant role in advising policy recommendation to the government as well as in providing consultancy services to individual business.

Table 6-21 Social capacity development in the trade related area

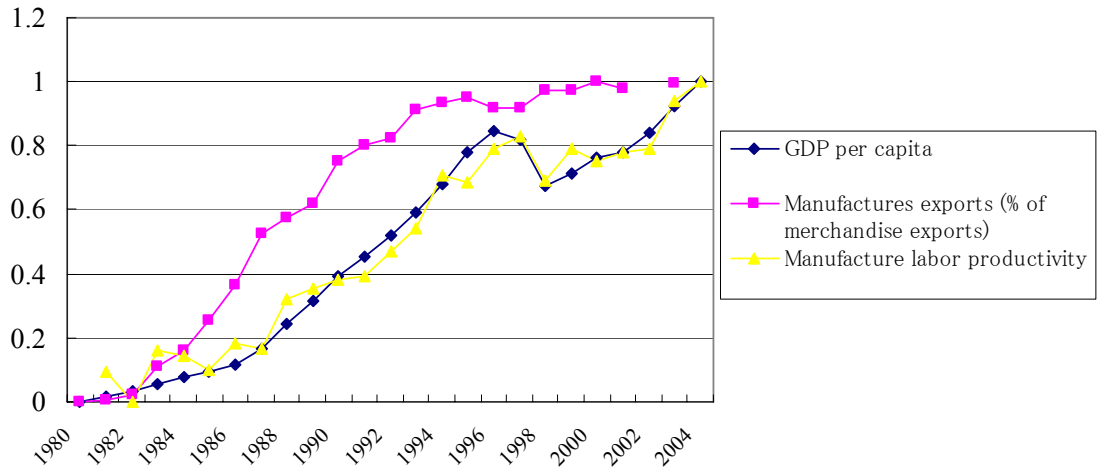
	Policies and measures (P) (Labor productivity of manufacture industry constant 2000 US$)	Human, financial and physical resources in organization (R) (Ratio of employees in manufacture industry to employees in total, %)	Knowledge and skills (K) (Enrollment rate of secondary education, %)
Thailand	4,842 (1981)	7 (1981)	29 (1980)
	10,052 (2004)	15 (2004)	81 (2002)

Source: the author

Figure 6.15 shows the process of social capacity development as Total System. Social capacity is gauged by the measurement of labor productivity in the manufacturing sector. GDP per capita is used to measure social economic status, and to measure trade performance, the proportion of manufacturing goods in all export is used.

From the perspective of the Total System, the development process of social capacity is as shown in figure 6.15. Similar to the process in Malaysia, we can see export expansion realized social capacity development and socio economic level in Thailand.

Figure 6-15 Total System Indexes measuring the social capacity development

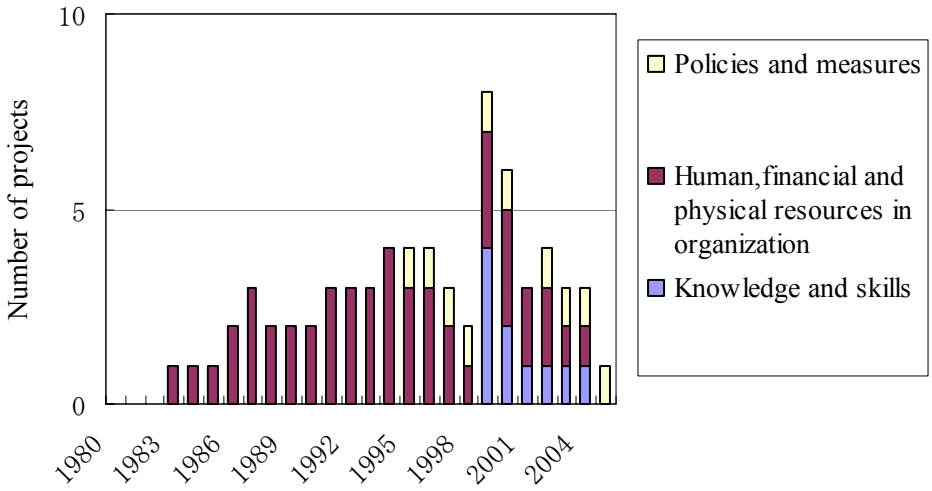


Source: The author

6.5.2 JICA's contribution to Thai social capacity development

We discuss how JICA's aid inputs have contributed to social capacity development of the government. Figure6-16shows chronological inputs of JICA's aid by the social development factors. The number of the projects is classified into the factors and summed up annually.

Figure 6-16 ICA's assistance inputs in Thailand by development themes by capacity factor



Source : the author

Table 6-22 shows detailed input of the projects.

Table 6-22 Thai social capacity development stages and JICA's support

Capacity factor	Development themes	Name of projects	1980	1985	1990	1995	2000
Policies and measures (P)	Establishment of trade-related legislation	Capacity Building Program on the Implementation of the WTO Agreements					
	Promotion and development of SMEs, supporting industry and industry	Promotion and Development of industry sector					
		Promotion and Development of industry sector (Supporting industry)					
		Development of Consulting Service for Thai SMEs Cluster and Regional Development					
	Establishment of Industry-related legislation	Industrial Standards and Testing and measurement System Development Study					
		SMEs Promotion Support					
		Management consulting of SMEs					
Human, financial, and physical resources in organization (R)	Assistance for trade center	Trade Training Center					
		Trade Training Center (Follow-up)					
	Promotion of SMEs, supporting industry and industry	Metal Processing and Machine Industry Development					
		Industrial Standardization Test Training Center					
		National Computer and Software Training Center					
		North Ceramic Center					
		Increase of Productivity					
		Institution-building of SMEs' management consulting					
		Improvement of mold technology					
		Industrial Standardization Test Training Center (Aftercare study team)					
Knowledge and skills (K)	Acquisition, analysis and release of industry-related information	Industrial Property Information Center					
		National measurement standard institution					

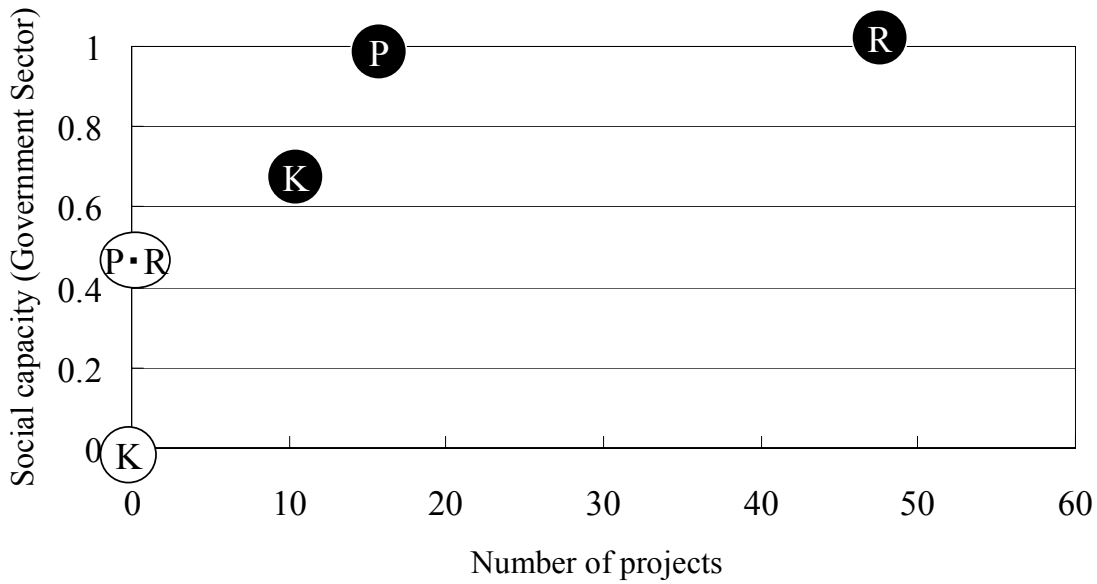
Source: The author

Considering the implication by Figure 6.20 and table 6.22, we can easily understand the situation of JICA's contribution, which is summarized in figure 6.17. It depicts the number of the projects in horizontal axis and social capacity (government) in vertical axis to illustrate transition of the capacity development factors from 1980 to 2005. The number of the project is in each year based on the categories in accordance with relevant capacity factors. The social capacity level is mapped based on the implementation of the government policy (fully-implemented=1, no implementation=0).

As a result in the case of Thailand, the more inputs it has received, the more developed it has

achieved. “K” factor is in relatively less developed since there were small inputs. It has achieved higher growth rate, which is similar to Indonesia.

Figure 6-17 Contribution of JICA’s assistance to capacity development of the Thai government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

6.5.3 Consistency with Thai social capacity development stages

Table 6.23 shows Thailand’s social capacity development stages and JICA’s assistance inputs. During the period from 1980 to the present (2005), Thailand has been in transition from System-making stage to Self-management stage through System-working stage. All JICA’s assistance inputs are shown in the table 6.23.

Table 6-23 Social capacity development stages in Thailand and JICA's assistance inputs

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures（P）	Export-promoting development plan			
	Trade-related legislation (Response to liberalization and facilitation such as WTO)		2	2
	Promotion and development of SMEs, supporting industry and industry	4	2	2
	Establishment of industry-related legislation		4	
Human, financial, and physical resources in organization（R）	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)			
	Assistance for Trade Center (Export-support, information, training for private companies)	7		
	Promotion of SMEs, supporting industry and industry	16	26	2
	SMEs promotion organization			
Knowledge and skills（K）	Acquisition, analysis and release of trade-related information (such as statistics) and skills			
	Acquisition, analysis and release of industry-related information (such as statistics) and skills		7	3
Support for south-south cooperation				

Note. The numbers are the total number of projects

Source: the author

Overall, it seems that necessary assistance has been sequentially provided as done in Malaysia. Specifically speaking, in the 1980s, along with the expansion of export orientation, the assistance inputs to the International Trade Training Center (ITTC, currently International Trade Training Institute (ITTI)) started. Then, several feasibility studies and technical cooperation projects for the promotion of industry, SME, and supporting industry was conducted. During the transitional period from system-working stage to the self-management stage, JICA provided support programs related to policies and measures such as assistance for WTO capacity building, Development of Consulting Services to Promote SME Cluster and Regional Development, Thai measurement and standards organization project.

6.5.4 Consistency with Thai development policy and the cooperation of JICA with other Japanese agencies

After the 1980s, in addition to export orientation, industrialize policy emphasized not only foreign direct investment but also a social infrastructure development plan and a domestic industry promotion policy in order to advance domestic industry. As for export promotion policy, the

enhancement of measures promoting export production became the main objective in 1983. It is thought that the Trade Training Center was introduced at the right time. The Thai government adhered to a fundamental policy of "Enhancement of international competition by liberalization" during the period of high economic growth from latter half of 1980s to 1995, and the support given by JICA which was associated with coalition with Japanese other organizations, designed to be consistent with Thai policy.

Japanese support was fully in progress when ASEAN co-operation projects were begun by JETRO in 1982. Technology transfer to regional enterprises and exhibitions focusing on metal processing technology and the plastic molding industry were conducted by AC projects. From 1986, JICA conducted metal processing and mechanical industry development projects associated with this project.

In 1987, Japanese Ministry of Trade, Economic and Industry (METI) suggested the New Aid Plan aiming at "Fostering export industry trade by a trinity of tirade, investment and economic cooperation," and total 6 categories of business: molding, toys, textile garment, wood furniture, plastic processing, and ceramics, were the objects of this plan. JICA conducted industry development research concerning these categories of business, which lead to concrete support by organizations such as JICA and JETRO.

In the 1990s, developing countries such as China began to catch up economically by focusing on labor-intensive industry. In response to this, support for supporting industry was emphasized in the "ASEAN industry advancement vision" (1993) produced by METI. Support for fostering of supporting industry (SI) by JETRO, together with promotion and development plan in the industry field (supporting industry) by JICA, began in 1994. Reflecting on these industrial agglomerations, support for the SI in Thailand has been targeted at six industries (mold, metal mold, press work, precision machining, machine work, and coating), more than in any of the other three targeted countries.

6.6 Lessons leaned and recommendations

(1) Program-based aid

Japanese support has proved to be an essential and effective pillar of the, trinity of support, trade, and investment called for in Thai policy. In this context, like in Malaysia, such support can be now regarded as one consistent "program."

A series of “SME promotion programs”, which was built up based on the feasibility study in the mid-1990s, had comprehensiveness in terms of the promotion of SMEs. However, the program did not provide enough cooperation with the export-promoting agencies such as DEP and ITTI in terms of the export promotion. From this time, in order to effectively provide support in developing countries, it is important to promote “program-based aid” in advance, and it is useful to refer to the experience in Thailand.

(2) Strategic position of cooperation in trade areas：Application of experiences in East Asia to other developing countries：CLMV countries ,the African region

Although Thailand has promoted South-South cooperation in agriculture and healthcare, cooperation in trade-related area is not actively pursued. Considering cooperation with CLMV and African countries, export oriented agro-industry is important field. Thailand has capability to provide overall assistance to those countries since Thailand has ample experience in the field.

It is important for JICA and Japanese support organizations to apply the experience of the “trinity” in East Asia to the support of developing countries.

Chapter 7

Chapter7 Evaluation, lessons learned and recommendations

7.1 Evaluation of Japan's cooperation in trade related areas

7.1.1 Social capacity development stage and its consistency with JICA's aid in trade sector

Here we discuss development path of trade social development and development stage targeted four countries.

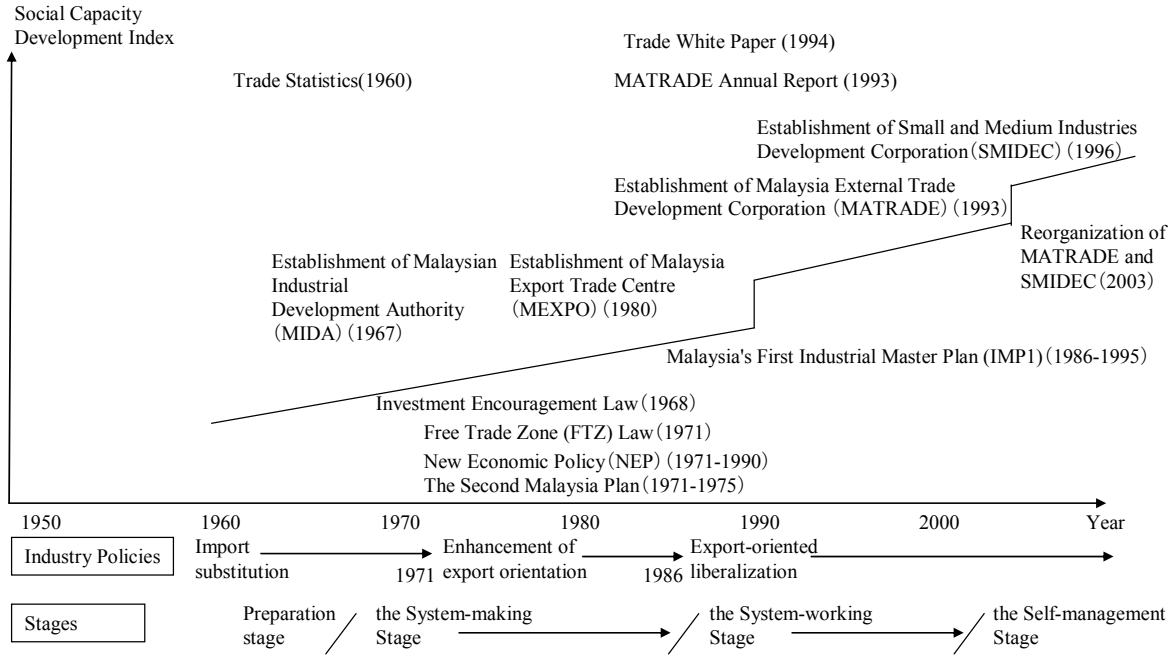
(1) Historical assessment based on development stage analysis
(2) Assessment of social capacity based on actor/factor analysis
(3) Analysis on cause-effect relation between socio-economic development level and export performance as basis for the discussion on social capacity development

Firstly, the development stages in trade-related social capacity of the four countries, described in the chapter 3 to 6, will be examined.

In each country, legal and juridical system development for export promotion and organization development have begun since the early or mid 1960's. Thailand and Malaysia moved into the System-Working Stage in the latter half of the 1980s, and after the year 2000, they shifted into the autonomous stage, being able to restructure organization according to environmental changes (Figure 7.1, Figure 7.2.)

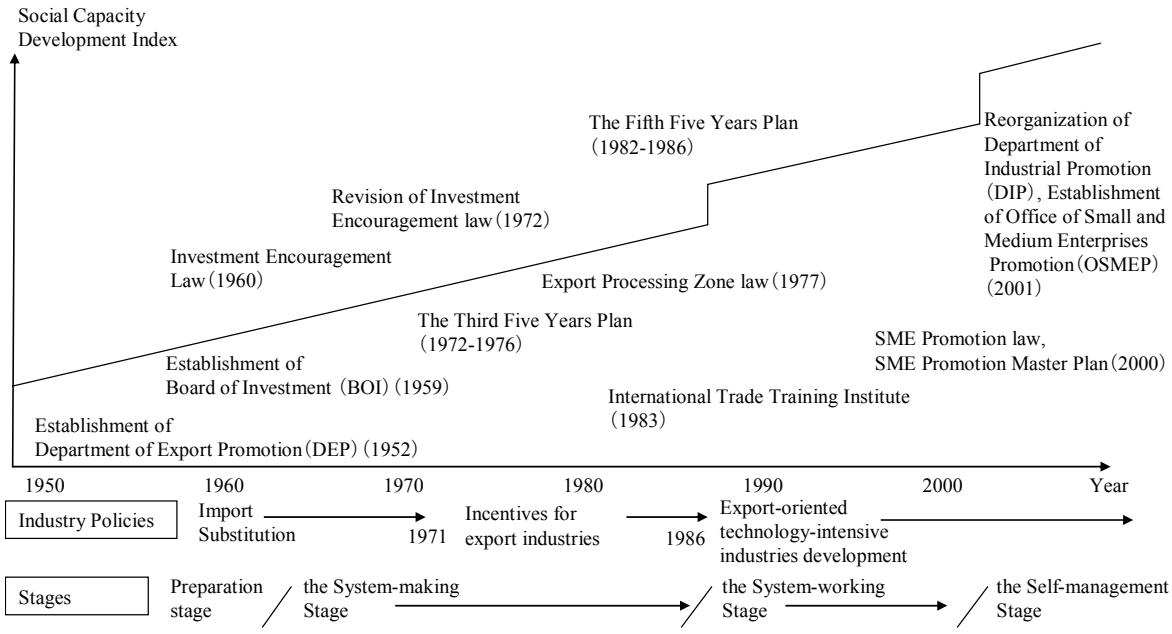
On the other hand, Indonesia and the Philippines moved into the late System-Working Stage at the mid 1990s. However, Indonesia, affected by its currency crisis in 1997, needed to re-construct the system. Especially the government-sector, affected by the decentralization, needed to reconstruct the system. It can be said that Indonesia is, in fact, still reconstructing its system. The Philippines lacks export promotion capacity in the government sector. Therefore, the productivity in the enterprise sector lacks strong growth. Although formal development such as in the legal system has been completed, it has not directly related to export growth. The Philippines remains at the early stages of the System-Working Stage (Figure 7.3, Figure 7.4.)

Figure 7.1 Malaysia's social capacity development in trade-related field



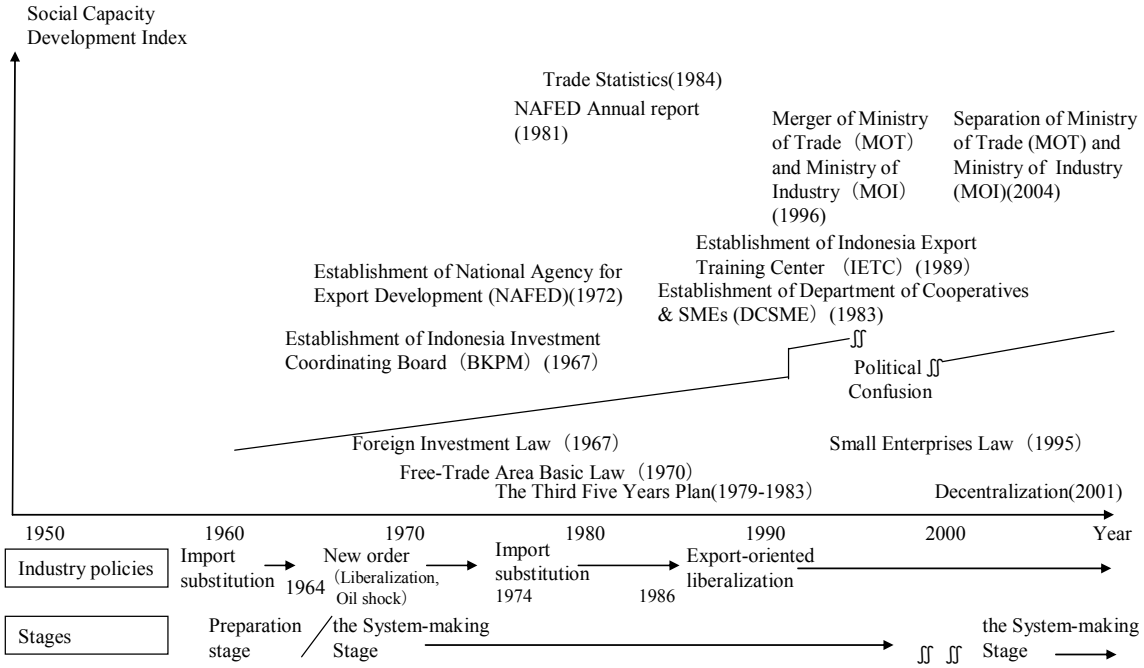
Source: The author based on an interview survey and several documents

Figure 7.2 Thailand's social capacity development in trade-related field



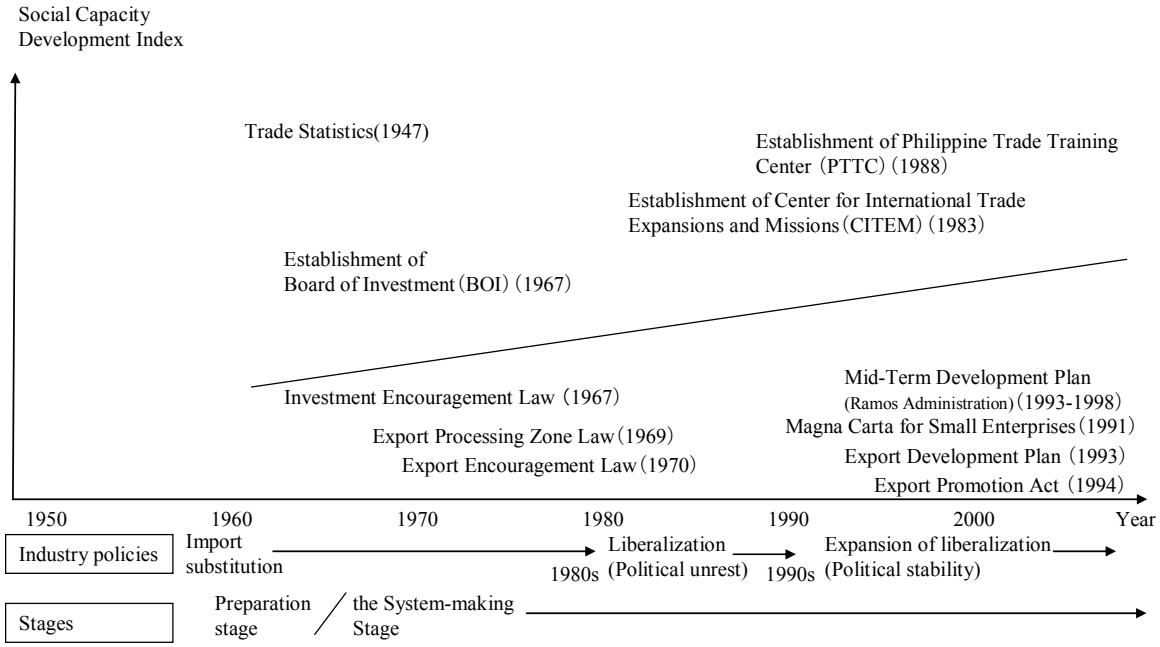
Source: The author based on an interview survey and several documents

Figure 7.3 Indonesia's social capacity development in trade-related field



Source: The author based on an interview survey and several documents

Figure 7.4 Philippine social capacity development in trade-related field



Source: The author based on an interview survey and several documents

It is important to understand the root cause of acceleration/hindrance in capacity building, which

brought about the difference of capacity development in the four countries from 1980 to 2005 (**Table 7.1**). We will analyze the root cause with Actor Factor Matrix Framework. We will use Check List based on evaluation items.

Table 7.1 Social capacity development in trade in the four targeted countries
(Capacity of the government sector and government-business relationships)

Capacity Factors	Check items of capacity evaluation	Indonesia		Malaysia		Philippines		Thailand	
		1980	2005	1980	2005	1980	2005	1980	2005
Policies and Measures (P)	Medium and long-term plan-making (National development plan) on industry and trade	✔	✔	✔	✔	✔	✔	✔	✔
	Establishment of basic laws on export promotion	✔	✔	✔	✔	✔	✔	✔	✔
	Establishment of basic laws on SMEs promotion		✔				✔		✔
	(Relationship between the government and enterprises) Dialog and meeting between the government and enterprises		✔		✔		✔		✔
Human, financial and physical resources in organization (R)	Establishment of export promotion organization	✔	✔	✔	✔		✔	✔	✔
	Establishment of overseas office of export promotion organization	✔	✔		✔			✔	✔
	Establishment of SMEs promotion organization		✔		✔		✔		✔
	Self-management organization				✔				✔
Knowledge and skills (K)	Publication of statistics		✔	✔	✔	✔	✔		✔
	Publication of trade white paper				✔				
	Publication of annual report by export promotion organization		✔		✔				✔

Note 1. Cells are checked when items are achieved.

Source: the author

Each courtiers' government sector has attained the benchmark in "policy and measure factor ("P" factor)" (Mid-term trade and industrial policy "National Development Plan" and Export promotion and SME promotion act). In contrast, there is a huge gap between Malaysia/Thailand and Indonesia/Philippine in "human, financial and organization factor ("R" factor)" (Export promotion agency, SME promotion agency, flexible organizational changes) and "knowledge and skill factor ("K" factor)" (Publication of statistics books, white papers and annual reports).

In "human, financial and organization factor ("R" factor)", Indonesia fails to achieve flexible organizational changes and the Philippine has a weak export promotion agency (CITEM dose not

have overseas offices). Malaysia and Thailand have stable government agencies and reorganize them according to adapt changing environments. Then, the organizations have developed “knowledge and skill factor (“K” factor)” capacity, which fostered “policy and measures factor (“P” factor)” capacity building. On the other hand, in Indonesia, frequent mergers and separations of government agencies and the rapid decentralization brought down confusion. In the Philippines, due to the human and financial constraints, policy and plans were not implemented fully. In both countries, the stagnation of “human, financial and organization factor (“R” factor)” development disturbs other two capacity factors development.

In “knowledge and skill factor (“K” factor)”, each county achieves high-standard statistical publication. However, there is a huge gap between Malaysia/Thailand and Indonesia/Philippine in publications of related white papers and annual reports. To publish white papers and annual reports requires strategic judgment capacity in which the difference of two groups lies.

In the relationship between the government and the corporate sector, each country reached a certain level. In Indonesia, where the former KADIN head acceded to a post of coordinating minister for economic affairs, the relationship between the government and the private sector has been strengthened. In the Philippine, in 1994 Export Development Council, which consisted of both the government sector and the private sector, was established. The council functions as a receiver of policy recommendation from the private sector. Industrial federations in Malaysia and Thailand have a strong influence on policy-making. In Malaysia, MATRADE was established as recommended by IMM. In Thailand, FDI, DEP and BOI jointly hold mission of acceptance/dispatch.

For the business sector, Malaysia shows development of three factor capacities, following Thailand and Indonesia. On the contrary, the Philippine, which showed an excellent initial condition, sees sluggish development. The Philippine achieves top-level result in “knowledge and skill factor (“K” factor)” (Secondary school enrolment rate). However, this achievement is not connected to “human, financial and organization factor (“R” factor)” capacity development and “policy and measurement factor (“P” factor)” (substituted for labor productivity) has not been developed fully. On the contrary, in other three countries, FDI enticement functioned to reflect “knowledge and skill factor (“K” factor)” on other two factors. In addition, in Thailand, the presence of local conglomerates and SMEs, which were active in export, also fostered other factor’s capacity development.

Table 7.2 Social capacity development in trade in the four targeted countries

(Capacity of the business sector)

	Policies and measures（P）（Labor productivity of manufacture industry constant 2000 US$)	Human, financial and physical resources in organization（R）（Ratio of employees in manufacture industry to employees in total, %)	Knowledge and skills（K）（Enrollment rate of secondary education, %）
Indonesia	1,628 (1981)	8 (1981)	29 (1980)
	3,932 (2003)	13 (2002)	61 (2002)
Malaysia	10,316 (1981)	15 (1982)	48 (1980)
	16,935 (2004)	21 (2004)	70 (2002)
Philippines	6,754 (1981)	10 (1981)	64 (1981)
	6,507 (2004)	10 (2004)	84 (2002)
Thailand	4,842 (1981)	7 (1981)	29 (1980)
	10,052 (2004)	15 (2004)	81 (2002)

Source: the author

In terms of Total System, it can be said that socio-economic status follows the same trend as the corporate export capacity development. Malaysia, Thailand and Indonesia showed steady development of socio-economic condition. Meanwhile, the Philippine, in spite of the excellent initial condition, saw sluggish growth and then were out paced by Thailand. Currently, Indonesia is coming from behind. Therefore, it can be concluded that corporate capacity development and socio-economic status have affected each other.

7.1.2 Contribution of JICA's assistance to social capacity development

This section evaluates how JICA assistance contributed to capacity development in the four countries. By analyzing Table 7.1 (Social capacity checklist in the trade field (Thailand)) and Table 7.2(Thailand's social capacity development and JICA's assistance input), contribution of JICA's assistance will be identified.

Thailand and Malaysia show a similar pattern. Although the volume of assistance was not huge, each social capacity are evaluated as "A". It means that both countries developed their capacity in a well-balanced way. In addition to assistance, the efforts of governments, local enterprises and foreign enterprises contributed to the development.

In Malaysia, assistance focused mainly on "policy and measures factor" and its capacity was developed most in "human, financial, and organization resources factor". On the contrary, in Thailand, capacity in "knowledge and skill factor" category was fully developed.

In Indonesia, social capacity in certain factors, in which assistance was input most, was more developed. Assistance was input in “policy and measure factor”, in which capacity was developed relatively well. On the contrary, in “knowledge and skill factor” where few assistance was input, social capacity was not fully developed. Capacity development in “human, financial and organization factor” was located at the mid point.

In the Philippine, each of the three factors shows a different pattern. In “policy and measure factor”, where relatively much assistance was input, social capacity was developed to a certain level. In “human, financial and organization factor”, where less assistance was input, social capacity remained low. Relatively less assistance was input in “knowledge and skill factor” where social capacity development advanced most.

7.1.3 Social capacity development stage and its consistency with JICA's aid

Based on the social capacity development stage analysis of the four countries, we will evaluate consistency of JICA assistance with the social capacity development stages in the four countries. JICA assistance will be classified into two categories based on the characteristics of assistance inputs in hindsight; “additional input” assistance and “sequential input” assistance. These two types are referred to as a hint to evaluate consistency of JICA’s assistance.

In the first type, the focus of assistance will shift according to social capacity development stages and following assistance will be implemented. Among object countries, Malaysia and Thailand are categorized in this type, and JICA’s assistance towards Malaysia and Thailand are evaluated to be consistent with their development stages. In Malaysia, JICA implemented industrial development assistance from the system-making stage to the system-working stage, and then it implemented trade promotion assistance (MATRADE) in the system-working stage. Subsequently, it started assistance for enhancing trade institutions in Malaysia’s self-sustainable stage. In Thailand, assistance for industrial development and trade institution enhancement was implemented in the same manner as in Malaysia. With regard to the trade training center project, it was implemented in the system-making stage.

The second-type is, due to the insufficient development of social capacity building, one in which various types of assistance are implemented at the same time at a certain stage. This type is called “additional input” assistance. Indonesia and the Philippine are considered to be the second type. These two countries have not sufficiently developed their social capacity; therefore, concentrated inputs have been seen as total efforts of both the countries themselves and development assistance in

order to move their capacity development stage to the system-working stage.

Examining consistency of JICA's assistance with social capacity development stages in hindsight, it can be concluded that "sequential input" assistance implemented in Malaysia and Thailand seems to have been more desirable in terms of efficiency and ensuring ownership. However, it is more fit in with the reality to say that efficient assistance has been possible because those countries have had strong ownership. In the cases of Indonesia and the Philippines, JICA's assistance has been consistent with development stages in a sense that it has been in line with the reality of the countries. However, more efforts are required to promote self-help efforts of developing countries and facilitate capacity development based on their ownership.

Table 7.3 Social capacity development stages and JICA's assistance inputs

Malaysia （sequential input）

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan			
	Trade-related legislation (Response to liberalization and facilitation such as WTO)		2	2
	Promotion and development of SMEs, supporting industry and industry	5	3	2
	Establishment of industry-related legislation			
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)			
	Assistance for Trade Center (Export-support, information, training for private companies)		3	
	Promotion of SMEs, supporting industry and industry	15	1	
	SMEs promotion organization			
Knowledge and skills（K）	Acquisition, analysis and release of trade-related information (such as statistics) and skills			
	Acquisition, analysis and release of industry-related information (such as statistics) and skills			
Support for south-south cooperation				

Thailand （sequential input）

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan			
	Trade-related legislation (Response to liberalization and facilitation such as WTO)		2	2
	Promotion and development of SMEs, supporting industry and industry	4	2	2
	Establishment of industry-related legislation		4	
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)			
	Assistance for Trade Center (Export-support, information, training for private companies)	7		
	Promotion of SMEs, supporting industry and industry	16	26	2
	SMEs promotion organization			
Knowledge and skills（K）	Acquisition, analysis and release of trade-related information (such as statistics) and skills			
	Acquisition, analysis and release of industry-related information (such as statistics) and skills		7	3
Support for south-south cooperation				

Source : The author

Table 7.3 Social capacity development stages and JICA's assistance inputs

（continued from previous page）

Indonesia （additional input）

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan	2		
	Trade-related legislation (Response to liberalization and facilitation such as WTO)	13		
	Promotion and development of SMEs, supporting industry and industry	24		
	Establishment of industry-related legislation	4		
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)	1		
	Assistance for Trade Center (Export-support, information, training for private companies)	22		
	Promotion of SMEs, supporting industry and industry	8		
	SMEs promotion organization	0		
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information (such as statistics) and skills	9		
	Acquisition, analysis and release of industry-related information (such as statistics) and skills	0		
Support for south-south cooperation		0		

Philippines （additional input）

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan	1		
	Trade-related legislation (Response to liberalization and facilitation such as WTO)	4		
	Promotion and development of SMEs, supporting industry and industry	10		
	Establishment of industry-related legislation	7		
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)			
	Assistance for Trade Center (Export-support, information, training for private companies)	8		
	Promotion of SMEs, supporting industry and industry	30		
	SMEs promotion organization			
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information (such as statistics) and skills	2		
	Acquisition, analysis and release of industry-related information (such as statistics) and skills	5		
Support for south-south cooperation				

Source : The author

The evaluation of “trade center” assistance in each country is, however, not necessarily consistent with the whole evaluation result. In the Philippine, it was limited to “trade training center” assistance. On the contrary, in Indonesia, it developed into “export promotion” and in Malaysia, it functioned as “export promotion agency” assistance.

Trade training sessions, which is held collectively, have no choice than targeting general audience. Enterprises tend to seek practical business advise and specific consulting. Chambers of commerce or industrial organizations can offer general collective trainings. The needs of government provided training center get smaller as export capacity of enterprises or capacity of related agencies and organizations develops. And the needs of more practical export support service such as market information service, business fair support and matching, get bigger. Therefore, when either or both enterprises and related agencies and organization dose not fully develop its capacity, “trade training center” assistance has have a certain meaning. In three countries except Malaysia, “trade training center” assistance was implemented at the System-Making Stage. Therefore, JICA’s assistance was appropriate.
To develop social capacity in broad area, export support service for enterprise is needed. Therefore, it can’t be denied that if direct assistance toward export promotion agencies in each country was implemented, social capacity would be developed more effectively.

From now, “trade center” is expected as training-base for least developed countries. With JICA’s assistance, Malaysia’s MATRADE and Indonesia’s IETC are collaborating with African countries. Thai ITTI accepts trainees from ASEAN countries. These new developments are evaluated highly.

7.1.4 Coherence with superior policies and partnership between JICA's and other agencies

Japan has engaging in international cooperation, “the trinity” of aid, trade and investment. This strategy is meant to improve the investment climate, which fosters foreign firms investment, and to promote export. Ultimately this strategy leads to contribute toward the economic growth of developing countries. For example, economic infrastructure development cooperation in areas such as roads, railways, ports, airports, transport/communication and power, contributes to improvemnetn in the investment climate improvements. In addition, training for engineers and managers by AOTS and JICA, and a human development program by expert dispatch programs contribute to “human development" in the trade area of developing countries. In such international cooperation, policy initiatives by METI (and MOFA) comprise the largest part. Its historical development can be

summarized as follows[58].

(1) In the early 1980s: to help export industrialization through ASEAN cooperation programs.
(2) In the Mid 1980s to the early 1990s: In order to industrialize ASEAN countries with a "new aid plan", an economic cooperation package with a combination of aid, direct investment and imports, was formulated and implemented.

The policy was implemented in the following order: (a) Cooperation request and industrial location study (b)Industry promotion development plan studies (c) Expert dispatch in invest-related field. However it was difficult to support such a large issue as the industrialization of ASEAN countries, solely through above-mentioned technical assistance programs.

(3) From 1993 to 1997: to implement cooperation to promote ASEAN market integration and regional specialization, targeting mainly supporting industries. The objective of the scheme was not industrialization per se but industrial advances.
(4) After the currency crisis: To mainly develop institutions for supporting small and medium-sized firms.

These programs were implemented through "the cooperation trinity of aid, trade and investment". One may conclude that JICA's assistance was consistent with high order policies. In addition, as its objective is CD in a broader sense, it can be concluded it was consistent with the concept of ODA Charter. As analysis in 7.1.1, since the late 1980s, Malaysia/Thailand and Indonesia/the Philippine were at the different development stages. Assistance programs were implemented flexibly in accordance to the each country's development stage, although it can't denied that the same assistance framework was put on the four countries.

The sharing of roles among JICA, JETRO, JODC and AOTS is shown in
Table **7.4** to Table 7.6.
In
Table **7.4**, the sharing of cooperation roles in capacity development for the government sector will be shown. JBIC had a role in basic infrastructure development through the yen loan (there was present assistance for infrastructure development in Indonesia and Philippines), and JICA was in charge of "soft" assistance such as institutional development. JETRO was also responsible for supporting trade related policy formulation/implementation. (Export industrialization support, one craft /one village

[58] Maeda (2005) explained as follows: from the 1950's to 1970's, in order to promote export from Japan, tied yen-loans were provided mainly to industry projects in Asia. This stage is called "arch-type". From the late 1970's to the early 1980s, "arch-type" lost its status to "mid-term objective paradigm" promoted by MOFA and MOF.

movement). Meanwhile JICA was mainly responsible for supporting governmental export promotion service, JETRO also took part in it.

In Table 7.5, the sharing of roles among JETRO, JODC and AOTS in capacity development in small and medium-sized firms will be shown. JETRO, JODC and AOTS were responsible.
Table 7.6 shows roles of cooperation in the capacity development of economic/industrial organizations and the export-promotion industry. This was mainly JETRO's role.

With the above mentioned sharing of roles, the coordination among JICA and other aid related agencies has been effective. Furthermore, in each developing country, the ODA task force among embassies, JICA, JBIC and JETRO is held and the coordination among agencies is strengthening. However, for further development, it is necessary to discuss more effective ways to collaborate instead of sticking to each agency's formulated roles. Especially in developing counties, where social capacity development is not making good progress, such as the Philippines and Indonesia, the new sharing of roles among agencies have to be urgently considered.

In order to solve the problems that arose from the past aid experience, to find a "best-mix" assistance of "G to G" and "G to B" becomes a main trend in international donor community. If the roles and jurisdictions of each agency are fixed, it is difficult to respond the needs of a host country flexibly, due to the institutional constraints (too long preparation period for projects, too short period for experts' deployment etc.). In a country where social capacity is not developed smoothly, such as the Philippines and Indonesia, it is necessary to consider the new channel through which Japan's assistance is input to a private sector. Furthermore, in light of the current jurisdictional and collaborative limitations of each agency, the new role sharing needs to be formulated for the new international cooperation.

Table 7.4 Japan's cooperation for capacity development in the government sector

	JICA	JBIC	JETRO	JODC	AOTS
Establishing Basic Conditions	○	○※1			
Establishment and Implementation of Trade-related Policies	○				
Export support service	○		○		

Note: JBIC implements cooperation with yen loans for infrastructure development. JBIC's cooperation is not exactly for capacity development of the government sector. However, as the host country government involves infrastructure development practices such

as procurements, management, and interim/completion reports, it can be said that capacity development is encouraged through these practices.
Source: the author

Table 7.5 Japan's cooperation for capacity development of small and medium firms

	JICA	JBIC	JETRO	JODC	AOTS
Product Development			○	○	○
Production			○	○	○
Marketing			○	○	○
Trading Business			○	○	○

Source: the author

Table 7.6 Japan's cooperation for capacity building of economic/industrial organization and export-promoted industry.

	JICA	JBIC	JETRO	JODC	AOTS
Proposal for Policy （Only Economic and Industry groups）			○		
Export support service			○		

Source: the author

7.1.5 Consistency with a developing country's development policy

The four countries we evaluated in this report adopted export-oriented industrialization policies by the mid-1980s. More specifically, the governments encouraged investment in export-oriented industries by policy measures such as low-interest policy financing as well as provided subsidies and lowered export-tariffs. In addition, as trade liberalization advanced in the world through the WTO, FTAs, and EPAs, the governments have shifted their focuses from export promotion assistance targeting at individual industries/companies to establishment and improvement of the system and environment to promote capacities in the private sector.

In the meantime, Indonesia and the Philippines, faced with strong competitors such as Malaysia and Thailand in the neighborhood, set the same targets as those advanced developing countries. Such target settings were not only pursued by the local governments themselves but also strategically encouraged by the donors. In that sense, donors' assistance was consistent with development policies of those countries. However, it need to be carefully reviewed whether development policies of

Indonesia and the Philippines themselves were appropriate, taking also into consideration domestic protectionist policies of these countries.

In a country where industrial development has been completed and its national income is relatively high, such as Thailand and Malaysia, social capacity has also been development to a certain extent. Therefore, the focus of the recipient government's policy is to grow high value-added industries based on the already developed social capacity. Accordingly, cooperation and assistance with these countries should focus on the private sector, rather than on the government sector, to promote direct investment and imports. Development assistance to Thailand and Malaysia is already shifting in this direction. Also, these countries are expected to become a center for South-South cooperation toward less developed countries, which is a challenge for these countries. JICA is already considering how to promote South-South cooperation by these countries.

7.2 Lessons learned and recommendations

Based on the above-mentioned analysis, this section will provide recommendations which improves the effect of assistance in cases where "additional input" assistance is chosen. The recommendations will point out that it is important to evaluated social capacity development stage properly, formulate ex-ante programs, actively pursue "G to B" approach and input proper assistance in accordance with host countries' social capacity development.

(1) Toward program-based aid

Based on the evaluation results of Indonesia and the Philippines, JICA's assistance has made contributions to the governments' capacity development to some extent. However, when considering consistency of JICA's assistance with capacity development of the whole society including the business sector, these countries have not been able to reach the system-working stage. Therefore, assistance inputs are required to enhance ownership of the targeted countries. In sum, it is necessary to plan assistance programs that take into consideration comprehensive social capacity development, which is social capacity development that comprises three capacity factors and two actors in this evaluation.

When actually making programs, we need to consider capacity levels that are identified based on the Social Capacity Assessment, and development assistance's timing, quantity, quality, and sequence based on the development stages. Above all, major focus is placed on what kind of assistance is necessary to advance the development stages from the system-making stage to the system-working

stage. After the end of assistance inputs, developing countries themselves are expected to invest resources as required.

The initial period of the system-making stage or the period from pre-system-making stage to the self-management stage may last a few decades; therefore, it is not realistic to expect one program is sufficient. In the four countries from 1980 to 2005, focuses of development assistance shifted from industrial development to include responsive measures for trade liberalization. As seen in such a shift, it is inevitable to change programs in response to the environmental changes. In fact, programs would have mid-term goals such as shift to the system-working stage, covering the period of 5 to 10 years.

On the other hand, here we propose a long-term cooperation program in order to show the overall picture covering from the system-making stage to the self-manegement stage. Based on the evaluation results of the four countries as well as OECD (2001) and JICA (2003), the overview of trade-related cooperation programs in accordance with social capacity development stages is shown in Table S.12. This is taken as a conceptual model as it may not be applied as it is to any countries and regions.

Table 7.7 Cooperation Programs in accordance with social capacity development stages

Social capacity development stage		Preparation stage	System-making stage	System-working stage	Self-management stage
Trade sector					
Policies and Measures（P）	Export-promoting development plan	■			
	Establishment of trade-related legislation (Response to liberalization and facilitation such as WTO)		■	■	
Human, financial and physical resources in organization（R）	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)		■	■	
	Assistance for Trade Center (Export-support, information, training for private companies)		■	■	
Knowledge and skills（K）	Acquisition, analysis and release of information such as statistics		■		
Support for south-south cooperation					■
Industry promotion sector					
Policies and Measures（P）	Promotion and development of SMEs, supporting industry and industry		■	■	
	Establishment of industry-related legislation		■	■	
Human, financial and physical resources in organization（R）	Promotion of SMEs, supporting industry and industry		■	■	
	SMEs promotion organization		■	■	
Knowledge and skills（K）	Acquisition, analysis and release of information such as statistics		■		
Support for south-south cooperation					■

Note: White are indicates that no imput was implemented. Grey area indicates that input was implemented.

Source: the author

1) Trade related area

In trade related area (in a narrow sense), Master Plan on export promotion should be formulated at the Preparatory Stage. Master Plan is a basic policy for developing social capacity and clarifies areas which require assistance. Master Plan should be formulated in consideration of enhancing enterprises' competitiveness. Based on Master Plan, from the system-making stage to the system-working stage, assistance, which are related with three factors such as "policy and measure" ("P" factors), "human, financial and organization resource" ("R" factors) and "knowledge/skills"("K" factors), should be input. At the system-making stage, assistance for development of trade-related law system (p), organization and human resource development in

customs/quarantine or trade finance agencies (r), statistical data collection/analysis/publishing support (k), should be input.

When capacity building assistance achieves a certain results (this period is considered as the latter part of the System-Making Stage), assistance for development of trade-facilitation law ("P" factors) and establishment of "trade centers" ("R" factors), should be input. As the experience of Thailand shows, to make assistance more effective, assistance toward export promotion agencies should be implemented at the same time. Training Center and export promotion agency should be managed as one entity. Through capacity development in three factors in the government sector, the government becomes able to support capacity development in the private sector. With developing related capacity, enterprises can contribute to the advancement of capacity development. It can be assistance that JICA can newly cooperate with a host country in the following fields; Formulating Master Plan, Promoting participation in law-formulation process, enhancing understanding on the legal system and fostering firms' feedback to services provided by related organizations.

At the early system-working stage, assistance, which was input at the late system-making stage, should be implemented continuously. As the case in Indonesia shows, at the completion of capacity building, extending the scope of trade center projects from the capital to the regions could have larger impacts. When the capacity development stage enters the self-management stage, Japan's assistance should focus on fostering South-South cooperation.

2) Industry related area

In the industry promotion area, at the early System-Making Stage, based on export promotion Master Plan, assistance program for the development of industry-related law system (p) and statistical data collection/analysis/publishing support (k) should be implemented. Next, Master Plan for supporting industry and SMEs promotion should be implemented. Based on Master Plan, assistance for supporting industries and SMEs (p) and support for SME promotion agencies (r) should be implemented. In "policy and measure factor", it is important to promote a wide range of industries. For that purpose, as Table shows, development study and technical assistance should be implemented repeatedly in each industry.

At the System-Working Stage, SME promotion agencies, which developed capacity with past assistance, are able to conduct development study in industry promotion area. As in the trade related area, the rural development of SME promotion agencies should be a next issue. At the Self-Management Stage, South-South Cooperation assistance should be a main focus. It is necessary

to develop capacity of both the government sector and the cooperate sector.

To conclude, trade promotion and supporting industries/SMEs promotion should be closely connected each other to enhance export performance.

In addition, in order to ensure effectiveness of aid programs, overarching perspectives are necessary; in other words, it is important to consider not only trade promotion, and SMEs/supporting industries promotion but also public sector reform and improvement of market conditions. It is also important to consider priorities of trade promotion in the country-level development plans.

Also, there is possibilities that the region can not enjoy efficient resource allocation when individual countries pursue independent programs on their own. In this regard, it may be necessary for countries to undertake policy coordination and to make cooperative programs at the regional level with due consideration to benefits of individual countries. As far as the four countries in this evaluation are concerned, it is expected that the frameworks of Association of Southeast Asian Nations (ASEAN) and the East Asia Community will be utilized to discuss export promotion and SMEs promotion policies that benefit individual countries.

(2) From “G to G” to “G to G plus G to B”

The most important point in assisting capacity development is to develop all of the society’s capacity by utilizing various actors. It is necessary to choose the best actors among them, without limiting the choice to the targeted actor. As the Philippines case shows, to put assistance into the private sector could be a more efficient way if there was severe human and financial constraints in the government sector.

The approach could be affective in terms of comprehensiveness and initiative which is important for capacity development.

Business development service (DVS) for SME has been provided by many donors since 1980’s. Looking back at history the services were mainly provided government organizations from 1970’s to 1980’s. In 1990’s NGO business group and private organization are beginning to provide the services for fee like pearl2 project. It is to seek for sustainability.

In 2001, the World Bank, International Financial Corporation (IFC), International Labor Organization (ILO), United States Agency for International Development (USAID), Department for

International Development (DFID), and German Technical Cooperation (GTZ) held a Small Firm Promotion Donor Committee. The committee published “Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention 2001 Edition”, in which assistance to BDS facilitators, not to BDS providers, is emphasized. Currently each assistance agencies are implementing assistance projects based on the guideline. It can be assistance that the new channel, where assistance is put from the government sector to the private sector, is established as a dominant alternative. This channel, however, should be applied depending on the social capacity development stage of individual country.

Canadian International Development Agency (CIDA) has implemented provider-assistance in Indonesia and the Philippines. In the case of Private Enterprise Accelerated Resource Linkages Phase II (Pearl 2) Project by CIDA, target organizations are decided based on the proposals from chambers of commerce and industrial organization. Competitive environment is created by limiting assistance according to the quarterly results. It may be effective to input assistance only a provider is expected to continue its activity after the termination of assistance. When the provider becomes enable for providing service, the focus of assistance should be shifted to facilitator-assistance. The relationship between provider-assistance and facilitator assistance is not a trade off but a complementary one. Assistance should be implemented with it in mind.

(3) The strategic positioning of trade sector assistance: Application to the least developed countries in Eastern Asia: CLMV countries and African areas

The Economic Partnership Agreement (EPA) between Japan and East Asian countries has been criticized for its ineffectiveness because of a prolonged negotiation process and many exemption items. To improve the situation, it is necessary to foster capacity development assistance in the trade-related area in least developed countries (CLMV). The importance of such activity is rising to proceed toward the future “Asian Communities”.

The Malaysia External Trade Development Corporation (MATRADE) and Indonesia
Export Training Center (IETC) conduct South-South cooperation with JICA’s assistance. It is necessary to fully explain to European donors the difference between Asia and Africa and the applicability of the Asian development experience to African counties. Furthermore, it is essential to secure consistency with each targeted country’s policy and to coordinate between donors.

Japan and European donors have the common direction of development assistance, such as program-based, sector-based and country-based approaches and an emphasis on capacity

development. However, the big difference lies in the evaluation of technical assistance projects. The very basis of European aid policy is the failed experience of development assistance in Africa. On the other hand, Japan's aid policy has been derived from its successful experience, which is called "the East Asian miracle". It is important to keep this difference in mind to implement successful Japan-Europe cooperation.

To conclude, it is important to re-classify Japan's cooperation experiences in the trade sector and the East Asian countries' development experience, and to use the lessons derived from these experiences as a guide for South-South cooperation.

Appendix

Local consultant comment

1. Indonesia

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Indonesia welcomes the report of study by JICA on Social Capacity Development in Trade Sector in four ASEAN countries namely Indonesia, Malaysia, The Philippines and Thailand. The objective of the study is to assess the role of Japanese assistance in developing social capacity in trade sector in East Asian region.

Japan has assisted East Asian region since 1980's under the concept of "development strategy oriented for growth through the trinity of aid, trade and investment". Although ASEAN has been a main recipient of Japanese aid since early 1970's, especially for development of infrastructure, and capacity building in general, but the capacity building in trade sector was a new concept. As the report stated that Japanese assistance for trade sector in ASEAN just started in the late 1980's.

Indonesia received in 1988 technical cooperation and construction of the centre for exports training (IETC) in Jakarta, as the milestone of social capacity development in trade sector. The presence of IETC in Indonesia has greatly expanded the capacity of government agencies to improve the skills of private firms in trade sector through export training and promotion. Having received positive response from business community, the center has expanded to regional area such as Medan, Surabaya, Makassar, and Banjarmasin.

IETC has contributed positively to improving the skills of firms in Indonesia in the era of economic globalization. Indonesia opened its economy to global market by signing regional trade liberalization (AFTA) in 1992 and multilateral trade liberalization (WTO) in 1994. Most recently Indonesia also agreed to expand the regional liberalization to include China (2002), India and Japan (2003) and Korea (2004). In the bilateral forum, Indonesia just started to negotiate Economic Partnership Agreement (EPA) with Japan in 2005, with aimed to have comprehensive partnership beyond trade liberalization which include investment and capacity building.

The series of agreement that had been signed by Indonesia government since 1994 has greatly affected business community. Expanding overseas market through reduction of tariff and elimination of non-tariff barriers became a great opportunity for export industries. However, economic globalization also brought about severe competition faced by domestic industries from imported goods. Domestic market is flooded by massive imported goods ranging from low price

textile and apparel, footwear, and toys to semi precise tools. According to a report by Chamber of Commerce (KADIN), hundreds of manufacturing companies closed its industries or reduce its employment because they were unable to compete in domestic market. Increasing energy prices and pressure from labor union also contributed to closing down some manufacturing industries.

Some important comments regarding the report as follows :

1. Economic Growth

During the economic crisis in 1997 – 1998, Indonesian economic adjustment was very slow compared to neighboring countries such as Thailand and Malaysia. Slow economic recovery was mainly because Indonesia was facing dual economy and political crisis at the same time. Economic indicators showed that GDP felt down, inflation skyrocketed, currency depreciated, exports declined and investment stagnant.

2. Trade Growth

Since the crisis, external trade has suffered severely. Exports performance reached its pre-crisis level just in recent years. Rising new competition from China and Vietnam has been eating out some of Indonesian exports from global market. When the government of other countries offered assistance to their exporters in the form of subsidies, Indonesia has not had any capacity to do the same way. Worse than that, Indonesia closed down its Trade Promotion Center in 13 countries in 1998 (and just re-opened 6 since 2002).

3. International Competition

The report discusses intensively about Indonesian export competitiveness by utilizing Trade Specialization Index model. This model tell us the competitiveness of a certain products when the product involves exports and imports. However, when the products only one of the exports or imports, the model is inferior. Another model to measure a competitiveness of a country such as Reveal Comparative Advantage will suit better.

4. Direct Investment

After the crisis, Indonesia has not been succeed to attract foreign direct investment. The absence of foreign direct investment was mostly because of lack of domestic infrastructure and delay of formulating new investment law.

5. SMEs

The role of SMEs is important in Indonesia in term of labor absorption and value added. During the crisis, when most of large corporations collapsed, most of SMEs survived. This is the only sector that was not asking government support during the crisis. For the SMEs, the most important is access to low cost capital funding beside access to market overseas.

6. Training

Indonesia welcomes the transfer of skills from Japanese experts in the field of quality control, product development, market research and trade promotion technique to Japanese market, etc. However, Indonesia also needs expertise on the market penetration to other markets.

7. Labor Productivity

The report mentions about the improvement of labor productivity in manufacturing sector in Indonesia and compared to labor productivity in advance nations such as Japan. It is also important to benchmark the labor productivity with neighbor countries such as Malaysia, Thailand, the Philippines. Even comparison with China and Vietnam will be very helpful.

8. Questionnaires

It is understandable that very difficult to collect data from previous training participants. However, using 132 responses from 400 users of IETC are not representing most problems faced by SMEs. The reports should have been better if could attracted more respondents.

9. Foreign Ownership

Since the purpose of Japanese assistance in export training is mainly to improve the export capability of Indonesian local companies, the inclusion of foreign own firms into the training is another diverting from the original purpose.

10. Government Institutions

The report raised the problem of coordination among government institutions in Indonesia. This is not a new issue. Even after the re-split Ministry of Trade and Ministry of Industry, coordination among government institutions became more difficult. Concerted efforts to promote exports by all government agencies such as Ministry of Trade, Ministry of Industry, Ministry of Finance, Ministry of Agriculture, Ministry of Forestry, etc, is very important. Without coordination, it will be very difficult to expand exports beyond regular growth. It is understandable that most of instruments to improve export capability and competitiveness of the country are beyond jurisdiction of Ministry of Trade.

11. The role of NAFED

NAFED has actively promoted Indonesian exports since early 1970's. However, because of limited funds available from government budget, NAFED has limited capability to attend international exhibitions overseas. When comparing NAFED to the same kind of agencies in other neighbor countries such as Malaysia and Thailand, it is clear that NAFED still need improvement. In addition, NAFED needs expertise in marketing strategies, better export promotion technique, beside adequate budget.

12. The role of IETC

IETC has trained thousands of firms in the exports business since its opening in 1990. However, most recently this agency is facing difficulty to recruit training participants. IETC needs more capacity in human skills and budget to improve its curriculum and laboratories. Without better curriculum and adequate laboratories to adjust to the new era of globalization, IETC would not be able to attract participants from business community. Elevation of its rank from echelon III to echelon II level, should be helpful.

2. Malaysia

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The present report clearly defines the objectives of the study. It is stated at the outset that the purpose of the study is to evaluate Japan's aid to a select number of ASEAN countries through the instrumentality of JICA. Obviously, there is a need to assess the role that JICA has played for two reasons. The first is purely at the level of an audit, and the second is at the level of a re-assessment. As an audit, this report is expected to outline the programmes that JICA has implemented over the years and the effectiveness of these efforts. The second reason is more comprehensive in so far as it an attempt to sieve the lessons that can be learnt from JICA's cooperation with the partner-countries in ASEAN.

Both an audit and a re-assessment are timely because of changing global economic developments and the new dynamic of economic relations between ASEAN and East Asian states. These changes will mean that JICA will have to adopt a different mode of functioning to cater for shifts in the economic landscape. One can quickly think of two considerations. First, an audit and a re-assessment are useful because they can help guide future assistance to the CLMV countries; and this is expressly stated in the study. Second, the levels of economic growth and development that the countries under study have achieved since JICA first extended its cooperation are definitely different than those that obtained, say, 20 years ago. The requirements of these countries would have changed in respect to their expectations from JICA. Third, JICA may want to play a countervailing role in ASEAN with the economic presence that China now assumes. While the political economy considerations are not distinctly spelt out in Chapter 1, they must lie at the background. Some mention must, therefore, be made of the more competitive climate under which JICA must now operate. This must be acknowledged since it is to ASEAN's and Japan's benefit that the latter continue to engage itself within the region, but perhaps more aggressively, especially with the anticipated rise of China's presence.

The significance of the CD approach is nicely presented in Chapter 1. How the CD approach is defined in the present study and its relationship with other attempts in the field is also well presented. Clearly, the present study chooses to focus on a more narrowly defined area than some of the earlier work on CD, concentrating on the "aid business done by JICA in trade", but without ignoring the contributions of other organisations such as JETRO, etc. This is an entirely acceptable approach, and worthwhile from the policy point of view.

Chapter 1 also discusses the framework for the evaluation. In particular, it concentrates on social capacity assessment and the evaluation of Japan's contribution to the export capabilities of

developing countries. The diagram on social capacity (Fig.1.1) indicates what the authors mean by social capacity and how they choose to define it. What is less clear is first point that they make in applying the concept to trade, which states that, "compared with the other fields of development such as the environment, education, and healthcare, the role of government is restricted and the role of corporations is large." Looking at the Malaysian case, I would hold that the government has played and continues to play a substantial role. The size and influence of the government-linked corporations (GLCs) in Malaysia cannot be denied. It would, therefore, be useful if this point be clarified.

The relation between social management system, social-economic conditions and external causes is described in Chapter 2 and presented in diagrammatic form in Fig 1.2. The role of institutions is not clear because based on the diagram, institutions seem to impact on the inter-relationship between the government, citizens and firms. However, I think that institutions (formal and informal) determine the nature of the inter-relationships between the three actors (government, citizens and firms). I also note that there is little clear discussion that firmly situates the role of institutions within the proposed framework, although it is mentioned in places. Whatever it is, there is no doubt that JICA has assisted some of its partner countries in setting-up various procedures and legal frameworks to enhance trade.

The section on trade sector assistance from Japan provides a useful overview of the assistance that has been extended to Malaysia. It is mentioned that the number of trainees from Malaysia have been decreasing. It would be interesting to know why this has been so. It is also mentioned on the same page that the total number of trainees from Malaysia has been lower than those from Thailand and Indonesia. Again, it would be interesting to know why. The number of JODC TA professionals sent to Malaysia seems very small in comparison to the numbers sent to Indonesia and Thailand. Again, these figures raise the reader's curiosity. Is it because Malaysian enterprises do not need the kind of expertise that is offered? Or is it because the programmes are not being properly utilised? Or is there some other reason?

Section 4.3.2 considers trade capacity building of the private sector. I like the way the authors have selected the proxy indicators and I agree with them that although these are simple indictors they give a feel for the trade capacity of a country. On this note, I wonder if it would be useful to have some comparison on the basis of total factor productivity growth. Was this considered by the authors? It would be interesting to know why it was not selected as one of the indicators? As far as the indicators are concerned, I think one observation that the study makes is especially noteworthy. The authors point out that Malaysia does well as compared to its neighbours on these indicators, but lags behind Japan. This is, indeed, the challenge for Malaysia, because Malaysia is ahead of its neighbours, but still not competitive enough. And this point should suggest that Malaysia still has much to benefit from the aid that Japan can extend; but in a different form than was extended previously.

In section 4.3.3 it is mentioned that the research findings show that most of the respondents chose ASEAN countries as their export destination whereas official trade statistics show that the largest export destination from Malaysia is the US. This is not surprising given the most of the respondents, as stated on p.82, are SMEs. Typically, SMEs do not have the capital or resources to export to the US.

Section 4.4 is about the capacity building of the government to expand Malaysian exports. I have no disagreement with any of the points mentioned in this section. I would say that the authors have perceptively analysed the shifts in industrial policy in Malaysia and they correctly point that IMP3 is likely to concentrate on the service sector. However, it should be noted that the IMP3 is yet to be released, so the observation is probably based on personal interviews.

Similarly, I think that the review of the progress and development of MATRADE is brief, but sufficient and accurate. The views of private sector entities on MATRADE also seem to correspond to the general sentiment experienced through contact with many private sector companies and other entities. Although the number of opinions on this issue is not large enough to allow one to generalise, it reflects popular general perceptions regarding MATRADE.

The research study has some disturbing findings on how Malaysian enterprises evaluate policy measures in trade expansion. The findings suggest that there are shortfalls on the approval processes for governmental standards, job training programme, industrial development program in budgetary and tax incentives and tariff processes. These indicate, as noted by the authors, that there are problems in government services. There is a clear need to rectify problems such as these. I wonder if there is any role that JICA can play in assisting to smoothen existing procedures or practices in these areas. Problems in government services are obviously a good instance of the functioning of inefficient institutions. The theoretical framework in this study correctly pointed out that social capacity is improved or hindered by institutions, and in this section we have a good example that supports the framework.

It is intriguing that although there seem to be some problems with the government in the provision of trade related services, the private business groups do not have any such problem. In fact, from the responses that were obtained it appears that the companies interviewed are satisfied with the services provided by the private groups. This is a very positive observation and can be extended to suggest one of two things: either the private groups should be relied upon more and more in future in order to provide the services that are required, or the government should be encouraged to improve on the factors that constrain the effective functioning of its duties. Although both approaches can be used, one suspects that more immediate results are likely to be realised by allocating more resources to the functioning of the private business groups.

Section 4.5 of the research study is a good summary of Malaysia's development and how JICA has assisted in this developmental process. It is obvious that JICA's assistance has always been sensitive to the development stage of Malaysia and its needs at the time the assistance is extended. As the author's point out, Malaysia has been progressing well and Malaysia is able to develop its industrial policy independently, as well as institute its legislation without external assistance. Nevertheless, this does not mean that Malaysia no longer needs any further assistance from Japan. It only means that the type of assistance that is required will be of a different nature.

I would think that Malaysia can still benefit from Japan's expertise through the transfer of 'hard' skills and 'soft' skills. By soft skills I mean those skills relating to laws, trade negotiation, appraisal and evaluation of free trade agreements (FTAs) and the like. When speaking of hard skills, I refer to skills of a technical nature. Thus, I think Malaysia is, perhaps, in need of skills in terms of evaluating the impact of possible WTO agreements on national economic outcomes. It is also in need of skills in drafting and evaluating options for FTAs. This is because Malaysia does not have much experience with FTAs, whereas Japan has extensive capabilities in this area. Further, Malaysia is venturing into new areas such as biotechnology and nanotechnology. These are areas in which Japan has well developed industries. Thus, I believe that are many areas in which Malaysia can continue to benefit from Japan's expertise; and with some ingenuity it would be possible to engineer the right kind of programmes that will help Malaysia develop its social capacity in the trade sector.

3. The Philippines

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The study applies to trade the Social Capacity Assessment framework (Matsuoka et al 2005), which was originally developed for environmental management. The application is intended to help evaluate Japan's international cooperation policy, particularly JICA's development assistance. The study mainly consists of 1) presentation of framework and methodology, 2) individual country case studies of the ASEAN-4, and 3) summary evaluation with a brief comparison of ASEAN capacities leading to the policy recommendations. Each of the country studies incorporate findings of a self-rated survey of firms about their conditions and assistance provided them if any by government, donor agencies, and business associations (such as industry associations and business federations). The conduct of these surveys offers considerable comparative value. In addition, since surveys on Philippine SME conditions have been growingly scarce, the HU-MRI survey provides a much deserved update.

I would like to start my comments on the Philippine country study with a brief review of government policy and policy administration. Later, I examine the study against a review of Philippine export and business conditions as well as the impact of foreign direct investments (FDI) and official development assistance (ODA) on foreign trade and productivity. Other substantive comments are provided at the end.

For decades, the Philippines maintained a restrictive or protectionist policy toward foreign trade and investment. Following the typical trade pattern of developing countries, exports were primarily based on primary commodities while major imports consisted of finished goods and industrial inputs. In the 1970s, the Marcos government instigated a structural shift, which altered the pattern of trade. Again, it might be said that this policy change followed the labor-intensive, export-oriented industrialization undertaken by several East Asian countries.

In the 1980s, the government initiated trade and investment liberalization. Controls and restrictions were gradually loosened. The impressive trade performance of the 1990s should be underscored in relation to performance records of previous decades. It must be emphasized therefore that the economic liberalization policy produced a positive effect on Philippine foreign trade. Even the partial liberalization of the banking sector contributed, helping ease the preexisting tight credit situation. Consequently, consumer finance became a competitive business area. Likewise, business loans became more accessible for small entrepreneurs.

The trade liberalization policy framework was accompanied by the creation of new organizations and the mobilization of other government organizations, led by the Department of Trade and

Industry (DTI). These organizations responded to needs in various functional areas of business. In technology/production, there were at least ten (10) government instrumentalities involved; in marketing, six (6); in training, four (4); in regulation and provision of incentives, nine (9). In finance, five government financial institutions (GFIs) were mobilized to assist the SME sector in a unified lending program.

To facilitate export trade, one-stop export documentation centers were created. These were later expanded into the Export Assistance Network (EXPONET) to provide information and troubleshoot problems of exporters. The EXPONET included a network of several government agencies such as the Bureau of Customs and the Central Bank as well as business associations. To facilitate investment, one-stop action centers were created with the participation of the Board of Investment (BOI), BSP, Bureau of Immigration (BI), Department of Labor and Employment (DOLE), Securities and Exchange Commission (SEC), and the Philippine Industrial Estate Association (PHILEA).

Evidently, several government organizations have gathered to provide a variety of business support services in aid of expanded trade and investment. The HU-MRI correctly recognizes the formation of a trade capacity development "system" (under a liberalized trade and investment regime). As shall be pointed out later, this system enabled the rapid growth of the country's foreign trade. However, a slowdown in trade and manufacturing FDI flows since 2001 have weakened the ASEAN-4's overall manufacturing competitiveness. Vast amounts of FDI flowed to countries that offered greater cost advantages than the ASEAN-4.

Despite the gains reaped during the 1980s and 1990s, various studies and reports have revealed areas of improvement for government support services. A survey of SMEs conducted by Salazar et al (1986) from May to October 1984 showed that the process of availing of government fiscal incentives were costly and saddled by bureaucratic red tape. Twenty years later, the World Bank's *Doing Business in 2005* would reaffirm this situation. In various aspects of doing business, transactions with government were costly, time-consuming, and inconvenient. Using data from this World Bank study, a benchmark analysis with other countries would indicate the need to reduce the number of procedures, time, and costs of starting and closing a business, of registering property, and of enforcing contracts.

Other studies such as those of Lamberte et al (2003) and Tecson (2004) pointed to the cost of doing business as a major barrier to investment and competitiveness. These studies attributed the high costs of doing business to high electricity and water charges, high transportation costs (due to congested port facilities), poor infrastructure, peace and order, and again bureaucratic red tape.

A number of SMEs in the HU-MRI survey of Manila and surrounding areas would echo similar complaints about government service delivery. Although a number of SMEs signified

improvements in satisfaction levels of government support to the export sector, support areas noted above have not been effectively addressed. Particularly, improvements in customs procedures as well as government support in the areas of finance, marketing and information had been strongly suggested (see Table 5.19 of HU-MRI study).

The lack of resources is often cited as a major reason for government service delivery challenges. This could be traced to the government's fiscal problems, particularly in revenue generation, debt-service payments, and mal-allocation of resources due to political considerations. Recently, however, the government has expanded the value-added tax to boost its revenue-generating capacity and address the fiscal imbalance. Some improvements in government services could or should thus be expected.

Given the aforementioned mix of positive developments and service delivery weaknesses, it is difficult to characterize outright the Philippine government's support capacity for trade and investment. The impact is not thoroughly clear. There is a methodological challenge to construct quantitative indices of impact and capacity. Conceptually, these indices could be part of a larger social capacity development index (SCDI), which the HU-MRI draft introduces.

In the same vein should the business sector's capacity be measured. In other words, a business sector trade capacity weighted index could be constructed as an aggregate quantitative indicator. The English version of the draft does not make it clear at the beginning but the survey's focus is SMEs. Therefore, any reference to a country's trade capacity should take into account this limitation.

Based on a 1993 special survey of manufacturing establishments conducted by the National Statistics Office (NSO), Tecson (2004: 69) notes that of domestic firms, SMEs shared 64 percent of manufacturing output and 44 percent of manufactured exports. Similarly, of firms with foreign equity, SMEs accounted for 34 percent of output and 66 percent of manufactured exports. Hence, according to Tecson (ibid), an important segment of SMEs were generally "successful" in competing abroad and attracting foreign capital. This despite economic liberalization, weaknesses in government support, and high attrition rates during the mid-1990s.

Over a thirty year period (1975-2005), the export growth rate averaged close to 10 percent. The more remarkable period for Philippine foreign trade was the 1990s. From 1990-2000, the value of Philippines exports (FOB US$ million), led by the electronics, grew at an average of 17 percent per year. From traditional primary commodities, the country's revealed comparative advantage shifted to labor-intensive industries, particularly in consumer electronics and machinery assembly operations, and garments. The pattern of the total value of imports followed that of exports but at a much larger scale so that trade deficits were also experienced.

Exports fell in 2001 and, thereafter, performance became erratic. This could be attributed to a number of factors. One factor involved the poor government response to the aftershocks of the 1997 Asian crisis. Against the backdrop of massive capital outflows and impending trade slowdown, the Philippines witnessed excessive government spending starting in the late 1990s (Batalla, 2005). This eventually disrupted macroeconomic stability and the exchange value of the peso further dropped against major currencies. Further, China's entry into the WTO in November 2001 adversely affected the flow of investments into Southeast Asia. Many labor-intensive firms experienced tremendous difficulties, folded up or transferred operations to China, which enjoyed a tremendous labor cost advantage.

As before, adversities such as those mentioned above have not deterred some Japanese medium and large firms, particularly in electronics and machinery, from locating in the Philippines. Tecson (2000) identifies factors for the location decisions of large Japanese multinationals, which defy common perceptions about political, economic, and social risks. However, for SMEs, there is a need for a much improved business environment in order to maximize trade and investment in their sector.

Given serious government limitations, the Philippine business sector has somewhat benefited from external forces, particularly from what the HU-MRI draft calls as the "trinity" of policy instruments of international cooperation, namely: FDI, ODA, and trade. However, it is important to clarify certain economic phenomena involving these instruments.

The steep climb of the Philippines' foreign trade in the 1990s was accompanied by inflows of FDI and ODA, notably from Japan. The Philippines had been a major recipient and in the 1990s was being among the top five recipients of Japan's ODA (J-ODA). From 1985 to 2004, J-ODA accounted for 52 percent of the total value of ODA received by the Philippines. Likewise, from 1985 to 1996, J-ODA net disbursements to the Philippines averaged 1.13 percent of the country's gross national income (GNI). During the period 1997-2004, Philippine "aid dependency" from J-ODA declined to 0.42 percent of GNI. In fact, the ratio of J-ODA disbursements to GNI dropped in all ASEAN-4 countries.

Mapalad (1999) showed that since J-ODA focused on economic infrastructural projects, it did not negatively affect or substitute domestic saving in order to finance investments. Moreover, J-ODA positively affected the Philippines' income growth, employment, and foreign trade. However, the impact on the Philippines was small relative to those on Thailand, Indonesia, and Malaysia (Mapalad, 1999).

The effect of Japan's direct investment (JDI) on Philippine exports would be similarly positive. The main reason was that JDI went into export-oriented manufacturing industries particularly electronics, which led the export boom of the 1990s. The share of manufacturing to total JDI

averaged 70 percent during the period 1990-2000.

Nevertheless, the Philippines received considerably less FDI than Malaysia, Thailand, and Indonesia. From the 1985 Plaza Accord to the 1997 Asian financial crisis, the Philippines received the least JDI (US$3.8 billion). Indonesia received the largest cumulative amount of US$ 15.5 billion, followed by Thailand (US$ 11 billion), then finally Malaysia (US$ 7.2 billion). During the same period, based on the total inflows of JDI and J-ODA, the share of JDI was highest in Malaysia (93 percent), followed by Thailand (67 percent), and Indonesia (59 percent). JDI into the Philippines only accounted for 36 percent of the total amount of Japanese investments and ODA.

Because the bulk of J-FDI went into export-oriented manufacturing, the Philippines' export production structure and performance significantly changed. However, the change was far greater in Malaysia and Thailand for similar reasons (investments into labor-intensive, export-oriented manufacturing). This is the main reason for rapid increases in manufacturing productivity in these countries. In contrast, Japanese direct investments in Indonesia, the recipient of the largest amounts of JDI and ODA, were more diversified. The gap between JDI shares in manufacturing and non-manufacturing industries was not consistently high.

The main implication of these empirical findings is that export-oriented direct investments are significant to a country's export capacity. The economic impact of ODA, though positive, could be further enhanced if more substantial amounts are focused on facilitating investments within a country and from abroad. On the one hand, it could help facilitate FDI through a variety of assistance programs aimed at reducing the costs of doing business in the country. This suggests continuing economic infrastructural support (e.g., transportation) and exchange programs, enhancing technology transfer, promoting peace and order, etc. On the other hand, J-ODA could open a facility for direct support of Philippine private enterprise. This facility is similar to facilities of other donor agencies like CIDA's, as cited in the HU-MRI draft report. Such undertakings have received favorable feedback from Philippine SMEs.

Another theoretical consideration involves the empirical relationship between productivity, FDI, and foreign trade. The growth in FDI outflows is a relatively new phenomenon that defies traditional conceptions of productivity growth. In the case of the Philippines, the historical record of manufacturing productivity shows poor levels (ILO, 1974; Lamberte et al 2003).

However, consistent with the point being emphasized throughout these comments, gains in Philippine total factor productivity (TFP) have been largely the result of trade and liberalization policy (Lamberte et al 2003; Coraroton, 2004). Coraroton's (2004) regressions using data from 1975 to 1999 reveal that TFP in the Philippines was strongly determined by FDI. Other determinants include exports, share of manufacturing to GDP, and a two-year lag in R&D expenditure to GDP; a one-year lag in imports also had a positive but small effect. These findings

support Urata's observation of an FDI-trade nexus in East Asia in the last two decades.

In addition, the HU-MRI study correctly points out that, based on the firms' self-rated survey, export performance is greatly affected by demand and market conditions, despite admissions of productive capacity development. This finding could be further strengthened by analyzing the correlation between the presence of foreign ownership and the firms' export performance. Also, the analysis should firmly establish if improved productivity and export performance are industry-specific.

As is well documented in the literature, manufacturing FDI often brings with it work systems and technologies ready to be installed in the host country though subject to local adaptation. Likewise, manufacturing FDI usually carry established market linkages. It could be said that firms with more or less established financial, production, and market linkages, would tend to be more productive. Firms and industries not possessing these linkages and facing little incentives would tend to be less productive.

The above discussion suggests that the business sector's capacity for trade is determined by investments as much as its work systems and the costs of doing business. A caveat should therefore be considered when using (labor) productivity as an independent variable for determining the business sector's aggregate trade capacity. Less careful treatments could potentially lead to spurious results. Similarly, extreme care should be observed when making value-laden statements such as "where industrial development has been completed" or the Philippines having "no capacity leading to enhancement of export performance" (underscoring mine). In addition to what have been stated earlier on, the latter statement downplays or negates interpretations of Figure 5.15 which shows rising system indices for social capacity in the Philippines since the mid-1990s.

Concepts often demand operational clarity and preciseness. In this regard, improvements could be made on operational definitions and specific quantitative indicators of concepts found in the draft. Among the more important ones are "social capacity development index," "social development stages," "export promotion capacity of government," and "stages of system making." Since the analysis of these concepts in each country case ultimately result in a cross-country comparison, a more focused and well-defined comparative methodology is desirable. Measurement is necessary in order to avoid over- and under-estimation of individual country capacities (or in general, the variables studied as a basis of making claims).

It is also better to thoroughly present concepts/terms, operational definitions, indicators, and issues related to social capacity development in Chapter 2 than in later chapters of the study. Particularly, Chapter 7 discusses the issue about the types of aid inputs (sequential and additional inputs, with-without perspective, small-, medium-, and large-scale aid inputs) and their relative effectiveness. From a methodological perspective, this issue could have been raised earlier in

Chapter 2 then after formulating the appropriate hypotheses, test these hypotheses against the experiences of the four ASEAN countries. The overall validity and value of the current draft could be further enhanced once problems of methodology and consistency of data interpretation as mentioned above have been surmounted. I am hopeful that the revised final draft would be able to overcome these challenges.

The SCA framework provides for a more detailed examination of each country's trade capacity. Using the framework, capacity evaluation could be conducted from a different but powerful perspective. It examines trade capacity from a total systems view. Understanding the totality of a system is a great challenge however because it requires expert knowledge of each system component. One suggestion for the future use of SCA framework is to identify specific opportunities for the development of manufacturing industries through an optimal mix of international cooperation policy instruments (FDI, ODA, and trade).

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4. Thailand

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This comment analyzes and gives suggestions on the "Social Capacity development in Trade Sector and Japan's Assistance Report" specifically on in the case of Thailand. The comment has two parts. First part is comment on the broad view of the report. The second part will comment on the case of Thailand.

General Comments on the Report:
This report aims to evaluate JICA's aid in the field of trade, from the standpoint of capacity development by using the method of social capacity assessment. The report set three agendas of analysis. The first agenda is to analyze the social capacity development which promotes economic partnership with the method of Social Capacity Assessment. The second agenda is to evaluate the impact of JICA's aid to the social capacity development of the country. The third agenda is to examine how the business of the trade center, which is the representative project of JICA, contributed to social capacity development, social economic development, and the performance of trade and investment.

This report evaluate JICA's aid in the field of trade by looking at (1) contribution to capacity development, (2) the consistency with the development stage of social capacity (timing of aid entry and exit, relevance), (3) partnership with domestic organizations, consistency of policy, (4) consistency with the policy of the country of subject. To evaluate these conditions, the more important questions are how JICA approach aids to these developing countries, (developing country) demand pull or (Japan) supply push? What is the mechanism of Japanese trade-related organization used to initiate aid for developing country? Are policies planned according to the conditions and development stage of each country, or according to long-term goals and external competitive conditions? Generally, Japan Trade Assistance organizations, including JICA, initiate trade-related aid program by looking at international and domestic market of aid-receiver developing countries. International trade between ASEAN countries and Japan has begun since these countries implement import substitution policies. The main reason of Japanese foreign direct investment (FDI) is to access domestic market. After investment, international trade had started followed by aid. The characteristic of the international relationship was shown as the new development strategy oriented to growth through the trinity of aid, trade, and investment. Therefore it is highly possible that JICA's aid has consistency with higher level trade and investment policies. Moreover, it has a full partnership with domestic organizations since most of ASEAN developing countries' industrial policies were guided by Japanese government.

However, to evaluate JICA's aid, the report should not do only checking whether the organizations

have trade-related activities (or aids) or not but also measuring the difference between expected and actual amount of social capacity by considering trade and investment level. Although these capacities are hard to measure, it is worth trying some proxy to measure them. This report has already shown the details of trade-related aids and it also shown some proxies of actual social capacity eg. the number of trainee participating in trade aid program. Nevertheless, the target level of these proxies has not yet shown clearly. Furthermore, since most of ASEAN developing countries' industrial policies were guided by Japanese organization, it will be interesting to see how different between Japan's suggestion and actual policies and what are main reasons of differences?

Another suggestion is about SMEs issues. This report seems to assume that the progress in SMEs development will show the social capacity which finally have effect on trade. However, SMEs in ASEAN countries slightly relate to supporting industries. They also have less proportion in export share. They focus on domestic market rather than export market. It may be possible to use development of SMEs as the proxy on social capacity development. Nevertheless, to link development of SMEs with trade, we need to define SMEs more specifically.

Overall, this report provides insightful perspective of the relationship between JICA's Assistance and social capacity development in developing countries. The conclusions and recommendations are very useful and practical for future policy implementation.

Comment on Social Capacity development in Trade Sector and JICA's Assistance in Thailand:
This comment was on the review of JICA's major aid to the Thai trade sector and their effects on social capacity development in Thailand. This report defines trade sector aid in several forms including direct aid to trade promotion, a variety of types of cooperation such as investment promotion, promotion of small and medium sized firms and supporting industry, and industry development.

In the first part, the chapter explain about trade sector assistance from Japan to Thai trade sector. The Japan assistances include JICA, JETRO, JODC, AOTS, and JBIC. This part show the most important assistance programs in trade / direct investment, the fostering of SMEs and supporting industries, and industrial development by providing the project name and the year. However, to show this program at year of operation will not show the real effect of these programs on social capacity development. Japan aids in trade sector mainly initiate industrial development plan, set up institutional structure (organization) (or social capacity), and providing physical and human resources to Thailand. The results of many Japan' organization development studies and suggestion plans were implemented. These plans are the blue-print of Thai manufacturing structure. The structure, then, affects the pattern of trade and investment. Although the number of trainees from Thailand in trade, direct investment, and SMEs development seem to be small number but, in fact, these trainees became key player in initiating and implementing industrial development policies. Therefore, the influences of these Japan's trade aids will be more than just the year of

implementation but their effects will cover the period in industrial development plan. However, to understand Japan's assistance on Thailand trade sector, It will be better that the report can briefly explain if each program is successful or not. It will be more obvious to show the relationship between Japan's trade aid program and Thai social capacity development rather than explain them separately.

In the second part, this chapter explains about economic development, trade, and direct investment. It shows Thai economics growth, the ratio of Thai product/ services export to GDP, rate of manufacturing sector in Thai export value, international competitiveness of Thai export item, and foreign direct investment inflow to Thailand. It should be noted here that although, the share of once-dominated resource-based and labor-intensive exports has gone down while that of science-based and differentiated exports has gone up especially in the 1990s, one cannot argue that Thai exports have turned to be more technological intensive, as the dividing categories do not reflect the sophistication of technological activities requiring to produce goods, for example, those categorized as science-based exports might be only assembled locally, while their technologically sophisticated and high-value-added components are imported. Although this part show socio-economic environment in Thai economy, it does not show the relationship between Thai and Japan. It will be better if these economic indicators show more specific relationship between Thai and Japan eg. trade volume, FDI etc. Moreover, the report does not show the effect of economic crisis. In fact, the crisis change social capacity and trade pattern in many ways. For example, during and after crisis, many foreign joint ventures export their products more to prevent low domestic demand. Many firms start to improve their capacity to compete in export market. Therefore, the author should emphasize economic crisis as the one socio-economic condition which affects social capacity development in Thailand.

In the third part of this chapter explain about trade capacity building in firms. Firstly, the evaluation on capacity building of local SMEs was demonstrated. Although there are many good sign of development in productivities or in export growth, it has to note here that since most manufacturing production takes place in larger establishments, SME productivity can be greatly increased by encouraging them to invest in new equipment and modern production facilities, possibly as a result of new business linkages with larger firms. Moreover, some export growth especially after crisis was encouraged by parent transnational corporations (TNCs) rather than their own competitiveness. Labor productivity in small and medium industries was only half that of larger industries Furthermore, the proportion of SMEs products in Thai trade volume is very small. The interpretation should be careful. Especially when we want to conclude that the Thai trade sector has transitioned from the System-working Stage to the Self-management Stage.

For business group, this chapter includes Thai Chambers of Commerce (TCC) and Federal of Thai Industries (FTI). In fact, there are many business group which have influence in Thai economy. For example, Technology Promotion Association (Thailand-Japan) or TPA. Its main objective is to

enhance technology transfer to Thailand through human resource development. Another business group is Thai-Japanese Association (TJA). It collaborate with DIP to operate the Invigorating Thai Business project (ITB), which was launched in 2002 with a budget of 2 billion Baht during crisis. Industrial associations, can play significant roles in diffusion of knowledge and new technologies among member firms. Many industry associations exist in Thailand, however their function has been limited to being a social forum and a lobby group. Many do not employ full-time staff and are relatively informal. The potential of industry associations in building competitiveness has hardly been realized in Thailand, with rare exceptions (Plastics, TAPMA, IDEMA and Toyota Cooperation Club). In the new competitive environment, not just firms, but also industry associations need to upgrade. The government should play a role in ensuring that the potential for industry associations for promoting joint actions is not missed. The government needs to understand the specific challenges faced by individual sectors.

This part also explains about trade capacity building of the private sector. The report should explain further about the general structure of capacity building in Thai manufacturing sector. Several studies of Thai firms conducted since the 1980s state that most firms have grown without deepening their technological capabilities in the long run, and their technological learning has been very slow and passive. Only a small minority of large subsidiaries of TNCs, large domestic firms and SMEs have capability in R&D, while the majority are still struggling with increasing their design and engineering capability. For a very large number of SMEs, the key issue is much more concerned with building up more basic operational capabilities, together with craft and technician capabilities for efficient acquisition, assimilation and incremental upgrading of fairly standard technology. For self-analysis of trade capacity by enterprise, the sample was only 24 firms. Therefore, it is hard to generalize these results. However, the results of the survey mostly are consistent with many previous studies. In this case, the author should use previous studies to confirm conclusion.

The forth part of this chapter explains about capacity building of the government to expand Thai export. The report explains Thai government agencies provide services related to export focusing on the Ministry of Commerce and the Ministry of Industry. The role of Department of Export Promotion (DEP), International Trade Training Institute (ITTI), the Office of Small and medium-sized enterprises Promotion (OSMEP), and the Bureau of Supporting Industry Development (BSID) were explained. However, explanation on more general view of Thai government policies on capacity development is necessary. In Thailand, the most important instrument of trade policy, tariff, has not been used strategically to promote technological learning. Instead, trade policy was very much influenced by macro economic policy, for instance, to reduce domestic demand for imports at the time of balance of payment deficit. Moreover, industrial policy in Thailand has been limited to the so-called ‘functional’ intervention such as promoting infrastructure building, general education, and export push in general. The exception was the local content requirement in automobile industry, which was rather successful in raising local contents of

passenger vehicles to 54% in 1986. However, on 1 January 2002, one the most significant developments in the trading environment of Thai manufacturing firms was the adoption of the 0-5 per cent tariff band on 85 per cent of tariff line items from other ASEAN countries to spur competition and enlarge the regional market. Another measure was the abolition of local content requirements in the auto industry in 2000, two years ahead of the WTO deadline, to attract foreign direct investment in auto assembly and component manufacturing. Investment policy, especially the promotion of foreign direct investment (FDI), aims primarily at generating inward capital flow and employment. However, after crisis, FDI has progressively being allowed in service industries, particularly in the financial and communication sectors. The 25 per cent limit on foreign equity participation has been lifted in banking and other financial services, except insurance. New insurance licenses have been granted to foreign firms to introduce more competition in the domestic market, while insurance laws are being amended to allow higher foreign equity participation. In August 2000, the Board of Investment introduced a new FDI policy containing the following key measures: (i) 100 per cent foreign shareholding in all activities are now allowed, with the exception of those listed under List One of the Foreign Business Act; (ii) claims for investment incentives must be accompanied by evidence of performance; (iii) projects above Baht 10 million are required to obtain a quality certificate such as ISO 9000; (iv) SMIs with an investment of Baht 1 million are now eligible for investment incentives of the Board of Investment; and (v) the debt-equity ratio has been reduced from 4:1 to 3:1 to encourage financial prudence. Long-standing investment strategy has recently been rearranged in accordance to a major economic structural adjustment. Priority has been given to increase in the support of industries that are knowledge-intensive. The new investment strategy of the country focuses on increasing value-added and indigenous technology capability of the industrial sector. This is a significant shift from the investment centered at employment generation.

At present, the concept of industrial cluster becomes very popular worldwide, policy makers at national, regional and local levels and business people in both forerunner and latecomer countries are keen to implement the cluster concept as an economic development model. In Thailand, a latecomer country in terms of technological catching up, the cluster concept has been used as a means to rectify weakness and fragmentation of its innovation systems. The present Thai government aspires to apply the concept to promote both high-tech manufacturing clusters, services clusters and community-based clusters at the grass-root level. Main driving forces of the three clusters are cluster intermediaries. Forms of these organizations are different from a government research and technology organization (RTO), an industrial association, to a self-organized community-based organization such as Industrial Technical Assistance Program (ITAP), National Electronics and Computer Technology Center (NECTEC), and Software Park Thailand (SPT). The links between industrial-oriented RTOs and industrial firms in Thailand are rather limited. Thai RTOs have been concentrating on developing technologies for industry and, then, transferring them to private firms, rather than promoting transferring of people from RTOs to private firms, which is important for deepening technological development capabilities in industry.

The fifth part of this chapter explains about Thai capacity development in trade and evaluation of support from Japan. The support from Japan is not only from public sector but also from private sector. However, the links for technological development between TNCs and their subsidiaries in Thailand are rather limited and trivial. Previous studies found that the transfer of technology has tended to be limited to the operational level, i.e. TNCs tended to train their workers just so that they can efficiently produce goods. There has not been sufficient transfer of technology at higher levels such as designing and engineering. Little investment from TNCs in Thailand has been made in R&D. TNCs have not been active in developing subcontractors or giving technical assistance to local suppliers. The reason behind this is inefficiency and backwardness of local supporting industries. Equally important, TNCs lack willingness and effort to devote the resources and time to upgrade local suppliers. There is a good sign about the cooperation among Japanese companies, local companies and university, for instance, the Ayuthaya Technical Training Center (ATTC). This is a joint venture between the Hi-Tech Industrial Estate and the King Mongkut Institute of Technology North Bangkok. It was set up in 1992 with considerable assistance in the form of training equipment and technology from a number of Japanese companies led by Canon Ltd. In a subsequent development supported by the Mitutoyo Corporation, a precision instrument and metrology centre was added to the ATTC facility. Another case is, in 1994, the cooperation between Chulalongkorn university and Toyota Motor Thailand (TMT) helped re-establish the auto-engineering degree program with the provision of monetary support and instructors from both TMT and the parent firm in Japan. Nearly 600 students have participated in these programs under the sponsorship of 34 Toyota-provided instructors.

Questionnaire Survey

For a better tomorrow for all.
Japan International Cooperation Agency

27 August 2005

Questionnaire Survey on Trade Capacity Development
in ASEAN 4 countries

This questionnaire survey is carried out as part of the Japan International Cooperation Agency (JICA) study on "Social Capacity Development in trade in ASEAN 4 countries (Indonesia, Malaysia, the Philippines, and Thailand)". This study aims to clarify the conditions of capacity development in corporate and government sectors, which have played key roles in export promotion of these countries. In this questionnaire survey, we would like to obtain essential information necessary for our analysis through asking questions on self-evaluation of export-related capacity of your company as well as evaluation of the government's policies and your satisfaction level.

While our team, the Hiroshima University-Mitsubishi Research Institute Joint Venture (JV), is implementing this whole study under contract with JICA, we have also contracted out a questionnaire survey to local organizations in individual ASEAN 4 countries. In Malaysia, the JV has asked Malaysian Institute of Economic Research (MIER) to implement the questionnaire survey.

Our team plans to compare the results of questionnaire survey in Malaysia with those of the other countries in order to assess the future directions of Japan's technical assistance to these countries. In addition, we would like to learn lessons from ASEAN 4 experiences that could be applied for assistance to other ASEAN countries, especially countries of Indochina as well as Africa.

The results of the whole study including this survey will be compiled in the final report (Japanese and English) by the end of 2005 and will be up on the JICA website.

In order to ensure the quality of the results, please make sure that the person at a high management level in your company such as CEO and CFO will kindly take time to answer this questionnaire, or at least review and give authorization to the filled out questionnaire.

We would like to express our sincerest appreciation for your understanding and cooperation on this questionnaire survey.

Shunji Matsuoka, Ph. D
Professor
Graduate School for International Development and Cooperation
Hiroshima University
and
Evaluation Team Leader
Joint Venture of
Hiroshima University and
Mitsubishi Research Institute, Inc.

Company Name:

1. Corporate Profile

Basic information about your company

1) Year of foundation		
2) Category of business 2-1) Types of business activities (Circle the alphabet(s) in the right cell)	a) Manufacturer/Direct Exporter b) Manufacturer/Indirect Exporter c) Nonmanufacturer/Export Trader d) Others (please specify:)	
2-2)Types of Industries (Circle the alphabet(s) in the right cell)	a) food c) pulp and paper e) medical goods g) wood product i) glass, soil and stone product k) nonferrous metal m) general machinery and parts o) transport equipment and parts q) others (please specify:)	b) apparel and textile d) chemical f) petroleum and coal product h) rubber product j) iron and steel l) metal products n) electric equipment and parts p) precision equipment and parts

About following items of 3) to 10) , please answer the situations in 2000 and 2004, respectively. With regard to information as of 2000, If your company did not exist in 2000 or did not export or if you are unable to fill in the cells for any reasons, please circle N/A.

	2000		2004
3) Major product		N/A	
4) Paid-up capital (Ringgit)		N/A	
5) Fixed assets (Ringgit)		N/A	
6) Foreign capital ratio (% of foreign ownership e.g. write 0% if there is no foreign ownership)		N/A	
7) Sales amount (Ringgit)		N/A	
8) Export value (Ringgit)		N/A	
9) Major export market (Circle the alphabet(s) in the right cell)	a) ASEAN b) Japan c) China d) South Korea e) Central Asia f) South Asia g) Middle East h) Western Europe i) Eastern Europe j) Africa k) North America l) Central and South America m) Oceania n) Others	N/A	a) ASEAN b) Japan c) China d) South Korea e) Central Asia f) South Asia g) Middle East h) Western Europe i) Eastern Europe j) Africa k) North America l) Central and South America m) Oceania n) Others
10) Number of Employees (including part-time employees)		N/A	

2. Evaluation of the government's measures related to export promotion

From the following policy options set out in items 11) to 18), please answer your satisfaction level about these policies' contribution to your company's export promotion in 2000 and 2004.

(5: very satisfied 4: satisfied 3: almost satisfied 2: a little unsatisfied 1: unsatisfied N/A: unable to answer)

	2000 Satisfaction Level on contribution to your company's export promotion	2004 Satisfaction Level on contribution to your company's export promotion
11) legal systems and operations	5 4 3 2 1 N/A	5 4 3 2 1 N/A
12) Infrastructure building		
12-1) Logistics (roads, bridges, ports, airports, etc.)	5 4 3 2 1 N/A	5 4 3 2 1 N/A
12-2) Electricity	5 4 3 2 1 N/A	5 4 3 2 1 N/A
12-3) Communication (Telephone, Postage, Internet, etc.)	5 4 3 2 1 N/A	5 4 3 2 1 N/A
12-4) Water Supply	5 4 3 2 1 N/A	5 4 3 2 1 N/A
13) Government Standard certification system (standard, measurement, test)	5 4 3 2 1 N/A	5 4 3 2 1 N/A
14) Human resources development		
14-1) Elementary and secondary education	5 4 3 2 1 N/A	5 4 3 2 1 N/A
14-2) College/University education	5 4 3 2 1 N/A	5 4 3 2 1 N/A
14-3) Vocational education	5 4 3 2 1 N/A	5 4 3 2 1 N/A
14-4) Training programs for skilled engineers	5 4 3 2 1 N/A	5 4 3 2 1 N/A
15) Industrial and Trade development policy		
15-1) Financial Support (subsidies, loans, export finance, insurance, etc.)	5 4 3 2 1 N/A	5 4 3 2 1 N/A
15-2) Tax preferences (tax reduction, tax credit, etc.)	5 4 3 2 1 N/A	5 4 3 2 1 N/A
16) Response to the trade liberalization (WTO, AFTA, bilateral FTAs)		
16-1) Reduction of import tariffs for raw materials	5 4 3 2 1 N/A	5 4 3 2 1 N/A
16-2) Reduction of obstacles for foreign export	5 4 3 2 1 N/A	5 4 3 2 1 N/A
17) Establishment and operation of the export processing zone	5 4 3 2 1 N/A	5 4 3 2 1 N/A
18) Efficiency of the customs procedure	5 4 3 2 1 N/A	5 4 3 2 1 N/A

3. Evaluation of trade-related services for companies by the government

From 19) to 22) please answer your company's satisfaction level on the government's services as of 2000 and 2004, respectively

(5: very satisfied 4: satisfied 3: almost satisfied 2: a little unsatisfied 1: unsatisfied N/A: Unable to answer)

	a) Individual counseling, Consulting	b) Training, Seminar	c) Trade Fair, Exhibition	d) Provision of information
19) Production (specification, quality management, process management)	2000 5 4 3 2 1 N/A	2000 5 4 3 2 1 N/A		2000 5 4 3 2 1 N/A
	2004 5 4 3 2 1 N/A	2004 5 4 3 2 1 N/A		2004 5 4 3 2 1 N/A
20) Product development (design, packaging)	2000 5 4 3 2 1 N/A	2000 5 4 3 2 1 N/A		2000 5 4 3 2 1 N/A
	2004 5 4 3 2 1 N/A	2004 5 4 3 2 1 N/A		2004 5 4 3 2 1 N/A
21) Marketing (getting market information, customer development)	2000 5 4 3 2 1 N/A	2000 5 4 3 2 1 N/A	2000 5 4 3 2 1 N/A	2000 5 4 3 2 1 N/A
	2004 5 4 3 2 1 N/A	2004 5 4 3 2 1 N/A	2004 5 4 3 2 1 N/A	2004 5 4 3 2 1 N/A
22) Trading business (export-import business, knowledge of relevant systems)	2000 5 4 3 2 1 N/A	2000 5 4 3 2 1 N/A		2000 5 4 3 2 1 N/A
	2004 5 4 3 2 1 N/A	2004 5 4 3 2 1 N/A		2004 5 4 3 2 1 N/A

4. Evaluation of Trade-Related Services for Companies by the Business Sector

From 23) to 26) p lease answer your company's satisfaction level on the services provided by business and industry groups, private companies as of 2000 and 2004, respectively.

(5: very satisfied 4: satisfied 3: almost satisfied 2: a little unsatisfied 1: unsatisfied N/A: Unable to answer)

	a) Individual counseling, Consulting	b) Training, Seminar	c) Trade Fair, Exhibition	d) Provision of information
23) Production (specification, quality management, process management)	2000 5 4 3 2 1 N/A	2000 5 4 3 2 1 N/A		2000 5 4 3 2 1 N/A
	2004 5 4 3 2 1 N/A	2004 5 4 3 2 1 N/A		2004 5 4 3 2 1 N/A
24) Product development (design, packaging)	2000 5 4 3 2 1 N/A	2000 5 4 3 2 1 N/A		2000 5 4 3 2 1 N/A
	2004 5 4 3 2 1 N/A	2004 5 4 3 2 1 N/A		2004 5 4 3 2 1 N/A
25) Marketing (getting market information, customer development)	2000 5 4 3 2 1 N/A	2000 5 4 3 2 1 N/A	2000 5 4 3 2 1 N/A	2000 5 4 3 2 1 N/A
	2004 5 4 3 2 1 N/A	2004 5 4 3 2 1 N/A	2004 5 4 3 2 1 N/A	2004 5 4 3 2 1 N/A
26) Trading business (export-import business, knowledge of relevant systems)	2000 5 4 3 2 1 N/A	2000 5 4 3 2 1 N/A		2000 5 4 3 2 1 N/A
	2004 5 4 3 2 1 N/A	2004 5 4 3 2 1 N/A		2004 5 4 3 2 1 N/A

5.Evaluation of your company's performed work

In items 27) to 30), please answer the questions about your company's overall competitiveness, number of skilled/ specialized staff, and technology/know-how. Please answer the situations in 2000 and 2004, respectively. Note that a) number of skilled/specialized staff and b) technology/know-how are regarded as key components of overall competitiveness.

27) Production (specification, quality management, process management)

Overall Competitiveness	Sufficient global competitiveness	Top companies in the country	Same as fellow traders	Inferior to fellow traders	Undeveloped	Unable to answer
2000	5	4	3	2	1	N/A
2004	5	4	3	2	1	N/A
a) Number of Skilled/ Specialized Staff	Highly sufficient	Sufficient	Almost sufficient	Insufficient	Severely insufficient	Unable to answer
2000	5	4	3	2	1	N/A
2004	5	4	3	2	1	N/A
b) Technology/ Know-how	Highly sufficient	Sufficient	Almost sufficient	Insufficient	Severely insufficient	Unable to answer
2000	5	4	3	2	1	N/A
2004	5	4	3	2	1	N/A

28) Product development (design, packaging)

Overall Competitiveness	Sufficient global competitiveness	Top companies in the country	Same as fellow traders	Inferior to fellow traders	Undeveloped	Unable to answer
2000	5	4	3	2	1	N/A
2004	5	4	3	2	1	N/A
a) Number of Skilled/ Specialized Staff	Highly sufficient	Sufficient	Almost sufficient	Insufficient	Severely insufficient	Unable to answer
2000	5	4	3	2	1	N/A
2004	5	4	3	2	1	N/A
b) Technology/ Know-how	Highly sufficient	Sufficient	Almost sufficient	Insufficient	Severely insufficient	Unable to answer
2000	5	4	3	2	1	N/A
2004	5	4	3	2	1	N/A

29) Marketing (getting market information, customer development)

Overall Competitiveness	Sufficient global competitiveness	Top companies in the country	Same as fellow traders	Inferior to fellow traders	Undeveloped	Unable to answer
2000	5	4	3	2	1	N/A
2004	5	4	3	2	1	N/A
a) Number of Skilled/ Specialized Staff	Highly sufficient	Sufficient	Almost sufficient	Insufficient	Severely insufficient	Unable to answer
2000	5	4	3	2	1	N/A
2004	5	4	3	2	1	N/A
b) Technology/ Know-how	Highly sufficient	Sufficient	Almost sufficient	Insufficient	Severely insufficient	Unable to answer
2000	5	4	3	2	1	N/A
2004	5	4	3	2	1	N/A

30) Trading business (export-import business, knowledge of relevant systems)

Overall Competitiveness	Sufficient global competitiveness	Top companies in the country	Same as fellow traders	Inferior to fellow traders	Undeveloped	Unable to answer
2000	5	4	3	2	1	N/A
2004	5	4	3	2	1	N/A
a) Number of Skilled/ Specialized Staff	Highly sufficient	Sufficient	Almost sufficient	Insufficient	Severely insufficient	Unable to answer
2000	5	4	3	2	1	N/A
2004	5	4	3	2	1	N/A
b) Technology/ Know-how	Highly sufficient	Sufficient	Almost sufficient	Insufficient	Severely insufficient	Unable to answer
2000	5	4	3	2	1	N/A
2004	5	4	3	2	1	N/A

6. Acquisition of ISO (International Standardization Organization) authentication

31) Please indicate year of your company's acquisition of ISO Standards authentication.

31-1) ISO9000 (Quality Management System)	a. Acquired (in)	b. To be Acquired (scheduled for acquisition in)	c. No plans to acquire
31-2) ISO14000 (Environment Management System)	a. Acquired (in)	b. To be Acquired (scheduled for acquisition in)	c. No plans to acquire
31-3) Other International Standards			
Name of the standard ( )	a. Acquired (in)	b. To be Acquired (scheduled for acquisition in)	
Name of the standard ( )	a. Acquired (in)	b. To be Acquired (scheduled for acquisition in)	

7. Assistance from foreign aid donor agencies

32) Have you ever received assistance from foreign aid donor agencies? If so, please specify the names of agencies and assistance provided by the donor agencies.

32-1) Names of Donor Agencies (Circle the alphabet(s) in the right cell)	a) JICA (Japan) b) JETRO (Japan) c) AOTS (Japan) d) CIDA（Canada) e) USAID（USA） f) AUSAID (Australia) g) GTZ（Germany） h) ADB (Asian Development Bank) i) World Bank j) Others (please specify:) k) N/A (unable to answer for any reason)
32-2) Forms of assistance by foreign donor agencies (Circle the alphabet(s) in the right cell)	a) individual counseling/ consulting b) training, seminars c) trade fair, exhibition d) provision of information e) financial assistance f) others (please specify:) g) N/A (unable to answer for any reason)

8. Suggestions for future efforts by the government

33) Please provide suggestions for future efforts by the Government so that it can better serve the needs of your company in export promotion

( )

Thank you for your cooperation.

Field study schedule

＜First field study＞

	Date	Activities	
1	3/6 San	11:30 Departure from Osaka (NH5863) 17:25 Arrival in Kuala Lumpur (Matsuoka, Takahashi)	11:45 Departure from Tokyo (JL723) 18:30 Arrival in Kuala Lumpur (Mizuta, Kozu)
2	7 Mon	AM Courtesy visit and Interview to the JICA Malaysia office PM MATRADE, and MITI	
3	8 Tue	JETRO Kuala Lumpur Center Japanese Chamber of Trade and Industry, Malaysia National Chamber of Commerce and Industry Federation of Malaysian Manufactures	
4	9 Wed	11:50 Departure from Kuala Lumpur (MH704) 15:45 Arrival in Manila (Matsuoka, Takahashi, Mizuta, Kozu)	
5	10 Thu	AM Courtesy visit and Interview to the JICA Philippines office PM PTTC, and DTI	
6	11 Fri	JETRO Manila Center Japanese Chamber of Trade and Industry, the Philippines Philippine Chamber of Commerce and Industry Federation of Philippines Industries	
7	12 Sat	14:15 Departure from Manila (SQ073) 17:45 Arrival in Singapore 18:45 Departure from Singapore (SQ166) 19:20 Arrival in Jakarta (Matsuoka, Takahashi, Mizuta)	14:50 Departure from Manila (JL742) 19:50 Arrival in Tokyo (Kozu)
8	13 San	Team meeting	11:25 Departure from Tokyo (JL725) 17:05 Arrival in Jakarta (Kobayashi)
9	14 Mon	AM Courtesy visit and Interview to the JICA Indonesia office PM ITTC, and NAFED	
10	15 Tue	JETRO Jakarta Center Jakarta Japan Club Jakarta Chamber of Commerce and Industry	
11	16 Wed	13:10 Departure from Jakarta (TG434) 16:40 Arrival in Bangkok (Matsuoka, Kobayashi, Takahashi, Mizuta)	
12	17 Wed	AM Courtesy visit and Interview to the JICA Thailand office PM ITTI, and DEP	
13	18 Fri	JETRO Bangkok Center Japanese Chamber of Trade and Industry, Thailand Thai Chamber of Commerce and Industry Federation of Thailand Industries	
14	19 Sat	09:10 Departure from Bangkok (JL728) 16:15 Arrival in Osaka (Matsuoka, Takahashi)	08:30 Departure from Bangkok (JL708) 16:10 Arrival in Tokyo (Kobayashi, Mizuta)

＜Second field study＞

	Date	Activity	
1	5/22 Sun	14:25 Departure from Osaka（JL713） 22:05 Arrival in Jakarta （Matuoka, Takahashi）	11:25 Departure from Narita（JL725） 16:50 Arrival in Jakarta （Kobayashi, Mizuta）
2	23 Mon	8:30 Mr. Toru Honma, Assistant Resident Presentative, JICA Indonesia Office 10:00 Institute for Economic and Social Reserch, Faculty of Economics University of Indonesia 11:30 Material compilation（BPS）	
		14:00 IETC	
3	24 Tue	11:10 Departure from Jakarta（MH710）	
		14:10 Arrival in Kuala Lumpur	
		17:00 The Japanese Chamber of Trade & Industry, Malaysia	
4	25 Wed	9:30 MIER	
		14:00 MATRADE Export Facilitation Division	
		20:15 Departure from Kuala Lumpur（TG418） 21:25 Arrival in Bangkok	
5	26 Thu	7:30 NIDA Dr. Dr. Wisarn Pupphavesa, Director, The Center for International Economics and Development Studies (at the hotel) 8:30 Mr. Inoue, Assistant Resident Represntative, Planning &Coordination Section, JICA Philippine Ofiice 10:30 Dr. Sopon Thitisuja, Faculty of Economics Thammasat University (at the hotel)	
		Material compilation, National Statistical Office Dr. Chayun Tantivasadakarn, Associate ProfessorFaculty of Economics Thammasat University	
6	27 Fri	09:10 Departure from Bangkok（JL728） 16:35 Arrival in Osaka （Matuoka, Takahashi）	08:35 Departure from Bangkok（JL708） 16:35 Arrival in Narita （Kobayashi, Mizuta）

＜Third field study＞

	Date	Activity	
1	8/3 Wed	10:45 Departure from Osaka (TG621) 13:35 Arrival in Manila (Matsuoka, Takahashi)	09:40 Departure from Tokyo (JL741) 13:00 Arrival in Manila (Kobayashi, Mizuta,)
		16:00 JICA Philippine Office Mr. Shozo MATSUURA (Resident Representative JICA Philippines) 18:00 De La Salle University Dr. Eric Batalla, Dr. Francisco Magno (La Salle Institute of Governance)	
2	4 Thu	9:00 Board of Investments, Department of Trade and Industry (DTI) Mr. Masaharu TAMAKI (JICA Long Term Expert in SME Promotion Policies) 11:00 Office of Operational Planning, DTI Dir. Mary Jean T. Pacheco, Director, Office of Operational Planning, DTI 14:00 Center for International Trade Expansions and Missions (CITEM) Ms. Dorris Gacho, (Asst. Div. Chief, Corporate Planning Division)	9:30 CTC Exports (Marilao Bulacan) 13:30 Maxi-Metal (Caloocan City)
3	5 Fri	9:00 Bureau of Small and Medium Enterprise Development, Department of Trade and Industry Ms. Alice Opena (Division Chief), Mr. Jerry Clavecillas (Assistant Director) 13:00 Bureau of Export Trade Promotion, DTI Ms. Cristina Gonzales (Division Chief, Technical Staff) 16:00 JICA Philippine Office Mr. Shozo MATSUURA (Resident Representative JICA Philippines)	
4	6 Sat	14:40 Departure from Manila (TG621) 16:45 Arrival in Bangkok *all members	
5	7 Sun	Internal meeting	
6	8 Mon	・Department of Export Promotion (DEP) ：原則として各部局の政策・企画担当者 （Office of Export Service） International Trade Information Center Office of the Export Planning （Office of Overseas Trade Fair Activities） Product Development Center ・Office of Small and Medium Enterprise Promotion ・（Thailand Board of Investment） ・質問票調査対象企業２社（軽工業、SI 各１社）	
7	9 Tue		
8	10 Wed	09:10 Departure from Bangkok (JL728) 16:35 Arrival in Osaka (Matsuoka, Takahashi)	08:35 Departure from Bangkok (JL708) 16:35 Arrival in Tokyo (Kobayashi, Mizuta)

＜Fourth field study＞

	Date	Activity	
1	8/23 Tue	12:55 Departure from Osaka (JL721) 20:25 Arrival in Kuala Lumpur (Matsuoka, Takahashi)	12:25 Departure from Tokyo (JL723) 18:35 Arrival in Kuala Lumpur (Kobayashi, Mizuta,)
2	24 Wed	10:00-11:30 Electrical and Electronics Unit, MATRADE	A.M. HYT Food Industries SARJET Corporation
		14:30-16:00 Chemicals, Pharmaceuticals, Food, Agricultural Products and Fisheries Unit, MATRADE -Asian / African Division, MATRADE	
3	25 Thu	10:00-11:30 Planning and Strategy Division, MATRADE 13:30-15:15 Mr. Koichi Hayase, Senior Investment Advisor, JETRO 16:00-17:30 Mr. Abdul Hadi Othman, Senior Director, Strategic Planning, MITI (Division responsible for policy on small and medium sized enterprise and industry, and export promotion) -Industronics	
4	26 Fri	09:00-10:00 Ms. Norsalehah, (Director Strategic Planning Division, Small and Medium Industries Development Corporation (SMIDEC) 11:00-12:00 Dr. Mohamed Ariff, Malaysian Institute of Economic Research (MIER) 17:00-17:30 Mr. Akira Murata (Resident Representative, JICA Malaysia Office)	
5	27 Sat	13:35 Departure from Kuala Lumpur (MH721) 14:35 Arrival in Jakarta (Matsuoka, Kobayashi, Takahashi, Mizuta)	14:25 Departure from Osaka (JL713) 22:05 Arrival in Jakarta (Tanaka)
6	28 Sun	Internal meeting - Moving to Surabaya - 13:00 Departure from Jakarta 14:20 Arrival in Surabaya	
7	29 Mon	-Combined interview, the Regional Export Training and Promotion Center in Surabaya, and Bureau of Commerce and Industry, East Java Region -RETPC user company (Request to introduce the RETPC in Surabaya -SMEs or SI - Moving to Jakarta - -Departure from Surabaya - Arrival in Jakarta	
8	30 Tue	-Division responsible for policy planning on supporting industry, MOI -IETC -Naoki Ito, JICA expert, MOI Evening Mr. Shinobu Umeda, JICA Expert, Indonesia Investment Coordinating Board	
9	31 Wed	-Division responsible for policy planning, State Ministry for Cooperatives and Small-Medium Enterprises -Mr. Saburo Izumi, Senior Investment Advisor, JETRO -JICA Indonesia Office	
		23:20 Departure from Jakarta (Matsuoka, Takahashi)	22:35 Departure from Jakarta (JL726) (Kobayashi, Mizuta)
10	1 Thu	-Dr. Saman, Assistant Director for Industrial and Manufacturing Information, Central Bureau of Statistics -Mr. A. Anugrah, Director for Export and Import Facility Development, Ministry of Trade -NAFED 23:20 Departure from Jakarta (JL714) (Tanaka)	
		08:15 Arrival in Osaka (Matsuoka, Takahashi)	07:55 Arrival in Tokyo (Kobayashi, Mizuta)
11	2 Fri	08:15 Arrival in Osaka	

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