Study on Industrial Policy Dialogue in the Federal Democratic Republic of Ethiopia (Phase II)

<Case Studies of Key Industrial Policy Measures in Asia and Africa>

August 2016

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

NATIONAL GRADUATE INSTITUTE FOR POLICY STUDIES (GRIPS)

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Contents

Contents

List of Tables

List of Figures

Abbreviations

Introduction 1

Chapter 1 Industrial Parks and One-Stop Service 5

1-1.Area Development and Management 5

1-2.Location and Infrastructure 8

1-3.One-Stop Investor Service 9

1-4.Additional Support for Japanese SMEs 11

1-5.Marketing and Promotion 14

1-6.Implications for Ethiopia 17

Chapter 2 Creating Industrial Linkage between FDI and Local Firms 19

2-1.Policy Framework and Core Elements of Linkage Programs 19

2-2.Examples of Linkage Programs in East Asia and Africa 21

2-3.Thailand's FDI-Local Linkage Development 25

2-4.Lessons and Recommendations for Ethiopia 33

Chapter 3 Handholding for Enterprise Capacity Building 37

3-1.The Concept of Handholding Programs 37

3-2.Examples of Selected East Asian Countries 38

3-3.Findings from the Selected Handholding Programs in East Asia 47

3-4.Recommendations for Future Steps of Ethiopia 48

Chapter 4 The Champion Product Approach and Country Branding 51

4-1.The Champion Product Approach 51

4-2.Country Branding 58

4-3.JICA's Branding Support and Ongoing Practice in Ethiopia 60

Chapter 5 Investment Promotion Experience of Asian Latest Comers and JICA 69

5-1.JICA's Experience in Investment Promotion in Developing Countries 69

5-2.Asian "Latest Comers" to Manufacturing Investment 77

5-3.Implications for Ethiopia 82

List of Tables

Table 1-1 Different Models of Industrial Parks in Asia 7
Table 1-2 Power Supply in Selected Industrial Parks 8
Table 1-3 A List of Customer Service for Japanese Investors 10
Table 1-4 10 Pledges of Ha Nam Province to Japanese Investors (Vietnam) 11
Table 1-5 Additional Management Support for Japanese SMEs (Vietnam) 13
Table 1-6 Costs, Fees and Lease Terms of Selected Industrial Parks 17

Table 2-1 Industrial Linkage Program (ILP) 24
Table 2-2 Global Supplier Program (GSP) 24
Table 2-3 Main Activities of BUILD 28

Table 3-1 Key Features of JETRO’s Assistance for Overseas Investment of SMEs 39
Table 3-2 Key Features of JETRO’s Assistance for SME Export 41
Table 3-3 Overview of Export Gateway Project 43
Table 3-4 KOTRA’s Export Branch Office Project: The Case of Tokyo Office 44
Table 3-5 Key Features of MATRADE’s Assistance for SME Support 45
Table 3-6 Key Features of Taiwan (SMEA)’s OTOP Program 46
Table 3-7 Comparison of Selected Handholding Programs in East Asia 47

Table 4-1 Framework of Standard Export Promotion Initiatives 52
Table 4-2 CPA Components and Implementation Activities 53
Table 4-3 Research Items and Indicators for In-Depth Market Research 62
Table 4-4 Ethiopian Uniqueness as a Focus of Country Branding 65

Table 5-1 Action Plans Proposed for IPA’s Capacity Building in JICA Cambodia Project 73
Table 5-2 Asian “Latest Comers” and Ethiopia at a Glance 77
Table 5-3 Myanmar Reform Ratings in Doing Business, Particularly in the Starting a Business Category 79

List of Figures

Figure Five-part Industrialization Strategy for Ethiopia 2

Figure 1-1 One Stop Service Center and Trouble Shooting Committee (Cambodia) 10
Figure 1-2 Vie-Pan Model to Minimize Cost and Risk for Japanese Manufacturing SMEs 13
Figure 1-3 Layout of Vie-Pan Techno Park within Hiep Phuoc Industrial Park (Vietnam) 14
Figure 1-4 Anchor Firm and its Suppliers (“Canon Effect” in Vietnam) 15
Figure 1-5 Flowchart Approach to Industrial Cluster 16

Figure 2-1 Policy Framework Conducive to FDI-Local Linkage Development 20
Figure 2-2 FDI and Linkage Promotion System and Network in Thailand 26
Figure 2-3 Linkage Programs in Mozambique 32

Figure 3-1 JETRO Customized Assistance for Overseas Investment 40
Figure 3-2 KOTRA’s Global Growth Ladder Support System 43

Figure 4-1 Brand Promise: Brand Vision + Brand System 54
Figure 4-2 Harris Tweed 54
Figure 4-3 Imabari Towel Logo 56
Figure 4-4 Towel Production in Imabari City 58
Figure 4-5 Visual Identity Toolkit 60
Figure 4-6 Logo Mark 63
Figure 4-7 “Ethiopian Highland Leather” Brand Leaflet 63
Figure 4-8 Image Movie and Website of “Creativity in Motion” 65

Figure 5-1 JICA’s Major Approaches to Investment Promotion Assistance 69
Figure 5-2 JICA Investment Promotion Advisors in Asia (ongoing projects) 71
Figure 5-3 JICA Investment Promotion Advisors in Africa (ongoing projects) 72
Figure 5-4 JICA’s Investment Promotion Support through the “Triangle of Hope” Approach in Zambia 74
Figure 5-5 Structure of Draft of Myanmar Long-term FDI Promotion Plan (FDIPP) 76
Figure 5-6 Asian Latest Comers to Manufacturing Investment 78
Figure 5-7 The CMP Process (Cutting, Making and Packing) 80
Figure 5-8 Myanmar Industrial Development Vision (MIDV): Balanced Growth Driven by a Virtuous Cycle between Urban and Rural Development 81

Abbreviations

A.S.I.A	Alliance for Supporting Industries Association (Thailand)
ADB	Asian Development Bank
AEC	ASEAN Economic Community
ASEAN	Association of Southeast Asian Nations
BOI	Board of Investment (Thailand)
BSID	Bureau of Supporting Industries Development (Thailand)
BUILD	BOI Unit for Industrial Linkage Development
CEO	Chief Executive Officer
CMP	Cutting, Making and Packing
CMT	Cut, Make and Trim
COE	Center for Entrepreneurial Advice
CPC	Champion Product Approach
CPI	Investment Promotion Center
CSEZB	Cambodian Special Economic Zone Board
DICA	Directorate of Investment and Company Administration
DIP	Department of Industrial Promotion
E&E	Electrical and Electronics
EIA	Ethiopian Investment Agency
EIC	Ethiopian Investment Commission
EKI	Ethiopian Kaizen Institute
ELIA	Ethiopian Leather Industries Association
ERCA	Exporters’ Readiness and Capability Assessment (Malaysia)
FDI	Foreign Direct Investment
FDIPP	FDI Promotion Plan
FeSMMIDA	Federal Small and Medium Manufacturing Industry Development Agency
FTI	Federation of Thai Industries
GCL Test	Global Competence Level Test
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Corporation for International Cooperation)
GRIPS	National Graduate Institute for Policy Studies
GSP	Global Supplier Program
GTP	Growth and Transformation Plan
GTP II	Second Growth and Transformation Plan
HEPZA	Ho Chi Minh City Export Processing and Industrial Zones Authority
HIV	Human Immunodeficiency Virus
ICT	Information and Communication Technology

IEAT	Industrial Estate Authority of Thailand
IFC	International Finance Corporation
ILP	Industrial Linkage Program
IMP	Industrial Master Plan
IPA	Investment Promotion Agency
IPEME	Institute for Promotion of Small and Medium Enterprises
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organization
JFW-IFF	Japan Fashion Week- International Fashion Fair
JICA	Japan International Cooperation Agency
J-SMEs	Thailand-Japan Business Alliance Center
JTECS	Japan-Thailand Economic Cooperation Society
JV	Joint Venture
KBC	KOTRA Business Center
KOTRA	Korean Trade-Investment Promotion Agency
Lao PDR	Lao People's Democratic Republic
LIDI	Leather Industry Development Institute
M&A	Merger and Acquisition
MATRADE	Malaysia External Trade Development Corporation
METI	Ministry of Economy, Trade and Industry
MFEZ	Multi Facility Economic Zone
MHLW	Ministry of Health, Labor and Welfare
MIC	Myanmar Investment Commission
MIDA	Malaysia Industrial Development Agency
MIDI	Metals Industry Development Institute (Ethiopia)
MIDI	Metal-working and Machinery Industries Development Institute (Malaysia)
MIDV	Myanmar Industrial Development Vision
MITI	Ministry of International Trade and Industry
MJJI	Myanmar-Japan Joint Initiative
MNCs	Multinational Corporations
MOFA	Ministry of Foreign Affairs
MOI	Ministry of Industry
MOT	Ministry of Trade
MOU	Memorandum of Understanding
MPD	Ministry of Planning and Development
MSME	Micro, Small and Medium Enterprise
NCDP	National Comprehensive Development Plan
NPO	Non-profit Organization

NSU	Nämnden för Sverigefrämjande i Utlandet (Council for the Promotion of Sweden)
ODA	Official Development Assistance
OEM	Original Equipment Manufacturing (Malaysia)
OSS	One-Stop Service
OTOP	One Town One Product (Taiwan)
OVOP	One Village One Product (Japan)
PPP	Public-Private Partnership
PPSEZ	Phnom Penh Special Economic Zone
PSDC	Penang Skills Development Centre
R&D	Research and Development
RM	Ringgit Malaysia
SAGC	Swedish Arts Grants Committee
SCORE	SME Competitiveness Rating for Enhancement (Malaysia)
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SME Corp	SME Corporation Malaysia
SMEA	Small and Medium Enterprise Administration (Taiwan)
SMEA	Small and Medium Enterprise Agency (Japan)
SMEELP	Small and Medium Enterprise Empowerment Linkage Program
SMEs	Small and Medium Enterprises
SMI	Small and Medium Industry (Malaysia)
SMIDEC	Small and Medium Industries Development Corporation
STIA	Shikoku Towel Industry Association (Japan)
TICAD V	Fifth Tokyo International Conference on African Development
TIDI	Textile Industry Development Institute (Ethiopia)
TNI	Thai-Nichi Institute of Technology
ToH	Triangle of Hope
ToH-SAIED	Triangle of Hope, Strategic Action Initiative for Economic Development
TPA	Technology Promotion Association
UNIDO	United Nations Industrial Development Organization
VDP	Vender Development Program
ZDA	Zambia Development Agency
ZIPP-ToH	Zambia Investment Promotion Project-Triangle of Hope

Introduction

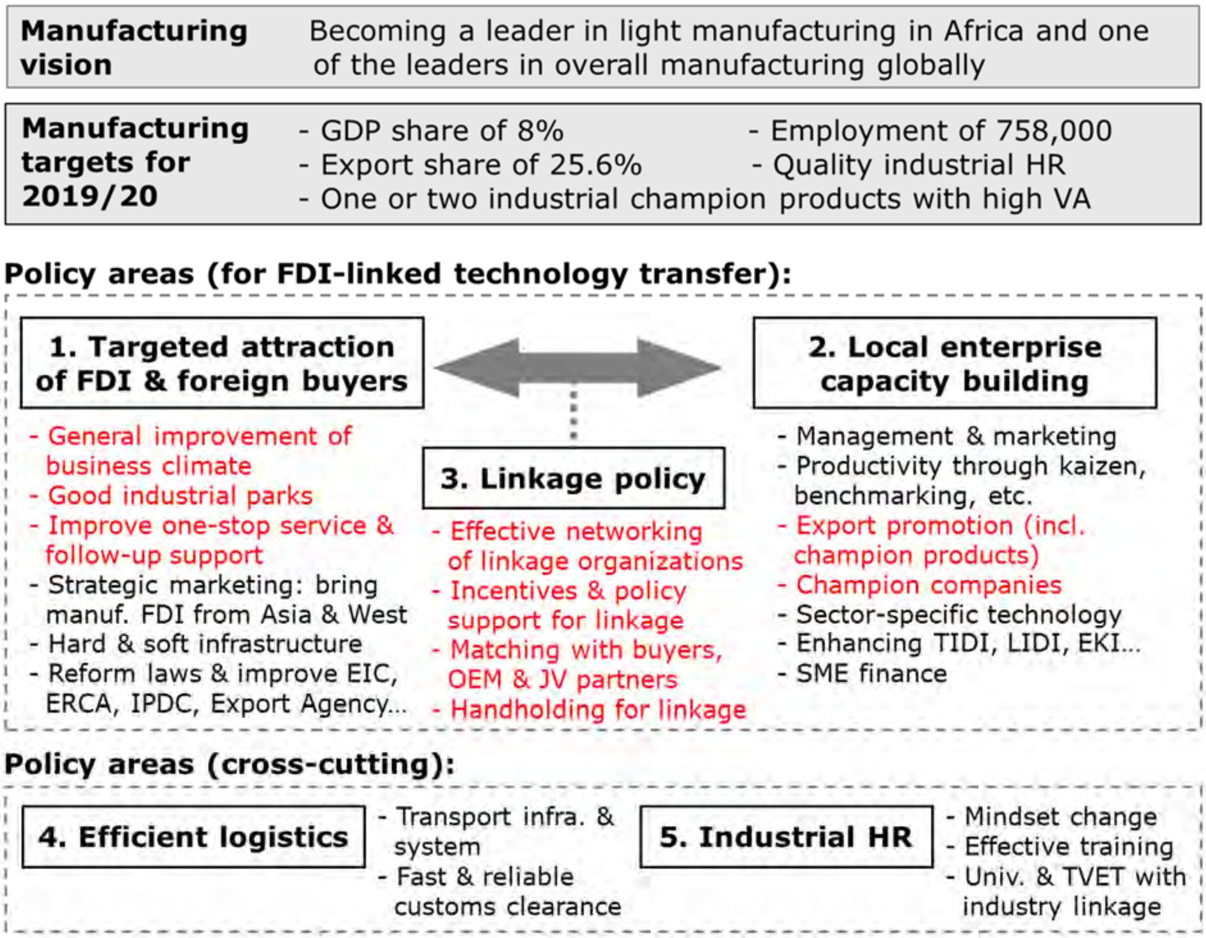
This report compiles concrete cases of key industrial policy measures implemented in selected Asian and African countries including good practices and lessons learned, and suggests ways how Ethiopia could implement these measures during the period of the Second Growth and Transformation Plan (GTP II: 2015/16-2019/20). The report provides case studies of five policy measures: industrial parks and one-stop service (Chapter 1), industrial linkage development between foreign direct investment (FDI) and local firms (Chapter 2), handholding for enterprise capacity building (Chapter 3), the champion product approach and country branding (Chapter 4), and investment promotion experiences of Asian latest comers and the Japan International Cooperation Agency (JICA) (Chapter 5).

The Ethiopian government adopted GTP II in December 2015. GTP II covers the first five years of the long-term strategy leading up to 2025 when Ethiopia is determined to become a (lower) middle income country. A notable feature of GTP II is the Manufacturing Vision which states that by 2025 the country will become "a leader in light manufacturing in Africa and one of the leaders in overall manufacturing globally." This is a strong national resolve to become an industrialized economy based on the robust growth of light manufacturing in which Ethiopia has comparative advantage. GTP II also places strong emphasis on enhancing quality, productivity and competitiveness, promoting domestic private sector development, and strengthening industrial human resource development.

We welcome this strategic direction and have proposed the five-part industrialization strategy to the government as a referential policy framework, at various occasions during the second phase of Ethiopia-Japan Industrial Policy Dialogue. The five-part industrialization strategy consists of: (i) strategic FDI attraction; (ii) enterprise capacity building; (iii) FDI-local firm linkage; (iv) efficient logistics; and (v) industrial human resources (see Figure next page).

Over the past decade, the Ethiopian government has made serious efforts to promote industrial development and introduced a number of policy and institutional reforms. These include: organizing the National Export Steering Committee (monthly) and embarking on Economic and Business Diplomacy, establishing and strengthening industry-specific institutes (such as the Textile Industry Development Institute (TIDI), the Leather Industry Development Institute (LIDI), the Metal Industry Development Institute (MIDI), the Ethiopian Kaizen Institute (EKI)), enhancing the policy framework and institutions for FDI promotion and industrial park development (such as the Ethiopian Investment Commission (EIC) and the Industrial Development Parks Corporation (IPDC)), and introducing *kaizen* and its scaling up to national movement (supported by JICA), among others. Nevertheless, these are only a part of the entire spectrum of industrial policy, and continuous efforts are needed by the government to strengthen its industrial policy capability.

The examples contained in this report are those which we discussed extensively with the Ethiopian authorities during eight series of Ethiopia-Japan Industrial Policy Dialogue (Phase II) and which we strongly recommend the Ethiopian government to implement during the GTP II period, in order to realize the Manufacturing Vision. The authors of the five chapters of the report are the members of the JICA and the National Graduate Institute for Policy Studies (GRIPS) team, who participated in the Ethiopia-Japan Industrial Policy Dialogue (Phase II).



Notes: 1) Red-colored measures correspond to those included in the five chapters of this report.
2) For details of the five-part industrialization strategy, please see JICA and GRIPS (2016), Ch.2.

Source: JICA and GRIPS (2016), Main Report of the Study on Industrial Policy Dialogue in the Federal Democratic Republic of Ethiopia (Phase II), Figure 2-1.

Figure: Five-part Industrialization Strategy for Ethiopia

It is our belief that low income countries should build up policy expertise by carefully and competently executing a small number of policy measures because the real challenge lies in detailed design and implementation of each selected measures. We hope that the report will serve as a useful reference for the Ethiopian government and more broadly, for any governments in developing countries serious about industrial development, to learn good practices and pitfalls of selected policy measures.

This report is one of the outputs of the Ethiopia-Japan Industrial Policy Dialogue (Phase II), which took place from January 2012 to July 2016, supported by JICA and with the participation of researchers of GRIPS Development Forum. Those interested in the issues discussed at a series of bilateral policy dialogues are encouraged to read a separate report, *Main Report of the Study on Industrial Policy*

Dialogue in the Federal Democratic Republic of Ethiopia (Phase II) (2016). In addition, the GRIPS team conducted seven policy research missions to third countries during the Phase II period (India, Mauritius, Malaysia, Indonesia, Rwanda, Thailand, and Cambodia), commissioned by JICA.

Lastly, we would like to express our deep appreciation to the Ethiopian government including the Prime Minister's Office, the Ministry of Industry, the National Planning Commission, the Ethiopian Investment Commission, and the Ethiopian Development Research Institute, among others, for their serious and dedicated policy engagement and collaboration extended to the JICA and GRIPS team.

Tokyo, August 2016

Japan International Cooperation Agency
GRIPS Development Forum

Chapter 1 Industrial Parks and One-Stop Service

Industrial parks can serve as a valuable instrument for attracting foreign direct investment (FDI) and accelerate regional and national economic development, in the context of an overall industrial policy. In a developing country, they provide an institutional framework, modern administrative services and a physical infrastructure that may not be available elsewhere in the country (UNIDO 2012). However, simply designating plots of land and announcing priority sectors and incentives is far from sufficient to ensure the successful execution of industrial parks. Empty or poorly-run industrial parks abound in the world.

Moreover, Japanese companies are extremely cautious about new overseas investments compared to others (Chinese, Indian, Turkish, Korean investors, etc.) and demand high-quality infrastructure and services for their business operations. Especially, Japanese small and medium sized-enterprises (SMEs) are severely constrained with capital and managerial resources, while they possess excellent technology and manufacturing skills. They would take phased approach to overseas business expansion to minimize costs and risks.[1] Therefore, if the Ethiopian government wishes to attract Japanese investors, it is vitally important to carefully plan, design and efficiently operate industrial parks with sufficient understanding of the mindset of Japanese companies.

This chapter provides key ingredients for successful industrial parks in Asia, in terms of attracting Japanese investors (both large corporations and SMEs). It covers such issues as: (i) area development and management; (ii) infrastructure and location; (iii) one-stop investor service; (iv) additional support for Japanese manufacturing SMEs; and (v) marketing and promotion. Specific references will be made to the experiences of selected industrial parks in Thailand, Vietnam, Cambodia, and (to a limited degree) India, and implications for Ethiopia will be discussed.

1-1. Area Development and Management

There are various models of development and management of industrial parks, with a different degree of private sector involvement. One model is that the public sector (central or local government or a specialized agency) assumes full responsibility for development and operation, as well as regulation of industrial parks. The other model is that the private sector (local, foreign, or joint venture) develops and operates industrial parks, and the public authority only regulates activities within the confines of the parks. There is also a public-private partnership (PPP) model as an intermediate option for the above two.

[1] Such characteristics are largely due to the Japanese business model, which is strongly manufacturing-oriented and demands high standards of quality control from every partner at every stage of the process. Japanese companies thoroughly examine the potential risks associated with their investments. Once a company decides to invest abroad, however, it will remain committed for the long term and will endeavor to sustain its business operations in the target country. Japanese companies make extensive efforts to develop local supporting industries, train industrial human resources and transfer technology to their local counterparts.

Japanese industrial park developers typically form a joint venture (JV) consisting of a Japanese trading company (often a majority share in a JV), a construction firm (the builder of the industrial park), and/or a manufacturer. Such joint ventures can be purely private sector alliances or can be based on the PPP model. Japanese industrial park developers may provide marketing and management services directly to the tenant firms, or may outsource such services to specialized firms and/or consultants. Likewise, many industrial parks in East Asia (e.g., those in Thailand, Vietnam, and Cambodia) are developed and managed by private companies or as a PPP on a cost-recovery basis. This is because industrial parks incur a large public expenditure for infrastructure development and operation and also because it is often difficult to recruit staff with sufficient skills and experience to meet the increasingly sophisticated demands of tenant firms. If there are no complicated issues that require direct handling by the government, the private sector assumes a main role in industrial park development. For example, in Thailand, the Industrial Estate Authority of Thailand (IEAT) under the Ministry of Industry (MOI) centrally manages and monitors all industrial estates. However, the majority of industrial parks are either: (i) developed by private developers and operated jointly with IEAT; or (ii) developed, owned, operated by the private sector.[2]

Nevertheless, there are cases where the host government develops, owns and operates an industrial park. For example, in India, industrial parks are mostly developed by local government (typically, the Industrial Development Corporation)[3] since the inadequate land registration system forces developers to go through lengthy negotiations with land owners to secure industrial land. Moreover, the complexity of local government procedures makes it difficult for developers to obtain factory construction licenses. For that reason, Japanese developers hesitate to participate in the development and management of industrial parks in India. To alleviate those difficulties, the Japan External Trade Organization (JETRO) concludes Memoranda of Understanding (MOU) with selected local governments and assists Japanese companies in setting up factories in industrial parks by providing information and support for negotiations with local governments.[4] It should be noted that in India, unlike East Asia, it is difficult to secure the services of Japanese-speaking persons, who can provide customer service in Japanese.

In sum, country circumstances differ, and there is no one-size-fits all industrial park model. Table 1-1 shows examples of industrial parks in Thailand, Vietnam, Cambodia, and India, with different development and management models.

[2] As of 2012, there were a total of 62 industrial estates in Thailand: (i) 11 operated and owned by IEAT; (ii) 37 privately developed and built, and jointly operated by a private developer and IEAT; and (iii) 14 privately built, owned, and operated.

[3] India-related information is based on Igari (2015).

[4] India is the only country where JETRO provides full investor services to both pre- and post- investment in place of private developers. In East Asia, JETRO's role is to provide general information and facilitate FDI in the initial stages. In India, JETRO has so far concluded MOUs with local government entities in three statess: (i) Rajasthan State Industrial Development and Investment Corporation (2006), (ii) Gujarat Industrial Development Corporation, Gujarat Infrastructure Development Board and INDEXT-B (2011), and (iii) Maharashtra Industrial Development Corporation (2013).

Table 1-1: Different Models of Industrial Parks in Asia

Name	Developer	Management Service	Marketing	Rental Factories
Amata Nakorn Industrial Estate (Thailnad, Chonburi, Eastern Seaboard)	Public (IEAT) and local private (Amata Corporation)	One stop services provided jointly by the developer and IEAT -Specialized services for SMEs (rental factories) also available, supported by Japanese local govt. (Ota-city/ Tokyo)	The developer, with the support of Japanese trading companies (Itochu, Sumitomo, etc.) and Ota-city, actively engage in marketing and sales.	Designated area for -Rental factories (standard design factories) -Rental factories for Japanese SMEs (one-floor partitioned type)
Long Duc Industrial Park (Vietnam, Don Nai Province near Ho Chi Minh City)	Foreign private JV: Long Duc Investment Co. Ltd. (Japan 88%, VN 12%) -Sojitz, Daiwa House, KOBELCO	One stop services provided by the developer -Specialized services for SME (rental factories), provided by experienced Japanese SME	The developer (esp. Sojitz) actively engage in marketing and sales. Kansai METI's pilot project for SME investors.	Desingated area for rental factories for Japanese SMEs (one-floor partitioned type)
Dong Van Industrial Park II (Vietnam, Ha Nam Province near Hanoi)	Local private (VID Group)	One stop services provided jointly by the developer and Japanese consultant -Specialized services for SME (JASMEC) also available	Japanese consultant (BTD Japan) actively engage in marketing and sales, working closely with Ha Nam province.	Desingated area for Japanese SMEs (JASMEC): -Rental factories (one-floor partitioned and/or separate type) -Standard design factory can be also built.
Vie-Pan Techno Park (Vietnam, Ho Chi Minh City) Exclusively for small rental factories for Japanese SMEs	Japan (private)-Vietnam (public) JV: Vie-Pan Techno Park Co. Ltd. (Japan 55%, VN 45%). -Hiep Phuoc IZ (HCMC-owned) -Unika, Seibu Shinkin (with JBIC co-financing), etc.	One stop services specialized for SMEs, provided by the developer	The developer (esp. Unika Holdings) actively engaged in marketing and sales, working closely with HCMC.	All are rental factories for Japanese SMEs (one-floor partitioned type type)
Phnom Penh Special Economic Zone (Cambodia, Phnom Penh)	Japan (private)-Cambodia (private) JV: Phnom Penh SEZ Co. Ltd. (Camb. 78%, Japan 22%) -LCH Investment Group (founder of PPSEZ) -Zephyr, Co. Ltd. (Japan)	One Stop Service Center (OSSC) managed jointly by the developer (Japanese CEO) and the Cambodian SEZ Administration. -Cambodian SEZ Administration places the staff of relevant govt. agencies to PPSEZ.	The developer (esp. Zephyr/ Japanese CEO) actively engaged in marketing and sales.	N.A.
Neemrana Industrial Area (India, Rajasthan State)	Local govt (public) Rajasthan State Industrial Development Investmetn Corporation, Ltd. (RIICO)	JETRO concludes MOU with RIICO and provides full advisory and consultative services to Japanese companies. RIICO also set up Japan Desk.	JETRO engage in marketing and sales, working closely with RIICO.	N.A.

Source: The author's research, based on information provided by the listed industrial parks. India-related information is based on Igari (2015).

1-2. Location and Infrastructure

Location must be well chosen. The key determinants of a successful industrial park—from the Japanese investor perspective—are the availability of human resources, logistics and transportation, as well as the business and living environment. Industrial parks need to be easily accessible to a port and an international airport by road and/or railway, as well as the urban center. Japanese business persons prefer living in large cities (within a maximum one hour commuting distance).

Industrial parks must have a good physical infrastructure, including transport, power, water, waste water and solid waste treatment, and internet. Especially, a stable and uninterrupted power supply should be guaranteed in all industrial parks, by prioritized power supply arrangement, multiple power sources, and other means. In case a blackout is inevitable, it should be well planned, as short as possible, and announced to all producers far in advance. Sudden and unannounced power stoppages are unacceptable. Table 1-2 shows the efforts made by selected industrial parks to provide high-quality infrastructure services (especially, power supply).

Table 1-2: Power Supply in Selected Industrial Parks

Long Duc Industrial Park (Dong Nai Province, southern Vietnam)
・Developed by JV of Japanese companies and a Vietnamese company, and managed by a Japanese trading company, Sojitz (a majority shareholder of JV). ・Vietnamese engineers are on duty for 24 hours per day. Any problems in power, water, waste treatment, etc. will be attended immediately. ・Especially on power supply, Long Duc Industrial Park has special arrangement with EVN (state-owned power company). EVN supplies 110MVA to this industrial park via two exclusive lines. The developer has contracts with tenants for power supply.
Dong Van II Industrial Park (Ha Nam Province, northern Vietnam)
・Developed and managed by a Vietnamese private company (VID Group), with advisory and marketing services provided by a Japanese business consultant (BTD). ・The provincial authority has strong commitment to the provision of quality infrastructure and services to Japanese tenants. Top leadership announces and promises "10 Pledges of Ha Nam Province" on the business environment, which includes "sufficient and stable power supply (24 hours), "hotline to Japan Desk for any troubles."
Phnom Penh Industrial Park (Phom Penh, Cambodia)
・Developed and managed jointly by JV of a Cambodian private company (a majority share) and a Japanese company (Zephyr). ・There are electricity and security hotlines for 24 hours. To cope with emergency, a modern, power plant is installed on site and staffed (24 hours per day, 7 days per week) to back up the main power supply.

Source: The author's research, based on information provided by respective industrial parks.

With regard to the living conditions, ideally industrial parks should be equipped with such amenities as housing (including dormitories for workers and apartments for foreigners), clinics, schools, banks, shops, and even Japanese restaurants (or a canteen offering Japanese food). Some industrial parks in East Asia (especially those built by Japanese developers) even have golf courses.

Furthermore, Japanese companies carefully examine elevation, flood risk and ground firmness for heavy equipment (where relevant).

1-3. One-Stop Investor Service

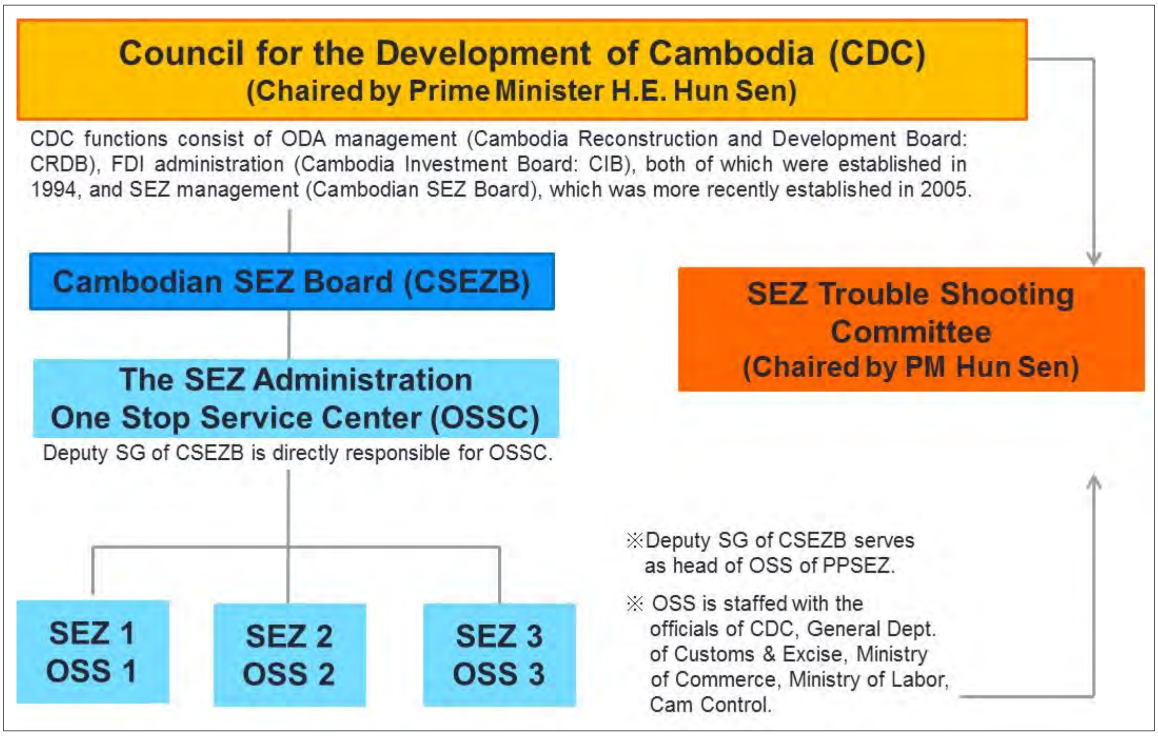
An industrial park should have a management center that offers investors efficient one-stop service and various business services and support. Services should cover:

1. Factory construction and initial operation
2. Operational support (e.g., logistics, customs, recruiting, banking, courier service, security guards, fire brigade)
3. Quick and effective trouble-shooting (24 hours/365 day)
4. Exchange and dissemination of information on new laws, wage levels and other common issues for tenant firms (usually in the form of monthly meetings)

Regarding operational support, officials of the relevant ministries and agencies should be assigned to provide one-stop service on site. This includes a bonded area within the industrial park where an on-site customs officer can handle all customs procedures. Regarding information exchange and dissemination, the management center should organize regular meetings for tenants for: (i) sharing information on new or revised laws/regulations, wage levels, and any other issues affecting business environment; and (ii) announcing and coordinating the infrastructure maintenance schedule. Some Japanese industrial parks conduct annual surveys on planned salary levels of national staff at major tenant firms, following the government’s announcement of minimum wages for the subsequent year. They share (anonymous) survey results and coordinate meetings for major tenants to discuss salary issues.

A useful example in this regard is the Phnom Penh Special Economic Zone (SEZ) in Cambodia. The Cambodian SEZ Board (CSEZB) provides a One-Stop Service Center in each SEZ, staffed with officials from the relevant ministries and agencies. In the case of the Phnom Penh SEZ, the Deputy Secretary General of the CSEZB serves as the head of the One-Stop Service Center (not all SEZs have full support like this). In addition, the SEZ Trouble Shooting Committee chaired by the Prime Minister promptly settles issues that arise in SEZs (Figure 1-1).

For Japanese investors, additional management support should be provided by a Japanese staff or someone who clearly understands Japanese business mindset and speaks fluent Japanese. Table 1-3 shows a list of typical customer services for Japanese investors.



Source: The author's research, based on information provided by Phnom Penh SEZ.

Figure 1-1: One Stop Service Center and Trouble Shooting Committee (Cambodia)

Table 1-3: A List of Customer Service for Japanese Investors

Before moving in
・Prepare documents for corporate registration on its behalf. ・Obtain company seal and tax codes. ・Assist conducting Environmental Impact Assessment. ・Advise on obtaining visas, work permits for Japanese. ・Introduce real estate agent. ・Introduce accounting firms, law firms, etc. ・Assist local staff recruitment. ・Provide support to any issues whenever possible.
After moving in
・Professional management by Japanese staff always on site. ・Stable supply of power and water, operations of a wastewater treatment system around the clock. ・Staff recruitment center (located within the industrial park). ・Provide and coordinate various services (IT, logistics, lunch box delivery & catering, etc.) ・Exchange and share latest information on new laws and regulations, staff wage, coping with labor disputes, tax issues (personal income tax, etc.) ・Organize social gathering, parties, golf competition, etc.

Source: The author's research, based on the brochure of Long Duc Industrial Park.

In Vietnam's Ha Nam Province, the provincial leadership is keen to attract quality investment, especially from Japan, and is strongly committed to the provision of good off-park infrastructure and services for Japanese investors. The governor has announced "10 Pledges of Ha Nam Province" and instructed all relevant departments to work hard toward its goals (Table 1-4). Such commitment and effort are highly appreciated by Japanese investors. As for trouble-shooting, there is a hotline to Japan Desk directly linked to the provincial top leader. For any trouble, Japanese tenant firms of Dong Van II Industrial Park or other areas can communicate with the Japan Desk staffed with a Japanese-speaking official and a few Japanese advisors (housed in the Department of International Relations of the Provincial Peoples Committee). If serious problems occur, the top provincial leader will take immediate action.

Table 1-4: 10 Pledges of Ha Nam Province to Japanese Investors (Vietnam)

WE GURANTEE:
1. Sufficient and stable power supply (24 hours).
2. Good infrastructure (water, sewerage, internet, banks, etc.).
3. Free provision of land to be used for dormitories for workers (outside the industrial park).
4. Efficient administrative procedures (investment license to be approved in a few days).
5. Sufficient labor supply, developing a university town (1,000 ha secured for universities relocating from Hanoi).
6. Facilitating procedures for setting up and operating companies, tax incentives, and subsidies for training Vietnamese staff.
7. Public security and safety for companies.
8. Flexible administrative response to accommodate unanticipated changes in investors' business plans.
9. Prevention of strikes (local and foreign companies).
10. Hotline to Japan Desk for any troubles (by assigning Japanese-speaking staff).

Source: The author's research, based on information provided by the People's Committee of Ha Nam Province.

1-4. Additional Support for Japanese SMEs

The above applies to all Japanese firms, but Japanese SMEs need special attention. Japanese SMEs have limited overseas experiences and face severe obstacles, including lack of managerial, administrative and marketing capability. As a result, they try to minimize initial costs and risks, and only gradually scale-up their operations. Typical options preferred by Japanese manufacturing SMEs include the following:

1. **OEM (Original Equipment Manufacturing)**—contracting out manufacturing of products bearing your brand name to a local company (no need to invest or build a factory)
2. **Line Gari (Rent a Line)**—creating a production line in a local partner's factory space with the Japanese firm providing expertise, technology, equipment, and quality control (very small investment required)

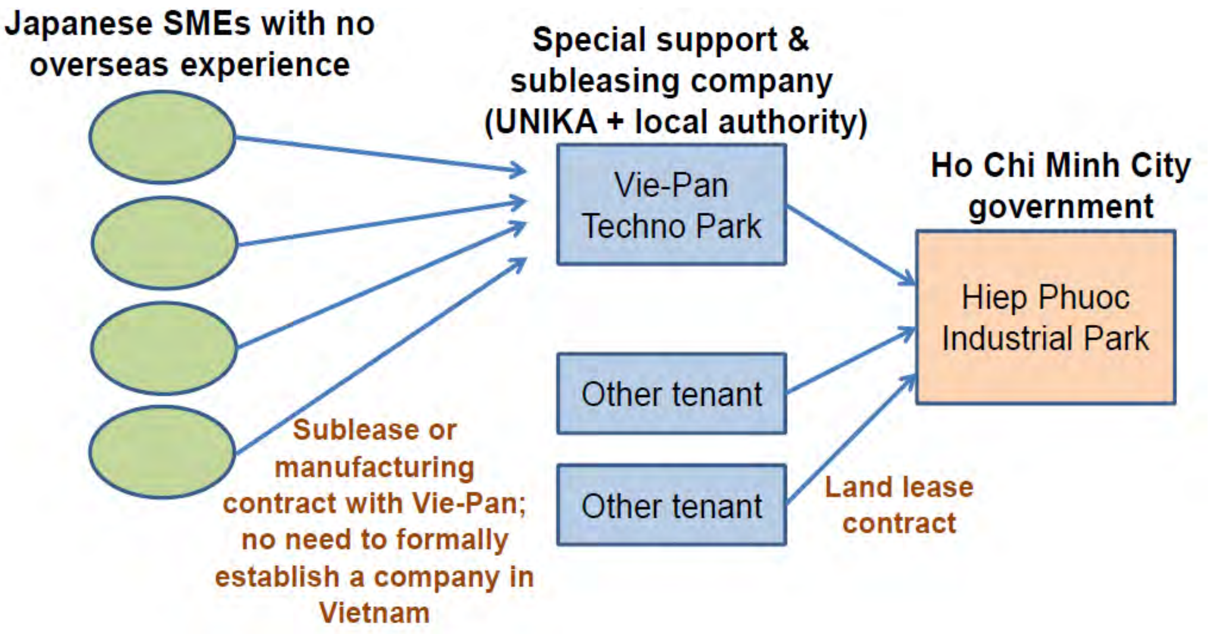
3. **License manufacturing** (involves some contract risk)
4. **Rental factories**—small size to start with (e.g., 250m^2, 500m^2, 1,000m^2); if successful, the investor moves out and builds its own factory.
5. **Collective FDI**—a number of Japanese SMEs invest as a group in one area and share space, costs, information, business services, etc. (while coordination may be difficult, some groups have overcome this problem.)
6. **Nokisaki**—renting a small unused factory space from another Japanese FDI firm. However, this is possible only when local laws permit FDI firms to sublease unused space (some authorities consider it as "service" provision not permitted under a manufacturing license.)
7. **Joint venture with a local company** (involves some partner risk)
8. **M&A (Merger and Acquisition)**—purchasing an existing local firm and/or factory

Recently, an increasing number of industrial parks in Vietnam and Thailand offer small-sized rental factories and other renting options to Japanese manufacturing SMEs. This responds to the key needs of Japanese SMEs to: (i) minimize initial investment (especially in buildings and equipment); (ii) minimize risk of failure; and thereby (iii) surely increase the chance of business success. Moreover, these parks often provide additional management support (fee-based) so that Japanese manufacturing SMEs could concentrate on production, relieved from day-to-day administrative burden ("plug and play" industrial parks). The support for SMEs is broader in scope and provides more pampering than for larger firms—anything from business matters to personal problems such as health, cable TV setup and house repair. Sometimes support even extends to marketing, i.e., help in finding Japanese, local, or non-Japanese customers in new territory.[5]

Vie-Pan Techno Park, located in Ho Chi Minh City of Vietnam, is a good example of a "plug and play" industrial park devoted exclusively to Japanese manufacturing SMEs. It provides small-sized rental factories and special management support (Figures 1-2 & 1-3, Table 1-5). Vie-Pan Techno Park is built and managed by a JV of Japanese private firms (UNIKA Vietnam and a few others), a Japanese financial institution, and Hiep Phuoc Industrial Park under Ho Chi Minh City Export Processing and Industrial Zones Authority (HEPZA). UNIKA is a Japanese SME manufacturing electric cutting tools. The company started operations in Vietnam in 1996—initially in the form of collective FDI (sharing space and business services)—and successfully expanded its business. This experience attracted the interest of Ho Chi Minh City, and the local authority invited UNIKA to form JV (Vie-Pan Techno Park) by making available 13ha out of the total land of 2,000ha of Hiep Phuoc Industrial Park under HEPZA. In the first phase, 3ha was used for building small-sized rental factories (250m^2, 500m^2, 1,000m^2). Tenant firms can use management support services (with additional charges) and make sublease or

[5] It should be noted that for industrial park operators, the provision of small rental space and intensive support dedicated to Japanese SMEs is not commercially viable. But they still do it because: (i) the existence of skilled SMEs adds to the attractiveness of the industrial park; (ii) they want to support the government's policy to attract supporting industries; and (iii) they simply want to help others (no monetary gain is expected).

manufacturing contract with Vie-Pan Techno Park. In the case of a manufacturing contract, the tenant does not need to formally establish a company in Vietnam.



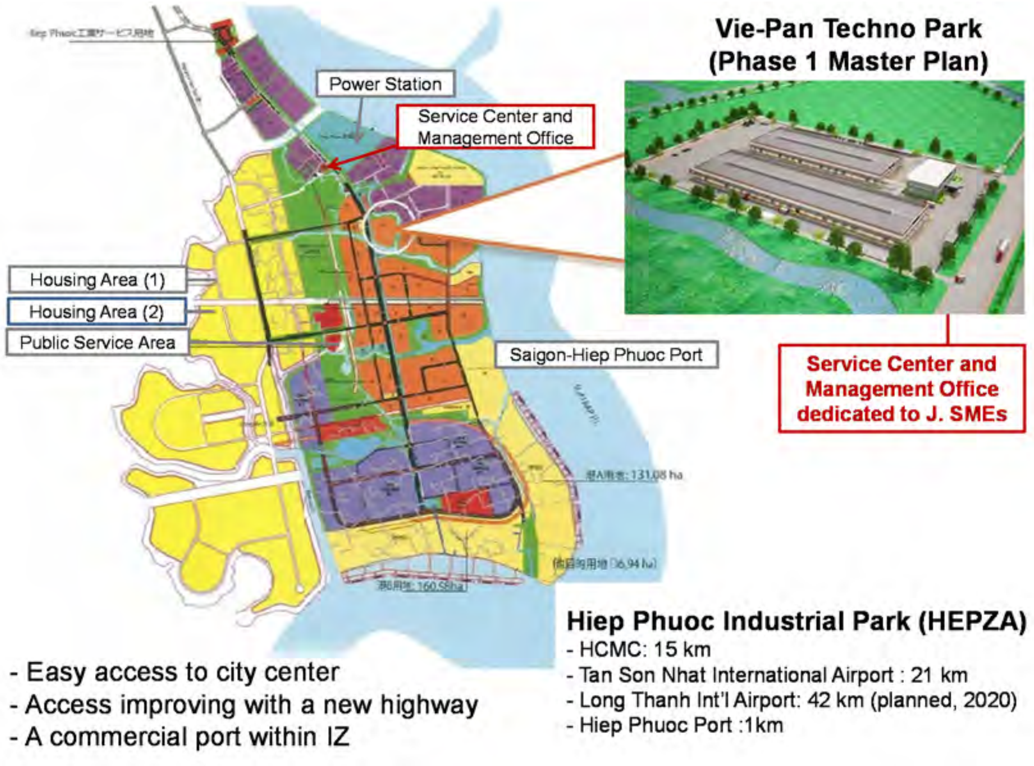
Source: The author's research, based on information provided by Vie-Pan Techno Park.

Figure 1-2: Vie-Pan Model to Minimize Cost and Risk for Japanese Manufacturing SMEs

Table 1-5: Additional Management Support for Japanese SMEs (Vietnam)

Special Support for Japanese Manufacturing SMEs
・Obtain work permit for Japanese staff. ・Recruit Vietnamese staff (managers, interpreters, engineers, workers, etc.) and provide training. ・Undertake all kinds of administrative work and procedures (labor management, general affairs, accounting, salary calculation, social welfare and benefits, etc.) ・Provide common office space for administrative work and meetings. ・Undertake import and export procedures. ・Purchase raw materials. ・Transport manufactured products and raw materials. ・Deliver lunch for Vietnamese and Japanese staff. ・Transport Japanese staff. ・Introduce rental apartments, etc.

Source: Based on the information provided by Vie-Pan Techno Park and The Support, a company housed in Long Duc Industrial Park.



Source: Based on Vie-Pan Techno Park brochure.

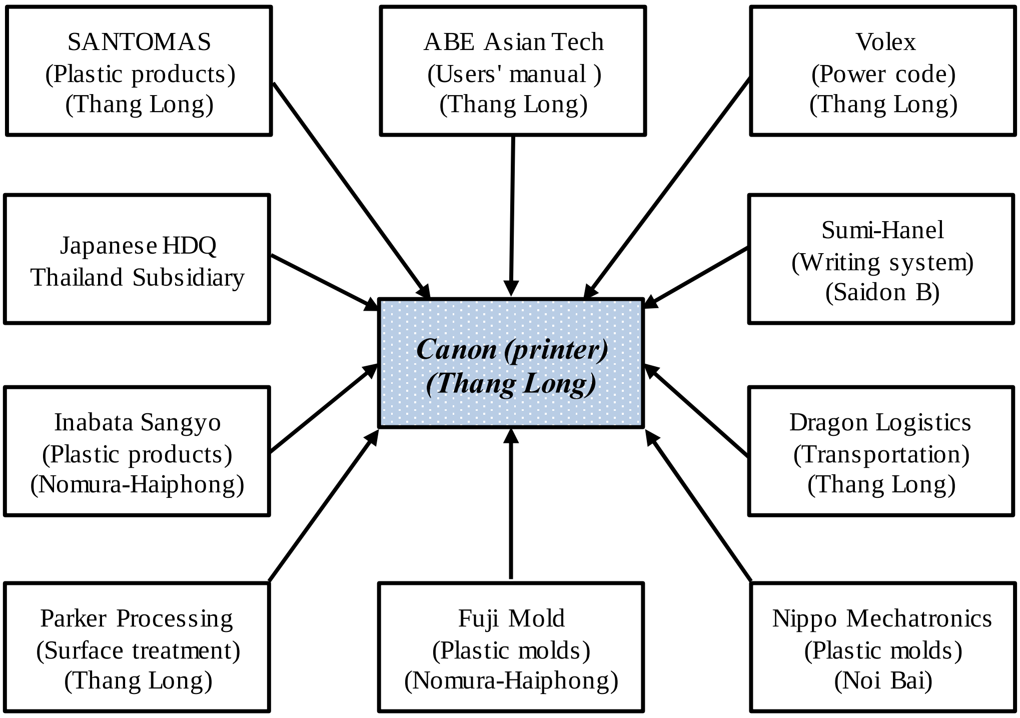
Figure 1-3: Layout of Vie-Pan Techno Park within Hiep Phuoc Industrial Park (Vietnam)

1-5. Marketing and Promotion

To attract Japanese investors, it is desirable to have Japanese marketing staff in the industrial park management. Greater effort should be made for strategic FDI attraction, rather than general advertisement and seminars. The Japanese staff should assist in the formulation of marketing strategies and the organization of promotional events, both locally and in Japan.

More specifically, an industrial park should target an anchor firm to create industrial agglomeration via supply chain. For example, Canon (a large Japanese electronics company) established a printer factory in Thang Long Industrial Park (northern Vietnam, developed by Sumitomo) in April 2001 and started operation in May 2002. Immediately, seventeen companies moved into Thang Long Industrial Park during 2001-02 to provide parts to Canon (Kuchiki 2009). This phenomenon is called the Canon effect in Vietnam (Figure 1-4).[6] A decision by Honda to locate its third factory in Vietnam at Dong Van II Industrial Park in Ha Nam Province has also stimulated many Japanese companies to come. Similarly, in Cambodia, the presence of Minebea (small motors and liquid-crystal display backlight panels) prompted other Japanese companies to join.

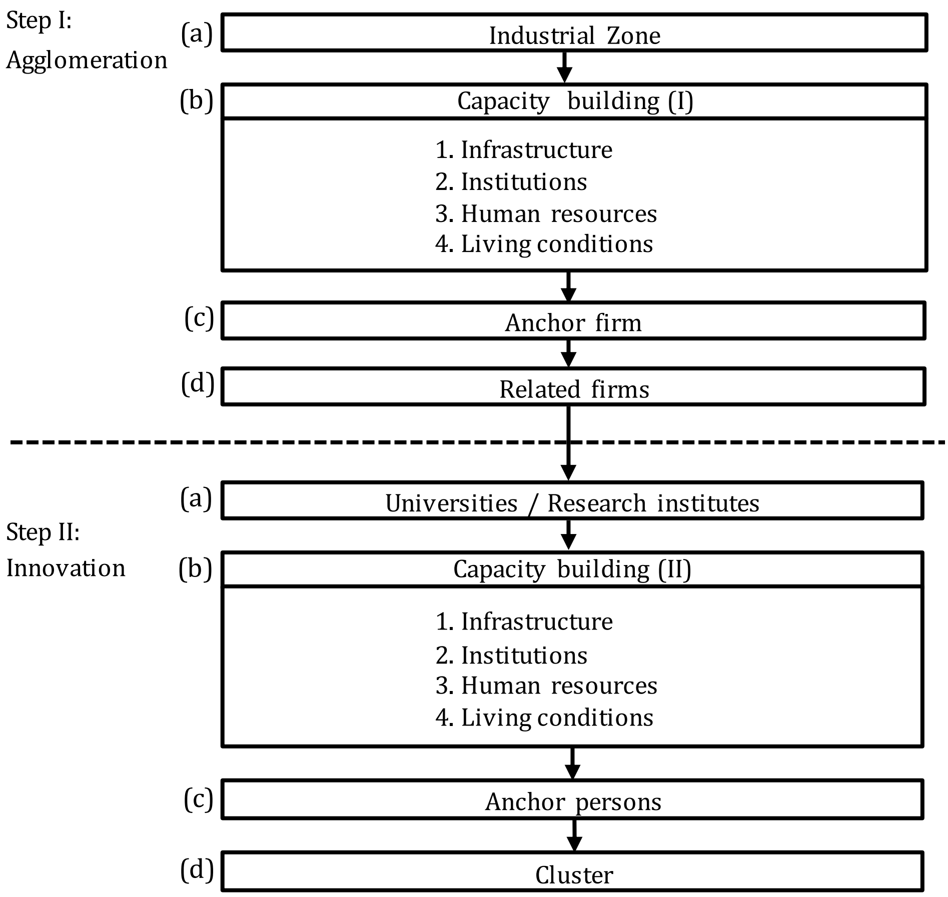
[6] This is called the Queen Bee effect in Singapore.



Source: Kuchiki (2009), p.35

Figure 1-4: Anchor Firm and its Suppliers ("Canon Effect" in Vietnam)

Based on his flowchart approach (Figure 1-5), Kuchiki (2007) stresses the importance of creating *agglomeration* as the first step, through the establishment of an industrial park with essential services and support and inviting an anchor firm. This should be followed by the second step, *innovation*, in which tripartite cooperation among industry, government, and universities and research institutions generates high value.



Source: Kuchiki (2007) p.47

Figure 1-5: Flowchart Approach to Industrial Cluster

There is always a trade-off between cost and quality in establishing industrial parks. While industrial parks built and managed by Japanese developers provide guaranteed high-quality infrastructure and services, they tend to be more expensive than those built by local developers. Some SMEs cannot afford expensive industrial parks and may choose locally built ones. Table 1-6 shows the comparison of costs, fees and lease terms of selected industrial parks (both rental factories for SMEs and general industrial parks). Dong Van II Industrial Park and Phnom Penh SEZ (PPSEZ) were mainly built by local private developers and offer relatively inexpensive options among the parks listed.

It should be also noted that even in East Asia, it takes several years or more to completely sell or rent out the industrial park area. For example, Nomura Haiphong Industrial Park, the first foreign industrial park in northern Vietnam, jointly developed by a Japanese company and the local authority (approved in 1994), became operational in 1997. However, it took more than 10 years for the park to become fully occupied. This was due partly to bad luck (an economic slowdown resulting from the 1997 Asian financial crisis), but also to investor preference at that time for southern Vietnam which had advantages in business conditions, location and infrastructure.

Table 1-6: Costs, Fees and Lease Terms of Selected Industrial Parks

Name	Space	Fees and Terms	Management Fees
Amata Nakorn Industrial Estate (Thailnad, Chonburi, Eastern Seaboard)	OTA Techno Park: Unit: 320㎡ (one-floor partitioned type)	64,000 baht/month (about 1,920 USD) per unit= 6 USD/㎡/month; 3 years (renewable)	33,600 baht/month (about 1,120 USD) per unit= 3.5 USD/㎡/month (including various mgt. support)
	General industrial zone	7 million baht/rai= 131.25USD/㎡	900 baht/rai/month= 0.017 USD/㎡/month
Long Duc Industrial Park (Vietnam, Don Nai Province near Ho Chi Minh City)	Rental factory for J-SMEs Unit: 512㎡, 768㎡, 960㎡, 1,024㎡ (one-floor partitioned type)	5.5-5.9 USD/㎡/month 5 years (renewable)	0.15 USD/㎡/month Additional mgt. support can be provided by The Support (fee-based).
	General industrial zone	Land lease fees: 90 USD/㎡ (~2057)	N.A.
Dong Van Industrial Park II (Vietnam, Ha Nam Province near Hanoi)	Rental factory for J-SMEs Unit: 250-500㎡ (apartment type); 1,000-2,000㎡ (separate type)	4 USD/㎡/month; 10 years (renewable)	0.5 USD/㎡/month Additional mgt. support can be provided (fee-based).
	General industrial zone	Land lease fees: 58-75 USD/㎡ (~2056)	0.25 USD/㎡/year
Vie-Pan Techno Park (Vietnam, Ho Chi Minh City)	Rental factory for J-SMEs Unit: 250㎡, 500㎡, 1,000㎡ (one-floor partitioned type)	5 USD/㎡/month; 5 years (renewable)	3-5 USD/㎡/month (including various mgt. support)
Hiep Phuoc Industrial Park	General industrial zone	Land lease fees: 90-95 USD/㎡ (~ 2058)	Infrastructure O&M 0.64 USD/㎡/year
Phnom Penh SEZ (Cambodia, Phnom Penh)	General industrial zone	Land lease fees: 70 USD/㎡, 50 years (renewable) Rental factory fees: 2.5 USD/㎡/month (+tax)	Infrastructure O&M 0.06 USD/㎡/month

Note: Regarding Amata Nakorn IE, fees (USD) are calculated at the exchange rate of September 2013. 1rai = 1,600m^2.
The information on PPSEZ is as of March 2015.
Source: The author's research, based on information provided by industrial zones during 2012-2014.

1-6. Implications for Ethiopia

To attract Japanese investors, an industrial park must be carefully planned, designed and operated, with due consideration to Japanese business mindset and manufacturing styles. Location, layout, infrastructure, and customer services are particularly important. Availability of double-subleasing and "nokisaki" further facilitate Japanese manufacturing FDI, especially SMEs.

As a first step, the Ethiopian government should consider establishing a Japanese area within one of the planned industrial parks near Addis Ababa. This can be a small area of about 10-15ha, to be developed in stages. The exact location, size and timing of such an area should be discussed carefully with reference to government policy, expert opinions and the needs of potential Japanese investors.

Next, a detailed design of the Japanese area should be produced by a Japanese designer or designing firm. The Japanese side may also make suggestions concerning the design of the industrial park itself or infrastructure outside it, which should be deliberated by the Ethiopian government based on feasibility and desirability. FDI marketing and support service for Japanese investors in the designated area should be conducted by a Japanese individual or a Japanese firm.

Because there are various development and management options for industrial parks, the Ethiopian government may wish to consider the possibility of: (i) a Japanese area developed by the Ethiopian government with service contracts with a Japanese firm for detailed design as well as for investor services; (ii) JV between the government and a Japanese firm, with the two sharing the hardware cost while the Japanese firm being responsible for design and service; (iii) development and management by a private Japanese developer or a group of Japanese firms, if such a developer or group emerges; or (iv) any other arrangement that simultaneously achieves cost sharing and Japanese design and service.

It is also important that Japanese public support, through the Ministry of Foreign Affairs, the Ministry of Economy, Trade and Industry, JETRO, Japan International Cooperation Agency (JICA), etc., is provided for some of the necessary hard and soft components in and around the Japanese FDI area.

Regardless of the options above, once the Japanese area has been established, it is vitally important that the management and operation of the area be assisted by a Japanese expert who has hands-on experience operating industrial parks in Asia and elsewhere. The expert should provide support services to tenant firms, offer advice on legal procedures and the business environment, and familiarize the Ethiopian staff with the Japanese business mindset.

Izumi Ohno (GRIPS)

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Chapter 2
Creating Industrial Linkage between FDI and Local Firms

Forging industrial linkages between foreign direct investment (FDI) and domestic firms is one of the most effective ways of upgrading local firms in developing countries (UNCTAD 2010). Theoretically, foreign firms or multinational corporations (MNCs) can bring various benefits to the host country through FDI. They can facilitate the transfer of technology, knowledge and skills, improve business and management practices, and provide access to finance and markets. However, spillover and learning from FDI do not occur spontaneously. Benefits must be generated by serious management efforts and appropriate policy. The government of the host country should make conscious efforts to induce FDI firms to transfer their advantages in appropriate forms as well as to strengthen local enterprise capacity. This is why linkage policies and special programs for linkage development do matter.

This chapter aims to: (i) introduce a policy framework and core elements of linkage programs; (ii) show different types of linkage programs implemented in three countries, i.e., Malaysia, Thailand, and Mozambique; and (iii) draw implications for Ethiopia based on the findings from these country cases. While various types of business linkage can be formed between foreign investors and local firms, the chapter primarily focuses on backward industrial linkages with suppliers where FDI firms buy parts and components, materials, or services from local suppliers.[1]

It is the mutual interests of both FDI and domestic firms to develop such backward linkages and foster competitiveness for business sustainability. On the one hand, FDI firms can secure efficient supply chains by enabling local firms to supply goods and services for them. On the other hand, local firms can benefit from FDI-linked technology transfer and other advantages. For the nation, broader developmental impacts such as growth and job creation can also be expected.

2-1. Policy Framework and Core Elements of Linkage Programs[2]

Linkage policies and programs must be designed and implemented as an integral part of a national industrial policy. It is important that the government of the host country take a systematic approach to FDI-local linkage development. As Figure 2-1 shows, there are three sets of policies conducive to FDI-local linkage development: (i) an investment-friendly environment; (ii) strategic FDI attraction; and (iii) local enterprise capacity-building. Under such a policy framework, specific linkage policies and programs can work effectively and encourage FDI-local firm cooperation.

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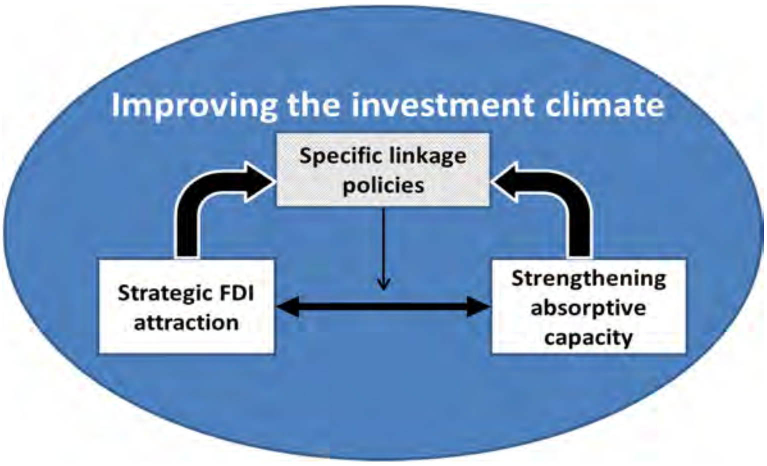
[1] Other types of business linkages include: linkage with technology partners where foreign firms engage in joint ventures, licensing arrangements, or strategic alliances with local partners, forward linkage with customers, and broader spillover effects such as demonstration effects and human capital spillovers.

[2] This section is largely based on UNCTAD (2010), Chapter 1 (especially pp.13-24).



Source: UNCTAD (2010), Figure 1, p.14

Figure 2-1: Policy Framework Conducive to FDI-Local Linkage Development

After attracting high-quality foreign investors to the home country, the government must take supportive measures to help domestic firms link up with FDI firms. Broadly, linkage policy needs to address two issues: (i) linkage promotion itself such as information provision and matchmaking; and (ii) building local capability so that local firms can participate in the linkage and new business opportunities.

Specific policy measures include:

- *Provision of information*—governments can act as facilitators by gathering and disseminating information on linkage opportunities and guaranteeing the accuracy of the information provided.
- *Matchmaking*—governments can play a more active role in facilitating the process of linkage building, focusing on specific capabilities and needs of individual buyers and suppliers and working closely with them to reach supply arrangements; and
- *Technology upgrading*—governments can encourage technology transfer from buyer firms to supplier firms and strengthening technological cooperation between the two. Examples of such measures include technology transfer requirements, using foreign affiliates as partners in technology upgrading programs, and providing training programs for small and medium enterprises (SMEs) and local suppliers.

These policy measures need to be concretized and developed into specific linkage programs. In doing so, due consideration must be given to the following core elements:

- Constituting a critical mass of purchasing companies which can create real opportunities for domestic supply—this is the demand-side of the linkage equation. It is normally an aggregate of the inputs or purchasing requirements of a number of buyer companies that can constitute the critical mass necessary for backward linkages to occur. This is closely related to strategic FDI attraction.
- Creating a pool of qualified domestic firms capable of supplying the goods and services that meet

FDI (purchasing companies) requirements for quality, performance, delivery, and standards compliance— this is the supply-side of the linkage equation. Availability of local suppliers with competitive costs and sufficient quality is an important determinant of the outcome of any linkage program. Domestic firms in developing countries are largely hindered by supply-side constraints, hence the significance of comprehensive support and development programs to help upgrade their technological and managerial skills and absorptive capacity to ensure they are "partnership-ready" to capture linkage opportunities.

- Building an effective selection and matching mechanism to link potential FDI and domestic firms—generally, foreign investors are reluctant to participate in linkage programs unless they have some control over the selection of domestic partners which strengthens their confidence in partnership. Involvement of FDI in the selection process is essential to make a linkage program sustainable. Selection should be highly focused and specific to ensure only those meeting the criteria are selected to participate in the linkage program while firms without such potential are filtered out.
- Putting in place supporting mechanisms to help potential domestic firms overcome supply-side constraints and achieve the standards required to become suppliers to FDI and/or large companies—appropriate design and development of these supporting mechanisms should be based on a comprehensive diagnosis and auditing of domestic firms to understand precisely their deficiencies and needs so that critical areas for improvement can be identified and addressed. Here, a handholding program for FDI-local linkage development can contribute greatly to such evaluation (see Chapter 3).

Positive spillovers through FDI-local firm linkages are more likely to occur when the technological gap between foreign and local firms is relatively small. Therefore, it is vitally important to include domestic enterprise capacity building in the business linkage program.

Besides the above-mentioned linkage measures, the host country governments should make additional efforts to support SME development through: (i) promoting supplier associations; (ii) supporting training programs and industrial human resource development; (iii) fostering entrepreneurial development; and (iv) improving access to financial and non-financial business services.

2-2. Examples of Linkage Programs in East Asia and Africa

This section reviews the experiences of FDI-local firm linkage programs in Malaysia, Thailand and Mozambique. The linkage programs of Malaysia and Thailand are more advanced than that of Mozambique. The former two focus on the manufacturing process while the latter is for the extractive natural resource sector.

Both Malaysia and Thailand introduced linkage programs in the late 1980s when Japanese manufacturing FDI increased suddenly in Southeast Asia following a sharp yen appreciation of 1985. In those days, part and component industries for mechanical assembly such as electronics, automobiles, and various machinery (so-called “supporting industries”) were undeveloped in the region, and this prompted the two governments to develop supporting industries from scratch, often with Japanese private and public assistance. In Mozambique, the key driver of linkage development was the Mozal Aluminum Smelter Project started in 1998 by a joint venture led by BHP Billiton of Australia[3]. This was the first mega-investment in the country after a 16-year long civil war which ended in 1992. The local private sector was very weak, and the Mozambican government and Mozal were concerned that local SMEs could not participate in and benefit from the supply chain of the Mozal Project. Such recognition led to a joint initiative of the government, Mozal, and the International Finance Corporation (IFC) to develop linkage programs.

2-2-1. Malaysia: Systematic Approach to FDI-Local SME Linkage Development

During the 1980s and the 1990s, the Malaysian government systematically promoted the development of FDI-local SME linkages with a broad objective of fostering the growth of SMEs including supporting industries. This section explains the two major linkage programs supported by the government: the Vender Development Program (VDP) in 1988 and the subsequent Industrial Linkage Program (ILP) in 1997. It also explains the Penang Skills Development Centre (PSDC), the country’s first industry-led skills training and education center established in 1989. PSDC is widely regarded as a successful model of tripartite partnership by the federal and state governments, industry, and academia for the purpose of industrial human resource development.

(1) Vender Development Program (VDP)

In 1983, Proton, a state-owned national car company was created and promoted under heavy policy support and protection of the Malaysian government. As part of this national car policy, Bumiputra (local Malay) suppliers to Proton were also assisted strongly. VDP was initiated in 1988 as the Proton Component Scheme under the First industrial Master Plan (IMP 1986-1995). The buyer-assembler (Proton) was called the “anchor firm” which was obliged to purchase as many components as possible from qualified Bumiputra SMEs, which were called “venders.” The anchor firm was also required to provide technical assistance to vendors and become the agent of providing government loans to them.

In 1992, the scope of VDP was expanded to include two electrical and electronics (E&E) firms as anchors, and subsequently more sectors such as furniture, construction materials, and shipbuilding were added to targeted sectors. The Ministry of International Trade and Industry (MITI) acted as the coordinator between anchor firms and vendors, whose networks were later expanded to include financial institutions. However, some FDI firms were reluctant to participate in VDP due to low technical capability of Bumiputra suppliers. In 1997, VDP was replaced by ILP.

[3] Investors of Mozal Aluminum Smelter Project was a consortium led by BHP Billiton of Australia (47%) and included Mitsubishi Corporation of Japan (25%), Industrial Development Corporation of South Africa (24%), and the government of Mozambique (4%).

(2) Industrial Linkage Program (ILP) and complementary support programs

ILP was established in 1997 as a new policy instrument to carry out cluster-based industrial development of the Second Industrial Master Plan (IMP2 1996-2005) and further encourage FDI firms to deepen sourcing from local firms. The Small and Medium Industries Development Corporation (SMIDEC) was created in 1996 under MITI to assumed primary responsibility for implementing ILP along with other complementary programs.[4] For the purpose of ILP, Small and Medium Industry (SMI) was defined as: (i) companies with full-time employment not exceeding 150 persons and annual sales turnover not exceeding RM25 million and involved in the manufacture of intermediate goods or components listed in the List of ILP Promoted Products and Activities; and (ii) companies whose equity holding by a large (non-SMI) company did not exceed 25%.

Unlike VDP, ILP extended support to non-Bumiputra SMEs as well provided that their Malay capital was 60% or more. ILP offered three services: (i) financial incentives; (ii) business matching; and (iii) a support package consisting of factory site provision, research and development (R&D), technology upgrading, export market development, etc. Matchmaking was organized by SMIDEC where approved vendors were given Pioneer Status (Malaysia's main privilege status given to enterprises) with 5-year exemption of corporate income tax or 60% investment tax allowance as stipulated in the Promotion of Investment Act of 1986. Anchor firms could also apply for allowances for training and technical assistance to SMEs. For example, SMEs participating in the ILP or the Global Supplier Program (GSP, see below) were able to receive benefits from collaborating with FDI firms in production, marketing, and R&D activities. To encourage FDI firms to participate, 100% of expenditure incurred in training employees, developing and testing local products, improving the quality of local inputs, and renovating facilities at local SME partners were deductible from corporate income tax (UNCTAD 2010).

The list of promoted products and activities under ILP for consideration of Pioneer Status or investment tax allowance included the manufacture of rubber products; plastic products; clay-based, sand-based and other non-metallic mineral products; textiles and textile products; iron and steel; non-ferrous metals and their products; supporting products and other services; transport equipment, components and accessories; machinery and machinery components; and E&E products and components and parts thereof.

Furthermore, SMIDEC launched a series of local enterprise capacity building programs including GSP, the Factory Audit Scheme, the Annual Showcase, the Enterprise 50 Program, and the SME Expert Advisory Panel, to facilitate the implementation of ILP. These programs guided SMEs to form strategic alliance with large MNCs and enable them to benefit from networking, technology, training and market access (UNCTAD 2010). For example, the Factory Audit Scheme provided assistance to SMEs in undertaking diagnostic audit in manufacturing operations. GSP is designed to train SMEs to become qualified first-tier suppliers to FDI firms. The details of ILP and GSP are shown in Table 2-1 and 2-2.

[4] In 2009, SMIDEC was upgraded to SME Corporation Malaysia (SME Corp). While SMIDEC focused on the manufacturing sector, SME Corp has a broader mandate covering all SMEs and coordinates policies and programs for SMEs across all the sectors.

Table 2-1: Industrial Linkage Program (ILP)

Goal	ILP encourages large companies to source parts, components and services from SMEs. Intended to promote and nurture local SMEs to become reliable and competitive manufactures and suppliers to leading industries.
Assistance	ILP is a set of cluster-based industrial development programmes comprising: – Fiscal Incentives (Pioneer Status with 100% tax exemption for 5 years, or Investment Tax Allowance of 60% on qualifying capital expenditures incurred within a period of 5 years). – Business Matching. – Programmes that support industrial linkages such as technology development, skills upgrading, export and market development, and provision of SME industrial sites.
Delivery	SMIDEC administers and coordinates the ILP programmes. – Targeted at electrical and electronics (E&E), transport equipment, machinery and engineering, and resource based manufacturing SMEs. SMEs must manufacture items in the "Promoted List" and supply to lead companies. – Lead companies can claim expenses incurred in developing SMEs including training, factory auditing and technical assistance to ensure the quality of vendors' products.

Source: UNCTAD (2010), Table 7 in Chapter IV, p.87

Table 2-2: Global Supplier Program (GSP)

Goal	Proactive approach by government to further enhance the capacity and capability of SMEs to provide world-class service and products to large corporations in their operations worldwide. Focus on reducing cost and cycle time.
Assistance	The GSP involves: – Training in critical skills – Linkages with large companies/MNCs – Certification of product
Delivery	Example: Tesco as a Customer – SMIDEC actively promotes links between Tesco and SME by providing funding for certification of product and technology to link to Tesco's supplier systems. – Grant for Productivity and Quality Improvement and Certification (Matching grant max. RM 250,000) – Grant for Product and Process Improvement (Matching grant max. RM 500,000) – Factory Auditing Scheme (Diagnostic audit for SMEs with potential to be linked to MNCs under ILP

Source: UNCTAD (2010), Table 8 in Chapter IV, p.87
Note: RM stands for Malaysian Ringgit. 1 RM is equivalent to 28 Japanese Yen (as of Dec. 23, 2015).

It should be noted, however, that under the Third Industrial Master Plan (IMP3 2006-2020), FDI-local SME linkage development is no longer a major pillar of Malaysia's SME policy. By now national policy attention has shifted from FDI-linked capacity building to creation of innovative SMEs which are independent from FDI or large companies. Strong emergence of innovative SMEs is considered to be the key to overcoming the middle-income trap and achieving Vision 2020 (becoming a fully developed high-income country by 2020) but the result of this strategy is yet to be seen.

(3) Penang Skills Development Centre (PSDC)

Penang is an island off the northwestern coast of the Malay Peninsula. It was the first designated Free Trade Zone that emerged out of the Federal government's effort to attract FDI. Since the 1970s, the

State government of Penang and the Penang Development Corporation were able to attract a significant number of foreign and domestic investments into the region by coordinating promotion initiatives at the local level. It has become a major E&E manufacturing hub in Malaysia.

PSDC is an industry-led initiative for local skills development aimed at integrating Malaysian SMEs into global supply chains. It was established in 1989 as a non-profit organization (NPO) with strong involvement of FDI firms, in particular American manufacturers which dominated the Penang electronics sector at that time.[5] PSDC is based on a tripartite partnership model with industry working closely with government (both the Federal government and the State government of Penang) and academia. The Federal government provided the initial set-up and equipment grants, and the State government subsidized land and infrastructure.

PSDC is operated and administered by the industry with its management council consisting mainly of FDI representatives. In 2000, PSDC launched GSP (later embedded in the ILP of the Federal government, as explained above) which combined two forms of interventions: (i) ad hoc training programs; and (ii) targeted business deals with FDI firms to upgrade a selected group of local suppliers. The contents of the training programs designed by FDI representatives have been tailored to meet FDI requirements and market demands. Training participants were rigorously selected by the criteria decided by FDI firms. PSDC also acted as a focal point for information exchange and knowledge transfer between domestic and FDI firms, which in many cases maintained their in-house training centers to provide specialized training to their employees (UNCTAD 2010).

Currently, PSDC pools resources of four Free Trade Zones and four industrial estates in Penang with a total of 775 factories employing more than 170,000 workers, providing up-to-date training and educational programs in support of operational requirements, as well as to keep abreast of technological progress.[6] Additionally, it offers quality tertiary education programs for school leavers and skill enhancement courses for university graduates. Some programs are funded by the government.

Thus, PSDC contributed significantly to the upgrading of industrial human resources in the State of Penang. Following Penang, other states in Malaysia also adopted the PSDC model to set up their own skills centers. However, scaling up of PSDC's achievement to the national level was less successful due to the absence of strong private support in other locations (UNCTAD 2010, Ohno 2014).

2-3. Thailand's FDI-Local Linkage Development

Since the mid-1980s, the Thai government has introduced a number of programs to promote supporting industries especially in the automotive and E&E sectors. FDI-local industrial linkage development was one of its key programs. Unlike Malaysia, the Thai government has continued to

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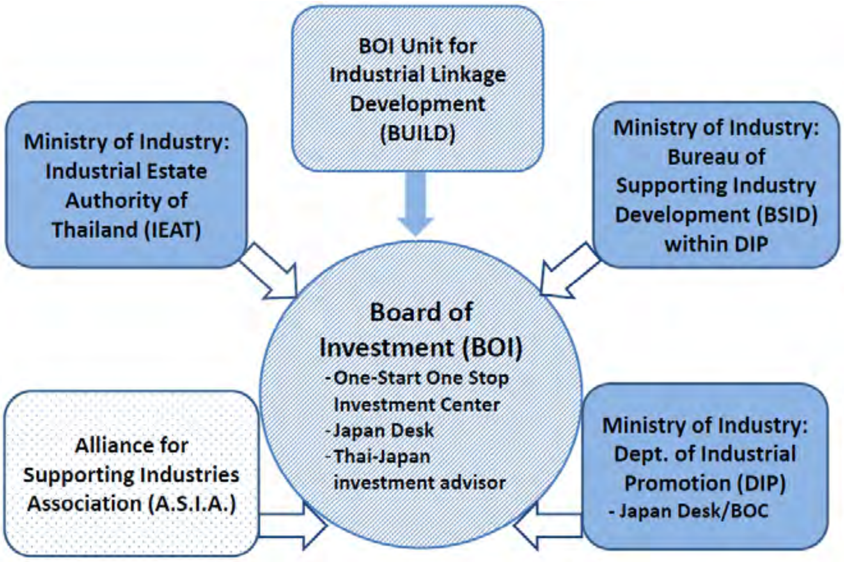
[5] Since the 1980s, many FDI firms have taken steps to improve their competitiveness in response to increased pressure to reduce production costs, and customize products for the growing Asia Pacific market. These challenges encouraged them to engage in greater intra-firm and inter-firm knowledge and technology transfer, to focus on more complex and higher value-added activities, and to increase local outsourcing (Rasiah 1987).

[6] Based on the information from the website of PSDC: http://www.psdc.org.my/about-us/category-1/history (accessed: November 25, 2015).

attach high priority to FDI-local linkage development and supporting industry promotion to date to further strengthen its industrial competitiveness.

Figure 2-2 illustrates the Thai government's system and network for FDI and linkage promotion. Because of strong economic relationship between Thailand and Japan as well as recent expansion of overseas investment of Japanese SMEs in Thailand, the illustration highlights service units dedicated to promote Thai-Japanese business partnership (including "Japan Desks" staffed by Japanese experts). Nevertheless, basic functions of FDI and linkage promotion are commonly available to all investors.



Source: Based on the information collected by the research mission by the GRIPS Development Forum in May 2015.

Figure 2-2: FDI and Linkage Promotion System and Network in Thailand

The Board of Investment (BOI, an investment promotion agency under the Prime Minister's Office)[7] and the Ministry of Industry (MOI), especially the Department of Industrial Promotion (DIP) of MOI, are the key official actors for FDI-local linkage development and industrial capacity building. DIP is responsible for promoting supporting industries through various official and non-official bodies such as the Bureau of Supporting Industries Development (BSID), several sector-specific technical institutions, and the Alliance for Supporting Industries Association (A.S.I.A.), which is an apex organization for twelve industrial associations.[8]

A salient feature of Thailand's linkage promotion is the fact that the network is informal and flexible rather than rigid and hierarchical. While BOI and DIP of MOI are the key official coordinators,

[7] BOI was originally under the Prime Minister's Office but was placed under MOI during the time of former Prime Minister Yingluck Shinawatra (August 2011-May 2014). Under the current government of Prayuth Chan-ocha, BOI was moved back to the Prime Minister's Office.

[8] A.S.I.A. is a network of the following twelve associations: the Thai Machinery Association, the Thai Composites Association, the Thai Foundry Association, the Thai Embedded Systems Association, the Thai Plastic Industries Association, the Thai Logistics and Production Society, the Thai Tool and Die Industry Association, the Thai Air Conditioning Traders Association, the Association of Thai Software Industry, the Thai Subcontracting Promotion Association, the Hazardous Substance Logistics Association, and the Association of Thai Small and Medium Entrepreneurs.

no institution dominates nor is the system governed by explicit rules. Each member organization performs its tasks separately and refers clients to other institutions when necessary. Personal rapport among officials and experts at various institutions matters greatly in ensuring speedy and effective service. Such loose working style is typical of the Thai government.

Below, two main activities related to linkage programs supported by the Thai government are explained—(i) BOI Unit for Industrial Linkage Development (BUILD) charged with sourcing services and matchmaking; and (ii) BSID that helps to enhance industrial associations focusing on supporting industry promotion. Additionally, activities of selected private sector organizations engaged in FDI-Thai firm matching and linkage development are also discussed.

(1) BOI Unit for Industrial Linkage Development (BUILD)

As an investment promotion agency, BOI is the first contact point for foreign investors. In 1992, BOI established BUILD to meet the demand of FDI companies for procuring domestic inputs and finding suitable Thai partners for joint venture or Original Equipment Manufacturing (OEM) arrangement. BUILD provides these one-stop services by identifying the needs of FDI manufacturers and matching them with local suppliers. Through industrial linkage development, BUILD also contributes to the transfer of production technology and the growth of supporting industries in Thailand.

Table 2-3 summarizes main activities undertaken by BUILD, which consist of sourcing service, business matching, database and information services, and overseas visits (Vender-Meet-Customer Roadshow).

BUILD is run by one director and ten staff members, with each staff assuming responsibility for sourcing service for different buyers. BUILD arranges various types of business partnership for FDI customers (Joint Venture (JV), OEM, patent use, production contract, etc.) According to the BUILD Director, business matching is not an easy task, with partner search being more difficult than finding local inputs.[9] It sometimes takes more than one year to look for suitable partners.

[9] Based on the interview with BUILD officials by GRIPS Development Forum at BOI in May 2015.

Table 2-3: Main Activities of BUILD

BUILD Activities	Content
Sourcing Service	Provide free services to help both Thai and foreign buyers source parts and components in Thailand. – When an inquiry is received from a buyer, BUILD identifies potential suppliers that meet the buyer's requirements. – Normally, BUILD announces the specification and volume requirements of foreign buyers in the website and solicits expression of interest from Thai suppliers. – One-on-one meetings can also be arranged for a buyer to discuss individually with each potential supplier. – There are various channels through which BUILD receives inquiries from buyers. In some cases, buyers directly contact BUILD via email or phone. In other cases, the One Start One Stop Investment Center or the overseas offices of BOI transfer inquiries by foreign buyers to BUILD.
SUBCON Thailand	Largest industrial subcontracting exhibition for industrial parts and business matchmaking in the ASEAN region (started in 2007). – Organized jointly by BOI, the Thai Subcontracting Promotion Association, and UBM Asia (Thailand) in May every year. – Held to conincide with Intermach, the largest machinery exhibition in Southeast Asia.
ASEAN Supporting Industry Database (ASID)	Information service of ASEAN that lists manufacturers of parts and components in the ten member countries on the internet for global access. – BUILD is responsible for maintaining this database in Thailand, by consolidating and updating information. – For each entry, the database includes company profile, investment profile, and information on employment, customers, products, capacity, processes, raw materials, and machinery and equipment. – The BUILD team asks registered companies to update their information annually.
Vender-Meet Customer (VMC) Roadshow	Provide opportunities for Thai parts manufacturers to participate in overseas exhibitions and trade fairs with the aim of widening their vision and knowledge.

Source: Based on the information collected by the research mission by the GRIPS Development Forum in 2015.

(2) Bureau of Supporting Industry Development (BSID) under DIP/MOI

BSID under DIP of MOI assumes the main responsibility for promoting supporting industries. The history of BSID goes back to 1988, when the Metal-working and Machinery Industries Development Institute (MIDI) was established within DIP as an agency to implement promotion measures for metal-related supporting industries with the assistance of the Japan International Cooperation Agency (JICA). At that time, there was a strong need to strengthen Thai firms as reliable partners for Japanese FDI production, in the wake of massive relocation of Japanese manufacturers to Thailand following a sharp yen appreciation. In 1996, MIDI was upgraded to BSID with a higher organizational status and a broader scope of work. Throughout the 1990s, more industrial institutes were established by DIP and made responsible for drafting and implementing industrial master plans in respective sectors, acting as the hub for business, government (BSID), experts, and other organizations.[10]

BSID has taken a step-by-step approach to strengthening the capacity of Thai supporting industries. Initially, when the private sector was weak and the number of supporting industry firms was limited, BSID directly provided technical and managerial support to individual companies. When the number of companies grew to approximately 1,000, BSID established and managed thematic forums of supporting industries (design, metal, machinery, foundry, etc.) serving as their coach and secretariat. Gradually, these forums have gained experience and developed into truly privately-run industrial associations. Currently, there are twelve such industrial associations fostered by BSID. Increasingly, those associations are beginning to provide technical support and human resource development to member companies without BSID’s help.

In 2008, A.S.I.A. was established with the support of BSID/DIP, to promote networking among the existing supporting industry associations. There are more than 15,000 companies covered by A.S.I.A. It plans and conducts activities related to all industry associations thereby producing synergetic effects. Compared to the Federation of Thai Industries (FTI) established in 1987, A.S.I.A is a young apex organization focusing on domestic supporting industries, and its capacity needs to be further strengthened. Nevertheless, this is a good way to promote cooperation among different supporting industry firms toward a common goal of becoming competitive regionally and globally.

As this history shows, the degree of government’s direct involvement in enterprise support was strong at first, but decreased over time as the private sector developed its capacity. Now, BSID’s role in enterprise support is indirect, primarily working through A.S.I.A. and its industrial associations. Likewise, shindan (SME management consultant system) service was initially provided by the government, but it is now implemented by individual firms that have come to understand its benefits. Currently, the main role of BSID in shindan is normative, which includes setting the criteria for enterprise diagnosis and establishing a mechanism in which shindan reports can be used effectively to address concrete problems. A few years ago, Thai companies became obliged to present shindan reports when applying for BSID support or financial support from the SME Bank. BSID also manages a database for supporting industries in Thai language.

(3) Technology Promotion Association (TPA) and Thai-Nichi Institute of Technology (TNI)

TPA is a Thai NPO established in Bangkok in 1973 by former Thai students who studied science and technology in Japan. For over four decades, it has provided management and technical education and training, language courses, and book publication with a strong focus on Japanese manufacturing. Based on its accumulated experience and expertise, TPA established TNI in 2007, a private university for teaching Japanese style manufacturing in theory and practice, with a strong emphasis on the latter.

[10] These industrial institutes include: the Thai-German Institute (TGI, 1992), the Thailand Automotive Institute (TAI, 1998), the Electrical and Electronics Institute (EEI, 1998), the Iron and Steel Institute (ISI, 2000), and so on. They were initially established with the government budget or foreign aid, but are currently required to operate as autonomous, non-profit, and financially self-supportive organizations.

TNI was financed by TPA's accumulated profits and a bank loan. Japanese businesses in Thailand have assisted TPA and TNI from the sideline by dispatching experts, accepting student internship, providing equipment and scholarship, and so on. The Japan-Thailand Economic Cooperation Society (JTECS) was an organization established in Tokyo to coordinate and provide private and public assistance to TPA from the beginning. However, management and financial resources of TPA and TNI have been local with strong Thai ownership.

TPA has been offering three core programs: (i) culture and language (with an emphasis on Japanese but also other languages); (ii) shindan consultancy for companies; and (iii) calibration (setting or correcting measurement on precision-requiring equipment).

In addition, building on its strong Japanese network, TPA established the Thailand-Japan Business Alliance Center (abbreviated as J-SMEs) in August 2013 to conduct business matching between Thai companies and Japanese SMEs. Its activities include: (i) arranging business trips and business matching for Japanese investors interested in Thailand or other Southeast Asian countries as well as for Thai investors interested in Japan; (ii) organizing workshops for both Thai and Japanese SMEs; and (iii) offering business coordination functions such as business advice, market research service, local business trip arrangement, and market development support. TPA has assigned three permanent officers to run J-SMEs and collaborates with Tokyo Higashi Shinkin Bank which has dispatched two staffs to J-SMEs, from January 2014, to promote business matching and exchange between Japanese SMEs (clients of Tokyo Higashi Shinkin Bank) and Thai companies.

2-3-1. Mozambique: Donor and FDI-Supported Linkage Programs

In Mozambique, a pilot linkage project started in 1998 by a joint initiative of the government, IFC, and Mozal, which is a foreign joint venture for the Aluminum Smelter Project. Mozal being the country's first major commercial investment after the end of civil war in 1992, there was a need to create technical and business capacity for local firms to become more competitive and participate in this development by supplying quality goods and services, increasing purchasing power, and promoting job creation (OECD 2013). This need was keenly felt because the size of the investments by Mozal was very large and also because linkage creation would not occur automatically in extractive industry mega-projects. Linkage programs implemented by the Mozambican government, donors, and foreign investors, as well as current challenges in sustaining and institutionalizing the initial effort, are explained below.

(1) From a pilot project to Mozlink Programs

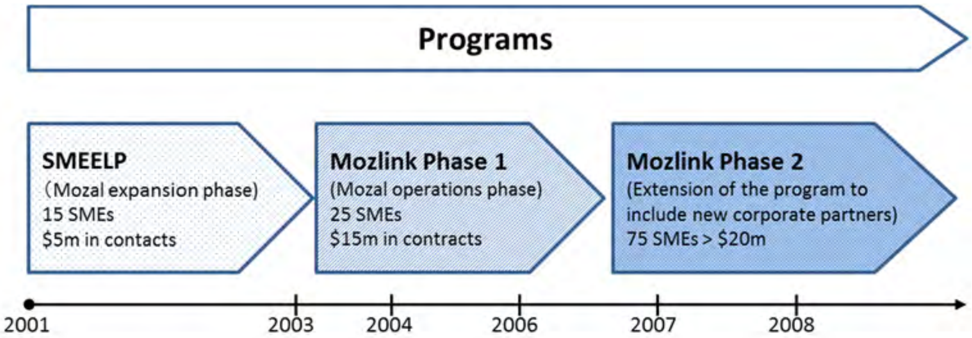
The Investment Promotion Centre (CPI) is an investment promotion agency under the Ministry of Planning and Development (MPD). In 1998, the government of Mozambique approved a linkage program and established the Linkage Division in CPI. CPI also began to require "linkages provision" when it negotiated investment project agreements between MNCs and the government.

In 1998, CPI started a pilot linkage project during the construction phase of the Mozal Aluminum Smelter Project. The pilot project focused on familiarizing all stakeholders with the linkage program and FDI's standard practices, and promoting joint ventures between foreign firms/contractors and local SMEs through market efforts. However, the result was mixed. Mozal found that local SMEs were too weak to meet international trade standards. They lacked capacity to: (i) participate effectively in bidding, tendering, and post-tendering, which were relatively complex processes; (ii) meet stringent technical quality, safety, and environmental requirements; (iii) meet deadlines and ensure a regular supply; and (iv) set up appropriate financial management and organizational internal controls (USAID 2012).

To overcome these problems, during the expansion phase of the Mozal project (2001-2003), the SME Empowerment and Linkages Program (SMEELP) was introduced jointly by CPI, IFC (Africa Project Development Facility), and Mozal. Key components of SMEELP included: (i) reserving 30 tenders exclusively for Mozambican firms (e.g., package supply was allocated solely to local SMEs); (ii) pre-assessment of local SME capabilities; (iii) training programs before and after tenders for Mozambican suppliers; and (iv) technical orientation programs to mitigate eventual gaps (Niven 2003). Under SMEELP, 15 SMEs successfully delivered contracts amounting to $5 million (IFC PEP Africa n.d.).

Building on the SMEELP's achievement, the Mozambique SME Linkage Program (Mozlink Phase 1: 2003-2007) was implemented during the operational phase of the Mozal project. The Mozlink I Program was largely the replication of SMEELP and supported by the IFC, the World Bank (Mozambique Private Sector Development Project) and Mozal. Under the Mozlink I Program, 25 SMEs were trained and $15 million in contracts were delivered (IFC PEP Africa n.d.).

Subsequently, the Mozlink II Program was designed and implemented during 2007-2010 with the support of IFC and the Dutch government. Mozlink II expanded corporate partners to include Sasol, Coca-Cola, and SAB Miller/CDM (Cervejas de Moçambica). Key components of the Mozlink II Program were to: (i) improve technical and management capacity of SMEs through training and mentoring; (ii) integrate linkage processes among four corporate partners (Mozal, Sasol, SABMiller/CDM, Coca-Cola); (iii) facilitate critical information flows between SMEs, industry, government, and new markets; (iv) increase access to finance for SMEs; and (v) provide workplace compliance training to help reduce new cases of HIV/AIDS, malaria, and tuberculosis infections at companies and in surrounding communities. Under the Mozlink II Program, 77 SMEs were selected to participate in the capacity building program and implement individual improvement plans. $15 million in contracts were signed, and over $53 million of new revenues of SMEs were generated by Mozlink corporate partners (USAID 2012).



Source: BHP Billion (n.d.)

Figure 2-3: Linkage Programs in Mozambique

(2) Challenges of sustainability and institutionalization

The SMEELP and Mozlink Programs were important initiatives by the government, donors, and MNCs to create business linkages in the extractive-industry value chain. Especially, Mozlink I & II are widely publicized and regarded as the Mozambican "flagship" programs for linkage development (IFC n.d.).

Despite such initial achievements, there remain challenges of sustainability and institutionalization. First, the linkage program is not yet internalized or systematized within the Mozambican government. So far the government has largely relied on technical and financial support from donors and FDI firms, and its involvement in the implementation of linkage programs has been limited. For example, the enterprise diagnosis and technical support have been undertaken by external advisers. IFC has started the handover process of Mozlink II to CPI, but some concerns have been raised on the capacity of CPI to manage linkage programs (USAID 2012). Second, each linkage program is implemented separately by FDI projects with different external funding sources. The government needs to take a coordinated approach and develop a common platform to work with foreign investors. Third, there is a sign of declining commitment of top FDI management. Although there was a high level commitment by Mozal's management during the SMEELP and Mozlink I Programs, this was not the case with the Mozlink II Program when multiple partners from different industry sectors joined (USAID 2012). Again, this suggests the need to establish a common platform to work with various foreign investors.

Fourth, the linkage program managed by CPI needs to be coordinated and complemented by the government's SME support program, which started recently with the creation of the Institute for Promotion of Small and Medium Enterprises (IPEME) under the Ministry of Industry and Commerce. In 2008, the government established IPEME to strengthen SMEs' capacity in management, finance, and access to market and information. In 2010, IPEME created the Center for Entrepreneurial Advice (COE) in Maputo, the capital city, and several provinces to disseminate information on investment opportunities, training, and marketing (IPEME 2012). These efforts need to be further enhanced and coordinated with CPI in the context of linkage programs.

2-4. Lessons and Recommendations for Ethiopia

The experiences of Malaysia, Thailand, and Mozambique in FDI-local firm linkage development offer useful lessons for Ethiopia and other developing countries when they design and implement linkage programs in the future.

First, industrial linkage development must have two components: (i) creating linkages between FDI and domestic companies through various types of business matching programs; and (ii) capacity building of domestic SMEs. The linkage programs of Malaysia and Thailand have duly integrated these two components. On the other hand, the Mozambican program so far has addressed (i) only, largely because the country's SME policy and support system are still at the early stage of formation. Although it is important to adopt policy measures to encourage FDI to produce linkages, unrealistic demand without promoting local capability drives FDI away. Therefore, simultaneous implementation of both components is necessary for effective linkage development.

Second, the government needs to take a coordinated approach to implement linkage programs. At the same time, it should recognize that there are various institutional options for coordination. In Malaysia, SMIDEC was the lead agency for implementing ILP and charged with both business matching and SME capacity development. SMIDEC also introduced a series of complementary programs, including GSP, to enhance local enterprise capacity. In Thailand, business matching is handled mainly by BUILD of BOI, which is the first contact point for foreign investors, while SME capacity development is assumed by BSID of MOI, industry institutes, and industrial associations belonging to A.S.I.A. These organizations form a loosely coordinated investment promotion and linkage network, which is quite different from a very systematic approach taken by the Malaysian government. Meanwhile, both countries produced some results, and Thailand in particular succeeded in creating strong automotive supporting industries that supply to globally competitive foreign giant car firms. The experiences of Malaysia and Thailand show that there is no single model of coordination. Each country should find a suitable institutional arrangement for linkage programs tailored to country-specific circumstances.

Third, linkage programs can be started with financial and technical support of donors and foreign investors. But the government of the host country must make step-by-step efforts to institutionalize externally-supported programs and consolidate and integrate them as country-owned programs. Malaysia offers a good example of establishing a country-led platform for industrial linkage development. Linkage policies and specific programs under them were an integral part of national industrialization policy, and various complementary measures were introduced under ILP. Over the years, the Thai government has also made efforts to develop institutional mechanisms for promoting supporting industries (e.g., upgrading MIDI into BSID, creating industrial associations and later their apex organization, A.S.I.A.), by taking full advantage of Japanese technical cooperation. On the other hand, the experience of Mozambique is more passive and mixed, fraught with challenges in institutionalizing initial achievements made under donor-supported programs.

Fourth, NPOs and private organizations can also play an important role in business matching, enterprise capacity building, and management and technical education and training. In Malaysia, PSDC is a good model of tripartite partnership under the strong leadership of industry and local ownership. While its management council mainly consists of FDI representatives, the government and affiliated institutions also participate actively as advisory members. PSDC is fully operated by national staff. In Thailand, BSID, industrial institutes, A.S.I.A., and industrial associations collectively work to strengthen supporting industries. Now, A.S.I.A. and its industrial associations are the initial point of contact for member companies for information, training and other capacity development activities, business matching, and so on. In addition, some Thai industrial NPOs, such as TPA and TNI, are self-supporting private bodies that provide various programs for business matching and industrial capacity building.

The Malaysian and Thai models are relatively advanced forms of FDI-local firm industrial linkage development and supporting industry promotion in comparison with other developing countries. This is the result of decades of efforts made by both public and private players. It is not easy to replicate fully what these two countries practice. Ethiopia may wish to start with a pilot linkage project, bearing the above points in mind. A pilot project is useful to help define realistic targets, eligible sectors, program design, and mechanisms before committing large resources for a full-fledged program.

As a first step, the Ethiopian government should prepare a list of competent Ethiopian firms—component suppliers, producers, and distributors of agro inputs and raw materials, service providers, and so on. This may take the form of an enterprise database or, more informally and realistically, prompt and precise information provided collectively by the Ethiopia Investment Commission (EIC), the Ministry of Industry (MOI), the Ethiopia Kaizen Institute (EKI), the Textile Industry Development Institute (TIDI), the Leather Industry Development Institute (LIDI), the Metal Industry Development Institute (MIDI), etc. An information referral and matching network should be set up among these institutions, and initiation of a handholding program for FDI-linked technology transfer should be seriously considered (see Chapter 3).

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Chapter 3 Handholding for Enterprise Capacity Building

Handholding is an important program for enterprise capacity building. It offers hands-on, comprehensive assistance to selected high-potential firms, to succeed and become a model for other firms to follow.[1] This chapter aims to: (i) introduce the concept of handholding; (ii) show concrete examples of handholding programs in East Asia (Japan, South Korea, Malaysia, and Taiwan); and (iii) suggest future steps for Ethiopia, based on the analysis of the East Asian experiences.

3-1. The Concept of Handholding Programs

Enterprise capacity building is a standard industrial policy menu item, and the support can cover multiple areas including management, technology, kaizen, finance, Information and Communication Technology (ICT), labor issues and recruitment, marketing, foreign direct investment (FDI) linkage, testing and certification, networking, start-up support, innovation, and so on.

Broadly, there are two different ways to enhance enterprise capacity. One way is to provide these support services to firms broadly with minimum screening and on as-needed basis. Here, the final results are up to each firm's planning and effort. The other way is to provide such services in a comprehensive and integrated manner to a small number of selected firms that show will and potential. In this case, the government works with firms until they achieve final results.[2] Handholding programs belong to the latter type.

More specifically, a handholding program must satisfy all of the following conditions.

- It is an officially provided service for small and medium enterprises (SMEs) with no or little fee charged.
- A clear business goal (only one) is set in advance.
- There is a screening mechanism to select eligible firms.
- Duration of assistance is 2-3 years (usually non-renewable).
- Multiple and customized help is offered with the content based on the diagnosis and consultation of individual companies.
- A high success rate is expected.

In Ethiopia-Japan industrial policy dialogue, Prime Minister H.E. Hailemariam Desalegn shared with the Japan International Cooperation Agency (JICA) and the National Graduate Institute for Policy Studies (GRIPS) team his strong commitment to transforming short-term traders and distributors into true manufacturers that take risks for long-term investment in technology and equipment. During the

[1] The term "handholding" derives from an analogy that a mother gives all necessary support to her baby, by holding hands until he/she starts walking by his/her own feet. It is also called hands-on or *yorisoi* assistance (*yorisoi* in Japanese means staying close as a friend or a helper).

[2] The handholding approach is commonly practiced in East Asia. But under the laissez-faire policy, this approach may be condemned as too selective and "picking winners." Some Western economists justify only general help for all.

period of the next five-year development plan (Second Growth and Transformation Plan (GTP II): 2015/16-2019/20), the Ethiopian government places high priority on domestic private sector transformation. The industry chapter of GTP II discusses the government's resolve to introduce a handholding program to this end.

3-2. Examples of Selected East Asian Countries

This section reviews five examples of handholding programs practiced in four East Asian countries—i.e., Japan, South Korea, Malaysia, and Taiwan. As for policy objectives, these handholding programs can be classified into three groups: (i) promoting outward FDI of SMEs (Japan); (ii) penetrating into a foreign market (Japan, South Korea, Malaysia); and (iii) creating a local industry cluster (Taiwan). Needless to say, many other goals can be set in accordance with country-specific industrial policy objectives. But, each handholding program should serve only one policy goal.

3-2-1. Japan: JETRO's assistance for overseas investment of SMEs

The Japan External Trade Organization (JETRO), affiliated with the Ministry of Economy, Trade and Industry (METI), is charged with the promotion of mutual trade and investment between Japan and the rest of the world. Helping outward FDI of Japanese SMEs is one of the highest priorities of the Japanese government today ("Japan Revitalization Strategy," 2013), and JETRO introduced a new handholding program during March 2013 - March 2015.

The background behind this is that Japan has been experiencing a new wave of "internationalization" in recent years. Particularly, the 2008 Lehman Shock and harder global competition have forced large firms to go abroad aggressively and procure parts globally. Now, the Japanese traditional production system where manufacturing SMEs bound in subcontracting relationships with larger firms is disintegrating. These SMEs have lost their regular customers and are urged to find new markets abroad by themselves. As a result, an increasing number of manufacturing SMEs have started to seek overseas business expansion independently of large parent companies. But, these SMEs are severely constrained with financial and managerial resources (despite their possessing superior technology and skill), and this is the reason why the Japanese government decided to introduce a JETRO-assisted handholding program to transform them into global players. Key features of this handholding program are as follows.

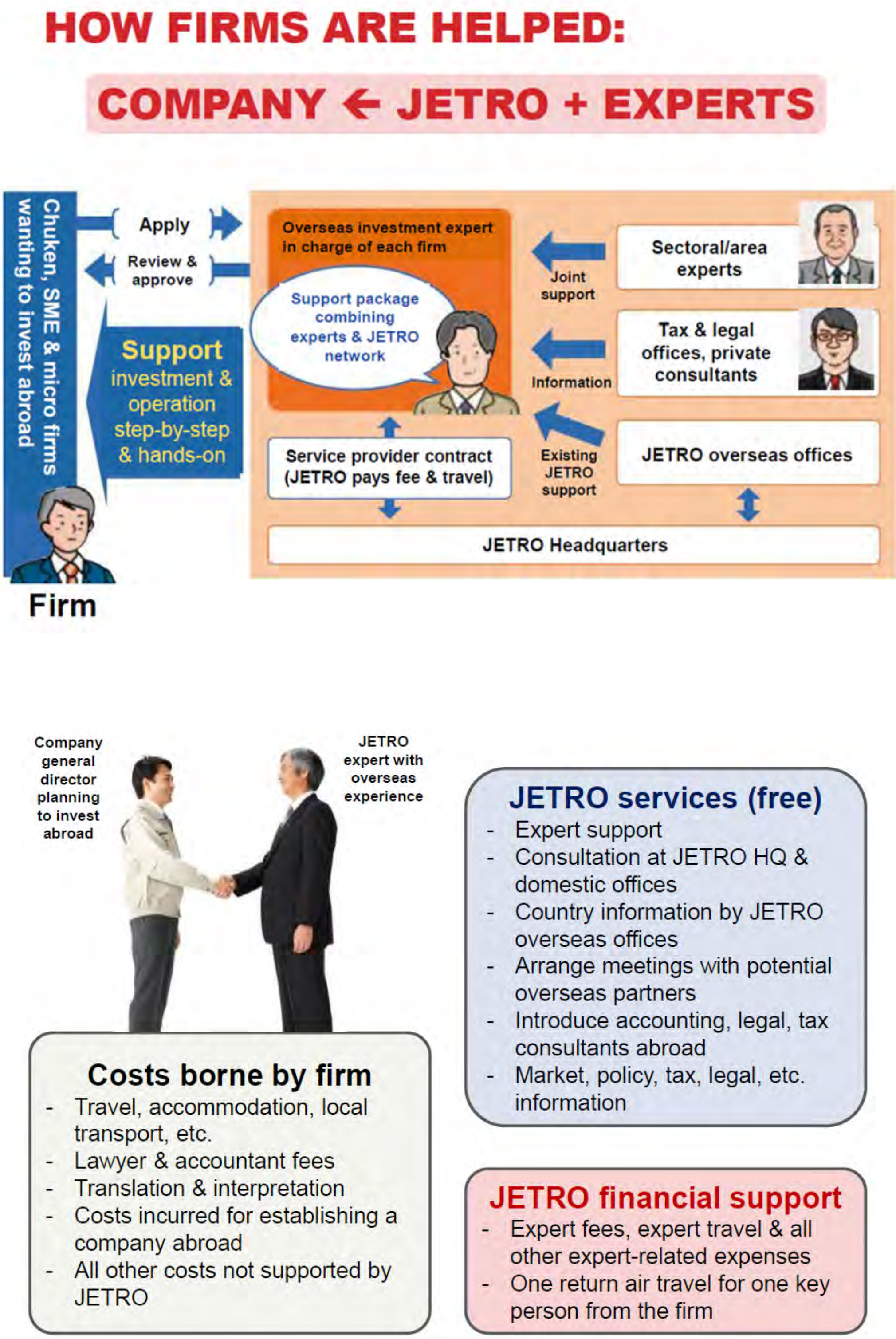
Table 3-1: Key Features of JETRO's Assistance for Overseas Investment of SMEs

Goal	– Transform Japanese SMEs into global players through overseas investment – Target was to assist 1,500 firms in any sector during three years (overachieved, exceeding the initial target).
Duration	– About two plus some years at maximum (from March 2013 to March 2015 at the latest). Exact duration must be agreed among a firm, JETRO and an expert.
Eligibility	– "Chuken" (large but not very large) firms and SMEs seriously considering investing or expanding locations abroad (ODA recipient countries).
Costs	– The costs of experts and JETRO services are free. – SMEs assume actual expenses only (e.g., travel, laywer and accountant fees, costs incurred for establishing a company abroad)
Screening	– Open selection process. Applications are reviewed, selected and aproved by JETRO (interviews included).

Source: The author's research based on information provided by JETRO (interviews, website, etc.).

Under this program, one JETRO staff and one outside expert jointly work for a selected SME, providing comprehensive and intensive assistance in realizing outward FDI.[3] While an outside expert provides specialized technical and knowledge support, JETRO staff act as a coordinating hub, by mobilizing JETRO's internal services and overseas networks, giving due attention to the needs of individual firms. The more detailed information is given below (Figure 3-1).

[3] There are cases where after the completion of this assistance program, it is concluded that the firm does not need to invest abroad.



Source: Translated from JETRO website
(https://www.jetro.go.jp/ext_images//news/announcement/20130301699-news/new.pdf)

Figure 3-1: JETRO Customized Assistance for Overseas Investment

3-2-2. Japan: JETRO's assistance for promoting SME export

Since 2005, JETRO has been providing a handholding program for assisting promising SMEs in penetrating into global markets. Priority is given to SMEs which possess excellent technology and "only one" products (champion products), but have little or no experiences with exports, as well as those which are exploring a possibility of entering into new export markets. Eligible sectors cover machinery and parts, environment and energy, agriculture and fishery and food-processing products, design and traditional products, household goods, and fashion.

Under this program, one JETRO staff and one external expert provide comprehensive assistance such as formulating export strategy, gathering market and customer information, accompanying to trade fairs, facilitating business negotiation, entering into contracts, and settling accounts. In the same way as the handholding program for overseas investment promotion, one expert offers specialized technical and knowledge support, and one JETRO staff coordinates various JETRO services. Key features of this handholding program are shown below.

Table 3-2: Key Features of JETRO's Assistance for SME Export

Goal	– Penetrate into global market, "only one" technology and products preferred. – Target is to assist 150-200 firms per year.
Duration	– Two years.
Eligibility	– SMEs engaged in producing goods, wanting to export directly to a new market (not through a trading company).
Costs	– The costs of experts and JETRO services are free. – SMEs assume actual expenses only.
Screening	– Invitation basis. Initial internal screening made by JETRO based on daily contacts, expert opinions and evaluation reports from other organizations - Applications are reviewed, selected and approved by JETRO (interviews included).

Source: The author's research based on information provided by JETRO (interviews, website, etc.).

JETRO regards the program as successful, if the firm has achieved one of the two criteria: (i) exporting to the same buyer three times or more; or (ii) receiving payments from customers through a sales agent. If the firm successfully penetrates into two new markets overseas, JETRO terminates the assistance even before the two-year period ends (the maximum program duration is two years). Viewed from these criteria, JETRO considers that about 30% of firms "succeed" three years after the end of JETRO assistance for SME export. Most of the remaining firms make progress, even if they are not evaluated as "success" in light of the above criteria.

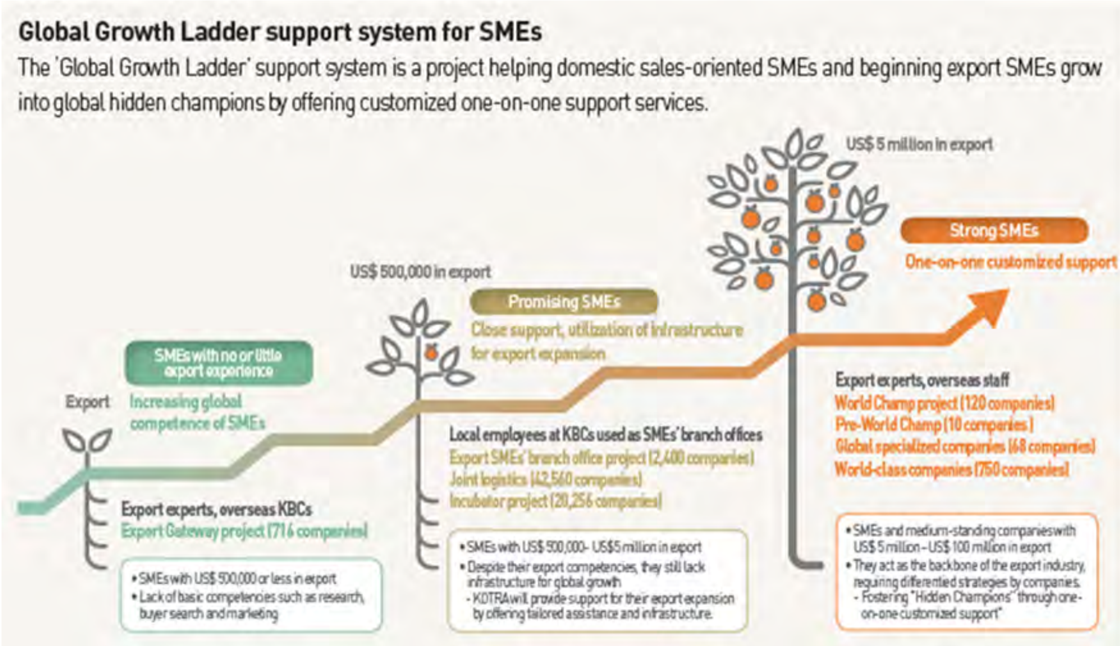
Based on the experiences of the above two handholding programs, JETRO considers it essential that its staff and an external expert work together and provide complementary assistance to a firm. JETRO staff have good understanding of various services and institutional networks that JETRO possesses, while external experts have specialized knowledge of countries, regions, specific sectors, technologies, etc. JETRO staff also monitors expert activities. Furthermore, JETRO facilitates information sharing among experts because these experts have distinctive strengths and mutual learning can contribute to enhancing the quality of their advices.[4]

3-2-3. Korea: KOTRA's Global Growth Ladder support system for SME export[5]

The Korea Trade-Investment Promotion Agency (KOTRA) is the government's organization charged with supporting trade promotion, investment between Korean and foreign firms and support of industrial technology cooperation (affiliated with the Ministry of Trade, Industry and Energy). KOTRA assists Korean SMEs in expanding overseas business (both trade and investment). It also promotes the entry and establishment of foreign businesses in Korea (Invest KOREA).

Under the Park Geun-hye administration, KOTRA has set a goal of increasing Korean exports from $1 trillion (2011) to $2 trillion by 2020. To achieve this goal, KOTRA has established the "Global Growth Ladder" support system to strengthen export competencies of domestic sales-oriented SMEs and beginning export SMEs, by offering customized one-on-one support services (Figure 3-2). KOTRA conducts the Global Competence Level (GCL) Test to evaluate export preparedness of individual SMEs and identify their weaknesses. Based on the GCL Test results and the export value, (i) SMEs with little or no export experience (with annual export less than $500,000) are invited to receive KOTRA's customized support under the Global Gateway Project (free of charge), and (ii) promising SMEs (with annual export more than $500,000, but less than $5 million) are invited to use the Export SMEs' Branch Office Project (fee-based). For those SMEs which already demonstrate strong performance (exporting more than $5 million, but less than $100 million annually), KOTRA can offer one-on-one support to make them become world champions.

[4] There were about 250 experts who advised the handholding program for FDI promotion, and about 30 experts who currently support the handholding program for export promotion (as of November 2013, based on the author's interview with JETRO).
[5] This section is largely based on KOTRA (2015).



Source: KOTRA (2015)

Figure 3-2: KOTRA's Global Growth Ladder Support System

(1) Export Gateway Project

More specifically, under the Export Gateway Project, SMEs with no or little export experiences are classified into three categories: (i) domestic sales-oriented; (ii) export ready, and (iii) export start-up. KOTRA provides systematic support to these SMEs (free of charge), based on joint work between the head office and overseas offices (called KOTRA Business Centers: KBCs) (see Table 3-3). Export specialists (often retired trade professionals) are hired as mentors to assist them in the entire process—ranging from finding overseas buyers, trade consultations, export contract signing to follow-up measures. In 2014, KOTRA supported 1,408 domestic sales-oriented SMEs, of which 336 firms secured export contracts worth $41.9 million, and 308 export start-up SMEs, of which 270 firms recorded exports worth $55.5 million (KOTRA 2015).

Table 3-3: Overview of Export Gateway Project

Category	Head Office	Overseas KBCs
Domestic sales-oriented (annual export less than USD 1,000)	Product concepts, selection of overseas target markets, trade practice	Identification of target markets, competition status, certifications, marketability
Export ready (annual export less than USD 100,000)	Providing overseas inquiries and buyers consulting service	Search for promising buyers and inquiries
Export start-up (annual export less than USD 500,000)	Support for negotiations with buyers and follow-up management services	Consulting service during local business trips, contract-related follow-up management

Source: KOTRA (2015)

(2) Export Branch Office Project

The Export Branch Office Project focuses on helping promising SMEs with further export expansion. It provides fee-based, customized marketing support to eligible SMEs, including the utilization of the infrastructure of KOTRA's overseas offices. An interesting feature here is that KOTRA's overseas offices act as local sales representatives of Korean SMEs. The scope of support services includes collecting market information, identifying potential buyers, business matchmaking, and so on. The period of support is one year but it can be extended up to three years with a reduced scope of services if the firms are unable to achieve the objective.

Regarding the selection process, KOTRA (both head office and relevant overseas offices) reviews applications filed by firms and select suitable proposals. In doing so, the staff of KOTRA overseas offices assesses market potential of products proposed by firms in light of the local market conditions and the capacity of respective offices for service provision. Once the details are agreed between KOTRA and the firm and the service fee is paid by the firm, a contract agreement is concluded.

The Export Branch Office Project is implemented globally where KOTRA has overseas offices. About 2,400 SMEs received support in 2014. The KOTRA office in Tokyo provides about 50-60 SMEs annually under the Export Branch Office Project.[6] The following summarizes a case study of the Export Branch Office Project, implemented by the KOTRA office in Tokyo.

Table 3-4: KOTRA's Export Branch Office Project: The Case of Tokyo Office

Goal	– Penetrate into global market. About 50-60 SMEs per year (This is the number supported by KOTRA office in Tokyo).
Duration	– One year (renewable up to three years).
Eligibility	– SMEs engaged in producing goods, exploring entry into new export markets. – All sectors are eligible.
Costs	– 2.5-3.5 million won per year (equivalent to 2,000-3,000 USD). (This is the case of exports to Japan. Different fees may be charged depending on country.)
Screening	– Participating firms in the GCL Test. Applications are reviewed, selected and approved by KOTRA (reviewd by both headquarter and overseas offices).

Source: The author's research based on information provided by KOTRA (interviews, website, etc.).

As necessary, KOTRA overseas offices can provide additional marketing support services (extra fees charged). These include: (i) hiring local sales representatives on behalf of firms ("Sales Representative Service"); and (ii) providing firms with rental office space, which can be used for marketing activities ("My Office Service").

6 Based on the author's interview with KOTRA Tokyo office in December 2013. Besides Tokyo, KOTRA has offices in Osaka, Nagoya, Fukuoka in Japan.

3-2-4. Malaysia: MATRADE's assistance for SME export

The Malaysia External Trade Development Corporation (MATRADE) is the government's organization affiliated with the Ministry of International Trade and Industry and charged with developing and promoting Malaysia's exports to the world.

MATRADE has been implementing a handholding program called "New Exporters Development Program" since April 2003. This program aims at creating competitive and sustainable exporters, focusing on companies owned by Malay (*Bumiputra*) or women-owned companies, or those where Malay or women serve as Chief Executive Officer (CEO) or Managing Directors. To be eligible, the office or factory must be located in Malaysia. SMEs selected into the program are entitled to receive customized business coaching, and additional training and seminars including export strategy formulation, branding, international business communication, negotiation skills, bookkeeping, as well as participation in trade fairs and business missions. Besides these, selected firms can exhibit their products for one year at Malaysia Export Exhibition Centre, and list them on the website managed by MATRADE. All costs are born by MATRADE including foreign travels.

Participation in the New Exporters Development Program is on an invitation basis in which firms are identified through their profile submissions to MATRADE. MATRADE also identifies high potential firms through sources such as trade events, SME directories and other government agencies. For example, MATRADE uses Exporters' Readiness and Capability Assessment (ERCA) model to assess companies for selection into the program. Also, SME Corp. Malaysia has a diagnostic tool to rate performance and capabilities of SMEs, called SME Competitiveness Rating for Enhancement (SCORE). Shortlisted firms are subject to factory audit visit and assessment by MATRADE. Selected firms will undergo the program for three years. Key features of this handholding program are shown below.

Table 3-5: Key Features of MATRADE's Assistance for SME Support

Goal	– Penetrate into global market, firms with high-value creating and high technology and knowledge are prioritized. – All sectors are targeted. – Target is 24 firms per year (12 Malay SMEs and 12 women SMEs).
Duration	– Three years (non-renewable).
Eligibility	– Malay or women-owned companies, or CEO/Managing Directors are Malay or women. At least three year in operation with a certain level of domestic market presence.
Costs	– All costs are paid by MATRADE, including foreign travels.
Screening	– Invitation basis. Internal selection is made based on MATRADE database and the information provided by SME Corp Malaysia, and candidate firms are invited to submit firm profiles. The MATRADE Technical Committee evaluates (including factory audit visit) and selects appropriate firms.

Source: The author's research based on information provided by MATRADE (interviews, website, etc.).

Two MATRADE staff—one trade expert and one program officer—jointly provide handholding support. There are about 20 trade experts in MATRADE. Customized business coaching is facilitated by MATRADE officers who act as coaches and focal point for reference to the firms in their export venture. Coaches are experienced officers with extensive knowledge and experiences in export promotion. This arrangement is supported by MATRADE officers who serve as project officers responsible for the firms' files and records.

3-2-5. Taiwan: Helping to create local industrial clusters

In 1989, SME Administration (SMEA) under the Ministry of Economic Affairs started "One Town, One Product (OTOP)". OTOP is based on "One Village One Product (OVOP)" of Japan,[7] and aims to create high-value, high-image local cultural products for tourists and export markets under the "Taiwan OTOP" brand name. The program helps each town or city to develop local cultural products with history, culture, or uniqueness. Examples of industries and products include tea, ceramics, glass, pastry, bamboo, and so on.

The scope of support services covers Research and Development (R&D), remaking traditional products, workflow re-engineering, branding, packaging, store display, tourism linkage creation, marketing (4 OTOP shops, website, media, advertisement, trade shows, etc.). There are Taiwan OTOP Series Awards including the OTOP Product Design Awards, the OTOP Select Tours Awards, and the OTOP Quality Business Awards.

The SMEA dispatches a group of experts to target communities for three years. These experts are engaged in identifying local needs and assessing existing resources and missing factors, then conducting local consensus building and training for the development of specialty industries. Once the direction is agreed, the experts provide comprehensive assistance to strengthen business and promote products. Achieving growth and sustainability under community ownership is the ultimate goal of the OTOP program. Key features of this handholding program are as follows.

Table 3-6: Key Features of Taiwan (SMEA)'s OTOP Program

Goal	– Promote and develop local cultural industries. Especially, aimed at creating high-value, high-image local cultural products for tourism and export markets. – So far, 286 featured towns have been sucessfully coached.
Duration	– Three years
Eligibility/ Screening	– SMEA dispatches a group of experts to target communities for three years.
Costs	N.A.

Source: The author's research based on the information on SMEA's OTOP (website).

[7] Japan's OVOP program is a community-centered and demand-driven regional economic development approach, initiated by Oita Prefecture.

3-3. Findings from the Selected Handholding Programs in East Asia

Table 3-7 compares the above mentioned handholding programs practiced in four East Asian countries. Although these programs differ in terms of goals, target sectors and duration etc., they share key features which make handholding programs work.

Table 3-7: Comparison of Selected Handholding Programs in East Asia

Country/ Agency	Goal	Target Sector	Duration	Screening	Fee	Service Providers
Japan/ JETRO	Overseas FDI promotion of SMEs	All sectors	2+ years	Yes	Actual expenses only (Expert costs paid by JETRO)	1 JETRO officer + 1 business expert
Japan/ JETRO	SME export promotion	"Only one" technology & products preferred	Preparation period + 2 years	Yes	Actual expenses only (Expert costs paid by JETRO)	1 JETRO officer + 1 business expert
Korea/ KOTRA	SME export promotion 1) Increase global export competence 2) Export expansion	All sectors	1) NA 2) 1 year (up to 3 years)	Yes	1) Free 2) Yes (2.5m-3.5m won/ year)	KOTRA HQ + overseas offices 1) 1 trade expert (hired by HQ) 2) overseas offices (main role)
Malaysia/ MATRADE	SME export promotion	All sectors (high-value, high-tech & knowledge preferred)	3 years	Yes	Free (All costs paid by MATRADE)	2 MATRADE officers (1 program officer + 1 trade expert)
Taiwan/ SMEA	One Town, One Product	High-value, high-image local cultural products	3 years	Yes	N.A.	A group of experts

Source: The author's research

First, the four East Asian countries already possess basic functions for supporting industrial development and enterprise capacity building. They have specialized agencies and a number of industrial experts. For example, JETRO, KOTRA, and MATRADE constantly organize trade missions, business matching, exhibitions and seminars and disseminate market information and survey results, to strengthen export capability and promote overseas investment of SMEs in respective countries. Taiwan's SMEA also have standard support services for local SMEs. Handholding programs fully utilize the agencies' existing functions and provide comprehensive support to high-potential firms to achieve policy objectives.

Second, there exist mechanisms for evaluating enterprise capability (e.g., databases, enterprise diagnostic tools, frequent contacts with firms) so that agencies can properly screen high potential and willing firms. In some cases, agencies select candidate firms through an open competition process; in other cases, they invite shortlisted firms to apply for handholding. Regardless of such differences, it is important that agencies have access to reliable data and information on individual SMEs.

For example, JETRO has close contacts with nationwide SMEs through JETRO offices located in almost all prefectures in Japan. JETRO also utilizes information provided by other organizations, such as METI and the Organization for Small & Medium Enterprises and Regional Innovation (SMRJ). In the selection process, they always interview general directors of candidate firms to examine their commitment. KOTRA uses the results of the GCL Test to provide customized support to match the export preparedness of individual SMEs. MATRADE has a database of SMEs and an enterprise rating assessment system (such as ERCA). It also utilizes information provided by SME Corp. Malaysia, which has day-to-day contacts with local SMEs. In the selection process, MATRADE staff visits candidate firms to verify their business activities.

Third, many handholding programs are implemented by joint teams composed of the agency's program officer and specialized experts (either internal staff or outside specialists). The program officer plays an important role in linking the need of a particular SME with the agency's existing support functions and institutional networks. For example, JETRO forms joint teams consisting of a JETRO staff and an external specialist when it implements its two handholding programs. KOTRA's "Global Growth Ladder" support is managed jointly by the head office and overseas offices, with the latter specializing in the knowledge of local markets and infrastructure/logistic support. MATRADE's "New Exporters Development Program" is also implemented by joint teams consisting of two officers, i.e., a program staff and a trade specialist, with the latter having extensive global knowledge and overseas experiences.

As such, handholding is one of the most advanced and labor- and knowledge- intensive forms of enterprise assistance. To implement full-fledged handholding programs, there must be a sufficient number of industrial and global business specialists, as well as functioning agencies which can provide basic enterprise assistance. It also requires rigorous coordination, both internally and externally. In Japan and South Korea, there are many industry specialists in the private sector (including retired professionals), with rich experiences of overseas businesses. They have deep knowledge of specific countries, regions, and/or technical matters, and this is why JETRO and KOTRA actively utilize external advisors as mentors.

Nevertheless, as the Malaysian experience suggests, it is possible to design handholding programs step by step, starting with limited scope, in accordance with the country's institutional capacity. The number of target firms under MATRADE's "New Exporters Development Program" is 24, much smaller than those of JETRO and KOTRA. MATRADE mobilizes internal trade specialists as mentors and uses existing support services within the organization. By comparison, JETRO and KOTRA provide all types of customized support and advisory services to targeted SMEs by mobilizing a number of external specialists.

3-4. Recommendations for Future Steps of Ethiopia

Ethiopia is yet to have a sufficient number of industry experts or functions like Japan and Korea. Therefore, handholding needs to be introduced in proper speed and steps without overburdening existing human and institutional resources. At the same time, it should be noted that over the past decade, Ethiopia has made important progress in strengthening industrial capacity in priority sectors—for example, by establishing technical institutes such as the Leather Industry Development Institute (LIDI), the Textile Industry Development Institute (TIDI), the Metals Industry Development Institute (MIDI), and so on. Furthermore, in 2011 the Ethiopian Kaizen Institute (EKI) was created to promote Kaizen concepts and conduct company diagnosis and consultation, and training of Kaizen experts. In 2014, the Ethiopian Investment Agency (EIA)[8] was restructured and upgraded to the Ethiopian Investment Commission (EIC) to improve its services for promoting private investment, particularly inviting FDI to Ethiopia. In early 2016, the Federal Small and Medium Manufacturing Industry Development Agency (FeSMMIDA) was placed in the Ministry of Industry to upgrade the manufacturing capacity of local SMEs. Building on such achievements, Ethiopia should start handholding in a small and pragmatic way, using existing industrial consultative services.

The following issues may be worth considering for the Ethiopian government in introducing handholding programs.

First, handholding should be started on a pilot basis during GTP II, by helping a limited number of carefully chosen firms and by combining the existing industrial services (e.g., TIDI, LIDI, MIDI, EKI, EIC, FeSMMIDA). If successful, the pilot program can be scaled up to dozens of firms or more. Foreign experts may be initially mobilized to assist in planning and operation of a pilot program. Over time, their expertise must be transferred to Ethiopians (they should not just teach firms and leave).

Second, a database of high-potential firms should be created to systematically evaluate enterprise capacity and screen candidate firms for handholding. The list of good kaizen-practicing firms, the list of productivity award winning companies in the past, and the list of firms evaluated highly by TIDI, LIDI, MIDI, EKI, EIC, FeSMMIDA, and other institutions should be integrated. For example, it would be nice to create a database of Excellent Ethiopian Companies for facilitating enterprise matching as well as choosing candidate firms for handholding. It is also important to update the information contained in the database through regular contacts and visits to firms. EKI, EIC, FeSMMIDA, TIDI, LIDI, and MIDI already continuously monitor and support companies in their responsibilities, which is a great asset in Ethiopian industrial policy. Creating and operating a database that is used widely is a challenge. A proper agency should be assigned for institutional coordination and database maintenance.

Third, it is vitally important to further enhance existing industrial support services. EIC, EKI, FeSMMIDA, TIDI, LIDI, MIDI and other technical support institutes should be strengthened continuously in terms of functions, staff and budget. The scope of enterprise support should be also broadened to strengthen additional institutions and cover management, external networking activities, and financial support to SMEs. When basic support for management, kaizen, technology, and finance become all available up to certain standards and a number of industry experts are nurtured, Ethiopia should begin handholding by combining these support services. It should be possible to think of various policy objectives such as: breaking into new export markets, creation of FDI/buyer linkage, import substitution, transformation of local service companies into manufacturers, and creation of champion products/companies. A lead agency can be assigned for each handholding program. Joint teams should

[8] EIA was created in 1992 under the Ministry of Industry. Subsequently, major restructuring took place in 2014 to enhance its service quality, and the new EIC has become an autonomous government institution accountable to the country's Investment Board chaired by the Prime Minister.

be formed to intensively support selected Ethiopian firms, with the lead agency coordinating the existing support services in collaboration with other technical institutes.

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Chapter 4
The Champion Product Approach and Country Branding

Export promotion is a top priority in national development efforts in Ethiopia. Since the early 2000s, the government has introduced a number of policy measures, such as targeted support of a few export-oriented sectors, creation of sector-specific institutes, and monitoring of export performance by the Monthly Export Steering Committee, chaired by the Prime Minister. While these are important and laudable efforts, they have largely focused on supply-side measures. In the future, Ethiopia needs to broaden the scope of its export promotion, paying greater attention to market demand and product quality.

During the course of the second phase of bilateral industrial policy dialogue, the concept of champion products was presented by the Japan International Cooperation Agency (JICA) in 2012, and a series of pilot initiatives were launched jointly by the Ethiopian and Japanese teams. ‘Champion product’ is defined as a premium good, unique to Ethiopia and difficult for other countries to copy. Product uniqueness must be rooted in Ethiopian life and culture (Yuzawa 2012). A champion product is created when these conditions are met in a product that responds appropriately to foreign market demand.

This chapter discusses (i) the concept of champion products and an approach to creating such products; (ii) an approach to the enhancement of country branding, and (iii) lessons learned from JICA’s experience of providing ongoing support of champion product creation in Ethiopia, including brand development of “Ethiopian Highland Leather.” The chapter also discusses related successful experiences of three other countries: the UK (Harris Tweed, Scotland), Japan (Imabari Towel, Ehime), and Sweden (country branding) and identifies useful implications for Ethiopia.

4-1. The Champion Product Approach

4-1-1. The Champion Product Approach: Export Promotion Through “Champion Products”

The Champion Product Approach (CPA) is strongly customer-oriented export promotion strategy. A champion product is a unique, world-best product which embodies a country’s culture and historical background. More specifically, the main features of CPA are as follows.

- Focus on branding and promotion: CPA mainly focuses on branding and promotion activities which provide private companies (exporters) with readily available market information. CPA enables private companies to understand the market situation and identify sales opportunities through the analysis of consumer reaction to their products.
- Market-oriented approach: CPA supports private companies in their efforts to improve their products through the iterative process of gaining an understanding of the market and adapting to consumer demand. It is important to change the mindset of private companies from “sell what you make” to “make what can be sold.”

・Dealing with product group or sector: CPA focuses on product group or sector rather than individuals. In most cases, individual private companies in developing countries are not strong enough to penetrate the export market by themselves. Group branding enables them to create visualizations of the value of the products, which individual companies could not do. In that light, champion products must be selected in an integrated manner, and they should be coordinated under the identified concept of the group brand (FASID 2014).

Table 4-1 shows a framework of standard export promotion initiatives, and Table 4-2 shows the position of CPA and related components and activities in that framework. CPA focuses on the branding and promotion of champion products to identify sales opportunities for those products. However, after a period of continuous pilot implementation of CPA in Ethiopia with JICA support (see section 4-3), it has become clear that there is a need for concurrent work on other aspects of export promotion initiatives (e.g., technical assistance on production management to improve quality, export deal support for inexperienced exporters) in parallel with CPA activities. In addition, it is important to work on overall country branding which provides a foundation for export promotion for champion products by means of the improved country image. This is explained in detail in subsequent sections.

Table 4-1: Framework of Standard Export Promotion Initiatives

	Framework	Target	Examples of export promotion initiatives
Up-stream	Improving the enabling environment	・All	・Developing market information services ・Developing certified export advisors ・Optimizing customs procedures ・Improving access to financial services
	Raising awareness	・Non-intender	・Organizing seminars on general understanding and benefits of export (e.g., by introducing successful cases) ・Providing information on available export promotion support
	Building export readiness	・Intender ・New exporter	・Providing financial support/technical assistance to improve production management ・Providing financial support/technical assistance for compliance with certification required by importing countries
	Identifying sales opportunities	・Intender ・New exporter ・Experienced exporter	・Providing financial support for participation in trade shows ・Dispatching/receiving trade missions ・Setting up and running showrooms
Down-stream	Closing export deals	・Intender ・New exporter	・Providing technical support for business talks ・Providing learning opportunities regarding export procedures
	Export		

Source: FASID (2014) based on Nathan Association Inc. (2004)

Table 4-2: CPA Components and Implementation Activities

Framework (Up-Stream → Down-stream):

- Improving the enabling environment
- Raising awareness
- Building export readiness
- Identifying sales opportunities
- Closing export deals

Export

Components	Activities
Developing a CP concept	･Decide on a CP concept that is "Only One, Best One, with Unique Story"
Organizing an Implementation Body	･Organizing a taskforce with members including government, chamber of commerce and private enterprises
Develop brand components	･Creation of brand promise, brand name, logo, and copy, based on the concept developed
Select CP candidates	･Selection of CP candidates according to the selection criteria and the CP concept
Conduct a promotion	･Creation of promotion tools such as booklets and webpages, and dispatch of a mission to other countries to participate in tradeshows and conduct test marketing
Review the flow	･Review and evaluation based on the issues identified through marketing activities and research, and reporting of proposals for further implementation

Source: Revision based on FASID (2014)

4-1-2. Essence of Good Brand: Brand Name, Logo and a Promise to the Consumer

In today's globalized world, consumers can choose freely from the wide variety of products on the market. If a product is to survive in such a competitive market, it must have a message with powerful consumer appeal.

Generally, a brand has components including brand name, logo, design, and trademark. However, CPA recognizes that the essence of a good brand is not those brand elements, but rather a promise to consumers that is inherent in the brand. A brand promise is based on various supporting brand assets, which are unique aspects of the products. It is important to communicate brand promise to consumers.

A brand promise has two components, brand vision and brand system (Figure 4-1). The brand vision consists of the aspects that the brand wishes to convey to the consumer, for example, unique historical background, craftsmanship and the passion behind the product. The brand system consists of the rules for brand operation, including quality standards, guidelines and brand management organization. Brand system may in some cases be certified by government or other institutions as laws or public regulations.

Source: FASID and Dentsu Inc.(2015a)

Figure 4-1: Brand Promise: Brand Vision + Brand System

Harris Tweed is a famous hand woven pure virgin wool textile originating in Scotland. It is a typical example of a good brand with a strong message, and its branding strategy is in alignment with the concept of CPA. Harris Tweed's brand promise is the continuing production of the highest quality hand woven tweed by the authentic craftsmen of the Outer Hebrides of Scotland.

Harris Tweed has a long history, over 100 years, passed down through the generations. Its production process remains unchanged so as to protect the traditional techniques, and no mass-production machinery may be used in any process. Only the products produced by the islanders in their homes in the Outer Hebrides of Scotland can be authorized as Harris Tweed. These brand assets relating to the history, the people, and the passion behind the products frame the brand vision of Harris Tweed.

There is also a concrete Harris Tweed brand system. Harris Tweed is the only textile in the world that is officially protected by an Act of Parliament (the 1993 Harris Tweed Act of Parliament). Means of protection for the production area and the cultural tradition are specified in the act. To maintain quality, the Harris Tweed Authority, the body governing the brand, was established and strict rules and conditions were imposed. (FASID and Dentsu Inc., 2015d)

Source: Website, "Harris Tweed Authority" from http://www.harristweed.org/

Figure 4-2. Harris Tweed

4-1-3. Case Study: Imabari Towel Project for Sectoral Brand Development in Japan– Hospitality and Customer Satisfaction

4-1-3-1. Background

Imabari City is a small city located in the northern part of Ehime Prefecture on Shikoku Island in Japan. The city has been in the towel manufacturing industry for 120 years. Thanks to its abundant ground water, mild climate, and location suitable for international trade, Imabari City developed into a major towel production center in Japan. However, since the late 1980s, the import of cheap mass-produced towels imported from China to Japan has increased drastically. Towel production volume decreased significantly, and many Japanese manufacturers closed down because of the intense cost competition from imported towels and because of the shrinking domestic market. Towel manufacturers demanded that the government implement Textile Safeguard[1] to protect the local towel industry, but the government did not comply. Responding to the challenging circumstances, local towel manufacturers united to overcome the crisis. In 2006 the Ministry of Economy, Trade, and Industry (METI), adopted the Imabari Towel Project under the Japan Brand Development Assistance Program. The project was implemented by Imabari City's Chamber of Commerce in cooperation with the local government and the Shikoku Towel Industrial Association (STIA).

The Japan Brand Development Assistance Program is a government program started in 2004 for the purpose of supporting small and medium enterprises (SMEs). It is implemented by the Small and Medium Enterprise Agency (SMEA) under METI. The program assists SMEs to develop overseas market by enhancing their local products and related technologies and then promoting "Japan Brand." To that end, it provides financial support to SMEs for such activities as marketing strategy formulation, product development and participation in overseas exhibitions (SMEA n.d.).

STIA, established in 1952, provides a variety of services to local towel manufacturers, including training, research, group purchasing, and banking. At present, 112 companies and 2,488 employees (an average of 22 employees per company) are members of STIA and the total yearly production of member companies is 17.2 billion yen (in recent years, a yearly average of 150 million yen (about $1.3 million)) (STIA 2014, 2015).

4-1-3-2. Branding work

(1) Identification of brand vision, brand system and brand promise

The project focused on heartfelt hospitality and customer satisfaction, emphasizing the long history of the industry, the abundant nature of the region, and the people working in the towel manufacturing industry in Imabari City. This emphasis yielded the brand vision of Imabari Towel, developed with the support of STIA and the government (see the following sections). The brand system includes rules and

[1] In accordance with the WTO Textile Agreement, Textile Safeguard restricted the import of textile products so as to protect the domestic textile industry, though there was no precedent for such an action in Japan.

regulations for maintaining quality, a variety of promotional tools, and the brand management organizational structure.

Reflecting the brand vision and brand system, the brand promises were fashioned so as to offer consumers positive emotions and customer satisfaction. Imabari Towel promises its consumers sustained originality, quality and technology and ongoing exploration for new materials and design.

(2) Brand mark and logo

The brand mark, developed for the purpose of sending the Imabari Towel message to the world, symbolizes originality, quality, and technology. It also expresses the strong will of the towel manufacturers to consistently fulfil their brand promise. The brand mark was created by a well-known professional art director. Red (passion, innovation, and the rising sun), blue (quality, reliability, and shining ocean), and white (gentleness, cleanliness, and clouds in the sky) were selected as the symbolic image colors.

Source: Imabari Textile Resource Center Co., Ltd. (2015)

Figure 4-3: Imabari Towel logo

(3) Quality assurance

Only products that fulfill the conditions set by STIA may use the Imabari Towel brand: they must be produced by STIA member companies, the weaving and dyeing processes must be carried out in Imabari City, and the set standard of quality must be met so as to ensure customer satisfaction. STIA has established the detailed criteria for inspection, including water absorbency, thread loss rate and pile tear resistance. Regarding water absorbency, a one centimeter test piece floated on water must sink within five seconds. Each company is required to submit quality inspection reports to STIA.

In Japan, private manufacturing companies often have their own in-house certification systems. If an in-house certification system is deemed to satisfy standard criteria and is acknowledged as worthy of promotion for industrial skills development, the Ministry of Health, Labor and Welfare (MHLW) officially authorizes that certification system, and the company is permitted to indicate that authorization on its products. This serves to motivate workers and contributes to further skills development (MHLW n.d.). STIA is implementing its In-house Certification Testing system in order to sustain the capability of local towel industry, and thus maintain the image of the Imabari Towel brand.

(4) Human resource development: the Towel Sommelier / Towel Meister system

This project has paid great attention to human resource development. The “Towel Sommelier” system was launched in 2007. Towel Sommeliers, who play an important role in marketing, are certified towel advisors with specialist knowledge about towels. STIA regularly provides towel sommelier training and publishes newsletters for certified sommeliers.

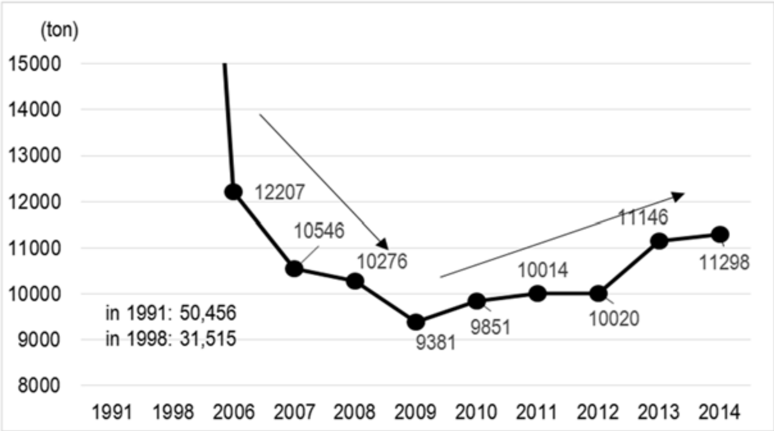
The “Towel Meister” system was established in 2008. Towel Meisters, selected from among skilled engineers of STIA member companies, must have more than 20 years of experience in the towel industry and must have a vocational training instructor license. They are expected to contribute to technology transfer and the fostering of young engineers for the local towel industry.

(5) Marketing and promotion

The active use of media tools such as TV and newspaper has enabled Imabari Towel to attract consumer interest. STIA and member companies have attended various foreign exhibitions, including Habitare (Helsinki, 2009), Macef Fair (Milan, 2011-2013), International Gift Fair (Shanghai, 2011), Japanese Sweet Fair (Taipei, 2013) and 100% Design Show (London, 2014) (Imabari Textile Resource Center Co., Ltd. 2015).

4-1-3-3. Achievements and lessons learned

Imabari Towel production rose by 18.6% between 2009 and 2013, and sales increased accordingly. Investment in related industries such as dyeing, sewing and printing also increased, and local industry experienced an overall revival. The variety of activities for the branding and promotion of Imabari Towel increased coordination in the sector and had a positive impact on the reconstruction of the industry value chain; costs were reduced and local towel manufacturers were able to add value to their products. The export volume also increased, especially for exports to the United States and Europe. Three main factors contributed to the success of the Imabari Towel Project. Firstly, Imabari Towel products are by nature champion products, given their high quality and uniqueness. Secondly, the towel manufacturers participating in the project recognized each other not as competitors but as partners. Thirdly, this project was not a one-off effort, but an ongoing one with active participation by various stakeholders under the strong leadership of STIA (STIA 2014, 2015).



Source: Shikoku Towel Industrial Association (STIA) (2015)

Figure 4-4: Towel Production in Imabari City

4-2. Country Branding

4-2-1. Country Branding: Transforming the Country Image to Improve Export Competitiveness

The CPA concept is based on the premise that every country has potential champion products. However, especially for developing countries, it is difficult to change a negative country image such as a place of hunger and poverty. Even if a country has a variety of unique, high quality products with the potential to be champion products, the majority of consumers in the global market may have difficulty distinguishing that country from others. In that regard, overall country branding is important for differentiating a country from others so as to improve its export marketing competency through an enhanced country image.

There are numerous cases of country branding in different countries. While some of those branding efforts were not aimed directly at export promotion, they serve to illustrate ways of changing a country's image. For example, Spain's "Everything under the Sun" campaign in the 1980s and the "100% Pure New Zealand" campaign in the 2000s significantly raised tourist numbers and contributed to an increase in tourism-related foreign currency earnings in those countries. In each case, the improved country image would clearly have a positive impact on the country's export competitiveness.

4-2-2. Case Study: Swedish Country Branding—Society, Innovation, Creativity and Sustainability

4-2-2-1. Background

The Swedish government's view of its culture and people can be seen in Swedish policy, established in 2009 (Proposition 2009/10:3), which states that all the people have the opportunity to participate in cultural life. Creativity, variety and quality of arts are considered to be essential parts of social development. Culture is defined as the dynamic, challenging and independent force of a country (Swedish Arts Council n.d.).

The Council for the Promotion of Sweden (Nämnden för Sverigefrämjande i Utlandet: NSU) is composed of five government agencies: the Ministry of Foreign Affairs (MOFA); Visit Sweden; the Ministry of Enterprise, Energy and Communications; Business Sweden; and the Swedish Institute.[2] NSU's main work is the country branding of Sweden. NSU developed "Strategy for the Promotion of Sweden Abroad," which identifies four profile areas of focus in the strategy, namely, society, innovation, creativity and sustainability. The Swedish government has a policy of respect for the individual and freedom of expression; this supports people's innovative and creative activities which are rooted in the country's history of sophisticated arts and design (Board for promoting Sweden abroad 2014).

4-2-2-2. Branding work

(1) Twitter campaign

In 2011 the Swedish Institute and Visit Sweden launched a social media campaign called "Curators of Sweden." During that campaign, the government's official twitter account (@Sweden) was handled by the general public. A different spokesperson managed the account each week, presenting the life and views of various persons as manifestations of the country's creativity and innovativeness. A variety of people were selected as spokespersons, including designers, engineers and farmers. The government fully entrusted the contents of the posts to the spokespersons, reflecting the belief that the country image of Sweden is decided by the people themselves, and that government intervention in the country image is not appropriate. The Curators of Sweden campaign was broadcast all over the world and received many public relations awards, including a Clio and a Cannes Lion in 2012 (Swedish Institute n.d.).

(2) Visual identity toolkit

In 2013, the NSU developed its Visual Identity Toolkit based on a design that could be shared nationwide for the purpose of promoting Sweden. A guideline on the use of the graphic profile, including primary colors, typeface and logo, was published on the website. This toolkit can and should be used in all communications related to the country image of Sweden. There are only a few simple rules because the NSU, with its policy of respecting the people's creativity and innovativeness, wants people to express the country image of Sweden themselves (Council for the Promotion of Sweden n.d.)

[2] Visit Sweden is Sweden's tourism and travel information agency. Business Sweden is Sweden's agency for trade and investment. The Swedish Institute is an agency for the promotion of and exchange about various issues, including culture, society, research, higher education, business, innovation, democracy and global development.

Source: Website, "Identitytool for Sweden" from http://sweden.identitytool.com/

Figure 4-5: Visual Identity Toolkit

(3) Financial support for artists

Public financial support for cultural institutions and individual artists, which is the responsibility of both central and local governments, is another important aspect of Swedish policy. For example, the Swedish Arts Grants Committee (SAGC) is a government agency that provides financial support for artists and designers so that they can pursue their work. Such governmental support also contributes to the creativity and innovativeness of the country.

4-2-2-3. Achievements and lessons learned

Sweden has developed a powerful country brand anchored in the country's creativity and innovativeness. Sweden has been always ranked among the most creative countries in global rankings such as the Martin Prosperity Institute's Global Creativity Index. The government's recognition of the importance of country branding and its efforts to work with the people reflect its belief that country image also contributes to the country's export competitiveness, as exemplified by many Swedish global companies, including Ikea, H&M, Volvo and Ericsson.

4-3. JICA's Branding Support and Ongoing Practice in Ethiopia

To support the adoption of the concepts of CPA and country branding, JICA is conducting a variety of activities in cooperation with the Ethiopian government and private companies in Ethiopia. These activities are still developing; the following is a summary of the progress and results of the branding support as of January 2016.

4-3-1. Preparatory Phase: Study of the Champion Product Approach

In January 2012, during the first High-Level Forum of the second phase of Ethiopia-Japan industrial policy dialogue, the concept of champion products was presented by a Japanese expert, Mr. Saburo Yuzawa (Executive Managing Director, Institute for International Trade and Investment) as an example of a strategic and market-oriented approach to export promotion. Subsequently, in July 2012, JICA organized a seminar in Addis Ababa on the CPA concept, in collaboration with the Ministry of Industry and the Addis Ababa Chamber of Commerce and Sectoral Association. The seminar was received enthusiastically by the Ethiopian participants. A follow-up survey to identify potential champion products was conducted by a joint Japan-Ethiopia team. After field research and interviews with international buyers, some candidate champion products were identified in various sectors, including textiles, agro-products and leather.

A series of CPA seminars were held local private companies participating. There was discussion of various issues, including the importance of human resource development and the need for government support. In order to promote exports to Japan in the future, JICA provided selected local companies with information on marketing know-how and the quality requirements of the Japanese market.

In May 2013, a number of Ethiopian private companies cooperated in the display of candidate champion products at African Fair 2013, a side event of the Fifth Tokyo International Conference on African Development (TICAD V), held in Yokohama. In addition, test marketing was conducted at prominent Japanese department stores.

Through these activities, three main challenges were identified: (i) the difficulty of CPA implementation without a specific implementation entity; (ii) the need for clarification of the target market and a focus on prioritized sectors, and (iii) the necessity of working on overall country branding in parallel with the promotion of champion products. JICA and Ethiopian partners then began work on two initiatives: “Ethiopian Highland Leather” and “Creativity in Motion.” After several discussions, the Ethiopian Investment Commission (EIC), as a governmental institution, took the overall initiative in implementing CPA and country branding.

4-3-2. Brand Development of Ethiopian Highland Leather

4-3-2-1. Branding work

(1) Quick review and market research

The target sector for pilot branding and CPA promotion activities was decided by means of the following two-step approach.

Step 1: Quick review

As a starting point, five sectors (leather, textile, jewelry, agro-products and coffee) selected as candidates in the preparatory phase were analyzed, based on the following three criteria.

1. Uniqueness and originality: Products in this sector must be unique and original so that they can be distinguished from the products of other countries.
2. Suitability for branding approach: It must appear likely that branding activities could increase the value of these products.
3. Competitive environment: It must be possible to penetrate the target market, so there is a need to determine whether or not an oligopoly is present.

Based on the results of the quick review, leather and textile sectors were selected. Agro-products and coffee sectors were thought not suitable for the branding approach. The jewelry sector seemed likely to have problems in terms of the competitive environment. In-depth market research was conducted for the two sectors selected.

Step 2: In-depth market research

The two sectors selected were evaluated in terms of the research items listed in Table 4-3 through a literature review, interviews and field research.

Table 4-3: Research Items and Indicators for In-Depth Market Research

Stand Point	Research Items	Main indicators
Market	Industry structure and value chain	The situation of entities including manufacturers, wholesalers and retailers
	Market size and growth	Demand by target customers, consumption, import volume
	Market characteristics	Consumer needs, demand for QCD (Quality, Cost Delivery)
Competitor	Competitive environment	Number of competitors, market share
	Entry barriers	Trade barriers, legal barriers

Source: FASID and Dentsu Inc. (2015a)

Results of the analysis indicated that the Ethiopian textile sector was less competitive in the Japanese market than the Chinese and Indian sectors. Due to the good evaluation of Ethiopian sheep leather and the possibility of penetration of the Japanese market, the leather sector was selected as a target for branding and promotion activities.

(2) Identification of brand promise

Ethiopian sheep leather is unique in its lightness, thinness, softness and durability. It can only be made in the highlands of Ethiopia. To make the most of these characteristics, a brand promise was chosen that had the potential to change the conventional image of leather (e.g., hard, heavy) through the presentation of this high quality sheep leather which offers new value to consumers.

Ethiopian people's creativity and long history of leather industry are existing brand assets that contribute to the framing of the brand vision. JICA and Ethiopian partners are now working to establish a brand system for brand management and quality assurance.

(3) Brand name, logo mark and trademark registration

"Ethiopian Highland Leather" was decided as the brand name, and the logo mark, shown in Figure 4-6, was developed to express the originality of Ethiopian sheep leather by focusing on the highland geographical form.

Source: FASID and Dentsu Inc. (2015b)

Figure 4-6: Logo mark

To support the marketing of Ethiopian Highland Leather, a brand leaflet was produced for use as a promotion tool.

Source: FASID and Dentsu Inc. (2015b)

Figure 4-7: "Ethiopian Highland Leather" brand leaflet

With the aim of protecting the brand developed and to ensure further expansion of Ethiopian Highland Leather products, JICA and the Ethiopian government decided to register Ethiopian Highland Leather as a trademark in both Japan and Ethiopia.

(4) Trade fair participation and follow-up

In July 2015, selected private companies (leather products and tannery) from Ethiopia participated in Japan's biggest fashion fair, the JFW International Fashion Fair (JFW-IFF), together with representatives of the Leather Industry Development Institute (LIDI), a governmental institution under the Ministry of Industry (MOI).

During the 3 days of JFW-IFF, Ethiopian companies had about 150 business meetings. As a result, some companies have entered into official business negotiations with Japanese buyers. However, many challenges arose related to the actual conduct of business because the Ethiopian companies lacked experience. They often could not satisfy Japanese buyers because of difficulty responding to buyer demands in a timely manner. The JICA team supported the Ethiopian companies in their negotiations with Japanese buyers by coordinating responses to these challenges in a flexible manner so as to strengthen the companies' business capability.

4-3-2-2. Achievements and lessons learned as of January 2016

During the JFW-IFF, Ethiopian private companies successfully attracted many Japanese buyers. Ethiopian Highland Leather proved worthy of promotion as a champion product. Since then, actual business negotiations have continued with the support of the JICA team. Private companies and the Ethiopian Leather Industries Association (ELIA) are now actively involved in CPA activities. The positive change of mindset is particularly visible in the private sector.

On the other hand, Ethiopian private companies still face many challenges related to initiating business with Japanese buyers, including insufficient product quality, mismatch of lot size and buyer demand, lack of experience in international trade and difference in business mindset between Ethiopia and Japan. It is important that private companies take responsibility for developing their own capability. However, it is also necessary that the government develop a support system for private sector initiatives.

More specifically, there is a need to establish a brand system for the management of the Ethiopian Highland Leather brand through cooperation between the private sector and the Ethiopian government. A brand guide providing instruction in the management of developed brands is planned for publication. The guide would include the roles and functions of stakeholders for brand management and specific ways of establishing ongoing branding and promotion activities.

4-3-3. The Ethiopian Country Brand: "Creativity in Motion"

4-3-3-1. Branding work

(1) Identification of the concept

In parallel with the branding and promotion of Ethiopian Highland Leather, JICA and its Ethiopian partners have also begun work on country branding. After discussions among stakeholders, Ethiopia's uniqueness was clarified, as shown in Table 4-4. In order to improve the image of Ethiopian as a country, the concept "Creativity in Motion" was established as the country brand. The concept serves as a reminder of the fact that Ethiopia is the birthplace of humanity and has a long history of craftsmanship. It also symbolizes the dynamic economic development taking place in Ethiopia today. It represents Ethiopian creativity and dynamism and capacity to generate new creations.

Table 4-4: Ethiopian Uniqueness as a Focus of Country Branding

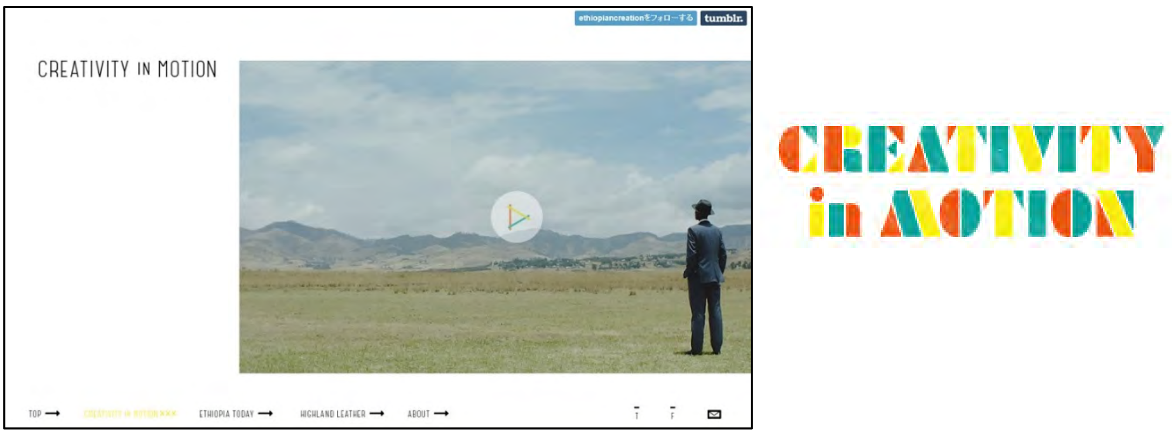
History/origin	- Ethiopia's unique geographical features - Where human beings originated - Ethiopia, among African countries, stands out for its history and culture.	People/Human resources	- Enthusiasm and honesty - Craftsmanship (proficiency)
		Vision	- A strong vision as a foundation for the growth of the country - Leadership among African countries
Tradition/culture	- Stock seeds/origins of various agricultural products (e.g., coffee, honey, ginger) - Traditional wisdom and techniques	Light manufacturing industry showing a remarkable growth rate	- Textile industry - Leather industry - Jewelry goods - Agricultural produce - Processed food products

Source: FASID and Dentsu Inc. (2015b)

(2) Creation of country image movie and website

JICA supported the creation of a country image movie based on the concept of "Creativity in Motion." This movie features in the in-flight entertainment program of the Ethiopian Airline, which began regular flights between Ethiopia and Japan in April 2015.

To introduce Ethiopian champion products and the brand concept of "Creativity in Motion" a website was also launched. This website can be updated by all the stakeholders in Ethiopian champion products, including the government and private companies, and it is expected to serve as a platform in which everyone can participate. In that sense it could support the dissemination of the story behind each champion product, and could function as a collective showcase for the Ethiopian manufacturing sector, continuously attracting the attention of global consumers.



Source: Website, "Creativity in Motion ETHIOPIA" from http://ethiopiancreation.com/

Figure 4-8: Image Movie and Website of "Creativity in Motion"

4-3-3-2. Achievements and lessons learned as of January 2016

“Creativity in Motion” activities surely contributed to the improvement of Ethiopia’s country image. For example, when the movie was screened at trade fairs and other events, many people reported that their image of Ethiopia had changed for the better. As well, the movie appears to have motivated Ethiopian stakeholders to work on country branding. For example, the Ministry of Trade (MOT) made a similar movie for promotion in an international coffee event.

Nevertheless, challenges remain. While the concept of “Creativity in Motion” received positive recognition, it has not yet been fully utilized. The status of the Ethiopian country image is still uncertain. The image movie should be used at more events, and the website should be actively updated by the Ethiopian manufacturers of champion products, with public support when necessary. Ongoing efforts are necessary for successful country branding. A country image cannot be improved without the active engagement of the government; there is a need to strengthen coordination among government institutions, including EIC, MOT and the Ministry of Foreign Affairs (MOFA), to ensure the continuation of these activities.

Masaaki Hamada (JICA/FASID)

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Chapter 5
Investment Promotion Experience of Asian Latest Comers and JICA

It is widely accepted that foreign direct investment (FDI) contributes to national development in developing countries in various ways—not only through inflow of foreign capital, but also through aspects including employment creation, technology transfer and export promotion. In this ever more interconnected world, the positive effects of FDI on the development of developing countries have been intensifying, especially since the turn of the millennium.

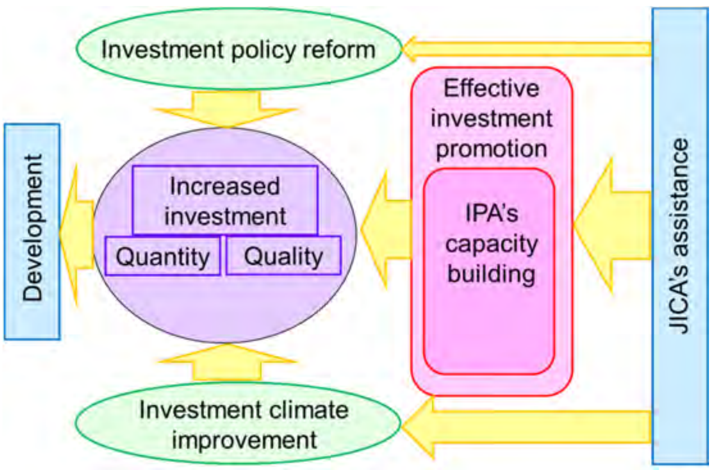
This chapter (i) provides an overview the experience of the Japan International Cooperation Agency (JICA) in supporting investment promotion for developing countries; (ii) identifies some distinct practices of the so-called Asian "latest comers"; and (iii) draws implications for Ethiopia based on the lessons learned from examination of those practices.

5-1. JICA's Experience in Investment Promotion in Developing Countries

To maximize the benefits of FDI for national development, JICA has been providing investment promotion assistance to private companies in developing countries in Asia, Africa and elsewhere, taking the "private sector development" approach to economic development, that leverages private sector vitality (JICA 2016 forthcoming).

5-1-1. Basic approach to assistance in investment promotion

JICA's investment promotion assistance consists of three main approaches (Figure 5-1): (i) investment policy reform; (ii) investment climate improvement; and (iii) capacity building for effective investment promotion. These three interrelated approaches are aimed at contributing to increased investment in developing countries, and in turn contribute to the development of those countries.



Source: Homma (2013)

Figure 5-1: JICA's Major Approaches to Investment Promotion Assistance

(1) Investment policy reform

Investment promotion requires a comprehensive approach. It must be supported by national policy planning and be backed by a sound legal and regulatory policy framework. Investment policy reform is necessary for the creation of that policy framework, which constitutes the upper stream of the comprehensive approach and is essential to the direction of investment promotion in developing countries; at the same time, the framework needs to be pragmatic rather than ideological.

A good example of JICA’s support for national policy planning is the Ethiopia-Japan Industrial Policy Dialogue program. In the second year of Phase 2 of that program (2011-2015), strong emphasis was placed on investment promotion. Later, practical issues such as FDI-linked technology transfer and industrial zone development were discussed.

Another recent example of JICA assistance in investment policy and planning is the program in Myanmar, aimed at supporting the establishment and implementation of the “Long-term FDI Promotion Plan” (FDIPP). FDIPP is intended to provide input for, or to be integrated into, the country’s National Comprehensive Development Plan (NCDP) 2010-2030. The FDIPP was drafted by Myanmar’s Directorate of Investment and Company Administration (DICA) of the Ministry of National Planning and Economic Development, supported by JICA in 2013-2014. It is now in the implementation stage with the support of a JICA investment promotion advisor, dispatched to DICA in 2014.

Regarding legal and regulatory policy framework, Myanmar is again a good example of JICA assistance. For example, JICA supported the drafting of the new Special Economic Zone Law (enacted in 2014) and the associated Special Economic Zone Rules.

(2) Investment climate improvement

While there are various approaches to investment climate improvement, this section focuses on two fundamental aspects, hard and soft. The hard aspect is mainly concerned with infrastructure development for investment, and the soft aspect is related to the creation of a platform for bilateral public-private sector dialogue (often referred to as “joint initiative”).

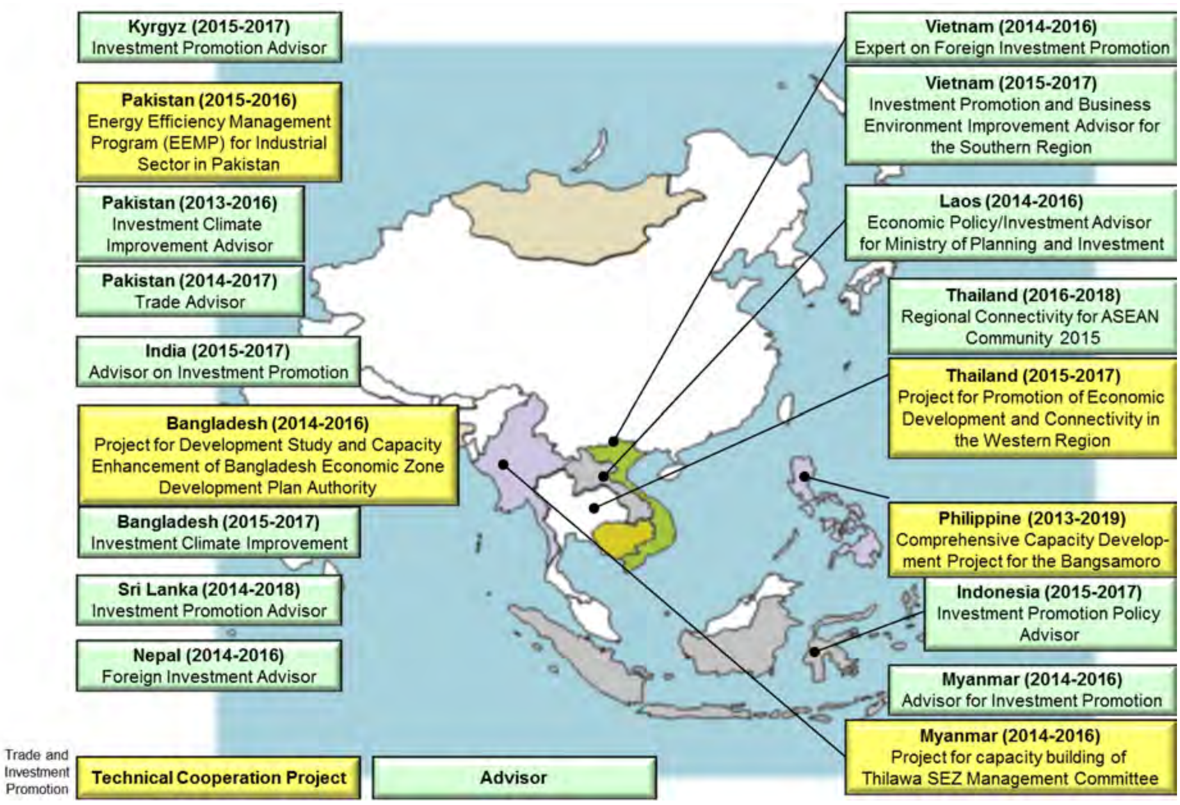
Economic infrastructure, in particular electric power, transportation (roads, railways, ports and aviation), telecommunication, water and sewage, and industrial parks, is indispensable for attracting investment. Insufficient provision of infrastructure, in either quantity or quality, is normally regarded as the largest obstacle to investment in developing countries. JICA/JBIC (2008) emphasizes that in many Asian countries, investment in infrastructure by government and in the form of Official Development Assistance (ODA) by Japan and other donor countries significantly contributed to the creation of a foundation for industrialization, and in turn to long-term economic growth.

In terms of the soft aspect, in several Asian countries where Japanese investment is active, joint initiatives for public-private sector dialogue between the investment host country and Japan have been set up. These joint initiatives regularly discuss prominent investment climate issues such as taxation, customs, labor, human resources and government procedures. Vietnam is the host country most widely recognized as having such a dialogue platform, and similar platforms have been established in Indonesia, Cambodia, Lao People's Democratic Republic (Lao PDR) and Myanmar.

(3) Capacity building for effective investment promotion

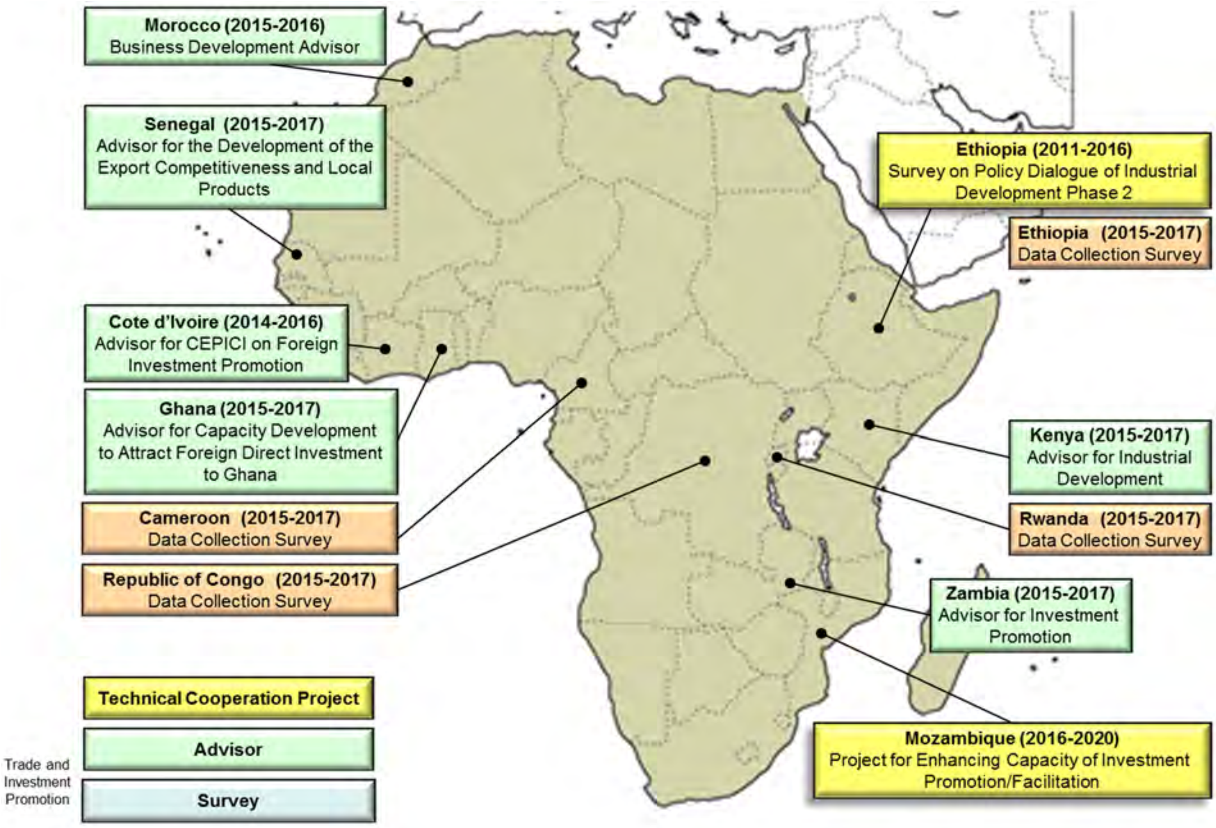
At the implementation stage, an investment promotion agency (IPA) should be the key governmental organization charged directly with investment promotion activities. IPAs often serve to coordinate multiple organizations in efforts towards investment promotion and the framing of regulations.

Capacity building such as that by IPAs is a typical JICA approach to effective investment promotion. Investment promotion advisors (sometimes referred to as investment policy advisors, investment advisors or similar titles) are dispatched to major Asian countries on a long-term basis (Figure 5-2). Some countries, for example Indonesia, have been hosting such advisors since the 1980s. As well, the number of investment promotion advisors dispatched by JICA to the African continent is rapidly increasing, honoring a commitment made at the Fifth Tokyo International Conference on African Development (TICAD V) in 2013 (Figure 5-3).



Source: JICA (2016 forthcoming)

Figure 5-2: JICA Investment Promotion Advisors in Asia (ongoing projects)



Source: JICA (2016 forthcoming)

Figure 5-3: JICA Investment Promotion Advisors in Africa (ongoing projects)

In some countries, depending on needs and timing, larger scale cooperation takes the form of technical cooperation projects. Cambodia is a case in point: its long list of actions at the early stages of the JICA project present a possible model for capacity building for effective investment promotion by the Cambodian IPA (Table 5-1). The Cambodian IPA's capacity building approach consists of five activities: (i) investment information provision; (ii) public relations activities; (iii) investment consultation and aftercare service; (iv) policy advocacy; and (v) organization and management.

Many IPAs offer one-stop service (OSS) and host OSS centers to simplify investment procedures and provide efficient investor service by bringing representatives of related ministries and governmental agencies together in one place. JICA's IPA capacity building assistance often includes this OSS functionality.

Table 5-1: Action Plans Proposed for IPA's Capacity Building in JICA Cambodia Project

Actions for Investment Information Services	
Action 1	Periodical update of investment guidebook
Action 2	Periodical update of website
Action 3	Periodical update of QIP manual for investors
Action 4	Establishment of a library of investment-related information & data
Actions for PR Activities	
Action 5	Set-up if units specialized in investment promotion of target countries
Action 6	Improvement of investment seminar management
Action 7	Training of provincial governments on investment promotion
Actions for Investment Consultation and Aftercare Services	
Action 8	Upgrading of reception desk (Investors Desk)
Action 9	Introduction of an investment approval tracking system
Action 10	Establishment and capacity development of aftercare service
Actions for Policy Advocacy	
Action 11	Formulation of a proposal for investment climate improvement
Actions for Organization and Management	
Action 12	Preparation and implementation of organizational reform
Action 13	Preparation of job description & job flow to enhance investment promotion function
Action 14	Introduction of task management system for effective provision of service
Action 15	Introduction of annual planning and budgeting mechanism
Action 16	Planning and implementation of training program

Source: Homma (2013) and JICA and KRI (2010)

(4) Comprehensive approach toward ultimate target

The three approaches presented in the sections above are closely related. For example, the legal framework considered as a necessary part of investment policy can be also considered an important foundation element for a sound investment climate. Enforcement of such a legal framework requires IPA capacity building.

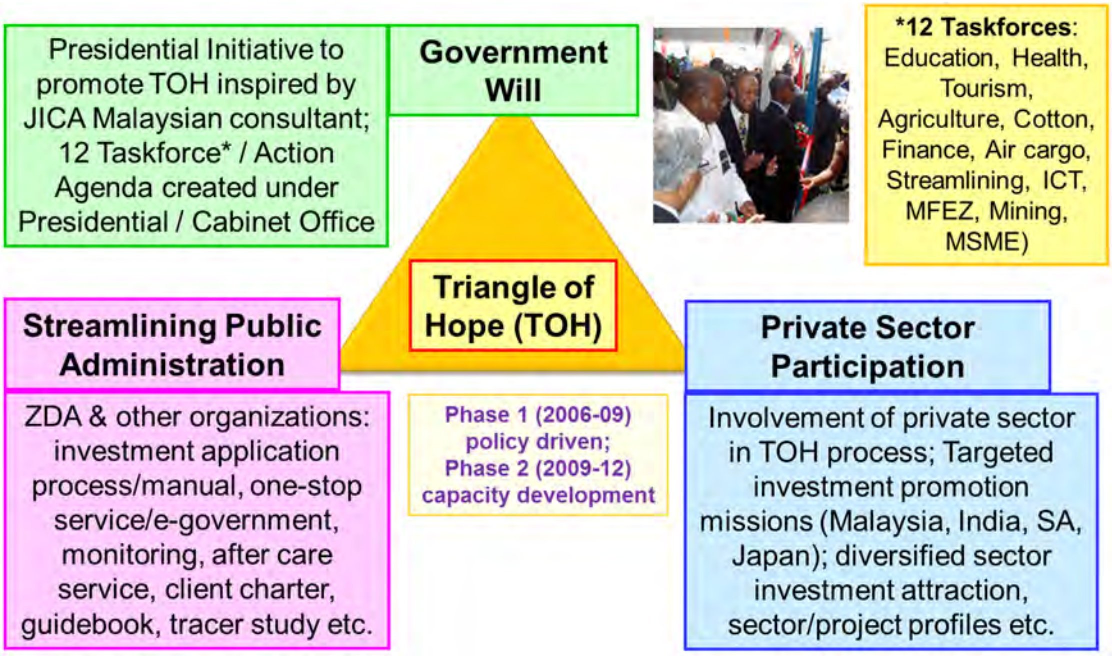
As indicated in Figure 5-1, JICA takes three approaches to increasing FDI (in terms of both quantity and quality) in a host country: (i) investment policy reform, (ii) investment climate improvement and (iii) capacity building for effective investment promotion. "Quality investment" often refers to FDI that maximizes the benefits of investment for the host country's development, for example, employment creation, technology transfer, new industry creation, and environmental/social benefits.

In conclusion, the above three approaches to FDI promotion are considered essential. They involve activities including preparation of a sound environment for investors to do business in the country, publicizing the country's attractiveness and providing investment-related information for potential investors. In reality, however, country-specific factors strongly influence investors' decisions regarding investment in a particular country. These factors include geographical and geopolitical position, demographic market potential, availability of natural resources, global economic conditions and commodity demand, specific economic conditions such as exchange rate and oil price, and peace and security.

5-1-2. Good practices and recent updates

(1) Investment promotion: the "Triangle of Hope" approach in Zambia

Zambia has been making efforts to reduce its dependency on mineral resources and to diversify its economic structure. The Zambian government regards investment promotion in various sectors as one of the primary means of achieving those goals. To contribute to the country's economic diversification, JICA has been providing comprehensive investment promotion support through a project called "Triangle of Hope" (TOH).[1] The triangle, symbolizing a combination of (i) government will, (ii) streamlined public administration, and (iii) private sector participation (Figure 5-4), was devised by the former Deputy Head of the Malaysian Industrial Development Agency (MIDA),[2] who served as JICA consultant for the project.



Source: Homma (2013)

Figure 5-4: JICA's Investment Promotion Support through the "Triangle of Hope" Approach in Zambia

Contributions and achievements of the project can be summarized as follows (JICA 2012; Homma 2013). First, the project brought 9 investment projects to Zambia, one of them worth over $200 million. These projects include Africa's first mobile phone factory; a large-scale university with investments by Malaysian investors; and a hospital project created with investments from an Indian medical enterprise group. Second, the project diversified investment away from the mining sector towards non-traditional investment sectors such as education and health. Third, the project contributed to the improvement of the country's business environment: Zambia was identified as the world's number 7 reformer in Doing

[1] JICA's assistance, first initiated as the "Project for Triangle of Hope, Strategic Action Initiative for Economic Development (TOH-SAIED)" (referred to as the Phase 1 Project), was implemented from 2006 to 2009. The Phase 2 Project, the "Zambia Investment Promotion Project – Triangle of Hope – (ZIPP –ToH)," was implemented from 2009 to 2012.

[2] MIDA was renamed the Malaysian Investment Development Authority in 2011.

Business 2011 (World Bank and IFC 2010). Fourth, the project contributed to a dramatic increase of FDI inflow into Zambia (FDI inflow in 2011 was 4 times that in 2006). Finally, the project enhanced the IPA capacity of the Zambia Development Agency (ZDA)[3] and improved its investor services.

These results reflect the strong will of the government led by the late President Dr. Levy Patrick Mwanawasa. Under his direction, 12 taskforces were formed, and 12 Action Agendas were prepared for enhancements in 12 diversified areas.[4]

Throughout its period of cooperative involvement, the JICA project focused on capacity building for the Zambian government, in particular ZDA, in the form of streamlining public administration for investment approval by reforming the investment application process, preparing manuals and guidelines, establishing one-stop shops, monitoring processes by tracer studies and others. The project also supported promotional activities, for example, dispatching targeted investment promotion missions for Malaysia, India, South Africa and Japan and preparing promotional materials such as guidebooks, websites and sector/project profiles. Some missions were implemented in the form of public-private joint missions. These activities contributed to the encouragement of private sector participation in investment in Zambia, even in sectors traditionally not considered to be associated with private investment.

The success of the TOH approach illustrates the importance of integrated investment promotion efforts at the policy-making level and the implementation level. This innovative approach is substantially different from that taken in earlier efforts in this area. It is suggested that the TOH approach, including investment diversification, presents a potential solution for natural resource-rich African countries in need of economic diversification.

(2) Myanmar Long-term FDI Promotion Plan (FDIPP)

In Myanmar in 2013-2014, JICA assisted DICA in drafting the Long-term Foreign Direct Investment Promotion Plan (FDIPP). Assistance took the form of a series of surveys, interviews, document analyses and workshops for consultation with various stakeholders (details in 5-1-1. (1)).

The objectives of FDIPP are to determine the direction of Myanmar's first comprehensive policy for FDI promotion and to outline a transparent roadmap for the achievement of the overall goals of the government, thus contributing to Myanmar's further development and integration into the global economy.

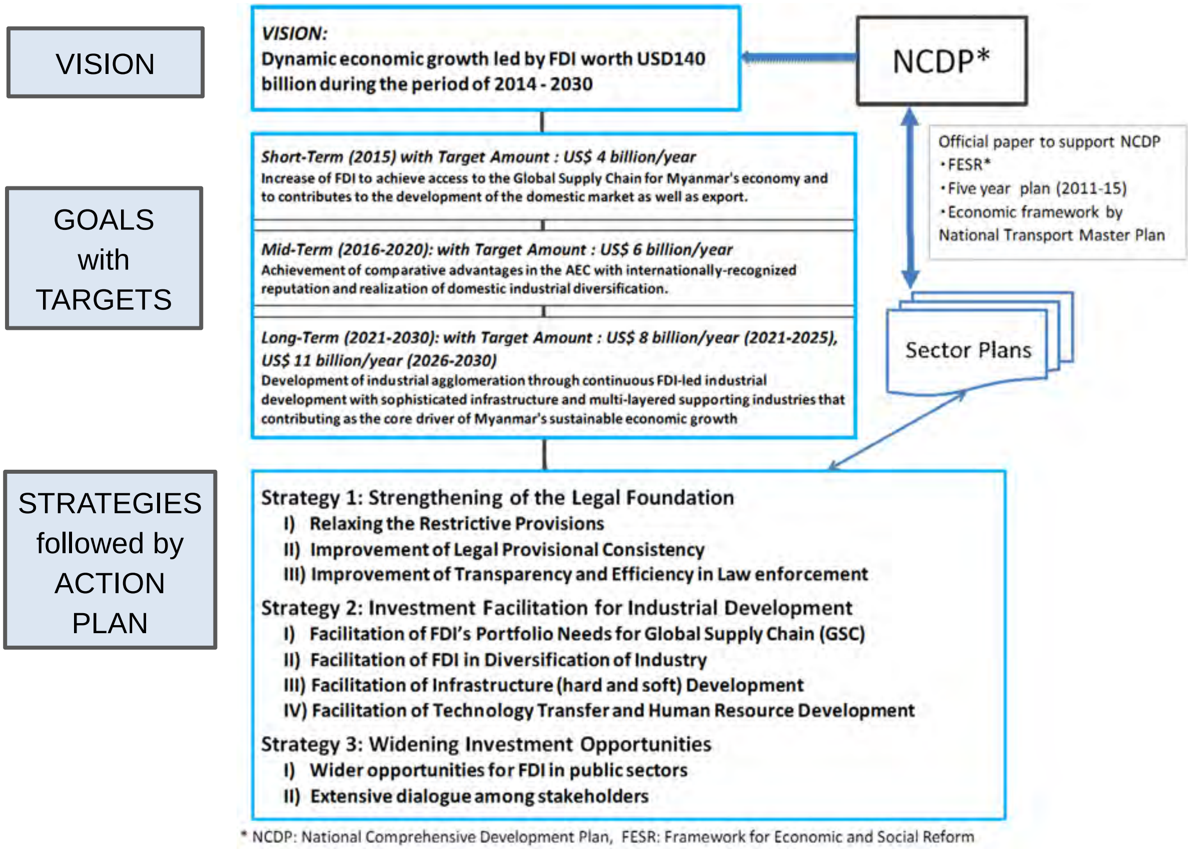
FDIPP aims to streamline its vision, goals and strategies by means of a framework corresponding to that of the National Comprehensive Development Plan (NCDP) 2010-2030. FDIPP will not give priority

[3] ZDA was established under Zambia's Ministry of Commerce, Trade and Industry through a merger of five governmental agencies, Zambia Privatisation Agency, Zambia Investment Centre, Export Board of Zambia, Zambia Export Processing Zones Authority and the Small Enterprises Development Board. Although the ZDA has multiple functions, the basic function of promoting inward FDI as an IPA does not significantly differ from that of IPAs in other countries, which are established exclusively for investment promotion purposes.

[4] The 12 areas are as follows: education, medical and health, tourism, agriculture, cotton, banking and finance, air cargo hubs and inland ports, government streamlining, information and communication technology (ICT), Multi Facility Economic Zone (MFEZ), mining and micro, small and medium enterprises (MSME).

to any specific sector; rather, each sector's strategy should be respected and the efforts of DICA and the relevant line ministries should be coordinated.

FDIPP is utilized as an input for the next 5-year national development plan. Implementation of the FDIPP action plans is already under way. The first inter-ministerial task force team was officially appointed in September 2015 to launch one of those action plans, Public-Private Partnership (PPP). The task force team, headed by the Director General of DICA, involves more than 10 relevant ministries/organizations. Currently, the team holds a number of regular opportunities for learning about PPP with the support of JICA, and conducts intensive discussions to lay a foundation for PPP framework.



Source: JICA, ALMEC, IDCJ, and DIR (2014)

Figure 5-5: Structure of Draft of Myanmar Long-term FDI Promotion Plan (FDIPP)

(3) Myanmar-Japan Joint Initiative (MJJI)

The Myanmar-Japan Joint Initiative (MJJI) is a forum for bilateral discussions between Myanmar and Japan, involving both public and private sectors, to identify concrete measures for promoting investment and trade, and to lead to a "quick win" in Myanmar through accelerated improvement of the investment environment. MJJI has met 2-3 times a year since its inception in 2013.

A wide range of issues is discussed at MJJI (Japanese draft of "Action Plan"), including concrete measures and the target schedule for necessary efforts in the following 9 areas.[5]

[5] Website of Embassy of Japan in Myanmar (2013). Retrieved December 2015 from http://www.mm.emb-japan.go.jp/profile

i) Visas and stay permits (visa issuance rules, simplified operation)
ii) Trade policy (further relaxation of trade regulations, reduction of import-related tax, tax exemptions and speedy customs clearance)
iii) Investor-friendly environment (legal measures for investor protection and development of the financial and security markets)
iv) Taxation (review of various tax systems)
v) Infrastructure improvement (improvement of urban transportation, power supply and telecommunication; review of relevant rules governing the construction business)
vi) Abolition of unfavorable treatment of foreigners and foreign companies (foreigners' price issues, enlargement of sectors for foreigner access)
vii) Appropriate insurance system and opening of market to foreign companies
viii) Ensuring resettlement schemes after labor disputes
ix) Improvement of other administration procedures

5-2. Asian "Latest Comers" to Manufacturing Investment

While some Asian countries, such as Myanmar, Cambodia and Bangladesh, are still in the early stages of economic development, as "latest comers" they have seen rapid growth of inward FDI, particularly for manufacturing. These countries are currently taking advantage of the competitiveness of their labor (cost and quality) and successfully attracting labor-intensive FDI. They often have schemes to encourage labor-intensive FDI, as seen in the garment sector (and recently in other labor-intensive manufacturing sectors as well), to support charged-basis processing, in Myanmar in the form of "CMP" (Cutting, Making and Packing) and in Cambodia as "CMT" (Cut, Make and Trim).

These countries, while enjoying advantages as the major hosts of labor-intensive FDI, are considering means of moving up to the next stage of industrialization so as to sustain inflow of manufacturing FDI, and thus take advantage of regional connectivity.

Table 5-2: Asian "Latest Comers" and Ethiopia at a Glance

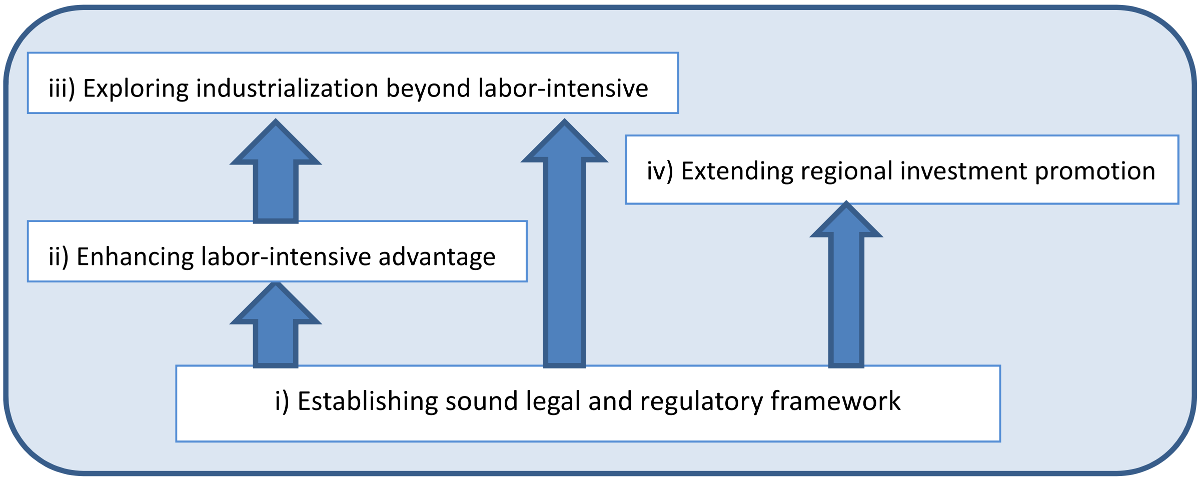
	GDP (Mil USD)	Population (Thousand)	GDP per capita (USD)	Doing Business 2016
Myanmar	56,408	64.932	869	167
Cambodia	15,659	15.407	1,016	127
Bangladesh	141,275	156.298	904	174
Ethiopia	48,145	88.850	542	146

Source: IMF (2014) and World Bank Group (2015)

/english/press/2013-10-02.html

These Asian latest comers may be in similar situations and have similar policy, which can be summarized as follows (Figure 5-6):

i) Establishing a sound legal and regulatory framework;
ii) Enhancing labor-intensive advantage;
iii) Exploring industrialization beyond labor-intensive production; and
iv) Extending regional investment promotion.



Source: Author prepared.

Figure 5-6: Asian Latest Comers to Manufacturing Investment

5-2-1. Establishing a sound legal and regulatory framework

There is a strong need for a sound legal and regulatory framework for the promotion of FDI. These countries are making great efforts to catch up with other countries through framework reform.

Myanmar made a disappointing debut in the esteemed World Bank Group's Doing Business ranking. In the 2014 edition, Myanmar was ranked 182nd among the 189 countries surveyed, and in the heavily watched "Starting a Business" category was ranked 189th, the bottom of the rankings. Myanmar made extensive reforms, and in the 2016 edition rose to 167th overall and 160th in the Starting a Business category. In the 2016 edition of the Doing Business Report, Myanmar was identified by the World Bank Group as the most reformed country in the world in the Starting a Business category. Myanmar almost tripled its previous year's score in that category. Table 5-3 shows how the country has improved its score through accelerated reform.

How did Myanmar manage to move out from the bottom of the bottom? It is important to note the efforts of DICA, which is responsible for investment promotion and business startup procedures. First, Myanmar learned from the recommendations of previous studies and began implementing the recommendations in a prompt and straight-forward manner. The recommendations included abolishing minimum capital requirements and reducing processing time. Second, Myanmar listened to the voice of the private sector and made the reform process more transparent by providing multiple opportunities for consultation with the private sector. Third, Myanmar utilized international support effectively. Apart from JICA, IFC assisted Myanmar in the reform of the Investment Law and in formulating a response to the Doing Business report; ADB assisted in reform of the Company Law, and the German Corporation for International Cooperation (GIZ) assisted in the preparation of procedure flows, guidebooks and capacity building.

Table 5-3: Myanmar Reform Ratings in Doing Business, Particularly in the Starting a Business Category

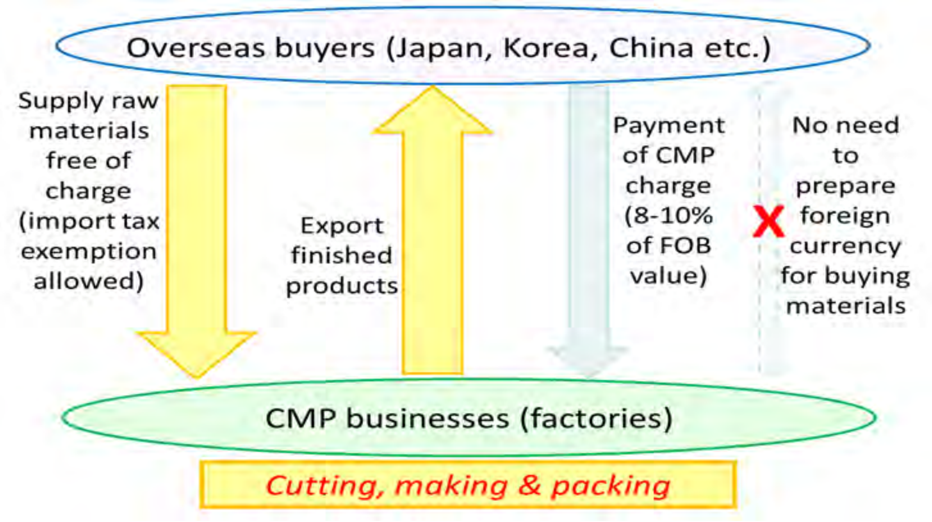
Myanmar	Doing Business 2016	Doing Business 2015	East Asian and Pacific average
Ranking (overall)	167	177	
Ranking (Starting a Business category)	160	189	
Score (Starting a Business category)	70.02/100	23.97/100	
Procedures (number)	11	12	7.0
Time (days)	13.0	72.0	25.9
Cost (% of income per capita)	97.1	131.1	23.0
Paid-in min. capital (% of income per capita)	0.0	6,190.1	9.8

Source: World Bank Group (2014, 2015)

5-2-2. Enhancing advantage of labor-intensive production

This section presents “CMP” as the well-known scheme for full utilization of labor advantage in the garment and other industries. In Myanmar, the garment sector—the country’s leading manufacturing industry—is based on a system of processing, referred to in Myanmar as CMP (for Cutting, Making and Packing). (In Cambodia, it is called CMT: Cut, Make and Trim.) The CMP System is a form of production on consignment in which main raw materials (fabrics and ancillary materials such as interlining cloth, lining material, buttons and fasteners) are provided by overseas buyers and imported free of charge; these materials are then cut, sewn and packed in domestic factories, and finally all of the finished products are exported (Kudo 2012).

Currently, almost half of the FDI projects approved under the Myanmar Investment Commission (MIC) are CMP projects. They are clearly identified as “CMP-basis FDI” at the time of approval. CMP-basis FDI goes mostly to the garment industry, which includes the manufacture of footwear, bags and purses. This type of FDI is now expanding to other manufacturing sub-sectors such as medical needles and digital camera parts, although the majority is still in the garment sector.



Source: Homma (2015)

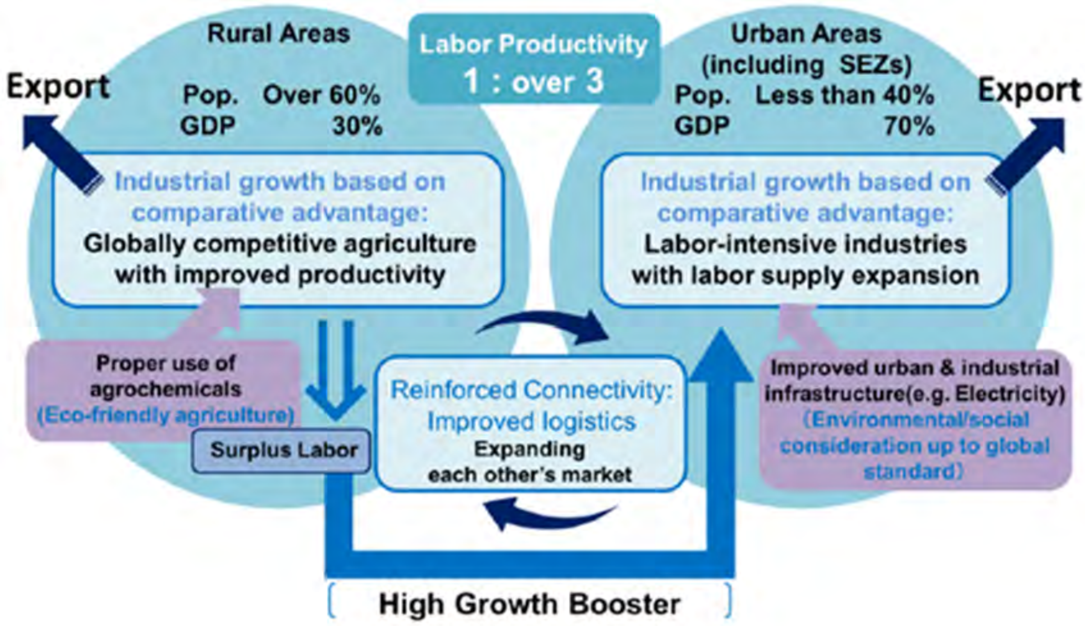
Figure 5-7: The CMP Process (Cutting, Making and Packing)

The CMP consignment processing business emerged when the Asian financial crisis hit the Southeast Asian countries in 1997 and those countries (including Myanmar) faced rapid deterioration of their foreign exchange positions. The only payment required for this process is the "processing charge" (CMP charge) from the overseas buyers to the garment factories in Myanmar. The system made it possible for the local garment manufacturers to import raw materials without export earnings. The system provided a way to avoid foreign exchange settlement, which is the most difficult issue concerning importation to Myanmar.

5-2-3. Exploring industrialization beyond labor-intensive production

While CMP can be an effective scheme for using labor-intensive advantage, it brings the risks of creating excessive dependency on the import of materials and of crowding out domestic upstream industries such as textiles and fabric. Furthermore, in global economic history, no country has managed to sustain competitive labor cost for more than a few decades; Myanmar is unlikely to be an exception. Myanmar needs to have a strategy for making a smooth transition from CMP-type, labor-intensive production to the next phase of industrialization by creating a domestic value chain and integrating into the global supply chain.

Such scenarios and notions are found in Myanmar Industrial Development Vision (MIDV), which was prepared under MJJI and handed to Myanmar President H.E. Thein Sein by Japanese Prime Minister H.E. Shinzo Abe in July 2015. MIDV focuses on balanced growth driven by a virtuous cycle between urban and rural development, which essentially can support the creation of an effective linkage between manufacturing and agriculture. MIDV also takes domestic market expansion into consideration and suggests promising industries for the next five years. These industries include construction material, food processing, textiles, plastic processing and chemicals such as fertilizers.



Source: METI (2015)

Figure 5-8: Myanmar Industrial Development Vision (MIDV): Balanced Growth Driven by a Virtuous Cycle between Urban and Rural Development

5-2-4. Extending regional investment promotion

Considering further development through investment promotion, it is important to pay due attention to the “regional” approach, in two senses: (i) regional approach beyond the country’s borders for regional integration; and (ii) regional approach within the country for balanced national development.

(1) Regional approach beyond the country’s borders for regional integration

Regional integration of the Association of Southeast Asian Nations (ASEAN) is under way, and the ASEAN Economic Community (AEC) was inaugurated at the end of 2015. Connectivity can be reinforced by the development of transport infrastructure and logistics networks. Benefitting from such reinforced connectivity, the “Thailand+1” approach offers numerous opportunities for neighboring countries including Cambodia, Lao PDR and Myanmar to join the global supply chain via inter-process division of labor with Thailand, where labor costs have already increased. For example, Minebea (a Japanese precision machinery parts giant which also produces mobile phone components) in Cambodia and Nikon (a major Japanese optical instruments manufacturer) in Lao PDR set up their factories to perform some of the labor-intensive processes previously done in their mother factories in Thailand and deliver semi-finished products back to Thai mother factories after the labor-intensive processes are complete. Although this involves logistics costs, the competitive labor cost advantage of those countries compared to Thailand can offset those costs and even generate profits.

(2) Regional approach within the country for balanced national development

Firstly, Thailand, Vietnam and a number of other countries have taken a zone-based approach which offers better fiscal incentives for investment in remote areas. Myanmar is also about to adopt the zoning approach and plans to create three zones. Myanmar’s main intention is to attract investors for untapped opportunities in the outlying states/regions and thus achieve balanced national economic growth.

Secondly, a number of countries, including Vietnam and Indonesia have attempted decentralization of investment approval authority to outlying regions. Such decentralization could lead the regions to compete to provide the best conditions for potential investors. This would create a need for enhanced administrative capacity in regional governments and regional IPAs, whose capacity is generally lower than that of national organizations.

However, the timing and phasing of the above-mentioned two approaches must be considered carefully. The aforementioned Asian countries created a firm foundation for attracting FDI in the commercial center city and established industrial areas before extending their scope to outlying regions.

5-3. Implications for Ethiopia

As discussed in this chapter, there are various approaches to promoting investment, in particular FDI, and the experiences of JICA and Asian “latest comers” offer useful lessons for Ethiopia’s ongoing industrialization efforts.

Firstly, in order to attract FDI and create sound conditions under which FDI can contribute effectively to national development, multiple components of investment promotion must be taken simultaneously and coordinated, ranging from policy making to investment climate improvement, capacity building, and effective implementation. The TOH approach (introduced in 5-1-2) emphasizes this comprehensiveness and serves to bring national resources into investment promotion, even in sectors previously considered unrelated to private investment (Figure 5-4). The experience of JICA’s basic approach has made it clear that investment policy reform, investment climate improvement and capacity building of IPAs need to be coordinated effectively (Figure 5-1). Such coordination requires strong initiative at high levels of government (as in the TOH case) and effective guiding documents (e.g., FDIPP). Ethiopia has already taken a strong initial step by reorganizing the Ethiopian Investment Agency (EIA) as the Ethiopian Investment Commission (EIC), under the leadership of the highest level of government. The next step should likely be the creation of a guide for the formation of investment promotion policy, based on the Second Growth and Transformation Plan (GTP II).

Secondly, policy and its implementation should be carefully designed in terms of timing and order, reflecting the country’s unique comparative advantage and national agenda. For example, while CMP is a powerful scheme for boosting investment in labor-intensive industry, careful consideration is needed as to how and with what timing to exit and take a phased approach to encourage the shift from labor-intensive downstream industries to upstream industries. When the Zambian economy needed to exit from over-dependency on mineral resources, the timing was right for economic diversification under the TOH program. In the case of Ethiopia, the time is now right to focus on light manufacturing, which should be the primary focus of the Ethiopian economy in the coming decades.

Thirdly, where domestic capacity is insufficient, development cooperation is called for. Investment promotion requires the involvement of a wide variety of governmental and other organizations and their personnel, which in many developing countries are generally lacking capacity. Each development partner has unique programs and experience. The example of Myanmar, which achieved the status of world's best reforming country, points to the usefulness of multi-sourcing of development cooperation. Japan and JICA have accumulated several decades of experience in investment promotion in Asian countries, and more recently in African countries. This experience is of great benefit, as seen in the Ethiopia-Japan Industrial Policy Dialogue program. In Ethiopia, EIC has been given high level authority, but it still has insufficient staff and organizational capacity. Capacity building of EIC—both quantitatively and qualitatively—is urgently required.

Finally, this kind of learning exercise must be sustained as other countries accumulate experience, and good practices and lessons emerge over time. Learning is not a static, but a dynamic process. Ethiopia is rapidly developing, and each lesson learned will take on different values over time.

Toru Homma (JICA)

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