Ethiopia Industrial Promotion Project (Industrial Policy Dialogue)

Main Report

June 2023

Japan International Cooperation Agency (JICA)

National Graduate Institute for Policy Studies (GRIPS)

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Foreword

This volume contains information on the Third Phase of the Ethiopia-Japan Industrial Policy Dialogue (February 2017-March 2023) conducted jointly by the National Graduate Institute for Policy Studies (GRIPS) Development Forum and the Japan International Cooperation Agency (JICA) as part of the Ethiopia Industrial Promotion Project. This was a twice-renewed phase of the bilateral intellectual cooperation officially launched in 2009 at the request of then Prime Minister Meles Zenawi. The prime minister simultaneously requested JICA's assistance for establishing kaizen practice in Ethiopia, a cooperation that still continues and develops today. Policy dialogue and kaizen thus became the twin pillars of JICA's industrial cooperation in Ethiopia. During the last fourteen-and-half years that included preliminary dialogue sessions in 2008, the contents, modality and partners of the bilateral industrial policy dialogue evolved significantly as Ethiopia's leadership, economy and policy interests shifted. This is how it should be because, to be effective, policy dialogue must respond quickly and flexibly to the changing situation and needs of the developing country rather than conducting predetermined research and discussions. Policy dialogue and kaizen have spawned many other industrial projects by JICA in Ethiopia in support of FDI attraction, industrial park management, export promotion and enterprise development. Ethiopia thus began to receive JICA's largest and best-coordinated industrial policy cooperation package in Africa. This is a prototypical model of industrial cooperation for all to understand and emulate. At the same time, all cooperation projects in Ethiopia encountered difficulties due to the unfavorable situations generated by internal political instability and the global COVID-19 pandemic, which intensified during the Third Phase. This report covers both the positive and negative aspects of the Third Phase of the bilateral industrial policy dialogue, as well as how we responded to the difficulties. It also touches on JICA's other industrial cooperation projects as well as activities in the earlier phases, as necessary, to provide a holistic picture of Japan's industrial cooperation in Ethiopia.

The principal authors of this volume are Kenichi Ohno and Izumi Ohno of the GRIPS Development Forum (GDF). The authors greatly appreciate all leaders, high officials, experts, researchers and business people in Ethiopia, Japan and several other countries we visited for policy discussion and engagement. Our close research partnership with the Policy Studies Institute (PSI), the research institute of the Ethiopian government, was very productive without which high-quality studies were hardly possible. It is not amiss to say that PSI became an integrated partner of our industrial policy research and dialogue. JICA's active and substantive engagement in strategic planning, policy research and discussion for this project, both by the Tokyo headquarters and the Ethiopia office, was instrumental in expanding and deepening Japan's industrial cooperation in Ethiopia. Special appreciation goes to the many JICA officials who actively participated in the dialogue including Kenichi Tomiyoshi, Toshiyuki Nakamura, Hiroyuki Kawanishi, Hironobu Murakami, Keiji Katai, Shingo Morihata, Keiji Ishigame, Toru Homma, Hideo Eguchi, Kenji Ishizuka, Naoto Mukai, Chigusa Seki, Naonobu Fuwa, Misako Uehara, Rika Karikomi, Kimiaki Jin, Ken Yamada, Makoto Shinkawa, Katsuki Morihara, Megumi Hirose, Hiroyuki Tanaka, Takeshi Matsuyama, Kana Fukuda, Yasuhito Kikuma, Masaki Wakai, Mai

Toguchi, Ikumi Ishidate, Emi Kurita, Hiroyuki Amaya, Sakiko Kurosaka, Fekadu Nigussie Deresse, and Gebeyehu Tuji Benti. We also acknowledge with gratitude the competent support of Sayoko Uesu, Akemi Nagashima and Mieko Iizuka who contributed greatly to the industrial policy dialogue as well as the preparation of this report.

The restructuring, renaming, merging and splitting of ministries and agencies are frequent in the Ethiopian government and this poses some difficulty in describing our policy dialogue with partner organizations. The Ministry of Industry (MOI), our key policy dialogue partner, was merged with the Ministry of Trade (MOT) to become the Ministry of Trade and Industry (MOTI) in 2018 but it was re-separated into MOI and the Ministry of Trade and Regional Integration (MOTRI) in 2021. In this report, the terms MOI and MOTI are variably and sometimes interchangeably used but they refer to the same dialogue partner. Our main research partners, the Ethiopian Development Research Institute (EDRI) and the Policy Study and Research Center (PSRC), were merged into the Policy Studies Institute (PSI) in 2018. Many other ministries and agencies underwent similar restructuring with changes of their leaders and executives. The reader is kindly requested to be patient with the multiplicity of organizational names and their transition.

Tokyo, June 2023
GRIPS Development Forum

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Abbreviations

AA	Addis Ababa
AAAM	African Association of Automotive Manufacturers
AD	Authoritarian Developmentalism
ADLI	Agricultural Development Led Industrialization
AGOA	African Growth and Opportunity Act
AI	Artificial Intelligence
BDS	Business Development Service
BEE	Business Enabling Environment
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BIDS	Bangladesh Institute of Development Studies
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association
BMEIs	Basic Metals and Engineering Industries
BOP	Balance of Payment
BPR	Business Process Re-engineering
C4ED	Center for Evaluation and Development
CBU	Completely Built Unit
CEO	Chief Executive Officer
CKD	Complete Knock Down
CMT	Cut-make-trim
DAG	Development Assistance Group
DD	Democratic Developmentalism
DKD	Direct Knock Down
DPF	Development Policy Forum
EAC	East Asian Community
EBA	Everything but Arms
EDRI	Ethiopian Development Research Institute
EEA	Ethiopian Economic Association
EIC	Ethiopian Investment Commission
EKI	Ethiopian Kaizen Institute
EPRDF	Ethiopian People's Revolutionary Democratic Front
ETM	Ethiopia Tamirt Movement
ETIDI	Ethiopian Textile Industry Development Institute
EU	European Union
FDI	Foreign Direct Investment
FOB	Free on Board
FTAs	Free Trade Agreements

GDF	GRIPS Development Forum
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Corporation for International Cooperation)
GRIPS	National Graduate Institute for Policy Studies
GTP	Growth and Transformation Plan (I/II)
HERA	Homegrown Economic Reform Agenda
HLF	High Level Forum
ICT	Information and Communication Technology
IDE-JETRO	Institute of Developing Economies-Japan External Trade Organization
IMF	International Monetary Fund
IP	Industrial Park
IPD	Initiative for Policy Dialogue
IPDC	Industrial Parks Development Corporation
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
JICA Ogata RI	JICA Ogata Research Institute for Peace and Development
KAM	Kenya Association of Manufacturers
KD	Knock Down
KEC	Kaizen Excellence Center
KSP	Knowledge Sharing Program
LIDI	Leather Industry Development Institute
METEC	Metals and Engineering Corporation
METI	Ministry of Economy, Trade and Industry (Japan)
MFA	Multi Fiber Arrangement
MIDI	Metals Industry Development Institute
MOENCO	Motor and Engineering Company of Ethiopia
MOF	Ministry of Finance
MOI	Ministry of Industry (Ethiopia/Myanmar)
MOTI	Ministry of Trade and Industry
MOU	Memorandum of Understanding
MPD	Ministry of Planning and Development
MPDC	Metal Products Development Center
NBE	National Bank of Ethiopia
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PDC	Planning and Development Commission
PM	Prime Minister
PMO	Prime Minister's Office

PPSEZ	Phnom Penh Special Economic Zone
PSI	Policy Studies Institute
PSRC	Policy Study and Research Center
QCD	Quality, Cost and Delivery
QPC	Quality, Productivity and Competitiveness
SEZ	Special Economic Zone
SKD	Semi Knock Down
SMEs	Small and medium-sized enterprises
SOE	State-owned Enterprise
TBT	Technical Barriers to Trade
Ten Year Plan	Ten Year Perspective Development Plan
TFP	Total Factor Productivity
TICAD	Tokyo International Conference on African Development
TVET	Technical and Vocational Education and Training
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
US	United States
USSR	Union of Soviet Socialist Republics
VDF	Vietnam Development Forum
VEPR	Vietnam Institute for Economic and Policy Research
VIPs	Very Important Persons
VW	Volkswagen
WB	World Bank
WC	Washington Consensus
WTO	World Trade Organization
ZLD	Zero Liquid Discharge

1. Overview of Industrial Policy Dialogue

1-1. How it began

In 2002, the GRIPS Development Forum (GDF) started visiting African governments in search of an ideal partner for industrial policy dialogue. In Zambia, Tanzania, Ghana, Uganda and Mozambique, we met presidents and/or economic ministers and permanent secretaries, did limited policy research and engaged in mini policy dialogue. In the summer of 2008, we were approached by the Japan International Cooperation Agency (JICA) to attend a policy conference in Addis Ababa. Professor Joseph Stiglitz of Columbia University, a Nobel laureate, organized annual African Task Force meetings of his Initiative for Policy Dialogue (IPD), and the next meeting was to be held in Ethiopia. JICA, which financially supported IPD, wanted Japan to contribute intellectually as well. We accepted the offer because we had heard that Ethiopia was serious about industrial policy. But we did not know that Prime Minister Meles Zenawi would attend virtually all sessions of the two-day conference.

In the conference, GDF explained East Asian ideas of industrialization and presented our edited book to the Prime Minister. He started to read it during the conference. Chapter 7 of the book was JICA's kaizen assistance in Tunisia[1]. In the following week, Prime Minister Meles invited the Japanese ambassador to his office and requested two-part cooperation from Japan: policy dialogue with GDF and kaizen by JICA. He had heard about kaizen before but did not know that JICA was helping African countries to adopt it. He said, "Please do a kaizen project in Ethiopia just as you did in Tunisia." Prime Minister Meles requested candor and openness rather than diplomatic courtesy in our policy discussion. We always aimed at building mutual trust and respecting the will and ownership of the Ethiopian government. But we were at the same time not hesitant to point out problems in ongoing Ethiopian policies.

The Ethiopia-Japan Industrial Policy Dialogue has been conducted jointly by GDF and JICA (not by GDF alone) at the three levels of the Ethiopian government: (i) Prime Minister, (ii) Ministers, State Ministers and Commissioners of relevant ministries and state commissions, and (iii) officials and experts at the operational level. Ethiopian and Japanese businesses, academicians, experts as well as bilateral donors and international organizations were additionally and frequently consulted. Our methodology was to collect and learn concrete international policy experiences (not just from Japan), select and modify foreign models for Ethiopia's consideration, then produce a policy model most suitable for Ethiopia's reality. We call this policy exercise *translative adaptation*, a term used by economic anthropologist Keiji Maegawa to denote the importation of foreign things with local initiative, ownership and adjustment. For this purpose, many leaders, officials, businesses and researchers in third countries in Asia and Africa were visited and interviewed.

In Addis Ababa, policy dialogue sessions were held four times a year during Phase I (May 2009-May 2011) and twice a year during Phase II (January 2012-October 2015). During our visits to Addis Ababa, we were almost always able to discuss policy issues with the prime minister at length. When Prime Minister Meles passed away in August 2012, the bilateral dialogue was continued by Prime Minister Hailemariam Desalegn

[1] Tsuyoshi Kikuchi, "The Quality and Productivity Improvement Project in Tunisia: A Comparison of Japanese and EU Approaches," chapter 7, GRIPS Development Forum, *Diversity and Complementarity in Development Aid: East Asian Lessons for African Growth*, compiled for distribution in 2008. The book was subsequently updated and published commercially by Routledge in 2013 with the revised title, *Eastern and Western Ideas for African Growth*, where previous chapter 7 was renumbered as chapter 8.

with equal zest and seriousness. Though the frequency of official dialogue sessions was reduced in the second phase, the tasks related to the dialogue increased because of additional research and active third-country trips. By the end of the second phase, JICA's engagement in Ethiopia's industrial cooperation had expanded, leading to the formulation of comprehensive support under the name of the Ethiopia Industrial Promotion Project which consisted of three components: (i) industrial policy dialogue, (ii) foreign direct investment (FDI) promotion and industrial park management, and (iii) export promotion (creation of champion products). Additional projects also began such as women entrepreneurship development, business development service (BDS) enhancement and support for enterprises growth as well as the construction of the Tokyo International Conference on African Development (TICAD) Human Resource Development Center. The third phase of the Industrial Policy Dialogue was implemented as part of the Ethiopia Industrial Promotion Project with due consideration to creating synergies with the other two components.

In Phase III (February 2017-March 2023, with the endpoint extended due to the global pandemic), two main and two supplementary sessions were organized annually in Addis Ababa until this routine was interrupted by the spread of the COVID pandemic and internal political uncertainty in 2020. After Prime Minister Hailemariam was succeeded by Prime Minister Abiy Ahmed in 2018, the direct access to and discussion with the prime minister did not materialize but we continued to work with the Macroeconomic Team supporting the prime minister and other key leaders of state commissions and ministries responsible for industrial development.

1-2. Evolution of topics and modality

Topic choice and dialogue channels

The topics of Industrial Policy Dialogue were selected carefully before each session (a few months in advance) to fit the prevailing policy environment and the interests of the Ethiopian government, both of which were rapidly evolving. We refrained from setting a series of agendas years in advance. We also did not want to just present our findings or recommendations because we wanted to make sure that what we discussed was closely related to what Ethiopia planned to do and led to actual policy formulation and improvements. This required a judicious choice of topics. The Ethiopian government does not hesitate to revise policies or introduce new ones when it is convinced of the value of policy advice presented to them. We consider it important that Japan offers some (but not necessarily all) of the funding and/or technical support needed to carry out proposed policies. This increases the chance of proper implementation as well as the incentive for both sides to seriously engage in the dialogue. Figure 1 illustrates how Ethiopia-Japan Industrial Policy Dialogue proceeded in parallel with JICA's industrial cooperation on the ground consisting of kaizen and other concrete projects.

During 2008-2022, 22 policy discussions were held with the Prime Minister, 18 High Level Forum (HLF) sessions were conducted in Addis Ababa, and 19 policy research visits to third countries in Asia and Africa were organized where Ethiopian, Japanese and/or other officials and researchers participated (not counting mutual visits between Ethiopia and Japan). In addition, there were numerous visits to offices, factories and project sites; discussions with international organizations and other donors; regional trips inside Ethiopia and

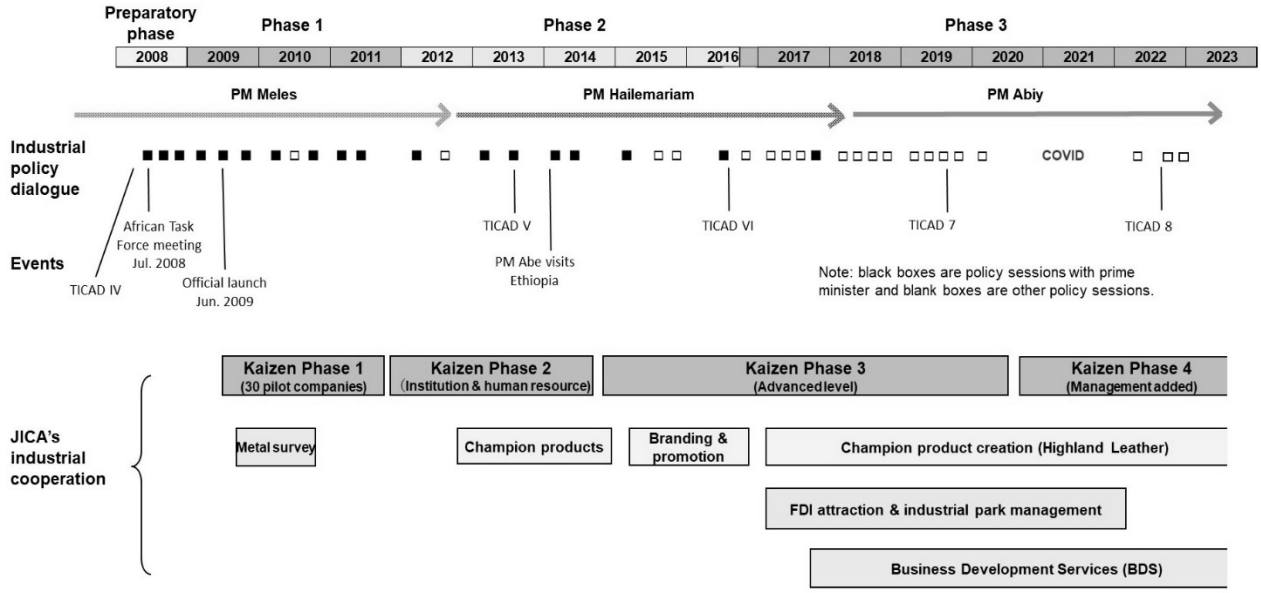


Figure 1. Industrial Policy Dialogue and Industrial Cooperation Projects, 2008-2019

Note: This diagram shows main policy dialogue events and JICA's industrial cooperation projects during the bilateral industrial policy dialogue period. Black boxes indicate the three-level policy dialogue in Addis Ababa (prime minister; ministers, state ministers and commissioners; and operational level people) while blank boxes are similar sessions without the prime minister's participation.

Japan; and workshops, seminars and invited lectures. These are the tallies of real visits and meetings. From early 2020 to early 2022, international travel and face-to-face discussions became impractical due to the global pandemic and were replaced by online workshops and meetings.

We had 10 face-to-face policy meetings with Prime Minister Meles Zenawi and 12 similar sessions with Prime Minister Hailemariam Desalegn (two of them were held when he was Deputy Prime Minister). With both prime ministers, discussions were direct, intense and action-oriented with an average length of one-and-half to two hours. The progress of kaizen and the agenda of minister-level HLFs were usually reported, but the discussion with the prime ministers often took unexpected turns to new policy initiatives, hot issues at hand or how bilateral policy action could be accelerated. The prime ministers sometimes wrote letters to us. In the first year of Phase I, Mr. Meles sent us two long letters on the developmental philosophy of Ethiopia. He additionally requested GDF to collect English materials on various issues related to the industrialization of East Asia, to which we responded with six information packages. Mr. Hailemariam also asked for policy research papers when we did not send him enough. GDF wrote a total of 14 policy letters to the two prime ministers and other high-level policy dialogue participants. In 2018, Prime Minister Abiy Ahmed succeeded Prime Minister Hailemariam. Dr. Abiy's policy interest and governing style were different from his two predecessors, and we did not have an opportunity to see and talk to him directly. We identified his economic advisors as key dialogue partners and discussed issues with them.

At the level of ministers and state ministers, we organized formal and well-prepared HLF sessions which usually consisted of half-day presentations and discussion in a hotel conference room. HLF agenda was agreed 1-3 months ahead of the session by picking up industrial issues with high policy relevance to the Ethiopian government at the moment. As noted above, we did not choose topics years ahead because situations and

policy interests shifted very quickly in Ethiopia, and HLFs aimed at policy impact and relevance rather than academic merit. HLFs were often covered in local TV and news media. Apart from HLFs, parallel seminars were sometimes organized to discuss such specific issues as kaizen, champion product creation, investment policy, industrial parks, enterprise development, automotive assembly, metal and engineering industries, the attraction of Japanese investors, and so on (see Appendix Tables for key meetings, HLF agenda, policy letters, and third-country policy missions).

From general to specific

Over the last eleven years, the content of policy discussions with the prime ministers, commissioners, ministers, state ministers and other key policy leaders gradually shifted from the exchange of general information about Ethiopia and East Asia to the examination of specific policy instruments relevant to Ethiopia with an expanding number of such instruments for mutual discussion and implementation. This was just what we had intended.

In Phase I, broad issues were discussed such as Democratic Developmentalism (DD) and Agricultural Development Led Industrialization (ADLI), the two principal developmental philosophies of Ethiopia, as well as how East Asian governments drafted and executed various industrial strategies. This was a period of mutual learning in preparation for deeper policy discussion and engagement. For us, it was particularly instructive to hear the details of DD and ADLI from Prime Minister Meles and clarify certain points with him, which provided us with a firm ground on which concrete knowledge sharing could be initiated. Transferability and necessary adjustments of kaizen to Ethiopian reality was another issue we discussed intensely in early sessions. However, as JICA's kaizen cooperation took root, deliberation on kaizen gradually moved to the operational level such as the Ethiopian Kaizen Institute (EKI) and the Kaizen Project Coordination Committee. The draft of Growth and Transformation Plan (GTP: a five-year development plan that stressed economic growth and industrialization) was also discussed. The Ethiopian government separately requested an ad hoc survey on the basic metal and metal processing industries in Ethiopia, which was conducted in cooperation with Germany.

In Phase II, now equipped with sufficient knowledge of the Ethiopian policy mindset, orientation and possible weaknesses, the main focus was to selectively introduce concrete policy measures so they would be seriously considered and actually adopted by the Ethiopian government. It was important to choose a small number of policy measures and produce success rather than try to cover all measures at once superficially and without result. Candidate policies were proposed by both sides. First, to infuse an attitude toward demand orientation and customer satisfaction (not just efficient factory operation imparted by kaizen), export policy and FDI policy were targeted. Strategic export promotion at the macro level and champion product creation at the micro level were proposed. Experienced Japanese, Malaysian and Thai officials in charge of export promotion and FDI attraction were invited to Addis Ababa to share their experiences and lessons. A large Ministry of Industry mission headed by a state minister was sent to Malaysia for two weeks to study strategic FDI attraction in preparation for a revision of the Investment Proclamation and Regulation (they were revised shortly after the mission by incorporating its findings). As manufacturing FDI began to pour into Ethiopia from Turkey, India, China and other countries, the discussion turned to FDI-led industrialization and FDI-linked technology transfer, which are common policy agendas in East Asia. Topics such as industrial park

development and management, labor productivity and wage, one-stop investor service, and intensive support of selected small and medium-sized enterprises (SMEs) which we called handholding were added. Bringing Japanese manufacturing firms to Ethiopia, which we thought was hardly possible a few years back, became a bilateral priority issue.

In Phase III, the move to deepen and expand concrete industrial measures continued. They included enterprise development in the metal and engineering sector, automotive assembly policy, apparel sector upgrading in cooperation with Japanese firms, industrial park policy which included the invitation of Japanese FDI, and two policy reports on productivity and FDI drafted jointly by PSI and GDF. It must however be admitted that, during Phase III, the pace and effectiveness of our industrial policy discussion were curtailed by such domestic events as political instability and military conflicts as well as global issues related to the pandemic and energy and food supply. The details of Phase III activities are given in the next section.

Following the East Asian path?

The Ethiopian industrial policy has evolved in response to the policy interest of the top leader, ongoing economic transformation (or the lack thereof) and shifting domestic and international circumstances. When the preliminary sessions of the policy dialogue started in 2008, we were unsure whether the idea of ADLI—using agriculture growth to generate full-scale industrial growth—was practical or how it could be concretized and scaled up in Ethiopia. By the end of Phase II, we became convinced that FDI-led industrialization, whose possibility became apparent around 2010, would be the main driving force of Ethiopian industrialization for a considerable time to come rather than ADLI. Ethiopia in the 2010s emerged as a new FDI destination on the African continent with the rapid construction of state-owned industrial parks and other infrastructure, increased FDI arrivals and sustained high growth.

Industrial successes up to the present should be credited mainly to the strong political will and aggressive policy learning of the Ethiopian government which was truly outstanding by the standards of latecomer developing countries. International cooperation was also helpful but it could not have been effective without a proper policy mindset on the receiving side. Foreigners like us and others should be humble about the magnitude of the contribution we have made to Ethiopian achievements. The government worked hard to promote and incentivize flower growers with Dutch cooperation. It also vigorously attracted the first large integrated textile mill from Turkey and a large footwear maker from China. Ethiopian Airlines grew to become the largest air carrier in Africa. These did not happen by free markets or the "self-discovery" of private firms alone.

FDI-led industrialization, labor productivity, total factor productivity (TFP), technology transfer, FDI-local firm linkage, global value chains and logistic efficiency became the key issues surrounding Ethiopian economic development. When policy discussion reaches this stage, we do not see any substantive difference between Asia and Africa. All nations are different in policy capability as well as domestic and external circumstances whether they are in Asia or Africa, so Ethiopia's socio-economic uniqueness itself cannot be cited as a differentiating factor. We should recognize that many latecomer Asian governments are struggling to implement policy measures which Ethiopia has already adopted or is trying to introduce such as the high-level export coordination committee, strategic FDI and industrial park policy, sectoral industrial institutes, the

national kaizen movement, and a nationwide technical and vocational education and training (TVET) system. According to our unpublished assessment based on ten policy sub-components over thirteen countries in Asia and Africa, the quality of industrial policy of Ethiopia is superior to that of India, Vietnam, Indonesia or Cambodia[2].

This also means that Ethiopia has entered an era in which the past and current growth experiences of East Asia—both successes to emulate and failures to avoid—are more directly relevant to its policy formulation. There is no other country on the African continent to which this statement applies more aptly. For this reason, our policy advice to the Ethiopian government during Phases II and III of Industrial Policy Dialogue was essentially East Asian.

However, Ethiopia's policy orientation may be shifting. Both Prime Minister Meles and Prime Minister Hailemariam openly followed the development model of East Asia and were critical of the Washington Consensus model of the International Monetary Fund (IMF) and the World Bank[3]. Prime Minister Abiy on the other hand does not profess such a belief and his economic philosophy remains less certain due to his distance from economic policymaking compared with his predecessors. He worked actively with the World Bank in state-owned enterprise reform, and key plan documents under his administration—the Homegrown Economic Reform Agenda (HERA) and the Ten Year Perspective Development Plan (Ten Year Plan) in particular—are not very clear about the relationship between the state and the market.

2. Developments during Phase III

2-1. The original objective and actual developments

The original objective of the third phase of Industrial Policy Dialogue was to deepen and accelerate the policy improvement process of the Ethiopian government by moving beyond general learning and commentaries to the creation and/or revision of many policies that are practical and effective. This was the effort started in the second phase to be further strengthened during the third phase. The earlier phases had found weaknesses in the Ethiopian policy process such as low implementation capacity, frequent changes of leaders and the government, and the tendency to speed up policymaking without sufficient deliberation and details. These features impeded effective policy learning but were difficult to rectify in the short run. The Japanese dialogue team worked with the Ethiopian dialogue partners with persistence and patience without expecting quick results. An accumulation of concrete hands-on policy experiences in the context of Ethiopia was needed for policy improvement, not more theories or general knowledge. For this, it was considered essential to work closely and substantially with the Ethiopian government think tank for producing as many good policy analyses and recommendations as possible as well as for the capacity building of the think tank itself. The think tank should eventually be able to carry out pragmatic policy interaction with the government without the

[2] Kenichi Ohno, "The Quality of Industrial Policy as a Determinant of Middle Income Traps," a paper presented at the Singapore Economic Review Conference (SERC) 2015, Singapore, August 5-7, 2015.

[3] The World Bank became more engaged in industrial development during Phase II of our Industrial Policy Dialogue by financing the Ethiopia Competitiveness and Job Creation Project in 2014 ($250 million and an additional $175 million approved in 2018) which supported the development of industrial parks (Bole Lemi II and Kilinto Industrial Parks). This was a major departure from the Bank's cautious stance in supporting the government's role in industrial development observed during our Phase I.

Japanese. With these in mind, the following policy tasks were contemplated at the beginning of Phase III.

First, the handholding support of SMEs was to be introduced. In handholding (also known as hands-on or yorisoi support), the government selects a small number of SMEs with a proper mindset and potential, discusses and agrees on one business goal to be attained within a few years, and offers customized intensive assistance to realize that goal. This policy instrument, common in East Asia but not even known in Ethiopia, was to be used as a means of policy learning to broaden the scope of the Ethiopian SME policy.

Second, cooperation between Japanese and local firms in concrete business projects was to be supported. Japanese business interest in Ethiopia was high but few Japanese firms actually came to Ethiopia due to many difficulties. One difficulty was policy inconsistency and unpredictability, an area that policy dialogue could amend. To upgrade local firms, the technical and management support of foreign firms with a serious intention of doing business with Ethiopian firms is more effective than projects initiated by governments or donors alone. While the private initiative was primary, the policy dialogue team could support it from the sideline by offering policy-related information, matching and interactions with key Ethiopian authorities, and improving policy areas related to the FDI's planned activities.

Third, policy studies relevant to the current development stage of Ethiopia, which then was building state-run industrial parks to receive FDI, were to be conducted. This was to be done in cooperation with the government's economic think tank to accelerate such research and upgrade the think tank as explained above. The topics had to be chosen carefully and in proper sequence. They must be something that Ethiopia was interested in and Japan could assist with.

In reality, many external developments affected the execution of this plan during Phase III. Some tasks were implemented as planned but others had to be modified or entirely dropped due to new circumstances. Adjustments are inevitable in any policy dialogue, but the magnitude of required changes was larger in Phase III than in the previous phases. There were four major events that compelled us to modify our policy dialogue plan.

The first unexpected event was the resignation of Prime Minister Hailemariam in February 2018 due to domestic instability. Dr. Abiy who succeeded him greatly altered the governing style in general and the handling of development strategies in particular. Prime Minister Meles and Prime Minister Hailemariam were deeply and personally involved in economic policymaking and frequently met investors and scholars to discuss relevant issues. Prime Minister Abiy delegated economic matters to the Macroeconomic Team and was less accessible to foreign professors. This forced us to conduct dialogue with the Macroeconomic Team and other key economic leaders instead of the prime minister himself. The economic philosophy and strategies of Ethiopia became less clear because of his style as well as the fact that key documents (see below) did not spell out fundamental policy direction though they defined immediate actions at hand.

Second, domestic politics became highly unstable which culminated in the military conflict between the federal and Tigray forces in November 2020. During the 2010s, Ethiopia was a rising star in Africa boasting political stability, double-digit growth, increasing FDI and the rapid construction of infrastructure. FDI-led industrialization and participation in global value chains appeared to be future goals. However, bright news ended in 2020 with worsening ethnic confrontation, security problems, economic crisis and the slowdown of activities with foreign businesses and cooperation.

Third, the Abiy administration frequently restructured the government and its key leaders. Cabinet

reshuffling is not uncommon in Ethiopia, but its speed accelerated recently. This led to changes, often more than once, of the high-level partners of our policy dialogue at PSI, the Ethiopia Investment Commission (EIC), and the Ministry of Industry (MOI) and its institutes during Phase III. In October 2021, significant institutional reforms were also conducted at our partner organizations such as the splitting of the Ministry of Trade and Industry (MOTI) into two ministries, the placing of the Industrial Park Development Corporation (IPDC) under EIC, the upgrading of the Planning and Development Commission (PDC) to the Ministry of Planning and Development (MPD), and so on. This severed relationship we had built up and forced us to re-establish another with new key leaders.

Fourth, from early 2020 to early 2022, the COVID-19 pandemic wreaked havoc on human contacts and travel globally, and Ethiopia and Japan were no exception. Together with the security problem in Ethiopia, this virtually eliminated the possibility of frequent travel between Ethiopia and Japan which was essential in conducting policy dialogue.

To cope with these circumstances, we made several adjustments in the dialogue modality. As mentioned earlier, the Macroeconomic Team whose members were senior advisors of the Prime Minister's Office (PMO) and senior officials of the Ministry of Finance (MOF), together with the EIC management team and the MOTI senior officials, became our high-level dialogue partner rather than the prime minister himself. Another important adjustment was holding small, flexible and more numerous policy workshops with relevant commissions and ministries in place of large-scale HLFs which had been our regular policy meetings with economic ministers and state ministers for each visit to Addis Ababa. Smaller meetings covered the automobile sector, apparel export, handholding support of small and medium enterprises (SMEs), productivity, FDI policy, and the evaluation of key policy documents such as the HERA and the Ten Year Plan (see section 5). These took the forms of the Development Policy Forums (DPFs) co-organized by PSI and GDF with the participation of heads of PDC to share the progress and outcome of joint policy research, as well as industry-specific seminars hosted by MOTI with the participation of policymakers and the private sector covering the textile and garment industry and the automotive industry. During the two years when trips to Ethiopia were difficult, policy missions were substituted by works in Tokyo, online workshops and meetings, mobilization of researchers at PSI, and conducting firm surveys in Vietnam and Bangladesh by local researchers affiliated with GDF.

Despite the increased difficulty, some original plans were fully executed with good results. GDF and PSI managed to jointly produce two policy research reports, the one on productivity and the other on FDI policy. The other completed tasks were third-country policy trips to Kenya, Myanmar and Sri Lanka. These visits collected sufficient information from these countries mainly on automobile assembly and apparel export, the two sectors intensively discussed with the Ethiopian authorities during Phase III. These third-country studies contributed greatly to the formulation of policy recommendations in the two sectors as well as the production of the Ethiopia FDI Policy Report. Details are explained in the next sub-section.

Meanwhile, the handholding support of local SMEs was prepared, and a diagnostic survey of high-potential metal firms was conducted by recruited Japanese experts. However, as part of JICA's overall project portfolio management decision, it was decided that this activity should be integrated into the other JICA-supported project rather than implemented as part of the Industrial Policy Dialogue. Over the years, JICA has expanded industrial cooperation projects in support of local enterprises such as BDS, startup contests and

support, and the expansion of kaizen cooperation. As a result, the handholding support of local firms in the metal and engineering sector was transferred to JICA's BDS cooperation project (see 2-2-6). The other reasons included delays in choosing the counterpart, local awareness-raising and selection of candidate firms. There was also a potential conflict of interest as one Japanese commercial vehicle maker entered the Ethiopian market during Phase III which made problematic the handholding of local commercial vehicle assemblers which might compete with that Japanese maker. It is also important to note that the export promotion team of the Industrial Promotion Project also took a handholding approach to support the creation of champion products in the leather sector.

During Phase III, the Japanese policy dialogue team made 18 trips to Ethiopia at the pace of four trips per year, except from early 2020 to early 2022 when the global pandemic interrupted our travel and work had to be conducted online.

2-2. Main topics and key achievements

The main issues analyzed and presented to the Ethiopian government during Phase III of Industrial Policy Dialogue are explained in this section. Selected analytical highlights from these works are presented separately in the subsequent sections. Appendix tables at the end of this section list our main activities during Phase III by type—High Level Forums; workshops and webinars hosted by the Industrial Policy Dialogue; and third countries visited for policy research. Key Ethiopian dialogue partners are also presented.

2-2-1. Two policy reports

GDF planned to produce flagship policy reports relevant to the current reality of Ethiopia in close cooperation with an Ethiopian government think tank. This had the double purpose of mobilizing local researchers to produce such reports efficiently and transferring to an Ethiopian think tank the method of policy report production featuring close contact with responsible authorities. The two topics consecutively chosen were productivity and FDI policy, both of which seemed highly relevant to Ethiopia at this juncture when FDI-led industrialization was beginning with an increasing weight in the nation's economic development.

At the outset of Phase III, there were two government economic think tanks: the Ethiopian Development Research Institute (EDRI) and the Policy Study and Research Center (PSRC). EDRI, headed by Mr. Newai Gebre-ab, had been our close research partner since Phase I that co-hosted many HLF sessions with us. PSRC was a newly created center headed by Mr. Abay Tsehaye. EDRI was oriented more toward theoretical and empirical studies of academic type, often with donors' funding, while PSRC was supposed to provide concrete policy-oriented inputs directly to the government. The Japanese dialogue team discussed the proper functions of government think tanks with Prime Minister Hailemariam and gave a lecture on the same topic in a joint EDRI-PSRC workshop. There were GRIPS PhD alumni in both think tanks and GDF began to talk to them for possible joint production of flagship reports.

EDRI and PSRC were merged in 2018 to become the Policy Studies Institute (PSI). GDF decided to work with PSI. Dr. Kidanemariam Berhe Hailu, a former PhD student of Kenichi Ohno at GRIPS, became a coordinator of Industrial Policy Dialogue in charge of the joint PSI-GDF research as well as other elements of

policy dialogue. In the course of Phase III, the general directors of EDRI, PSRC and the merged PSI each changed one to three times which made effective communication with the leaders of these think tanks sometimes difficult[4].

The Ethiopia Productivity Report was launched in Addis Ababa in February 2020 and the Ethiopia FDI Policy was launched online in January 2022. Both were produced jointly with Kenichi Ohno (GDF) working closely with designated PSI researchers—Dr. Kidanemariam Berhe Hailu and Dr. Mulu Gebreeyesus for the first report and these two plus Dr. Kiflu Gedefe Molla for the second report. In addition to these authors who intensively discussed the drafting strategy, Dr. Tsegay Gebrekidan Tekleselassie (PSI) participated in the first report. Izumi Ohno (GDF), Sayoko Uesu (GDF) and Toru Homma (JICA) participated in the second as chapter contributors.

Each of these reports took two to three years to complete from the preliminary idea to the final launch. Both reports were truly joint works of PSI and GDF under a research cooperation contract, not a unilaterally commissioned study from Japan to Ethiopia. Initial plans, chapter structure, survey design and execution, outsourced tasks, draft checking, discussion of key issues, editing and printing and dissemination plans were discussed face-to-face as well as by email and online meetings. The production budget was also split between GDF (researcher and survey costs) and PSI (printing, launch and dissemination) with larger funding borne by GDF under the overall financial supported by JICA. The FDI Policy Paper, a short companion paper of the Ethiopia FDI Policy Report, was separately produced by GDF in November 2021 to speed up dissemination and discuss a few issues not covered by the main report. Selected key findings of these reports are presented in section 4.

The Ethiopia Productivity Report (2020) has the following structure.

Executive Summary
1. Introduction
2. Productivity: Concept, Measurement and Significance
3. Economy-wide Labor Productivity in Ethiopia
4. Zooming in on the Manufacturing Sector
5. Labor Productivity Challenges in the Emerging Ethiopian Apparel Industry: Survey Results
6. Policy Measures towards Enhanced Productivity

This report applied standard theoretical and empirical methods to analyze the labor productivity and TFP of Ethiopia relative to international experience. It was the first comprehensive study of productivity in Ethiopia using standard methods. The launch workshop was co-organized by the PSI and GDF in February 2020 with the participation of PDC leadership, Japanese Ambassador, JICA representatives and others. The report drew attention from local news media and was favorably received by many officials and researchers. The Ten Year Plan (the current national development plan) cites it as one of the information sources. The World Bank and the Millennium Challenge Corporation of the United States (US) invited one of the Ethiopian lead authors to Washington, DC to deliver the report's findings in two workshops.

[4] During Phase III, sequentially, the EDRI executive directors were Newai Gebre-ab (who passed away in February 2020), Mekonnen Manyazewal and Ahmed Abitew, and the PSRC directors general were Abay Tsehaye and Ahmed Abitew. At the newly created PSI, directors general shifted from Ahmed Abitew to Abalema Addsalem, Mekuria Haile and Beyene Petros.

The Ethiopia FDI Policy Report (2022) has the following structure.

A Compact Summary of Policy Recommendations
Overview and Summary
1. Ethiopia's FDI Policy Evolution and Performance
2. FDI Policy for Industrialization: From Quantitative Accumulation to Value Creation
3. Dynamics of FDI in Ethiopia: Bridging the Balance of Payment Gap
4. Enhancing the Role of FDI in Technology and Knowledge Transfer
5. Foreign Direct Investment in Ethiopia: A Survey Report
6. Current Status and Challenges of the Garment Sector: A Comparison of Vietnam, Bangladesh and Ethiopia
7. Pursuit of Product Quality and Ethical Correctness in Developing the Garment Industry
8. FDI Strategy in the Age of Industry 4.0 and Post COVID-19

This report takes up several issues which we believe are highly relevant to Ethiopia instead of applying the globally common methodology of FDI research. This is because appropriate advice on FDI policy varies significantly by country, unlike productivity studies that follow well-established standard techniques. The report features the lack of balance-of-payments impact and technology transfer in Ethiopia, an international comparison of the apparel sector, and new global challenges for latecomer countries such as Ethiopia. Dissemination of this report could not be conducted as vigorously as we hoped since it had to be launched online due to the pandemic without face-to-face contact or inviting media for news reports. After the launch, PSI circulated printed reports to relevant policymakers.

We trust that both reports have attained international quality both academically and as policy advice, and the analyses and policy proposals contained there have a long-term value that will not diminish even if Ethiopia faces political and economic difficulties in the short run.

2-2-2. Automotive policy

The Ethiopian automotive industry is in an early development stage where foreign brand cars dominate its streets. The Semi Knock Down (SKD) assembly of foreign cars and local production of commercial vehicles exist but on a small scale. Looking forward, given its large population and assuming sustained economic growth, Ethiopia's automotive demand will surely increase in the long run. Each stage of automotive development requires different policy measures or the growth of this sector will be stunted. The previous and current prime ministers expressed keen interest in promoting this industry. Moreover, the Japanese car brands at present dominate the Ethiopian vehicle market. Toyota (new and used) is the leading brand in Ethiopia, and Isuzu trucks are popular in the commercial vehicle market. Isuzu already began truck assembly in cooperation with Kaki, a local automotive firm. More recently, Suzuki began Completely Built Unit (CBU) car exports to Ethiopia. For these reasons, and as a concrete channel for Ethiopia's policy learning, Phase III of Industrial Policy Dialogue took up this sector as one of the key policy areas.

The Japanese dialogue team visited selected Japanese vehicle makers in Japan and elsewhere and engaged in intensive discussion with them. It also visited Ethiopian automotive firms and sales outlets of Japanese vehicles. A study tour for the Metals Industry Development Institute (MIDI) officials was arranged in Japan

to meet Japanese firms that might be interested in Ethiopia and learn the Japanese approach to SME support including organizational arrangements and handholding support. GDF policy missions were organized to Kenya and Myanmar, the two countries that went ahead of Ethiopia in SKD car assembly and became quite successful. A series of policy papers were drafted and three automotive workshops were organized at MOTI to present our findings and policy recommendations. Besides MOTI and MIDI, additional meetings were held at EIC, MOF and PMO. Discussion with EIC was high-level and intensive as EIC was in charge of compiling a new automotive policy in the early years of Phase III. Germany's Volkswagen (VW) was interested in working with Ethiopia and concluded a Memorandum of Understanding (MOU) with EIC. Since VW's representative was in South Africa, we were not able to meet him. We instead had many discussions with the German Corporation for International Cooperation (GIZ) which assisted VW's activities in Ethiopia.

MOTI/MIDI, EIC and MOF worked separately to produce different aspects of the automotive policy such as technology, international cooperation, taxes and incentives which required good coordination. However, it became clear through our many discussions with them that such coordination was not occurring. We advised them to correct the situation and often acted as a catalyst to invite responsible policymakers to one place to share information and progress. After studying the Ethiopian and international cases and hearing from Japanese automotive makers, policy actions immediately needed in Ethiopia became evident, namely, (i) foreign currency shortage, (ii) restriction on used car imports, (iii) the incentive mechanism, and (iv) small domestic demand (see section 6). These were put into a series of papers and presentation for the reference of key policymakers.

It is noteworthy that the Ethiopian government already rectified (or began to rectify) some of these weaknesses. Severe restraints on used car imports were suddenly introduced in 2019 which had immediate and dramatic effects on the rise of new car sales and the fall of used car sales. It is difficult to ascertain how much influence our advice had on this policy shift. It is a welcome move though it could have been introduced more gradually and with prior announcement. Another important fact is that MOF made two adjustments in the automotive tariff structure partly in the context of an overall regular tariff review of all sectors. There are some laudable points in the recent tax changes including penalizing used car imports and encouraging electric and other advanced cars. However, the automotive tax structure remains incomplete because a fundamental revision to incentivize domestic assembly and discourage new car imports is not yet in place.

It should also be noted that policy recommendations given by non-Japanese experts to Ethiopian authorities are quite different from what we regard as standard policy measures. This includes advice offered by the German group (VW and GIZ) that explored the possibility of auto parts export and establishment of a specialized automotive industrial park, and consultation by Alec Erwin, a former industrial minister of South Africa, whose framework is highly South African. Excessive attention to such frontline topics as electronic cars and car-sharing may be amiss in Ethiopia where the car industry is still primitive and the basics must be learned first. As the Ethiopian automotive market is sure to grow steadily in the future (even with fluctuations), continued automotive policy advice from Japan is essential to improve the business environment and ensure the healthy growth of the industry[5].

[5] Our research on Myanmar found that its government, despite the lack of knowledge of the automotive industry, produced a simple but effective automotive policy by listening closely to Japanese automotive makers and experts. Myanmar's automotive policy prompted many foreign car producers to invest or expand in Myanmar including the construction of Toyota's first assembly plant

2-2-3. Policy support for Japanese firms partnering with Ethiopian firms

Apart from the automotive sector, the Japanese policy dialogue team was also happy to work with the Ethiopian government to attract foreign (especially Japanese) investors to develop sectors Ethiopia wanted to promote. For this purpose, we can pick any sector because policy lessons may be learned in any sector provided that the unique features of the sector are duly recognized. It is our belief that policy learning must be done on the ground, at *gemba*, by choosing a specific industry to work on, studying its peculiarities and considering Ethiopia's uniqueness, to come up with concrete and differentiated solutions for chosen sectors through trial and error. Pragmatic policy knowledge cannot be had by general theory, classroom instructions or hotel conferences alone. This is also the way to avoid cookie-cutter mold solutions that ignore characteristics of individual countries and sectors.

It is essential that government and academicians support what firms want to do based on their business strategies, not by telling them what they should contribute to the development of the national economy. Many ask which industries Country X should pursue, but it is ultimately up to the private sector, both domestic and foreign, to invest, produce and expand. The policy dialogue team had no intention to develop any particular sector of Ethiopia by its advice alone but tried to identify current and/or potential objectives of individual business firms and assisted their realization from the sideline. Unless we detect a sign of keen business interest by Japanese firms, we did not analyze the situation or propose policy actions. In this sense, we were passive supporters.

There are many Japanese firms in various sectors interested in Ethiopia. We had many meetings with them and collected relevant information. We supplied requested information, especially on policy matters, and provided opportunities for Japanese firms to access relevant Ethiopian authorities[6]. This included such sectors as apparel, cigarettes, telecom, steel, horticulture, industrial park management and the environmental technology industry. Among them, our policy support was most intensive in the automotive sector (as already explained) and the apparel sector either because Japanese firms approached us for policy help or because we detected great potential for the involvement of Japanese firms from the unfolding situation. Needless to say, we took the utmost care to protect the trade secret of each firm in providing such support except in cases where firms already publicly announced their business plans in Ethiopia or they explicitly absolved us of confidentiality.

In the apparel sector, Itochu Corporation[7], together with its Japanese business partners, publicly declared that it was interested in working with apparel firms operating in Ethiopia so they could export regularly to Japan by improving quality, lowering cost and using domestic cotton. It sought our assistance in approaching Ethiopian policymakers. We arranged an apparel workshop at MOTI in August 2018 where Itochu

(GRIPS Development Forum, "Myanmar Mission Report: full English translation," January 2020). However, the military coup in February 2021 generated economic chaos and hampered the smooth growth of the automotive industry in Myanmar.

[6] JETRO offers professional support to Japanese firms interested in international business. The JETRO Addis Ababa office was established in 2016 at the strong request of Prime Minister Hailemariam. The Ministry of Economy, Trade and Industry (METI), the Japanese embassy, JICA also support Japanese firms doing business in developing countries. In Ethiopia, UNIDO, in cooperation with METI, additionally provide information and services for interested Japanese firms. These organizations provide factual, procedural, technical and marketing information and provide financial assistance while our support is mostly confined to policy areas.

[7] Itochu, established in 1858, is one of the oldest and largest general trading houses in Japan. It operates the largest overseas apparel business among Japanese trading houses. The firm is famous for its long-standing corporate slogan of *Sampo Yoshi*, or the simultaneous pursuit of the benefits of the firm, its customers and the society at large.

representatives were the main speakers. Itochu chose two partner apparel firms operating in Ethiopia, one local and another Bangladeshi, began to cooperate with EIC, EKI and Ethiopian Textile Industry Development Institute (ETIDI), mobilized Japanese apparel experts, and received support from the Japanese METI. Progress was reported to the policy dialogue team regularly and we provided any additional support necessary. The interim results of the project were publicized at the TICAD7 exhibition in Yokohama in August 2019 which included the signing of an MOU between ETIDI and Itochu to support the quality enhancement of the apparel industry. A METI-sponsored large workshop at Skylight Hotel in Addis Ababa was also organized in February 2020. However, the project has since November 2020 been suspended due to the Tigray situation.

It is our belief that linkage creation between domestic and foreign firms should start on the demand side. The government should identify foreign firms seriously considering domestic procurement and assist what they want to achieve rather than improving productivity or developing a new product randomly without finding customers assuming that a good product will naturally generate demand (which is often not the case). A serious buyer gives concrete and rigorous instructions for improvement whose realization assures a market. Thus, the producer does not have to spend time or money to "improve" in areas not desired by the market. It is better to let private firms find business opportunities rather than governments doing supply-side projects.

2-2-4. Industrial park management

Industrial park construction and operation by the state have become an important pillar of Ethiopian industrial policy. In the 2010s, the government raised it to the top policy instrument in FDI attraction and FDI-assisted industrialization. Considerable policy attention and financial resources were mobilized including the issuance of Eurobonds to partly fund the development of industrial parks. This policy was started with the construction of Bole Lemi Industrial Park Phase I in Addis Ababa followed by the flagship industrial park in Hawassa. By now, more than ten state-run industrial parks have been built or are in the process of construction across Ethiopia.

However, we found certain irregularities in the planning and management of Ethiopia's state-run industrial parks from the viewpoint of service provision and financial viability. Despite great effort expended by Ethiopian leaders and officials, Ethiopia's parks are in many aspects different from the parks we know in Southeast Asia where a large number of host countries and park developers fiercely compete for tenant firms. The policy dialogue team inspected the parks in Bole Lemi, Hawassa, Mekelle and Dire Dawa (more than once for the first two) and frequently exchanged views with Arkebe Oqubay (Senior Minister and Special Advisor to the Prime Minister) and Fitsum Arega (EIC Commissioner), the two top officials in charge of industrial parks at that time. Information and advice were collected from the investment promotion team of the JICA's Ethiopia Industrial Promotion Project as well as a Japanese industrial park expert who successfully built and operated industrial parks in Cambodia. Our observations were summarized in a policy note and submitted to Ethiopian policymakers but they did not gather much interest or attention. Nevertheless, we believed our ideas were valid and continued to present them on various occasions.

In the 2010s, Ethiopian industrial parks appeared successful as foreign investors poured into newly created yet still limited industrial areas with reasonable infrastructure and services. By the 2020s, these parks began to face problems arising from external factors such as political and policy instability and the global pandemic.

Such vicissitudes are normal and expectable in the industrial park business. Ethiopia needs advice on the sound management of industrial parks through good and bad times. The key idea is that industrial parks are a customer-oriented commercial real estate business and that they should be managed for long-term profitability and cost-effectiveness in providing facilities and services. Resilience must also be ensured against business ups and downs which are inevitable in any property business. Our policy recommendations were given in the GDF policy notes of 2017 and 2019, which were repeated in the GDF's FDI policy paper (2021) and the PSI and GRIPS's Ethiopia FDI Policy Report (2022). They can be summed up in the following six points[8].

1. Industrial parks must have multiple revenue sources, not just rents from land and factory sheds.
2. Park developers should offer supporting services selectively and strategically.
3. One stop service should be introduced functionally rather than physically.
4. Industrial parks must have contingency plans for low times.
5. Industrial parks should be sector-neutral and invite all sectors.
6. Diverse space choices should be available for renting land and sheds.

Details are provided in section 4-4 below.

2-2-5. Commenting on key policy documents

In Phases I and II, Prime Minister Meles and Prime Minister Hailemariam directly sought our advice in the drafting processes of GTP I and GTP II, the two consecutive five-year national development plans. In particular, Prime Minister Hailemariam in 2013 personally requested GRIPS to support the drafting of GTP II (along with the improvement of think tanks) at the time of his visit to Yokohama for TICAD V. He also assured us that our advice would be valued and visibly incorporated in the final document. We responded by providing ideas and many of them—the light manufacturing vision, kaizen philosophy, stress on quality, productivity and competitiveness, etc.—did enter GTP II extensively. In Phase III, however, we were not invited to assist the drafting process of forthcoming plan documents in a similar way though occasional consultations were made with the PDC and the Macroeconomic Team. Even so, we continued to collect information on the drafting schedule, process and writers as well as the main contents. Information pertinent to the industrial policy was gathered with special interest.

There were four main national development documents related to the industrial policy since 2018 under the Abiy administration: (i) A New Horizon of Hope which is just a large one-page policy matrix (Spring 2019; we did not receive an electronic file); (ii) the Homegrown Economic Reform Agenda (HERA) (English slides were given in September 2019); (iii) the Ten Year Perspective Development Plan 2021-2030 (the Ten Year Plan) approved by the Parliament in March 2021; and (iv) the MOTI's sectoral document for executing the Ten Year Plan, around the same time. According to PDC, which was tasked to compile national plan documents, a five-year plan was to be created *after* the Ten Year Plan was approved but we were informed at the end of

[8] See Kenichi Ohno, "Hawassa Industrial Park: Impression from a Japanese perspective," GRIPS note (February 2017); Kenichi Ohno, "A Note on Industrial Park Policy in Ethiopia," GRIPS (May 2019); GRIPS Development Forum Report, *FDI Policy for Enhanced Value Creation in Ethiopia: Situation Analysis and Policy Proposals* (October 2021); and PSI & GRIPS, *Ethiopia FDI Policy Report* (2022).

2022 that this idea was no longer valid. In the past, Ethiopia's top national development documents had been five-year plans. Since 2020, they were replaced by the Ten Year Plan and its related documents.

We had some difficulty in gathering information about and receiving copies of these documents. We had access to summary slides via indirect channels but original documents were slow to be circulated. We met the commissioner and deputy commissioner of PDC who provided pertinent information verbally. High officials of PMO, EIC, MOTI, PSI, etc. were also consulted. The meetings with the key members of the Macroeconomic Team (see Appendix 1) were especially useful.

Documents (i), (ii) and (iii) above were created consecutively during 2019-2021. The document size increased from a one-sheet matrix to a full 200-page official document endorsed by the Parliament. Among these documents, some contents overlap but there are differences as well (including targeted sectors). Some critical issues, such as concrete industrial visions, the precise relationship between market force and official intervention, and the details of sectoral promotion policies were less than clear. There remain several ambiguities in Ethiopia's current development strategy despite our many inquiries. We were not given an opportunity to clarify these directly with Prime Minister Abiy—unlike our long discussion and letter exchange on the economic philosophy of ADLI and latecomer industrialization with Prime Minister Meles during 2008-2009.

Unlike his two predecessors who directly managed economic development on a day-to-day and month-to-month basis, Prime Minister Abiy does not personally involve in the making of concrete economic policies. He delegates economic issues to his Macroeconomic Team, a group of selected officials from several organizations including PMO, MOF, EIC, PDC and the National Bank of Ethiopia (NBE), and hears their reports. This was confirmed by the Macroeconomic Team itself as well as by the statement of former Prime Minister Hailemariam.

Because the direct approach to Prime Minister was not granted, we remain unsure which of the following explanations, or a completely different one, is true.

(i) Dr. Abiy is deeply interested in industrial development and has a consistent economic philosophy but is currently too busy with other burning issues to express them clearly.

(ii) Dr. Abiy is unfamiliar with economic issues and has no long-term philosophy or strategy for industrial development (other than the privatization of state-owned enterprises, dealing with foreign exchange shortage and other immediate issues).

(iii) The Abiy administration disowns (or places less importance on) industrial activism and selective intervention which were the hallmark of the governments of Mr. Meles and Mr. Hailemariam.

Some Ethiopian high officials remarked that Prime Minister Abiy effectively handled many economic questions during the government retreat in 2019. We also heard more than once that he was eager to develop the automotive industry but details of his automotive strategy remain unknown[9]. He was also reported to emphasize the value of kaizen. But these do not sufficiently reveal his underlying economic philosophy.

If case (iii) above is correct, Ethiopia is shifting from the active developmentalism of the Meles years to

[9] Under the Abiy administration, the drafting of Ethiopia's first automotive policy was delegated to EIC. This was odd because EIC was an investment promotion agency with no technical knowledge of any particular industry. EIC worked with Germans and South African experts. MOTI thought the drafting of this policy should be its mandate. MIDI under MOTI worked separately from EIC on this policy. Meanwhile, MOF dealt with taxes, tariffs and incentives of the automotive sector. Given this situation, we did not perceive any clear direction coming from the prime minister.

the economic neo-liberalism of Washington Consensus type which used to be dominant in the 1980s and part of the 90s but is now almost extinct in the development world. Is Ethiopia reverting to the discredited model of free markets? This would have been an interesting topic to discuss with the prime minister and other leaders of the Ethiopian government.

In separate sections, the features of the Abiy government in comparison with the preceding two governments (section 3), our assessment of HERA and the Ten Years Plan (section 5), and the analysis of the automotive sector (section 6) will be presented in more detail.

2-2-6. Other topics and issues

There are other topics and issues which attracted the attention of the Ethiopian leaders during Phase II and III. The Japanese dialogue team intended to follow them up and pursued some of them partially during Phase III but did not come to full materialization for various reasons. Policy dialogue is an intensive real-time interaction with the government of a developing country under changing circumstances and does not by its nature guarantee completion of all planned agenda. Shifts in external factors, dialogue partners and policy interests of the government are normal and inevitable. Uncompleted or partly completed policy studies and actions in Phase III included the following.

QPC support

Because the previous five-year plan (GTP I) was heavy on quantitative targets but hardly mentioned quality, productivity and competitiveness (QPC), we recommended the inclusion of this aspect in GTP II. To our pleasant surprise, the phrase QPC was extensively used in the final edition of GTP II. However, the government (especially MOTI) admitted that it did not possess sufficient knowledge to concretize this policy. MOTI asked Japan to become a lead donor in QPC promotion and we welcomed the prioritization of QPC. But QPC policy is not a separate entity different from standard industrial policy. It is the *objective* of virtually all industrial measures that include human resource development, SME support, export promotion, FDI attraction, sectoral promotion, technology and linkage, standards and certification, ethical correctness, and so on. QPC is achieved by properly executing these well-known policies. The past and present Japanese industrial cooperation in Ethiopia, including kaizen[10], had always aimed to upgrade QPC. The gap between this understanding of ours and the Ethiopian expectation of a new Japanese assistance package for QPC persisted without resolution. We could have argued that the successful application of all ongoing Japanese industrial cooperation projects was our contribution to QPC, but we did not insist on this.

Handholding

However, the policy dialogue team did try to introduce one new policy for QCD. Industrial human

[10] The full title of kaizen cooperation is the JICA-supported Project on Capacity Development for KAIZEN Implementation for Quality and Productivity Improvement and Competitiveness Enhancement (2015-2020).

resource and enterprise development support were two critical pillars of industrial policy. However, Ethiopia's SME policy was sporadic and undeveloped (except kaizen). SME promotion covers a very wide area including management, technology, finance, export, marketing, product development, labor, environment, etc. It is difficult to quickly improve all these aspects in Ethiopia. Institution building (an SME law, an SME agency, the shindanshi system, etc.) is also highly desirable but will take great effort, time and resources. Our intention was to add one element in SME promotion with proper design rather than installing many components thinly and superficially. For this purpose, we chose handholding (also known as yorisoi or hands-on SME support). It is intensive and customized support for a small number of selected SMEs with one concrete business goal for each firm and a time limit of two to three years. Handholding is commonly practiced by many central and local SME support organizations in Japan. It is also conducted by the Japan External Trade Organization (JETRO) for SME export as well as SME support agencies in Taiwan, Korea, Malaysia, etc. The Industrial Policy Dialogue attempted to introduce a pilot model of handholding support to Ethiopia in a simplified and limited way.

Resources were set aside, seminars were held to explain the concept to relevant officials, MIDI was chosen as the key partner (because we wanted to work on the metal and engineering sector in consideration of possible linkage with the automotive sector), several candidate firms were identified and visited, and a Japanese expert team was mobilized to professionally evaluate the candidate firms. However, our activity did not proceed beyond this point for multiple reasons. First, JICA introduced a new project—the Project on Business Development Service (BDS) Enhancement for Enterprises Growth—which included a component to provide handholding support to local SMEs[11]. It is also important to note that the export promotion team of the Industrial Promotion Project took the handholding approach to create champion products in the leather and leather products sector with the newly created brand of Highland Leather. As a result, handholding support to SMEs was implemented as part of the related JICA-supported projects and activities. Second, the general director and other key counterparts at MIDI subsequently left the government which reduced the effectiveness of the project (see below). Third, some candidate firms had to be removed from the already finalized list due to one firm's refusal to work with Ethiopian officials and a new conflict of interest with a Japanese automotive company[12].

Review of past productivity tools

MOTI Minister Ahmed Abitew argued that, before pursuing QPC further, the past policies for productivity should be critically reviewed for missing elements. This was a reasonable suggestion. The policy dialogue team implemented a review study of kaizen, business process re-engineering (BPR) and twinning (pairing of foreign and domestic technical institutions for coaching). A local consultant firm, IPE Global in Addis Ababa, was selected by competitive bidding and conducted a review study based on the information and instruction provided by the policy dialogue team. The result was reported in a

[11] JICA and GRIPS agreed, after a series of discussions, that new JICA projects would replace handholding prepared by the policy dialogue team. Handholding on a smaller scale was continued on the selected metal and engineering firms by the BDS project.

[12] After the handholding support began, Isuzu announced its plan to assemble medium-sized trucks in Ethiopia in collaboration with Kaki, a local private firm. We dropped a candidate firm that assembled Chinese trucks as it competed with Isuzu in truck sales. We instead decided to support Isuzu from the perspective of policy and relation-building with the Ethiopian government.

workshop at the MOTI in August 2017 with the attendance of two state ministers of industry, some officials of industry institutes and EKI[13].

Capacity building of MIDI

As mentioned above, we worked with MIDI under MOTI not only to implement handholding but also to build capacities at MIDI. The textile and leather institutes (ETIDI and Leather Industry Development Institute (LIDI)), also under MOTI, were awash with donor assistance of various kinds but institutes of other sectors received much less donor support. Since Japan was experienced in manufacturing cooperation (especially engineering and machinery)[14], we deemed it appropriate that the policy dialogue team took up this relatively neglected sector. We had meetings with the MIDI director general and his team every time we visited Addis Ababa for information exchange and project promotion. MIDI also arranged many visits to related local firms for us. We invited the director general and three officials from MIDI to Japan in 2018 for an intensive study tour that included numerous discussions on SME support, engineering and automotive sectors as well as visits to one automotive firm and three factories in Kanto and Kansai. However, within a year or two after the Japan tour, all participants but one, including the director general, left MIDI for various reasons. One remaining person was promoted to the director general and we continued to have regular discussions with him. But he was also replaced by a new director general in 2021. Frequent personnel changes are common in Ethiopia but this all-out change of our MIDI counterparts posed a serious problem in continuing our support.

Sideline support for a Japanese industrial park

One of the ways to improve industrial park management in Ethiopia was to dispatch an experienced Japanese industrial park manager for a concrete task. During our policy study mission in 2015 (Phase II), we found such an expert in Cambodia. Mr. Hiroshi Uematsu was the CEO of the Phnom Penh Special Economic Zone (PPSEZ) who successfully created this SEZ by inviting many Japanese firms. He was eager to take up a new challenge in Africa and agreed to set up a small industrial park with rental factories in Ethiopia to attract Japanese investors. We invited him to Ethiopia to collect information and talk to officials including a presentation at HLF (Phase II). Mr. Uematsu set up a Japanese company to implement his project and dispatched young staff to Ethiopia for further preparation. He encountered many problems but he initially thought they were no greater than those in Cambodia. Subsequently, during Phase III, he joined the investment promotion team of the JICA's Ethiopia Industrial Promotion Project to support the activities related to IPDC. The policy dialogue team worked closely with him. He was also supported by the Japanese embassy, JICA and JETRO, and his plan was publicized in the Nikkei Newspaper, Japan's

[13] Although the policy dialogue team provided detailed information and instruction to the local consultants, the result was not up to our expectation. Most "findings" were already known to us and Ethiopian officials. Many pages were devoted to the analysis of kaizen by extensively citing the documents supplied by us instead of conducting new interviews.

[14] In Phase I, JICA and the Metal Products Development Center (MPDC, the predecessor of MIDI) conducted a joint study on the basic metals and engineering industries (BMEIs). Toru Homma, JICA's senior advisor on private sector development, together with German experts, were intensively engaged in this study.

leading business media. However, Mr. Uematsu eventually had to end his project mainly due to greater-than-expected impediments imposed by the Ethiopian government. This included a unilateral large land rent increase after the agreement was reached; a forced change of the implementation site from Kilinto Industrial Park to Bole Lemi II; inability to assure quality in building park infrastructure; and the general unpredictability of policy direction and park costs. He returned to Cambodia where the investment climate was more predictable.

The JETRO model

Prime Minister Hailemariam seriously wanted a JETRO office in Ethiopia. He even negotiated it directly with Prime Minister Shinzo Abe. He believed that the presence of JETRO would accelerate Japanese investment. In response to his enthusiasm, the JETRO Addis Ababa office was established in July 2016. Later, we detected a sign that the Ethiopian government wanted more from JETRO. To create an effective agency to promote export and FDI, the adoption of the JETRO model was considered. Dr. Arkebe Oqubay who then was the key minister in Ethiopian industrialization expressed interest to learn more from JETRO, and we conveyed his request to JETRO. A closed workshop on the functions of JETRO was organized in Addis Ababa and Mr. Tadesse Haile (State Minister at PMO) who attended it emphatically praised its content. However, Dr. Arkebe was unable to attend. After this workshop, the interest in the JETRO model seems to have waned.

Invitation to capital-intensive mega projects

We received urgent requests from MOTI to assist large-scale national industrial projects which, from the Japanese standpoint, did not seem appropriate to Ethiopia's current capacity, development stage and macroeconomic conditions. They included a large integrated steel mill, a petrochemical complex with an extensive pipeline network, agro-industry parks[15] and SME industrial parks. We politely and quietly stayed out of these megaprojects. The request for Japan to participate in the integrated steel mill was repeatedly made by the MOTI minister but we did not give a clear answer. The policy dialogue team did examine the Feasibility Studies (F/S) report conducted by a British steel consultant firm which we found less than convincing[16]. Other big projects were studied and even implemented by multiple donors and international consultants including the United Nations Industrial Development Organization (UNIDO), India, China, the United Kingdom (UK) and the US. We remained uncomfortable with the proposals of large capital investments or sector-specific industrial parks featuring agriculture, SMEs, etc.

[15] The idea of agro-industry parks was already there when we started policy dialogue in 2008 (then supported by the United Nations Development Programme: UNDP). We regarded this as too costly, ambiguous and ineffective and made no further inquiries. The proposal continued to survive with shifting project names and donors.

[16] In 2000-01, GRIPS was engaged in an intensive policy discussion with Vietnam Steel Corporation on the feasibility and design of an integrated steel mill together with a Japanese professor specializing in the Asian steel industry and a JICA expert from Nippon Steel. We argued that a huge and expensive state-owned steel mill was a high risk for Vietnam whose steel demand was still small and policy and project management capacities were insufficient. Ethiopia's current conditions are less favorable than Vietnam two decades ago. We shared our Vietnam documents with Ethiopian authorities but received no response.

Even with these less-than-perfect results, we believe industrial policy dialogue is worth conducting. As noted above, policy dialogue does not ensure the completion of all proposed actions because it explores new policy grounds through trial-and-error in the unique context of the host country rather than following a well-established blueprint or scenario. As a result, not everything goes as planned and some activities remain unfulfilled. That is natural and inevitable in any policy dialogue.

The rest of this report turns to policy substance and presents the selected highlights of policy analysis and related documents we produced and shared with the Ethiopian authorities during Phase III.

3. Changing Ethiopia

3-1. Economic strategies of the three prime ministers

Our industrial policy dialogue spanned the administrations of three prime ministers: Prime Minister Meles Zenawi (1991-2012), Prime Minister Hailemariam Desalegn (2012-2018) and Prime Minister Abiy Ahmed (2018-). Each had his style of governing and working with donors including Japan. There was a particularly strong style difference between the first two and Dr. Abiy. Because our dialogue was conducted at high levels (including the first two prime ministers), changes in the Ethiopian government affected the modality of our dialogue significantly, especially before and after 2018. More importantly, each government designed and implemented economic policies differently. Below we summarize the most salient features of these three prime ministers.

Table 1 contains the brief history of Ethiopia in the last several decades covering Emperor Haile Selassie, the Derg and the three prime ministers. More specifically, Table 2 compares the policy styles of the three prime ministers as observed through our policy dialogue which greatly affected the political and economic course of events in Ethiopia.

Prime Minister Meles

Prime Minister Meles, who requested kaizen cooperation and policy dialogue to Japan in 2008, was a national leader who read many books and articles, attended academic conferences, listened to the opinions of many economists, exchanged letters and emails with them (including our team), and wrote papers advocating an escape from the neoclassical economic doctrine (Washington Consensus: WC). One of his papers was published in a conference volume[17]. Democratic developmentalism (DD), an academic concept that emerged from the conferences he was attending, was adopted as Ethiopia's economic philosophy as distinct from the WC or East Asia's authoritarian developmentalism (AD).

In our dialogue and letter correspondence, Prime Minister Meles defined DD as "a regime that conducts developmental policies continuously by delivering developmental results and thereby winning free multiple-

[17] Meles Zenawi, "States and Markets: Neoliberal Limitations and the Case for a Developmental State," chapter 5, A. Noman, K. Botchwey, H. Stein & J.E. Stiglitz, eds., *Good Growth and Governance in Africa: Rethinking Development Strategies*, Oxford University Press, 2012. In the same volume, Izumi Ohno and Kenichi Ohno of GRIPS also contributed a chapter, "Dynamic Capacity Development: What Africa Can Learn from Industrial Policy Formulation in East Asia" (chapter 7).

Table 1. Brief Political and Economic History of Ethiopia

Emperor Haile Selassie 1930-74	• Invasion by Italy (1936-41), dictatorship thereafter
Socialist military regime of Mengistu Haile Mariam 1974-91	• Political purge, famines, a large number of refugees • Collapsed by the advancement of anti-government forces
President/Prime Minister Meles Zenawi (Ethiopian People's Revolutionary Democratic Front: EPRDF) 1991-2012	• Federalism, a new constitution, coping with the Eritrean problem • The idea of Agricultural Development Led Industrialization (ADLI) • Turning to development and industrialization around 2003 • PM guides drafting of industrial, agricultural and other strategies • Denial of neo-classical liberal economic doctrine and learning of Asian development models • Prioritized promotion of food processing, leather, garment, etc. • Sending staff to Korea, adopting monthly national export council • Discussion with renowned scholars supporting state-guided development such as Stiglitz, Rodrik • Industrial policy dialogue and kaizen with Japan since 2009 • Top sales invitation of Turkish, Indian, Chinese, etc. FDI
Prime Minister Hailemariam Desalegn (EPRDF) 2012-18	• Developmentalism continued, GTP II, strengthening of kaizen, inviting Japanese FDI • Creation of state-run industrial parks • Resignation following domestic instability
Prime Minister Abiy Ahmed (Prosperity Party) 2018-	• Delegating economic policy to Macroeconomic Team • Moving away from active intervention? Working closely with Washington institutions • State-owned enterprises (SOE) reform, coping with debt and foreign currency shortage, planting trees and beautifying Addis Ababa, resumed the World Trade Organization (WTO) accession negotiation • Homegrown Economic Reform Agenda (HERA) and Ten Year Plan • Regional, ethnic and religious tension escalates to the Northern conflict with Tigray and other violent crashes elsewhere

party elections consecutively." He listed three components of Ethiopian DD: (i) a strong state that encourages value creation and punishes rent-seeking, (ii) political stability based on the support of numerous small farmers (not big capitalists), and (iii) agricultural development led industrialization (ADLI)—a mechanism where agricultural growth prepares conditions for full-fledged industrialization via strong linkage between the two sectors. Entrepreneurs, whether domestic or foreign, are not viewed as unconditional allies of Ethiopian development as they may fall into rent-seeking patterns. Government must guide them by the carrot and the stick. The typical example of this was the leather industry which was prohibited from exporting unprocessed skins and hides and at the same time assisted by the technical and training support of LIDI, an active use of international cooperation including the twinning of LIDI with India, the prioritized allocation of loans and foreign currencies, and continued policy attention.

Prime Minister Hailemariam

Prime Minister Hailemariam was equally eager to discuss developmental issues with Japan. He expressed a strong desire to strengthen three components of industrial cooperation with Japan, namely, industrial policy

Table 2. Comparison of Three Prime Ministers

	PM Meles	PM Hailemariam	PM Abiy
Background	From Northern Tigray; from student to armed fighter; ends Derg rule	From Southern Nations, Nationalities, and People's Region (SNNPR); civil engineering; teaching experience; from Deputy Prime Minister and Foreign Minister to PM	From Oromia; military, Member of Parliament, Science and Technology Minister; elected by party to PM
Governing style	Suppressing oppositions; top-down quick decision making	Balanced and moderate; not authoritarian	Introduction of bold actions and reforms
Development philosophy	Rejects WC; adopts Asian developmentalism; writing papers and attending conferences	Continuation of developmental policies; starts a shift from state-led to private sector-led development	Indirect management of economy through Macro Team; a shift from developmentalism to more traditional WC policies?
Industrial policy	Monthly export steering committee; national expansion of TVET and agri. extension; kaizen; carrot-and-stick promotion of priority sectors; FDI attraction	Strengthen EIC; build industrial parks (Dr. Arkebe); continued FDI attraction; passion for deepening kaizen	Partial sales of SOEs and introducing competition; close cooperation with World Bank; coping with economic crisis and worsening foreign currency shortage
Domestic politics	Democratic Developmentalism; in reality, one-party rule	Fails to manage erupting violence and instability	Medemer philosophy; urges ethnic unity; release of political prisoners; talks with opposition parties; instability continues; Tigray problem
Foreign diplomacy	Balanced relations with West, China, India, etc.; mediating and sending troops to unstable neighbors	Same as left	Active interaction with West, Middle East, international organizations; Nobel prize; friction with West over Tigray
Other	Good memory; leadership in climate change debate; discussion with investors and scholars	Continue dialogue with Japan; request Japan's support for GTP II at TICAD V (Yokohama)	Young (born in 1976); meets only state heads and VIPs

dialogue, kaizen and attraction of Japanese FDI.

On the occasion of TICAD V in Yokohama in May 2013, Prime Minister Hailemariam requested three things to GDF: (i) advice on GTP II (next five-year plan), (ii) the role of the newly established National Planning Commission, and (iii) the reform of EDRI (government think tank). Regarding (i), various suggestions were subsequently offered to Ethiopia during the drafting process of GTP II and many of them were incorporated in the final document such as the vision of becoming Africa's light manufacturing leader, stress on the kaizen philosophy and creation of the kaizen roadmap, and the importance of quality, productivity and competitiveness (QPC) which was missing in the previous plan documents. QPC thus became an important industrial goal of Ethiopia. However, the government in general and MOTI in particular admitted that they were unsure about the necessary concrete measures for QPC and needed further learning. Regarding the think

tank, EDRI was merged with PSRC, another government think tank, in 2018 to become the Policy Studies Institute (PSI) with which GDF continued to work closely. GDF provided consultation and gave a workshop on the proper role of a government economic think tank at the request of Mr. Ahmed Abitew, then Director General of PSRC.

Prime Minister Hailemariam was passionate about elevating kaizen to a national mindset rather than a bunch of convenient tools. He stated, "Some firms regard kaizen as already mastered when cost reduction or productivity improvement is attained after a few months' effort. Some consider kaizen as a short-term tool. Kaizen must be a philosophy that must be implemented endlessly… Kaizen should not be a fad that disappears in a short time. I constantly talk to my people about this risk through the media. In some countries, kaizen evaporated before it took root. That should not happen in Ethiopia" (dialogue at the PMO, February 25, 2014). He brought up kaizen in virtually every dialogue session with us.

Prime Minister Hailemariam was also emphatic about attracting Japanese firms: "My wish is to invite as many Japanese investors and trading houses as possible. The current number is too few. We will continue to make effort, and I believe JETRO will lend us a great helping hand. I have seen the superb functions of JETRO since my Foreign Minister days. I request the establishment of the JETRO Office in Ethiopia. The presence of Japanese firms gives us a role model that no other country can provide." His vigorous campaign with Prime Minister Abe and other Japanese leaders brought the JETRO office to Addis Ababa in July 2016 where Prime Minister Hailemariam attended the inauguration ceremony.

Prime Minister Abiy

Prime Minister Abiy's priorities and strategies are only indirectly known to us through media reports and high officials because we were not given a chance to directly meet and talk to him, unlike his two predecessors.

Prime Minister Abiy surprised the nation by announcing a policy to partially sell (privatize) state-owned monopolies and/or allow (mostly foreign) private competitors to enter the telecom, logistic and airline sectors. This was a departure from the Meles' policy to retain "essential" sectors in the state hand. A foreign competitor firm (Safaricom-Vodafone-Sumitomo group) was already introduced in the telecom sector but liberalization in other sectors turned out to be slow. Another policy shift was a closer relationship with the World Bank and the IMF, from which the previous prime ministers stayed aloof, to promote the above-mentioned liberalization policy and secure external financing. The government and the IMF agreed on program-based balance-of-payments financing. The effort to improve the World Bank Doing Business ranking, started by Mr. Hailemariam, was also continued[18]. The Abiy administration also had to cope with the severe shortage of foreign currency, a perennial problem for Ethiopia which got worse in recent years.

However, these policy actions do not collectively tell us where the Ethiopian economy is heading or what development strategy Ethiopia wants to adopt. The long-term vision is not made clear, unlike Mr. Meles who advocated ADLI and DD, shunned the WC and eagerly learned from East Asia. In particular, Dr. Abiy's position in the global developmental debate remains unclear in such areas as the role of the market versus the state, general versus selective intervention, small versus wise government, etc. Neither do economic policy

[18] However, the World Bank announced the termination of this annual ranking exercise in 2021 due to the political scandal inside the Bank's management. It plans to start a new project, Business Enabling Environment (BEE) to replace the old exercise.

documents compiled under him (see section 5) give a sharp clue on this. One thing that is clear is Prime Minister Abiy delegates economic policymaking to his Macroeconomic Team[19] and does not directly instruct policy actions unlike Mr. Meles or Mr. Hailemariam did earlier. This point was confirmed by our interviews with Mr. Hailemariam, Ambassador Girma Birru (PMO) and the other key members of the Macroeconomic Team. It was also often suggested that Prime Minister Abiy was very busy with domestic political affairs ever since his assumption of power and had little time to spell out his economic vision. Whether this is the main reason for the relative paucity of his economic statements is moot.

Many officials informed us that Prime Minister Abiy was very keen on promoting the automotive industry. He mentioned this on many occasions including a parliamentary session, a government retreat and TV broadcast. This is encouraging because the automotive sector is of great interest to us. However, without direct discussion with him, we do not know exactly what he intends to achieve, his presumptions and priorities, and how and with whom he plans to develop this industry. EIC was initially assigned to draft the automotive strategy but this function was later taken over by MOI/MIDI. The roles of MOF and the Ministry of Trade (MOT) remain unclear. In a similar vein, we hear Dr. Abiy is in favor of kaizen but details are not revealed.

3-2. Increased social and economic instability

Besides the changes of government, two factors that are beyond our analytical purview greatly affected our policy dialogue during Phase III. They are the global COVID pandemic that started in early 2020 and political uncertainty in Ethiopia that became evident during the previous government and continued to worsen since then. Both severely restricted our travel to Ethiopia and suspended person-to-person contacts and the sharing of the same space and time which are essential for effective bilateral dialogue. We resorted to remote discussions with our policy and research partners during most of 2020 and 2021, but emails and online meetings cannot substitute face-to-face meetings in building trust, confidence and the sense of working together. This is particularly so as many of our dialogue partners were replaced as a result of frequent government reshuffling and the Tigray problem. Some of them had to leave their positions and sometimes even the country. This required establishment of effective working relations with the new appointees but this was hardly possible via short online meetings.

Of these impediments, the effects of the COVID pandemic were global and well-known. Like many other countries, Ethiopia and Japan imposed a state of emergency and restricted international travel whose timing and strictness depended on each country's situation and policy. Our regular travel to Ethiopia, organized four times annually, was suspended after February 2020 and resumed only in April 2022[20].

Regarding domestic political instability, from around 2015, anti-government movements and violence spread widely and the state of emergency was declared, leading to the resignation of Prime Minister

[19] The Macroeconomic Team is a group of selected officials from PMO, MOF, PDC/MPD, NBE, EIC, etc. that directly and frequently assists and reports to PM Abiy. The key members with whom we often talked include Dr. Mamo Mihretu (Senior Advisor and Chief Trade Negotiator, PMO), Dr. Eyob Tekalgn Tolina (MOF State Minister), Dr. Fitsum Assefa (PDC Commissioner/MPD Minister) and Mr. Abebe Abebayehu (former EIC Commissioner).

[20] Travel to Ethiopia was not entirely banned (except late 2021-early 2022) but various controls and quarantine requirement for sanitary and security reasons rendered short-time visits impractical. For a one-week visit, COVID vaccination, many tests before, during and after the trip, frequent health reporting, and two-week quarantine upon return to Japan were required. There was also uncertainty about whether we could meet counterparts in person even if we were in Addis Ababa.

Hailemariam in 2018. Possible causes of instability included the end of the Meles rule which led to the emergence of opposition forces and ethnic enmity, rising youth unemployment, and the land acquisition problem that ignited the latent resentment. Under the Abiy administration, the military confrontation between the federal and Tigray forces which erupted in November 2020 added to the difficulty in direct contact with our Ethiopian counterparts. As the military situation aggravated in November 2021, most diplomatic missions had to evacuate the country. Since then, the situation calmed down and peace talks were organized. However, other social and political tensions—inside Oromia, between Amhara and Oromia, and between the National and Oromo Ethiopian Orthodox Church—are also destabilizing Ethiopia.

4. Policy analyses: where Ethiopia stands in export, FDI attraction and global competitiveness

This section gives the selected highlights of the policy research outputs of Industrial Policy Dialogue produced by GDF or jointly with PSI. The covered studies include the Ethiopia Productivity Report (February 2020), FDI Policy for Enhanced Value Creation in Ethiopia (October 2021), the Ethiopia FDI Policy Report (January 2022) and associated three-country surveys of the garment industry, and various policy notes on industrial park management whose suggestions are also incorporated in the Ethiopia FDI Policy Report. These studies collectively provide an overall assessment of Ethiopia's international competitiveness, especially in export-oriented light manufacturing. They are reported and circulated to relevant Ethiopian leaders and officials through report launching events, workshops, hardcopies, media and downloadable soft copies.

4-1. Productivity

The Ethiopia Productivity Report of 2020 was the first report that analyzed labor productivity and total factor productivity (TFP) of Ethiopia using standard theories and empirical methods. Its findings were highly appreciated by PDC (the drafter of the Ten Year Plan), the World Bank and the Millennium Challenge Corporation of the United States, among others. The latter two invited the Ethiopian principal author of the Report to Washington, DC to discuss its findings in two workshops organized by them. The key messages for Ethiopian policymakers can be summarized in the following ten points.

1. Ethiopia had reasonably high productivity growth but the absolute level is still low.
2. Heavy investment has been the main drivers of labor productivity in recent years.
3. Labor mobility from low- to high-productivity activities is limited in Ethiopia.
4. There is a fear of premature de-industrialization as rural labor migrates to services, not industry.
5. Diverse productivity performance is observed across various sub-sectors within manufacturing.
6. If (minimum) wages are not set rationally, there is the risk of losing the wage-productivity balance.
7. Ethiopian workers are trainable in skills, but attitude and discipline are lacking.
8. Ethiopian firms can learn from foreign methods in managing and incentivizing workers.
9. Locational differences in worker type are detected in Addis Ababa, Hawassa and Mekelle.
10. Severe external impediments to productivity exist (foreign currency, power, logistics, etc.)

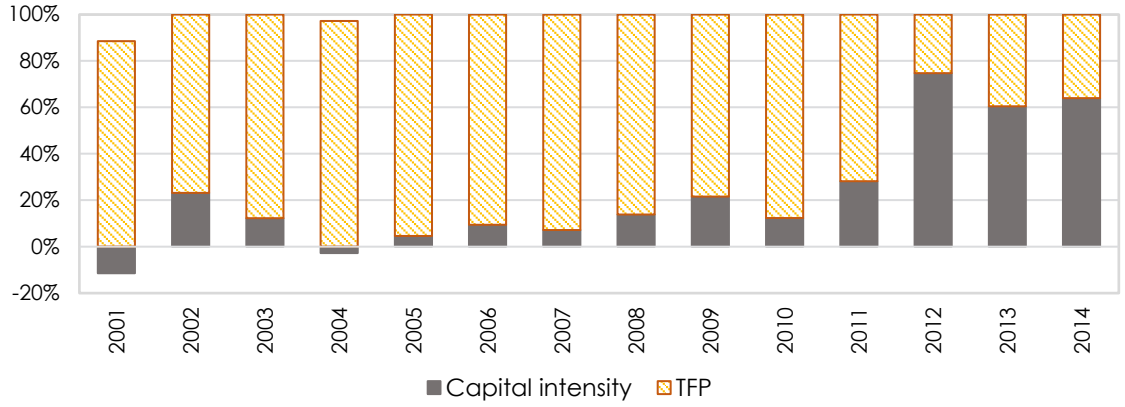


Figure 2. Contribution of Capital Intensity and TFP to Labor Productivity Growth

Source: Ethiopia Productivity Report (2020), p.28.

In what follows, corroborating data is selectively cited from the Report. Ethiopia's economy-wide labor productivity grew 4.94% per annum during 2000-2016. This growth can be decomposed into capital intensity (investment in machinery and equipment) and TFP (improved efficiency) as shown in Figure 2. In developing countries experiencing rapid industrialization, we expect both effects to be strong. The main driver of Ethiopia's labor productivity had long been TFP but after 2012 it shifted dramatically to capital investment. Heavy investment in infrastructure and other physical assets produced quantitative expansion without quality, and the cost ineffectiveness of large public investment projects was questionable. This is alarming because TFP should continue to be the strong driver of the Ethiopian economy in many years to come.

Using another standard decomposition, labor productivity growth can be divided into the within effect (productivity improvement in each sector), the shift effect (productivity improvement due to labor migration across sectors) and the interaction effect (secondary interaction between the two) as in Table 3. Labor productivity was initially driven largely by the within effect but its contribution gradually declined. The shift effect became larger. This is worrisome because Ethiopia needs to keep both effects active and large for a prolonged period to realize industrial transformation. The within effect should rise rather than fall, and the shift effect should also remain strong.

Table 3. Decomposition of Labor Productivity Growth: Shift-share Analysis

	Productivity Growth	Sources of Labor Productivity Growth			Contribution Shares to Labor Productivity Growth (%)		
		Within effect	Shift Effect	Interaction Effect	Within effect	Shift Effect	Interaction Effect
2004-2007	7.9	21.7	4.6	0.5	81.0	17.0	2.0
2008-2011	6.6	14.2	7.2	0.5	64.7	32.9	2.4
2012-2016	6.0	15.7	9.9	1.3	58.3	36.9	4.8
2004-2016	**6.6**	**79.5**	**26.7**	**15.5**	**65.3**	**21.9**	**12.7**

Source: Ethiopia Productivity Report (2020), p.31.

Table 4. Decomposition of Labor Productivity Growth by Sector, 2004-2016

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

Source: Ethiopia Productivity Report (2020), p.32.

The same decomposition can be used to reveal sector-wise dynamics as in Table 4. Agriculture was the greatest contributor to overall labor productivity growth followed by services and industry. This is not encouraging in a country where industrialization is a paramount goal. Moreover, agricultural labor moves mostly to services, and only modestly to industry. Ethiopia's internal labor migration not only is small but fails to follow the standard pattern of agriculture to manufacturing (then later to services). This may be a sign of "premature de-industrialization" which besets many middle-income economies. Within the industry, it is construction, not manufacturing, that mostly absorbs rural labor. Unlike East Asia, structural transformation is not visible despite Ethiopia's continued high growth and active policy support for manufacturing.

4-2. FDI policy

The FDI Policy Report of 2022 contained more concrete suggestions for policy reform than the Ethiopia Productivity Report which was heavier in data analysis and fact finding. FDI inflow into Ethiopia increased greatly in the 2010s and peaked at $4 billion in 2016. However, instead of further accelerating to tens of billion

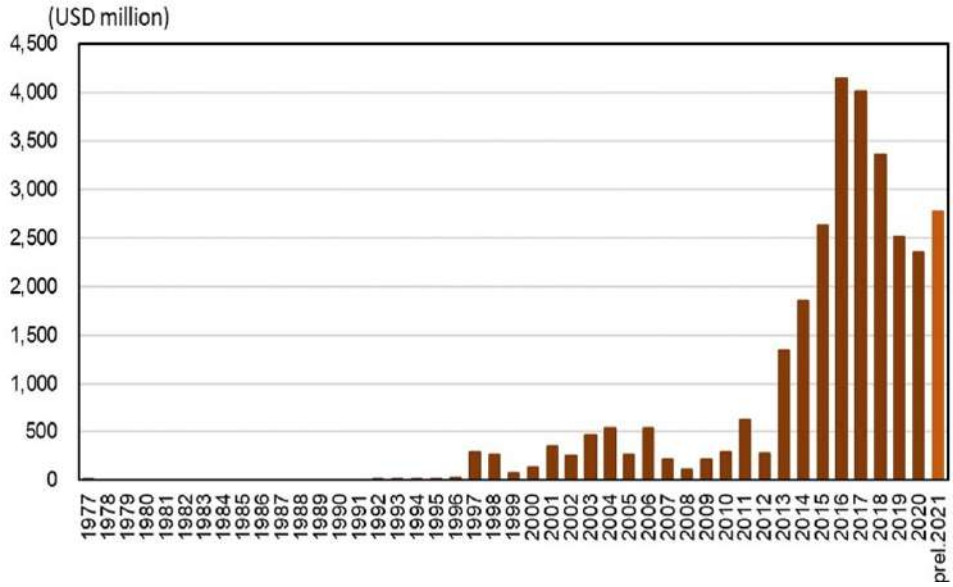


Figure 3. Net FDI Inflow into Ethiopia

Sources: For 1977-2019, World Bank, *World Development Indicators* (last updated on July 30, 2021, accessed on September 6, 2021. For 2020 and 2021, National Bank of Ethiopia data as reported in TradingEconomics.com is used which includes the license fee for foreign participation in the telecom sector amounting to $850 million; supplemented by recent news reports.

dollars (as observed in latecomer industrial countries in East Asia), the inflow subsequently declined and stagnated (Figure 3). This was partly due to such non-economic factors as political instability and the global pandemic but also due to Ethiopia's weak policy and the lack of domestic capacity. The Report argued that FDI policy reform was necessary because it had become one of the main pillars of Ethiopia's development strategy.

The core message of the Ethiopia FDI Policy Report was that FDI policy should be more selective and encouraging to FDI firms that bring new or additional value to the national economy. This can be restated as a movement from quantity-based FDI to quality-based FDI. However, this shift must be gradual, phased and overlapping because Ethiopia still needs large FDI firms that create many jobs. The Report advocated the parallel attraction of large labor-intensive FDI and smaller but value-creating and technology-bringing FDI. To invite advanced FDI, it advised Ethiopia to ease the minimum capital size of FDI projects and prepare small and more varied industrial rental space as initial policy actions.

Another crucial point was the adoption of a proactive FDI policy. The main weight of FDI policy should shift from administrative stipulations of the current Proclamations and Regulations to more substantive promotional strategies such as policy goals, targeted sectors, incentives linked with performance criteria, official support and public-private collaboration. For this, the Report recommended the drafting of a new ground-breaking document that included these components instead of cumulative minor revisions of past Proclamations and Regulations.

To strengthen FDI policy, a three-part strategy was proposed. It consists of (i) strengthening domestic firms and labor, (ii) proper FDI selection and attraction, and (iii) the creation of FDI-local firm linkage (Figure 4). Each demands serious policy learning and extensive preparation. Domestic capacity must be raised first to a certain level before FDI-local linkage can occur.

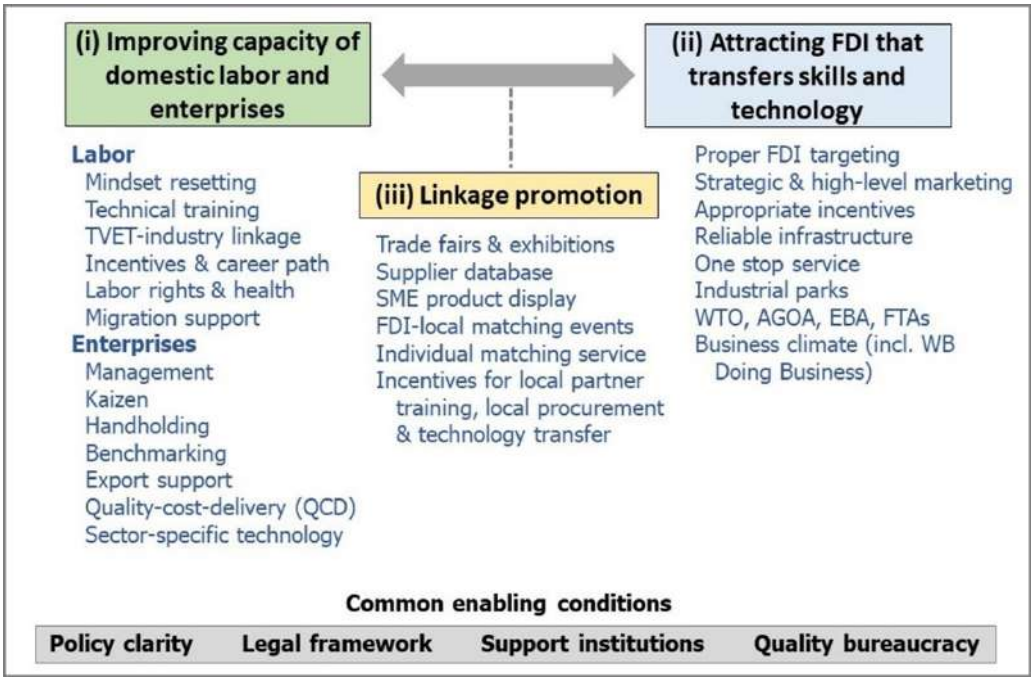


Figure 4. Three-part Strategy for Countries Receiving Manufacturing FDI

Note: small-letter items under each box are concrete policy actions recommended in the Ethiopian context.

To effectively execute the policy agenda above, Ethiopia needs clear performance criteria and the enhanced capacity of industry officials to conduct and monitor each policy. In addition, the investment climate must be greatly improved.

Both theory and international data suggest that the impacts of FDI on the balance of payments (BOP) and technology transfer are not automatic. FDI has an ambiguous effect on BOP because its impacts contain both positive and negative effects. The negative effects include (i) initial importation of equipment and construction materials, (ii) lead time before operation reaches full capacity, (iii) heavy dependency on imported inputs, and (iv) projects that generate little domestic value-added. The first two reasons are temporary but the last two are long-term and structural. If non-improvement of BOP is due to the latter, mere passage of time does not correct the situation. Rich theoretical and empirical literature tells us that FDI generates technology transfer only if necessary domestic conditions are in place. These conditions vary depending on the country and sector, and may include political stability, macroeconomic stability, economic liberalization, investment climate, the development of the financial sector, policy effectiveness, and—most importantly—the capacity of domestic workers and enterprises.

There are two global trends Ethiopia as a latecomer economy must cope with. The first is the double requirements imposed on light manufacturing export by foreign buyers, and the second is Industry 4.0. Global buyers impose strict product quality. They also require socially decent conduct in manufacturing. Ethiopia must fulfill both. One problem is the proliferation of many overlapping standards and certifications, especially for ethical conduct. Assistance is sometimes available from foreign buyers, donors and international organizations to learn and implement these requirements. Domestically, government and industrial associations, if they are capable, should provide the necessary support. Many developing countries incorporate the idea of Industry 4.0 in their development plans, but the substance is often lacking. How this new wave of technology impacts Ethiopia is uncertain. Capacity building is needed to cope with the negative aspects of AI and automation, especially the fear of job loss.

Ethiopia currently faces an economic crisis. When it is overcome, the nation needs to restore investor confidence to fully realize its economic potential. FDI is affected by both concrete facts and investor psychology. Ethiopia must work on both. Lost confidence is always recoverable even after a severe crisis or conflict as shown in Cambodia, Rwanda, Vietnam, Sri Lanka, Ethiopia after the Derg, etc. But restoration may take a long time, sometimes decades, before a vibrant FDI inflow starts again. The policy must accelerate and shorten it. Moreover, investor psychology is not linear but hysteretic. Perception first moves slowly, then changes rapidly after a critical point. Policy effort may not produce immediate results but the effort must be continued. Investors evaluate credible future policies highly even if the status quo is far from satisfactory. Show a bright future—large demand, ample skilled labor, the rise of targeted sectors, etc.—and back it up with initial actions. A policy regime change should be broadcast to investors with effective presentation. At the same time, small but visible early results must be produced, which increases policy credibility and justifies an optimistic investment decision. In FDI marketing, different characteristics among different investors and nationalities must be recognized. Goals, strategies, decision-making speed, time scope, technology transfer, etc. all differ among Chinese, Indian, Korean, European and Japanese investors and even across individual firms from the same country.

4-3. International comparison of apparel export performance

The policy dialogue team organized a three-country garment firm survey in Ethiopia, Vietnam and Bangladesh during November 2020-January 2021. Each country covered about 30 firms from which qualitative findings and remaining challenges were extracted. The survey was conducted by the researchers of PSI, the Bangladesh Institute of Development Studies (BIDS) and the Vietnam Development Forum (VDF) in their respective countries after discussing and coordinating the methodology[21]. The main findings are as follows.

It must first be noted that Ethiopia is a latecomer while the other two are well-established large garment exporters after China. Naturally, Ethiopian performance is far smaller than the others in terms of export volume, the number of firms or employment, the quality of policy, the quality of workers, the effectiveness of industry associations, and so on[22]. The question is whether this is only due to the time factor (Ethiopia is a latecomer) or the existence of some structural problem in Ethiopia that prevents the sound growth of the industry.

Regarding participation in the global value chain, all garment exporting countries began with the lowest point in the Smile Curve (CMT or cut-make-trim) and try to capture more value by moving upstream, i.e., incorporating material procurement (FOB or free-on-board). This movement is most advanced in Bangladesh where 70% of firms engage in FOB and the remaining 30% in CMT. In Vietnam, the ratios are 25% and 65% (Figure 5). While there is no reliable data in Ethiopia, the EIC-JICA survey[23] reports that some exporters located in industrial parks do CMT and others FOB. However, this only reflects the global strategy of each FDI firm rather than the capacity of Ethiopian garment manufacturers since virtually all Ethiopian garment

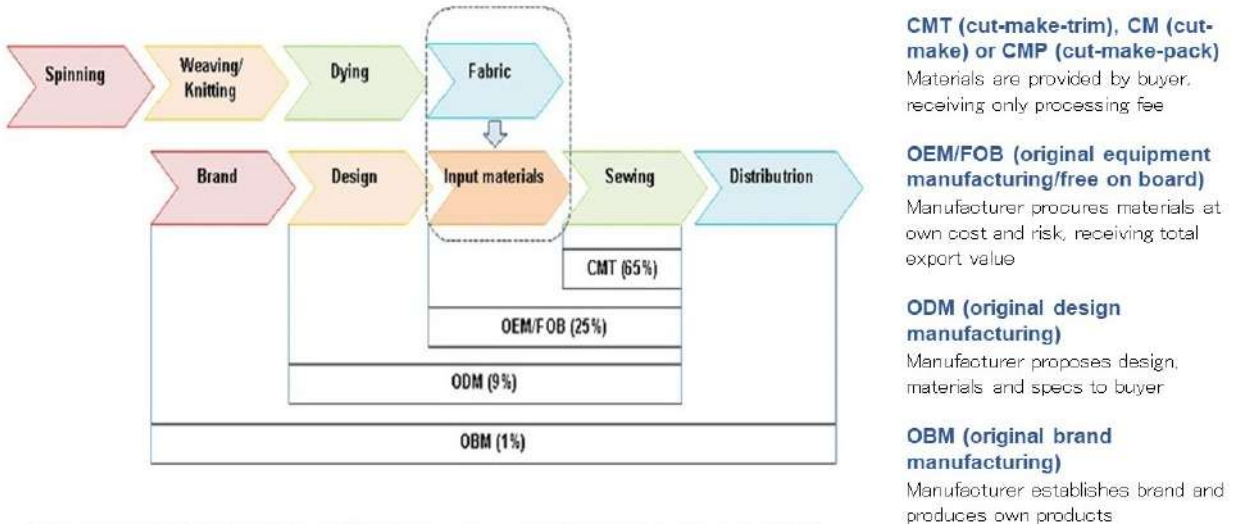


Figure 5. Garment Value Chain

Source: General Statistics Office of Vietnam: percentages are Vietnam's numbers as of 2019.

[21] Surveys were conducted by Dr. Mulu Gebreeyesus and Dr. Kiflu Gedefe Molla (Ethiopia), Dr. Le Ha Thanh (Vietnam) and Dr. Monzur Hossain (Bangladesh). The Ethiopian survey studied only ten garment firms because it also included firms from three other sub-sectors.

[22] Ethiopia, Vietnam and Bangladesh each report the following statistics—export volume in 2019: $0.14b, $40.3b, $34.6b; the number of firms: 176, 7623, 3500; the number of employment: 0.1-0.3m?, 1.56m, 4m (sources: UNCTADstat, national statistics and various studies and reports; consistency is not necessarily guaranteed across countries).

[23] Ethiopian Investment Commission and Japan International Cooperation Agency Ethiopia Industrial Promotion Project, *Report on Export Gap Analysis*, unpublished internal report (2021).

export is conducted by FDI. In the other countries, domestic firms are dominant (Bangladesh) or coexist with FDI (Vietnam) in garment export. Ethiopia is in a very early stage of industrial development where participation of local garment firms in the global value chain has not yet started.

Another indicator of industrial maturity is the share of domestic value-added in garment export. Incomplete data suggest that this share is about 60% of the total value of garment export in both Vietnam and Bangladesh. Similar information does not exist in Ethiopia but we suspect it to be much smaller as almost all materials and accessories for garment production are imported and Ethiopian wages are still very low.

Turning to labor costs, Ethiopia has by far the lowest cost in both monthly wage and unit labor cost (Table 5). However, this does not directly translate into the competitiveness of Ethiopian labor because there are other facts unfavorable to Ethiopia. They include (i) simplicity of Ethiopian garment products in comparison with the products of the others, (ii) the lack of knowledge, discipline and soft skills of Ethiopian workers, and (iii) poor investment conditions such as the shortage of foreign currency, unreliable power, logistic inefficiency and bureaucratic hindrances. It is interesting to note that, in the World Bank's Ease of Doing Business ranking in 2020, Vietnam ranked 70th, Ethiopia 159th and Bangladesh 168th among 190 countries and territories[24]. Bangladesh is ranked below Ethiopia. A good investment climate is an important element in FDI attraction or growth generation, but it alone cannot explain diverse economic performance among countries.

In Bangladesh, the government and the two powerful industrial associations (Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA)) have strongly supported the garment sector through a subsidy for the use of domestic fiber, short-term export finance, foreign currency retention privilege, overcoming challenges such as the termination of Multi Fiber Arrangement (MFA) and the Rana Plaza accident, and effective public-private collaboration. Such domestic support is less active in Vietnam and at an early stage in Ethiopia.

It is interesting to observe that the COVID pandemic had little impact on Vietnam's garment shipment while many garment manufacturers in Bangladesh and Ethiopia were severely affected. This is probably thanks to the fact that Vietnam has secured major export markets by concluding many bilateral and regional Free Trade Agreements (FTAs). Vietnam also benefits greatly from its China-plus-One status; it is the most favored destination for investors exiting China for any economic or political reason. The trade war between China and the US significantly boosted FDI inflow into Vietnam. Bangladesh also enjoys the China-plus-One advantage but to a less degree than Vietnam. Meanwhile, Ethiopia has no broad network of FTAs with its major markets

Table 5. Labor Cost Comparison

	Ethiopia	Vietnam	Bangladesh
Average monthly manufacturing wage incl. bonuses, overtime, social security	$83 (2016)	$344 (2020)	$154 (2020)
Labor productivity (value added/person/ year)	$1,271	$12,700	$10,400
Unit labor cost (US cents/$1 worth of product)	6.5 cents	32.5 cents	17.8 cents
Survey source	PSI & GDF 2020	JETRO 2020	JETRO 2020

Note: JETRO, "2020 JETRO Survey on Business Conditions of Japanese Companies Operating Overseas (Asia and Oceania)".

[24] The World Bank's annual Ease of Doing Business (EDB) ranking was terminated in 2020 due to the political scandal at the Bank Headquarters. As the Bank's website reports, the BEE project is about to replace the old ranking.

(the European Union (EU) and the US) and lost the existing trade privilege of the African Growth and Opportunity Act (AGOA) in January 2022.

4-4. Industrial park management

Industrial parks offer a relatively good environment for factory operation in a country where business conditions are generally poor. Ethiopia has built many state-owned industrial parks and attracted FDI to them. However, given the short history of modern industrial parks in Ethiopia, there is much room for improvement. The Ethiopia FDI Policy Report and its companion paper as well as a series of policy notes by GDF offer six concrete suggestions listed below for this purpose. The key idea is that industrial parks are a customer-oriented real estate business and that they should be managed for long-term profitability and cost-effectiveness in providing facilities and services. Resilience must also be ensured against business ups and downs which are inevitable in any property business. This principle does not change whether the industrial park is publicly owned or privately owned.

First, industrial park developers must have multiple revenue sources, not just rents from land and factory sheds. The presence of alternative revenue sources lowers such rents and strengthens the financial attractiveness of the park. This can be done by offering various fee-based services such as management consultation; support for accounting, tax or environmental documentation; labor recruitment and management; linkage creation with buyers or suppliers; ICT installation and maintenance; and offices, meeting rooms, incubation space, equipment, vehicles, etc. for rent. Another way to raise revenue is to provide basic infrastructure services (especially power) reliably but with an additional charge by investing in a substation, round-the-clock engineers, etc. These constitute the main revenue sources of many Japanese industrial parks in Southeast Asia. Most tenant firms highly appreciate these services even at additional costs.

Second, park developers should offer various facilities and services selectively and strategically. Frontline technology and generous services should not be provided at any cost. The cost here includes not just initial investment but also future operation, maintenance and replacement costs. Cautious cost-benefit analysis must be done to decide which facilities and services are worth offering. The tightfisted approach is necessary for business survival under severe competition among host countries and parks. Financial viability must be carefully checked when building a grandiose park management office, non-standard waste treatment, apartments and dormitories, restaurants, shops, schools, clinics, banks, golf courses, beautiful landscaping, and so on. These services, even when offered, may be outsourced to private providers. The normal practice at Japanese industrial parks in Asia is to offer only basics—safety, security, reliable power, water supply, standard wastewater treatment, internal roads, etc.—with high quality but not frills and add-ons which tenant firms do not strongly want or for which they are unwilling to pay extra. In Ethiopia, the effectiveness of Zero Liquid Discharge (ZLD) should be revisited. JICA experts recommend standard two-step wastewater treatment for light water users such as garment and footwear firms instead of installing centralized ZLD for the entire park.

Third, one stop service should be introduced functionally rather than physically. The existence of one trusted official at the end of a telephone hotline, who can connect distressed tenant firms to any office and service to solve any problem at any time, is more valuable than installing many desks manned with seconded officials. The matter is more of a soft support mechanism than the physical installation of desks and counters.

At Thilawa SEZ, Myanmar, Mr. Yoichi Matsui, head of the One Stop Service Center, takes care of any issue immediately and professionally. At Kizuna Industrial Park, Vietnam, Ms. Satoko Shirakawa handles all matters raised by Japanese investors and Mr. Nam Kyoung Wan does the same for Korean investors. One stop services are adopted at virtually all industrial parks around the globe but some of them are just by name; investors still face bureaucratic hassles and delays. In Ethiopia, some investment-related services are slow, irregular, or entirely missing such as visa and work permits, certificate of country origin, residence permit, post-investment services and follow-up, and claim and complaint procedure by an investing firm.

Fourth, industrial parks must have contingency plans for low times. Property business has both good times and bad ones, and good times never last forever. The speed of tenant firm arrival (and departure) depends on many factors, most of which are beyond the control of a host country or a park developer. Ethiopia's state-owned industrial parks were initially very popular among foreign investors, but the COVID pandemic, global demand decline, political instability in Ethiopia and the suspension of AGOA privilege are taking a toll on investor arrival. Future demand for industrial park space is difficult to forecast. New construction, expansion and borrowing must be paced judiciously to avoid unrented land or sheds.

Fifth, industrial parks should invite all sectors, especially in the early stage of their development. The Ethiopian government specifies sectors to each industrial park rather than leaving the matter to the choice of investors. Some argue that the geographical concentration of firms of the same sector creates synergy and sharing of resources such as skilled engineers and specialized waste treatment. This is theoretically plausible but does not always happen in reality. Firms in the same sector are often rivals who are wary of labor poaching and information leakage to others. It is better to let firms decide where to invest, including whether they prefer concentration or dispersion. In Asia, most industrial parks welcome investors of any kind as long as they comply with national laws and park regulations and pay dues on time. Sector indifference is a natural consequence of severe competition among industrial parks to attract as many good tenants as possible.

Six, diverse choices should be available for renting land and sheds. As noted above, Ethiopia has built many same-size, large-capacity rental sheds. These standardized sheds are suitable for labor-intensive export-oriented light manufacturing such as garment and footwear production in the early stage of FDI-led industrialization. However, to attract more sophisticated manufacturing now and in the future, customized industrial space should also be offered. When Japanese manufacturers invest abroad, they typically start with small and made-to-order industrial space of about 250-1,000m^2, or even smaller incubation space with only one machine. If successful, they move to bigger rental space or build their own factories. Some European and American firms behave similarly.

5. A New Horizon, HERA and the Ten Year Perspective Development Plan

Several policy documents give us a clue to the economic policy orientation of the Abiy administration: A New Horizon of Hope (Spring 2019), the Homegrown Economic Reform Agenda (September 2019), the Ten Year Perspective Development Plan: A Pathway to Prosperity 2021-2030 (approved by the Parliament in March 2021), the MOI's Ten Year Development Plan (the ministerial detailed version of the national plan), the MOI's new industrial policy draft, and the documents and activities related to the MOI's Ethiopia Tamirt Movement (National Industrialization Movement). This chapter examines these documents and activities.

Ethiopia: A New Horizon of Hope

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Points of Departure:

- Weak democratization and justice system
- Poor public service delivery
- Elevated risk of debt distress and low domestic resource mobilization
- Poor export performance and weak trade balance
- High youth unemployment
- Slow structural transformation of the economy
- Low productivity and traditional agricultural practies
- Poor quality and low inclusivity of the education
- Low access to energy and reliability
- Growing illegal activities (includng contraband, illegal arms trafficking, displacement of citizens)
- Weakening values of togetherness, tolerance and national unity

	Issues & Constraints	Key Facts & Challenges	Effects and Actions (2018-2019)	Effects and Actions (2020)
Democracy and Rule of Law	**Justice and Democracy**	• Inadequate safeguarding of the freedom and wellbeing of citizens resulted in widespread popular protests • Initiatives being taken the past 6 months to address these demands • Deep-rooted undemocratic leanings and absense of strong institutions pose a threat to the new reform initiative • Historical and current conflicts resurface and result in clashes and instability thereby threatening the safety of citizens	1. Revise restrictive laws with a view to ensure compliance with pertinent human rights standards 2. Build national consensus by preparing and starting implementation of comprehensive national roadmap for democratization and transition 3. Reduce the incidence of communal clashes and violence, through the adoption and enforcement of a Hate Speech Law 4. Take measures to enhance independence, impartiality and capacity of the judiciary and democratic institutions	1. Guarante a level playing field and hold free, fair, and credible elections in 2020 2. Implement the national roadmap for transition & democratization and strengthen constitutional democracy 3. Imlement legal and related reforms to combat against human rights violations by law enforcement bodies 4. Introduce an administrative produre law and improve the rule -making procedures to enhance fairness, transparency and participation
	Public Service Delivery	• Absence of a meritocratic system of hiring and retention of public servants • Lengthy and exhausting procedures for government services including: for paying taxes, starting a business, municipal services, basic utilities, health services etc... • Regulatory requirements are redundant, unrealistic, impossible/excessively costly to implement • Poor working environment of public servants	1. Develop and endorse a comprehensive public service reform roadmap 2. Streamline and simplify procedures for starting a business 3. Implement electronic filing and e-payment tax administration 4. Simplify and optimize the process for issuing construction permits and property registration	1. Completion and implementation of e-government services 2. Implement a system to simplify the tax payment system 3. Full roll-out of the civil service reform interventions
Job Creation and Competitiveness	**Macro-economic Management**	• Persistent inflation • Poor export performance • Limited supply of financial services, foreign exchange shortage • Elevated risk of debt distress	1. Maintain fiscal deficit of 3% of GDP or lower 2. Improve public investment management through greater prioritization of investment 3. Maximize the involvement of the private sector in infrastructure financing trough public-private partnership	1. Maintaining fiscal deficit of 2.5% of GDP or lower by rationalizing government subsidy 2. Improve debt policy management including stronger control on SOEs borrowing policy and achieve "moderate" risk of debt distress
	Productive Sectors (Agriculture, Manufacturing and Services)	• 70 million Ethiopians are below the age of 30 • Youth unemployment is especially critical in rural areas • Agriculture is not modernized and not sufficiently linked with other sectors • Traditional agricultural practices, limited use of irrigation and mechanization, limited inputs supply, poor utilization of water resources • Growth of manufacturing industry, esp. agro-processing, is delayed due to a complex set of challenges	1. Increase productivity by expanding irrigation in selected areas and modernize agricultural practices 2. Support and enable investments in industrial parks and elsewhere to become fully operational 3. Enhance the contribution of the service sector to the economy - with special focus on ICT and tourism sectors 4. Complete agro-industrial parks and make operational; expand small and medium enterprises	1. Increase the share of manufacturing export in total merchandize export to 15% 2. Export ICT Service export by creating an ICT Cluster to young graduates 3. Increase the number of transit tourist arrival by 80% by streamlining the visa regime and developing a Stop over Tourism packages 4. Increase share of service exports 5. Expand integrated agro-industry
	Export and Revenue mobilization	• Total export of goods and services does not exceed 10% of GDP, significantly below 24% expected from a country the size of Ethiopia • Export performance is alarming and declining—2.9 Billion this year against target of 8 Billion • Narrow tax base, unfair tax system, high tax compliace cost, low tax collection	1. Rationalize and improve tax incentives to increase and diversify exports 2. Implement a system to effectively control contraband 3. Review all tax break and incentive schemes and revise as needed 4. Increase value-added exports in select agricultural products	1. Increase share of exports to GDP to 15% 2. Increase share of mining and manufacturing to total exports to 35% 3. Finalize Ethiopia's WTO and CFTA membership 4. Increase share of tax revenue to 15% of GDP 5. Implement new system of VAT and excise tax
Enablers	**Financial Sector**	• Poor financial infrastructure limiting availability of finiancial services • Limited financing available to the private sector • Poor financial inclusiveness and accessibility	1. Develop a roadmap for introducing trade financing instruments including capital market 2. Increase loans available to the private sector by 20% annually and ensure its fair disbursement 3. Expand credit registry to MFIs	1. Enhance the use of modern financial technology 2. Establish a system enabling e-commerce and digital financing 3. Introduce capital market
	Human Capital	• Poor quality and accessibility of education • High gender inequality • Weak educational institutions • Low rate of births assisted by health professionals • Low rate of vaccination • High rate of water borne diseases because of limited water supply & sanitation	1. Implement the new education roadmap 2. Improve the organiztion, quality and leadership capacity of the sector 3. Promote private sector investment in primary education 4. Devise a prevention oriented national health plan; expand access to balanced nutrition and clean water 5. Expand health service coverage, improving quality of health services	1. Implement programs to increase international competitiveness in quality of education 2. Increase percentage of women in undergraduate programs to 45% 3. Increase health professional assisted births to 90% 4. Increase share of fully vaccinated children to 90% 5. Increase clean water access to 80%
	Logistics	• High cost of logistics undermining overall trade competitiveness • Limited participation of private sector in the logistics supply chain • Lack of modern systems and inefficient customs clearance procedures	1. Launch a customs single window service 2. Enhance private sector participation in the entire logistics supply chain 3. Diversify Ethiopia's port access	1. Cut import and export transit time by half 2. Reduce the number of documents required for import and export by half 3. Reduce the average duel time of imported goods to 2 days in dry ports 4. Increase general cargo carried by multi-modal transport system coverage to 90%
	Electricity	• Tedious and bureaucratic system, and an inefficient financial system crippling future prospects for sectoral development. • Ethiopia's low tariff rates have resulted in increasingly high government subsidies • Low electric supply and limited private sector participation in the sector has limited the competitiveness of the sector	1. Implement a revised tariff scheme and alleviate financial distress 2. Facilitate participation of the private sector in power supply	1. Increase access to electricity to 50% 2. Increase total installed capacity to 6,000 MW 3. Reduce electricity wastage to 15%

Table 6. A New Horizon of Hope

5-1. A New Horizon of Hope

This is just a one-page matrix of policy purposes and actions to express what Ethiopia intended to the domestic and foreign audience. It has nine rows covering various topics in democracy and rule of law, job creation and competitiveness, and enablers. It has four columns which are issues and constraints, key facts and challenges, effects and actions (2018-2019), and effects and actions (2020). The policy dialogue team received a hard copy of this sheet from JICA (Table 6). In February 2019, we had the opportunity to meet Dr. Mamo E. Mihretu, policy advisor at PMO and coordinator of the Macroeconomic Team, for the first time. The allotted time was very short and we asked many questions about the roles, members and modalities of the Macroeconomic Team among which this policy matrix was one. Dr. Mamo acknowledged that this policy matrix was drafted by his Team. It was consistent with GTP II (the current five-year plan) and summarized the objectives and government's accountability in a concise form for external communication. He said this could be considered as revised highlights of GTP II. There were some puzzling aspects to this matrix such as the lack of detail in real-sector issues[25], but we did not have time to go further into this. It is presumable that this matrix was an intermediate product between GTP II and the subsequent HERA and the Ten Year Plan. We later tried to clarify the relationship between this policy matrix and HERA with PMO and PDC, but we did not succeed in obtaining a clear answer.

5-2. The Homegrown Economic Reform Agenda

The Homegrown Economic Reform Agenda (HERA) was produced by the Macroeconomic Team whose members come from MOF (State Minister Eyob acted as a secretariat and spokesperson), PDC, PMO, NBE and others over many months in several iterations, with no foreign advisor involved. The Party Executive Committee and the Cabinet of Ministers deliberated and approved it, and Prime Minister Abiy officially announced it in September 2019. In October 2019, the policy dialogue team met the technocrats of the Macroeconomic Team responsible for drafting HERA. We were informed that Dr. Abiy would not change the main thrusts of existing economic strategies, but the role of the state had to be constantly redefined especially because the private sector did not grow as strongly as expected. PDC assured us that HERA, with a time scope of three years, was consistent with the Ten Year Plan (and the Five Year Development Plan to be prepared later[26]) and provided the basis for these plans to come. HERA was (and is) the statement of utmost importance indicating Ethiopia's economic policy directions. It sets directions but contains no action details.

[25] For example, future actions related to productive sectors (agriculture, manufacturing and services) are quite terse: (i) increase the manufacturing share of export to 15%, (ii) export ICT service by creating an ICT cluster for young graduates, (iii) increase the number of transit tourists by 80%, (iv) increase the share of service exports, and (v) expand integrated agro-industry. References to manufacturing are very limited. Moreover, the time scope of one year (within 2020) is too short to initiate any substantive project, let alone produce results.

[26] MPD (upgraded from PDC) explained in December 2022 that the idea of five year development plan had been canceled.

Table 7. Homegrown Economic Reform Agenda: Content Structure

Situation analysis	Past achievements	• High growth • Poverty reduction • Various social achievements
	Remaining issues	• Growth driven mainly by public investment which stimulated construction and services • Investments financed mostly by public loans and external loans and grants • Negative real interest rates and exchange rate overvaluation • Ethiopian social indicators below the average of lower middle-income countries • The lack of structural transformation (manufacturing did not surge) • Growth driven mostly by capital accumulation rather than productivity • Productivity growth constrained by various bottlenecks in overall economy and specific sectors • Serious macroeconomic imbalances including foreign currency shortage (poor export performance), external debt burden, limited private sector access to finance and high inflation
Policy directions (three "reforms")	1. Macroeconomic stabilization	• Fiscal consolidation and efficiency improvement • Coping with foreign currency shortage • Anti-inflation measures and financial crisis management • Enterprise access to finance, etc.
	2. Structural reforms	• Administration reform and deregulation • Privatization of telecom, power and logistic service • Introduction of competition
	3. Selective sector promotion	• Agriculture • Manufacturing • Mining • Tourism • ICT

Ambassador Girma Birru, a special economic advisor of PM, explained HERA to the policy dialogue team as follows.

> Ethiopia's economic model has not changed from the days of Prime Minister Meles or Prime Minister Hailemariam. However, because of aggressive public spending the nation has lost macroeconomic balance and faces serious foreign currency and debt crises. The purpose of HERA is to deal with these crises in the next three years. The first pillar (macroeconomy) simply means working with the IMF and the World Bank to overcome this macroeconomic predicament. The second pillar (structural reforms) breaks state monopolies in telecom, power and logistic service by introducing competition or partial sales. We will do this carefully, not hastily. The third pillar (priority sector promotion) means raising the productivity of the five sectors. We can restate it as export promotion and import substitution. This pillar cannot be completed within three years so it will inevitably overlap with the Ten Year Plan. It is a long-term productivity question of which we have little knowledge. We need international assistance on this. (Interview with Ambassador Girma at PMO, February 21, 2020)

Prior to this, the GRIPS team drafted a short memo on HERA and shared it with the Macroeconomic Team and Ambassador Girma[27]. We also verbally presented our thoughts to the key members of the Macroeconomic Team (Dr. Mamo, Dr. Eyob, and Mr. Abebe) at a closed workshop at EIC. Our main arguments were as follows.

> HERA's situation analysis is fairly honest and objective. We basically agree with the picture presented here although there may be some arguments about details. The findings of the Ethiopian Productivity Report (PSI and GRIPS, 2020) largely overlap with HERA's past review. For example, labor productivity decomposition in our Report offers statistical support to the investment-driven (not TFP-driven) growth. Our Report also detects the lack of labor mobility from agriculture to manufacturing. Regarding the second part, the three-way policy framework is a standard one, and we do not have any objection at this level of generality. HERA as a general policy box should be acceptable to almost everyone. The crucial thing is what Ethiopia will put into this three-way box and how each component relates to each other…
>
> Macroeconomic stability is not very controversial; every country must achieve it as a precondition for economic development. The issue is mainly a technical one of how to solve inflation, foreign currency shortage, debt crisis, and the like, with minimum damage to the society and businesses. In contrast, the logical relationship between the two real-sector pillars—structural reforms and sector-specific promotion—entails a long-lasting policy debate … and how it is handled will produce very different policy and economic results.
>
> HERA as currently presented … defines a policy framework without presenting the final contents that go into this framework. As such, HERA is difficult to assess or criticize because crucial issues arise and debate will begin when concrete implementation details are decided and relationships among pillars are clarified, not from the framework itself which is fairly standard.

There has been a long debate on how real-sector development policies should be organized among development economists and international organizations. From the late 1980s to the 1990s, Japanese development officials and economists challenged the then-prevailing view that justified the structural adjustment policy of the World Bank. It was the time when Japanese Official Development Assistance (ODA) and financial contribution to the World Bank expanded but Japan felt that the Bank's policy practice was contrary to what Japan believed was a good development strategy for latecomer countries.

The Washington Consensus (WC) prioritizes liberalization, privatization, global integration and a good business climate. Moreover, these conditions are regarded as largely sufficient for latecomer growth and industrialization as private firms can automatically choose prospective industries and grow. Hence, governments are counseled not to intervene selectively in individual sectors but let the market decide which industries will emerge and win. WC advocates argue that selective intervention is bound to fail because governments are not wise enough to choose the right sectors to promote and because their policies are always hijacked by interest groups and lobbyists. Therefore, good industrial promotion is a general one that ensures a suitable business environment for all to compete fairly without the government favoring any particular firm or sector. More recently, it is said the IMF and the World Bank no longer preach rigid free-market principles but now accept the importance of industrial promotion. But what they regard as good industrial promotion is the

[27] Kenichi Ohno, "Homegrown Economic Reform Agenda: A Perspective from the Japanese Industrial Policy Dialogue Team," policy note, November 7, 2019.

improvement of the level playing field in which private players compete, not selective coaching of individual players for winning.

Japan (and most of East Asia) believes that general economic liberalization is necessary, but its execution should be paced to the rising competitiveness of domestic industries. The primary policy aim should be the enhancement of real-sector competitiveness with the government guiding and supporting targeted industries. Since not all industries can be promoted simultaneously, such intervention must necessarily be selective. We admit that many governments are foolish and influenced by political pressure as WC warns. But instead of quitting intervention, we advise learning how to conduct industrial policy effectively without unfair favor or corruption. This policy learning can be done through trial and error, external advice, comparison of numerous international experiences, and creating a model most suitable for domestic reality. That is how Japan rose in the late 19th century and how it advises developing countries today. Many East Asian nations followed. As national competitiveness rises, liberalization, privatization, global integration and other opening measures can be adopted in proper speed and scope. Big-bang liberalization without fostering competitiveness is inadvisable as it will lead to the dominance of foreign imports and FDI.

This argument is hardly new. In the 18th century, Friedrich List in Germany and Alexander Hamilton in the US argued that latecomer countries such as theirs needed state-sponsored industrial protection rather than the free market to catch up with the UK, then the leading economy. In the late 19th century, Japanese national leaders such as Ito Hirobumi and Okubo Toshimichi rejected British advice to open up and trade freely because such policy, based on the Ricardian comparative advantage theory, would only benefit already-strong advanced nations while latecomers such as Meiji Japan would be flooded with Western goods with no prospect for catch-up industrialization. More recently, Ha-joon Chang, Joseph Stiglitz, Dani Rodrik, Mario Cimoli, Giovanni Dosi and other economists have severely criticized WC policies as unfair and depriving policy tools for latecomers to climb up. We can also see what happens to developing countries that open up quickly without fostering competitiveness. Mongolia and Kyrgyzstan did so in the 1990s and Chinese imports now dominate their economies. Many African countries lost what little industrial base they had when the IMF and the World Bank imposed liberalization and privatization in the early 1990s. The Kenyan automotive industry was devastated when the free import of used cars was allowed under Washington pressure and has not recovered from the damage since.

In Ethiopia, Prime Minister Meles adopted the Eastern Way. He first learned from Korea and Taiwan. Japan was invited in 2008 to introduce kaizen and initiate bilateral industrial policy dialogue. That was how Japan's current industrial cooperation in Ethiopia started. He was interested in both theory and practice and wanted to introduce targeted measures as soon as possible. He instructed certain firms to try kaizen from internet information even before JICA officially launched kaizen cooperation. He approached individual foreign firms and invited them to invest in Ethiopia.

Despite his persistent learning and swift actions for about a decade, Ethiopia did not succeed in promoting targeted sectors or structural transformation. Manufacturing did not surge, and priority sectors such as garment, leather and food processing did not show visible results. Maybe his learning was not sufficient. But we suspect the main problem was the lack of private response to his policies as well as the absence of competent technocrats and ground officials who could effectively execute them. Strong leadership was not enough to drive industrialization in Ethiopia. Prime Minister Hailemariam basically continued the Meles strategy but

Table 8. A Comparison of Economic Policy Stance

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

Note: This table was presented to the Macroeconomic Team at the EIC workshop in October 2019.

there was also no clear advancement in the priority sectors.

How about HERA? As noted above, HERA is a broad framework without the specification of details. As such, it permits possibilities of both general liberalization and selective industrial promotion, and the relationship between the two has not yet been clarified. Depending on what Ethiopian policymakers put into the pillars, it may become WC, the Meles strategy or something else. Now that the policy framework is set, substantive debate and decision-making on policy content must follow. Some people suspect that the government is abandoning the Meles strategy and reverting to WC. But that is only one possibility within the announced HERA framework. Whether that would happen will become clear in the future. The table summarizing the stances of WC, Prime Minister Meles and HERA and submitted to the Macroeconomic Team is shown in Table 8.

From the Asian experience and the Japanese perspective[28], we propose balance between the two real-sector orientations with priority placed on industrial promotion. More specifically, we propose (i) strengthening key sectors with selective industrial promotion with great attention on building private capacity and government's support capacity; and (ii) pacing liberalization, privatization, global integration, etc. to the speed and degree of competitiveness enhancement of the Ethiopian industries. This is a difficult task that even Prime Minister

[28] The documents reflecting this perspective include Overseas Economic Cooperation Fund, "Issues Related to the World Bank's Approach to Structural Adjustment: a Proposal from a Major Partner," a paper submitted to the World Bank (1991); Toru Yanagihara, "Development and Dynamic Efficiency: Framework Approach versus Ingredients Approach," a policy note (1992); Shigeru Ishikawa, "Underdevelopment of the market economy and the limits of economic liberalization," in his *Basic Issues in Development Economics* (1990); and Tatsuo Kaneda, "Kyrgyzstan's Road to Economic Recovery: an Effort in Intellectual Assistance," submitted to the Kyrgyz government (1992). All these were translated into English and contained in Izumi Ohno & Kenichi Ohno, eds., *Japanese Views on Economic Development: Diverse Paths to the Market*, Routledge, 1998 (paperback edition 2015; e-book also available).

Meles could not attain. Ethiopia needs more policy learning rather than abandoning it for free markets.

5-3. The Ten Year Perspective Development Plan

The Ten Year Perspective Development Plan: A Pathway to Prosperity 2021-2030 (The Ten Year Plan) was prepared by the Planning and Development Commission (PDC) (now the Ministry of Planning and Development: MPD) through extensive stakeholder consultations and approved by the Parliament in March 2021. This is Ethiopia's first ten-year plan in place of previous five-year plans. It is the most important national document that governs the development policy in the years to come. However, HERA also continued to be cited as a supplementary document that prepared the conditions for the execution of the ten-year plan.

The Ten Year Plan has the following structure (popular English version; chapters and sections of particular interest to Industrial Policy Dialogue are shown in bold letters).

1. Past Economic Performance and Its Major Challenges
2. Homegrown Economic Reform and Scope of the Ten-Year Plan
3. National Development Vision and Strategic Pillars
   3.1 National Development Vision, Objectives and Strategic Pillars
   3.2 Objectives of the Development Plan
   3.3 Strategic Pillars and Key Priority Areas
   3.4 Global and Regional Development Commitments
4. Macroeconomic Plan
5. Economic Sectors Development Plan
   5.1 Agriculture
   5.2 Manufacturing
   5.3 Construction
   5.4 Mining and Petroleum
   5.5 Trade
   5.6 Tourism
   5.7 Urban Development
6. Infrastructure Development Plan
7. Demography and Human Resource Development
8. Gender and Social Inclusion
9. Justice and Public Services
10. Peace Building and Regional Development Cooperation
11. Environment and Climate Change
12. Implementation Strategies and Monitoring and Evaluation System

In June 2020, the GDF team made two general comments on the draft version of the Ten Year Plan.

First, many visions, objectives and other ideas are provided but concrete targets, actions and numbers are less visible. This is somewhat inevitable because this is a comprehensive national plan addressing all social

and economic issues. Some missing numbers and details are to be filled with ministerial ten-year plans that follow the national plan. Nevertheless, the presentation of selected key targets and actions would have been effective even in a national plan. To be credible, the random or excessive inclusion of slogans and goals must be avoided.

Second, the presented policy structure is confusing. Overlapping ideas appear in many places (Strategic pillars, Productive sectors, Enabling sectors, etc.) and are difficult to distinguish from each other. For each productive sector, "focus areas" and "objectives" are similar and duplicative. "Enabling sectors" contain means and methods, but other sections also contain some of these things. There are also overlaps among "Challenges," "Failures" and "Potentials." Too many ideas are provided for each issue without a clear structure. We would prefer a simpler three-layer structure consisting of vision(s) - intermediate targets - concrete policy actions, where all ideas should be placed within this framework and appear only once. Only several key intermediate targets and policy actions should be highlighted given the limited time, capacity and resources for policy implementation.

More specific comments include the following.

(i) Vision 2030, "Ethiopia: An African Beacon of Prosperity" is less clear than the previous vision of "Becoming a Light Manufacturing Leader in Africa" of GTP II in terms of what Ethiopia wants to attain in the next decade.

(ii) The relationship between the productive sectors of the plan and HERA's five selected sectors (and their promotion strategies) is not evident.

(iii) Terms such as "quality growth," "productivity and competitiveness" and "production and productivity" are mentioned frequently. GTP II also stressed QPC without defining attaining methods. The new plan must go beyond GTP II and specify concrete measures to realize these goals.

(iv) Statements about "private & competition-friendly bureaucracy," "public private partnership" and "quality infrastructure for quality FDI" are welcome although they also need concrete action plans.

(v) Macroeconomic goals are interesting and ambitious. Ethiopia wants to grow 10% per year during 2020/21-2029/30 spearheaded by manufacturing growth of 20.6% per year. The manufacturing share in gross domestic product (GDP) shall rise from 6.9% now to 17.2% while the service share remains relatively flat. These may be achievable but only if the policy is upgraded and made more effective.

Discussion of the manufacturing industry in the Ten Year Plan is general (but also see the next subsection). Below is the full citation of listed items in section 5.2 (Manufacturing). Relationship or stratification among focus areas, objectives and main targets is unclear.

Twelve major focus areas	• Enhancing capacity utilization • Strengthening coordination • Raising production and productivity from existing industrial establishments • Satisfying domestic demand as well as supplying export markets by producing competitive industrial products such as foodstuffs, wearing apparel, housing materials and pharmaceuticals • Encouraging manufacturing industries that utilize locally produced inputs • Raising the variety, quantity and quality of exportable industrial commodities • Strengthening the value chain, interlinkages, and interdependencies within the manufacturing industry

	• Attracting new investments in large numbers, varieties and qualities into manufacturing by introducing, based on studies, new investment incentives and simplified procedures, as well as enhancing the role and partnership of the private sector to that end • Coordinating the development of heavy metal and engineering industries, chemical and pharmaceutical industries, and other high tech industries • Strengthening the cluster organization system • Expanding small- and medium-scale industries and creating an enabling environment for transitioning to the next stage of development • Expanding job opportunities.
Four objectives	• Create employment opportunities by improving the production and productivity of existing manufacturing plants and by attracting new high-quality investments • Expand manufacturing industries that can produce strategic commodities that can substitute imports; producing high-quality export goods in volume and variety • Increase the share of manufacturing in the gross domestic product by creating a conducive environment for improved participation of private investors in the subsector • Ensure that the development of manufacturing industry is consistent with the country's sustainable and green economy development strategy.
Five main targets	• Increase average capacity utilization of the manufacturing industry from 50% to 85% • Raise the domestic market share of locally manufactured industrial products from 30% to 60% by expanding manufacturing industries that produce substitutes of strategic import goods • Raise the competitiveness of the manufacturing industry by improving product quality • Raise the number of small and medium-scale manufacturing enterprises from 2,000 to 11,000 by attracting high-quality investments and focusing on those industries that employ advanced technologies • Create a total of 5 million new job opportunities in the manufacturing industry during the ten years period by raising the number of job opportunities created annually from 175 thousand in 2019/20 to 850 thousand in 2029/30

It was explained that the new Ten Year Plan was produced with extensive bottom-up (ministerial level) inputs and intensive consultation with various stakeholders. However, from our observation of the past drafting processes of GTP I and GTP II, we did not see any significant departure in this practice. Donor consultation was less than the previous times.

Our ideas and assessments were not communicated effectively to the Ethiopian government because this time we were not requested to comment unlike the previous two five-year plans, and because contact became difficult due to the global pandemic and frequent changes of government structure and leaders. Moreover, advice on any substantive revision of content or structure was unrealistic at the late stage of plan preparation (June 2020) when we first obtained information on the content of the forthcoming Ten Year Plan.

5-4. The MOTI's Ten Year Development Plan

After the completion of the national Ten Year Perspective Development Plan, each ministry is required to produce its ten year plan. We obtained the MOTI's Ten Year Plan (Amharic) in February 2021 although it was finalized within the ministry much earlier. MOTI prepared a 22-page English slide presentation to inform its contents to the donors (Development Assistance Group: DAG) in April 2021. Its contents run as follows.



Figure 6. MOTI's Ten Year Subsector Prioritization

Source: Ministry of Trade and Industry, "10 Year Perspective Plan Priorities 2020/21-2030/31: Major Reform Agendas and Support Areas," presentation slides to DAG, April 2021.

MOTI's methods for formulating the ten-year sector plan are first explained (Strengths-Weakness Opportunities Treats (SWOT) and Political, Economic, Social, Technological, Environmental, and Legal factors (PESTEL) analysis, performance review with stakeholders, etc.) The ten-year sector vision was presented (By 2030/31 make Ethiopia's manufacturing industry and trade sector globally competitive). Past performance is reviewed. Ten manufacturing challenges are identified. It is argued that addressing these challenges will contribute to the national economy. Then the priority subsectors for the next ten years are listed (Figure 6). In the first five years, past priority industries such as agro-processing, leather and garment continue to be targeted. In the next five years, Ethiopia is expected to graduate from these traditional industries and go to more sophisticated ones. ICT is prioritized throughout the decade.

Then three "linkages" (backward, forward and regional distribution of manufacturing) are discussed, and 16 targets, mostly quantitative, are presented.

- Improve the Ease of Starting a Business ranking to among the top 50 countries
- Improve the average growth rate of the manufacturing industry from 16.6% to 20.6%
- Improve the manufacturing industry contribution to the GDP from 6.8% to 17.8%
- Improve the capacity of the manufacturing industries from 50% to 85%
- Grow the export earning of the manufacturing industry from $4 million to $9 billion
- Create a minimum of 5 million new job opportunities in the manufacturing sector
- Grow the share of the import substitution of local manufacturers from 30% to 60%
- Reform the quality inspection and regulation of products to increase Ethiopia's competitiveness

- To join the WTO complete 30 negotiations with member states, endorse agreements and implement 25 [a word is missing]
- By looking into global and regional standards increase the number of national standards from 11,200 to 13,000
- Revise 70% of national standards we have
- Create awareness around standards in relation to WTO/ Trade Barriers (Technical Barriers to Trade: TBT)/Enquiry point/
- Increase training and technical support to manufacturers to increase productivity, capacity utilization, product diversification from 30% to 60%
- Accrediting conformity assessment institutions to ensure their assessment is accepted globally and are competitive
- Improve the consumer protection by addressing illegal trade practice and taking actions on violators
- Increase the number of small and medium manufacturers from 19 thousand to 81 thousand

Then initiatives which MOTI has already started, current donor support and projects needing additional support are listed.

Looking at both the national and MOTI Ten Year Plans, the past reviews and many targeted ideas are mostly reasonable. The latter include the quality of growth, productivity, competitiveness, appropriate official support of the private sector, value chains, linkages, employment generation and SME promotion. At the same time, it must be admitted that both the national and sectoral ten year plans are full of wish lists—focus areas, objectives and targets whose relationship remains unclear—but quite weak in presenting concrete and implementable action plans equipped with timeline, resource, executing agency, monitoring mechanism, etc. As with the Plan for Accelerated and Sustained Development to End Poverty (PASDEP), GTP I and GTP II, some quantitative targets seem overambitious (e.g., manufacturing export to rise from $4 million to $9 billion). Regarding focus areas, they are too broad covering agriculture, manufacturing, mining, services (including tourism), energy, transport, finance, innovation and technology, urban development, and irrigation. It is almost the entire Ethiopian economy. Selectivity is necessary given the limited executing capacity and resources.

MOTI also informed us that an automotive sector development plan had been separately prepared by MIDI. This plan was not included in the MOTI's Ten Year Plan or the National Ten Year Plan, which is odd if automotive promotion is one of the national industrial priorities. Previously, EIC was drafting an automotive sector development plan but this process has been terminated and the drafting authority seems to have shifted to MOTI. During the drafting process, we were not provided immediately with the content of the proposed automotive sector development plan prepared either by EIC or MOTI. The next section discusses this industry more fully.

5-5. The new industrial policy

The Ethiopian government began to revise the industrial policy from the Spring of 2022. We were informed of this revision during the first mission to Ethiopia after the pandemic-related two-year travel ban was lifted in April 2022. This was the first effort to update Ethiopia's industrial policy since 2002 when the previous

industrial strategy was formulated by Prime Minister Meles[29]. The policy dialogue team was provided with the slides of the new draft policy framework circulated among development partners in May 2022 (Figure 7) and the draft document in Amharic in June 2022, but we were told that there had been many changes from this



Figure 7. Directions of the New Industrial Policy

Source: MOI's Draft revised Manufacturing Industry Policy Framework: Review with key stakeholders (May 2022).

[29] At the outset of Industrial Policy Dialogue Phase I, we had an opportunity to discuss the 2002 industrial strategy with Prime Minister Meles who admitted that he himself "had a hand" in drafting this document. This document deviated from the standard policy format as it preached in lengthy passages desired national objectives and direction without providing any data or graphics. Even so, each chapter of the document clearly defined individual policy orientations such as export promotion, the importance of labor-intensive light manufacturing, the relationship between the private sector and the government, the roles of domestic and foreign enterprises, and the need of citizen's involvement. The revision of this document is natural and overdue given many changes that occurred in the last 20 years and the need for more details.

version. We have not received the final document though we were promised that its Amharic original and English translation would be made available when finalized. From our discussions with MOI Minister Melaku and high officials of MOI and MPD during our missions in September and December 2022, the new document is likely to highlight such pillars as market orientation, the private sector as the engine of growth, the equal importance of export and import substitution, green economy and the cluster approach. These were explained as departures from the past, but we are not entirely sure about the novelty of these pillars. Under these pillars, we were informed that 25 directives and 62 areas of interventions were listed (some say the number of the latter is 65). These 62 areas of intervention seem to correspond to individual projects with which donors are solicited to cooperate, and these may not be made open until the document is finally and officially approved. During our December 2022 mission, we were informed that the new industrial policy was soon to be submitted to the Council of Ministers for approval.

MOI Minister Melaku stressed the need to prioritize and concretize among many policies contained in the new document. Specifically, he cited the creation of action plans, sector-specific studies of import substitution, and the drafting of Industrial Resource Mapping as required next actions. He also requested Japanese advice on which sectors should be targeted for import substitution. Regarding the mapping of resources and technologies, he noted that the final decision must be in the hands of private enterprises but the government must also set appropriate policy directions. He also pointed to the knowledge gap that existed in both the public and private sector that had to be filled.

5-6. National Industrial Movement

The MOI launched the National Industrial Movement (Ethiopia Tamirt) in the Spring of 2022 as it engaged in the above-mentioned revision work of the industrial policy. This movement is considered to be one of the key implementation instruments of the new industrial policy as well as the manufacturing chapter of the Ten Year Perspective Development Plan. The origin of this movement was explained as follows. The Macroeconomic Team (the advisory group reporting to the prime minister) pointed out the stagnant manufacturing sector despite many years of promotion, to which MOI Minister Melaku and high MOI officials proposed a new national movement to improve the situation. The government accepted this proposal. After preparation and the drafting of a few key documents, Prime Minister Abiy officially launched the movement in Addis Ababa in May 2022. Initially, the Kaizen Excellence Center (KEC) assumed the secretariat role of the movement. However, Minister Melaku's determination to make this movement a long-term commitment (10-20 years) rather than a temporary one, the secretariat function was moved to a newly created permanent office in the MOI headquarters in September 2022. The movement is activated not only in Addis Ababa but also in all levels including federal, regional states and private sector. A number of deliberation and coordination mechanisms were also created to solve specific problems.

In terms of organizational structure, the highest body of the movement is the National Council headed by Minister Melaku[30], and the MOI Steering Committee, also headed by Minister, is placed under it. The Steering

[30] The MOI wished Prime Minister Abiy to chair the National Council but this did not materialize. Instead, Minister Melaku chairs both the National Council and the Steering Committee. For the success of an important national policy, the strong involvement of a top leader is essential as witnessed in many Asian examples. From this viewpoint, the above arrangement is not an ideal one.

Committee is expected to meet every three months but this has not yet been realized. Under it, there are five "clusters" (policy deliberation mechanisms) for promoting inter-ministerial coordination: finance and taxes, capacity building and Research and Development (R&D), raw materials and infrastructure, investment and development partners, and regional states and special cities. Each cluster is led by a state minister or an equivalent focal person. In regional states and cities, two focal persons are designated (a leader and a technical staff). Under the cluster mechanism, discussion between MOI and the tax and customs authorities are already underway. MOI also discusses fiscal issues with the Macroeconomic Team and monetary and financial issues with NBE. The policy trade-off between MOI and the fiscal and monetary authorities has not yet been solved but understanding between the two parties is deepening according to MOI officials. Under the clusters, technical working groups are appointed. These groups conduct research and surveys to provide necessary information to the clusters (Figure 8). Thus, the MOI initiated new policy actions centered on the National Industrial Movement in 2022, leadership in inter-ministerial policy discussions and negotiations with development partners (donors) and, through these, attempts to make manufacturing promotion more "harmonized." Meetings with development partners are supposed to take place every month while development partner meetings attended by Minister Melaku are expected in every quarter.

Many think that the MOI's influence within the government has increased thanks to the revision of the industrial policy and the initiation of the National Industrial Movement. This tendency is recognized not only by the MOI itself but also by other ministries and industry-oriented development partners. At the same time, it must be admitted that the rapid implementation of a new nationwide movement burdens the MOI and produces some internal confusion. After a few waves of radical restructuring imposed by the government, the current organization of the MOI exhibits many ambiguities and inconsistencies. Tasks are duplicated among

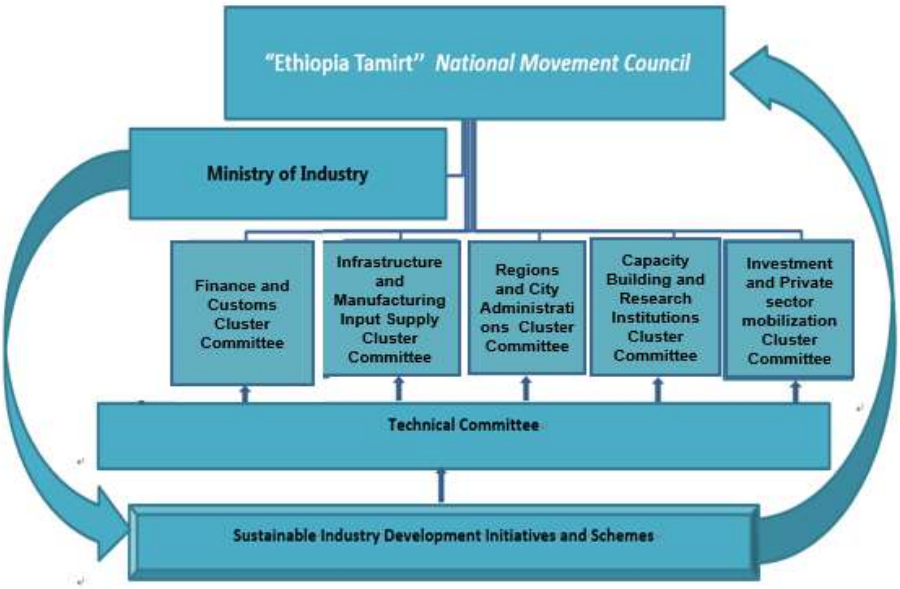


Figure 8. The Organization for the National Industrial Movement

Source: "Ethiopia Tamirt: A national movement to build a manufacturing Ethiopia through an integrated and sustainable approach," with some updates.

different departments, and the scope and functions of each department are often unclear. More than one department or person are formulating the new industrial policy or implementing the new movement, which made it difficult for us to identify the key person responsible for each policy. One example is replacing KEC by a newly created office in the headquarters as the secretariat of the national movement within a short time. Details of the movement documents drafted by different persons are not exactly the same. A number of MOI officials we met also admitted duplication and ambiguity within the current structure of the MOI. For the successful implementation of the revised industrial policy and the National Industrial Movement, the amelioration of such internal inconsistencies is critical in addition to the more fundamental question of whether the policy and movement will produce visible industrial results.

Policy inconsistency arises not just within the MOI but also among ministries. The latter situation is not a new phenomenon in Ethiopia as well as in other countries. MOI Minister Melaku regards inter-ministerial policy inconsistency as one of the key causes of Ethiopia's stagnant manufacturing sector and shows strong interest in removing it. His interest appears equally shared by the rest of the Ethiopian government. In Ethiopia, solving the inconsistency problem in economic policy is the responsibility of the Macroeconomic Team. Recently, moreover, MPD has been tasked by the prime minister to check specific inter-ministerial policy issues before they come to the Council of Ministers for approval.

MOI Minister Melaku stated that, while the top national leader had to strike a balance between macroeconomic stability and industrial promotion, politicians needed information necessary to evaluate the merits and demerits of any policy and come to an informed decision. He requested the Japanese policy dialogue team to share the international experiences of inter-ministerial coordination. GDF responded to this request by organizing a policy workshop on the topic of policy inconsistency (fifth Development Policy Forum (DPF) seminar) in Addis Ababa in December 2022 where the causes and solutions of policy inconsistency were deliberated, Ethiopia's situation was analyzed, and many concrete examples from East Asia were presented for practical analysis and suggestions. Policy inconsistency may arise from the classical tug-of-war between the fiscal authority and the industry-promoting ministry but also from task duplication, ambiguous responsibility, frequent organizational reforms, the lack of knowledge by policymakers, and the low capacity and unfitting attitude of implementing officials. Solutions also vary depending on the cause. East Asia can offer many examples of successes and even failures. Ultimately, what is critically important is not which policy coordination model should be adopted in any particular country but the quality of national leaders and technocrats who utilize such policy coordination model.

5-7. Policy inconsistency check by MPD

At the time of cabinet reshuffle in October 2021, it was decided that all new policy documents must be checked for policy inconsistency by MPD before they go to the Council of Ministers. This procedure was introduced to reduce inter-ministerial inconsistencies which were considered to be one of the causes of past policy failures.

In November 2022, MPD produced a guideline document for this purpose entitled Policy Alignment for Prosperity: Alignment of Development Policies and Programs. It states that policy alignment consists of three types: inter-ministerial (across sectors), macroeconomic vs. sectoral, and federal vs. regional states. Examples of the need for policy coordination across ministries include education vs. industrial human resource

requirements and input-output relations among agriculture, mining and industry. The guideline also requires each ministry to explain why a new policy is needed, proposed changes from the existing document, targeted results, expected challenges, etc. to be scrutinized by MPD, a process called Policy Mapping. It is hoped that this undertaking will remove inconsistencies among ministries and improve the policy capacity of MPD and relevant ministries.

The first-round exercise of this policy checking was underway when the policy dialogue team arrived in Ethiopia in December 2022. The draft of the MOI's new industrial policy was examined in this first-round exercise, among others. MPD Minister Fitsum asked the Japanese team to talk to the MPD technical team engaged in this exercise at a hotel in the suburb of Addis Ababa. The Japanese team did so to understand the concrete actions of this policy exercise and provide preliminary comments and suggestions.

Key points of the MPD's guideline documents for policy inconsistency check

- ✓ Policies must ensure mutual consistency with an explicit framework and procedure
- ✓ Definitions of terms: Policy, Strategy, Program, Project (from general to specific)
- ✓ Types of inconsistency: macroeconomic vs. sector, sector vs. subsectors, and federal vs. regional states
- ✓ Good policy must satisfy coherence, mutual consistency, social welfare, feasibility, political suitability, comprehensiveness, etc.
- ✓ Policymaking procedure (drafting period is 18 months)

  Ministry proposes→Policy Concept Note is checked by MPD using template→Schedule and budget for drafting work are decided→Survey and expert evaluation are conducted→Second study meeting at the regional level→Ministry submits draft document following given format→Ministry of Justice checks→Council of Ministers approves→Implementation→Monitoring and evaluation

Annex: Policy Mapping Workshop

Examine existing policy→Relevant ministry presents the outline of proposed policy→Alignment analysis→Identify a new law to be created→Identify organizations to be created or closed→Determine Program [action plan?]→Decide budget

6. Automotive policy

The Ethiopian government, Prime Minister Hailemariam and Prime Minister Abiy in particular, frequently expressed interest in promoting the automotive sector. The former instructed EIC and MOTI to attract FDI car assemblers and draft Ethiopia's first automotive sector plan. Given the large population and balance-of-payments pressure exerted by car imports, it is natural that Ethiopian policy targets this industry despite many difficulties in technology, management, institution and market size. At the same time, Japanese brand vehicles have dominated the streets of Ethiopia though most of them were used vehicles and illegal or parallel imports. Japanese automotive producers may be interested in assembling cars and trucks in a potentially large and growing market such as this, provided that certain conditions are met. At present, however, there are many practical impediments to automotive assembly in Ethiopia.

In Phase III, the policy dialogue team saw the future possibility of convergence of bilateral policy interests, Ethiopian and Japanese, in the automotive sector as well as much room for policy learning, and began research on the sector. The Ethiopian automotive market is currently very small and suppressed by various obstacles as explained below. It is still in a very early stage of development (SKD assembly) and must travel a long way before the domestic automotive market and production mature. The government is willing and serious to promote the sector but it lacks practical knowledge for implementing needed actions. Policy learning that fits Ethiopia's reality is essential.

In 2018, GRIPS and JICA intensified the discussion of automotive policy with Ethiopia's responsible authorities. Our main partners were MOTI (including Metals Industry Development Institute (MIDI)), EIC, PMO and MOF. To prepare necessary information, the Japanese policy dialogue team repeatedly interviewed automotive manufacturers and dealers in Japan, Ethiopia and elsewhere. We invited MIDI officials to Japan in June 2018 and dispatched policy missions to Kenya in August 2018 and Myanmar in November 2019. Because Germany was also interested in car assembly and upgrading the Ethiopian automotive sector, we met GIZ representatives to exchange information almost every time we visited Addis Ababa. GDF produced a series of automotive policy documents and submitted to our counterparts. Among them, the "Note on the Assembly of Japanese Automobiles and Construction Equipment in Ethiopia" (November 2018), "Automotive Industry Promotion in Ethiopia" (March 2020), and "Ethiopian Automotive Policy in the African Automotive Market" (August 2022) were most important ones. Additionally, a report on the Myanmar automotive industry, comments on Ethiopian automotive policy, and information updates on African automotive developments were also provided. We conducted three MOTI-hosted automotive seminars in February 2019, February 2020 and September 2022 in Addis Ababa. We also continuously monitored the progress of the Isuzu-Kaki cooperation to assemble Isuzu trucks in the suburbs of Addis Ababa.

6-1. The Ethiopian automotive market and Japanese manufacturers

There is no comprehensive official automotive data in Ethiopia but private firms and consulting firms collect available information. Ethiopia's motorization rate is one of the lowest in the world at eight vehicles per 1,000 persons. There are nine assembling plants of foreign brand vehicles (Chinese, Korean, Italian, French and Japanese) but their operation ratios remain low due to problems in foreign exchange, security and suppressed demand. They collectively assemble less than 1,000 vehicles per year, far below their total capacity (28,000?)

Bishoftu Automotive Manufacturing Industry, a member of Ethio-Engineering Group (formerly Metals and Engineering Corporation, a large industry complex owned and run by the military) is the largest assembler of buses in Ethiopia, but all production lines laid idle due to the lack of imported components when we visited it in December 2022. The firm said the next allocation of foreign currency would be in April 2023.

Isuzu, partnering with Kaki PLC, a local distributor and service provider of imported Isuzu trucks, began to test produce medium-sized Isuzu trucks at Kaki's Alem Gena plant in 2019. But it has not reached its production capacity due to many operational difficulties in Ethiopia as explained above. Isuzu is so far the only Japanese automotive firm that entered the Ethiopian market to assemble vehicles locally. The policy dialogue team visited the head offices of both firms and Kaki's plants for interviews and tours and continued to monitor developments. Itochu Corporation Addis Ababa, the Japanese trading house that supports Isuzu,

was also frequently visited and interviewed. Besides problems related to foreign currency and security, one remaining problem for commercial vehicle assemblers is the too narrow tax gap (5%) between local assembly and new truck import which gives little incentive for local assembly. The gap is as much as 50% in Kenya where Isuzu has established a large truck assembly plant (see 6-3-1).

Toyota Tsusho is in charge of marketing Toyota cars in Africa. The Motor and Engineering Company (MOENCO), a subsidiary of London-based Inchcape PLC which distributes motor vehicles globally, is the exclusive dealer of Toyota as well as other foreign automotive brands in Ethiopia. The policy dialogue team visited both firms several times each for interviews and discussion. Toyota Tsusho explained how it analyzed the Ethiopian market. MOENCO management explained the local market situation and business challenges. MOENCO sells, inspects and repairs Toyota cars as well as supplies genuine Toyota components at its Addis Ababa head office and several branches in the country. We toured its main premise and were impressed with the efficiency and professionalism with which inspection and repair and paint works were performed. MOENCO technicians are well-trained. There is a small training center to teach Toyota standards. Customers can purchase car components within several minutes of arrival thanks to the Toyota inventory management system. One remaining problem for MOENCO is the lack of space for a large number of cars it must service, but we recently heard the company had acquired a new location in the outskirts of Addis Ababa.

We also interviewed Komatsu, a Japanese construction machinery maker, and toured its Oyama engine plant in Tochigi Prefecture with the MIDI delegation visiting Japan. Ethiopia's demand for construction machinery is potentially large thanks to building booms and active public investment projects.

6-2. Ethiopian policy and four missing conditions

In automotive policy discussion, we first emphasize that appropriate policy differs across countries and depends critically on the demand size and the development stage of the industry. It is important to recognize the current position of Ethiopia on the timeline of automotive development and introduce suitable actions for it (Figure 9). Global frontline automotive technology is changing but Ethiopia's top priority is not to lead or follow that trend. To establish an initial automotive production base, Ethiopia must start by overcoming basic problems.

Through the many discussions we had with the above-mentioned Japanese automotive makers in Japan, Ethiopia, Kenya and Myanmar and their local partner firms, problems deterring their entry into Ethiopia and/or subsequent expansion became quite clear. We repetitively communicated them to the Ethiopian policymakers. The four most formidable obstacles in Ethiopia were as follows.

(i) Foreign currency shortage—all of the interviewed Japanese assemblers cited this as the biggest challenge for assembly in Ethiopia. Needless to say, this is not a problem only for automakers but for all businesses operating in Ethiopia.

(ii) Used vehicles and parallel imports—these reduce the sales of locally assembled new vehicles. The restriction should be introduced in proper steps and speed balancing industrial needs with the interests of used car traders, dealers and users.

(iii) The incentive structure—Ethiopia's automotive levies are very high and complex even after the recent revisions. For commercial vehicles, the difference between CBU and local assembly is 5%,

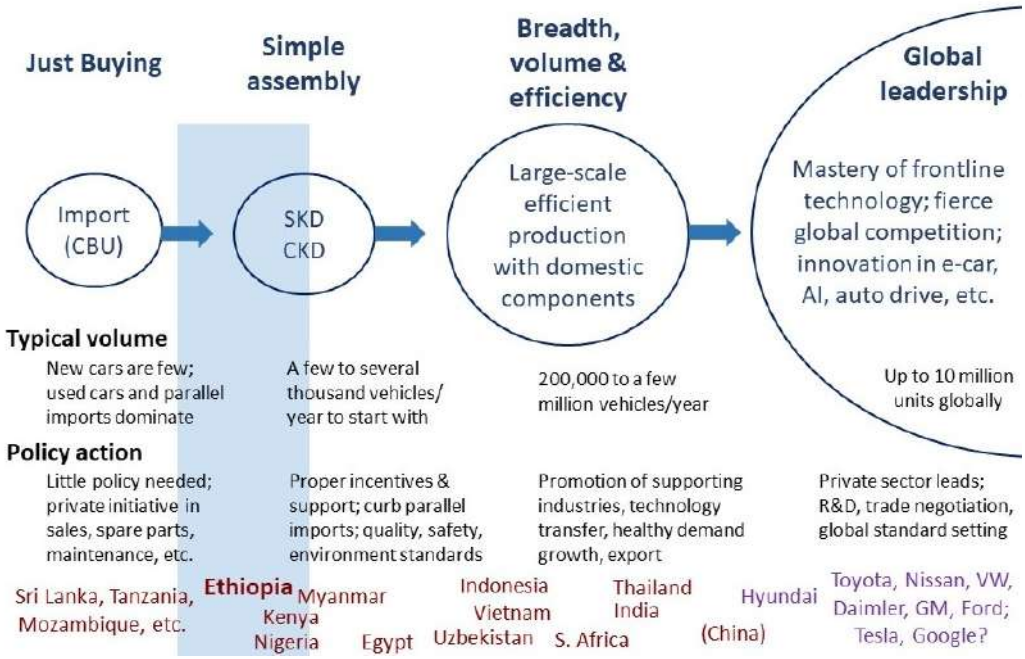


Figure 9. Timeline of Automotive Industry Development

which is too small to offset the added costs of local production (it should at least be 20-30%; Kenya has a 50% difference). Similar consideration is necessary for passenger cars as well.

(iv) The volume problem—Ethiopia's new car market (new car imports plus local assembly) is less than 8,000 vehicles per year. For growth and profitability, the industry needs at least 100,000-200,000. Even if the current market is small, the government can announce long-term forecasts, and introduce policies consistent with (do not frustrate) such forecasts.

Among these, the foreign currency problem is very serious and worsening whose quick solution is difficult to foresee. It is a macroeconomic and financial issue rather than an industrial one, but it severely affects the operation of all industries. If the government prioritizes the automotive sector, it may consider allocating the limited supply of foreign currency to this sector after satisfying the minimum needs of essential food, medicine and fuel.

Regarding used car restriction, the Ethiopian government in 2019 suddenly implemented a strong curb on used vehicles by imposing steep taxes and tariffs on their imports, which essentially killed this market segment. We are in full support of this policy direction, but the way it was introduced suddenly and without sufficient lead time or stakeholder consultation was not what we recommended. Many countries—including Kenya, see below—face a policy gridlock when used car dealers and their political allies oppose a tax change against them and block policy reform. In Ethiopia, the negative political reaction did not occur to any significant extent. Even so, to maintain political stability, it is always wise to be aware of conflicting interests among stakeholders when a tough policy decision is made. That said, we happily acknowledge that this bold policy action effectively removed one of the obstacles to local assembly we listed above and significantly changed the Ethiopian automotive market. We do not know how much our advice contributed to the decision-making of the Ethiopian government.

With the used car problem resolved, the next problem Ethiopia must address is the incentive structure. Ethiopian automotive taxes are too high and complex and they do not favor local assembly over new car imports. The Ethiopian tax and tariff system has been revised twice since we began our automotive investigation: first for regular international tax review and adjustments (for all sectors, not just for automotive) and second for implementing the used car restriction mentioned above. With these revisions, the Ethiopian tax structure became more favorable to domestic assembly and new car imports vis-à-vis used car imports, and vehicles embodying new technology (electronic and other clean vehicles) are given additional privileges. However, more adjustments are needed. First, the high average automotive levies compared with other countries still remain. There may be a tug of war between revenue-raising authority (say, MOF) and industry-promoting authority (say, MOI) as observed in many countries. Second, the tax system is still very complex meticulously distinguishing different engine capacities, vehicle types and technology whose policy purposes we do not know. Third, an incentive system more favorable to local assembly relative to new car imports must be installed. New car imports reduce the sales of locally produced vehicles just like used car imports. Fourth, the meager incentive (the tax gap of 5%) for the domestic assembly of commercial vehicles remains unchanged.

Finally, the Ethiopian market at present is too small to attract investment in a large automotive plant with latest equipment. In the long run, the problem of small demand may be alleviated. Moreover, investors will be assured even now if buoyant and credible demand forecasts are announced and initial policies to justify such forecasts are drafted. Demand forecasts are a crucial ingredient of any automotive sector development plan, and international experiences can illustrate how such forecasts should be made and what supporting policies are necessary.

The new automotive policy to be drafted should include the measures to solve these four obstacles. A further revision of the incentive structure and the presentation of demand forecasts are especially crucial in the new document.

There was another important point that the policy dialogue team made to EIC, MOTI and MOF. These three bodies must cooperate closely in drafting and executing an automotive policy but it was found that they did not share information or ongoing actions with the others. For example, EIC and MOTI did not know how and why MOF was revising the automotive tariff structure. Moreover, MOTI and MOF knew little about EIC's automotive cooperation with the Germans. The Japanese team detected these separate movements by talking to all of them, and encouraged the formation of a working group consisting of mid-level officials and experts from each organization with daily contacts. The lack of effective horizontal communication may not be confined to the automotive sector but pervasive in other policy areas. Another vital factor for effective policymaking is a strong commitment and clear guidance from top national leaders.

6-3. Lessons from Kenya and Myanmar

After reviewing developing countries in Asia and Africa, Kenya and Myanmar were selected as appropriate benchmark countries for the Ethiopian automotive sector as they share the same features as Ethiopia such as small domestic demand, a very early development stage (SKD), the dominance of foreign brands, the (previous) dominance of used car imports, the lack of policy knowledge and experience, and so on. However, they both succeeded in drafting an effective automotive policy that stimulated domestic car demand and

accelerated the inflow of FDI assemblers. In 2018 and 2019, policy research missions were dispatched to these two countries to collect further information and lessons. Each mission produced back-to-office reports and presentation slides which were shared with the Ethiopian authorities[31]. Additional information was also cited from our past research in Thailand, Indonesia, Vietnam, South Africa, Uzbekistan, Morocco, Ghana, Nigeria, etc. and offered to the relevant authorities.

6-3-1. Kenya

Kenya's automotive sale is dominated by used car imports. New car sales fluctuate in the range of 10,000-20,000 vehicles per year, which is greater than Ethiopia but not sufficiently large for robust industrial growth. Domestic automotive sales peaked in 2015 but fell subsequently. This was partly due to the political uncertainty surrounding the 2017 presidential election and partly due to the lowering of the commercial bank lending rate ceiling from 17% to 14% and the credit crunch it caused (banks no longer lent to car buyers because profit margin was too small). Among new vehicle sales, Japanese models dominate in both passenger cars and commercial vehicles with Isuzu (34%), Toyota (20%) and Hino (3%) as major brands[32].

The Kenyan automotive tax structure is simple and does not differentiate passenger cars and commercial vehicles. It levies 50% more taxes—25% customs duty and 20% excise tax, multiplicably applied—on finished vehicle imports compared with domestically assembled vehicles which are exempt from these taxes (a uniform value added tax of 16% is imposed on all products including imported and domestically assembled vehicles). Special regulations remain for specialized or luxurious vehicles and there are also import declaration fee (2%), railway development levy (1.5%) and merchant shipping levy ($1.75/ton/20 feet) applicable to all imports, but car dealers say these are manageable and not too cumbersome. Japanese automotive firms also confirm that tax and customs procedure in Kenya is not bureaucratic or complex, and all officers say the same thing. This is quite different from Ethiopia where the automotive tax structure is very complicated and tax and customs officials may make contradictory decisions.

Kenya's automotive policy is produced under a strong private initiative. The Kenya Association of Manufacturers (KAM) coordinates and presents industry voice. Government receives and adjusts private proposals. Kenya began to revise the automotive policy in 2018 but has not finished it due to political complications as explained below. It aims to increase automotive contribution to GDP, automotive export to the East Asian Community (EAC) and localization. Commercial vehicles (trucks, buses and mini-buses) are prioritized.

One remaining problem is the prevalence of used cars which discourages domestic assembly. The new policy attempting to reduce the car age limit from 8 to 5 (and later, 3) years was announced in January 2019 but met with strong opposition from used car traders. Kenya also wants to coordinate the automotive age limit with the EAC member countries, but this also proved difficult. Another important proposed change is to strictly

[31] GRIPS Development Forum, "Report on the Automotive Industry Policy of Kenya," October 5, 2018; and GRIPS Development Forum, "GDF Myanmar Mission Report," January 24, 2020. For presentation slides, see "International Comparison of Automotive Assembly Policies: For Inviting Global Players to Ethiopia and Supporting their Expansion" (February 2019); "Policy for Attracting Automotive Assembly Part II" (August 2019); and "Key Findings in Myanmar's Automotive Policy and Lessons for Ethiopia" (February 2020).

[32] These are situations observed in August 2018 when the GDF mission visited Nairobi, with some updates on the status of the new automotive policy.

monitor the eligibility of and give more incentive to domestic assemblers based on the amount of value creation. For this, new definitions of knock-down production are proposed:

- DKD (Direct KD): Imported in whole, wheels and accessories fitted locally (no longer to be permitted).
- KD level 1 (SKD): Body separated from driveline, paint and trimming allowed, etc.
- KD level 2: Painted and welded cab, rear body and chassis devoid of trim, electrical and mechanical attachment, etc.
- KD level 3: Cab, rear body and chassis supplied in sub-assemblies for welding and painting, etc.

An effective restriction on used cars and a transparent incentive scheme for domestic value creation are two policy measures critically needed for Kenya at this juncture of automotive development. However, policy finalization and approval are delayed due mainly to strong resistance from used car dealers.

6-3-2. Myanmar

In contrast to Kenya, one salient feature of Myanmar's automotive market is the gradual but effective elimination of used car imports implemented successfully in recent years. Used Toyota vehicles once dominated Myanmar streets. New car sales were only a few thousand vehicles per year (similar to Ethiopia today). However, Myanmar restricted used car import in steps from 2014 to 2017. A ban on right-hand drive cars and a registration ban in the Yangon area were introduced. The car age limit was reduced from 10 to 3 years. This effectively eliminated used car imports. New car sales quickly rose from 4,168 units in 2016 to 17,500 units in 2018 and continued to climb thereafter. Not only the very rich but also the upper middle class began to buy cars[33]. This proves that, even if other policy measures are not in place, used car restriction alone can dramatically change the domestic car market (a similar change also occurred in Nigeria when high CBU tariffs immediately stimulated SKD assembly).

For a long time, Suzuki was the only carmaker with its own assembly plant in Myanmar (since 1998). After the introduction of used car restriction, it expanded capacity and moved from SKD to Complete Knock Down (CKD). Toyota used to sell finished cars but now built its first assembly plant in Myanmar. Other assemblers are Nissan, Ford, Kia and Hyundai but their car assembly is done by local firms.

The Japanese and Myanmar business chambers drafted a private sector proposal on automotive policy in 2015. The government instructed the Ministry of Industry (MOI) to revise the private proposal into a policy format, focusing on production issues only. Japanese firms continued to advise MOI. Public hearings were held on the final draft in 2017. The Cabinet approved the automotive policy in May 2019. We regard this policy highly because it correctly identifies key policy issues such as (i) importance of market size, (ii) selection of priority models, (iii) proper definitions of SKD and CKD, (iv) appropriate incentives for local assembly, and (v) promotion of supporting industry (domestic component suppliers) as a future task. MOI admits that changes it made from the private proposal to the final document were relatively minor.

However, the policy document does not specify concrete contents. It stresses the importance of these key issues without making any numerical decision on essential details. It may be risky for foreign carmakers to invest or expand without knowing these details (priority models, precise definitions of SKD and CKD, and

[33] The situations described in this subsection are those prevailing up to February 2021 when the military coup toppled the civilian government and Myanmar's economy stagnated. Thus, the policy lessons from Myanmar we study are those prior to the military coup.

incentives associated with these). Japanese carmakers seem willing to invest because, based on past records, they trust the Myanmar government to do the right things in the end.

Permanent Secretary Aung Naing Oo of the Ministry of Investment and Foreign Economic Relations stated: “President Thein Sein invited Toyota to come and assemble cars. Toyota did research for six months and arrived at a negative conclusion. Toyota said that Myanmar was full of used cars, and it would not invest unless used car inflow was stopped. The Myanmar government took this seriously and introduced measures to curb used car imports… Our automotive policy is still incomplete and serves as the basis for continued discussion with stakeholders” (interview in Naypyidaw, November 28, 2019).

Another key feature of Myanmar is the acceptance of foreign advice when it seems sincere and reasonable. The Myanmar government is weak and inexperienced in economic management. It lacks leadership, knowledge and inter-ministerial coordination. Ministries wait for top-down instructions but they are slow in coming. This causes delay and inaction in policymaking. Despite these problems, the Myanmar government listens carefully to the economic advice of eligible foreigners and adopts most of it. National pride and ownership are not overly exhibited in economic policymaking. This was true in the drafting of the automotive policy, the Investment Law, the SEZ law, and the operation of Thilawa SEZ. Japanese automakers, especially Suzuki and Toyota, continuously give advice and requests to MOI, and most ideas have been accepted.

6-4. Volkswagen and GIZ

Around 2018 as we were proceeding with automotive research, we sensed rising German interest in the Ethiopian automotive market. In the next year on the occasion of the visit of German President Frank-Walter Steinmeier to Addis Ababa, an MOU was signed on January 28, 2019 by Thomas Schaefer, Head of the Volkswagen (VW) Sub-Saharan Africa Region (located in South Africa) and EIC Commissioner Abebe Abebayehu. It stipulated German cooperation in four areas—car assembly, component production, mobility (car sharing) and technical training—without specifying a timeframe. GIZ began to assist Ethiopia’s automotive sector in support of VW’s move. A study was commissioned and a tour to Germany was arranged.

For Japan, Germany is a potential competitor as well as an ally in upgrading the Ethiopian automotive industry. Rival firms can cooperate in a policy support of target countries, especially in the early stage of their industrial development, while fiercely competing in business operation. This was actually seen in such countries as Thailand and Vietnam where Japanese automotive and motorcycle firms cooperated and competed simultaneously. However, collaboration among firms of different nationalities and business cultures may be more difficult. A common understanding of the challenges and potentials of the Ethiopian automotive market must be established before Japan-Germany cooperation could go ahead. It may be added that Japanese car models are dominant while German cars are scarce in the current Ethiopian market, which implies that German advice must be consistent with the strategic orientation of existing large players.

In 2019, the policy dialogue team had regular meetings with GIZ Ethiopia to exchange and update mutual information (we did not have a chance to talk directly to the representative of VW). VW South Africa was the chair of the African Association of Automotive Manufacturers (AAAM) at that time and the AAAM member firms toured Ethiopia and other African countries in the summer of 2019 to explore new business ideas. However, many German proposals were puzzling to the Japanese dialogue team. For example, the idea of

producing car components in Ethiopia and exporting to South Africa seemed unrealistic given the current capacity of the Ethiopian industry as well as the logistic cost and inefficiency. The proposal to build a special industrial park for automotive firms also appeared strange. The initiative to set up an automotive training center in selected African countries (including Ethiopia) operated jointly by two global car giants sounded impractical as each foreign car firm has its own training philosophy which is difficult to unify (it is better to let one firm do the training rather than mix different methods). Car sharing service is a nice idea but hardly the top policy priority for Ethiopia today and such service may be supplied by a local IT firm via the internet. In late 2019, GIZ invited ten-plus Ethiopian officials to Germany to visit the plants of Porsche, Mercedes-Benz and VW as well as component suppliers, policy authorities and think tanks. However, Germany may not be the best benchmark country for Ethiopia[34].

Despite many meetings we had with GIZ Ethiopia, we were unable to determine whether German ideas were consistent with the Japanese views on the current status and future possibilities of the Ethiopian automotive industry and whether Germans would agree with the four initial policy actions we regard as essential in the current Ethiopian context (subsection 6-2). Subsequently, in our meetings with GIZ Ethiopia in September and December 2022, we were told that VW was no longer interested in automotive cooperation with Ethiopia and GIZ's support program for it no longer existed.

7. Dissemination beyond the Ethiopian government

In Phase III, the Ethiopia-Japan Industrial Policy Dialogue organized many policy events with the Ethiopian dialogue partners which were variously called High Level Forums (HLFs), Development Policy Forums (DPFs), Knowledge Sharing Forums (KSFs), policy workshops, interim report workshops and report launch workshops. During 2020-2021 under travel restriction due to the COVID pandemic, these events slowed down but were continued online whenever possible.

Apart from these official policy events, the policy dialogue team also organized workshops for the interested general public (officials, business people, researchers, students, consultants, etc.) to widely disseminate our policy analyses and dialogue results. The frequency of such PR workshops increased after 2020 because we had to cut down on other dialogue activities that required face-to-face contact. Because GRIPS as a university adopted Zoom for all its lectures, workshops and internal meetings, we also used the Zoom conferencing system to economize costs and technical expertise. Our staff learned how to operate it and became able to manage online workshops without major problems provided that the number of participants did not exceed 200 (the system's limit) or foreign speakers faced no technical hitches. Some workshops directly discussed Ethiopia but others reported the results of comparative studies in Asia and Africa conducted for the Ethiopia-Japan Industrial Policy Dialogue. Some of the workshops were co-organized with the JICA Ogata Research Institute for Peace and Development (JICA Ogata RI) or the Brenthurst Foundation. Table 9 lists our online PR workshops. Besides these, GDF also organized many online workshops which were not directly related to the themes of the bilateral policy dialogue.

[34] Among the tour participants, Industry State Minister Teka said that he was surprised to know that German automotive firms could procure 80% of components domestically. MIDI Director General Dereje remarked that, regardless of relevance to Ethiopia, he was greatly impressed by the three German plants.

Table 9. GDF-hosted Dissemination Workshops

	Date	Topic	Presenters (*: main speaker)	Language	No. of Participants
1	Jul. 2020	Evolution of Ethiopia's development strategy under three prime ministers	Kenichi Ohno (GRIPS)*, Yonosuke Hara (GRIPS)	Japanese	83
2	Nov. 2020	The Asian Aspiration: what Africa needs to learn from Asia's experience	Greg Mills (Brenthurst Foundation)*, Hailemariam Desalegn (former Ethiopian PM), Kenichi Ohno (GRIPS)	English	63
3	Apr. 2021	Japanese strategic and economic partnerships with Africa in a turbulent era	Céline Pajon (IFRI)*, Katsumi Hirano (IDE-JETRO), Izumi Ohno (GRIPS)	English	55
4	Sep. 2021	Comparative garment survey in Ethiopia, Vietnam and Bangladesh	Kenichi Ohno (GRIPS)*, Kenta Goto (Kansai Univ.)	Japanese	105
5	Feb. 2022	Japanese experience in industrial policy support	Izumi Ohno*, Kenichi Ohno (GRIPS); Akio Hosono, Minoru Yamada (JICA Ogata RI); Kuniaki Amatsu (Yamaguchi Univ.)	Japanese	80
6	Mar. 2023	Japan's industrial policy with Ethiopia 2008-2023: achievements and challenges (closed webinar for int'l audience)	Kenichi Ohno*, Izumi Ohno* (GRIPS); Jong il Kim (Dongguk Univ.); Keiji Ishigame, Toru Homma (JICA)	English	13
7	Mar. 2023	Japan's industrial policy with Ethiopia 2008-2023: achievements and challenges (open webinar)	Kenichi Ohno, Izumi Ohno, Sayoko Uesu (GRIPS), Keiji Ishigame, Toru Homma (JICA)	Japanese	108

Note: workshop no. 2 was co-hosted by the Brenthurst Foundation in Johannesburg. Workshops nos.4 and 5 were co-hosted by JICA Ogata RI. The last two workshops (nos. 6 and 7) were co-hosted by JICA to review the entire period of bilateral industrial policy dialogue.

In addition, the GDF's policy dialogue team published academic books and articles related to the policy dialogue as follows.

- Izumi Ohno, "Significance and Challenges of 'The Ishikawa Project': A Practitioner's Perspective Based on the Experience of Japan-Ethiopia industrial Policy Dialogue," *Journal of International Development Studies* vol.27, no.1, Japan Society for International Development, June 2018 (Japanese original).
- Izumi Ohno, "Industrial Policy and Kaizen: From the Experience of Industrial Practice and Industrial Policy Dialogue in Ethiopia," *Journal of International Development Studies* vol.27, no.2, Japan Society for International Development, November 2018 (Japanese original).
- Kenichi Ohno and Izumi Ohno, "A Japanese Perspective on Ethiopia's Transformation," chapter 47, F. Cheru, C. Cramer and A. Oqubay (eds.) *The Oxford Handbook of the Ethiopian Economy*, Oxford University Press, 2019.
- Arkebe Oqubay and Kenichi Ohno (eds.) *How Nations Learn: Technology Learning, Industrial Policy and Catch-up*, Oxford University Press, 2019. Besides editing, Kenichi Ohno also contributed "Meiji Japan: Progressive Learning of Western Technology" as chapter 5. (This book was translated into Vietnamese for the Communist Party leaders with the title: QUỐC GIA HỌC TẬP: Học tập công nghệ,

chính sách công nghiệp và vắt kịp thành công, Hanoi: True State Politics Publishing House, 2020.)

- Izumi Ohno and Sayoko Uesu, "New Partnership between Business and Development: A Case Study of Ethiopia's Industrial Development," chapter 16, Shigeru Otsubo and Christian Samen Otchia (eds.) *Designing Integrated Industrial Policies for Inclusive Development in Africa and Asia: Volume II*, Routledge, 2020.
- Kenichi Ohno, "Ethiopia Beyond Middle Income: Transforming the National Mindset," chapter 2.4, M.G. Desta, D. Dori and M.E. Mihretu (eds.) *Ethiopia in the Wake of Political Reforms*, Los Angeles: Tsehai Publishers & Distributors, 2020.
- Izumi Ohno, "Overview: Japanese Perspectives on Industrial Development and the Concept of Translative Adaptation," chapter 1, Izumi Ohno, Kuniaki Amatsu and Akio Hosono (eds.), *Policy Learning for Industrial Development and the Role of Development Cooperation*, Research Project-Japanese Experiences of Industrial Development and Development Cooperation: Analysis of Translative Adaptation Process. Volume I. JICA Ogata RI, 2022.
- Kenichi Ohno and Izumi Ohno, "Ethiopia-Japan Industrial Policy Dialogue: Learning Eastern Methods through Intensive Discussions and Concrete Cooperation, chapter 8, Izumi Ohno, Kuniaki Amatsu and Akio Hosono (eds.), *Policy Learning for Industrial Development and the Role of Development Cooperation*, Research Project - Japanese Experiences of Industrial Development and Development Cooperation: Analysis of Translative Adaptation Process. Volume I. JICA Ogata RI, 2022.
- Kenichi Ohno, Akio Hosono, Kuniaki Amatsu, and Minoru Yamada, "Bilateral Policy Dialogue: Japanese Cooperation for Enhancing Industrial Policy Capacity," chapter 5, Izumi Ohno, Kimiaki Jin, Kuniaki Amastu, and Junichi Mori (eds.), *Introducing Foreign Models for Development: Japanese Experience and Cooperation in the Age of New Technology*, Springer (forthcoming).

8. Conclusion: the guiding principles of policy dialogue

In closing, it might be worthwhile to enumerate several practical lessons gained from the Ethiopia-Japan Industrial Policy Dialogue in general and its third phase in particular. The six points below are mutually related and collectively reveal the unique features of policy dialogue as distinct from other development cooperation projects.

8-1. The difficulty of policy dialogue and the need for selectivity

Development cooperation is never easy. All cooperation projects carry difficulties of one sort or another. Political instability, policy instability, frequent changes of government and project counterparts, the mindset problem, the gap between what is possible and what is desired by national leaders, and the lack of genuine trust between the assisted and the assisting are some of the common problems that arise in any project. It must be stressed, however, that they are particularly critical in the case of bilateral policy dialogue.

Policy dialogue cannot be conducted with all developing countries. There are very few countries that can truly benefit from serious intellectual exchange with Japan because conditions for success are tough. It is not like building roads and bridges or training technicians for which blueprints and established methods exist. Two

things must be mentioned.

First, effective policy dialogue requires the serious interest and active commitment of the highest national leader such as the president or the prime minister. If they are not available, we need at least the deep involvement of an influential minister or a senior advisor in charge of economic policy who directly advises and has the trust of the top national leader. Ministers and state (vice) ministers without such power and top access can still be excellent dialogue partners but they are politically insufficient to promote bilateral policy dialogue. This is because, for policy dialogue to be dynamic, constant adjustments are needed across the jurisdictions of multiple ministries which only the top leader can manage. Not many national leaders are both economically literate and willing to take risks to produce real changes. Most leaders delegate economic issues to relevant ministries and committees. Many welcome policy cooperation with donors but they do not spare much personal time for hearing expert opinions. In this sense, Prime Minister Meles and Prime Minister Hailemariam were exceptional. They not only heard us attentively but asked for more materials when we did not provide them enough.

Second, each policy dialogue is different regarding topics, modality, duration and participants. Moreover, these features constantly change within a country. There is no pre-set outline to guide us. We must always be alert and ready to propose or revise topics and even the framework of policy dialogue because policy interests and economic situations may change at any time. It was our standard practice to finalize the topic one to three months before the next session. If we insist on doing what was decided years or months ago, policy dialogue will quickly lose relevance.

Only a small number of developing country governments are capable of learning effectively from advanced countries. Even if they are willing and make a great effort, they may fail in their learning for various reasons. At the same time, when successfully executed, policy dialogue can bring great benefits to both the developing country and Japan. The host country is assisted to draft concrete policies that fit the unique national context instead of one-size-fits-all solutions, and many of the discussed policies are supported for implementation by JICA's industrial cooperation projects. Japan on the other hand can align its cooperation projects to the revealed priorities of top national leaders and increase its local support, relevance and cost-effectiveness. This deepens our bilateral relationship with the developing country beyond individual projects.

In each developing country, Japan—the Japanese embassy and the JICA office in particular—should engage in regular communication and policy discussion with national leaders and their chief advisors whenever this is possible. This may or may not trigger fruitful intellectual exchange. But if a high-level leader shows serious interest in policy learning from Japan, we should immediately intensify our engagement and prepare formal policy dialogue. This is particularly crucial with developing countries which are our key strategic partners. On the other hand, if our approach does not induce any response, policy dialogue with that government may be hard to realize, at least for the moment. We must be highly alert and selective in initiating policy dialogue with developing country governments.

8-2. Building confidence and trust

As with any human activity, confidence and trust are critically important for the success of any development cooperation. Building personal relationships between a developing country and Japan at all levels from top

leaders to on-the-ground managers and experts should be pursued not just for the sake of project facilitation but as an ultimate goal of any bilateral project. When solid human relations are established, they will become long-lasting precious assets. Without this, policy dialogue will become superficial and mechanical without much substance. To build them, two issues must be considered.

First, the mindset of all Japanese officials, experts and consultants must be consistent with confidence- and trust-building. Any development cooperation must be undertaken for the welfare of the host country and its people as well as for the professional satisfaction of offering meaningful assistance to them, not just for the money, fame and promotion of the service provider. Fortunately, most Japanese persons engaged in development cooperation and overseas businesses have the passion and dedication suitable for this purpose. When we show this attitude and work for the enjoyment of the work, local counterparts and people will surely notice and respond. Conducting industrial policy dialogue does not add any points in the evaluation of professors at the university or the publish-or-perish academic community but this should not deter us from doing necessary and useful works.

Second, to develop a good relationship, long-term presence and commitment are essential. This condition is usually not met by Japanese ambassadors, JICA chief representatives and those working under them who must leave the country after a few years. The rotation cycle of Japanese overseas official postings seems shorter than those of other donor countries. This problem can be partly amended by the presence of Japanese officials who manage to stay longer or repeated times because they truly love the host country as well as by the long-lasting activities of university professors who can decide the duration of commitment by themselves. Many outstanding industrial projects are conducted by the comprehensive and ardent involvement of such renowned researchers as Professor Shigeru Ishikawa (Vietnam), Professor Yonosuke Hara (Laos), Professor Akio Hosono (Latin America), and Professor Shoji Shiba (India). This certainly cements the bilateral human relationship. GDF also tried to serve as a long-term academic hub in the policy dialogue with Ethiopia and Vietnam.

8-3. Linking talk with industrial cooperation projects

“Policy dialogue” is implemented by many donors but most of such dialogue is not very flexible or dynamic. They are often the interim or final presentation of some research projects, tours and seminars to publicize the past achievements of some country, or a conditionality negotiation linked with balance-of-payments support in the case of the IMF and the World Bank. The preferred topics of Western donors tend to be less industrial and more towards macroeconomic, legal, social or governance aspects. When industrial issues are taken up, they are usually cross-sectoral problems such as ICT, globalization, green growth and enterprise reform rather than sector-specific targeting and promotion. Korea also offers largescale policy cooperation to developing countries called the Knowledge Sharing Program (KSP), but its approach is far broader and more standardized than the Japanese.

Our definition of policy dialogue is intellectual cooperation between a developing country and an advanced country held regularly over many years with an open and evolving agenda. It is a flexible consultative mechanism Japan employs routinely in East Asia and elsewhere. Since the 1990s, Japan has conducted policy dialogue with a dozen or so partner countries, and Ethiopia is the first African country to which Japan has

applied such a consultation mechanism.

Japan's policy dialogue is unique in many aspects. First, it aims directly at strengthening the state's role and capacity in industrialization rather than reducing the scope of government intervention. Second, there is no pre-determined format. Policy consultation and knowledge sharing are tailor-made to each country, conducted through a highly interactive process. Japan's policy dialogue usually starts with a national leader of a developing country requesting Japan to discuss development strategy generally or teach and transfer a specific experience of East Asian development. This certainly differs from normal technical assistance with narrowly prescribed terms of reference. Third, while intellectual cooperation takes place in a bilateral context, Japan cites concrete cases from all around the world, not just Japanese experiences which are usually too hard to digest or emulate for beginners.

Perhaps the most important feature of the Ethiopia-Japan Industrial Policy Dialogue is the close link between policy discussion and JICA's subsequent industrial cooperation projects. In our policy dialogue, talk does not end as such but leads in many cases to concrete projects that assist the realization of policy goals just discussed. The dissemination and institutionalization of kaizen, national movement, as well as the incorporation of the kaizen philosophy into GTP II (Phases I and II) are typical examples. The other examples included the metal industry survey (Phase I), export promotion (champion products and branding, Phases II and III), support of FDI attraction and industrial park management (Phases II and III) and BDS support (Phase III). Apart from JICA, the JETRO Addis Ababa office was also established in July 2016 at the strong request of Prime Minister Hailemariam. The nexus between talk and action strongly incentivizes both Ethiopia and Japan to engage in the dialogue seriously and honestly. This linkage is unique to our policy dialogue in Ethiopia thanks to JICA's active involvement in the dialogue since its initiation. The talk-action linkage is usually not realized in the "policy dialogues" by other donor countries.

8-4. Country ownership versus candid advice

Respecting the country ownership of a developing country's government seems to be the obligatory code of conduct for development partners. However, practicing this principle is not easy because the host government is not always right about its ideas or development strategy. If it were, there would be no need for intellectual cooperation from outside. The question, therefore, is how to properly inspire and guide government leaders and officials to abandon unrealistic ideas and instead choose better goals and methods without offending or discouraging them. Not only that, this learning process must arouse a sense of pride and achievement rather than inferiority and humiliation. This requires not just a full understanding of the nation's economy, politics and social ethos but also skillful diplomacy and persuasion technique. This is more difficult than guiding a mediocre student to write a thesis because students usually respect professors but presidents, prime ministers and their advisors are supposed to be above us.

A good policy dialogue team must always observe diplomatic protocol and courtesy. Yet it must speak out (in a polite way) when ideas presented by the counterpart are contrary to global practice or industrial common sense. If this offends our dialogue partners, we will be in a serious bind. Moreover, we also make mistakes as our knowledge is far from complete. At the beginning of our bilateral policy dialogue, Prime Minister Meles asked us to be frank and forthcoming. Most Ethiopian officials also appreciated our honest assessments. This

greatly helped us in our communication with the Ethiopian government. This does not however mean that our sincere objections were always accepted. Our critical comments concerning how SME policy was drafted or how state-owned industrial parks should be managed had little impact on the ongoing policies. However, such incidents did not sour our relationship with Ethiopia. We will continue to voice the same rejected assessments without being discouraged. Our views, though imperfect, are backed by many observations and studies in a large number of developing countries and we stand by them whether or not they are immediately accepted.

8-5. Commonalities and unique factors

In any international comparison, the common objection is that "each country is different and the time has also changed, so this foreign model is not applicable to our country." But the statement is too general and superficial to be useful from the standpoint of policy learning. It is obvious that every situation carries both commonalities with others and uniqueness of its own. The important thing is not that these two aspects are always present but whether the policy designer can clearly and concretely distinguish what is common from what is unique in each case. If this is done, a valid starting point is established for the formulation of policies most suitable for the home country's circumstances. But this requires a thorough knowledge of both domestic and foreign situations.

Meiji Japan may seem too remote for any latecomer country of the twenty-first century to learn from. But such factors as dedicated technocrats, good engineering education, skilled labor force, competitive domestic firms, import substitution, industrial infrastructure and public-private collaboration which the Meiji government tried to foster—mostly successfully—are time-invariant necessities for any latecomer country in the process of industrialization. However, what concrete methods should be used to attain these universal goals depends on initial conditions and differs from country to country and from one age to another. Concrete details must be discovered by each country.

The mindset and orientation of Ethiopian leaders and officials are very different from those of Vietnamese leaders and officials. An approach that works well in Ethiopia hardly works in Vietnam, and vice versa. For instance, there is no need to urge Ethiopian ministers into policy action because they are already fast and energetic. We sometimes advised them to slow down and think harder before finalizing an important policy. This is not so in Vietnam where policy inaction and delay are common. The situation and capacity of the private sector are also diverse across countries. Vietnamese labor is skillful, sensitive and mobile. Workers hop jobs and locations in response to market forces. However, they are highly short-sighted and internal labor migration occurs only in one direction from north to south. In Ethiopia, rural-urban labor migration is still limited as regional and ethnic barriers to movement are considerable. There are many other details to each country that demand different approaches to any common developmental goal.

This implies that one-size-fits-all advice is unproductive and must be shunned. We instead need *translative adaptation*, or the process of using imported ideas and things selectively as inputs to build a suitable domestic model. Good policy dialogue must be founded on sufficient information of domestic society, economy and politics as well as broad and detailed knowledge on benchmark countries from which the most appropriate model for the home country is created through selection, adjustment and combination. The choice of foreign models should not be random but be backed by a careful examination of which country cases are most relevant

to the problem at hand. Thus, the information required for policy dialogue is immense. To offer truly useful policy advice, one should not proceed with the story of just one foreign country or without full knowledge of the host society.

8-6. Project requirements versus policy dialogue requirements

It is customary to oblige development cooperation projects to produce visible results by the end of the project period which is typically a few years. If the technique and methods required by the project are standardized and well known, this requirement is reasonable. A blueprint and targets can be shown in advance and cost-effectiveness relative to other similar projects is easily ascertained. This applies to constructing a structure, training technicians, introducing kaizen, etc. A completed building as per the plan or the number of graduating people or firms gives a clear gauge to judge the project's effectiveness.

Policy dialogue is quite opposite of these standard projects. As stated earlier, each dialogue mechanism must be designed differently and must flexibly respond to the changing needs and circumstances of the host country. Success is not guaranteed and depends on many external factors beyond control. How things will roll, including whether and how long the dialogue can continue beneficially to both parties, is hard to predict. Positive outcomes are difficult to identify, slow to emerge and hardly quantifiable. However, they are real even if they are difficult to appraise.

Bilateral dialogue creates a solid communication channel with top leaders which facilitates Japanese diplomacy and economic cooperation far beyond industrial policy. Dense personal contacts with the nation's leaders, officials, businesses and researchers greatly expand the possibility of future interaction with Japan. Thus, policy dialogue should not be evaluated simply by the number of letters and reports sent to top leaders, workshops and conferences, academic books and lectures, visits to government offices and factories, and other activities which are merely instruments to achieve the ultimate goal, namely, the deepening of bilateral relations based on mutual respect, understanding and benefits through intellectual exchange. The Ishikawa Project in Vietnam offered direct access to the General Secretary of the Communist Party and stimulated bilateral academic and official exchange greatly. Our policy dialogue enabled the Japanese ambassador to interact with the prime minister (sometimes the prime minister contacted our ambassador), expanded JICA's industrial cooperation in a systematized way, and brought the JETRO office to Addis Ababa.

At the outset of Industrial Policy Dialogue Phase I, we were asked to list all proposed discussion topics with Ethiopia in the coming three years. This was a difficult request given the nature of policy dialogue as amply explained above. One cannot forecast everything in a football match because the strategy depends on the opponent's move. Policy dialogue is one important tool of Japanese diplomacy and economic cooperation, and its evaluation criteria should be created in due recognition of its unique characteristics and ultimate objectives. The criteria must be broad, long-term and diplomatic, not the counting of how many concrete things are done during the project period. Nurtured confidence and trust cannot be measured easily. Target countries must be selected with care. As policy dialogue entails much uncertainty, failure should be tolerated because success depends on many external factors. It is like assessing the value of basic scientific research rather than the application of known technology. It is also like a baseball player who may not hit a home run at every bat but produces impressive records in the long run.

It is also essential that JICA offices in developing countries—especially those located in strategically important partner countries—should endeavor to build policy channels with national economic leaders whenever and wherever possible, together with Japanese embassies. This may not always ignite the interest and action of the counterpart, but such channel-building should be an integral part of Japan's overseas economic mission. We must continuously cast a net even if we get no fish most of the time. If top leaders are seriously and competently interested in intellectual dialogue with Japan, a formal mechanism should be prepared swiftly and effectively. It is important that JICA (both headquarters and overseas offices) work closely with Japanese ambassadors and embassy teams and proactively get involved in the design and execution of policy dialogue (not just in project management and logistics but, more importantly, in discussing policy substance) as was frequently witnessed in the past phases of our policy dialogue. The Ethiopia-Japan Industrial Policy Dialogue has presented a useful model of bilateral policy interaction and cooperation provided that the conditions are right on both sides of the dialogue.

Appendix 1: Key meetings with high-level policymakers

Direct dialogue with the Prime Minister

Date	Format	Main topics
3rd March 2017	Letter to P.M. Hailemariam （9 pages）	Report of 1st Industrial Policy Dialogue Mission (HLF, Kilinto IP, Hawassa IP vs. Japanese IP model, QPC program, Handholding, JETRO etc.)
25th Aug. 2017	Letter to P.M. Hailemariam （4 pages）	Report of 1st HLF follow-up and mission findings (Kaizen city movement, Productivity research, Mindset issue, Industrial Park and Japanese area, Handholding for metal industry, JETRO model etc.)
8th Nov. 2017	Direct dialogue with P.M. Hailemariam (over one hour)	Joint research with Ethiopian think tank, Kaizen, Mindset issue, Handholding for metal industry, JETRO model, etc.)
2nd May 2018	Letter to former P.M. Hailemariam （3 pages）	Thank you letter and reporting the progress (Handholding for metal industry, Joint research on Productivity with PSRC, Attracting Japanese investor and Industrial Park development, Co-authoring with Minister Arkebe
2nd May 2018	Letter to P.M. Abiy （7 pages）	Introduction and explanation for the Industrial Policy Dialogue and main activities

High Level Forum (HLF) agenda

Date	Presentation from Japan (※including a panelist from third country)	Presentation from Ethiopia
1st HLF (Feb. 2017, Addis Ababa)	・ “Japan’s Contribution to GTP2 for Industrialization with Quality” (Izumi Ohno/GRIPS & Keiji Katai/JICA) ・ “Income Equalization vs. Polarization” (Kenichi Ohno/GRIPS)	・ “Anti-Export Bias and Effectiveness of Export Incentives in the Ethiopian Manufacturing” (Mulu Gebreeyesus/EDRI) ・ “Ethiopian Youth Development and Growth Strategy” (Matiyas Assefa/Ministry of Youth and Sport) ・ “Empirical Analysis of Effect on Job Search Assistance in Urban Africa” (Girum Abebe/EDRI)
2nd HLF (Nov. 2017, Addis Ababa)	・ “Productivity Enhancing Measures in Sri Lanka and Ethiopia” (Kenichi Ohno/GRIPS) ・ ※“Economic Performance and Labor Productivity in Vietnam: Data Analysis and Policy Recommendation” (Nguyen Duc Thanh/VEPR)	・ “Productivity Determinants in the Textile & Garment Industry in Ethiopia” (Tsegaye Gebrekidan/EDRI) ・ “Productivity Earnings in the Metalworking Sector in Ethiopia” (Girum Abebe/EDRI) ・ “Literature Review of Wage-Labor Productivity Nexus in Ethiopia” (Kidanemariam Berhe Hailu/PSRC)

Development Policy Forum (DPF) agenda

Date	Theme and participants	Presentations
1st DPF (Feb. 2019, Addis Ababa)	Ethiopia Productivity Report (Interim Discussions) ・ Participants: PDC, MOTI, IPDC, EIC, TIDI, MIDI, LIDI, EKI, ECCSA, AACCSA, etc., plus Japanese participants (incl. Ambassador Matsunaga)	・"Introduction of Project" (Kenichi Ohno/GRIPS) ・"Introduction, Concepts and Importance of Productivity, Ethiopia's Productivity in International Comparison (Macro Level)" (Kidanemariam Berhe Hailu/PSI) ・"Preliminary Analysis of Firm and Worker Survey (Manufacturing Level)" (Mulu Gebreeyesus/PSI)
2nd DPF (Aug. 2019, Addis Ababa)	Ethiopia Productivity Report (Final Validation Discussions) ・ Participants: PDC, MOTI, IPDC, EIC, LIDI, MIDI, EKI, & donors (World Bank, ILO, UNIDO, USAID, UNPD, SIDA etc.), plus Japanese participants (incl. Ambassador Matsunaga)	・ "Policy Measures to Enhance Productivity" (Kenichi Ohno/GRIPS) ・ "Labor Productivity Data Analysis" (Kidanemariam Berhe Hailu/PSI) ・ "Summary of Field Survey on Apparel Industry" (Mulu Gebreeyesus/PSI)
3rd DPF (Feb. 2020, Addis Ababa)	Ethiopia Productivity Report (Launch Workshop) ・ Participants: PDC, MOTI, IPDC, EIC, TIDI, MIDI, LIDI, EKI, FeSMMIDA, EEA, House of peoples Representatives, World Bank, plus Japanese participants (incl. Ambassador Matsunaga), and media	・Introducing the Major Contents of the Report (Kenichi Ohno) ・Selected Highlights of Chapters 3 & 4 (Kidanemariam Berhe Hailu/PSI) ・Selected Highlights of Chapter 5 and policy measures (Mulu Gebreeyesus/PSI)
4th DPF (Jan. 2022, Online)	FDI Policy Report (Launch Webinar) ・ Participants: EIC, MOF, EKI, UNIDO, World Bank, UNDP, C4ED Ethiopia, Japanese participants (incl. Ambassador Ito), and media	Presentation of Report (GRIPS, PSI & JICA) ・"Ethiopia FDI Policy Report 2022: Main Findings and Recommendations" (Kenichi Ohno/GRIPS) ・"Dynamics of FDI in Ethiopia: Bridging the Balance of Payments Gap" and "Enhancing the Role of FDI in Technology and Knowledge Transfer" (Kiflu Gedefe Molla/PSI). ・"Pursuit of Product Quality and Ethical Correctness in Developing the Garment Industry" (Izumi Ohno and Sayoko Uesu) ・"Ethiopia in the Industry 4.0 and Post-Pandemic Age" (Toru Homma/JICA) ・ Q&A, discussion
5th DPF (Dec.2022, Addis Ababa)	Policy Workshop: Policy Trade-offs and Inconsistencies: Why Ethiopian Manufacturing Fails to Grow Fast? ・ Participants: MOI, MOF, EIC, MPD, MIDI, KEC, NBE, DBE, World Bank, GIZ, UNIDO, USAID, researchers, private sector, and media	Keynote speech: MOI State Minister Mr. Hassen ・"Policy Inconsistencies in Ethiopian Manufacturing Industry Growth" (Amare Matebu/PSI) ・"Resolving Policy Trade-offs and Inconsistencies: Ethiopia's Mechanisms and Asian Experiences (Kenichi Ohno/GRIPS) ・Q&A, discussion

Meetings with key economic and industrial ministries (real sessions)

Date	Partners	Topics discussed
Feb. 2019 (9th field mission)	PMO, MOTI, EIC (separate meeting)	Economic policy of new administration, Industrial Policy Dialogue, Productivity report, Automotive policy and incentives for attracting Japanese manufacturers, Industrial Park development
May 2019 (10th field mission)	PMO, MOF, MOTI, EIC (separate meeting)	Explaining Japanese industrial cooperation, Automotive policy and incentives for attracting Japanese manufacturers
Aug. 2019 (11th field mission)	PMO, MOF, MOTI, EIC (separate meeting), Dinner at Residence of Japanese Ambassador	Policy recommendation for Automotive policy and discussion
Nov. 2019 (12th field mission)	PMO, MOF, EIC @ PMO	Productivity report, HERA
Feb. 2020 (13th field mission)	MOTI, EIC (separate meeting)	Automotive policy
Apr, 2022 (14th field mission)	MOI, EIC (separate meting)	Automotive policy, Reorganization of industrial ministries
Sep. 2022 (15th field mission)	MOI, EIC, MOF (separate meeting)	Automotive policy, Policy inconsistencies and National Industry Movement
Dec. 2022 (16th field mission)	MOI, EIC (separate meeting)	Policy inconsistencies, FDI-local linkage policy and review of industrial policy dialogue

Meetings with key economic and industrial ministries (online sessions)

Date	Partners	Topics discussed
MOTI		
10th Feb. 2021	Minister Teka Gebreyesusu	Progress of joint FDI policy research, Automotive policy, 10 year development plan and MOTI's 10 year plan
EIC		
10th Nov. 2020	Mr. Bruck Teshome (Advisor) etc.	Drafting process of automotive policy and discussion
11th Nov. 2020	Ms. Lelise Neme (Commissioner) (attended by JICA etc.)	Briefing of joint FDI policy research, automotive policy, 10-year development plan
12th Feb. 2021	Mr. Bruck Teshome (Advisor), PDC	Briefing of joint FDI policy research, automotive policy, 10-year development plan
10th Nov. 2021	Mr. Bruck Teshome (Advisor)	Progress of joint FDI policy research, Automotive policy
PDC		
12th Oct. 2020	Dr. Fitsum (Commissioner)	Joint FDI policy research, drafting process of 10-year development plan, Discussed whether PDC can act as a platform for policy discussion

Appendix 2: Third country missions

	Countries visited	Period	Topics
1	Sri Lanka	Oct., 2017	1) Overseas expansion of Sri Lankan garment and apparel industries, 2) Ethical issues in the industry, 3) Merit and demerit of Sri Lanka's strategy to be a middle-income country (the apparel industry as a main manufacturing activity). Findings were shared at 2nd HLF and used for FDI joint policy research
2	Kenya	Aug. 2018	1) Automotive polity and industrial strategy, 2) Research on Japanese manufacturers and local suppliers, 3) Government activities to promote QPC. Findings were shared at 1st automotive seminar and discussions with key policy makers
3	Djibouti	Feb. 2019	1) Logistics between Ethiopia and Djibouti, 2) Logistic services of Djibouti
4	Myanmar	Nov. 2019	1) Automotive policy, 2) Industrial Park (Special Economic Zones), 3) Garment industry. Findings were shared at 2nd automotive seminar and discussions; also used for joint FDI policy research

Appendix 3:
Workshops and webinars hosted by the Industrial Policy Dialogue

For MOI/MOTI and EIC

	Theme/panelists	Presentations
Aug. 2017, Addis Ababa	QPC Study Meeting (Follow-up of 1st HLF and Preparatory meeting for 2nd HLF) ・ Invited officials: MOI, PSRC etc.	・Evaluating three productivity tools (kaizen, benchmarking, twinning) (IPE Global) ・Literature review of productivity (PSRC)
Aug. 2018, Addis Ababa	Seminar on the Textile and Garment Industry, in collaboration with Itochu (co-organized by MOI, JICA, GRIPS, UNIDO) ・ Participants: TIDI, Ethiopian Textile and Garment Manufacturers Organization, EKI	・Production shift of textile and garment industry and perception of global buyer, competitiveness of Asian countries and Ethiopia, 8 essential KPIs for global market
Feb. 2019, Addis Ababa	First Automotive Seminar (co-organized by MOTI, JICA, GRIPS, UNIDO) ・ Participants: MOTI, EIC, MIDI and other related ministries and organizations, private automotive firms, Japanese and German participants	・ "The Potential and Issues in Japanese Automotive Assembly in Ethiopia: A Study based on Producer Interviews, Kenya Mission and International Data Comparison" (Kenichi Ohno/GRIPS) ・ Discussion chaired by MOI State Minister Yohannes Dinkayehu
Feb. 2020, Addis Ababa	Second Automotive Seminar (co-organized by MOTI, JICA, GRIPS, UNIDO) ・ Participants: MOTI, EIC, MIDI and other related ministries and organizations, private automotive firms, Japanese and German participants	・ "The Evolution and Current Status of Myanmar's Automotive Industry" (Toru Homma/JICA) ・ "Key Findings in Myanmar's Automotive Policy and Lessons for Ethiopia" (Kenichi Ohno/GRIPS) ・ Discussion chaired by MOI State Minister Mr. Teka Gebreyesusu
Sept. 2022, Addis Ababa	Third Automotive Seminar (co-organized by MOI, JICA, GRIPS) ・ Participants: MOI, MIDI, EIC and other related organizations, private automotive firms, Japanese participants	・ "Ethiopian Automotive Policy in the African Automotive Market" (Kenichi Ohno/GRIPS) ・ "Global and African Automotive Industry: Emerging Trends and Strategies" (Toru Homma/JICA) ・ Discussion chaired by Mr. Asfaw Abebe /MIDI
Dec. 2022, Addis Ababa	The FDI-local firm linkage Workshop (co-organized by MOI, JICA, GRIPS) ・ Invited officials: MOI, MIDI, UNIDO, JICA	・ "FDI-Local Firm Linkage Development: East Asian Experiences and Suggestions for Ethiopia" (Kenichi Ohno/GRIPS) ・ "Business Linkage Promotion between Domestic Enterprises and FDI Firms: JICA's Approach" (Toru Homma/JICA) ・ Discussion chaired by MIDI Director Milkessa
Dec. 2022, Addis Ababa	Knowledge Sharing Seminar on Industrial Policy Dialogue (co-organized by MOI, JICA, GRIPS) ・ Participants: MIDI and related centers	・ "Ethiopia-Japan Industrial Policy Dialogue under JICA's Industrial Promotion Project" (Izumi Ohno/GRIPS)
April 2022 Addis Ababa (EIC)	Presentation of FDI Report ・ Participants: about 50 EIC officials including Commissioner Mme.Lelise, Deputy Commissioners Mr. Temesgen and Mr. Daniel	・ Presentation of FDI Report (Kenichi Ohno/ GRIPS) ・ Presentation of chapter 8: Impact of COVID-19, Industry 4.0 (Toru Homma/JICA)

For PSRC/PSI Knowledge Sharing Forum (KSF)

	Presentation
1st KSF (Nov. 2017)	・ “Productivity Enhancing Measures in Ethiopia and Sri Lanka; A Bilateral Comparison” (Kenichi Ohno/GRIPS) ・ ”Labor Productivity in Vietnam: Data Analysis and Policy Recommendations” (Nguyen Duc Thanh/VEPR) ・ “Wage-Labor Productivity Nexus on the Ethiopian Manufacturing” (Kidanemariam Berhe Hailu/PSRC)
2nd KSF (Aug. 2018)	・ “Development Policy Think Tanks: Selected Case Studies from Asia” (Kenichi Ohno/GRIPS)

Appendix 4: List of key Ethiopian dialogue partners

	Organization	Title	Name	Dates of meeting
Government and Public institutes				
1	PMO	PM	Mr. Hailemariam Desalegn	08/11/2017 21/02/2020 (as the chairperson of the board of trustees at Hailemariam & Roman Foundation) 20/11/2020 (Panelist for the GDF-Brenthurst Webinar)
		Senior Minister & Special Advisor to PM	Dr. Arkebe Oqubay	02/02/2017 10,11,15/02, 04/06/2018 25,28,29/08/2018
		State Minister	Mr. Tadesse Haile	07/08, 13/11/2017
		Chief Cabinet Secretary	Mr. Alemaheyu	07/02, 08/08, 13/11/2017
		Special Economic Advisor of PM	Amb. Girma Birru	21/02/2020
		Special Advisor	Mr. Newai Gebre-ab	07/08, 07/11/2017
		Senior Advisor to PM & Chief Trade Negotiator	Dr. Mamo E. Mihretu	29/05, 08,09/08, 30/10/2019
2	MOI/MOTI	Minister	Mr. Ahmed Abitew	08/02, 05/06, 07,10/11/2017
			Dr. Ambachew Mekonnen	04/06, 15/08/2018
			Ms. Fetlework Gebregziabher	05/12/2018
			Mr. Melaku Alebel	25/04, 13/9/2022 14/10/2022 (in Tokyo)
		State Minister (charged for Metal industry)	Mr. Alem	09/08/2017
		State Minister	Dr. Meles Mebrahtu	07/11/2017
		State Minister (charged for Metal and Mechanic Industry)	Mr. Yohannes Dinkayehu	08/06, 05/12/2018
		State Minister (charged for Garment and Textile Industry)	Mr. Bogale Feleke Temesgen	15/08/2018
		State Minister	Mr. Teka Gebreyesusu	30/05, 06,08/08, 28/10/2019 20/02/2020, 10/02/2021(online)
			Mr. Hassan Hohammed Moalin	14/12/2022
		Director General	Mr. Ahmed Nuru	08/02, 05,07/06, 07,11/08/2017, 15/11/2017, 07/06/2018 16/09, 14/12/2022 (Director at East Africa Holding)
		Deputy DG→DG	Ms. Firehiwot Shemelise	14/11/2017, 20/02/2020 10/02/2021 (online)
		Advisor to the State Minister	Mr. Dugasa Dunfa Bachule	21/04/2022
		Advisor to the Minister	Ms. Maryamawit Engdawork	16/09/2022
		Senior Advisor of Minister & Coordinator of ETM	Mr. Asfaw Abebe	16/09, 13,19/12/2022
		Advisor to the Minister	Mr. Haddish Harefaw	19/12/2022
		Project Assistant of ETM	Mr. Tadele Asmare	13,19/12/2022
3	MOFED/ MOF	State Minister	Dr. Eyob Tekalign Tolina	31/05, 30/10/2019, 14/09/2022
		Director, Tax Policy Directorate	Mr. Mulay Weldu Asegehegn	08/08/2019
		Team Leader of Tax Directorate	Mr. Gossa Tefera	14/09/2022
4	MOFA	State Minister (former Ambassador in Japan)	Dr. Markos T. Rike	30/08, 04/12/2018
		Ambassador in Japan	Mr. Kassa T. Gebrehiwet	Several meetings during 2019-21

5	EIC	Commissioner	Mr. Fitsum Arega	04,06/02, 07/11/2017
			Mr. Abebe Abebayehu	30/05, 30/10/2019, 19/02/2020
			Ms. Lelise Neme	31/102019, 11/11/2020 (online) 26/04/2022
		Deputy Commissioner	Mr. Belachew Firkre	04/02/2017
			Mr. Abebe Abebayehu	11/08/2017
			Mr. Temesegen Tilahun	30/05, 06/08/2019 20,26/04/2022
			Mr. Anteneh A. Senbeta	06/08/2019
			Mr. Daniel Teressa	26/04, 15/04/2022
		Advisor	Mr. Bruck Teshome	06/08/2019, 19/02/2020 12/02/2021 (online) 10/11/2021 (FDI policy workshop)
			Ms. Edom Woldegiorgis	06/08/2019
			Mr. Taffere Tesfachew	30/10/2019, 19/022020 10/11/2021 (online)
		Assistant to Commissioner	Mr. Ewnetu Hailu Tamane	11/11/2020 (online)
		Labour Market Analytics Director	Mr. Deresse Fekadu Nigussie	18/04, 15/09, 19/12/2022 31/01/2023 (EIC labor workshop)
6	PDC→MPD	Commissioner →Minister	Dr. Fitsum Assefa Adela	30/10/2019 12/10/2020 (online) 26/04, 13/12/2022
		Deputy Commissioner	Mr. Getachew	08/08/2019
			Dr. Nemera G. Mamo	12/102020 (online)
		State Minister	Ms. Tirumar Abate	16/09/2022
		Communication Director	Mr. Tesfaye Abate	
		Director	Mr. Ksubishtt Kassa	
		DPG Project Office	Ms. Shalom	
		Director of Development Project Directorate	Mr. Bereket Fesehatsion	
		Technical Advisor	Mr. Tsadkan Alemayehu	16/09, 17/12/2022
		Expert	Mr. Habtamu Takele	17/12/2022
			Mr. Tegere Hailu	
			Mr. Berhanu Assefa	
7	EDRI/PSRC →PSI	Executive Director (EDRI)	Dr. Makonnen Manyazewal	01,02/02, 06,10/11/2017
			Dr. Yohannes Ayalew	15,17/08/2018
		Director General (PSRC/PSI)	Mr. Abay Tsehaye (PSRC)	07/02/2017
			Dr. Ahmed Abitew (PSRC→PSI)	06, 07/06, 17/08/2018 27/05/2019
			Dr. Abalema Addisalem (PSI)	14/09/2020 (online)
			Dr. Mekuria Haile (PSI)	30/10/2020 (online)
			Prof. Beyene Petros (PSI)	27/01/2022 (online/webinar) 18/04, 13/09, 15/12/2022
		Deputy DG	Mr. Alebel Dessie	09/11/2017, 31/10/2019 26/04/2022
			Dr. Yohannes Ayalew	Several meetings
			Mr. Teferi Tiyaru	26/04, 13/09/2022
		Director of Planning	Ms. Gebrehiwot	02/08, 06/11/2017
		Lead Researcher	Dr. Mulu Gebreeyesus	Several meetings
		Lead Researcher	Dr. Berhe Hailu Kidanemariam	Several meetings

		Lead Researcher	Dr. Kiflu Gedefe Molla	Several meetings (online) 18/04/2022
		Lead Researcher	Dr. Amare Matebu	18,26/04, 13,15/09/2022 12,15,17/12/2022
		Lead Researcher	Dr. Netsanet Jore	13,15/09/2022
		Researcher	Mr. Dereje Rahnet	15/09, 12/12/2022
		Researcher	Mr. Firomusa Teshale	15/09, 12/12/2022
8	New MIDI	Director General	Dr. Milkessa Jagema	13,16/09/2022 14/10/2022 (in Tokyo) 15,19/12/2022
		Deputy DG	Mr. Seleshi Lemma Bekele	13/09, 15,19/12/2022
		Deputy DG	Mr. Hadugu Hailekiros	13/09/2022 14/10/2022 (in Tokyo)
9	MIDI→ MTEIRDC	Director General	Mr. Wolkeneh Delelegn (MIDI)	03,09/02, 09/06, 08/08, 08/11/2017 13/02, 05/06, 04/12/2018
		Director →Deputy DG →DG	Mr. Dereje Asfaw (MIDI)	13/02, 13/08/2018 27/05, 07/08, 31/10/2019 18/02/2020
		Director General	Mr. Asfaw Regessa (MTEIRDC)	21,25/04, 16/09/2022
10	LIDI→ LLPIRDC	Director General	Mr. Wondu Legese	06/06/2017
			Mr. Dagnachew Shiferaw	
		Deputy DG	Mr. Hailekiros Debesay	03/02/2017
11	TIDI→ TGIRDC	Director General	Mr. Seleshi Lemma Bekele	07/06/2017, 15/08/2018 18/02/2020
			Mr. Yared Mesfin	18/02/2020
12	EKI→KEC	Director General (EKI)	Mr. MekonnenYaie	07/08/2017
		Deputy DG (EKI)	Mr. Sebrewongel	06/06, 03/08/2017
		Center Manager (KEC)	Mr. Asnake Gudisa	20/04, 06/07 (online), 13/09/2022 14/10/2022 (in Tokyo) 14,15,19/12/2022
13	DBE	President	Dr. Yohannes Ayalew	19/04/2022
14	NBE	Vice President	Mr. Fikadu Digafie	12/09/2022
15	FeSMMIDA	Director General	Mr. Asfaw Abebe	03/02/2017
		Deputy DG	Mr. Seyoum Woujira	
16	IPDC	CEO	Ms. Lelise Neme	31/10/2019
		Deputy CEO	Mr. Amare Asgedom	
		Coordinator of Mekelle IP	Mr. Zekarias	03/08/2017 (in Mekelle IP)
17	CINE	Founder & President	Mr. Mulatu Teshome	20/04, 14/09/2022
		CEO	Mr. Lemma Degafa	