Industrial Promotion Project
(Industrial Policy Dialogue)

Collection of Major Policy Recommendations

June 2023

Japan International Cooperation Agency (JICA)

National Graduate Institute for Policy Studies (GRIPS)

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JR
23-060

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Contents

Abbreviations

DPF	Development Policy Forum
EDRI	Ethiopian Development Research Institute
EIC	Ethiopian Investment Commission
EKI	Ethiopian Kaizen Institute
FDI	Foreign Direct Investment
GDF	GRIPS Development Forum
GRIPS	National Graduate Institute for Policy Studies
GTP II	The Second Growth and Transformation Plan
HERA	Homegrown Economic Reform Agenda
HLF	High Level Forum
JICA	Japan International Cooperation Agency
LIDI	Leather Industry Development Institute
MIDI	Manufacturing Industry Development Institute (new MIDI)
MIDI	Metals Industry Development Institute
MOF	Ministry of Finance
MOI	Ministry of Industry
MOTI	Ministry of Trade and Industry
PDC	Planning and Development Commission
PM	Prime Minister
PMO	Prime Minister's Office
PSI	Policy Studies Institute
PSRC	Policy Study and Research Center
QPC	Quality, Productivity and Competitiveness
TIDI	Textile Industry Development Institute
UNIDO	United Nations Industrial Development Organization

About the Companion Report "Collection of Major Policy Recommendations"

This companion report compiles a set of major recommendations, formulated by Prof. Kenichi Ohno, the National Graduate Institute for Policy Studies (GRIPS) Development Forum (GDF) and the team leader of industrial policy dialogue, and submitted to the Ethiopian government for the Third Phase of the Ethiopia-Japan Industrial Policy Dialogue. This industrial policy dialogue was conducted by the Japan International Cooperation Agency (JICA) and the GDF for the period of 2017 to 2023 and constitute part of JICA's larger "Industrial Promotion Project" which includes two additional components: (i) investment promotion and industrial park development and (ii) export promotion through champion products approach.

The Phase III aimed at contributing to the effective implementation of the Second Growth and Transformation Plan (GTP II: 2015/16-2019/20) and the new policy direction such as: (i) the Homegrown Economic Reform Agenda (HERA: 2020-2022), (ii) the Ten Year Perspective Development Plan (the Ten Year Plan, 2021-2030), and (iii) the Ministry of Trade and Industry (MOTI)[1]'s sectoral document for executing the Ten Year Plan, by sharing Asian perspectives and providing the policy learning process with the Ethiopian authorities. In this process, special emphasis has been given to: (i) quality, productivity and competitiveness (QPC)-related issues, (ii) Foreign Direct Investment (FDI) policy, (iii) industrial development parks, and (iv) sector-specific policies (such as automotive and garment industries), where Japanese industrial cooperation has comparative advantages and partnerships with Japanese private sector (potential investors) can be expected.

The policy dialogue team has conducted bi-annual policy dialogue with the Ethiopian authorities via three channels: (i) direct dialogue with Prime Minister, (ii) two High Level Forums (HLFs) in 2017 and five Development Policy Forums (DPFs) (including online), held with the minister and state minister level, and (iii) individual discussions with ministers/state ministers and policymakers, as well as various stakeholders (e.g., private sector, researchers, and international donors). In addition, the Phase III included (vi) joint policy research with the Ethiopian researchers/research institutes, which came out with two publications featuring productivity (2019-20) and FDI policy (2021-22), as well as a policy workshop on policy tradeoffs and inconsistencies (2022). During this process, a number of policy advices and recommendations were shared with the Ethiopian government. This companion report contains selected major policy recommendations, which we believe will be relevant and useful for industrial policy making in the coming years in Ethiopia.

[1] MOTI was split into two ministries, i.e., the Ministry of Industry (MOI) and the Ministry of Trade and Regional Integration (MOTRI), as a result of major reorganization of the government in October 2021.

1. High Level Policy Recommendations

1-1. Direct dialogue with Prime Minister Hailemariam

The policy dialogue team carried out a series of policy dialogue with Prime Minister Hailemariam Desalegn during 2017. The direct dialogue with Prime Minister Hailemariam included not only face-to-face meetings but also follow-up letters addressed to the Prime Minister by Prof. Kenichi Ohno. Also, an introductory letter was sent to the newly appointed Prime Minister Abiy Ahmed in May 2018 to brief him on the Ethiopia-Japan industrial policy dialogue and selected issues for his consideration. These aimed to report the progress of industrial policy dialogue and share key issues and observations on the ground (letters are not for disclosure). The list of letters and direct dialogue with Prime Ministers is shown below.

(1) A letter to PM Hailemariam (March 2017)	Non-disclosure
Topics raised: (i) comments on industrial park development in Kilinto and Hawassa, (ii) Japanese investors' interests, (iii) importance of QPC, (iv) an initial idea on the Ethiopia Productivity Report, and (v) assisting sectoral institutes, etc.	
(2) A letter to PM Hailemariam (August 2017)	Non-disclosure
Topics raised: (i) informing "City Kaizen" and a new productivity research, (ii) raising the mindset issue, (iii) updates on industrial park development and Japanese investors, and (iv) assisting the metal sector, etc.	
(3) 17th direct dialogue with PM Hailemariam at the Office of Prime Minister (November 2017)	Non-disclosure
Topics raised: (i) joint research on productivity with the Ethiopian Development Research Institute (EDRI), (ii) development of kaizen, mindset issue, and (iii) assisting the metal sector, etc.	
(4) A letter to newly appointed PM Abiy (May 2018)	Non-disclosure
Topics raised: (i) informing kaizen achievements and related issues, (ii) background and what have been discussed at industrial polity dialogue, (iii) current structure of Japanese industrial cooperation, (iv) Japanese FDI, and (v) comments on large-scale industrial projects.	

1-2. Comments on key policy documents on national development

Since 2009, the policy dialogue team has provided a number of policy advices on the overall development strategies with particular focus on industrial development. Under the current Abiy Ahmed administration, there are four main documents on national development related to industrial policy, and the policy team provided comments on three of them (underlined): (i) A New Horizon of Hope (spring 2019); (ii) the Homegrown Economic Reform Agenda (HERA, September 2019); (iii) the Ten Year Perspective Development Plan 2021-2030 (Ten Year Plan) approved by the Parliament in March 2021; and (iv) the Ministry of Trade and Industry (MOTI)'s sectoral document for executing the Ten Year Plan (spring 2021). These documents are listed below.

(1) Comments on "Homegrown Economic Reform Agenda: A Perspective from the Japanese Industrial Policy Dialogue Team" (November 2019), submitted and discussed jointly with PMO, Ministry of Finance (MOF), EIC, and separately with Planning and Development Commission (PDC).	Appendix 1
In late 2019, Abiy administration launched HERA as a new economic policy to replace the GTP II. GDF shared the preliminary assessment of HERA, especially the issues related to industrial development and the manufacturing sector.	
(2) Comments on "Ten-year Perspective Development Plan 2021-2030" (June 2020), submitted to PDC, PMO, and EIC.	Appendix 2
In 2020, the Ethiopian government announced the drafting of the first Ten Year Perspective Development Plan (coordinated by PDC) and five-year plans (drafted by sector ministries) to concretize the priorities and direction put forward by HERA. GDF shared comments the draft plan documents.	
(3) "MOTI's Ten Year Perspective Development Plan (2021-2030): Brief summary of contents and some comments" (August 2021), submitted to MOTI.	Appendix 3
After the review of "Ten Year Development Plan," it became clear that the document has limited discussions on concrete measures on industrial development. GDF requested MOTI to provide sector policy documents, and a large volume of the Amharic document was shared in response. GDF prepared a brief summary and comments to MOTI.	

2. Joint Policy Research

At the end of Phase II, the policy dialogue team discussed with Prime Minister Hailemariam to produce flagship policy reports relevant to the current reality of Ethiopia in close collaboration with an Ethiopian government think tank. This had twin purposes of: (i) mobilizing local researchers to produce quality policy reports efficiently and (ii) transferring to an Ethiopian think tank (and researchers) the method for policy analysis including consultations with the authorities responsible for policymaking and other stakeholders concerned. Subsequently, two topics were chosen—productivity and FDI policy—both of which were judged highly relevant to Ethiopia at this juncture when FDI-led industrialization was beginning and increasing weight in the nation's economic development.

Two policy reports were produced jointly by Prof. Kenichi Ohno and the designated researchers of the Policy Studies Institute (PSI)—Dr. Kidanemariam Berhe Hailu and Dr. Mulu Gebreeyesus for the first report (Ethiopian Productivity Report) and these two plus Dr. Kiflu Gedefe Molla for the second report (Ethiopia FDI Policy Report). In addition to these PSI researchers who were intensively engaged in surveys, analyses, and the drafting of the reports, Dr. Tsegay Gebrekidan Tekleselassie (PSI) participated in the first report. Izumi Ohno (GDF), Sayoko Uesu (GDF) and Toru Homma (JICA) participated in the second report as chapter contributors.

2-1. Ethiopia Productivity Report

The research concept of the Ethiopia Productivity Report was initially discussed at the High Level Forum (HLF) on November 2017 and then consolidated during the discussions at the Development Policy Forums (DPFs) held in February and August 2019. This report applied standard theoretical and empirical methods to

analyze the labor productivity and total factor productivity (TFP) of Ethiopia relative to international experience. It was the first comprehensive study of productivity in Ethiopia, and The Ten Year Perspective Development Plan (the current national development plan) cites it as one of the information sources.

The Ethiopia Productivity Report (2020) features the following contents.

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

The final report was launched at the workshop held in February 2020 (at the Intercontinental Hotel, Addis Ababa) and received wide media coverage by Reporter and Capital. PSI also presented the report to the World Bank in Addis Ababa in January 2020, which led to the invitation of a PSI researcher to present at the World Bank headquarters and the Millennium Challenge Corporation (MCC) in the United States in February 2020.

2-2. Ethiopia FDI Policy Report

The Ethiopia FDI Policy Report aims to provide a long-term perspective for future development during the difficult political and economic crisis, especially how FDI should be attracted and mobilized for the nation's economic development. This report conducted literature review, theoretical analyses, firm surveys and policy considerations with a strong accent on international comparison and global lessons. Many perspectives and arguments in this report are grounded on the past developmental experiences of Japan and Asia, PSI's existing studies, the three phases of Ethiopia-Japan Industrial Policy Dialogue (since 2009), and JICA's industrial cooperation in Ethiopia.

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

Furthermore, the FDI Policy Paper, a short companion paper of the Ethiopia FDI Policy Report, was separately produced by GDF in November 2021 for timely dissemination of key messages and discuss a few issues not covered by the main report. These three reports are listed below.

(1) Ethiopia Productivity Report (published in January 2020) https://gdforum.sakura.ne.jp/en/pdf_e20/ETProductivityreport_20200228.pdf	Open access (document)
(2) FDI Policy for Enhanced Value Creation in Ethiopia Situation Analysis and Policy Proposals (published in October 2021) https://gdforum.sakura.ne.jp/en/pdf_e21/FDI_proposal_08.pdf	Open access (document)
(3) Ethiopia FDI Policy Report (published in January 2022) https://gdforum.sakura.ne.jp/ja/pdf22/EthiopiaFDIReport_final2.pdf	Open access (document)

3. Policy Advices for Automotive Industry Development

The Ethiopian automotive industry is in an early development stage, where some semi knock down (SKD) assembly of foreign cars and local production of commercial vehicles exist but on a small scale. The Ethiopian government is keen to promote this industry with the help of leading countries such as Germany, Japan and others. GDF conducted policy research missions to benchmarking countries, i.e., Kenya and Myanmar, to collect their automotive policy information and draw implications for Ethiopia. The findings of the research missions and policy recommendations presented to the Ethiopian authorities at HLF and DPF (see also 5-1 to 5-3). Additionally, a series of policy papers were drafted, and three automotive workshops were organized at MOTI/MOI to present our findings and policy recommendations. The first workshop was co-hosted by the United Nations Industrial Development Organization (UNIDO). These MOTI/MOI workshops were chaired by the state minister with the participation of the officials of MOTI/MOI, the Metals Industry Development Institute (MIDI), and the Manufacturing Industry Development Institute (newly created through MOI's reorganization)[2], UNIDO, and other related organizations, concerned private firms, as well as Japanese participants. Those inputs were also shared with the Ethiopia Investment Commission (EIC) and the Prime Minister's Office (PMO).

The list of our policy recommendations is shown below. Our main advices centered on: (i) foreign currency shortage, (ii) restriction on used car imports, (iii) the incentive mechanism, and (iii) small domestic demand.

[2] In April 2022, MOI created the Manufacturing Industry Development Institute (new MIDI) and reorganized the existing industry-specific institutes into Centers of Excellence under it. As a result, the industry institutes were renamed from MIDI to MTEIRDC (Manufacturing Technology and Engineering Industry Research & Development Center), TIDI to TGIRDC (Textile and Garment Industry Research & Development Center), and LIDI to LLPIRDC (Leather and Leather Products Research & Development Center), EKI to KEC (Kaizen Excellence Center), and so on.

(1) First automotive seminar held at MOTI (February 20, 2019)	Open access (power point)
"International Comparison of Automotive Assembly Policies: For Inviting Global Players to Ethiopia and Supporting their Expansion" presented by Kenichi Ohno (GRIPS). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2019.02_ET_DJI/automotive5.pdf The materials were also submitted to Minister Arkebe (PMO) and Mr. Workneh (DG, MIDI).	
(2) Second Automotive Seminar held at MOTI (February 18, 2020).	Open access (power point)
(2)-1 "Key Findings in Myanmar's Automotive Policy and Lessons for Ethiopia" presented by Kenichi Ohno (GRIPS). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2020.02_ET/auto3_myanmar3.pdf (2)-2 "The Evolution and Current Status of Myanmar's Automotive Industry" presented by Toru Homma (JICA). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2020.02_ET/200218_Autoseminar_homma_final.pdf	
(3) Automotive industry promotion in Ethiopia: Key issues and policy recommendations (March 2020). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2022.09_ET/Automotive_policy_GRIPS4a.pdf	Open access (document)
(4) Comments on Ethiopia's automotive policy and direction, submitted to EIC (November 2020, online seminar).	Appendix 4
(5) Third Automotive Seminar held at MOI (September 16, 2022)	Open access (power point)
(5)-1 "Ethiopian Automotive Policy in the African Automotive Market," presented by Kenichi Ohno (GRIPS). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2022.09_ET/auto5_ver4_rev.pdf (5)-2 "Global and African Automotive Industry: Emerging Trends and Strategies", presented by Toru Homma (JICA). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2022.09_ET/JICAHomma_AutoIndustry_220915.pdf (5)-3 "Policy Note: Ethiopian Automotive Policy in the African Automotive Market" is also submitted to MOI and key policy makers. https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2022.09_ET/Ethiopian_automotive_sector5a.pdf	

4. Policy Advices for Management of Industrial Parks

In the 2010s, industrial park construction and operations by the state have become an important pillar of the Ethiopian government's industrial policy, and considerable policy attention and financial resources were mobilized including the issuance of Eurobonds to partly fund the development of industrial parks. 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. The policy dialogue team inspected the industrial parks in Bole Lemi, Hawassa, Mekelle and Dire Dawa and frequently exchanged views with Arkebe Oqubay (Minister and former Advisor to the Prime Minister) and Fitsum Arega (former EIC Commissioner), the two top officials in charge of industrial parks at that time. Our observations were summarized in a policy note and submitted to Ethiopian policymakers.

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. Our policy recommendations were given in the form of GDF policy notes of 2017 and 2019.

(1) "Hawassa Industrial Park: Impression from a Japanese perspective" (February 2017). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2017.02_ET_AW/HIP_ohnoE4.pdf	Open access (document)
(2) "A Note on Industrial Park Policy in Ethiopia" (May 2019)	Appendix 5

Key points of our recommendations can be summed up in the following six points:

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 choices should be available for renting land and sheds.

5. Presentation Materials Used for Policy Discussions

5-1. High Level Forums

Two HLFs were organized in Phase III, with particular focus on QPC. The below shows main inputs provided by the Japanese policy dialogue team.

First High Level Forum for the Phase III of Policy Dialogue of Industrial Development in Ethiopia, jointly hosted by JICA and EDRI (February 2017)	Open access (power point)
・"Japan's Contribution to GTP2 for Industrialization with Quality — Overview of major cooperation components and issues to be tackled by the Ethiopian side," presented by Izumi Ohno (GRIPS) and Keiji Katai (JICA). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2017.02_ET_AW/1.Overview_of_Japan_Cooperation_ver10.pdf ・"Income Equalization vs. Polarization—Alternative Paths for High-Growth Economies," presented by Kenichi Ohno (GRIPS). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2017.02_ET_AW/3.growth&gaps1.pdf	
Second High Level Forum for the Phase III of Policy Dialogue of Industrial Development in Ethiopia, jointly hosted by JICA and EDRI (November 2017)	Open access (power point)
・"Productivity Enhancing Measures in Ethiopia and Sri Lanka: A Bilateral Comparison," presented by Kenichi Ohno (GRIPS). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2017.11_ET/1_srilanka&ethiopia2.pdf	

5-2. Development Policy Forums

As an alternative to HLF, five DPFs were co-organized with PSI and GRIPS. These forums addressed the issues discussed at HLF, with special attention to productivity enhancement. Three DPFs provided opportunities to report the progress of the Ethiopian Productivity Report, receive stakeholder perspectives and comments, and launch the published report. In addition, the Ethiopia FDI Policy Report was disseminated and launched at the fourth DPF (online webinar). The fifth DPF focused on the policy trade-offs and inconsistencies and was organized in response to the request by MOI Minister Melaku to the Japanese policy dialogue team to share the international experiences of inter-ministerial coordination.

First DPF on Ethiopia Productivity Interim Report, co-organized by PSI and GRIPS at Capital Hotel, Addis Ababa (February 2019)	Open access (power point)
・"Introduction, Concepts and Importance of Productivity, Ethiopia's Productivity in International Comparison (Macro Level)", presented by Dr. Kidanemariam Berhe Hailu (PSI). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2019.02_ET_DJI/DPF_Kidu_rev.pdf ・"Preliminary Analysis of Firm and Worker Survey", presented by Dr. Mulu Gebreeyesus (PSI). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2019.02_ET_DJI/DPF_Mulu_rev.pdf	
Second DPF on Ethiopia Productivity Report, co-organized by PSI and GRIPS at Elilly International Hotel, Addis Ababa (August 2019)	Open access (Document)
・"Labor productivity: data analysis," presented by Dr. Kidanemariam Berhe Hailu (PSI). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2019.08_ET/Ethiopia_productivity_report_data_analysis_final_Kidu.pdf ・"Summary of field survey on apparel industry," presented by Dr. Mulu Gebreeyesus (PSI). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2019.08_ET/Labor_productivity_in_the_apparel_industry_survey_results_Mulu.pdf ・"Policy measures to enhance productivity," presented by Prof. Kenichi Ohno (GRIPS). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2019.08_ET/productivity_proposals.pdf	
Third DPF: Launch of the Ethiopia Productivity Report, co-organized by PSI and GRIPS at Intercontinental Hotel, Addis Ababa (February 2020)	Open access (power point)
・"Ethiopia Productivity Report," presented by Kenichi Ohno (GRIPS). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2020.02_ET/200217Reportcontents.pdf ・"Ethiopia Productivity Report: Ten uncovered facts," presented by PSI and GDF. https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2020.02_ET/200217Reportlaunchworkshop_final.pdf	
Fourth DPF: Launch of the FDI Policy Report, online seminar co-organized by PSI and GRIPS (January 2022, online webinar)	Open access (power point)
・"Ethiopia FDI Policy Report 2022: Main Findings and Recommendations," presented by Kenichi Ohno (GRIPS). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2022.01_FDI_Launch/01_FDI_Policy_Report_kohno.pdf ・"Dynamics of FDI in Ethiopia: Bridging the Balance of Payments Gap" and "Enhancing the Role of FDI in Technology and Knowledge Transfer" presented by Dr. Kiflu Gedefe Molla (PSI). https://gdforum.sakura.ne.jp/en/af- growth/support_ethiopia/document/2022.01_FDI_Launch/02_KifluPresentation.pdf	

・"Pursuit of Product Quality and Ethical Correctness in Developing the Garment Industry," presented by Izumi Ohno and Sayoko Uesu (GRIPS). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2022.01_FDI_Launch/03_FDI_report_launch_QualityandEthicalCorrectness_0126.pdf ・"Ethiopia in the Industry 4.0 and Post-Pandemic Age," presented by Toru Homma (JICA). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2022.01_FDI_Launch/04_I4.0_PostC19_EthiopiaFDIPolicyReportLaunch_JICA_Homma.pdf	
Fifth DPF: Policy Workshop: Policy Trade-offs and Inconsistencies: Why Ethiopian Manufacturing Fails to Grow Fast?, hosted by MOI, and co-organized by JICA, PSI and GRIPS at Skylight Hotel, Addis Ababa (December 2022)	Open access (power point)
・"Policy Inconsistencies in Ethiopian Manufacturing Industry Growth," presented by Amare Matebu (PSI). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2022.12_ET/PSI_Joint_Workshop-PPT4.pdf ・"Resolving Policy Trade-offs and Inconsistencies: Ethiopia's Mechanisms and Asian Experiences," presented by Kenichi Ohno (GRIPS). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2022.12_ET/KO_policy_inconsistencies5.pdf	

5-3. Visiting benchmark countries for policy learning

The policy dialogue team conducted four research missions to benchmark countries including Sri Lanka, Kenya, Djibouti and Myanmar, to collect their industrial policy information and draw implications for Ethiopia's policy direction. The findings of the research missions were shared with Ethiopian policymakers at HLF and DPF. Also, the reports of these policy research missions were compiled and made available to the relevant stakeholders (see the list below).

(1) Sri Lanka Mission Report (October 2017, with participation of a PSI researcher)	Open access (document)
Topics surveyed: (i) apparel industry, (ii) Export Processing Zone (EPZ), (iii) industry-supporting institutions. https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2017.10_LK/SriLankaReport_GDF5_E.pdf (See also presentation materials: "Productivity Enhancing Measures in Ethiopia and Sri Lanka: A Bilateral Comparison" (for 2nd HLF on November 7, 2017)	
(2) Kenya Mission Report on Automotive Industry Policy (October 2018, with participation of a PSI researcher)	Open access (document)
Topics surveyed: (i) automotive industry, and (ii) industry-supporting institutions. https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2018.09_KE/KEreport11_E_web.pdf (See also presentation materials: "International Comparison of Automotive Assembly Policies: For Inviting Global Players to Ethiopia and Supporting their Expansion" (for the MOTI-hosted 1st Automotive Seminar in February, 2019)	
(3) Myanmar Mission Report (November 2019)	Open access (document)
Topics surveyed: (i) automotive industry, (ii) garment industry, (iii) investment promotion, and (iv) SEZ. https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2019.11_MM/myanmar_E3_rev.pdf (See also presentation materials: "Evolution and current status of Myanmar's automotive Industry" and "Key findings in Myanmar's automotive policy and lessons for Ethiopia" (for the MOTI-hosted 2nd Automotive Seminar in February, 2020)	

5-4. Other knowledge-sharing activities

In addition, the policy dialogue team conducted various knowledge-sharing activities to respond to the interests of the stakeholders concerned. These included: sharing (i) the findings of Kaizen rollout experiences, and (ii) the Asian experiences of development policy thinktanks, as well as giving (iii) quick policy inputs to the Ethiopian economy, and (iv) a lecture on the experiences of industrial policy dialogue.

(1) Knowledge Sharing Forum at Policy Study and Research Center (PSRC) (August 2018)	Open access (power point)
"Development Policy Think Tanks: Selected Case Studies from Asia," presented by Kenichi Ohno (GRIPS). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2018.09_ET/thinktank2.pdf	
(2) "Industrial Policy Quality and Policy Learning," lecture by Kenichi Ohno (GRIPS) at the Djibouti Diplomatic Institute (February 2019). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2019.02_ET_DJI/djibouti_asiaafrica2.pdf	Open access (power point)
(3) Knowledge sharing seminar to MOI/MIDI (December 2022)	Open access (power point)
"Ethiopia-Japan Industrial Policy Dialogue under JICA's Industrial Promotion Project," presented by Izumi Ohno (GRIPS). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2022.12_ET/ET-JP_industrial_policy_dialogue_summary2.pdf	
(4) The FDI-local firm linkage Workshop co-organized by MOI, JICA and GRIPS (December 2022)	Open access (power point)
(4)-1 "FDI-Local Firm Linkage Development: East Asian Experiences and Suggestions for Ethiopia," presented by Kenichi Ohno (GRIPS). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2022.12_ET/KO_FDI-local_linkage_development3.pdf (4)-2 "Business Linkage Promotion between Domestic Enterprises and FDI Firms: JICA's Approach," presented by Toru Homma (JICA). https://gdforum.sakura.ne.jp/en/af-growth/support_ethiopia/document/2022.12_ET/JICA_LinkageJICA_Approach_Homma_221219.pdf	

Appendix

1. Homegrown Economic Reform Agenda
2. Ten-year Perspective Development Plan 2021-2030 (English slides) Comment
3. The Ministry of Trade and Industry (MOTI) Ten-Year Perspective Development Plan (2021-2030) Brief summary of contents and some comments
4. Comments on Ethiopia's Automotive Policy and Direction
5. A Note on Industrial Park Policy in Ethiopia

Homegrown Economic Reform Agenda

A Perspective from the Japanese Industrial Policy Dialogue Team

Kenichi Ohno (GRIPS)

Tokyo, November 7, 2019

In late October 2019 in Addis Ababa, our policy dialogue team had the opportunity to exchange views with the technocrats of the Ethiopian Government who were responsible for drafting the Homegrown Economic Reform Agenda (HERA), the new economic initiative of the Abiy Administration. HERA was produced by a team consisting of MOF (secretariat), PDC, PMO, NBE and others over the 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. We are informed that Dr. Abiy will not change the main thrusts of existing economic strategies, but the role of state has to be constantly redefined as time passes and especially because the private sector has not grown as strongly as expected. PDC assures us that HERA, with a time scope of three years, is consistent with the Ten Year Perspective Plan and the Five Year Development Plan which are under preparation, and builds the basis for these Plans.

We were provided with an English slide presentation[1] on which this policy note is based. There is an official document in Amharic which is being translated into English, and the officials agreed to make it available to us when ready. We may be able to say more when the translation is done, but since HERA is a direction-setting document rather than an action plan with concrete implementation details, we hope our comments below on principles and additional works required will stand even with the document.

The HERA slides are roughly divided into two parts: *situation analysis* (rationale, our success story, drivers of the economic success, gaps and headwinds against the economic progress) and *future direction* (an economic reform agenda for job creation and sustainable growth, expected impact of the reform, resource requirements and next steps).

1. Situation analysis

In the situation analysis, HERA lists positive and negative results of past policies. The positives include fast growth, poverty reduction and other social achievements. The negatives, which are more important for policy purpose, include (i) growth driven mainly by public investment which stimulated construction and services; (ii) investments financed mostly by public loans and external loans and grants; (iii) negative real interest rates and exchange rate overvaluation; (iv) Ethiopian social

[1] "A Homegrown Economic Reform Agenda: A Pathway to Prosperity" (September 2019) presented by MOF to development partners. It has 45 slides including the front and end cover, with 35 slides containing substantive information.

indicators remain below the average of lower middle-income countries; (v) the lack of structural transformation (manufacturing did not surge); (vi) growth driven mostly by capital accumulation (quantity) rather than productivity (quality); (vii) productivity growth is constrained by various bottlenecks in overall economy and specific sectors; (viii) serious macroeconomic imbalances including foreign currency shortage (poor export performance), external debt burden, limited private sector access to finance and high inflation.

We believe these are fairly honest and objective self-evaluation. We basically agree with the picture presented here although there may be some arguments about details[2]. We would also like to note that the findings of the Ethiopian Productivity Report[3] prepared by PSI and GRIPS overlap with many of HERA's past reviews, especially (i), (v), (vi) and (vii). Labor productivity decomposition of our Report offers statistical support for the investment-driven (not TFP-driven) growth and it also detects the lack of labor mobility from agriculture to manufacturing. Our Report also examines the worker mindset problem as one of the structural barriers to productivity growth. We hope the Report will be used to support and complement the situation analysis of HERA.

2. Three policy pillars

The latter half of the HERA slides gives a policy framework containing three pillars (or "reforms" as they are called): macroeconomic stability, structural reforms (liberalization and privatization) and sector-specific promotion. Let us use these terms instead of referring everything as "reform."

The macroeconomic pillar is given in five slides featuring fiscal issues (revenue, public investment, efficiency and privatization of SOEs), coping with foreign currency shortage, inflation control, improving the operations of NBE, DBE and CBE, and developing various markets to improve financial access of businesses. The structural reform pillar is given in just one slide, listing administrative efficiency, reforms in the power, telecom and logistic sector, and competition policy. The sector-specific promotion pillar picks five sectors—agriculture, manufacturing, mining, tourism, ICT & creative industries—and spends one slide each to explain.

This 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. We presume that the current number of slides does not represent the policy weight of each pillar. Each pillar may be equally important or perhaps this has not yet been decided. The description of

[2] For instance, the argument that the Ethiopian Birr is overvalued and that competitiveness should be regained by either devaluation or more flexible exchange rate management can be challenged, because exchange rate pass-through is high (i.e., exchange rate adjustment immediately raises inflation) in an economy where output and export are dominated by primary commodities with little diversification into manufacturing.

[3] The Policy Studies Institute (PSI) and the National Graduate Institute for Policy Studies (GRIPS), Ethiopia Productivity Report (2020), financially supported by JICA. The near-draft final is available and has been circulated among the Ethiopian Government. The final publication is expected in early 2020.

each pillar and its components is still general and ambiguous. In my opinion, this is fine because HERA is a direction-setting document, and details of each component should be worked out after this policy framework is agreed and firmly installed. We do not expect this type of document to contain concrete implementation details. That is a work in the next step.

The more important is the relationship among the three pillars. 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, as explained below, and how it is handled will produce very different policy and economic results.

HERA as currently presented, and perhaps the HERA document as well, defines a policy framework without presenting final contents that go into this framework. Any details shown at present should be viewed as tentative and subject to revision upon further analysis and discussion. As such, HERA is difficult to assess or criticize because crucial issues arise and debate will begin when concrete implementation details are decided and relationship among pillars are clarified, not from the framework itself which is fairly standard.

3. The Washington Consensus and PM Meles

There has been a long debate on how real-sector development policies should be organized and, in my view, the debate still goes on without final conclusion. From the late 1980s to 90s, Japanese development officials and economists challenged the structural adjustment policy of the World Bank. It was the time when Japanese ODA and financial contribution to the World Bank expanded rapidly 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, integration and good business climate. Moreover, these conditions are regarded as sufficient for latecomer growth and industrialization. Hence, governments are counseled not to intervene selectively in individual sectors but let the market and private firms decide what 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 their policies are always hijacked by interest groups and lobbyists[4]. Thus, good industrial promotion is a general one that ensures suitable business environment for all private businesses to compete fairly without government guiding which sectors to prosper. It is said the IMF and the World Bank no longer preach rigid free market principles but now accept the importance of

[4] Anne O. Krueger, "Trade Policy and Economic Development: How We Learn," *American Economic Review*, 87:1, pp.1-22, March 1997. She was a strong believer of free markets and served as the World Bank chief economist.

industrial promotion. But what they regard as good industrial promotion is improvement of the level football field in which private players compete, not selective coaching of individual players for winning.

Japan (and most East Asia) believes that such general reforms are necessary, but their execution should be paced to the rising competitiveness of domestic industries. The primary policy aim should be enhancement of real-sector competitiveness with 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. But instead of quitting intervention, we advise to learn how to conduct industrial policy effectively. This policy learning can be done systematically 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, integration and other opening measures can be adopted in proper speed and scope. Big-bang liberalization without fostering competitiveness is unadvisable as it will lead to the dominance of foreign import and FDI.

This argument is hardly new. In the 18th century, Friedrich List in Germany and Alexander Hamilton in the United States argued that latecomer countries such as theirs needed state-sponsored industrial protection rather than free market to catch up with the UK. 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 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 severely criticize 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 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 in the early 1990s. The Kenyan automotive industry was devastated when free import of used cars was allowed under Washington pressure, and has not recovered from the damage since then.

Prime Minister Meles adopted the Eastern Way. He wrote papers condemning WC—or the neoliberal paradigm as he called it[5]. He read about Korea and Taiwan; the monthly export steering committee was copied from Korea in the 1970s. Japan was invited in 2008 to introduce Kaizen and initiate bilateral industrial policy dialogue. That was the basis of Japan's current industrial cooperation and dialogue with Ethiopia. His learning was serious, reading many books and papers, and having direct conversation and email exchange with foreign economists and experts (including us). He was interested in both theory and practice, and wanted to introduce targeted measures as soon as

[5] Meles Zenawi, "States and Markets: Neoliberal Limitations and the Case for a Developmental State," ch.5, A. Noman, K. Botchwey, H. Stein and J. E. Stigliz, eds., *Good Growth and Governance in Africa: Rethinking Development Strategies*, Oxford University Press, 2012. Mr. Meles also wrote unpublished manuscripts and dissertation.

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.

However, despite his persistent learning and actions for a decade, he did not succeed in promoting targeted sectors or structural transformation. Manufacturing did not surge in percentage of GDP or export, 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. Another problem of PM Meles was, not only did he refuse to liberalize the economy immediately—especially in the banking and telecom sectors—but he did not even talk about long-term liberalization schedule. Although we are against big-bang liberalization, we also strongly believe that Ethiopia must liberalize in the medium to long run in proper steps and speed synchronized with the rise of private competitiveness, industrial depth and diversity. The positions of WC and PM Meles are summarized in the table below (this is the same table as shown to our Ethiopian policy dialogue partners in Addis).

Preliminary Assessment K. Ohno (GRIPS), October 2019			
	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?

4. The way ahead

How about HERA? As noted above, HERA is a framework that permits possibilities of both liberalization and industrial promotion. This is a step forward from more constraining WC or Meles Way. However, the relationship between the two has not yet been clarified. Depending on what Ethiopian policymakers put into the pillars, it may resemble WC, the Meles paradigm or something else. I hope the government will produce something new and better than both WC and the Meles paradigm. Now that the policy framework is set, substantive debate on policy content must begin.

From the Japanese perspective, we propose balance between the two real-sector orientations (i.e., both liberalization and industrial promotion are important) with priority placed on industrial promotion. More specifically, (i) strengthen key sectors with selective industrial promotion with attention on building private capacity and government's implementation capacity (i.e., additional policy learning); and (ii) pace liberalization, privatization, integration, etc. to the success of competitiveness enhancement. This is a difficult task, which even PM Meles could not attain. Ethiopia needs more policy learning if it is to accept my advice, not abandoning it for free markets.

Some critiques suspect that the government is abandoning the Meles Way and reverting to WC. They are only partly right because such re-orientation is only one possibility within the announced HERA framework. Whether that would really happen will become clear in the near future. Instead of spreading criticisms based on suspicion, how Ethiopia should rise to the next level of development, concretely and with feasible measures, should be debated in the open.

5. Selection of Japanese ideas

When Japanese economists challenged the World Bank in the late 1980s and 90s, they produced many books and papers. At that time we compiled an edited book which translated typical Japanese arguments into English for global audience[6]. Four articles in that volume are briefly described below.

The Overseas Economic Cooperation Fund[7] (OECF)'s "Issues related to the World Bank's approach to structural adjustment: a proposal from a major partner" (ch.3) is a short paper submitted to the OECF-World Bank regular consultation in 1991. It argues that the World Bank's structural adjustment is biased toward efficiency; that structural adjustment alone does not generate subsequent growth; import should not be liberalized too quickly; excessive reliance on the market mechanism is unwarranted in financial reform in developing countries; and successful privatization requires certain pre-conditions.

Toru Yanagihara's "Development and dynamic efficiency: framework approach versus ingredients

[6] Izumi Ohno & Kenichi Ohno, eds., *Japanese Views on Economic Development: Diverse Paths to the Market,* Routledge, 1998 (paperback edition 2015; e-book also available).

[7] The author of the OECF paper was Yasutami Shimomura, then OECF executive and later professor of Hosei University and JICA Research Institute advisor. OECF was later merged with JICA.

approach" (ch.4, originally written in 1992) is a short unpublished paper addressed to Japanese researchers. It presents WC as the *framework approach* which presumes that liberalization, privatization and integration are enough to start strong growth, while the Japanese approach to development is characterized as the *ingredients approach* which is deeply concerned with real sector competitiveness with policy details and promotion of selected individual sectors as top priority.

Shigeru Ishikawa's "Underdevelopment of the market economy and the limits of economic liberalization" (ch.6) is a chapter from his influential book, *Basic Issues in Development Economics* (1990). He argues that industrialization in latecomer developing countries does not occur spontaneously or strongly due to internal weaknesses of markets and private agents; removal of external impediments is insufficient to start robust growth. Chinese experiences in the 1980s are cited extensively. He applied this theory to JICA-sponsored policy dialogues with China and Vietnam.

Kaneda Tatsuo's "Kyrgyzstan's road to economic recovery: an effort in intellectual assistance" (ch.12, originally written in 1992) is an excerpt from a paper by a Japanese advisor to President Akaev of the Kyrgyz Republic, a small newly-born country after the collapse of the USSR. He argues that, while the IMF and the World Bank are skeptical of the state role in the economy, "the Kyrgyz Republic is in the process of transition to a market economic system [and] private economic actors are virtually absent at present; therefore, it is indispensable for the state to play an active role in developing private enterprises and promoting industry." He advises that agriculture and agro-processing should be targeted in the current Kyrgyz context, and proposes policy goals, targeted producers and policy measures that go with it.

All of these ideas reflect the typical developmental thinking of Japan and its people, derived from Japan's long history of development especially after the Meiji Revolution (1868). Today, Japanese officials and economists still practice international industrial cooperation in the same spirit.

[END]

Ten-year Perspective Development Plan 2021-2030 (English slides)
Comment

Kenichi Ohno (GRIPS)
Tokyo, June 19, 2020

OVERALL

1. The slides are full of visions, objectives and other ideas expressed verbally but offer no concrete targets or numbers that can be monitored and assessed as achieved or not achieved. Since this is a plan to set directions, some ambiguity may be acceptable to some extent. But still, presentation of fewer and more concrete targets would be better.
2. The presented policy structure is somewhat confusing, and overlapping ideas appear in many places (Strategic pillars, Productive sectors, Enabling sectors, etc.) 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 to each issue without clear structure.
3. I would prefer a simple three-layer structure of Vision – Intermediate targets – Monitorable actions, where all ideas are placed within this framework and appear only once. Here, intermediate targets should not be dozens, but only up to several. I hope unreachable and too ambitious production targets (such as seen in GTP1 and 2) will not be included this time.

SPECIFIC

3. The graph shows agriculture shrunk and construction expanded, but service and manufacturing were stable. This is different from our Report finding where labor migrated from agriculture to construction & service (p.4).
4 Export-to-GDP ratio fell. This is certainly not export-driven growth but construction-led growth. Interesting (p.4)
5. Urban unemployment is a big problem in Ethiopia, even though rural-urban migration is still not big (our Report). The Lewis-Todaro model is not occurring where strong expansion of urban & industrial labor demand is pulling labor from rural villages. Urban youths are not formally employed but stuck in the informal sector or unemployment because the growth momentum of urban industry is weak (unlike East Asia) (p.6)
6. Items in “Challenges” and “Failures” overlap (and need consoliation), but recognized weaknesses are interesting (pp.7-8).
7. Vision 2030—Ethiopia: An African Beacon of Prosperity. Visions don’t have to be too specific, but this is too general. I am not sure what the beacon indicates. A beacon is like a lighthouse, something that

guides and shows the way. Does Ethiopia want to create a developmental model for Africa that works? Or maybe no model is intended, just good performance (growth, export performance, transformation, etc.) is pursued to show to other African countries? It looks like “Prosperity” here means general welfare, equity, HR, living standard, etc. instead of achieving sector-specific excellence (such as light manufacturing vision of GTP2). (p.9)

8. “HERA as a springboard”: does that mean what Ambassador Girma told me in February? That is, HERA’s first two pillars (macro stability with IMF/WB & SOE reforms) are already undertaken, but the third pillar (productivity of targeted sectors) will require longer time and learning. Girma said it must overlap with 10-year perspective plan (p.10)
9. It is interesting to see that, in Strategic Pillars, such terms as “quality growth, “productivity and competitiveness” and “production and productivity” are mentioned widely. This is the emphasis on QPC which GTP2 also made without concretization. The 10-year plan must now concretize these, not repeat the general emphasis as in GTP2. I hope Japan can make meaningful contribution here (p.11-).
10. Slogans such as “private & competition-friendly bureaucracy”, PPP, “policies etc. for achieving prosperity” and “quality infrastructure for quality FDI” are good – although still general. We heard the idea of “regional corridors” in 2008 when we started policy dialogue, and it is still there (p.13).
11. Macro goals are interesting and ambitious. Ethiopia wants to grow 10.2% per year during 2021-30 spearheaded by manufacturing growth of 20.6% per year. Manufacturing share of GDP will rise from 6.8% now to 17.2% while service share remains flat. These may actually happen, but ONLY IF policy is upgraded greatly and made more effective. Ethiopia cannot grow slowly at the threshold of lower middle income (p.15).
12. Middle income ($1,115) is to be attained by 2022, and $2,220 should be the level in 2030. Let us see how the corona impacts this projection (p.13).
13. Five productive sectors are still very vague, without concrete policy actions or monitorable targets. Regarding manufacturing, it is good that quality and competitiveness are emphasized. Concerns over productivity, use of available inputs, value chains, linkages, job creation, SMEs, private initiatives (and clusters) are also reasonable. Food, textile, housing and pharmaceuticals are listed. Leather seems to have been dropped (p.24).
14. Monitoring mechanism – no timing or frequency is mentioned (p.36).

The Ministry of Trade and Industry (MOTI) Ten-Year Perspective Development Plan (2021-2030)
Brief summary of contents and some comments

K Ohno (GRIPS)
Revided August 23, 2021

The MOTI Ten-year Plan (September 2020, Amharic, 141 pages) has the following structure:

Part 1: Past 10-year performance of the trade sector and the manufacturing industry
Part 2: 10-year perspective plan by sector
Part 3: Assumptions, objectives, strategic directions, priority areas, overall goals, and implementation strategies
Part 4: Monitoring and evaluation system
Annexes—nearly 90 pages of tables of annual numerical targets, financing needs, and human resource need by sector

Part 2 discusses two five-year plans (2020/21-2024/25 and 2025/26-2029/30). In the first five-year period, the following priority areas are identified, which are not very different to previous plans.

- Agro-processing
- Leather and leather products
- Textile and garment
- Building materials (cement and metals)
- Basic chemicals and chemical products
- Pharmaceuticals
- Paper products
- Wood products
- Agricultural inputs (fertilizers, pesticides)
- Plastic (PVC)
- ICT
- Electronics (assembly)

In the second period, focus will be given to

- Chemical and chemical products
- Metal and engineering products (transport equipment, machinery, plastics)
- Medical equipment
- ICT
- Electronics (production of parts)

Part 3 gives the following (for manufacturing):

Assumptions

1. The Ethiopian economy will grow 10% annually during the 10-year plan period
2. Stable macroeconomy, domestic politics, and global economy
3. Investment flow continues to grow and the role of the private sector increases
4. Government continues to give priority to the sector
5. Availability of trainable workforce
6. Measures taken to contain COVID-19 will achieve their stated objective

Objectives

1. Generating foreign exchange by increasing the quality, quantity, and types of export commodities. Export destinations will be expanded by creating bilateral and regional trade relationships.
2. Increasing production and productivity of existing and new manufacturing industries; aligning industries with sustainable environmental development, and enable industries to create jobs

Strategic directions

1. Increasing production and productivity
2. Give priority for manufacturing industries that utilize domestic inputs
3. Expand new investment (quantity, quality, and type)
4. Enhance job creation by expanding manufacturing SMEs
5. Improve the role of and partnership with the private sector
6. Development of heavy metal & engineering, chemical, and pharmaceuticals industries

Numerical targets

1. By 2030, among top 50 countries by improving ranking of Starting a Business from 48 to 80.
2. Increase manufacturing share of GDP from 6.8% (current) to 17.8% by 2029/30.
3. Increase manufacturing growth from 16.6% (current) to 26.6% by the end of 2029/30.
4. Operation capacity of manufacturing from 50% (current) to 85% by 2029/30.
5. Raise the share of domestic supply from 30% (current) to 60% by 2029/30 by expanding import-substitution products.
6. Manufacturing will create 5 million jobs by the end of the plan period.
7. Foreign exchange earnings from manufacturing reaches USD9 billion by the end of the plan period (total will be USD 17.84 billion) meaning manufacturing contributes to more than half.
8. Increase number of manufacturing establishments from current 2,030 to 10,806 by 2029/30

Annexes

Tables with major annual numerical targets, project financing need, and human resource need by sector and by educational level/profession for cotton development and textile, leather, meat and dairy, metal, and chemical/petrochemicals

Our comments:

1. There are duplications and overlapping ideas in the text.
2. Policy targets generally seem ambitious, without presenting convincing methods to achieve them.
3. Some overall manufacturing targets are necessary and important; however, numerical targets seem too many and cover too many aspects (production volume, job creation, foreign exchange earnings, investment projects and funds, export, etc.) of individual subsectors and even products.
4. Consistency is not guaranteed between overall manufacturing targets and these detailed targets.
5. No concrete discussion of the automobile sector which is supposed to be important (transport equipment is promoted only in the second five-year period?)
6. Similarly, productivity and quality are important. They are mentioned but no concrete target or strategy is given to attain them (except the mention of number of leather shoes per person per day).
7. Big infrastructure projects of steel and petrochemicals are also mentioned but no details are given.
8. No references to JICA-supported projects or their contributions to 10 Year Plan (kaizen, champion export, FDI attraction, etc.)

Comments on Ethiopia's Automotive Policy and Direction

November 18, 2020
Kenichi Ohno, Professor
National Graduate Institute for Policy Studies (GRIPS)

As part of the Ethiopia-Japan Industrial Policy Dialogue, the GRIPS Development Forum (GDF) in the last three years has researched the possibility of activating automotive assembly in Ethiopia. We interviewed Japanese car makers in Japan and abroad, visited Kenya and Myanmar for policy study, conducted a series of automotive seminars at MOTI and EIC, and submitted policy suggestions the latest of which was in March 2020. On November 11, 2020, we were briefed by Principal Advisor Mr. Bruck Teshome, in charge of automotive policy at the Ethiopian Investment Commission (EIC), on the current status of Ethiopia's automotive policy revision. This memorandum contains our comments.

1. On the current status of automotive industry policy

There is no Ethiopian automotive policy document as yet; it is under preparation. Nonetheless, used car restriction and revision of tax structure, which are very important ingredients of automotive strategy and especially for SKD attraction, have made progress in the last two years. In the immediate future, Ethiopia should complete these two important policy actions fully and appropriately.

First, on used car restriction, Ethiopia in the past freely allowed used car import and parallel car import but this practice has begun to change. The import duty revision in 2019—which was a regular revision for various commodities, not just for automobiles—introduced high charges on used cars according to their age, and for the first time separated SKD and CKD from CBU for reduced taxes. This is a very welcome move but details need to be further improved (see below). The GDF team advised a step-by-step introduction of used car restriction over several years to give sufficient adjustment time for users and dealers and to mitigate opposition (as done in Myanmar) rather than sudden prohibition. However, Ethiopia decided to restrict used cars quite abruptly. This was done not by quantitative ban but by imposing prohibitive tariffs and excise taxes to effectively stop used car import. After making small tax rate adjustment to vehicles of 1,300cc displacement or less in response to some protestation, the policy will become effective in February 2021. To make this policy truly effective, policing and penalizing illegal import as well as proper registration and inspection must be strictly enforced.

Second, on the issue of incentive structure (import duties and other taxes), revision is in progress. The current structure is still very complicated. As in the past, it levies increasingly high taxes on large passenger cars with detailed classification based on engine capacity. In fact, the structure became even more complex by the introduction of new classifications such as CKD, SKD and CBU as well as different types of eco-friendly cars. Meanwhile, outdated surtax has finally been removed. The resulting tax structure still exhibits accelerating property toward larger cars (VAT, levied uniformly on all commodities, is uncontroversial). This

complex tax structure is presented clearly, in matrix form with colors, in the Excel sheet provided by Mr. Bruck. For car producers, dealers and users, their main concern is total tax burden levied on motor vehicles. We advise that import duties should have a relatively simple structure (uniform or two step, and low) and distinguish different vehicle types, if that is deemed necessary, by different rates of excise tax.

More fundamentally, the logic of levying increasingly high tax rates from small to large cars is unclear. Government or the Ministry of Finance should explain and justify this tax structure. Is it because large cars are extreme “luxuries” that deserve extremely high rates? Is it a policy convenience of collecting as much tax from easy targets? Are large cars far more damaging to environment, traffic congestion and safety? We do not find any convincing reason for extreme tax differentiation based on engine capacity. It may be more logical to have a simple tax structure, like the one in Kenya, by giving a 50% tax advantage to SKD relative to CBU regardless of engine capacity or whether it is a passenger car or a commercial vehicle. Government may already be aware of this problem as the EIC slides also admit to the complexity of Ethiopia’s current automotive tax structure.

Third, the most crucial aspect of the Ethiopian automotive tax structure is the difference between CBU (finished car import) and SKD (simple assembly). CKD (assembly with welding and painting) may also become important as production volume rises sufficiently in the future. But for now, Ethiopia must create a business environment in which SKD assembly becomes commercially viable and profitable, which attracts global car makers to assemble vehicles in Ethiopia. Looking at gasoline-based conventional passenger cars (ICE), import duties are 30% for CBU, 10% for SKD and 5% for CKD. Excise tax, which does not differentiate CBU, SKD or CKD, is 5% for 1300cc or less, 60% for 1300-1600 cc, and 100% for above 1600cc. This accelerating structure was already mentioned earlier. The important point here is that, with both taxes combined, the difference between CBU and SKD is 20%, which is smaller than 50% in Kenya. Local assembly entails additional costs for ensuring smooth parts import in sync with a production plan, purchase and maintenance of equipment, construction and operation of a factory, employment and training of workers, and so on. A larger tax difference than 20% is perhaps needed to make SKD more lucrative than CBU. Regarding commercial vehicles (not shown in the EIC slides), the tax difference between CBU and SKD remains 5% as before, which gives no incentive for assembling trucks in Ethiopia. This tax structure must also be re-examined for revision.

Fourth, the revised tax table contains rates for vehicles other than conventional gasoline-driven ones (ICE). They include hybrid electric vehicles (HEV), plug-in hybrid electric vehicles (PHEV), battery electric vehicles (BEV), fuel cell electric vehicles (FCEV), and so on. We have no objection to their inclusion, and gladly support such tax arrangements to incentivize environmentally sound transport means. It may however take some time before these vehicles make a large impact on the Ethiopian transport modal mix because that will require reliable supply stations of electricity or hydrogen, institutions for inspection, maintenance and repair of such vehicles, and training of associated human resource. Given this, and given limited time and resources available to automotive policy implementation, the realistic and most important starting point for Ethiopia is local assembly (especially SKD, and in the near future CKD) of traditional ICE vehicles. If this production is not supported adequately by policy, initial entry of global car makers is unlikely to occur and automotive policy cannot move on to the next stage (localization of physical inputs and eventually human skills). We additionally believe detailed size classification of new-type vehicles is also

unnecessary, just as for ICE vehicles. To promote such new technology, uniform zero tariff and excise tax may be more appropriate.

2. On the policy direction proposed by the consultant team

My comments on the policy direction suggested by Mr. Alec Erwin's consultant team, as far as I can gather from the provided slides, are as follows.

The proposed policy framework contains many policy items. To be specific, there are nine Thematic Areas [policy areas] and six Policy Objectives. This framework is based mainly on the South African automotive policy and therefore needs adjustments before applying to Ethiopian reality. This is because conditions surrounding automotive policy are different from country to country. It is essential that Ethiopian policymakers classify suggested items into (i) urgent issues that require immediate action, (ii) issues that become important in the medium to long run, as well as (iii) unnecessary items and (iv) missing issues for Ethiopia. After this classification, a few core policy issues most critical for Ethiopia should be featured in the proposed policy document. Since time and resources are limited, the policy should be sharply focused and surely executed, rather than comprehensive but unimplementable

South Africa after democratization succeeded in attracting many global car makers by ample subsidies and trade privileges. This created an industrial base for domestic car sales and export. But productivity and quality management remain weak. Production remains stagnant in recent years at about 500,000 per year (of which about 200,000 are exported). In policy areas, knowledge and commitment of top leaders are wanting, policy lacks predictability and continuity, incentives are offered mainly for volume production rather than domestic value creation or skill acquisition, and import duty rebates are problematic. These policy defects seem to deter South Africa from rising to a leading automotive producer in the world[1].

Turning to Ethiopia, its streets have so far been dominated by used cars, many of which were parallel imports or illegal imports. Motorization has not begun for average citizens and a large old vehicle stock exists with problems in safety, fuel efficiency and environment. Local assembly by global players from different countries has begun in small scale but the technology level of local partners is still low. Under the circumstances, the primary policy target should be to foster a market for high-quality new cars, whose supply is filled by domestically knocked-down cars by global firms or local partners in cooperation with global firms.

Both South Africa and Ethiopia face policy challenges, but Ethiopia is far behind South Africa in terms of automotive industry development. Ethiopia can learn more directly from countries which are in equally early stages of automotive development but have already attracted Japanese and other global car firms, such as Kenya and Myanmar[2].

For Ethiopia, the most urgent policy issues for attracting high-quality SKD assemblers and assisting their business development and profitability are (i) used car restriction, (ii) provision of proper incentives for local assembly, and (iii) solving the foreign currency problem. A newly drafted automotive policy will

[1] Kenichi Ohno, "South Africa Mission Report (revised)," GRIPS Development Forum, May 2016 (translated from Japanese).
[2] GRIPS Development Forum, "Report on the Automotive Industry Policy of Kenya," October 2018; and GRIPS Development Forum, "GDF Myanmar Mission Report (full English translation)," January 2020.

have to address these three issues concretely and effectively. For this, sufficient interaction with key stakeholders regarding each issue is critically important. Government should contact not just FDI and local assemblers already in Ethiopia, but also potential FDI car makers Ethiopia wants to invite, for their requirements and challenges. As noted above, used car restriction is already on track while revision of incentives must continue further. As to foreign currency shortage, government should arrange special allocation to eligible car makers if it regards this industry as essential for national economic development. Another important point is that policy support and enterprise effort for quality, training, technology transfer, etc. must be one integrated and mutually benefiting program. Demand from government to car makers and requests from car makers to government must not be unilateral but mutually dependent[3]. When these three policy actions are properly formulated and implemented, Ethiopia is likely to attain the SKD stage of automotive development soon and can move on to the next stage.

In the next stage, after these urgent problems have been solved, policy issues Ethiopia must deal with in the medium to long run are the following four (corresponding to Thematic Areas 2, 3, 5 and 6 in the EIC slides).

First, measures to stimulate automotive demand must be in place. The EIC slides mention government procurement of domestically assembled cars, export to neighboring countries (though this may take some time), and strict border control to stop illegal imports. More measures may be needed. Another important thing is for government to announce official automobile demand scenarios (high, middle and low) which future policies will be mobilized to realize.

Second, various automotive standards must be established. It is essential for any nation to have fully operational vehicle registration and inspection systems for ensuring traffic safety, environmental protection and removal of defective vehicles. It must be stressed that such standards must be appropriate for Ethiopia's development stage and experts, institution and equipment necessary for enforcing registration, inspection and monitoring must be prepared in proper steps.

Third, industrial human resource must be developed for the automotive sector. This is very important but also time consuming. It should be noted that automotive engineering training need not—and perhaps should not—be provided directly by official agents with little state-of-art industrial knowledge. Global firms thoroughly experienced in such training may take over, and government should encourage or subsidize such training[4].

Fourth, supporting industries (domestic suppliers of car components for assembly) must be developed provided that production volume rises sufficiently. Supporting industry promotion is hardly possible if

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[3] In Vietnam, Japanese automotive firms led by Toyota began to assemble cars in 1995. They insisted that market growth and selection of priority models were key to car industry development in Vietnam where new car sales was still small. However, the Vietnamese government suppressed domestic market growth with high vehicle levies and registration restrictions for various reasons while accusing Japanese car makers for not transferring technology, not purchasing enough domestic components and keeping car prices high. The Japanese side complained that necessary policy measures were not in place, but the Vietnamese side continued to criticize car makers. After a quarter century, Vietnamese car production remains relatively small at 300,000 vehicles per year with high cost and little export, unlike Thailand or Indonesia that achieved large volume and low cost. Assembly in Vietnam remains inefficient due to small volume.

[4] Any globally renowned car maker will establish a system of aftersales inspection, repair and spare parts supply in any country where it directly operates. They do not just sell cars but take good care of their products after the sale. For instance, Toyota operates the Toyota Kenya Academy in Nairobi, an impressive training center for Kenya and neighboring countries. In Addis Ababa, Moenco (Inchcape PLC), an exclusive Toyota dealer, has a Toyota-certified system of inspection, repair, spare parts supply and engineer training.

domestic new car production is 10,000 per year or less, but becomes feasible and even very necessary when volume reaches, say, 100,000 per year and continues to rise strongly. This means replacing imported components by domestic supplies in proper steps, starting with “easy” parts (such as floor mats) and bulky parts (such as car seats), and steadily proceeding to more difficult parts through private effort and official support. It must be warned, however, that this is a long process requiring much effort and patience. Even Thailand, Indonesia and Vietnam, with a car production history of many decades and now producing hundred thousand to a few million vehicles per year, are still struggling to increase and upgrade domestic parts suppliers. Countries at an early stage of car production with small volume but demanding high localization of components—which is impossible because component production critically depends on high volume—annoy FDI car assemblers. This more often impedes industry development than encourages it. In this sense, supporting industry promotion is a high-level policy requiring sufficient knowledge and careful consideration.

We do not think construction of a new automotive industrial park is a good idea (Thematic Area no.4). Each automotive assembler and parts supplier should be left to freely choose factory location, whether they build a new plant, buy an old plant or occupy a rental shed, and whether they want to be near the capital city, near the port or in a remote area. We are aware of theory that highlights geographical concentration of firms in the same industry for producing agglomeration benefits, but we also notice from reality that such benefits do not always occur and may even lead to rivalry and poaching of engineers and workers among firms. In Ethiopia, where government is building many state-owned industrial parks with uncertain prospect of future tenant firm occupancy or park profitability, construction of another specialized industrial park is even more unnecessary and financially risky. Here, we are evaluating the wisdom of building another state-owned industrial park and not an industrial park constructed with private funds and risk. Neither do we prevent private automotive firms to spontaneously gather in one place without government guidance. Such action should be left to private decision.

ADP qualification criteria (what conditions must be met for firms to receive incentives) in one of the slides also need reconsideration because they go into too much detail and because some of the conditions may not be applicable to Ethiopia. They include such conditions as the firm must be a global giant or, if local, must work closely with a global giant; it must operate a real factory with a postal address; a list of equipment must be submitted; the plant must possess compressed air, electricity and water; it must have testing devices for wheels, brakes, headlights, etc.; it must also have toolboxes; a plant layout must be presented, and so on. These are too obvious or meticulous for this kind of study report. Meanwhile, the present author does not get the meaning of having at least four workstations for assembly.

The most sensitive issue here is the requirement to submit “a local value addition development and progression plan towards CKD.” For one thing, large contribution to domestic value creation comes from supporting industry development (i.e., higher localization of physical inputs and associated skill improvement) mentioned above, and not from a shift from SKD to CKD which adds only small value. Moreover, also as noted above, increasing localization is a delicate and difficult policy that must combine government support and enterprise effort in proper balance. It is also affected greatly by demand shifts, political and economic conditions and other *force majeure* for automotive firms. Therefore, policy for domestic value creation must be carefully drafted with substantive inputs and feedback from key

stakeholders, especially global car makers. When government later drafts an automotive strategy document, it must surely specify conditions of incentive eligibility. To do so, it must first classify the proposed criteria into those fitting to Ethiopia and those which are not, as well as those which are too obvious and those which are needlessly detailed.

Support and monitoring of labor union activities (Thematic Area no.7) is a serious concern for South Africa where labor relations and black affirmative actions are critical, but not so with Ethiopia where even the concept and purpose of labor unions is not widely known or accepted. To create fruitful labor relations, Ethiopia must begin with awareness raising and initial creation of labor unions not only at automotive firms but in all sectors. This is exactly what some international organizations and European donors are doing in the garment sector.

Legislative measures and implementation mechanisms (Thematic Areas no.8 & 9) are institutional requirements for all kinds of policymaking. They should be prepared regardless of whether or not they are specified in the policy document. Nonetheless, for automotive policy implementation, the upper-level policy mechanism may not necessarily be a national council, as proposed here, and the lower-level operational mechanism may be something other than a ministerial task unit. There are many possible options for policy organization and Ethiopia should choose the most appropriate set from them[5].

Finally, regarding the six Policy Objectives presented in slide no.12, these are more random than logically clear or complete. One item here, establishment of a car financing scheme, belongs to concrete action plans rather than policy objectives. Entire policy structure should run as (i) one broad vision, (ii) several policy areas to work on, and (iii) concrete action plans, with clear linkage among these three levels—as presented by the Automotive Master Plan of Thailand[6]. Moreover, policy objectives should include not only supply side issues (how to strengthen domestic firms and industry) but also concern for citizens' welfare and benefits for car users (expanded and better mobility choices, and prevention of environmental damage, traffic congestion and safety, etc.)

[END]

P.S. We will supply additional information and related materials, including data from benchmark countries, as they become available.

[5] Kenichi Ohno, *Learning to Industrialize: From Given Growth to Policy-aided Value Creation*, Routledge (2013). See especially chapter 4.

[6] For instance, the Automotive Master Plan 2 (2007-2011) of Thailand declares one vision, namely, becoming "Asia's auto production base with value-added and strong parts industry." Then five strategies (policy areas) to realize this vision are presented: (i) productivity, (ii) increasing demand, (iii) engineering, (iv) investment and linkage, and (v) human resource development. Under each strategy, two to three action plans are attached.

A Note on Industrial Park Policy in Ethiopia

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Tokyo, May 7, 2019

The Japanese policy dialogue team has keen interest in the development of Ethiopia's state-owned industrial parks. The team visited some parks in operation or under construction including Bole Lemi, Hawassa, Dire Dawa and Mekelle to monitor their progress. In addition, JICA's Ethiopia Industrial Promotion Project dispatched industrial experts to EIC and IPDC from 2016 to 2019 to support and upgrade their operations. Based on our observations in the last several years, I would like to share my opinion on the current industrial park policy in Ethiopia. The current practices in Ethiopia are quite different from standard practices at Japanese industrial parks abroad, especially in Asia, where a large number of parks compete fiercely for client firms through attractive location, quality service and reasonable cost.

My ideas are given in ten separate points below, which are my personal views although reports of others are selectively referenced as inputs. Since circumstances of Ethiopia and Japan are different, some of my recommendations may not be applicable to Ethiopia. It is up to the Ethiopian government to make judgment on this point. Nevertheless, I believe there are basic elements in industrial park business which are common to both Asia and Africa. I would be very happy if the ideas presented below are even partially and selectively useful in improving industrial park policy in Ethiopia.

1. Industrial park management is a customer-oriented real estate business

The most important thing about Ethiopia's state-owned industrial parks is to have a concrete and realistic plan to make them sustainable and profitable as a market-oriented commercial business under severe international competition.

Ethiopia is in an early stage of setting up industrial parks, and for now the state is their main builder and operator. Ultimately, however, industrial parks must be self-financing and profitable. Initially, the state may instruct and subsidize industrial parks until experience is gained and operations become normal. New industrial parks usually take some years to produce profits, and temporary support and protection is often seen in industrial projects in latecomer nations. However, the state should not assist them forever as this will become a serious burden on the national budget. Ethiopia issued Eurobonds to establish industrial parks, which makes it imperative that state-owned industrial parks generate sufficient profits in the future to pay back this foreign currency-denominated debt with high interest rates.

To reform Ethiopia's industrial park model, three considerations are in order. They are mutually related.

First, industrial park policy should be modified to ensure financial sustainability. Policy can and should pursue national goals such as industrialization, job creation and attraction of high-quality FDI, but it must do so within reasonable bounds of financial responsibility. Provision of first-rate facilities and services is fine, but this should not be done at any cost. Associated costs for both today and tomorrow (initial investment and future maintenance and operation) must be estimated. Ethiopia should avoid a situation where the state budget and the balance of payments are endangered due to commercially unviable industrial projects. Public good must be pursued under healthy public finance.

Second, the motivation of tenant firms is the pursuit of profit and prosperity of their own business, not economic development of Ethiopia or any other country. This remains the same whether an industrial park is private-run or state-run. Ethiopia must offer the same or better conditions for successful business operation to entice FDI to Ethiopia and especially to state-owned industrial parks. This requires not just improving World Bank Doing Business ranking but much more, as the World Bank ranking mainly focuses on smooth procedure rather than a nation's attractiveness for profit making and business expansion. Ethiopia needs to benchmark global practices and learn the reality of customer-oriented industrial space business. JICA has already took EIC and IPDC officials on tours to Thailand, Cambodia, Myanmar and Japan for this purpose.

Third, the state should not micromanage or impose too many restrictions on an industrial park operator, which is IPDC in Ethiopia. Top-down state planning such as setting rental and service fees, meticulous rules, numerical targets and strict deadlines is contrary to customer-oriented management. These concrete variables should be proposed by IPDC's initiative under state's general guidance and approval. Because industrial parks are operated in a globally competitive environment and affected by many external factors, industrial park managers cannot promise precise results which are beyond their capacity. Government may set soft targets or desired sectors and nationalities of investors, but it should not dictate them. Let the market and client firms decide whether, where, what and when to invest, and let IPDC hear the voices of potential customers and strive to offer conditions that attract them.

2. Diversify revenue sources

To recover initial investment cost and achieve financial sustainability, it is crucial to have multiple revenue sources, not just land rent. If land rent (including rental shed fees) is the only revenue, it must be set sufficiently high to recoup the cost of park development, and this will reduce competitiveness of the industrial park. If land rent is initially set low to attract customers, it must be raised later to recover the cost which will certainly cause resentment among tenant firms.

There are different ways to generate additional revenues in industrial park management. Japanese experts will be happy to discuss details if Ethiopia wants to explore more.

One way is to provide business related services. Industrial park management or its related company can offer a mixture of free and fee-based services to tenant firms. This includes business consultation, investment procedure support, accounting services by certified public accountants, tax filing and related services, environmental documentation, labor recruitment and management, matching service with buyers or supplier companies, ICT installation and maintenance, rental office and meeting rooms, renting equipment and vehicles, incubation space, and so on. Tenant firms may find these on-site services convenient while the park can raise additional revenues from them, which allows reduction of rental fees for land and sheds. BTD Japan, a Japanese consultant firm that supports several local industrial parks in Northern Vietnam, provides accounting, tax and labor support for fee while other services are free. Kizuna, a local developer of three full-service rental factory parks for Japanese SMEs in Southern Vietnam, also offers high-quality support in all dimensions by Japanese or Japanese-speaking staff for fee. However, initial support for doing investment procedure is free.

Another way is to provide basic infrastructure services more reliably but with additional charge. Industrial parks may guarantee a stable supply of power, water or other basic inputs by investing in additional equipment such as a substation, a generator, power lines, private pipelines, etc. when existing supply from a utility company is unstable or low quality. By doing this, the park can charge higher tariffs which tenants are usually happy to pay (see 6 below for more on power supply).

3. Strategic selection of facilities and services

In providing on-site facilities and services, an industrial park operator must do serious cost-benefit analysis to decide which facilities and services are worth offering. They should not be offered just because they are frontline technology or wanted by some (but not all) investors. In Southeast Asia, Japanese industrial parks surely offer basics (reliable power, water, roads, security, etc.) but they do not usually lay power lines underground because that does not add much value to investors. They rarely install sprinklers in factories[1]. They also do not build apartments and dormitories *unless* they are keenly wanted by expatriates or workers, and exact location and specs of needed dwelling are known so constructed housing will certainly be taken (not remain empty). Similar reasoning goes for on-site restaurants, shops and other amenities and facilities. The park management building should not be too

[1] We hear Europeans require sprinklers in factory sheds. In Asia, a common way to prevent and control fire consists of a fire station with fire engines and well-trained fire fighters on 24-hour duty, fire extinguishers in every factory, placement of water hydrants or ponds throughout the park, and annual park-wide fire drills and regular inspection of firefighting equipment.

large or extravagant or have underused space. At Thang Long Industrial Park (by Sumitomo Corporation, in Vietnam) and Phnom Penh SEZ (where Mr. Uematsu is CEO, in Cambodia) where Japanese MNCs such as Canon, Denso, Panasonic, Yamaha and Minebea operate, park management is housed in simple and compact two-story buildings which are much smaller than the ones in Hawassa or Mekelle.

The minimum-cost approach informed by cost-benefit analysis is necessary because industrial parks compete with other parks at home and abroad, and they cannot survive unless keenly needed facilities and services are provided at reasonable cost—which reduces the rents and service fees levied on tenant firms. If only one customer demands a specific service (such as special water treatment, super solid ground or extremely stable power), park management should negotiate so this firm may install necessary equipment at its own cost or choose not to invest in the park. An industrial park cannot and should not invest in an expensive facility just for one customer.

In Ethiopia, IPDC should re-examine all facilities and services it currently offers to tenant firms to see if their scope, specs and cost are appropriate. This includes power, logistics, communication, water supply, waste water treatment, housing, security, fire prevention and others. In particular, the desirability and lifetime cost of Zero Liquid Discharge should be revisited. JICA experts recommend the standard primary and secondary waste water treatment system where heavy water users (a dyeing factory, for example) are asked to treat waste water before discharging it to the common water treatment plant, as done widely in Southeast Asia, instead of adopting ZLD for the entire park. Chinese builders and Indian equipment producers may be happy to install any park facilities but it is up to the Ethiopian government to check if they are financial viable and contribute greatly to the value of the park and the attraction of high-quality investors.

In industrial park business, unexpected cost increases often occur. This may happen in land price and rent, worker wage, construction cost and electricity tariffs, which will certainly reduce the park's competitiveness and the profitability of both park management and tenant firms. When this occurs, IPDC needs to balance the interests of the state, IPDC and tenant firms through adjustments in service quality and cost in light of situations at rival industrial parks and nations. This is never easy.

4. Speed of park development

As a real estate business, industrial park development shares the same features with other property investments. Even when the government runs this business, it cannot avoid its inherent risks. The speed of tenant arrival depends on many factors which are beyond the

control of a host country or a developer, such as global economic conditions and interest rates, policies of the US, the EU and China, domestic growth, financial and political crises, spread of terrorism or communicable diseases, as well as the ups and downs of the property market itself. Moreover, not all registered investments actually invest. Japanese industrial park developers will be happy if a park becomes full in three years. In Northern Vietnam, Japanese industrial parks built by Sumitomo and Nomura each took more than a decade to be fully occupied, but they are now considered as successful cases.

In Ethiopia, foreign investors poured into Bole Lemi I and Hawassa. There was a huge excess demand for industrial space because the supply of high-quality industrial land was very limited in Ethiopia. However, property business has cycles and good times never last forever. The Ethiopian authorities should be prepared for harder times and have a contingency plan if such a situation arises. This is a normal precaution for any operator of property business and investment.

Ethiopia is building industrial parks too fast. Parks should be built gradually and in proper speed according to the genuine arrival of client firms (which means construction and operation, not just declaration of interest or signing a contract). Ethiopia has a grand plan to establish more than ten industrial parks, which is fine, but actual construction must be paced judiciously. In Asia, it is customary that a new park or phase is constructed when existing lots are 70-80% full (in the true sense). Ethiopia should check whether the current speed of construction is appropriate and, if not, freezing or slowing down the work should be seriously considered. Future demand for industrial park space is very difficult to forecast, especially in Ethiopia which is just beginning to learn industrial park operation through trial-and-error. Even if industrial space is wanted, investors may go to private industrial parks or unprepared areas if IPDC fails to offer attractive services at reasonable cost.

5. Revisit one stop service

One stop service, in my view, should be implemented functionally rather than physically. One trusted official who can connect client firms to any offices and services is more valuable than installing many desks staffed with many officials. The existence of a telephone hotline for any problem faced by any tenant firm—an accident, fire, theft, labor trouble, power problem, water disruption, flooding, etc.—will be greatly appreciated by all investors. Dong Van Industrial Park in Ha Nam Province, Vietnam, operated by the provincial government, promises that any problem reported by a Japanese firm will be quickly transmitted to the top leader (Party Secretary) and industrial park management, and immediately attended to 24 hours/ 365 days. A problem of less urgency will also be solved, if not immediately, within the

next day or next few days. Ha Nam Province has only one customer service desk but Japanese investors highly appreciate the speed of provincial response.

Allocating many officials at each industrial park in Ethiopia will be very costly. Efficient investor services can be rendered without having so many desks and so many people. This is more a matter of a soft mechanism than physical arrangement. Surely, engineers must be on duty 24 hours and certain officials must work in pre-determined hours. But there is no need to man a large number of officials in a row of desks who may or may not receive customers on any day. Most government ministries and institutes are short of hand, and officials so assigned may become unproductive and dispirited.

Moreover, despite great effort and progress so far, EIC and IPDC still lack simplicity and transparency for investors. Investment procedure, eligibility and incentives should be easy to understand and accessible for anyone through official documents and a website. Standard Operation Procedure must be established and strictly enforced (JICA supported to compile SOP for IPDC). Applications of various kinds should be digitized. Some investment-related services in Ethiopia are slow (or entirely missing) such as visa and work permit application, certificate of country origin, residence permit, post-investment services and follow-up, and claim and complaint procedure by an investing firm. These need to be improved as soon as possible.

6. Stabilize industrial power supply

The situation surrounding Ethiopian power supply is changing. The power sector is targeted for staged privatization. Electricity tariffs are being raised. The country's huge potential for hydraulic power generation is being exploited in steps. When the Grand Renaissance Dam comes into operation, it will add 6,000MW to the supply capacity for both domestic use and export. However, power interruptions currently remain frequent. Power instability occurs even in industrial parks where it is supposed to be eliminated. The problem with Ethiopia's power supply is neither generation capacity, which is rapidly increasing, nor main transmission lines, which are being laid. Problems occur due to aged and obsolete distribution networks at retail level which frequently trip or break down. Nationwide upgrading of the power distribution system is urgently required. Given the geographical extension of the problem, however, correction will take some time and large human and financial resources.

Until the problem is fundamentally solved, Ethiopia should resort to provisional methods to stabilize industrial power supply as quickly as possible. Japanese experts have suggested a few ways to do this to IPDC. First, as power transmission and distribution are to be privatized, IPDC may form a joint venture, together with a private investor, to supply power

from the national power grid to the industrial park (and nearby areas) while guaranteeing power stability as well as high-quality maintenance and troubleshooting services but charging additional fees for this[2]. This has an additional advantage of broadening revenue sources for IPDC (see 2 above). Second, even without a joint venture, an industrial park can at least invest in a substation and a direct line from the national grid to stabilize power supply to the park. Third, EEP and EEU should prioritize and safeguard industrial power supply when they invest in, renew or maintain transmission lines or equipment.

7. Invite all investors regardless of sector

In Asia, a vast majority of industrial parks welcome investors of any sector as long as they comply with laws and park regulation on environment, labor, fee payments, intellectual property rights, and so on, and as long as they have good past records in their home countries and elsewhere. Sector indifference is a natural outcome of severe competition among industrial parks to attract as many good tenants as possible. If any firm violates a rule, it must be expelled from the park regardless of sector.

Some industrial parks do attract investors of the same kind, such as Taiwan's Hsinchu Science Park (IT), Vietnam's VSIP (electronics) and Thailand's Amata Nakorn Industrial Park (automotive and electronics components). This is a result of market force, and these parks in no way preclude investment by other types of firms. For example, Taiwan's Hsinchu Science Park requires tenant firms to do R&D above certain levels but welcomes any sector as long as this condition is met. There are also parks dedicated to software firms only, but this is a very special case because software programming requires relatively small space, highly educated people, urban amenities and good internet connection, while it does not need any heavy equipment or waste treatment. Software parks look like modern office buildings rather than normal industrial parks.

The Ethiopian government designates sectors to each industrial park. This is not a good idea, especially when Ethiopia is a new comer in industrial park business and has less than ten fully occupied parks. Most Asian countries, each boasting hundreds of parks, can afford specialization. But Ethiopia is still at an early stage of industrialization with emphasis on light manufacturing and construction materials. Some argue that geographical concentration of firms of the same sector creates mutual benefits and they can also share special factors (such as highly experienced engineers and specialized waste treatment). This is theoretically plausible. In reality, however, such collective benefits rarely occur. Reliable power, water and

[2] Since the main cause of frequent power failure in Ethiopia is dilapidated distribution at users' end, the new company can ensure stability by introducing new management, staff and equipment in transmission and distribution. Power from the national grid is usually stable.

waste management are good enough for any firm in any sector. Cooperation and knowledge exchange may occur within one sector, but rival firms are usually cautious of labor poaching and information leaks. Therefore, my advice is, let firms decide where they want to invest rather than government herding them to any specific industrial park. Mixed-sector, rather than specialized, industrial parks are recommended.

8. Offer various space options

In Ethiopia, a great number of same-size, large-capacity factories have been supplied. These standardized rental sheds are suitable for large-scale, labor-intensive and export-oriented light manufacturing such as garment, footwear and food processing, which is typical in the early stage of FDI-led industrialization. However, most Japanese and EU firms no longer engage in such manufacturing. High-tech firms, skill-intensive processes, specialized manufacturers and “supporting industries” (precision component suppliers) need different types of working space which are usually smaller and unique to each firm. Japanese industrial parks at home and abroad offer land lots of various size for each investor to build any structure it prefers, or small rental factories for high-tech SMEs or firms wanting to test-produce first and expand later. Space design and construction is normally done by consultants and builders selected by individual tenant firms.

In Que Vo Industrial Park in Northern Vietnam, which houses huge Canon and Foxconn (Hong Hai) plants, the Vietnamese management decided to build 18 additional large ready-made sheds of 5,000m^2 to attract Japanese firms. A few Taiwanese and Korean firms were interested, but no Japanese firms came. Huge sheds stood empty. The local developer misjudged the spatial needs of Japanese high-tech firms which would not accept standardized large-capacity rental sheds.

It is right that Ethiopia attracts labor-intensive garment and footwear exporters now. But to shift to more sophisticated manufacturing in the future, it must also supply more diversified and custom-made industrial space. If Japanese manufacturers are to invest in Ethiopia, they need smaller and made-to-order industrial space, not standardized sheds of 5,500 m^2 or 11,000m^2. They typically start with test production in a factory of 250-1,000m^2 or even smaller “incubation” space with only one machine. They want to check whether local laws, officials, market, labor, power, water, logistics and other conditions are fit for their business model. If successful, they move to bigger rental space or build their own factory inside or outside an industrial park. This cautious step-by-step expansion approach is taken because Japanese firms want to come for a long time, not for short-term profit and quick leave. I believe most European and American high-tech firms also have a similar view.

9. Treat export and import substitution equally

Ethiopia has incentivized export for long but the result so far is not very impressive. Light manufacturing and food processing, which are targeted for this effort, remain small and weak. FDI firms do export garment and footwear but they also import many input materials. Meanwhile, many Ethiopian firms turn to the domestic market for easy sale in the absence of international cost-cutting pressure. But such strategy does not foster industrial strength. Export promotion policy is adopted by many developing countries because producers are forced to learn and improve under global market competition

But this does not mean import substitution should be suppressed or discouraged. The difference between export and Import substitution is not so great; it is a matter of degree. Properly conducted, both contribute to technology learning, domestic value creation and net foreign exchange earnings. Many Asian economies such as Taiwan, Korea, Malaysia and Thailand began industrialization by import substitution of consumer goods, moving to light manufacturing export, import substitution of machinery and industrial materials, and finally to high-tech export. Export and import substitution played important roles in each development stage. When domestic demand for industrial and construction materials is large, it is natural to try to produce them at home provided that quality is acceptable (sufficiently high) and the price of the domestic product is internationally competitive (sufficiently low).

Foreign currency balance improves by exporting more than import or replacing import with domestic products. Which generates more foreign currency depends on each case. Ethiopian policy has favored export too much at the cost of import substitution, but without any visible rise in the former. It should also be reminded that arrival of export-oriented MNCs does not quickly lead to foreign exchange surplus. They export much but also import much. Since the mid-1990s, Vietnam received thousands of FDI firms of various nationalities but it took two decades for it to turn its trade deficit to surplus.

Malaysia and Thailand offer incentives to investors who create domestic value, transfer knowledge or bring new industries to the nation. They do not ask whether the product is sold at home or abroad. Many products in their priority lists are import substitution items. In 2015, as industrialization progressed, Thailand revised its FDI policy from encouraging manufacturing broadly to incentivizing sharply defined value creators only. This is how incentive policy should evolve.

Any industry's contribution to Ethiopian development should be evaluated by similar criteria regardless of the location of market. We need to make sure, however, that import substitution industries are subjected to global competition rather than artificially protected by

tariffs and non-tariff barriers. Endless protection of dying industries for political reasons must be avoided at all cost to foster industrial competitiveness.

10. Avoid unilateral rule change

FDI policy in Ethiopia is highly changeable and unpredictable. We fully understand that Ethiopia is in a policy learning process, and new policies need to be created quickly and on a trial-and-error basis. As a result, some policies have to be revised along the way. Even so, frequent revisions damage Ethiopia's investment climate. Moreover, interpretation of proclamations and regulations on the ground often differs across organizations and officials[3]. Investors need long-term assurance when they make financial commitments. Constantly changing policies attract only short-term speculators while good investors stay away. Ethiopia should revise FDI policy only in limited instances where serious national interest is at stake. Once a new policy is introduced, it should remain intact for at least several years and even decades. Moreover, when a revision is finally made, it should be in the direction of pleasing investors, not restricting them. This is the normal practice in high performing East Asia.

The Japanese Embassy, JETRO, JICA and GRIPS are trying to bring Japanese FDI to Ethiopia. Many Japanese firms are interested in Ethiopia's potential and investment seminars are always full. However, very few actually came. We feel that one of the reasons is disenchantment caused by policy instability. An industrial park developer wants to build a specially designed Japanese area with small sheds and good support. But he was confronted with relocation from Kilinto to Bole Lemi, and significant rent and construction cost inflation which were not in the initial agreement. Different officials say different things. A high value-added flower firm was confused because the proposed production of cut-flower sleeves was not classified as manufacturing. Many Japanese SMEs are told that their investment size is too small because Ethiopia prioritizes producers who rent large sheds and hire thousands of workers[4]. These responses are surprising and unheard of even in Asia's latest-comer nations. Bad news travels fast, and many Japanese investors now have second thoughts about Ethiopia.

We are worried about this trend. JICA has already took EIC and IPDC officials on study tours to Japanese industrial parks in Japan, Thailand, Cambodia and Myanmar. We hope this gave them new ideas and inspirations. I hope Ethiopia will benchmark some of these

[3] Meanwhile, in our policy mission to Nairobi in August 2018, interviewed Japanese firms said that Kenyan officials basically say the same thing regardless of ministry or position.

[4] In contrast, developing economies in Southeast Asia often prefer receiving Japanese manufacturing SMEs which bring high technology and skills. Attraction of small firms from Japan and other advanced nations is an important policy pillar in Thailand, Malaysia and Vietnam.

parks and selectively learn from Asian experiences. Once the preferred model is chosen or created for Ethiopia, an experienced industrial expert should be invited from the benchmarked country for concrete instruction and learning.

GRIPS and JICA are happy to provide more information and engage in further discussion on any of the issues raised above.

[END]