The Quality of Growth in Sub-Saharan Africa: Africa and New Global Rules for Trade, Finance and Aid

Strategies and effective approaches for transformation with quality growth:
Insights from international cooperation

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Increasingly greater attention is being paid to “quality growth” and transformation

• **Transforming our world: the 2030 Agenda for Sustainable Development (SDGs)**

“We are committed to achieving sustainable development in its three dimensions – economic, social and environmental – in a balanced and integrated manner........... We resolve also to create conditions for **sustainable, inclusive and sustained economic growth**, shared prosperity and decent work for all, taking into account different levels of national development and **capacities**.”

The main **attributes of “quality growth”** are inclusiveness, **sustainability** and **resilience** according to *Development Cooperation Charter* of Japan (discussed below)
Quality of Growth in APEC Growth Strategy:

It highlighted 5 attributes of quality of growth (2010):

“APEC aims to achieve

- Balanced,
- Inclusive,
- Sustainable,
- Innovative, and
- Secure growth

World Economic Forum Summer Davos in Asia (2011): Mastering Quality Growth

- Sustainability
- Inclusion
- Fairness
- Balance
- Technology and Innovation

See Hosono (2015) “Industrial Transformation and Quality of Growth”
Fig. 2 Diverse “quality of growth” agenda
Examples of concrete actions to achieve growth with different desired attributes

Quality of growth

- Inclusive (growth)
- Sustainable (growth)
- Innovative (growth)
- Secure (growth)
- Balanced (growth)

Green growth
- Addressing poverty trap: Jobs and inclusive development

Addressing middle income trap

Human Security

Trade-offs, Synergy, Priorities, Macro-economic balance, Fiscal balance

Source: Prepared by the author, based on APEC Growth Strategy (2010)
Sub-Saharan Africa, Latin America, and Asia expressed their strong interest in *Quality of Growth and Transformation* almost simultaneously in 2012-2014.

UN-ECA (2014) *Making the most of Africa’s commodities: Industrializing for growth, jobs and economic transformation*

UN-ECA (2015) *Industrializing through trade*

UN-ECLAC (2012) *Structural Change for Equality: An Integrated Approach to Development*

UN-ECLAC (2014) *International Trade and Inclusive Development*


ADB (2013) *Asia’s Economic Transformation*

ADB (2013) *Framework of Inclusive Growth Indicators (FIGI)*

UN-ESCAP (2013) *Shifting from Quantity to Quality: Growth with Equality, Efficiency, Sustainability and Dynamism*
In Africa, transformation is emphasized

- To ensure that growth is sustainable and continues to improve the lives of the many, countries now need to vigorously promote economic transformation (ACET 2014)
- African countries made little or no progress in transforming their economies, notably with respect to reversing deindustrialization that began in the 1970s. Related to this lack of transformation is the woeful inadequacy of generating “decent” jobs, forcing large proportion of the rapidly expanding labor force into very low productivity agriculture and the informal sector. (Noman and Stiglitz 2015)

For “quality growth”, economic transformation is essential.
Fig. 1 Diverse economic transformation agenda (Selected cases)

- Resource-poor
  - Agrarian
  - Urbanizing & early-industrializing
  - Industrializing (higher skill & technology)
  - High-level technology & innovation capabilities
- Resource-rich
  - Agrarian
  - Urbanizing & industrializing

Preliminary interpretation of relationship between Quality of Growth and Transformation

• Transformation-led growth is essential for quality growth: enhancement of endowments, transformation, (quality) growth, and learning, inclusive, sustainable and resilient society are intrinsically related. (see Figure) “In China, reallocation of labor across sectors contributed 4.1 % points of 7.3 % annual growth in aggregate labor productivity over the past decade (1999-2008). In Vietnam, it accounted 2.6 points out of 4.2. WB WDR 2013)

• Transformation is a driver of growth and related to different attributes of growth.

• Industrial strategy needs to address enhancement of endowments, learning capacity, transformation, and quality of growth
Changing endowments

Transformation

Transformation-led growth

Commodities boom-led or mineral/hydrocarbon-led growth

Learning Society
Inclusive Society
Sustainable Society
Resilient Society

Growth
• We need to add cases of resource rich countries:

• Revenues from rich mineral resources or from temporary commodity boom could cause resource curse, if the generated income (revenue) is not used for transformation or for creation and expansion of learning society, inclusive society, sustainable society, and resilient society.
Investments to enhance endowments: Infrastructure; Innovation, etc.

Fiscal revenue for development budget

Commodities boom-led or mineral/hydrocarbon-led growth

Changing endowments

Transformation

Quality Growth

Transformation-led growth

Learning Society
Inclusive Society
Sustainable Society
Resilient Society

Growth
Recent literature

• Stiglitz and Greenwald, *Creating a Learning Society*

• Noman and Stiglitz (2015) *Industrial Policy and Economic Transformation in Africa*

• Noman and Stiglitz (forthcoming), *Efficiency, Finance and Varieties of Industrial Policy*

• ACET(2014) and UN-ECLAC (2012) have close relationship with Initiative for Policy Dialogue (IPD) studies
Changing endowments

Transformation

Growth

Quality Growth

Learning Society
Inclusive Society
Sustainable Society
Resilient Society

Commodities Boom and other factors

IPD Book on Transformation in Africa, 2015

Stiglitz and Greenwald, Creating a Learning Society

IPD Book, forthcoming

Noman and Stiglitz, Efficiency, Finance and Varieties of Industrial Policy

IPD Book on Transformation in Africa, 2015
Strategy and effective approaches for transformation and quality of growth to create and strengthen learning society, inclusive society, sustainable society, and resilient society

- **Three Pilars of inclusive growth**
- Growth and Expansion of Economic Opportunity, and **Economic transformation**
- Inclusion to **Ensure Equal Access to Economic Opportunity**
- Social protection and resilience

"Opportunity and capacity" synergy for inclusive growth

Quality Growth with attributes of inclusiveness and learning (innovation)

Key Infrastructure; Endowments.

Growth and Expansion of Economic Opportunity; (Economic transformation)

Investments, including FDI; Participation in Inclusive Business; Participation in Global Value Chains;

SMEs’ Learning; technological Development; Institutional Innovation;

Inclusive to Ensure Equal Access to Economic Opportunity

Society’s learning and capacity development and institution building to respond to opportunities (through learning, accumulation of knowledge and capabilities)

Access and inputs to education and health; access to basic infrastructure, utilities and services; gender equality and opportunity

Increase of budgets enabled by fiscal revenues generated by growth (through taxes, etc.)

Social Safety Nets

Social protection; resilience;

Note: This figure roughly illustrates the relationship between the main components of “inclusive growth.” Words in italic are added by the author. Source: Author. Based on discussion of Hosono (2014) and ADB (2013: p.4).
Strategy for transformation with quality growth (1): learning and accumulation of knowledge and capabilities as fundamental endowment (enhancing inclusive and learning society)

• “The most important endowment is a society’s learning capacities” (Stiglitz and Greenwald 2014, p.26); policies that promote more inclusiveness may promote greater learning (Ibid. p.381)

• JICA emphasizes comprehensive solutions in order to support the development of students’ basic academic skills and abilities to learn and think by themselves. (JICA 2016, 4)

• Quality education is essential for capacity of learning to learn.

• Quality education is featured in SDGs: “Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all”
Strategy for transformation and quality growth: learning as a fundamental endowment for transformation (enhancing inclusive and learning society)

Participatory and inclusive approach to improve quality of education: School-based Management (SBM) with the framework of SABER (World Bank and JICA); “Minna no Gakko” (JICA)

Learning and accumulation of knowledge and capabilities: fundamental endowment for transformation

From formal education emphasizing ability to learn and think by themselves for all children to capacity development for “learning to learn”

Learning; Capacity Development (CD): Learn to learn; Core capacity

Livelhood improvement and other initiatives

Strengthening of Mathematics and Science Education in Western, Central and Southern Africa; Strengthening Mathematics Education in Central America: Establishing sustainable In-service learning (INCET) systems and enhancing class room practice
Spontaneous participatory school management by rural communities during the armed conflict; Institutionalization as EDUCO after the Peace Accord

Minna no Gakko project (School for All project): School councils (COGES) minimum package promoted by JICA

Niger adopted SBM in 2002; JICA “Minna no Gakko” project in 2004 (COGES with minimum package)

Scale up of “Minna no Gakko” in Niger and Expansion of SBM based on Niger’s experience in Senegal, Mali, Burkina Faso, ...

SMASE-WECSA (SMASSE in Western, Eastern, Central and Southern Africa) Network from 2003

Scaled up and extended to 26 countries as of 2012

EDUCO en El Salvador after the Peace Accord of 1992

Toward a Quality Formal Education: A Base for Capacity Development to Learning to Learn (Core Capacity) and Industrial Development

SABER (System approach for Better Education Result) and other international initiatives (World Bank, JICA...)

SMASSE Kenya (Strengthening of Mathematics and Science in secondary education) started in 1999

SMASE Kenya (Strengthening of Mathematics and Science in secondary education) started in 1999

Scaled up and extended to 26 countries as of 2012

Minna no Gakko project (School for All project) School councils (COGES) minimum package promoted by JICA

Niger adopted SBM in 2002; JICA “Minna no Gakko” project in 2004 (COGES with minimum package)
(TICAD V Commitment)

Toward a **Quality Education** Environment

- Provide quality education for 20 million children through expanding **“School for All”** project and **“SMASSE”** (Strengthening of Mathematics and Science in secondary education) (JICA 2016, p.5)
Approach

• Expand support to science and mathematics education, improvement of achievement tests, construction of schools, community participation to school management through “School for All” project, to achieve three main pillars of education development: “Enhancement of education quality”, “Progress in access to education”, and improvement of school management”

• Improve educational environment as a basis for industrial development and science and technology promotion

• Later in higher education, LBE (Laboratory-Based Education) could be an effective approach to “quality education” to obtain problem-solving ability. (JICA 2016, 2)
School Based Management (System Approach for Better Education Result)

Mathematics and Science Education: Basic academic skills and abilities to learn and think (to strengthen learning cycle) with scaling-up and establishing networks*

Fostering mid-career technicians: Technical and vocational education and training (TVET)

Fostering future researches and skilled technicians (career path to higher education)

Developing of Human resources in engineering field (Including STEM-focused, and/or Laboratory-Based Education (LBE))

Fostering mid-career technicians: Technical and vocational education and training (TVET)

* African Mathematics and Science Education Network; Central American Mathematics Education Regional Cooperation Network; Africa and Asia Mutual Learning Network and other initiatives

From Quality Basic Education to advanced human resource development: A Base for Capacity Development to Learning to Learn and Industrial Development
Together with formal education, approaches to strengthen capacity of learning to learn is essential

- Stiglitz and Greenwald (2014, 56-57) indentified the following major determinants of learning:
  - Learning capabilities;
  - Access to knowledge;
  - The catalyst for learning;
  - Creating a creative mind-set—the right cognitive frames:
  - Contact—people with whom one interacts
  - The Context of learning
  - Having these determinants in mind, effective approaches are needed to initiate, and maintain momentum and to scale up the learning process

For more details, see also Hosono, A. (forthcoming) “Industrial Strategies Toward a Learning Society for Quality of Growth”
Strategy for transformation with quality growth (2): **Inclusive Business** of BOP, by BOP and for BOP alongside value chains

- Inclusive business models include poor people into value chains as producers, employees and consumers. (UNDP 2010, *The MDGs: Everyone’s Business: How Inclusive Business Models Contribute to development and who support them.* p.3)

- Inclusive business models include the poor on the demand side as clients and customers, and on the supply side as employees, producers and business owners at various points in the value chains. (UNDP/Growing Inclusive Markets (2008), *Creating Value for All: Strategies for Doing Business with the Poor.* p.14)
Inclusive business: (continued)

- Business-led scaling up at the base of the pyramid: based on the understanding that scale is not merely a desirable target for BOP business but that it constitutes an essential condition for their success.

- This is because BOP business are different from normal commercial business for a variety of reasons: limited purchasing power of low-income customers; required innovative technology together with normally high levels of up-front investments; awareness and acceptance by users, difficulty of delivery and so forth. (Kato, Hiroshi and Akio Hosono (2013) in Chandy, Hosono, Kharas and Linn (eds.) (2013), Getting to Scale: How to Bring Development Solutions to Millions of Poor People, Brookings Institution

Formal education

Learning and innovation eco-system

Large companies’ investment in inclusive business

Expansion of inclusive business network with value chains:
  Expansion of opportunities

Micro Es’ and SMEs’ development and inclusion into value chain networks:
  Enhanced capacity to respond to opportunities

Learning; Capacity Development (CD): Learn to learn;
  Core capacity:
  Enhanced capacity of human capital to respond to opportunities

Micro enterprises’ and SMEs’ participation in value chain networks with accumulation of knowledge and capabilities through learning and innovation eco-system
Inclusive business: a key for inclusive growth

• Some successful cases will be discussed to suggest policy options for inclusive business, which is an important pathway to realize industrial transformation and inclusive growth.

• For the first category of inclusive business, to produce goods at scale to make their price affordable for the poor and their delivery expedite for them is crucial.

• For the second category of inclusive business, to create and commercialize competitive products/services based on local resources, self-reliance and creativity, and human resource development is essential. From this perspective, the One Village One Product (OVOP) experiences will be discussed as an effective approach for incubating inclusive business. Other approaches are discussed as well.
Inclusive business for BOP: the poor, on the demand side, as client and customers (also as workers for delivery)

- Comprehensive approach to address constraints of inclusive business for BOP: (1) affordable price is normally enabled by production at scale, which requires “finance for scale.” (2) Delivery at scale is essential to make available new products for BOP. (3) Partnership at scale with governments, NGOs, international organizations and other stakeholders.
Grameen Danone - MNC, Bangladesh

Microfinance institution Grameen and French dairy company Groupe Danone established a joint venture whereby a self-sustainable social business was set up with the objective to create a yogurt fortified with micro-nutrients to decrease malnutrition for the children of Bangladesh. The yogurt is produced with solar and bio gas energy and is served in environmentally friendly packaging. Around 25% of low-income children living around the factory are regular customers, 700 village ladies are getting an additional income by selling these yogurts door-to-door, and 370 micro-farmers around the plant sell daily to Grameen Danone, thus improving their income by approximately 40%. The first plant started production in late 2006 and the 10-year plan is to establish 50+ plants, create several hundred distribution jobs and develop self-degradable packaging. In 2007 Danone launched a mutual fund, danone.comunities, designed to finance the expansion of Danone’s social business in Bangladesh as well as encourage the development of new social businesses that fight malnutrition and poverty in developing countries.

Roots of “Grameen Lady” is “Yakult Lady”; Grameen Danone is the first social business of Danone

Hirano, Katsuhiro, Executive Director of Yakult, was invited as a Visiting Director of Danone (2004-07) by Simon Israel, Vice President of Danone in charge of the Asia-Pacific Region. During this period Hirano explained to Danone “Yakult Philosophy” and “Yakult Model”

Yakult Danone India, a joint venture, was formed in 2005

Source: Hirano, Katsuhiro (Former Director of International Department, Yakult) presentation at “Seminar of Possibilities of BOP Business and Partnership with JICA”, 2010; Sugawara, Hideyuki (2009). The Source of BOP Business: Simultaneous Achievement of Social Profits and Enterprises’ Profits by Yakult”
Single mothers provide both knowledge and products

• Dr. Minoru Shirota (Kyoto University), microbiologist, succeeded in culturing a strain of lactic acid bacteria beneficial to human health.

• Yakult is a probiotic drink, which contains Lactobacillus casei strain Shirota and is considered an effective drink for preventive health care, especially for children, to address infectious disease and malnutrition. Dr. Shirota established Yakult in 1935.

• Yakult Lady system was introduced in 1963. Yakult started international business in 1964 requested by several developing countries.

• The international business continuously expanded to 32 countries as of 2013.

• 42,300 Yakult Ladies (many of them single mothers) are working today. (They are in charge of delivery and communication with poor mothers.)
Inclusive business for BOP as customers and clients as well as workers for delivery

**Yakult**

- **Technology:** Effective for children’s health (Basic and applied technologies for years of success)
- **Affordability:** small units and production at scale
- **Consciousness:** communication with Yakult Ladies and other factors
- **Delivery at scale:** Daily delivery by Yakult Ladies and at shops

**Sumitomo Chemical (Olyset Consortium)**

- **Technology:** Long-lasting insecticide-treated mosquito net (LLINs), wide mesh size (good air flow) and safe
- **Affordability:** Production at scale in Tanzania, financial support by JBIC
- **Consciousness:** WHO, UNICEF, NGOs
- **Delivery:** Exxon Mobil sells nets through its Mobil Mart service stations
Inclusive business by BOP: the poor on the supply side as employees, producers and business owners

Promotion of new industries and their exports (including inclusive business such as OVOP) (1)

Direct target

Promoting new Industries and their exports

Knowledge and experiences sharing and inspiring

Identification and utilization of local resources, sharing of knowledge and experiences related to the creation of new industries, including OVOP, Michi no eki, etc.

Improvement of skills, and quality of goods and services (a)

Production technology, improvement of quality and productivity, kaizen, packaging, bookkeeping, marketing, business plan, etc.

Source: Author
Promotion of new industries and their exports (including inclusive business such as OVOP) (1)

- Capacity development for “branding”, export procedure,
- Test marketing, business matching (facilitating participation in trade fairs, etc.),
- Related policies, administrative system, improved access to finance, OVOP committee, formation of clusters, promotion of local brands, etc.,
- Enhancement of Sustainable System of supporting industries promotion
- Facilitation of business opportunities
- Improvement of skills, and quality of goods and services (b)

Source: Author
Some outstanding cases

• One of the most popular items to come out of Malawi's "One Village, One Product" initiative is moringa powder. Made from the leaves of the highly nutritious moringa tree, the powder is said to contain twice as much protein as yogurt, vitamin C levels seven times the amount of oranges, and four times as much calcium as milk. The powder can be boiled and then applied to the body as a medicine, drunk as tea, or added to food.
• Another Malawian product is the 100% natural mapanga honey, which comes from the nectar of mango flowers in the south of the country.
• Another noteworthy example is the growing lineup of products made from the baobab tree. In Malawi, oil extracted from the fruit of the baobab tree is commonly used as a cooking ingredient. In Japan, the vitamin-rich oil is popularly used as a moisturizing ingredient in cosmetics. A sweet-and-sour jam made from the fruit is also popular.

• Source: JICA, Focus on African Development (Press release at TICAD V)
MALAWI OVOP
10th ANNIVERSARY

OVOP IN MALAWI

Our Values
- Empowerment, Community, Generating Wealth

Our Mission
- To generate income and wealth for the Malawian society through community mobilization to produce value-added goods and services that are marketable in order to reduce wealth disparities

Our Core Values
- Transparency and accountability
- Continuous learning and innovation
- Gender balance and equity
- Ownership - Sustainability

Number of OVOP Projects
- 116 Projects
- 26,049 Establishments

Honey and Beehive Oil are successfully exported to Japan

OVOP SHOP
5:00 - 17:00

ONE VILLAGE ONE PRODUCT PROGRAMME SECRETARIAT
PO BOX 27162, LUKONHE, MALAWI
Tel: +265 11980001 - Fax: +265 11980002
www.facebook.com/ovopaternity
Members of Kamwendo cooking oil cooperative society. Cooking oil, a new product, developed by the society at the center of the photograph. Source: JICA
http://www.jica.go.jp/topics/news/2013/20130502_01.html
Other possibilities of “Inclusive business incubation”

• Fabrication Laboratories (Fablabs), originated from MIT’s Center for Bits and Atoms Fab Lab Program, have been recently recognized as a transformative tool for developing local industry, boosting entrepreneurship, and increasing interest in STEM education.

• Fab Labs allow individuals to connect with the broader global innovation community while providing positive spill over effects in the area where the lab is located, including through building community engagement around the innovation ecosystem, increasing the capacity of local firms and individuals to actively innovate, and building a skill base in the local population to drive forward innovative activity.
These “spaces have **democratized access to tools and empowered participants to build and learn on their own.**” (WB, *WDR 2016*)

Recent JICA’s cooperation (1): Fab Lab Bohol, Philippines has several examples of local entrepreneurs and SMEs who generated new ideas via the Fab Lab, used it to create prototypes, or added value to existing products. It also extended income-generating opportunities to local women. Fab Lab Bohol has positively **impacted the community by enabling local people to develop low-cost solutions to local challenges.**

Recent JICA’s cooperation (2): JICA- and SolidWorks-supported Fab Lab in Rwanda.

Based on JICA’s recent publication
Strategy for transformation with quality growth (3):

**Transformation** (New industries, diversification of industries, and expansion and deepening of value chains) with **active participation of SMEs as a main driver of inclusive growth** along with learning
SMEs are essential for “opportunities and capacity nexus” (driver of inclusive growth)

• In the “opportunities and capacities nexus (synergy) ”, SMEs play a fundamental role. People, even if highly skilled, cannot take advantages of new opportunities alone. They need to start up enterprises to participate in opportunities or to be employed by large or SMEs to get benefits of such opportunities.

• The “UN HLP report on post 2015 development agenda” recognizes the necessity of supportive policies towards micro enterprises and SMEs, together with infrastructure and other investments, skills development and so on. In other words, policies, especially towards SMEs, are considered needed to trigger, and accelerate the process of growth generating more growth.
Strategy for transformation and quality growth: Transformation with active participation of SMEs as a main driver of inclusive growth.

- **Learning and innovation ecosystem**
  - Learning; Capacity Development (CD): Learn to learn; Core capacity: Enhanced capacity of human capital to respond to opportunities

- **Industrial transformation**
  - New Industries, Diversification, and Expansion and deepening of value chains

- **Inclusive Finance for SMEs**
  - SMEs’ development and inclusion into value chains with Enhanced capacity to respond to opportunities
  - SMEs’ participation in value chain with accumulation of knowledge and capabilities through learning and innovation eco-system

- **Formal education**
  - Management Skills; Kaizen, etc.

- **Changing endowments**
  - Changing endowments

SMEs and inclusive growth from SDGs’ perspective

• Private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation (67);

• Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and market (9.3)

• Promote development-oriented policies and support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services. (8.3)

• SMEs are one of the keys for inclusive growth
Comprehensive approach for transformation with SMEs (1)

Direct target

Promoting Transformation with participation of SMEs

Knowledge and experiences sharing and inspiring

Identification and utilization of local resources, sharing of knowledge and experiences

Improvement of skills, and quality of goods and services (a)

Production technology, improvement of quality and productivity, _kaizen_, packaging, bookkeeping, marketing, business plan, etc.

Source: Author
Comprehensive approach for transformation with SMEs (2)

- Improvement of skills, and quality of goods and services (b)
- Facilitation of business opportunities
- Enhancement of Sustainable System of supporting industries promotion
- Capacity development for “branding”, export procedure,
- Test marketing, business matching (facilitating participation in trade fairs, etc.)
- Related policies, administrative system, improved access to finance, formation of clusters, promotion of local brands, etc.

Source: Author
Finance for SMEs is crucial

- SDGs emphasize the importance of access of SMEs to finance ("inclusive finance")
- In comparison with East Asian, Sub-Saharan African countries “inclusive finance” (for SMEs) is still weak. (Case studies of Kenya, Ghana, Nigeria, and Ethiopia, in Griffith-Jones and Gottschalk 2016)
- Many successful experiences in East Asia, including those with international cooperation through “two step loans”
(TICAD V Commitment)

Human Resource Development for Business and Industry

• Capacity building of 30 000 people for business and industry.
• Building TICAD Human Resource Development Centers for business and industry at 10 locations for 25 countries. (JICA 2016, p.2)
• Approach: (among others)
• Reinforce project activities of Kaizen and productivity improvement projects, university vocational training projects as Industrial Human Resource Development Centers (Ibid., p.2)
Strategy for transformation with quality growth (4):
SMEs’ participation in Global Value Chain (GVC) networks

• **Importance of SMEs’ participation in value chains are emphasized in SDGs** (9.3)

• One important way for countries to connect to the global economy and develop is through global value chains (GVCs); GVCs provide opportunities to empower the local economy with sophisticated imported technology, know how and a richer skill-set. (OECD and World Bank Group 2015, Inclusive Global Value Chains )
Strategy for transformation and quality growth:
SMEs’ participation in GVC networks

- TNC’s FDI in automobil industry (assembly and core parts production)
- Expansion of TNCs’ Network of GVC: Expansion of opportunities
- SMEs’ development and inclusion into GVC: Enhanced capacity to respond to opportunities
- Learning; Capacity Development (CD): Learn to learn; Core capacity: Enhanced capacity of human capital to respond to opportunities
- Learning and innovation eco-system
- Formal education

SMEs’ participation in GVC with accumulation of knowledge and capabilities through learning and innovation eco-system
Automobile industry is a typical case where SMEs play a crucial role for opportunities and capacity nexus in the context of GVCs

• Automakers invest in car assembly, increasing the demand of car parts, which could be provided by local auto-parts makers or imported. To respond fully to these opportunities, the competitive capacity of local auto-parts makers (SMEs) is crucial.

• Human resource development is also essential for the competitiveness of local auto-parts makers (SMEs)
Strategy of human resource development, transformation and quality growth

• Involvement of SMEs in Global Value Chains (GVC)
• Creating learning eco-system for SME’s parts production and their competitive participation into automobile GVC
• Cases of Mexico and Thailand: Mexico and Thailand are outstanding cases: the largest net exporters of automobiles among developing countries (83% and 46% of production in 2013)
SME’s integration into international markets (through GVCs) has different paths according to the structure of supply chains: Case of Automobile industry

- It is essential to identify the role of SMEs in the whole structure of supply chain of automobile industry
- Also it is necessary to design the type of support to SMEs according to the role they accomplish in the supply chain
- Most of “supporting industries”, or providers of parts, components, related services, need to strengthen their relations with local or regional supply chains first.
- Development of an automobile industry requires skilled labor and supporting industries to provide up to 20,000 to 30,000 parts and components. Supporting industries and automobile assembly plants are closely related and provide externality to each other.
Automobile industry in Mexico

- Production of 2.9 million cars (including small tracks) and 120 thousand buses and tracks in 2013. 3.37 million cars in 2014.
- Export of 2.14 million cars in 2011. 2.64 million cars in 2014.
- Export of 49.2 billion US$ of auto-parts in 2014
- 2139 car and auto-parts makers in 2009
- Workers of auto-parts industry amount to 600,000 in 2014
Context of SMEs participation in GVCs of automobile industry in Mexico

• Basic Policy for SMEs: Law for development of competitiveness of micro, small and medium enterprises. (enacted in 2003)

• Free trade agreements: NAFTA; EU-Mexico FTA; Japan Mexico EPA (Economic Partnership Agreement)
Japanese cooperation for industrial development and for strengthening SMEs and training workers in Mexico

- 1996-97 Study on Promotion and Development Plan of Supporting Industries (SECOFI)
- 1997-99 Study on Technology Transfer (CIDESI)
- 2006-09 Press Process Technology Improvement Project (CIDESI)
- 2008-09 Study on SMEs’ human resources development (Ministry of Economy)
- 2010-14 Plastic molding technology human resources development project (CNAD)
JICA's small and medium supporting industries program in Mexico

- Support to formation of automobile industry cluster and supply chain in NL
- Technical cooperation program: Enhancement of technological capacity of plastic parts production in DF, TAM/DF, BC
- Technical support for universities and colleges of engineering in QRO, GTO, DF
- Improvement of quality and productivity of small and medium supporting industries

Automotive Supply Chain Development Project
In QLO, GTO, NL

Source: Information provided by JICA Mexico Office, translated by Akio Hosono

Hosono Akio Prepared for APEC workshop on supporting industries

2016/6/5
A strategy for auto-parts industry in Mexico

Source: Author, based on information of JETRO and Mexican automobile parts industry association
The project aims to establish a network of State Government, ProMexico, **Local Tier-2** and Japanese **Tier-1** for development of the automotive supply chain.

It also aims that the State Governments strengthen their systems and institutions to support **enhancement of supplier’s competitiveness**.
Joint Coordinating Committee (JCC)

【Mexican Side】
- State Government of Guanajuato
- State Government of Nuevo Leon
- State Government of Queretaro
- ProMexico

【Japanese Side】
- Embassy of Japan
- JETRO
- JICA

Potential Local auto Parts Suppliers (Tier-2)

Guanajuato State
- Secretariat of Economic Development, etc.

Queretaro State Supplier Support Network(*)
- Secretariat of Sustainable Development, Technology Centers, ProMexico
- Queretaro Office, Universities, Local Consultants

Nuevo Leon State
- Secretariat of Economic Development, CLAUT, etc.

Model Japanese Suppliers (Tier-1)

Model Japanese Suppliers (Tier-1)

【Number of Target Suppliers】6 Model Japanese Suppliers (Tier-1) and 30 Potential Local auto Parts Suppliers (Tier-2)

(*) Each State might have its own supplier support network.
Cooperation with a comprehensive approach: Creating a learning eco-system

• Technical cooperation project for automotive supply chain development in Mexico
• Technical cooperation projects for human resources development for the automotive industry in Mexico
• Support for vocational training schools
• Support for public technological institutions
• JICA-JETRO support for improvement of local suppliers
Feedback system of needs of human resources of supporting industries: An example of college of engineering

Source: Industrial Development and Public Policy Department, JICA
A strategy for auto-parts industry in Thailand

Foreign OEM

Foreign Tier 1
Local Tier 1
Foreign Tier 2

Strengthening supply chains

Local Tier 2

Participation in supply chains

Other local suppliers (Prospective local tier 2)

650 first-tier part makers, 30% of them Thai majority joint ventures and 23% pure Thai companies

1700 second-and third-tier part makers, most of them locally owned

Source: Author, based on Hosono, Akio (2013)
Thailand Automotive Human Resource Development Project (TAHRDP)

Phase 1: Four major Japanese manufacturers provided master trainers in their respective area of expertise to train trainers in Thai auto-parts manufactures.

Phase 1: “Trainer’s Training”
- **Master Trainer**
  - Production system (Toyota), Mold and dye (Honda), Denso, and Nissan

Japanese government, JICA, JETRO, AOTS and other public organizations

Thai government (Ministry of Industry), Thai Automotive Institute (TAI), Thai Automotive Industry Association (TAIA), Thai Automotive Parts Manufacturers Association (TAPMA) and others

Phase 2: “Continuous Training”
- Trainer’s training by Thai master trainers

Source: Author, based on documents on TAHRDP
Strength of supporting industry (auto-parts industry) in Thailand

• “Thailand is not a country where carmakers assemble their products. Most parts come from local companies. At more than 80 percent, the country has the highest localization in Southeast Asia. Thailand also exports parts worth about $5 billion.”

(“Thailand’s Booming Car Industry: Detroit of the East” The Economist, April 4, 2013)
Strategy for transformation with quality growth (5): Economic integration with corridors and other effective approaches

- Reducing distance with physical integration by corridors
- Sharing other regional public goods: from human capital to institutions
- Experiences in ASEAN, Central America and SubSahara Africa
- SDGs 11a states “Support positive, economic, social and environmental link between urban, peri-urban and rural areas by strengthening national and regional development planning”
Strategy for strengthening regional public goods, regional value chains and regional economic integration

Regional public goods: Education, capacity development, infrastructure.

Regional economic integration and regional value chains

Regional public goods; regional learning and innovation ecosystem; participation in regional value chains and full-fledged regional economic integration
Corridor Development Approach

• This aims to “revitalize the region inclusively and bring strong sustainable economic growth for the people”

• “The trunk corridor as the key development axis that will stimulate and increase economic activity in the countries and regions.”

• This approach is to overcome “unipolar urban concentration of economic activities and population which lead to an expansion of regional disparities (against inclusive growth) and a reduction of national growth” (JICA 2016; Italic added by the author)
Corridor development master plan

Corridor Infrastructure Development Plan

Industrial Development Strategy

Social Sector Development Strategy

Source: Author based on JICA 2016, 2
Implementation of Corridor Development Plan: A comprehensive approach

- **Facility development/Hard infrastructure**: Development of ports, roads, bridges, railways, etc.; energy supply facility; one-stop border post (OSBP) facility development; Special Economic Zones (SEZ) development

- **Institutional development and technology transfer/Soft infrastructure**: Cross-border facility and institutional building; infrastructure operation and management capacity building; financial assistance for private investment promotion

- **Industrial development**

- **Social Sector Development**
Examples of corridor development approach

• The Mekong Region: Corridor development contributed to the “regional strong economic growth”: East West economic corridor; Southern Economic Corridor (JICA, *JICA’s regional cooperation in ASEAN*)

• The Central America Region: In Nicaragua, JICA contributed to the construction of 4 logistic corridors that expanded opportunities to areas with extreme poverty. (Hosono et al. *Desarrollo Inclusivo en Centroamerica y la Republica Dominicana*)
Comprehensive Corridor Development Initiatives in Africa

• Development of Strategic Master Plans: Transport and Comprehensive Corridor Development:
  • The Northern Corridor in East Africa
  • The Central Corridor in East Africa
  • The Nacala Corridor in South Eastern Africa
  • West Africa Growth Ring
  • Infrastructure development plans in Algeria, Morocco, and Tunisia
Concluding remarks

• An effective strategy for transformation with quality growth (especially, inclusive and innovative growth) is to create strong nexus between “quality education and learning (to learn)” and “inclusive business”, “SMEs development”, “participation in Global Value Chains (GVCs), “participation in regional integration with corridors development” and other inclusive growth initiatives.
Concrete approaches in terms of trade, finance and aid (concluding remarks continued)

- In order to implement strategies for transformation with quality growth:
- Public Policies are essential;
- Free trade is not enough (Economic partnership agreements (EPAs) are well beyond FTAs)
- Finance for inclusive growth (“Inclusive finance”) is a cross cutting approach for initiatives aimed at transformation with quality growth
- International cooperation could play a catalytic role
Thank you very much

• This presentation is preliminary and personal
• Comments welcome
• Not to be cited