

International Comparison of Industrial Promotion

Policy Quality, Policy Learning, and the Success Factors



Taiwan



Singapore



Vietnam



Malaysia

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My International Policy Research

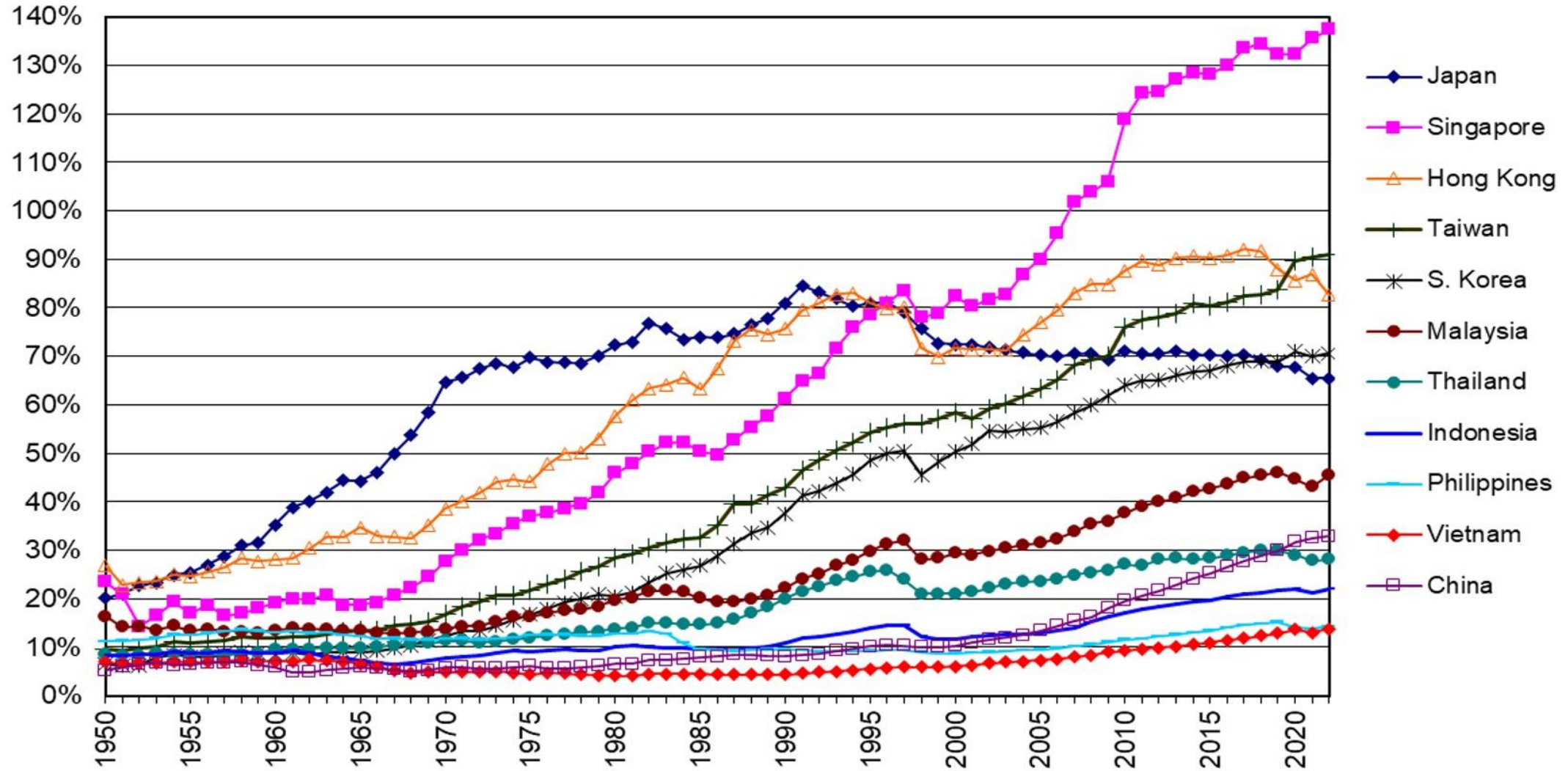
Since the late 1980s, I have visited many countries in Asia and Africa to compare the formulation and implementation of industrial policies.

Asia—Vietnam (since 1995), Singapore, Taiwan, Korea, Malaysia, Thailand, Indonesia, India, Cambodia, Sri Lanka, Myanmar; Uzbekistan, Kazakhstan, Kyrgyzstan
Africa—Ethiopia (since 2008), Egypt, Rwanda, Mauritius, Mozambique, Zambia, Tanzania, Ghana, Uganda, South Africa, Kenya, Djibouti

- In policy quality, Asia is not necessarily superior to Africa. Rwanda and Mauritius conduct more consistent industrial promotion than Vietnam, Indonesia, Cambodia, or Myanmar.
- Cross-country difference in policy quality is very clear (to me), but difficult to communicate or explain to policymakers.

East Asia: Catching Up with US Income

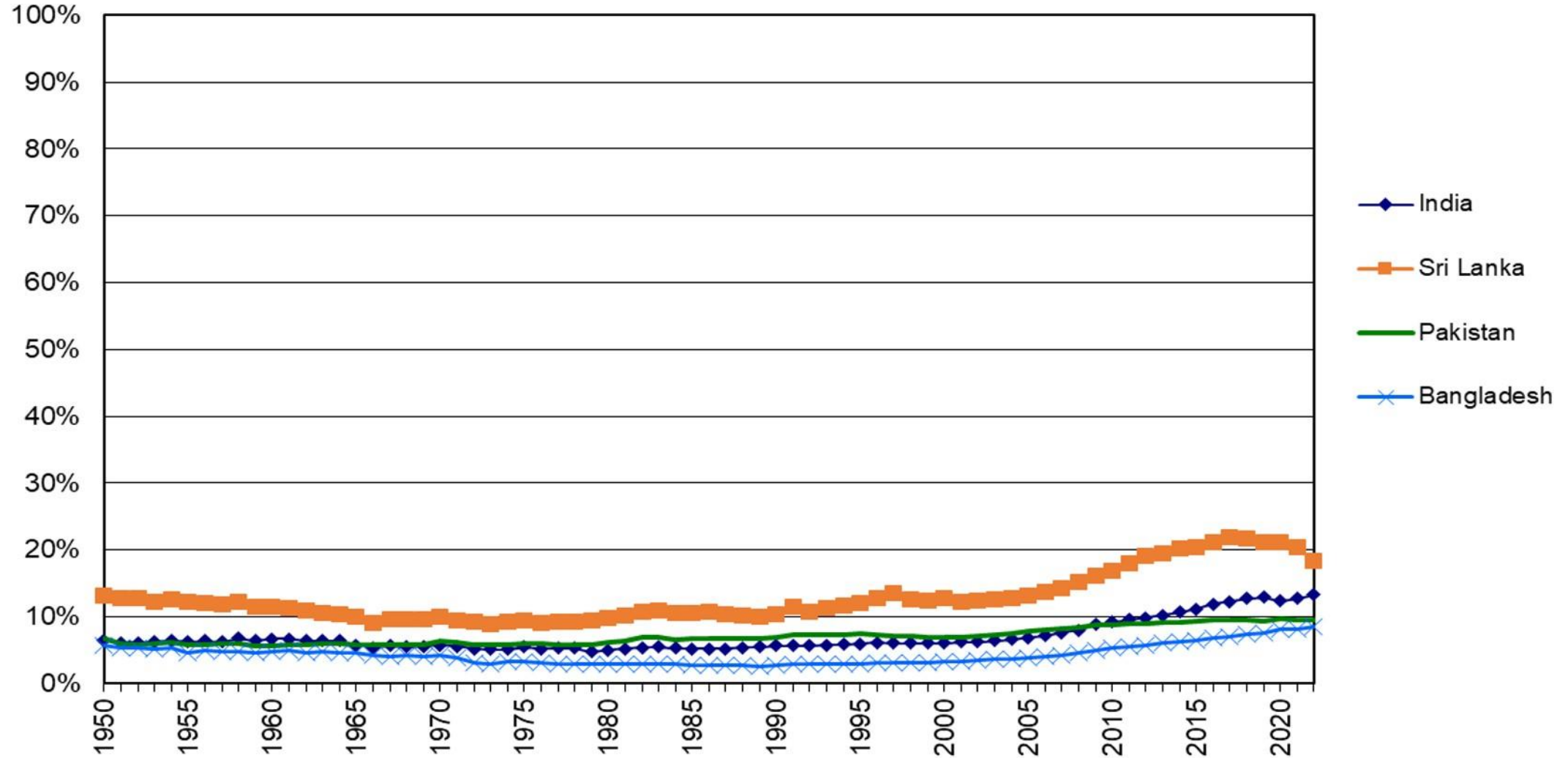
Per capita real income relative to US
(Measured by the 1990 international Geary-Khamis dollars)



Sources: Maddison Project Database 2023; for Taiwan, the Central Bank of the Republic of China.

South Asia

Per capita real income relative to US
(Measured by the 1990 international Geary-Khamis dollars)



Two Policy Groups in East Asia

High performers vs. ordinary performers

- A**
- Japan** (1960s) – rapid growth and industrialization
 - Korea** (1960s-70s) – rapid growth and industrialization
 - Taiwan** (2000s-10s) – global supply of ICT hardware
 - Singapore** (1960s-2000s) – from poor to very high income

Their policy methods were mutually different, but they all maintained high growth until they attained high income. They didn't stop at middle income.

B

Malaysia, Thailand, Vietnam, Indonesia, Philippines

They already reached (lower or upper) middle income, but growth doesn't accelerate or even slows down without reaching high income. They are in middle income traps.

➔ **What is the difference between the two groups?**

Policy as the Key Factor

Economic performance = Private dynamism + External factors


- **Private dynamism** is the most fundamental determinant of a nation's economic performance.
- **External factors** do matter but their effects usually wear out in the long run (global recession, financial crisis, war, terrorism, natural disaster, COVID, Trump, etc.)
- **Policy** has the important double role of enhancing private dynamism and coping with external shocks.

Working hypothesis: the lack of policy quality is the main cause of any long-term growth problem (including poverty traps, middle income traps, or high income stagnation).

How Do You Measure Industrial Policy Quality?

(My tentative method, about 10 years ago)

5 – Excellent
4 – Good
3 – Moderate
2 – Some
1 – Little
0 – None or worse

Policy areas

1. Industrial human resource
2. Domestic enterprise development
3. Business climate
4. Power & logistics
5. Export promotion
6. Strategic FDI marketing
7. Industrial parks
8. Supporting industries & FDI-local firm linkage
9. Productivity, technology & innovation
10. Standards & testing

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Policy functions

1. Policy ownership
2. Vision & commitment of top leader(s)
3. Policy drafting procedure
4. Authority & capacity of policy organizations
5. Mindset & competency of implementing officials
6. Budgeting & staffing
7. Inter-ministerial coordination
8. Involvement of key non-official stakeholders
9. Monitoring & evaluating mechanisms
10. Impact on the real economy



The Scorecard for Vietnam

Date: May 2015 (based on policy research 1995-2015)

	Evaluation of industrial policy sub-components										Average
	Industrial human resource	Domestic enterprise development	Business climate	Power and logistics	Export promotion	Strategic FDI marketing	Industrial parks	Supporting industries & FDI-local firm linkage	Productivity, technology & innovation	Standards and testing	
Policy ownership	2	2	3	3	2	3	4	2	2	2	2.5
Vision & commitment of top leader(s)	1	1	2	3	2	2	2	2	1	1	1.7
Policy drafting procedure	2	2	1	3	1	1	1	1	1	2	1.5
Authority & capacity of policy organizations	2	3	2	3	2	2	3	2	2	2	2.3
Mindset & competency of individual officials	3	2	2	2	2	2	2	2	2	2	2.1
Budgeting & staffing	2	3	2	4	2	2	2	2	2	2	2.3
Inter-ministerial coordination	1	1	1	1	1	1	1	1	1	1	1.0
Involvement of key non-official stakeholders	2	2	2	2	2	2	3	2	2	2	2.1
Monitoring & evaluating mechanisms	0	0	2	3	0	0	1	0	0	0	0.6
Impact on real economy	0	2	3	4	2	2	3	1	1	1	1.9
AVERAGE	1.5	1.8	2.0	2.8	1.6	1.7	2.2	1.5	1.4	1.5	1.8
GRADE	D	D	C	C	D	D	C	D	D	D	D
Remark	Fragmented over MOET, MOLISA, MOIT, etc.	MPI & MOIT measures weak	Better than 1990s but still much room for improvement	Many ODA projects; improving significantly	Ministerial level only; not a national drive	Policy weak & decentralized but FDI comes	Too many, too decentralized; some effective	Much talk, little action except intl cooperation	No realistic or pragmatic policy	Ineffective policy design & implementation	

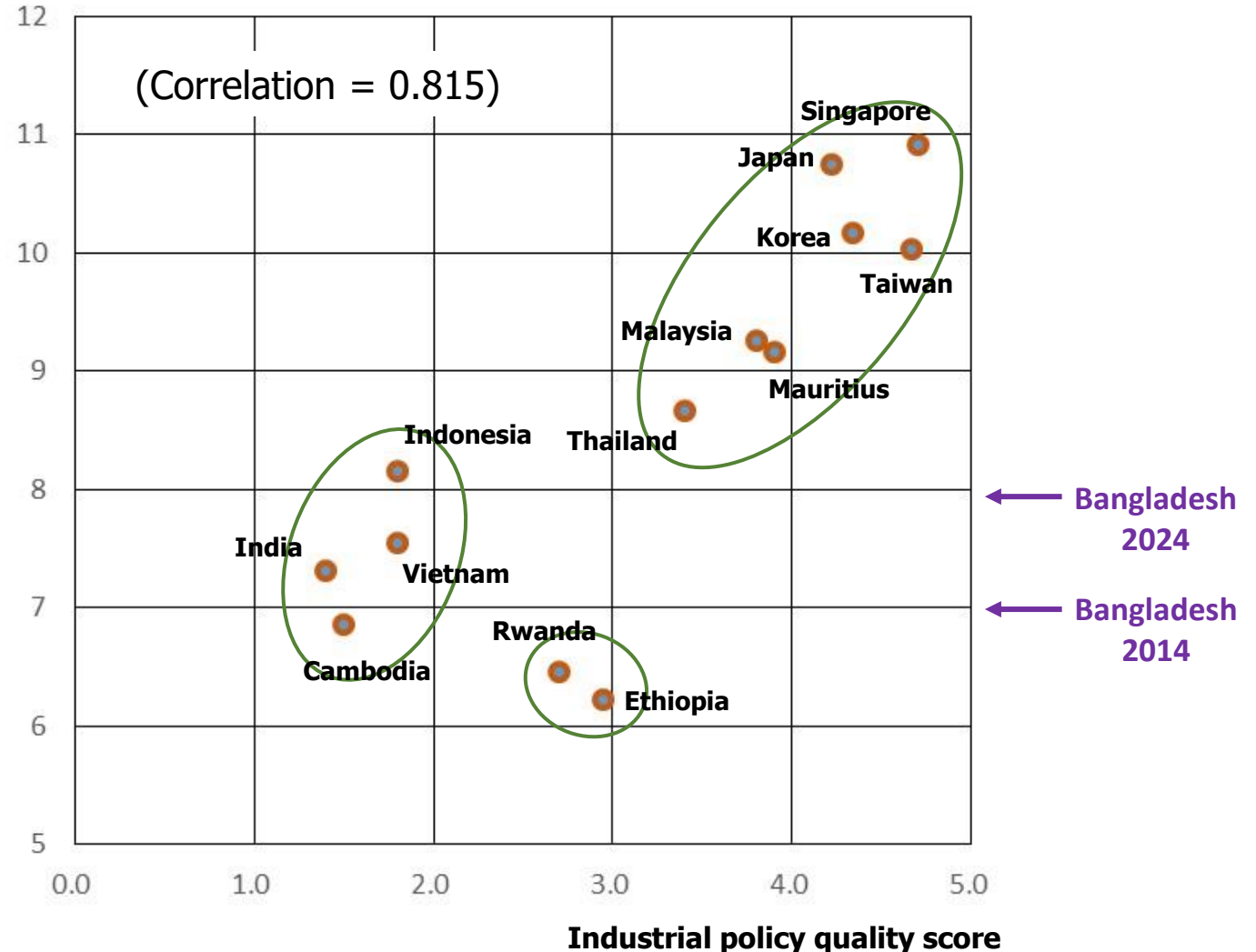
Notes:

- Evaluation: 0 (non-existent or worse), 1 (little), 2 (some), 3 (moderate), 4 (good), 5 (excellent).
- Evaluation of policy prepared and implemented by government only; results obtained by private effort, international cooperation or external conditions are not included.
- Letter grades: A+ (4.5 or above), A (<4.5), B (<4), C (<3), D (<2), F (<1).

Industrial Policy Quality: Summary of 13 Economies

	Industrial policy quality		Per capita income (WB, 2013, USD)	Doing Business ranking among 189 entities (WB, 2014)
	Mean	SD		
Singapore	4.70	0.48	\$55,183	1
Japan	4.22	0.83	\$46,330	29
Korea	4.33	0.71	\$25,977	5
Taiwan	4.67	0.71	\$22,597	19
Malaysia	3.80	1.14	\$10,538	18
Mauritius	3.90	0.57	\$9,478	28
Thailand	3.40	0.84	\$5,779	26
Indonesia	1.80	0.63	\$3,475	114
Vietnam	1.80	0.43	\$1,910	78
India	1.40	0.70	\$1,498	142
Cambodia	1.50	1.43	\$950	135
Rwanda	2.70	1.06	\$639	46
Ethiopia	2.95	1.02	\$505	132

Log of per capita income



Not WHAT but HOW

- The industrial policy menu is similar across countries and ages, and usually includes:
 - Education & training, export promotion, import substitution, incentives for targeted sectors, SME support, FDI attraction, linkage creation, power & logistics, industrial parks, R&D support, technology transfer, low-interest policy loans, IT, startups, productivity, innovation, standards, workers' rights, green manufacturing, circular economy, regional planning, etc.**
- The question is not **WHAT** governments plan to do but **HOW** competently they execute these globally common policies.
- It is **HUMANS**, not resources, laws, technology, or machines, that are the key in improving policy quality.

Critical Importance of Leadership and Technocrats

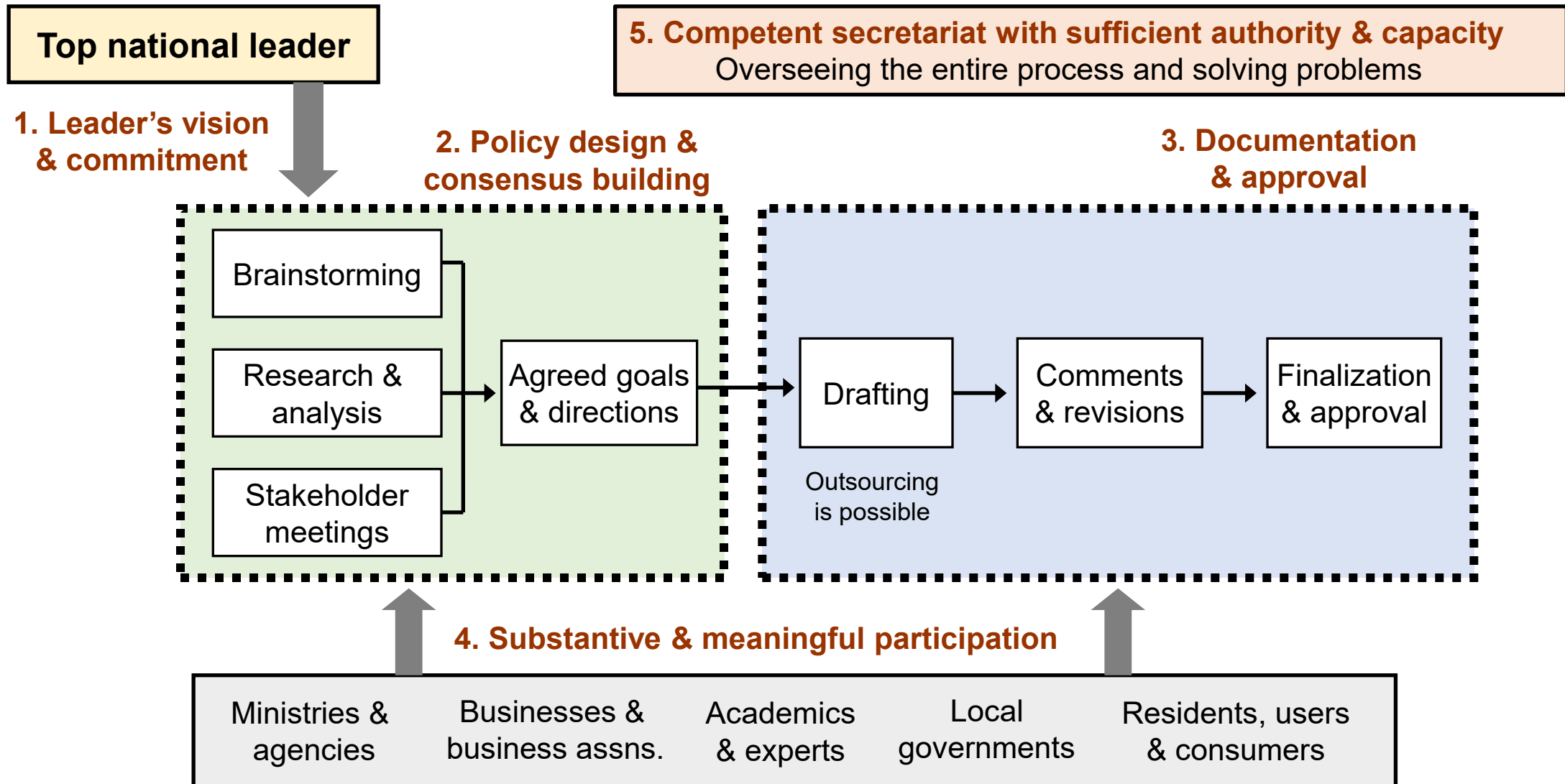
- ✓ **A top national leader** who is wise, strong, and action-oriented
 - ✓ **Competent and dedicated technocrats** who support the leader
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- Leadership (president, PM, party general secretary...) is primary because a good leader can create competent technocrats if they don't exist (cf. Taiwan 1950s, Korea 1960s).
 - The problem is that no one knows how to foster and install good national leaders.

Learning from Foreign Experiences

- International comparison always carries two aspects: **globally common elements** and **country-specific elements**. Recognize and distinguish them clearly. Each country must study and realize globally common elements in its own way.
- Carefully choose **benchmark countries** that fit the local needs and situation; do not choose foreign models randomly. Benchmark countries must differ from sector to sector.
- Don't copy-and-paste foreign models. All countries are different. **Modify them** to the reality of your country.
- After learning, **regain policy ownership**—graduate from foreign help and operate the new model as truly locally owned.

This is how Meiji Japan learned from the West (UK, US, Germany, France) in the 19th century, and how Korea learned many things from Japan in the 1960s-90s (laws, steel, electronics, shipbuilding, automobiles, semiconductors, etc.)

Five Conditions for Effective Policy Formulation



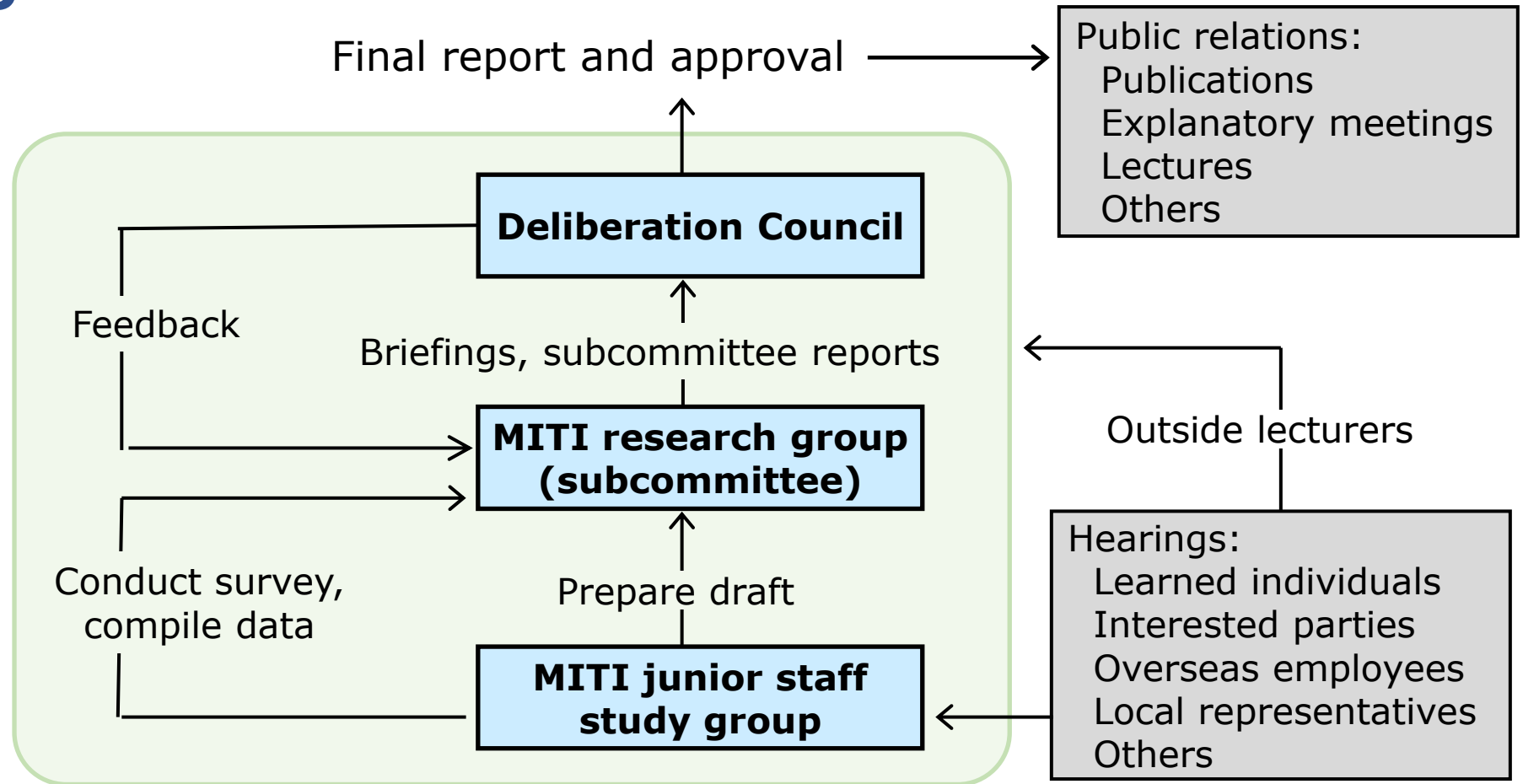
Policy Examples in Asia

Japan's Ministry of International Trade and Industry (MITI), 1960s

MITI-led Bottom up

MITI had:

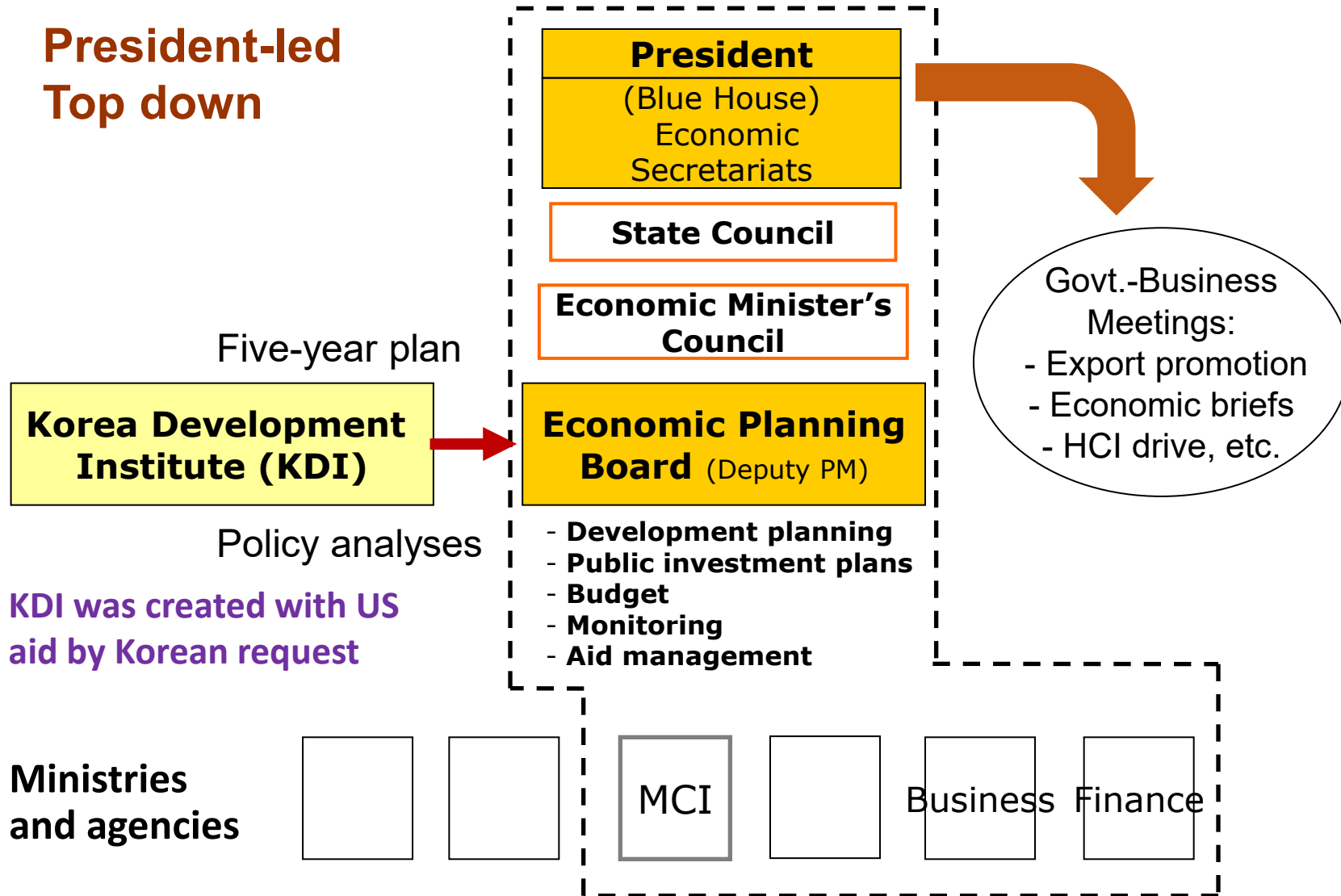
- Broad mandate
- Productive relations with politicians
- Thick information networks with businesses
- Clean & dedicated officials



Young officials in their 30s actively gathered information and interacted with stakeholders, thus having substantive influence on final result—unlike in most other countries where young officials only take orders from above and do what was assigned.

Korea under President Park Chung-hee (1960s-70s)

**President-led
Top down**



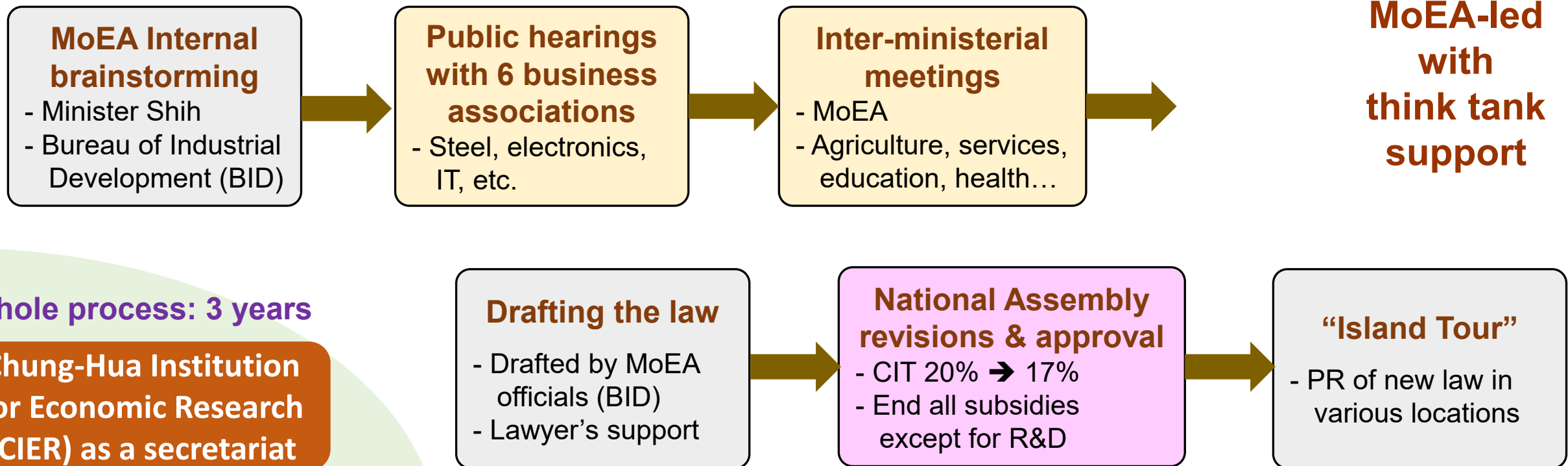
- **President Park directly controlled economic policies.**
- **EPB acted as a super-ministry.**
- **Research institutes (KDI and others) provided analyses.**
- **Very close and cooperative gov't-business relationship.**
- **Performance-based rewards and penalties.**

KDI was created with US aid by Korean request

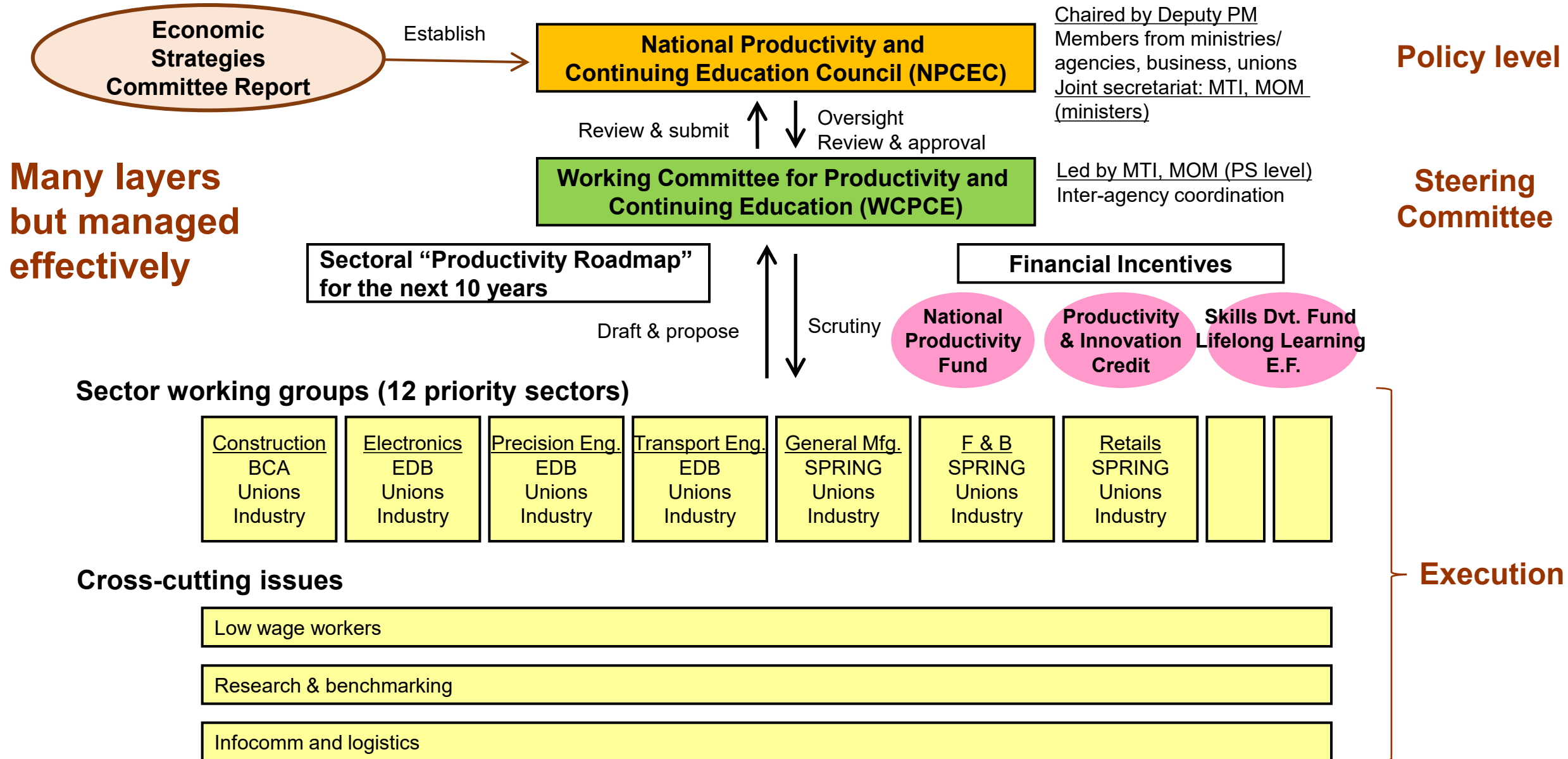
Taiwan: The Statute for Industrial Innovation 2010

(drafting process of the key industrial policy law)

- ✓ The **Ministry of Economic Affairs** (MoEA) dominated the entire process. Other ministries and business associations were mostly passive.
- ✓ **National Assembly** intervened and revised the content significantly in the final stage.
- ✓ **CIER**, a think tank selected by competitive bidding, managed all meetings and logistics.



Singapore: Productivity Drive in the 2010s



Thailand: Automotive Industry Master Plan 2007-2011



Mr. Vallop and the drafting team: the white lady on the right was the main drafter.

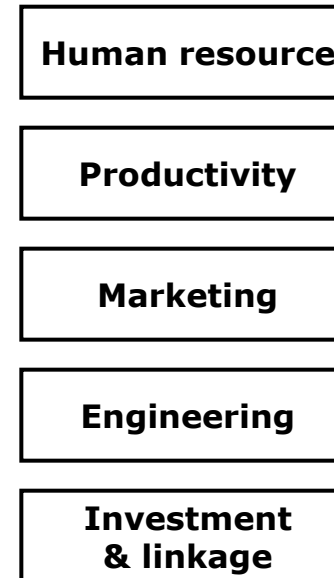
**Brainstorming;
agreeing on goals
& directions**



**Set up formal
committee for
drafting M/P**



**Subcommittees
study identified
issues**



**Comment &
dissemination**

Implementation

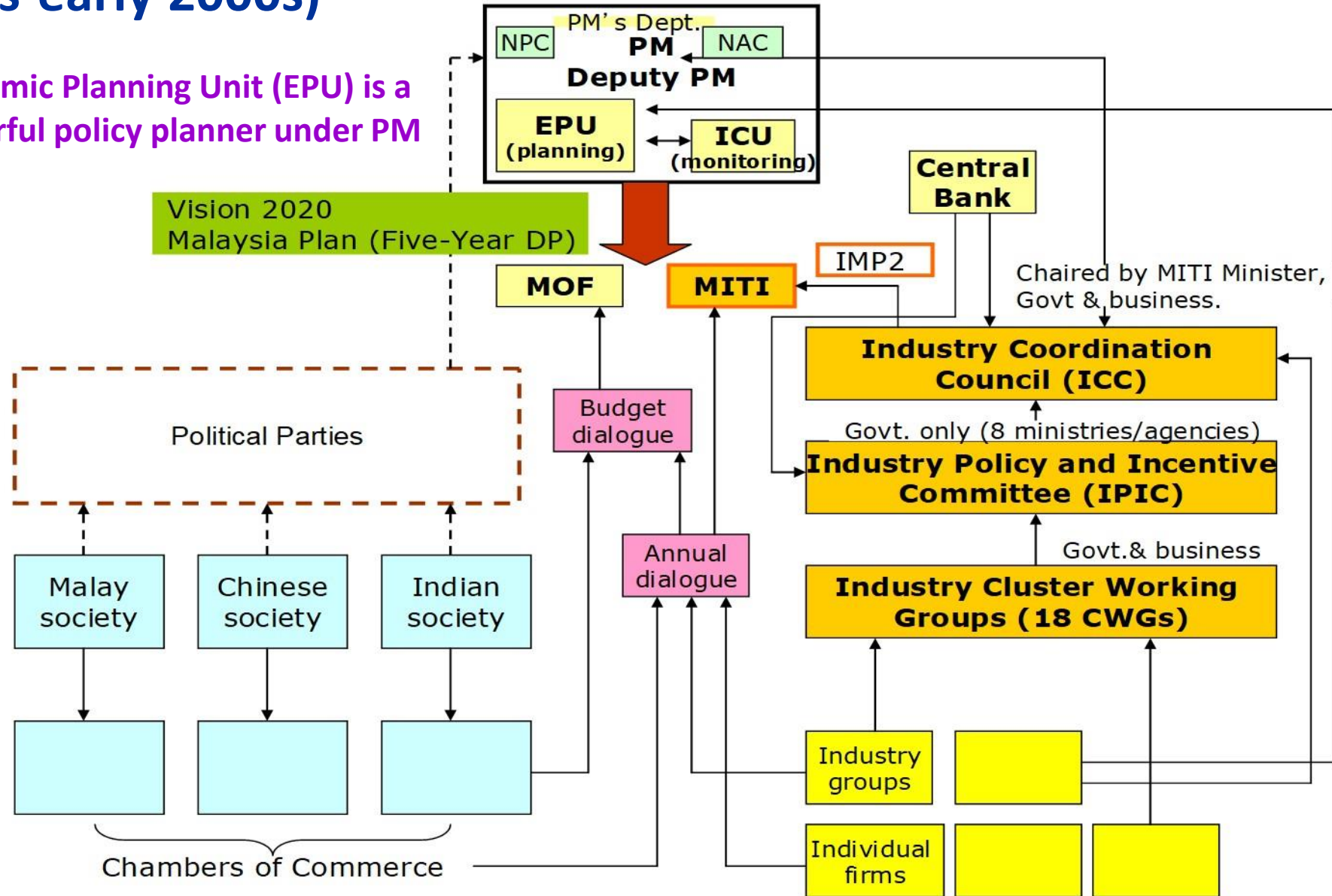
**TAI-led
Simple &
effective**

- Thailand Automotive Institute (TAI) under MOI managed the process (about 1 year) as a competent secretariat.
- Mr. Vallop Tiasiri (TAI president, 1999-2012) met FDI, local firms, MOI, and other stakeholders almost daily.

Note: no law or cabinet approval was necessary for automotive M/P

Malaysia: Managing Complex Policies and Organization (Late 1990s-early 2000s)

Economic Planning Unit (EPU) is a powerful policy planner under PM



Three-layer council/committee/WG model for policy execution

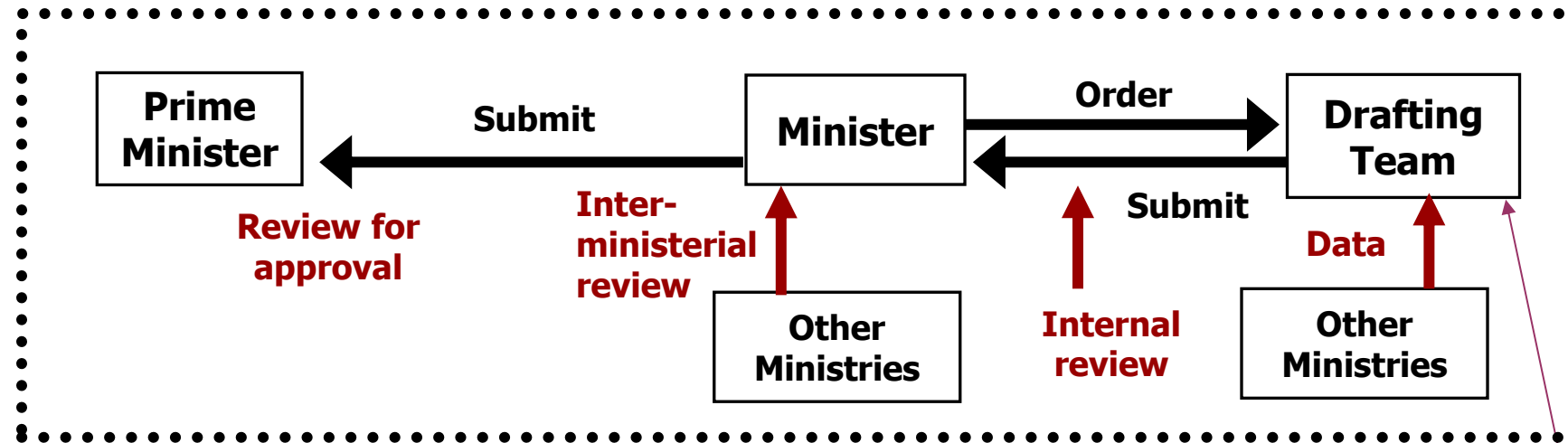
Multi-ethnicity requires mechanisms for hearing diverse voices

Malaysia

- Despite past growth, Malaysia faces slow investment and innovation and the lack of global competitiveness. Growth momentum is waning.
- **The government-people gap:** Malaysia has good officials and competitive mechanisms for official recruitment and promotion. Policies are complex but transparent. Technocrats can manage complex policies but the private sector doesn't respond strongly.
- Malaysian policies offer many good models for latecomers to learn. However, Malaysia itself may have to review its policy style so its people (especially the ethnic Malay) will react more strongly to it.



Vietnam: Policy Drafting Process at Ministry Level



- The process is closed within government.
- Businesses are given little chance to express interest or concern.
- Drafting and approval may take years or even decades.

Government

Appeal letter to Prime Minister when problems arise

Contact Ministry when necessary

Interviews, symposiums (sometimes)

Technical assistance (sometimes)

International experts

Business Community

No permanent channel for continuous policy dialogue (case-by-case, temporary, ad hoc)

Summary and Conclusion

- Industrial policy should not be created randomly or casually. A systematic policy learning must be conducted before drafting policies.
 - Good policies are not one but many. Each country must construct a policy model suitable for itself.
 - Five conditions are required for effective policymaking.
- ➔ If the current policy capability of Bangladesh is not sufficient, it must start with policy learning (**HOW**) before it plans and implements concrete policies on LDC graduation, EPA utilization, or any other industrial measures (**WHAT**).

Free Downloads

My book on industrial policy methods and international comparison (free download)

<https://www.routledge.com/Learning-to-Industrialize-From-Given-Growth-to-Policy-aided-Value-Creation/Ohno/p/book/9780415705820>

Chapter on Japan's past policy dialogues with developing countries (free download)

https://link.springer.com/chapter/10.1007/978-981-99-4238-1_5

My book on Japanese Economic Development (free download)

<https://www.routledge.com/The-History-of-Japanese-Economic-Development-Origins-of-Private-Dynamism-and-Policy-Competence/Ohno/p/book/9781138215429>

My policy mission reports on 13 countries (my former GRIPS website, see bottom of right column)

<https://gdforum.sakura.ne.jp/lec/index.htm>