

Japan's Development Policy Support in Latin America: The 'Okita Report' for Argentina and the 'Study on Economic Development of Paraguay'

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The 'Study on Economic Development of the Argentine Republic,' a project of cooperation between Argentina and Japan, is considered to be the first case of development policy support by Japan, as discussed in the Overview Chapter. While the final report of this cooperation project has the same title as the study itself, in Argentina, it has become widely known as the 'Okita Report' (Informe Okita). It was unofficially named after the late Saburo Okita, an architect of the Japanese post-war economic recovery program (as Vice-Minister of the Economic Planning Agency), and later, Minister of Foreign Affairs. Okita led this first large-scale, development policy support mission to Argentina. Subsequently, several development policy support programs were carried out in other Latin American countries, although their modalities regarding purpose, scale, participants, and duration were diverse. One of these was the 'Study on the Economic Development of Paraguay,' a cooperation project between Paraguay and Japan. This project is usually referred to in Paraguay as EDEP.

This chapter aims to review the experiences involved in the development of the Okita Report and EDEP as cases of Japanese cooperation for development policy support programs in Latin America. It consists of three parts. Sections 1 and 2 will discuss the Okita Report and EDEP, respectively, focusing on (i) the background and context of the cooperation; (ii) the purpose, scope, and modalities of cooperation; (iii) the main pillars and recommendations of the studies as the outcomes of cooperation; (iv) the follow-up process after the cooperation, including subsequent Japanese cooperation with Argentina and Paraguay; and (v) the significance of the Okita Report and EDEP as cases of development policy support through international cooperation highlighting their main features. Finally, some concluding remarks will be presented (Section 3).

1. Okita Report

1.1. *Background and context*

The industrial structure of Argentina gradually changed due to the prolonged industrialization process that began before the World War II. By 1979, the share of the manufacturing industry in GDP had increased to 36 per cent, while that of agriculture had decreased to 12 per cent. Moreover, the share of persons occupied in the manufacturing sector as a proportion of the total labor force increased to 25 per cent in 1978, while the share of those employed in agriculture decreased to 19 per cent. In this process, the share of the manufacturing industry in GDP of the Argentine economy exceeded that of the Brazilian economy. However, the share of manufactured goods in total exports was lower than that of Brazil. Agricultural and livestock products, such as beef, wheat, maize, and other foraging crops, as well as seeds for vegetable oil, corresponded to 78 per cent of exports, while industrial products accounted for 22 per cent. On the other hand, the salient characteristic of the import structure was that the share of consumer goods was very low due to the deepening of import substitution for these goods, and that intermediate goods and capital goods corresponded to 73 per cent of total imports in 1979. Imports of fuel were low because the country was self-sufficient in petroleum.¹

However, prolonged import substitution-led industrialization to provide consumer products for the domestic market was reaching its limit. From the second half of the 1950s, the Argentine economy frequently experienced stagnation of growth. In the mid-1970s, together with political turmoil, the economic crisis was aggravated by a high rate of inflation and negative rate of growth. Against this backdrop, General Jorge Rafael Videla staged a military coup d'état in 1976. The Videla administration implemented liberal economic policies but failed to control inflation, and in 1980 the country faced balance of payment difficulties. General Roberto Eduardo Viola took office in 1981, but the economic and political situation in the country only deteriorated further. General Leopoldo Fortunato Galtieri succeeded Viola at the end of 1981, but the economic crisis deepened even more due to the War of the Malvinas (Falklands War) against the United Kingdom. The negative growth rates and high debt burden continued. Moreover, most Latin American countries, including Argentina, ran into a serious external debt crisis in 1982. Faced with the debt crisis and defeat

¹ This paragraph draws on JICA (1987).

in the Malvinas War, the military government had no other alternative other than to return to democracy. Through a presidential election, Raul Alfonsin was elected as the first president of the new democratic era at the end of 1983. The new government decided to formulate a new development strategy and requested Japan's cooperation in preparing the Study on the Economic Development of the Argentine Republic.

The Japanese study team commenced its activities in August 1985. Five months before this, the International Monetary Fund (IMF) suspended its standby credit to Argentina due to the country's non-fulfillment of the conditionality of the loan. In protest against the government's austerity policies, general strikes were conducted. In June 1985, a drastic new policy, the Austral Plan, was brought into force in order to control inflation. This plan was a kind of shock therapy, reducing currency denominations by 1,000 per cent in the switch from the peso to the new currency, the austral,² freezing of prices and public utility charges, and so on. The cooperation provided for the Study on Economic Development of the Argentine Republic was carried out in this Austral Plan period, when inflation was under control. The Okita Report was submitted to President Alfonsin in January 1987.³

1.2. Purpose, scope, and modalities of cooperation

In 1985, responding to a request from the Government of Argentina, the Japanese government sent a team to study the economic development of Argentina. Dispatched by the Japan International Cooperation Agency (JICA), the team was led by Saburo Okita, to carry out its work between August 1985 and December 1986.⁴ This study later became widely known in Argentina as the Okita Report.

Intense and fruitful economic policy dialogues between Raul Alfonsin, the President of Argentina, and Okita were held, alongside other meetings headed by the Minister of Economy with the Minister of the

² The austral was introduced in 1985 and reverted to the peso at the end of 1991.

³ This paragraph draws partly on Kohama (2016). High inflation returned in 1988 and accelerated to 3,000 per cent in July 1989. President Alfonsin resigned on July 8, 1989, 155 days before the expiration of his term of office. Carlos Menem, the next elected President assumed the presidency on July 10 (Kohama 2016).

⁴ Saburo Okita was the Team Leader, and Hirohisa Kohama was the Deputy Team Leader. The author of this chapter was one of the members of the Team.

Planning Secretariat and the JICA study team. Results of these dialogues were reflected in the Okita Report. About 30 Japanese experts, many of them economists, and about 30 Argentine counterparts participated in the study.

The main focus of the Okita Report was on macroeconomic issues, development of agriculture, livestock, industry, transport, and exports. In close cooperation with their Argentine counterparts, the Japanese mission evaluated structural characteristics of the Argentine economy and productive sectors, and studied policy measures to address problems that were restricting the possibilities for development of Argentine economy. In this context, the mission emphasized the importance of the market economy and the process of reforms that could contribute to redefining economic policies, as discussed in Sub-Section 3 (Hosono 2007). In this sense, promotion of external trade and foreign direct investment were considered to be essential approaches. The Okita Report states that, in this framework, Japanese experiences during the post-World War II period could offer options for policies and measures, especially regarding industrial development and export promotion. From this point of view, a special volume, which summarized the Japanese experience in this regard, was prepared as part of the Okita Report.⁵

In addition to intense meetings with their counterparts from the Argentine government, the Japanese mission also had frequent meetings with scholars, non-governmental organizations, enterprises, and industry associations to exchange views and information regarding economic development of the country from a long-term point of view. One of the think tanks that the mission had close contact with was Fundación Mediterranea, of which the President was Domingo Cavallo. Cavallo later became the Minister of External Relations and Minister of Economy⁶ in the President Carlos Menem administration, which succeeded the Alfonsín administration. Among associations of enterprises involved in the process, interactions with the Sociedad Rural Argentina (Argentine Rural Society)

⁵ The report explains that 'the reviews of Japanese experiences have been prepared partly as references to be used by the members of the Study Team in their analysis of the characteristics of the Argentine economy, and partly as supplementary materials to aid the understanding of relevant Japanese experiences by the Argentine counterparts and other representatives.'

⁶ In 1991, its name was changed to Ministry of Economy, Public Works and Services. However, the Ministry of Economy is used throughout this chapter.

and the Union Industrial Argentina (UIA) were the most significant. The president of Sociedad Rural was Guillermo Archouron, who later became the first President of Fundación Okita (Okita Foundation), referred to below.

According to Nélide B. Mairal, Adviser of the Ministry of Economy, the sectors that made the biggest efforts following the Okita Report were agriculture and the computer industry (Abe 2008, 12). Juan Carlos Yamamoto, former deputy representative of JICA Argentina Office expressed a similar view:

Agriculture has been one of the sectors which implemented most of the recommendations of the Okita Report. It should be remembered that the report put special emphasis on the development of biotechnology and strengthening of the National Institute of Agricultural Technology (INTA). (original Spanish, translated by the author from 'Interview with Juan Carlos Yamamoto' 2006)

By 1992, bearing in mind the drastic changes of the global economy in previous years, structural transformation had taken place in the Argentine economy following a series of reforms. The Argentine government requested the Government of Japan to carry out a new study, extending the Okita Report, with the aim of expanding the economy. The government wanted to ensure sustained growth in the long term and a new focus on the export potential of Argentine products to Japan and other East Asian countries. The report issued at the conclusion of this new study became widely known as the Okita Report II, while the original study was thereafter called the Okita Report I. The new study was conducted in the period between 1994 and 1996. It explored different approaches for Argentine products to attain a better presence in East Asia, based on an improved understanding of the region and the implementation of systematic policies for strengthening the relationship between Argentina and the region.

The Okita Report II contains practical recommendations, which provided Argentina with a more global perspective and options regarding specific issues, such as promoting exports to East Asia and investments from the region. In this regard, improvement of the competitiveness of Argentine products in global markets and upgrading of physical and institutional

infrastructure were considered the main challenges.

1.3. The main pillars and recommendations of the Okita Report

As stated above, the original Okita Report (Okita Report I) covered the following five areas: macro-economy, agriculture, industry, transportation, and exports. Major issues in the report were selected through discussion with the Argentine counterparts of the Planning Secretariat and members of the Coordinating Committee of the Argentine Government, including the Ministry of Economy, within the framework of the Scope of Work. This was signed by representatives of the Argentine Government and JICA.

One of the outstanding features of the Okita Report is its emphasis on industrial development and exports. Another feature is that the study for the report was conducted with reference to Japanese experiences of development. These features are explicitly highlighted in the introduction to the report, as follows:

The Study chiefly focused on industrial activation and export promotion, which are considered as major policy issues in the *Guidelines for an Economic Growth Strategy 1985-1989*, announced in January 1985. In this regard, Japanese experiences in rapid postwar economic development might have something useful to offer, especially concerning various policies and measures implemented for industrial and trade promotion. Therefore, the Study has examined some relevant aspects of Japanese experiences. Based on the Japanese experiences during postwar economic development, but with the awareness of the different circumstances between Argentina and Japan, the Study Team has tried to present policy implications and suggestions for the said five sectors, as indicated in the Scope of Work. (JICA 1987, 1)

As regards the macro-economy, the report makes suggestions in three areas: (i) future directions of the Argentine economy; (ii) role of government; and (iii) dynamism of the private sector.

First, with regard to future directions of the Argentine economy, the

report emphasizes (i) restructuring of the industrial sector through increased competition in domestic and external markets with controlled liberalization; and (ii) industrial policies to promote selected strategic industries. These are justified as follows:

The traditional pattern of heavy dependence on agriculture for foreign exchange earnings will not suffice to activate the entire economy. The most important issue is how to restructure and reactivate the industrial sector. From the viewpoint of economic efficiency, the restructuring of the industrial sector must be through increased competition in the domestic and external markets. This will require a clear scenario for controlled liberalization in the medium and long term. [...] Argentina is endowed with the fertile Pampas and vital natural resources like petroleum and natural gas, and has educated human resources. The key is then how to utilize the endowments of such factors effectively. The government industrial policies need to selectively promote such strategic industries as agro-industry, petrochemical industry, computer industry, machine tool industry, and bio-industry. (JICA 1987, 2-3)

Second, with regard to the role of the government, the report considers the importance of transparency in terms of its economic perspective, which can influence the level of industrial investments. The report states that the government policies and measures for economic management are an important determinant of transparency. In this regard, the report also refers to the relevance of medium and long-term economic plans for continuity and consistency of economic policies, as follows:

In order to enhance the transparency in terms of its economic perspective, it is of primary importance that the government ensures the continuity and consistency of basic economic policies it pursues. [...] One effective way to ensure overall continuity and consistency of economic policies is to formulate a medium- and long-term plan based on the national consensus. The plan should offer the framework and standards with which the private sector can envision its future business prospects and make investment decisions accordingly. Argentina at this stage will need an

economic plan that contains specific policy statements and concrete commitments. (JICA 1987, 4)

Third, in order to activate the dynamism of the private sector, the report highlights the importance of the market mechanism, privatization of public enterprises, strengthening support systems for research and development, and development of efficient infrastructure. It states that:

It is important to the Argentine economy to create an environment where the market mechanism functions properly. For this purpose, it will be necessary to establish competitive conditions in the domestic market by withdrawing the excessive protection given to the domestic industries. [...]In order not to repeat the experiences of the late 1970s, the government needs to provide clear guidelines for liberalization in close consultation with the private sector and provide appropriate incentives during the period of transition. (JICA 1987, 6)

The report emphasizes the importance of introducing advanced technology and innovation as well as partnerships between the government, private sector, and universities. It argues that:

Promotion of active research and development efforts will have a great impact on technological innovation in production processes and support industrial investments for economic activation. [...]The systems to encourage the cooperative efforts of the government sector, universities, and private industries will enable the government to understand the needs of the private sector and mobilize the vitality and dynamism of the private sector for what the government plans to achieve. It is also important for the systems to facilitate the introduction of advanced technologies that are likely to change the foundations of manufacturing industries and other sectorial activities in the economy. (JICA 1987, 7)

Specific recommendations are made regarding agriculture, industry, transport, and exports. For example, the study on the industrial sector consists of five parts. The first part reviews the past trends and structural

characteristics of the industrial sector as a whole. The second to fourth parts examine the current situation and prospects for three industrial subsectors, namely the petrochemical industry, electronics (computer-related industry), and agro-industry (packaging). These three sectors were selected in accordance with the scope of work and discussions between representatives of the Argentine government and the Japanese mission. The fifth part studies small and medium industries, which the Argentine government considers important in its industrial promotion policies.

The report recommends that the new Argentine industrial policies need to take into account the following points: (i) identify clear guidelines for industrial promotion; (ii) introduce competitive conditions for industrial production; (iii) formulate government policies through exchanges of opinions with the private sector; (iv) enhance the confidence of foreign capital; (v) strengthen support systems for technology development; and (vi) establish a long-term capital market.

The key messages of the Okita Report, as summarized above, reflect the basic concepts of Okita's economic thoughts, as discussed in the Overview Chapter of this report. They are related to, among others, scheduled trade liberalization, the importance of industrial development, collaboration of public and private sectors, continuity and consistency of economic policies, and insights from Japan's experiences.

1.4. The main proposals of the Okita Report compared with predominant economic thoughts in Argentina

The report was prepared in the mid-1980s, in the very midst of the lost decade caused by the debt crisis. It is well known that, in this period, the most dominant view on economic policies to overcome the crisis in Argentina was the so-called 'orthodox approach,' which emphasized liberalization, privatization, small government, and so on. Jorge Vasconcelos (2010), an Argentine economist of Fundación Mediterranea, considers that the approach of the Okita Report was orthodox compared to state-led and domestic market-led approaches. However, he adds it was heterodox in relation to the supposition that a simple change in the rules of games (*un cambio en las reglas de juego*) would be enough to relaunch the Argentine economy.

With regard to industrial policies, Vasconcelos elaborates on this

comparison, arguing that,

In its orthodox side, the Okita Report stated that the investment coefficient (percentage of GDP) had stagnated and that the efficiency of investments (incremental capital-output ratio) was low, partly due to an import substitution policy that strongly protected national industries that provided their products to small domestic markets. (Vasconcelos 2010; original Spanish, translated by the author)

On the other hand,

On its heterodox side, the Okita Report recommended against total liberalization, but instead focused on the promotion of selectively strategic industries such as agro-industry, the petrochemical industry, computers, machine tools, and the bio-industry. Although the Okita Report agreed with the view known today as productive development policies, it warned that restructuring of the industrial sector should be realized through strengthening its competitiveness in domestic and foreign markets. (Vasconcelos 2010; original Spanish, translated by the author)

Furthermore,

The Okita Report insists on the importance of a stable perspective for the business environment, because investors need to have a clear idea about what they should expect in future. For this, the report considered it necessary for the government to assure the continuity of basic economic policies. (Vasconcelos 2010; original Spanish, translated by the author)

Aldo Ferrer, one of the best-known Argentine economists, and the author of *The Argentine Economy: An Economic History of Argentina*, also published a comprehensive review of the Okita Report, keeping in mind the long-term economic development of Japan and its outstanding characteristics. Aldo Ferrer (1991) states that 'orthodox bias had been prevailing since the mid-1970s in the political economy of Argentina' (original in Spanish,

translated by the author). He affirms that 'the Okita Report's perspective provokes significant convergence with the heterodox visions of Argentine authors,' including himself. In relation to these views, he highlights the following crucial aspects of Japan's economic development, which need to be taken into account as background to the Okita Report:

The public sector accomplished an essential role in technological development and the integration of its actors: enterprises, the scientific community, and political power. This holistic, systematic, and endogenous concept is a dominant feature of the development strategy of self-reliance adopted in Japan, and of the proposal of the Okita Report for the Argentine economy. The technology transfer from abroad is inserted in the *copying-adaptation-innovation* path⁷ and the expansion of national assets and of the original capacity of innovation (in Japan). (Italics in original)

Related to this view, Aldo Ferrer emphasizes that 'Japan never handed over to the static comparative advantages revealed by the international division of labor and resource endowments in a static scheme' (Ferrer 1991).

Aldo Ferrer emphasizes that 'Argentina's economic development demands the active presence of the State in a market economy.' In this regard, he cites the following remark from the Okita Report. 'It is important to the Argentine economy to create an environment where the market mechanism functions properly.' He argues that, for this purpose, competition is essential. In support of this, he again cites the Okita Report, which asserts that 'withdrawing the excessive protection given to the domestic industries' is necessary. However, he then emphasizes the following sentence from the report: 'In order not to repeat the experiences of the late 1970s, the government needs to provide clear guidelines for liberalization in close consultation with the private sector and give appropriate incentives during the period of transition' (Ferrer 1991).

It is worth mentioning that Okita had several chances to exchange views with Domingo Cavallo, one of the most well-known economists of the

⁷ This concept is similar to the 'process of learning, adaptation, and innovation' in Japan and other countries discussed in the Chapter 2 of this volume.

orthodox approach in Argentina. After Cavallo was appointed Minister of External Relations during the Menem government, he invited Okita to Argentina in September 1990 to receive a decoration from the Argentine government and present the conclusions of the Okita Report to a wider audience in the country.⁸ Later, the Argentine government requested that Japan conduct the Okita II study in 1992. By this time, Cavallo was the 'Super' Minister of Economy and promoter of the so-called Convertibility Plan.⁹

In this regard, Alejandro Mayoral, Undersecretary of the Ministry of Economy, Public Works and Services, on behalf of the Argentine government, stated in 1996 that,

In 1985, as a result of the *Okita I: Study on Economic Development of the Argentine Republic*, our country received valuable information and recommendations, most of which have been implemented since 1989 and formed important lines of thinking for the modernization of Argentina. [...] In 1989, Argentina initiated deep economic reforms in order to stabilize, deregulate and open its economy. (Secretariat of Trade and Investment, Ministry of Economy and Public Works and Services and JICA 1996)

The deep economic reforms highlighted here are known as the Convertibility Plan, formulated and implemented by Domingo Cavallo and his team. Mayoral goes on to say that,

Continuing the task of economic growth and free-market policy, the Argentine government has made steady efforts to promote external trade and attract foreign direct investment. To realize this objective, the government has developed close trade relations with Latin American countries, especially in MERCOSUR (Southern Common Market, Mercado Común del Sur in Spanish, in which Argentina, Brazil, Paraguay, and Uruguay participate), as

⁸ According to Okita (1992), the Menem government wanted to revisit the Okita Report. President Menem made the opening speech at a two-day seminar at which Okita presented the first report. Okita passed away in February 1993.

⁹ Domingo Cavallo was the promoter of the so-called Convertibility Plan, which produced economic growth for several years, and became known as the 'Miracle of La Plata.'

well as the new approach towards Japan and the other East Asian countries. To promote these relations, our President, Dr. Carlos Menem, our Minister of Economy, Dr. Domingo Cavallo, and other officials, as well as business people, have traveled regularly to this area.

These remarks imply that the Menem administration inherited the Okita Report as a valuable asset. After implementing the Convertibility Plan, President Menem and Minister of Economy Cavallo then decided to ask the Japanese government to carry out this second Okita study on the economic development of Argentina, focusing on exports and foreign direct investment. Mayoral discusses the invitation process as follows:

It was in this context that, in 1992, the Argentine Government asked the Japanese Government to produce a report titled the *Study on Economic Development of the Argentine Republic (The Second Study)*, arranged by JICA and our National Undersecretary of External Trade of the Ministry of Economy. The main goal of the study is to analyze the macroeconomic and sectoral development environment, strengthened by the Convertibility Plan, since 1989, when the deepest economic changes occurred. It also studies the potential for expanding the export capacity of Argentina to Japan and other East Asian markets, as well as the possibility of increasing foreign direct investments to Argentina. (Secretariat of Trade and Investment, Ministry of Economy and Public Works and Services and JICA 1996)

1.5. Follow up of Okita Report in frameworks of Argentine-Japan cooperation

In keeping with the recommendations of Okita Reports I and II, JICA implemented a range of new projects in Argentina, including the following cooperation projects.¹⁰

In the industrial sector, a series of technical cooperation projects were

¹⁰ These projects were implemented for several reasons, including the suggestions of the Okita Report. The purposes and outcomes of most of these projects are summarized in JICA (2007).

carried out after the Okita Reports. For example, the Project of Center of Technology of Containers and Packing (1989-1993), Project of Upgrading of Design and Manufacturing of Industrial Machinery (1995-1998), Project of Energy Saving in Industries (1995-2000) and others were carried out through the National Institute of Industrial Technology (INTI). The Study on the Promotion of Total Quality Control (Gestión de Calidad Total) for Small and Medium Scale Industries and Certification System for Industrial Export Products (1989-1990) and The Study on Revitalization of Small and Medium Enterprises (2004-2006) should be highlighted in the area of industrial SMEs. It is also worth mentioning the Project of Training Center for Informatics through the National Institute of Technological Education (Instituto Nacional de Educación Tecnológica, INET) of the Ministry of Education (1991-1996). Many projects in the area of agriculture, livestock, and fishery were implemented through the National Institute of Agricultural Technology (INTA) and other specialized institutions. Several projects were implemented in the mining sector as well.

It should be highlighted that during this period, the Okita Foundation was established in Buenos Aires in order to disseminate and follow up on the Okita Report. As a counterpart of the Okita Foundation, the Japan Advisory Committee of Okita Foundation (FO-JAC) was set up in Tokyo.

Another outstanding follow-up initiative was carried out in 2002 and 2003. Seven years after the publication of Okita Report II, a new cooperation project was undertaken through JICA to update the report in the context of the post-financial crisis of 2001 in Argentina. This new initiative aimed at studying challenges for specific productive sectors that had high potential for strengthening their competitiveness and increasing their exports. This new study was supported by the Okita Foundation, United Nations Economic Commission for Latin America and the Caribbean (ECLAC, Buenos Aires Office), and other institutions. The report of this study was launched in a symposium organized by JICA in Buenos Aires in 2003.

In 2006, a commemorative seminar of 20 years of Okita Report was held in Buenos Aires by the Ministry of External Relations of Argentina, JICA, and the Okita Foundation. Yoichi Okita, Professor of the National Graduate Institute of Policy Studies and son of Saburo Okita, was invited as the keynote speaker for the seminar.

1.6. Significance of the Okita Report: A pioneering initiative of policy dialogue and development policy support through international cooperation

The Okita Report provides a valuable experience in the history of Japan's international cooperation. It was a pioneering cooperation project for formulating and supporting development policy through joint studies and policy dialogues. Based on the experiences and results of the Okita Report, similar cooperation projects were subsequently carried out in other countries of Latin America. The case of the 'Study on Economic Development of Paraguay' will be discussed in the next section. The experiences of preparing and implementing the Okita Report constituted a valuable precedent for Japanese cooperation in countries of other regions, as discussed in other chapters of this volume.

As distinct features of this cooperation, through both of the Okita reports, the following points should be highlighted:

- (1) It was different from common technical cooperation with narrowly prescribed terms of reference. It was overarching, covering both the macro-economy and selected industrial sectors.
- (2) It was largely long-term and real-sector-oriented. Its approach was generally hands-on and included sector-specific analysis and recommendations.
- (3) It involved diverse stakeholders, such as scholars, non-governmental organizations, enterprises, and associations of industries, in addition to counterparts from the Argentine government.
- (4) Insights from Japan's experiences of economic development were considered in the process, with awareness of the different circumstances between Argentina and Japan. A special volume on Japan's experiences was prepared as a part of the Okita Report.
- (5) The report has been used as one of the basic references for development and industrial strategies and policies for some decades in Argentina.
- (6) It has also been used as a reference for Japan's cooperation with Argentina from this time onwards.

2. Study on Economic Development of Paraguay (EDEP)

2.1. Background and context

The Republic of Paraguay, a landlocked country of South America, was under a military government headed by President Alfredo Stroessner for 35 years from 1954. In 1989 General Andrés Rodríguez became president in a military coup. In 1993, Juan Carlos Wasmosy was elected as Paraguay's first civilian president. However, political instability continued. At this time, the country was making efforts to formulate a strategy for developing competitive industries and promoting economic growth in the scheduled trade liberalization process for members of MERCOSUR (Southern Common Market).¹¹

The foreword to the 'Study on Economic Development of Paraguay' (EDEP) provides the following context. The Paraguayan government had been pursuing the introduction of market economy principles since the democratic government took power in 1989. In the 1990s, after joining MERCOSUR, they proceeded to liberalize trade by abolishing tariffs along with the other MERCOSUR countries. In the course of this liberalization, Paraguay was aiming to improve agricultural productivity, reduce its dependency on agriculture, encourage diversification of industries, strengthen export competitiveness and foster small-sized enterprises. However, the export goods that were relatively competitive were limited to cotton, soybeans, and other agricultural products. As the integration of the common market evolved, exports of these products, as well as industrial products, met increasingly stiff competition from Brazil and Argentina. As a result, the agricultural sector, along with other less competitive sectors, was declining. Paraguay was facing an increase in unemployment, deterioration of its fiscal balance and an international balance of payments crisis. EDEP was carried out in this context.¹²

¹¹ Since the last decade of 20th century, substantial transformation of the industrial structure has taken place in Paraguay. In short, an economy that was dependent on cotton exports was transformed into one based on soybeans and agro-industry. In other words, the country's engine of growth changed from tropical commodity exports to grain production and food value chains. This enabled the country's transformation into one with a higher value-added and diversified industrial structure. The export of soybeans increased from 370 million dollars in the second half of 1990s (average) to 1,020 million dollars in the second half of 2000s (average) and 2,500 million dollars by 2013. By contrast, the export of cotton, which had been the main export product of Paraguay for a long period, decreased from 100 million dollars in the second half of 1990s (average) to 20 million dollars in 2009-10. For details see Kitanaka et al. (2019).

¹² Team Leaders of the JICA study team were Kagehide Kaku (until October 1999) and

2.2. Purposes, scope, and modalities of cooperation

With the above-mentioned background, the government of Paraguay, through the Technical Secretariat for Planning (STP) of the Presidency, requested technical cooperation from the Government of Japan to conduct a study of Paraguay's economic development (later to be called EDEP). The agreement on the Scope of the Work was signed in April 1998. In collaboration with STP, the Ministry of Agriculture and Livestock (MAG), the Ministry of External Relations (MRE), the Ministry of Finance (MH), the Ministry of Industry and Trade (MIC), and the Ministry of Public Works and Communications (MOPC), JICA carried out the EDEP study between October 1998 and November 2000. The main purpose of the study was: to formulate a new strategy to promote economic development, mainly through the diversification of industry, industrialization and export promotion. The strategy needed to be based upon an analysis of the competitiveness of each industry, and aimed at securing economic independence and development under the changing economic circumstances brought by the market liberalization that resulted from entry into MERCOSUR (JICA 2000a).

As such, EDEP was the result of more than two years of analysis, evaluation, and dialogue, involving the Government of Paraguay (through STP and the above-mentioned ministries, among others), JICA, and other public and private entities specialized in economic and social research (such as universities). It also involved the Centre for Analysis and Information on the Paraguayan Economy (CADEP) and other institutions. The President of CADEP, Dionicio Borda, was later appointed Minister of Finance, and Vice-President of CADEP, Francisco Macci, was appointed later an adviser to Minister of Industry and Trade. Many business leaders who had close contacts with the EDEP study team later participated in the National Organization for the Promotion of Market Competition (ONPEC), discussed in more detail below. It is worth noting that Cesar Ross (director of a meat processing and exporting company, UPISA, and President of ONPEC), Caballero Vargas (president of a textile and apparel company, Pilar, and Minister of Commerce and Industry), Jorge Gattini (director of one of the largest agricultural cooperatives of Paraguay, the Colonias Unidas Cooperative), and Ronaldo Eno Dietze (Rector of the

Hidesuke Kotajima (November 1999 onward). The author of this chapter was the Chairman of the JICA Advisory Committee.

University of San Carlos) were among the leading members of ONPEC.

2.3. Main pillars and recommendations of EDEP

As mentioned above, the basic aim of the EDEP was to examine a strategy for strengthening competitiveness and exports (JICA 2000a).¹³ EDEP has the following two distinctive characteristics: First, it utilizes an integrated approach; second, it puts forward a series of specific strategies considered essential for Paraguay.¹⁴

In terms of the first point, EDEP proposes a far-reaching and comprehensive approach to help strengthen the country's competitiveness. This certainly reflects the position of the Paraguayan Government, which was hoping for this study to be a kind of master plan for the country's economic development. JICA took this on board fully, while also trying to take account of its own cooperation experiences in other countries, including the Okita Report. EDEP suggests strategies at three different but closely connected levels, or scopes: the general (or macro), the sectoral/regional, and economic actors and/or groups (micro). At the economic actors and/or groups' level, a cluster or agro-industrial chain is identified as an ideal mechanism for increasing competitiveness in Paraguay.

In terms of the second point, EDEP sets out to focus specifically on the particular aspects affecting Paraguay. In other words, while all aspects of the integrated approach to developing a competitiveness strategy are considered important, many of the factors are common to those that most other developing countries are also facing. Examples include strengthening the financial sector, export promotion, and an improved business climate to facilitate investment (mainly foreign direct investment). EDEP analyzes these aspects and places them in the context of Paraguay to ensure that any measures taken are appropriate.

In addition to these aspects, it is also considered essential to examine the specific features of Paraguay. For instance, the country's economic structure was highly dependent on a few commodities such as cotton, soybean, maize, and others. EDEP considers it important to diversify

¹³ See the JICA website for the complete original version of EDEP at: <http://libopac.jica.go.jp/images/report/11600350.pdf>.

¹⁴ This and following four paragraphs are based on Hosono (2014) and JICA (2000b).

the export structure based on these products with their comparative advantage and competitiveness on the international market. This leads to the development of an EDEP proposal for a cluster or agro-industrial chain strategy, mainly food chains, as one of the major axes of competitiveness. In summary, the aim is to increase the country's competitiveness based on the externalities of internationally competitive commodities such as soybeans and others. Having well-linked production chains around these competitive products enables them to benefit from the externality of each commodities' comparative advantages.

Furthermore, the country can use production chains to produce products with greater added value, which will also have other economic effects, including stronger job creation. It is considered essential to identify strategies aimed at reducing the limitations resulting from the country being landlocked, including measures to strengthen export corridors and *maquila* systems.¹⁵ It is also a priority to increase productivity through human capital formation as a way of overcoming the disadvantages in relation to other MERCOSUR countries (Argentina, Brazil, and Uruguay). The EDEP study also considers it important to make development into a more inclusive concept. The prioritized strategies therefore include the cluster or agro-industrial chain strategy, export corridors, quality and productivity, and the 'One Village, One Product' Movement. These strategies are inextricably linked to the territorial approach within the integral competitiveness strategy.

Among the specific strategies mentioned above, EDEP puts special emphasis on the creation of agri-food chains and clusters, owing to the availability of crops such as soybeans, cotton, maize, and other commodities—as well as the development potential of the associated agro-industry chains. At the time EDEP was being prepared, agro-industry chains were lacking inter-sectoral coordination (between agriculture and the processing industry) and intra-sectoral coordination. Chains and clusters were emerging, but there were not enough linkages to take advantage of economies of scale at that time. EDEP saw the potential to boost Paraguay's economy by industrializing agricultural production. A study of the production potential of 32 agricultural products resulted in the prioritization of soybeans, melon, wheat, tomatoes, maize, chinaberry (*melia azedarach*), sorghum, beef, cassava, pork, cotton, chicken, and

¹⁵ For the maquila system, see ECLAC and JICA (2014), and Footnote 16.

oranges. Six emerging clusters were also earmarked as needing a boost: feed, vegetables, fruit, cotton, wood, and metalwork.

2.4. Follow-up of EDEP

The EDEP final report boosted various government and private-sector efforts in Paraguay. One example was the joint work between the government and the private sector to create ONPEC in late 2001. ONPEC arose as a result of EDEP to promote national competitiveness through the National Competitiveness Agenda, and take part in various sustainable economic and social development initiatives. It also supported the creation of Regional Offices to Promote Competitiveness Strategy (ORPECs) to develop production chains and clusters by promoting regional competitiveness, and to become established as a national benchmark in the promotion of production chains and clusters.

Belén Servin and Fabricio Vásquez (2014, 144) consider that the main tool for driving EDEP forward was provided by ONPEC. They highlight the development of new institutions and initiatives, related to EDEP, that have impacted economic development in recent years as follows:

- Development of the *2001 Strategic Economic and Social Plan* (a national development plan), which picks up some of the EDEP concepts, especially those relating to chains and clusters.
- Strengthening of private-sector clusters involved in bolstering ONPEC, which did not operate fully but focused international cooperation contributions on the following production chains: cassava, software, chicken, and pigs. This was done as part of the creation of the project of export enterprises' competitiveness in Paraguay (FOCOSEP) and implemented by STP with funding from the European Union and the general State expenditure budget.
- Creation of the Investments and Exports Network (REDIEX), as part of the Ministry of Industry and Trade, to promote exports and attract investment to boost the country's economic and social development. This agency works with the main representatives from the public, private, and education sectors. It has eight sectoral chambers: biofuels, meat and leather, forestry, fruit and vegetables, stevia, textiles and garments, information and communications technologies (ICTs), and tourism.
- Creation by the Ministry of Agriculture and Livestock of product

competitiveness chambers made up of working groups of representatives from the primary, secondary, and educational sectors to promote specific products such as dairy, fruit and vegetables, beef, pork, and mutton. These chambers are in some way an expression of the willingness to work under public-private partnership schemes.

- More recent developments, including programs and instruments to improve export competitiveness, productivity, quality, associativity, innovation, and development of undertakings (including the Business Incubators Program and the Business Development Program for Small and Medium-Sized Enterprises of the Ministry of Industry and Trade).
- Regulation of the *maquila* system¹⁶ by the Law on the Maquila Export Industry in 2000, which aims to promote the establishment and regulation of industrial enterprises partly or totally dedicated to carrying out industrial and services processes that incorporate labor and other national resources. Maquila in Paraguay is now operational and expanding thanks to the joint work of the public and private sectors through the National Council of the Export Maquila Industry (CNIME), Chamber of Maquila Companies of Paraguay (CEMAP) and other relevant associations.

2.5. EDEP and Japan's cooperation with Paraguay

Following the presentation of the final report of EDEP, JICA continued working on boosting the Paraguayan economy at the request of the Paraguayan Government.¹⁷ From 2000 to 2011, JICA worked on implementing EDEP in various sectors, with thirty technical cooperation projects, seven visits by individual experts, four technical cooperation projects run by the Partnership Program (JPP), two technical cooperation for development planning activities, one grant aid project, and two Japanese ODA (official development assistance) loans.

JICA's activities consisted of both cross-cutting strategies and sector-specific strategies. Cross-cutting strategies included human resource development, export promotion, and quality control systems, as well

¹⁶ In simple terms, the *maquila* system is an improved regime for temporary admission of goods into the country. In Paraguay, enterprises with the benefits of the maquila system only have to pay 1 per cent of value-added tax. Imports of raw materials, machinery, and equipment are exempt from tariff payment.

¹⁷ This section draws heavily from Fujishiro (2014, 186-93).

as attracting foreign investment. For human resource development, the projects implemented were the Japan-Paraguay Skill Development Promotion Center project and the project on extending and strengthening the training program for senior technicians in rural areas with National Service for Professional Promotion (SNPP), a dependency of the Ministry of Justice and Labor. These projects helped to train human resources through vocational training.

For export promotion, an advisor on industrial and trade policy was sent from Japan to advise the Ministry of Industry and Trade on the promotion of exports. To improve the quality control system, the National Institute of Technology, Standardization, and Metrology (INTN) was strengthened through the technical cooperation project for the inspection and verification of weights and measurements, the project to strengthen the area of containers and packages, and the project to strengthen microbiology and bromatology laboratories. To attract foreign investment, the project to promote and strengthen the *maquila* industry in Paraguay with the National Council of the Export Maquila Industry (CNIME), was implemented.

Sector-specific strategies included cooperation projects for the agricultural sector, industrial sector, and transport infrastructure sector. As for the agricultural sector, there were three focal areas involved in the cooperation: agricultural policy advice, technological development of crops and livestock, and strengthening of production cooperatives. With regard to the first focus, in order to strengthen and support agricultural policies, several Japanese experts were dispatched to the General Planning Directorate and the Agricultural Extension Directorate of the Ministry of Agriculture and Livestock (MAG). To achieve the second focus, JICA concentrated on the technological development of soybeans, vegetables, sesame, dairy, beekeeping, and fish farming.¹⁸ For the third focus, JICA transferred the experiences of production cooperatives from Japan through the project on strengthening cooperatives in the south-east of Paraguay, which boosted

¹⁸ Projects carried out include the Research Project on Soybean Production, the Project for the Identification of Soybean Germplasm with Resistance to the Soybean Cyst Nematode, the Project for the Improvement of Vegetable Production Techniques among Small-Scale Farmers, the Project on Strengthening the Production of Sesame Seeds by Small-Scale Farmers, the Improvement of Small- and Medium-Scale Dairy Farm Management Project, the Project for the Diversification of Beekeeping, and the Project of Rural Pisciculture.

collaboration between large and small cooperatives. More recently, the government's need to have a medium- and long-term public policy for rural development prompted JICA to carry out the Study on Integrated Rural Development for Small-Scale Farmers (EDRIPP) between 2009 and 2011. This study resulted in the Guidelines for the Formulation of the Sustainable Development Strategy for Rural Territories, which became the driving force for changing the JICA assistance policy in Paraguay.

To implement strategies for the industrial sector, JICA assisted the Ministry of Industry and Trade (MIC) and the Paraguayan Industrial Union (UIP) in strengthening productivity and quality through the mini-project, Leader Training in Small and Medium-sized Companies and the Project on Strengthening the Paraguayan Quality and Productivity Centre (CEPPROCAL). These projects introduced the idea of productivity and quality control using the Japanese '5S' method.¹⁹ They also introduced a new culture in which the private and public sectors worked together in industry. Cooperation for the transport infrastructure sector included a Japanese ODA loan for a road improvement project and technical cooperation for development planning activities, such as the Study on the Export Corridor and Grain Port Improvement in Paraguay, and the Preparatory Survey on the Eastern Region Export Corridor Improvement Project in the Republic of Paraguay.

2.6. Significance of EDEP as development policy support through international cooperation

The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and JICA (2014) summarized the lessons learned from EDEP as follows:

EDEP represented a fresh approach to efforts to boost the economy. Unlike sectoral plans or those that treated agriculture as an isolated production system, EDEP approached it as integrated or systemic. Some of the contributions and effects of EDEP were as follows:

- (1) Introduction of new ideas and concepts, including: the idea of

¹⁹ 5S represents 'Sort, Set in order (or Systematic arrangement), Shine (or Sweep), Standardize, Sustain.' Each of these corresponds to five simple actions that can be taken to obtain discernible results towards promoting Kaizen in a short period of time (JICA 2016).

clusters or production chains; the concept of 'export corridors'; emphasis on the role of communications infrastructure; and public-private linkages as a tool for improving competitiveness.

- (2) Creation of a new business climate through a fresh, positively-framed discourse aimed at implementing a new economic development model at a historically difficult time for Paraguay.
- (3) Creation of new institutions, such as the National Organization for the Promotion of Market Competition (ONPEC), Project for development of export enterprises' competitiveness in Paraguay (FOCOSEP), and the eight REDIEX sectoral panels (2000-10).
- (4) Strengthening the role of public institutions that have adopted policies aimed directly at promoting productivity, industrialization, and competitiveness.
- (5) Consolidation of private activity: in addition to the obvious economic buoyancy in recent decades, various business chambers and associations have emerged, which is a sign of the private sector's determination and robustness in production matters.
- (6) Changes in the behavior and learning experiences of the private sector: rethinking management models and strategies to tackle crises; extending production capacity in accordance with international markets; emergence of an enterprise spirit in the form of cooperatives and associations; capacity to innovate and incorporate new products into companies; capacity to adapt and emulate other companies; and geographical differentiation (ECLAC and JICA 2014, 25-26).

Jorge Máttar, Chief of the Latin America and Caribbean Institute for Economic and Social Planning (ILPES), an affiliate of ECLAC, and Hiroshi Kato, Vice President of JICA, made the following comments in the Introduction to the book, *Study of Inclusive Development in Paraguay: International Cooperation Experiences* (ECLAC and JICA 2014):

[JICA's] work in Paraguay [...] deserves to be highlighted as a benchmark cooperation program for other Latin American countries. As well as JICA's commitment to Paraguay (manifested through studies, field projects, visits from Paraguayan officials and professionals to Japan, missions to Paraguay by Japanese professionals, courses and technical tours of third countries), JICA has also shown an interest in implementing a national economic development strategy

that harnesses all of Paraguay's economic potential. This is interesting because it reveals the Japanese intention to develop a cooperation program with a high impact in the country that goes beyond specific projects. [...] Beyond the problems and limitations, the emergence of agro-industrial clusters in Paraguay is a trend that needs continued support, as it forms the basis for a development strategy that should be followed by all of the region's countries. The strengthening of clusters and production chains should also be promoted alongside a territorial development strategy (as suggested by EDRIPP for the next few years). Both strategies are complementary and have been promoted by ECLAC and ILPES in many publications and forums, as they have been shown to make an effective contribution to the economic development of many countries in the region and worldwide. (Máttar and Kato 2014, 40)

Furthermore, the foreword of the above-cited volume emphasized the importance of seeing the cooperation from two different perspectives:

The transformation of the Paraguayan economy and society is not the only narrative in this book. There is another: the story of an international development agency that engages in debate on national development strategy. [...] For ECLAC, the case study on Paraguay presented in this volume provides original insights into the question of how to promote structural change for equality in Latin America and the Caribbean. It confirms that the role of the State is crucial and that international development cooperation can also contribute greatly to this process. (Bárcena and Tanaka 2014, 20)

Summing up, as distinct features of this cooperation to support Paraguay through EDEP, the following points should be highlighted:

- (1) It was different from normal technical cooperation with narrowly prescribed terms of reference. It was overarching, covering both macro-economy and selected industrial sectors and clusters. EDEP proposed an integral approach and it put forward a series of specific strategies.

- (2) It was largely real-sector oriented from a long-term perspective. Its approach was generally hands-on and included sector-specific and cluster-specific analysis and recommendations.
- (3) It involved diverse stakeholders such as scholars, universities, think-tanks, non-governmental organizations, enterprises, and associations of industries.
- (4) Insights from Japan's experiences of economic development were considered, with an awareness of the different circumstances between Paraguay and Japan.
- (5) The report has been used as one of the basic references for development strategies and policies for some decades in Paraguay.
- (6) It was used as a reference for Japan's cooperation with Paraguay afterward.

3. Concluding Remarks

We can summarize the main findings of this chapter as follows. Regarding the context in which the cooperation program for the Study on Economic Development of the Argentine Republic (the Okita Report) and the cooperation program for the Study on Economic Development of Paraguay (EDEP), both countries were in critical transition periods from military governments to civilian ones and facing enormous challenges of economic transformation. The Argentine economy needed to transform its industrial structure by enhancing its competitiveness to increase industrial exports in order to overcome the low economic growth caused by the limitations of decades of import-substitution-led industrialization. Moreover, the country had to address its debt crisis and hyperinflation. Paraguay needed to transform its export structure away from one centered around a few traditional primary commodities, to a new structure with more diversified and higher value-added products, addressing the challenges of liberalization of trade within MERCOSUR, in which the country decided to participate.

Among the distinctive features of the two cooperation projects, the 'ingredients approach' and 'hands-on approach' need to be highlighted. In terms of the 'frameworks' vs. 'ingredients' approaches to economic development discussed in the Overview Chapter, it is clear that both the Okita Report and EDEP made much of the 'ingredients' approach. The Okita Report and EDEP discussed the 'framework' aspects, such as the rules and functions of a market economy. However, they demonstrated

stronger concerns with regard to the real sectors, with a focus on industry structure and components (industrial sectors, human resources, technologies, firms, especially SMEs, and so forth) of the market economy.

In terms of 'normative' vs. 'hands-on' approaches, also discussed in the Overview Chapter, we can conclude from the findings of this chapter that both the Okita Report and EDEP emphasized hands-on approaches. They had a strong field orientation, real sector pragmatism, adaptation to the local context, and an emphasis on concrete projects or programs at *gamba* (a Japanese term meaning the place where the real action takes place, such as factories and crop fields). As the Overview Chapter argues, backed by the understanding of a country-specific context from field-based perspectives, a hands-on approach facilitates the establishment of concrete goals and policy measures that are both desirable and feasible for each country. As such, a hands-on approach emphasizes the sharing of context-specific, tacit knowledge with counterparts, and interactive communications with them. This was also an important feature of the Okita Report and EDEP. Furthermore, the sharing of knowledge and interactive communications was extended beyond direct counterparts to scholars, non-governmental organizations, enterprises, associations of industries, and think tanks.

Another feature of the Okita Report and EDEP is that, in both cases, they were not accompanied by the quick implementation of financial or technical cooperation projects. There was a clear separation between 'development policy support' and specific cooperation projects.

It is worth reiterating that the Okita report has special significance in the history of Japanese cooperation for development policy support. First, it was the outcome of the first large-scale, development policy support mission led by Okita, an architect of Japanese post-war economic recovery programs, including the Income Doubling Plan, which is well-known in Japan. Second, it has several features that later became common among development policy-support cooperation (or industrial policy support cooperation) implemented in other countries. Third, the report contains several views that characterize the economic thoughts of Okita, based on, among other things, lessons from the experiences of Japanese economic development.

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