

Evaluation by Third Party

Thematic Evaluation on  
Economic Partnership

Social Capacity Development in Trade Sector  
and  
Development Assistance

Final Report

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Joint Venture of  
Hiroshima University  
Mitsubishi Research Institute, Inc

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## Preface

An independent administrative institution, Japan International Cooperation Agency (JICA), is promoting external specialists' participation in the project evaluation from the perspective of improvement of the objectivity of the evaluation and betterment of the quality of the evaluation by securing a professional knowledge. Especially, the evaluation, consigned to external organizations such as a university and a consultanting firm that has the professional knowledge for the theme concerned, is executed in a program level evaluation such as a theme-specific evaluation. This report, specific theme evaluation "economic partnership", wraps up the result of the evaluation that was consigned to and executed by the Joint Venture of Hiroshima University and Mitsubishi Research Institute, Inc. as a part of the external evaluation.

Recently, capacity development in a trade sector of developing countries has been valued in line with the progress of the economic partnership among countries along with the trade liberalization. In response to this movement, the specific theme evaluation of this report analyzes and evaluates the JICA's cooperation in the four ASEAN countries (Indonesia, Thailand, Philippines, and Malaysia) where JICA has provided assistance in the relevant field over many years, based on the process of capacity development of each country. This evaluation also extracts proposals and lessons for the future cooperation.

About implementing the evaluation, the discussion from a framework of the evaluation to the result of the evaluation has been held by establishing the evaluation/examination commission composed of specialist evaluation committees, evaluation advisors, JICA-related departments, and observers from related government ministries and agencies, in addition to the national search and the field investigation by the Joint Venture of Hiroshima University and Mitsubishi Research Institute, Inc. The report has been completed through these examinations.

JICA has adopted the "external specialists' review" on every theme-specific evaluation since 2003 and has posted the result of the review by specialists of the related sectors on a report. In this evaluation, the review was kindly provided by Mr. Kuchiki Akifumi, Director of Japan External Trade Organization, and Mr. Teruyuki Tanabe, Director of Japan Bank for International Cooperation Development Finance Institute. I am deeply grateful to both of them for having agreed with the purpose of the review and graciously written it.

Finally, I would like to express my sincere gratitude to everybody who have cooperated and

provided assistance toward this research.

Seiji Kojima

Director of Japan International Cooperation Agency

March, 2006

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## Acronyms

ACCCIM	Associate Chinese Chambers of Commerce and Industry of Malaysia
AC	Asian Cooperation Project
ADB	Asian Development Bank
AEM-METI	ASEAN economic ministers and minister of economy, trade and industry of Japan consultations
AOTS	The Association for Overseas Technical Scholarship
ASEAN	Association of South-East Asian Nations
BDS	Business Development Service
BETP	Bureau of Export Trade Promotion
BKPM	Badan. Koordinasi Penanaman Modal
BOI	Board of Investment
BSID	Bureau of Supporting Industry Development, Department of Industrial Promotion, Ministry of Industry
BSMED	Bureau of Small and Medium Enterprise Development
CD	Capacity Development
CDIP	Capacity Development for Investment Promotions
CIDA	Canadian International Development Agency
CITEM	Center for International Trade Expositions and Missions
CLMV	Cambodia, Lao People' Democratic Republic, Myanmar and Vietnam
DEP, MOC	Department of Export Promotion, Ministry of Commerce
DFID	Department for International Development
DTI	Department of Trade and Industry
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FMM	Federation of Malaysian Manufacturers
FTA	Free Trade Agreement
FTI	Federation of Thai Industries
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HACCP	Hazard Analysis and Critical Control Point
HCBI	Human Capacity Building Institute
IETC	Indonesia Export Training Center
IFC	International Finance Corporation

ILO	International Labour Organization
IMP	Industrial Master Plan
ISO	International Organization for Standardization
ITC	International Trade Center
ITTC	International Trade Training Center
ITTI	International Trade Training Institute
JAMA	Japan Automobile Manufactures Association
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
JJC	Jakarta Japan Club
JODC	Japan Overseas Development Corporation
KADIN	Kamar DagDag dan Industri Indonesia
LDC	Least Developed Country
MAICCI	Malaysian Associated Indian Chambers of Commerce and Industry of Malaysia
MATRADE	Malaysia External Trade Development Corporation
MCCM	Malay Chamber of Commerce Malaysia
MICCI	Malaysian International Chamber of Commerce and Industry
MIDA	Malaysian Industrial Development Authority
MIDF	Malaysian Industrial Development Finance Berhad
MITI	Ministry of International Trade and Industry
MOC	Ministry of Commerce
MOI	Ministry of Industry
MOIT	Minister of Industry Trade
MOT	Minister of Trade
MTCP	Malaysian Technical Cooperation Programme
NAFED	National Agency for Export Development
NAFTA	North American Free Trade Agreement
NCCIM	National Chamber of Commerce and Industry of Malaysia
NEAC	National Economic Action Council
NEDA	National Economic Development Authority
NEDO	New Energy and Industrial Technology Development Organization
NEXI	Nippon Export and Investment Insurance
NIEs	Newly Industrializing Economies
NPC	National Productivity Corporation
ODA	Official Development Assistance

OECD DAC	Organization for Economic Cooperation and Development, Development Assistance Committee
OSMEP	Office of Small and Medium Enterprises Promotion
PCCI	The Philippine Chamber of Commerce and Industry
PDDCP	Product Development and Design Center of the Philippines
PDF	Partnership Development Facility
PPP	Purchasing Power Parity
PTTC	Philippine Trade Training Center
REPC	Regional Export Promotion Center
RETPC	Regional Export Training and Promotion Center
SCA	Social Capacity Assessment
SCD	Social Capacity Development
SE	Sectoral Enhancement
SI	Supporting Industry
SIRIM	Standard and Industrial Research, Institute of Malaysia
SME	Small and Medium Enterprise
SMIDEC	Small and Medium Industries Development Cooperation
SIAP	The Strategic Investment Action Plan
SITC	Standard International Trade Classification
TCC	Thai Chambers of Commerce
TCD	Trade Capacity Development
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USAID	US agency for International Development
WTO	World Trade Organization

Japan International Cooperation Agency (JICA)  
Thematic Evaluation on Economic Cooperation  
Social Capacity Development in Trade Sector and Development Assistance

Summary of Final Report

Introduction

This evaluation study, “Thematic Study on Economic Cooperation: Social Capacity Development in Trade Sector and Development Assistance”, was commissioned by Japan International Cooperation Agency (JICA) to the Joint Venture of Hiroshima University and Mitsubishi Research Institute, Inc. During the period from February 2005 to March 2006, Joint Venture implemented 4 field surveys in total in Indonesia, Malaysia, and the Philippines and Thailand, which are the targeted countries of this study. In addition, the Joint Venture implemented questionnaire surveys in those four countries with cooperation from local institutions. Through those surveys as well as literature review, the Joint Venture analyzed and evaluated social capacity development and development assistance in those four countries.

During the course of the evaluation study, the Evaluation Committee was set up with the members from the Joint Venture evaluation team and evaluators with expertise in trade, investment and development as well as evaluation advisors commissioned by JICA and JICA’s Office of Evaluation, Department of Planning and Cooperation, and Group 1 (Economic Policy and Private Sector Development), Department of Economic Development, and relevant governmental organizations. The Evaluation Committee was convened six times altogether by the end of the study period. This report has been finalized through those undertakings.

1. Background, objectives and framework of evaluation

1.1 Background and objectives

In the East Asia region, the development of Economic Partnership Agreements (EPAs), including Free Trade Agreements (FTAs), is accelerating among ASEAN countries, Japan, South Korea and China. The effect of EPA’s conclusion is expected to lead to the activation of the economy of the region, including Japan.

Japan, since the 1980’s, has implemented technical cooperation in the trade and investment sector.

JICA's technical cooperation in this sector has included assistance for developing training centers for trade business such as "trade center"<sup>1</sup> projects which were implemented as project-type technological cooperation (currently called technical cooperation project) and technical cooperation centered on Capacity Development (CD) for Indonesia, Thailand, the Philippines, and Malaysia.

In the meantime, the trade and investment environment in the East Asia area has greatly changed. As mutual dependence in the region deepens, the new ways of cooperation and interdependence have been sought to develop. Under such circumstances, it is necessary for JICA to continue to implement its assistance in order to better serve the demands of building institutions necessary for free and efficient competitive markets, enhancing balanced economic infrastructure, and strengthening competitiveness in the private sector under the circumstances where moves for economic partnership have been accelerating. At the same time, changes in the trade and investment environment have affected the ways of development assistance. In the 1980s, JICA's assistance mainly focused on industrial promotion in specific sectors; on the other hand, in recent years, major focuses have been placed on how to respond to the World Trade Organization (WTO) and EPAs/FTAs, which seek to promote economy based on market principles.

In light of the aforementioned background, JICA commissioned the Joint Venture of Hiroshima University and Mitsubishi Research Institute, Inc., a their party, to implement this evaluation study with the following three main purposes:

- (1) Identify and map out factors of Social Capacity that promote economic cooperation from the perspectives of actors including the Government and the Firms, and analyze how these factors affect the total system of trade and investment.
- (2) Identify development stages of Social Capacity in trade and investment in the targeted four countries, namely Indonesia, Malaysia, the Philippines and Thailand, evaluate the impact of JICA's assistance on Social Capacity Development of those countries, contemplate what kind of roles JICA's assistance including trade center projects should play in the future

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<sup>1</sup> As a result of research in the field, we confirmed that these centers do not focus on training only. For instance, Malaysia External Trade Development Corporation (MATRADE) does some training but its main activities are sending trade missions, organizing trade fairs, and promoting exports by providing related information. Also The Regional Export Training and Promotion Center (RETPC) which is the target of phase 3 of Indonesian trade center project holds training in export and promotion of export as its two main activities, as its name suggests. Therefore, to view these as a "trade training center approach" is not appropriate. We will perform the evaluation by regarding them as a "trade center approach" which includes trade promotion as well.

(self-sustainability). In evaluating JICA's assistance, assistance by other Japanese governmental organizations such as Japan Bank for International Cooperation (JBIC) and Japan External Trade Organization (JETRO) were also considered.

- (3) Propose recommendations for JICA's future assistance in order to better serve the demands of building institutions necessary for free and efficient competitive markets, enhancing balanced economic infrastructure, and strengthening competitiveness in the private sector under the circumstances where moves for economic partnership have been accelerating.

## 1.2 Framework of evaluation

Since the beginning of the 1990s, it has been pointed out that the development of developing countries' own macro (social) capacity based on their ownership is essential for creating their sustainable development performance, and that the CD approach is important for such a purpose (Fukuda-Parr ed 2002) .

This report will propose Social Capacity Assessment (SCA) as a methodology of the CA that is necessary to materialize the CD approach. It will identify developing countries' export capacity of its society as a whole, and evaluate required amounts of aid inputs to achieve aid effectiveness and contribution of aid to social capacity development. The SCA method has been developed by the 21<sup>st</sup> century COE program of Hiroshima University "Social Capacity Development for Environmental Management and International Cooperation." The basic framework of SCA is as follows.

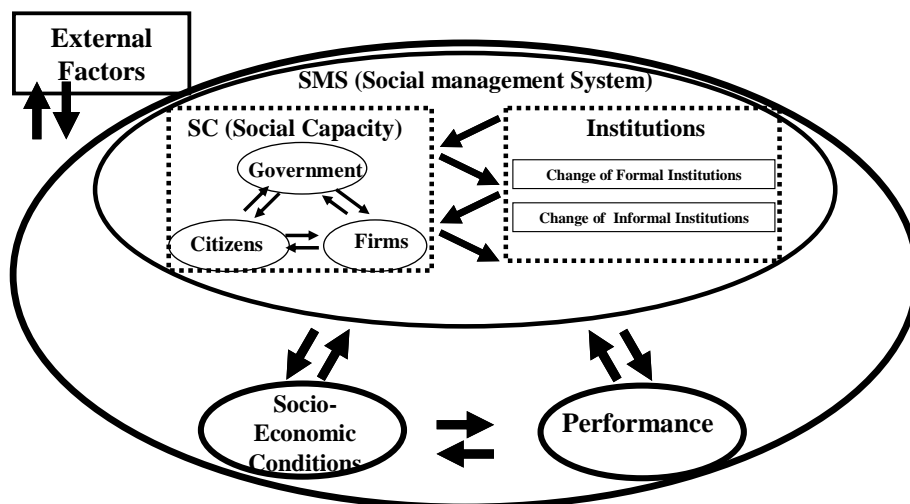
To begin with, social capacity is defined as the capacity to solve the problems of development of each social actor, composed of the government, the firms, and the citizen, and also the comprehensive capacity that includes the interaction of each actor. There are some caveats when this concept of social capacity is applied to Trade Capacity Development (TCD); these caveats include:

- (1) For the trade and investment, the firms play a greater role and the government plays a more limited role than for the other development issues such as environment, education, and health.
- (2) The citizens play an even more limited role than the other actors in the trade and investment.
- (3) Impact of development assistance and economic cooperation on performance is relatively limited. (Other factors such as exchange rates, economic performance of export markets, and relative competitiveness compared with other countries have more impacts.)

The interaction of social capacity and institution is grasped as a Social Management System (Matsuoka and Kuchiki eds 2003). As shown in the figure S.1, the Social Management System is

defined in the mutual relationship with the socioeconomic conditions and the performance. Also, it seems to have the similar relationship with the external factors. The social system as a whole is called Total System (Matsuoka and Kuchiki eds 2003, Matsuoka et al 2005).

Figure S.1 Total System and Social Management System



Source: Matsuoka et al 2005

With this evaluation framework, we set the Evaluation Questions and conducted evaluation. The question system of this evaluation including medium and small items is shown in Table S.1.

Evaluation Questions:

Large item: Was a series of JICA's cooperation centering on the trade sector (such as "Trade Center") in four countries effective for each country's Trade Capacity Development? At that time, did JICA consider consistency with local government's policy system and coordination with other donor agencies?

Table S.1 Question system of this evaluation

Evaluation item : Large items

Was a series of JICA's cooperation centering on the trade sector (such as "Trade center") in 4 countries effective for each country's Trade Capacity development?  
At that time, did JICA consider consistency with local government's policy system and coordination with other donor agencies?

Evaluation items		Necessary information and data	Source	Data collection method
Middle items	Small items			
1. Have impacts of JICA's assistance in such the trade sector been appropriate in relation to time, quantity, quality and the local government's policy and input of other donors?	1.1 Was there compatibility between social capacity development and development stage?	2.4 data, JICA related cooperation project	Related documents JICA	Documents review Interview
	1.2 Was there consistency between local government and policies?	JICA related cooperation project, Local governmental policy	Related documents Related ministries, departments	Documents review Interview
	1.3 Did JICA work together with Japanese other organizations and Foreign donors?	JICA and other donors related cooperation project	Related documents Other donors	Documents review Interview
	1.4 Was there consistency in Japanese higher policies?	JICA related cooperation project, Japanese government policy	Related documents	Documents review
2. What kinds of relationship were there among social capacity development, social economic situation and export performance?	2.1 How have total social capacity development of government and companies changed?	3.1, 3.2, 4.1, 4.2 data		
	2.2 How have social economy situation changed?	Related data (income level )	Statistical materials	Documents review
	2.3 How have export performance changed?	Related data (industrial export ratio)	Statistical materials	Documents review
	2.4 What kinds of relationship were there among social capacity, social economic situation and export performance?	2.1-2.3 data		
3. How have company's export capacity been developed?	3.1 How have company's each capacity element been developed? • Formulation and implementation of measures • Human resources and Organization • Knowledge and Technology (Know-how and Information)	Situation of Capacity development in each capacity element	Statistical materials Companies	Documents review Interview Questionnaire survey
	3.2 What kinds of relationship are there between company's attribute (industry, scale, capital structure) and capacity development?	Company attribute and Situation of capacity development	Companies	Questionnaire survey Interview
	3.3 How have economic and industrial group and export support industry (management consultant, training service, trading company) contribute? • Policy recommendation • Export support service	Activity condition Evaluation by Companies	Related documents Economic and Industrial groups Related ministries, departments Companies	Documents review Interview Questionnaire survey
	3.4 How did government's policies affect capacity development of export companies?	Evaluation by Companies	Companies	Questionnaire survey
4. How have capacity to promote government's export been developed?	4.1 How have government's each capacity element been developed? • Formulation and implementation of measures • Human resources and Organization • Knowledge and Technology (Know-how and Information)	Situation of Capacity development in each capacity element	Statistical materials Companies	Documents review Interview Questionnaire survey
	4.2 Have coordination between related policies such as development of SME, attraction of investment and organizations been appropriate?	Improvement condition of each measure Activity condition in Related ministries and departments	Statistical materials Related documents Related ministries, departments	Documents review Interview
	4.3 Have export promotion activity of "Trade Center" been appropriate?	Activity condition of "Trade Center"	Statistical materials Related documents "Trade Center"	Documents review Interview

Source: the author

The targeted countries of evaluation are Indonesia, Malaysia, the Philippines, and Thailand. These four countries have close economic relations with Japan through trade and investment, and Japan has extended its assistance to those countries in the area of trade and investment. Therefore, four countries are desirable for investigation in order to evaluate how development assistance is placed in the trinity of assistance, trade and investment.

ASEAN cooperation projects by the then Ministry of International Trade and Industry (MITI) under the trinity of assistance, trade, and investment began in 1982. In 1983, the Trade center, which is the main project of evaluation, was first founded in Thailand. Japan's cooperation in the field of trade, including JICA's, began to take full effect at this time. Therefore, we set the period of evaluation

mainly from 1980 to 2005.

During this period, JICA's assistance in trade has been mainly targeted at local small and medium enterprises (SMEs) in the manufacturing sector. Promoting SMEs is important in terms of not only promoting trade but also reducing poverty through job creation; therefore, SMEs promotion has its significance in the context of socio-economic development. Taking these factors into consideration, this evaluation is mainly targeted at SMEs in the manufacturing sector.

“Trade sector” narrowly means the direct export-promotion such as the trading business, the provision of marketing services for companies, and the development of the trade-related law. In addition, the assistance for the fosterage of SME/supporting industry, which is the indirect export-promotion like improving the companies' competitiveness, is also included in this evaluation scope. Such inclusion is necessary because those latter items are important for improving export performance, not to mention the importance of capacity development in the narrow meaning of trade sector.

## 2. Method of Evaluation

### 2.1 Social Capacity Assessment (SCA)

#### (1) Actor-Factor Analysis

The Actor-Factor Analysis consists of Actor Analysis and Factor Analysis. Actor Analysis deals with the level and condition of social capacity from the standpoint of the condition of each social actor (government, export industry, private export service provider). Factor Analysis adopts the following three factors: (1) “capacity to plan and implement policies and measures (policies/measures factor = ‘P’ factor)”; (2) “human, financial, and physical resources in organization that embody capacity (human, financial, and physical resources in organization factor = ‘R’ factor)”; and (3) “knowledge, information, and skills required as basis for the other factors (knowledge/skills factor = ‘K’ factor)”. These three factors are identified, taking into consideration implementation of concrete policies and measures. For instance, even if “P” factor is improved to some extent in the form of laws and policies, they cannot be smoothly implemented without sufficient “R” factor or “K” factor. All the three factors of capacity are necessary to improve performance.

With regard to export capacity of the Firms, it was difficult to obtain indicators of three factors for all the four countries throughout the target period. Therefore, we adopted proxy variables for the

three factors. First, “labor productivity (value added/ number of employees) in the manufacturing sector” was adopted as a proxy variable for “P” factor. Second, “the ratio of employment in the manufacturing sector to the total employment<sup>2</sup>” was adopted as a proxy variable for “R” factor. Third, “gross enrollment ratio of the secondary education<sup>3</sup>” was adopted as a proxy variable for “K” factor.

With regard to the Government, we adopted the following variables for the three factors. First, “enactment of relevant legislation such as export promotion act and SMEs promotion act, making of mid-term plans for export promotion and SMEs development” was adopted as a variable for “P” factor. Second, “establishment of trade center, export promotion agency, specialized ministry and agency for SMEs promotion” was adopted as a variable for “R” factor. Third, “existence of statistics and white papers on trade and manufacturing, and issuance of annual reports by government ministries and agencies in charge of trade, manufacturing, and SMEs” was adopted as a variable for “K” factor.

In addition, with regard to mutual relationships between the government and the firms, conditions of having dialogues and meetings were also examined.

## (2) Development Stage Analysis

The development stage of social capacity is divided into the System-Making Stage, System-Working Stage, and Self-Management Stage, and we seek to make clear at which stage the current social capacity standard is. We also analyze how it got to that stage, and the next rational goal of social capacity standard and path. Moreover, we construct the prerequisite for making clear the quality and quantity, timing and sequence of assistance for the program of development policy and aid policy.

In the development stage analysis for the four countries, the transitions from the system-making stage to the system-working stage and from the system working stage to the self-sustainable stage are shown, based on the evaluation of Actor-factor Analysis (2 actors x 3 factors and their mutual relations).

## 2.2 Social capacity development in trade and evaluation of JICA’s assistance

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<sup>2</sup> In more details, we also need to take into consideration physical aspects, which could be measured by capital stock, and financial aspects that include policy financing.

<sup>3</sup> Gross enrollment ratio is the number of students enrolled in a level of education, whether or not they belong in the relevant age group for that level, as a percentage of the population in the relevant age group for that level. On the other hand, net enrollment ratio is the number of students enrolled in a level of education who belong in the relevant age group, as a percentage of the population in that age group.

As a viewpoint of evaluation, two large points, “total evaluation of JICA’s assistance in the field of trade” and “the contribution of JICA’s assistance in the social capacity development of the targeted country” are set. For each viewpoint evaluation standard which has relation to the OECD DAC 5 items were set. The items which are important to the goal of this evaluation are taken into account. The standard of evaluation is as follows.

- (1) Contribution (effectiveness, efficiency) of assistance to Social Capacity Development (in the government sector): Evaluate mainly direct contribution of assistance to CD.
- (2) Consistency with the development stage of social capacity (timing of assistance entry and exit: relevance): Make clear at what stage the entry and exit of the assistance were performed, and evaluate the consistency of timing, quantity, quality (targeted actors and factors) and sequence of each assistance with social capacity development stages.
- (3) Partnership with other Japanese organizations and coherence with Japan’s upper-level policies (relevance): The characteristic of Japan’s higher policy in the area of trade and investment is “growth-oriented development strategy through the trinity of assistance, trade and investment”. Evaluate whether JICA’s assistance has been consistent with this policy, and whether there have been sufficient partnerships with other Japanese organizations.
- (4) Consistency with the policy of targeted countries (relevance): Evaluate relevance between JICA’s assistance and development policies of targeted countries. Development policies in developing countries have two aspects. First, development policies are materialized in accordance with unique characteristics and development stages of those countries. Second, long-term development goals and external competitive factors also affect the making process of development policies.

With regard to (1) and (2), we decided to analyze both “contribution of assistance to social capacity development (in the government sector)” and “consistency of assistance with social capacity development stages”, taking into consideration the importance of grasping social capacity development and aid inputs from multiple perspectives. With regard to (1), in particular, it was difficult to obtain detailed data of aid inputs, such as amounts and staff-months, dating back to 1980; therefore, we evaluated based on the number of projects in each year. We collected and sorted out the number of projects based on Institute for International Cooperation, Japan International Cooperation Agency (2003) and other materials, and listed the projects with confirmation from JICA local offices in the four countries. Although it is desirable to quantify the aid input based on the characteristics of each project<sup>4</sup>, we cannot adopt “the number of projects” due to data limitation. However, input in

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<sup>4</sup> It is not enough even if amount of money input of each project is obtained. We need to multiply coefficients by

four countries can be regarded as more similar, compared with developing countries in other region. We believe that we have been generally successful in evaluating contribution of assistance to capacity development and effectiveness and efficiency of assistance.

From the next section, we explain the result of survey and analysis in the four countries by evaluation framework and methodology mentioned in section 1 and 2.

### 3. Indonesia

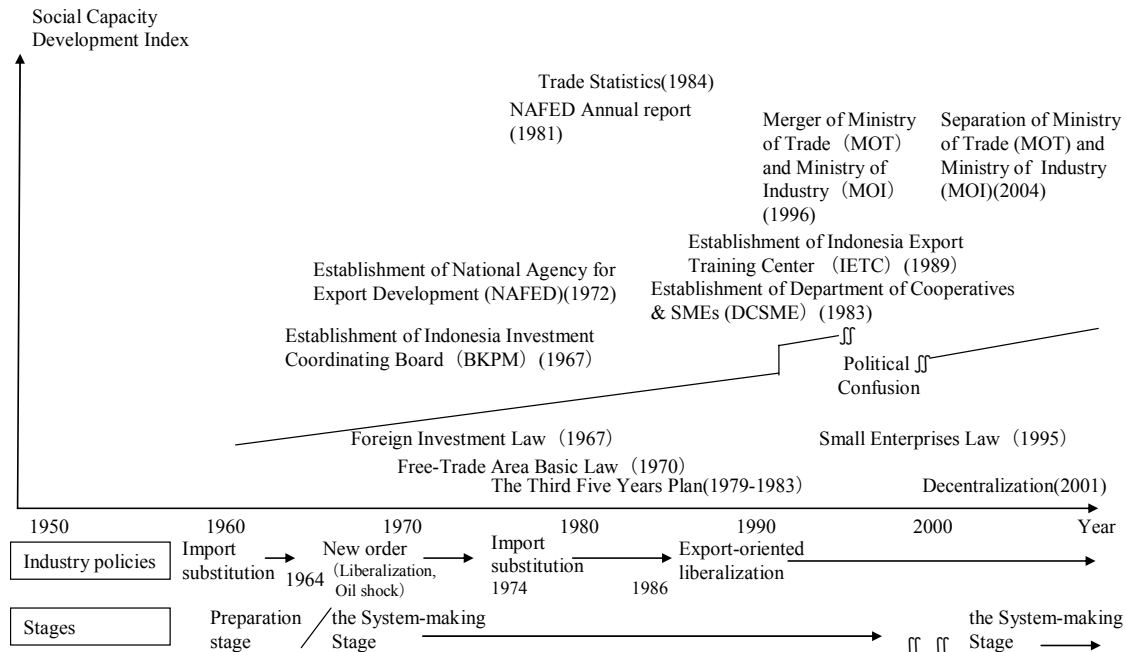
#### 3.1 Social capacity development path and development stages

Figure S.2 shows Indonesia's social capacity development path based on the analysis of the government and the firms sectors. Indonesia made progress in social capacity development in either the government sector or the firms until the mid-1990s. However, much of what had been gained before the mid-1990s was lost in the climate of political confusion and economic crisis in the late 1990s. Indonesia experienced setback in social capacity development during this period, and now is finally closing its System-(Re)Making stage.

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input type such as development survey and technical cooperation project, to conduct analysis more appropriately in accordance with the real situation.

Figure S.2 Indonesia's social capacity development in trade-related field



Source: The author based on an interview survey and several documents

With regard to the development of capacity factors in the governmental sector, “policies/measures factors (‘P’ factors: the formulation of medium-to-long-term plan of industry/trade [National Development Policy] and fundamental law and basic plan of export/SME promotion)” have steadily achieved the benchmark. “Human, financial, and physical resources in organization factors (‘R’ factors: the establishment of export-promoting agencies [the establishment of foreign and local offices, SME promoting agencies, and the organizational restructuring adapting to environmental changes])” have not accomplished its organizational restructuring in response to the changes of environment. Decentralization to local governments and splits and mergers of government ministries has caused confusions; thus, the stagnation of “R” factors is considered to have hindered development of the other two capacity factors. “Knowledge/skill factors (‘K’ factors)” have met a certain standard of the establishment of statistics. As to the white papers and annual reports of related organizations, there are rooms for further improvements. It is conceivable that the limiting factors rest in the room for improvement because the publication of the two reports needs more political and strategic judgment compared to the establishment of statistics.

In terms of the firms sector, compared to the situation in 1980 each capacity factor shows steadily growth, though it does not score a high standard. It seems the inducement of foreign direct investments (FDIs) became the facilitating factors that reflect the impact of “K” factors on two others. The relationship between the government and firms (including economic organizations) was

reinforced recently because the past chairman of Indonesian Chamber of Commerce and Industry (KADIN) became a Coordinating Minister for Economy in 2004.

### 3.2 Contribution of JICA's assistance to capacity development of the government

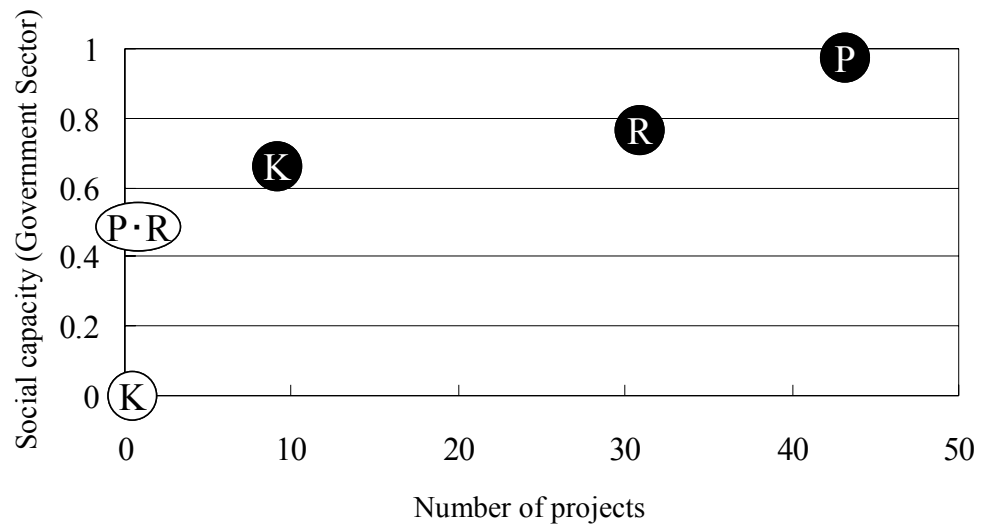
In order to examine contribution of JICA's assistance to capacity development of the Indonesian government<sup>5</sup>, we plotted the number of projects in the horizontal axis and the social capacity (the government) in the vertical axis in Figure S.3, showing changes by capacity in 1980 and in 2005. Here, the projects are sorted out based on capacity factors and counted in each year (Table S.2). With regard to the social capacity (the government), based on the benchmark of achievements, each factor is graded either 1 (achieved) or 0 (not achieved) and the average scores are calculated for each factor category.

As a result, it turned out that Indonesia has advanced its capacity in the factors that JICA has extended a lot of inputs, which indicates that JICA's assistance has been effective. "K" factors of the Indonesian government have remained at a low level; however, the growth rate of this factor category is high in spite of relatively small inputs of JICA's assistance, which indicates that JICA's assistance has been efficient.

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<sup>5</sup> We focused on the government's export promotion capacity, because JICA's assistance has mainly input into government sector.

Figure S.3 Contribution of JICA's assistance to capacity development of the Indonesian government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

Table S.2 JICA's assistance inputs in Indonesia by development themes

Capacity factor	Development themes	Name of projects	1980	1985	1990	1995	2000
Policies and measures (P)	Export-promoting development plan	The Second Phase of the Follow-up Study on the Development of Supporting Industries in Indonesian Export Promotion					
	Establishment of trade-related legislation	Improvement of Customs System in Indonesia					
		The Capacity Building Program on the Implementation of the WTO Agreements					
		Improvement of Customs Procedures on Special Fields (Intellectual Property Rights)					
		Management of Export Credit Agency					
		Improvement of Trade Environment in capital region					
	Promotion and development of SMEs, supporting industry and industry	Project on Promotion of SMEs					
		Industrial Sector Promotion and Development Project					
		Plan making of Human Resources Development in Skills and Technique Sector					
		Industrial Promotion and Development Plan (Supporting Industry)					
		The First Phase of the Follow-up Study on the Development of Supporting Industries in Indonesian Export					
		Support for SMEs' promotion					
		Project on Supporting Industries Development for Casting Technology					
		Support for SMEs					
		Enhancement of SMEs Cluster Project					
		Promotion of Industrial Standardization and Quality Control Project					
		Industrial Property Rights Administration					
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development	Improvement of Trade Procedures Administration Project					
	Assistance for trade center	Indonesia Export Training Center (Phase1)					
		Indonesia Export Training Center (Phase1 Follow-up)					
		Indonesia Export Training Center (Phase1 Aftercare)					
		Indonesia Export Training Center (Phase2)					
		Indonesia Export Training Center (Phase2 Follow-up)					
		Regional Export Training and promotion Center					
	Promotion of SMEs, supporting industry and industry	Establishment of Metal Processing Promotion Center					
		Establishment of Industrial Technique Information Center Project					
		SMEs' human resource development project					
		SMEs' human resource development project (Follow-up)					
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information and skills	Development of trade commerce statistics system					
		Export promotion (Market analysis, development )					
		Industrial Project Development Basic Study (Improvement of Trade Environment in Indonesian capital region)					
		Promotion of trade, investment and industry					

Note: the names of the projects are not necessarily the same as the official titles of these projects because the official titles are not always kept well in record especially as for old projects. The official titles are used to the extent the evaluation team was able to specify them.

Source: the author

### 3.3 Consistency of social capacity development stages and JICA's assistance

Table S.3 shows Indonesia's social capacity development stages and JICA's assistance inputs. During the period from 1980 to 2005, Indonesia was in its System-making stage; therefore, all JICA's assistance inputs are shown under its column. JICA's assistance inputs have sorted out in accordance with relevant capacity factors.

Table S.3 Social capacity development stages in Indonesia and JICA's assistance inputs

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan	2		
	Trade-related legislation (Response to liberalization and facilitation such as WTO)	13		
	Promotion and development of SMEs, supporting industry and industry	24		
	Establishment of industry-related legislation	4		
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)	1		
	Assistance for Trade Center (Export-support, information, training for private companies )	22		
	Promotion of SMEs, supporting industry and industry	8		
	SMEs promotion organization	0		
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information (such as statistics) and skills	9		
	Acquisition, analysis and release of industry-related information (such as statistics) and skills	0		
Support for south-south cooperation		0		

Note. The numbers are the total number of projects

Source: the author

In concert with the change to export-oriented industrialization in the mid-1980s, JICA began assistance programs focused on small and medium-sized enterprises development, industrial development and also created the trade training center. These inputs are thought to have made a significant contribution to Indonesia's system formulation. As a result of the confusion after the economical crises in 1997 and afterwards, it became necessary to rebuild the system and regain what was lost. For this purpose JICA implemented various additional programs including those aimed at trade-related legislation, establishment of organization, and human resource development.

Social capacity development in trade has not been necessarily sufficient in Indonesia<sup>6</sup>; therefore, it is

<sup>6</sup> This assessment is just in comparison with more advanced developing countries such as Thailand and Malaysia.

still in the phase where focused capacity development is necessary in order to achieve transition to the system-working stage. Also, as Indonesia has much larger land and population than the other three countries, namely Thailand, Malaysia, and the Philippines, the country needs more resources inputs. Accordingly, it is necessary for the international community as well as Indonesia itself to invest more resources inputs for capacity development. It should be also noted that, at the project level, there are successful cases in promoting capacity development such as Indonesian Export Training Center (IETC), which has graduated from JICA's assistance, expanded to operate at local levels, and is considering South-South cooperation towards Africa.

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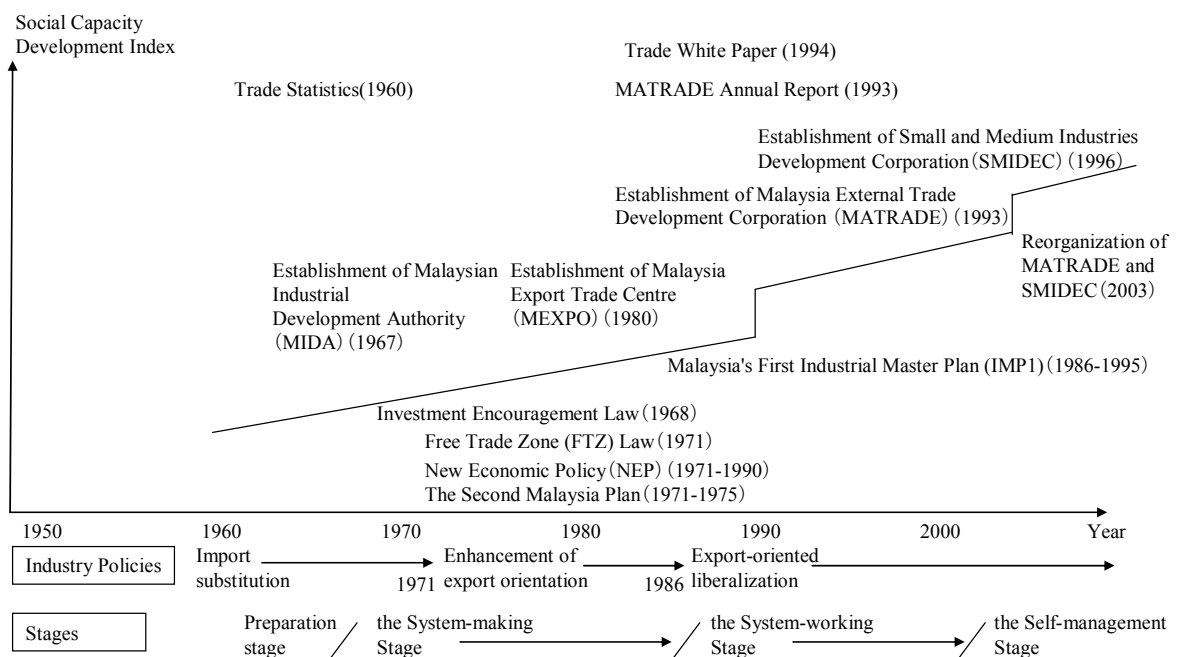
There is no doubt that Indonesia has improved its social capacity better than other developing countries in general. JICA's assistance should be evaluated in its role to have contributed to Indonesia's capacity development to reach the final phase of the System-making stage.

## 4. Malaysia

### 4.1 Social capacity development path and development stages

Figure S.4 shows Malaysia's social capacity development path based on the analysis of the government and the firms sectors. Malaysia has steadily advanced social capacity development in both the government and the firms sectors. Malaysia moved from its system-making stage to system-working stage in the early 1990s and has been in transition to its self-management stage in the years after 2000.

Figure S.4 Malaysia's social capacity development in trade-related field



Source: The author based on an interview survey and several documents

With regard to the development of capacity factors in the government sector, legal systems and planning (policies/measures = "P" factors) developed to a basic level until the mid 1980s. In terms of institutions (human, financial, and physical resources in organization factors = "R" factors), relevant government organizations such as Malaysia External Trade Development Corporation (MATRADE) and Small and Medium Industries Development Corporation (SMIDEC) have been smoothly established.

In terms of the firms sector, all three factors indicate steadily transition in the capacity level and growth. It seems the inducement of FDIs became the facilitating factors that reflect the impact of

“Knowledge/skill factors” on the two others. Malaysia had the highest export capacity in 1980 among four comparable countries. The level of its capacity after 2000 has grown steadily, though it is still lower than the most developed countries. Not only has the trade capacity of individual enterprises increased, but major industrial association such as Federation of Malaysian Manufacturers (FMM) have gained capability in both proposing policies to the government and providing services for local companies.

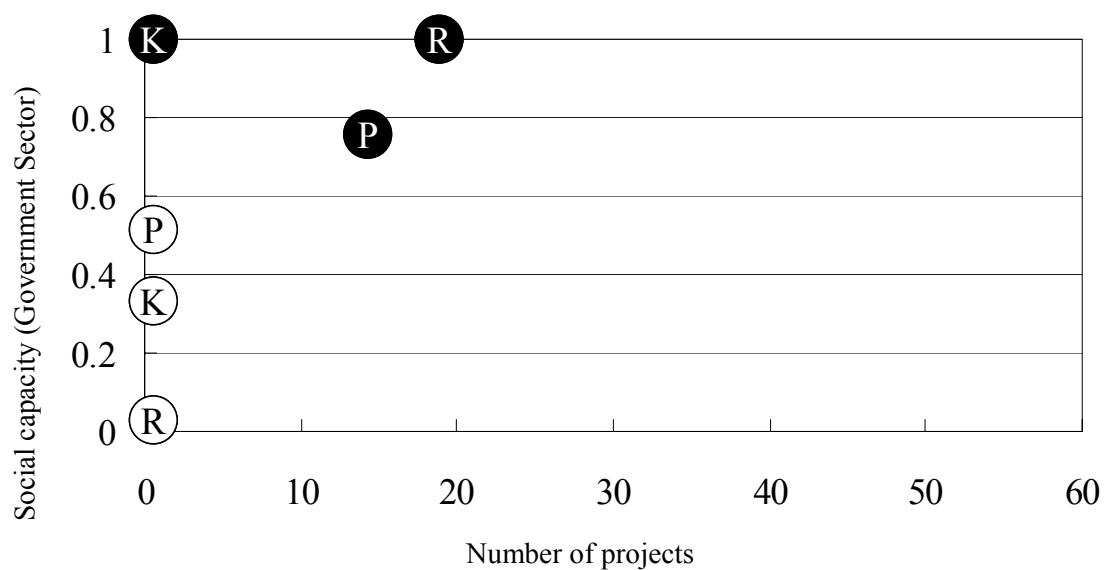
The relationship between the government and firms (including industrial association) seems to have met a certain level. This is exemplified by that fact that MATRADE has been established based on the recommendation of FMM, and their tight collaboration has been going on.

#### 4.2 Contribution of JICA’s assistance to capacity development of the government

In order to examine contribution of JICA’s assistance to capacity development of the Malaysian government, in the same way as we did for Indonesia, we plotted the number of projects in the horizontal axis and the social capacity (the government) in the vertical axis in Figure S.5, showing changes by capacity in 1980 and in 2005. The number of projects is, as shown in Table S.4, the total number of projects in each year based on the categories in accordance with relevant capacity factors.

As a result, it has become clear that Malaysia has smoothly developed its social capacity in spite of relatively little aid inputs from JICA. It is assumed that Malaysia itself has had strong ownership and led its capacity development on its own; therefore, development assistance has been extended at a minimum level required.

Figure S.5 Contribution of JICA's assistance to capacity development of the Malaysian government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

Table S.4 JICA's assistance inputs in Malaysia by development themes

Capacity factor	Development themes	Name of projects	1980	1985	1990	1995	2000
Policies and measures (P)	Establishment of trade-related legislation	The Capacity Building Program on the Implementation of the WTO Agreements					
	Promotion and development of SMEs, supporting industry and industry	Promotion and Development of industry sector					
		Construction of Kulim Hi-Tech Park					
		Promotion and Development of industry sector (Supporting industry)					
		Supporting Industry Technology Transfer Project					
		Formulation of Action Plan to Develop Advisory Capabilities of Malaysian Development Financial Institutions for SMEs					
Human, financial, and physical resources in organization (R)	Assistance for trade center	Malaysia External Trade Development Corporation					
	Promotion of SMEs, supporting industry and industry	Metal Industrial Technology Center					
		Research on Fine Ceramics					
		Casting Technology Center					

Note: the names of the projects are not necessarily the same as the official titles of these projects because the official titles are not always kept well in record especially as for old projects. The official titles are used to the extent the evaluation team was able to specify them.

Source: the author

#### 4.3 Consistency of social capacity development stages and JICA's assistance

Table S.5 shows Malaysia's social capacity development stages and JICA's assistance inputs from 1980 to 2005. During this period, Malaysia moved from its system-making stage, to system-working stage, and to self-management stage; therefore, JICA's assistance inputs are plotted under corresponding stages. Assistance inputs are sorted out in accordance with capacity factors of "P" factors, "R" factors, and "K" factors.

Table S.5 Social capacity development stages in Malaysia and JICA's assistance inputs

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan			
	Trade-related legislation (Response to liberalization and facilitation such as WTO)		2	2
	Promotion and development of SMEs, supporting industry and industry	5	3	2
	Establishment of industry-related legislation			
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)			
	Assistance for Trade Center (Export-support, information, training for private companies )		3	
	Promotion of SMEs, supporting industry and industry	15	1	
	SMEs promotion organization			
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information (such as statistics) and skills			
	Acquisition, analysis and release of industry-related information (such as statistics) and skills			
Support for south-south cooperation				

Note. The numbers are the total number of projects

Source: the author

From the system-making stage to system-working stage in Malaysia, JICA implemented projects for industrial promotion including promoting SMEs and supporting industries. Then during the transitional period from system-working stage to the self-management stage, JICA provided support programs related to trade such as assistance to MATRADE and WTO capacity building programs. Compared with the situation in Indonesia and the Philippines, JICA projects in Malaysia have successfully come to exits, and it seems that JICA effectively organizes the schedule of its projects according to the social capacity development stages of the recipient country.

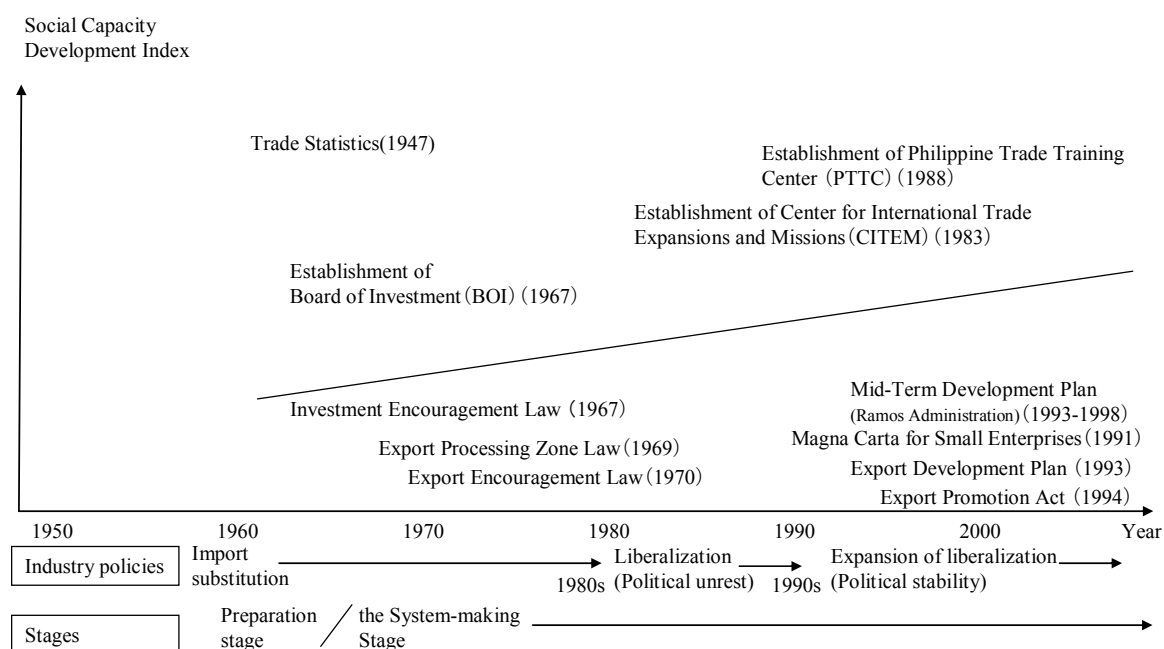
As Malaysia's capacity development has shifted to the self-management stage, JICA actively promotes South-South cooperation under Malaysian Technical Cooperation Programme (MTCP) scheme. In terms of trade and investment sector, Ministry of International Trade and Industry (MITI), Malaysia Industrial Development Authority (MIDA), and National Productivity Corporation (NPC) have accepted trainees. Support by JICA in trade and investment is under consideration for promoting Malaysia's South-South cooperation.

## 5. Philippines

### 5.1 Social capacity development path and development stages

Figure S.6 shows the Philippines' social capacity development path based on the analysis of the government and the firms sectors. With regard to the social capacity of the Philippines, both the government and the firms have made some achievements in policy-planning, organization building, and educational development at least in their formality; however, these achievements have not led to social capacity development to enhance export performance. Accordingly, it is concluded that the Philippines has not reached its system-working stage.

Figure S.6 Philippine social capacity development in trade-related field



Source: The author based on an interview survey and several documents

With regard to the development of capacity factors in the governmental sector, “policy/measures factors (“P” factors: the formulation of medium-to-long-term plan of industry/trade [National Development Policy] and fundamental law and basic plan of export/SME promotion)” have steadily achieved the benchmark. Among “human, financial, physical resources in organization factors (“R” factors: the establishment of export-promoting agencies [the establishment of foreign and local offices, SME promoting agencies, and the organizational restructuring adapting to environmental changes])”, the item of export-promoting agencies seems to be inferior when compared to the other three countries (in fact, Center for International Trade Expositions and Missions (CITEM) does not

have overseas offices.). The stagnation of capacity development of “human, financial, physical resources in organization factors” is considered to be the limiting factors of capacity development of the other two factors.

“Knowledge/skill factors (‘K’ factors)” have met a certain standard of the establishment of statistics. As to the white papers and annual reports of related organizations, there should be ameliorations. It is conceivable that the limiting factors rest in the room for improvement because the publication of other two reports needs more political and strategic judgment compared to the establishment of statistics.

In terms of the firms sector, the capacity development has seen sluggish growth though it had desirable initial condition (in 1980). “Knowledge/skill factor (represented as gross enrollment ratio of secondary education)” has kept the top position among four countries during the period of the project, but it does not contribute to the capacity development related to “R” factor (as manufacturing employment rate out of all employment). It does not reflect on “P” factor (as labor productivity) either.

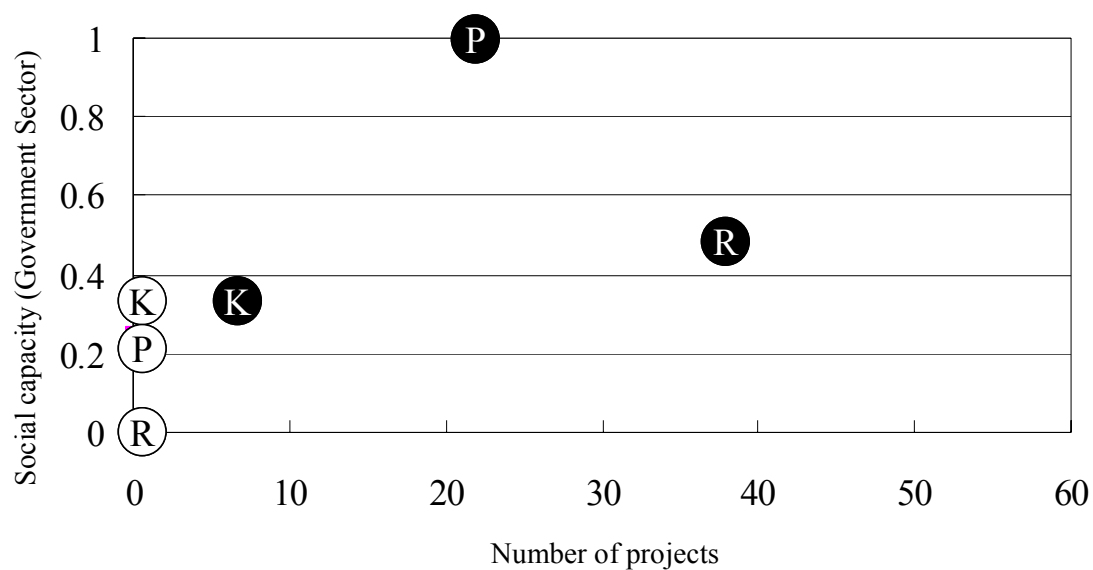
The relationship between the government and firms (including economic organizations) seems to have kept a certain standard. The Export Development Council consisting of representatives of public and private has established in 1994 and the foundation to accept policy proposals made by private agencies has developed.

## 5.2 Contribution of JICA’s assistance to capacity development of the government

Figure S.7 shows the situation of Philippine social capacity development stages and JICA’s assistance inputs from 1980 to 2005. The number of projects is, as shown in Table S.6, the total number of projects in each year based on the categories in accordance with relevant capacity factors.

There has not been necessarily seen sufficient contribution of JICA’s assistance to social capacity development in the Philippines when it is compared to the other three countries. There are several constraints that have hindered contribution of JICA’s assistance to the Philippines’ social capacity development; for instance, the country has received a relatively small number of projects compared to Indonesia and Thailand; and its government sector has limited human and financial resources.

Figure 7 Contribution of JICA's assistance to capacity development of the Philippine government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

Table S.6 JICA's assistance inputs in the Philippines by development themes

Capacity factor	Development themes	Name of projects	1980	1985	1990	1995	2000
Policies and measures (P)	Export-promoting development plan	Development of Cavite Export Processing Zone and Investment Promotion Plan					
	Establishment of trade-related legislation	The Capacity Building Program on the Implementation of the WTO Agreements					
	Promotion and development of SMEs, supporting industry and industry	Master Plan of Coal Industrial Technology Development					
		Promotion and Development of industry sector					
		Industrial Environment Management Study					
		Plan-Making Support of SMEs Development					
	Establishment of Industry-related legislation	Industrial Standardization and Quality Control Project					
		Industrial Property Modernization					
Human, financial, and physical resources in organization (R)	Assistance for trade center	Trade Training Center					
		Trade Training Center (Follow-up)					
	Promotion of SMEs, supporting industry and industry	Metal and Casting Technology Center					
		Industrial Standardization and Electric Testing Technology					
		Software Development Training Center					
		Improvement of Mold Technology					
		Electronic Products Testing Technical Cooperation					
		Improvement of Regional Food Packing Technology					
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information and skills	Study on Measurement of the Time Required for Trade					
	Acquisition, analysis and release of industry-related information	Production Statistics Development Plan					
		Production Statistics Development Plan Follow-up Study					

Note: the names of the projects are not necessarily the same as the official titles of these projects because the official titles are not always kept well in record especially as for old projects. The official titles are used to the extent the evaluation team was able to specify them.

Source: the author

### 5.3 Consistency of social capacity development stages and JICA's assistance

Table S.7 shows the Philippines' social capacity development stages and JICA's assistance inputs from 1980 to 2005. During this period, the Philippines has been in its system-making stage; therefore, all JICA's assistance inputs are shown under its column. JICA's assistance inputs have sorted out in accordance with relevant capacity factors.

Table S.7 Social capacity development stages in the Philippines and JICA's assistance inputs

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan	1		
	Trade-related legislation (Response to liberalization and facilitation such as WTO)	4		
	Promotion and development of SMEs, supporting industry and industry	10		
	Establishment of industry-related legislation	7		
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)			
	Assistance for Trade Center (Export-support, information, training for private companies )	8		
	Promotion of SMEs, supporting industry and industry	30		
	SMEs promotion organization			
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information (such as statistics) and skills	2		
	Acquisition, analysis and release of industry-related information (such as statistics) and skills	5		
Support for south-south cooperation				

Note. The numbers are the total number of projects

Source: the author

Overall, a variety of assistance was provided to the Philippines at the same time after 2000 as was done for Indonesia. Economic cooperation in the trade and investment from Japan includes not only the Philippine Trade Training Center (PTTC) project but also reinforcement of customs systems, WTO capacity building. In addition, JICA plans to implement food packaging technical cooperation projects. A lack of assistance to the supporting industries seems to reflect the fact that foreign capital is not as active as in other target countries.

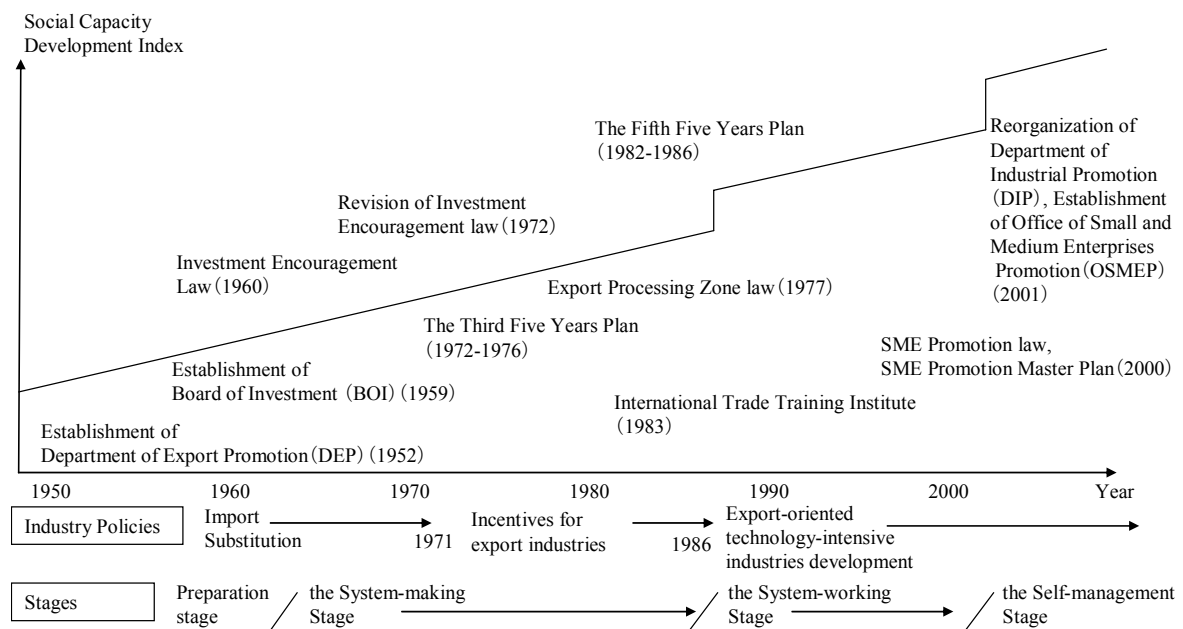
What it comes down to is that JICA's trade sector assistance in the Philippines needs additional and intensive inputs to actualize the transition to the system-working stage because the Philippines' social capacity has not sufficiently developed compared to Malaysia and Thailand. The country is still in the phase where focused capacity development is necessary in order to achieve transition to the system-working stage. Accordingly, it is necessary for the international community as well as the Philippines itself to continue to invest more resources inputs for capacity development.

## 6. Thailand

### 6.1 Social capacity development path and development stages

Figure S.8 shows Thailand's social capacity development path based on the analysis of the government and the firms sectors. Thailand has steadily advanced social capacity development in both the government and the firms sectors. Thailand advanced from the system-making to the system-working stage in its economic development in the 1990s and is shifting into the self-management stage in 2000s.

Figure S.8 Thailand's social capacity development in trade-related field



Source: The author based on an interview survey and several documents

With regard to the development of capacity factors in the governmental sector, almost all items have steadily achieved the benchmark. Concerning legal system and planning, government capacity for export promotion was fully developed by the middle of the 1980's. Concerning the organizational aspect, the Ministry of Commerce and Ministry of Industry, and particularly related organizations including Department of Export Promotion (DEP) of Ministry of Commerce (MOC) and Office of Small and Medium Enterprises Promotion (OSMEP) have been steadily developed.

The export capacity of the firms has been relatively high since the 1980's among the four targeted countries. Although the standard found after the year 2000 is still low compared to developed

countries, it has been steadily growing during this period. The capacity standard and growth of all three factors, which have not come up to those of Malaysia, shows the favorable transition. The gross enrollment ratio of secondary education which was adopted as a proxy variable of “knowledge/skill (‘K’ factors)” shows the significant growth. It is presumable that the potentiality of improving capacity is increasing because the role of the secondary education in the capacity development of manufacturing field is important. Not only individual firm-level efforts but the works of powerful industry organizations as represented by the Federation of Thai Industries (FTI), build capacity in both policy recommendation and services for firms.

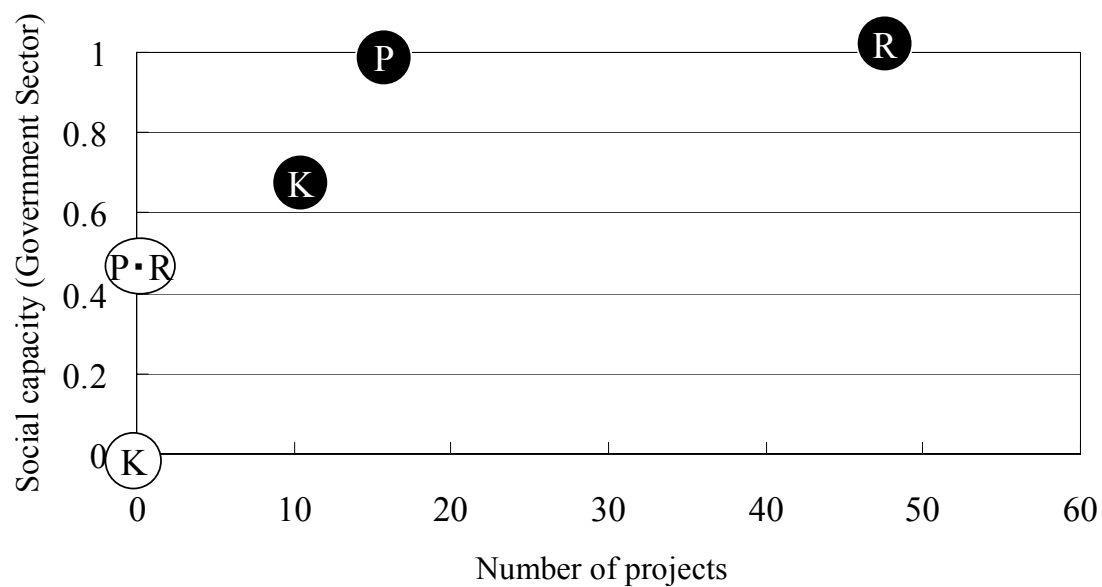
The relationship between the government and firms (including economic organizations) seems to have kept a certain standard. The joint acceptance and dispatch of missions by FTI, DEP, and BOI has brought the results.

## 6.2 Contribution of JICA’s assistance to capacity development of the government

In order to examine contribution of JICA’s assistance to capacity development of the Thai government, in the same way as we did for the other countries, we plotted the number of projects in the horizontal axis and the social capacity (the government) in the vertical axis in Figure S.9, showing changes by capacity in 1980 and in 2005. The number of projects is, as shown in Table S.8, the total number of projects in each year based on the categories in accordance with relevant capacity factors.

In the case of Thailand, capacities have been more developed where JICA has extended more inputs, which indicates effectiveness of JICA’s assistance. Although “K” factors remain at relatively low level compared to the other factors, this factor category has shown high increase from 1980 to 2005 in spite of relatively low level of aid inputs from JICA.

Figure S.9 Contribution of JICA's assistance to capacity development of the Thai government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

Table S.8 JICA's assistance inputs in Thailand by development themes

[illegible]

Note: the names of the projects are not necessarily the same as the official titles of these projects because the official titles are not always kept well in record especially as for old projects. The official titles are used to the extent the evaluation team was able to specify them.

Source: the author

### 6.3 Consistency of social capacity development stages and JICA's assistance

Table S.9 shows Thailand's social capacity development stages and JICA's assistance inputs from 1980 to 2005. During this period, Thailand moved from its system-making stage, to system-working stage, and to self-management stage; therefore, JICA's assistance inputs are plotted under corresponding stages. Assistance inputs are sorted out in accordance with capacity factors of "P" factors, "R" factors, and "K" factors.

Table S.9 Social capacity development stages in Thailand and JICA's assistance inputs

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan			
	Trade-related legislation (Response to liberalization and facilitation such as WTO)		2	2
	Promotion and development of SMEs, supporting industry and industry	4	2	2
	Establishment of industry-related legislation		4	
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)			
	Assistance for Trade Center (Export-support, information, training for private companies )	7		
	Promotion of SMEs, supporting industry and industry	16	26	2
	SMEs promotion organization			
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information (such as statistics) and skills			
	Acquisition, analysis and release of industry-related information (such as statistics) and skills		7	3
Support for south-south cooperation				

Note. The numbers are the total number of projects

Source: the author

Overall, it seems that necessary assistance has been sequentially provided as done in Malaysia. Specifically speaking, in the 1980s, along with the expansion of export orientation, the assistance inputs to the International Trade Training Center (ITTC, currently International Trade Training Institute (ITTI)) started. Then, several development survey and technical cooperation projects for the promotion of industry, SME, and supporting industry was conducted. During the transitional period from system-working stage to the self-management stage, JICA implemented projects related to policies and measures such as assistance for WTO capacity building, development of consulting services to promote SME cluster and regional development, Thai measurement and standards organization project.

## 7. Evaluation results, lessons and recommendations

### 7.1 Social capacity development in trade and evaluation of JICA's assistance

#### 7.1.1 Contribution of JICA's assistance to capacity development of the governments

As mentioned above, we compared the capacity levels and JICA's assistance inputs as of 1980 and as of 2005, and examined contribution of JICA's assistance inputs. In this section, we will show the capacity development situations of individual countries, and accordingly analytical results.

Table S.10 shows the development of the government's capacity factors. First, "policy/measures factors ('P' factors: the formulation of medium-to-long-term plan of industry/trade [National Development Policy] and fundamental law and basic plan of export/SME promotion)" have been steadily developed overall in all the four countries. On the other hand, there are gaps between the Malaysia-Thailand group and the Indonesia-Philippine group in the other two factor categories of "human, financial, physical resources in organization factors ('R' factors: the establishment of export-promoting agencies [the establishment of foreign and local offices, SME promoting agencies, and the organizational restructuring adapting to environmental changes])" and "knowledge/skills factors ('K' factors: existence of statistics and white papers on trade and manufacturing, and issuance of annual reports by government ministries and agencies in charge of trade, manufacturing, and SMEs)." With regard to the relationships between the government and the business (including industrial associations), all the four countries have reached a certain level.

Table S.10 Social capacity development in trade in the four targeted countries  
(Capacity of the government sector and government-business relationships)

Capacity Factors	Check items of capacity evaluation	Indonesia		Malaysia		Philippines		Thailand	
		1980	2005	1980	2005	1980	2005	1980	2005
Policies and Measures (P)	Medium and long-term plan-making (National development plan) on industry and trade	✓	✓	✓	✓	✓	✓	✓	✓
	Establishment of basic laws on export promotion	✓	✓	✓	✓	✓	✓	✓	✓
	Establishment of basic laws on SMEs promotion		✓				✓		✓
	(Relationship between the government and enterprises) Dialog and meeting between the government and enterprises		✓		✓		✓		✓
Human, financial and physical resources in organization (R)	Establishment of export promotion organization	✓	✓	✓	✓		✓	✓	✓
	Establishment of overseas office of export promotion organization	✓	✓		✓			✓	✓
	Establishment of SMEs promotion organization		✓		✓		✓		✓
	Self-management organization				✓				✓
Knowledge and skills (K)	Publication of statistics		✓	✓	✓	✓	✓		✓
	Publication of trade white paper				✓				
	Publication of annual report by export promotion organization		✓		✓				✓

Note 1. Cells are checked when items are achieved.

Source: the author

With regard to the firms sector, as shown in Table S.11, Malaysia, Thailand and Indonesia have displayed smooth increase in capacity factors; Malaysia has achieved high marks in all three factors; and Thailand and Indonesia follow in the order. On the other hand, the Philippines has been unable to develop its capacity smoothly although it was enjoying high performance as of 1980.

Table S.11 Social capacity development in trade in the four targeted countries  
(Capacity of the business sector)

	Policies and measures (P) (Labor productivity of manufacture industry constant 2000 US\$)	Human, financial and physical resources in organization (R) (Ratio of employees in manufacture industry to employees in total, %)	Knowledge and skills (K) (Enrollment rate of secondary education, % )
Indonesia	1,628 (1981)	8 (1981)	29 (1980)
	3,932 (2003)	13 (2002)	61 (2002)
Malaysia	10,316 (1981)	15 (1982)	48 (1980)
	16,935 (2004)	21 (2004)	70 (2002)
Philippines	6,754 (1981)	10 (1981)	64 (1981)
	6,507 (2004)	10 (2004)	84 (2002)
Thailand	4,842 (1981)	7 (1981)	29 (1980)
	10,052 (2004)	15 (2004)	81 (2002)

Source: the author

In order to examine contribution of JICA's assistance to capacity development of the governments of the four countries, we plotted the number of projects in the horizontal axis and the social capacity (the government) in the vertical axis. As a result, we have found that levels of individual capacity factors have improved in the four countries, and JICA's assistance has been one of the contributing factors for such improvements (See Figure S.3, Figure S.5, Figure S.7, and Figure S.9). In Indonesia and Thailand, improvements of social capacity levels are proportionate with the amount of JICA's assistance inputs, which indicates JICA's assistance has been relatively large. On the other hand, Malaysia has been successful in developing its capacity in spite of low level of JICA's inputs; among others, capacity development in "R" factors has been remarkable in Malaysia. In the Philippines, there has not been seen sufficient contribution of JICA's assistance; among others, the country has shown little increase in "R" factors and "K" factors.

#### 7.1.2 Consistency of social capacity development stages in trade and JICA's assistance

Based on the social capacity development stage analysis of the four countries, we will evaluate consistency of JICA's assistance with the social capacity development stages in the four countries. JICA's assistance will be classified into two categories based on the characteristics of inputs in hindsight; "additional input" type and "sequential input" type. These two types are referred to as a hint to evaluate consistency of JICA's assistance.

In the first type, the focus of assistance will shift according to social capacity development stages

and following assistance will be implemented. Among targeted countries, Malaysia and Thailand are categorized in this type, and JICA's assistance towards Malaysia and Thailand are evaluated to be consistent with their development stages. In Malaysia, JICA implemented industrial development assistance from the system-making stage to the system-working stage, and then it implemented trade promotion assistance (MATRADE) in the system-working stage. Subsequently, it started assistance for enhancing trade institutions in Malaysia's self-sustainable stage. In Thailand, assistance for industrial development and trade institution enhancement was implemented in the same manner as in Malaysia. With regard to the trade center project, it was implemented in the system-making stage.

The second-type is, due to the insufficient development of social capacity, one in which various types of assistance are implemented at the same time at a certain stage. This type is called "additional input" type assistance. Indonesia and the Philippines are considered to be the second type. These two countries have not sufficiently developed their social capacity; therefore, concentrated inputs have been seen as total efforts of both the countries themselves and development assistance in order to move their capacity development stage to the system-working stage.

Examining consistency of JICA's assistance with social capacity development stages in hindsight, it can be concluded that "sequential input" type assistance implemented in Malaysia and Thailand seems to have been more desirable in terms of efficiency and ensuring ownership. However, it is more fit in with the reality to say that efficient assistance has been possible because those countries have had strong ownership. In the cases of Indonesia and the Philippines, JICA's assistance has been consistent with development stages in a sense that it has been in line with the reality of the countries. However, more efforts are required to promote self-help of developing countries and facilitate capacity development based on their ownerships.

#### 7.1.3 Coherence with higher policies and partnership between JICA and other agencies

Japan has conducted international cooperation based on the policy of "the trinity of assistance, trade and investment". This policy typically materialized in the Southeast Asian countries. Japan's assistance has led to improving the investment climate, which fosters foreign direct investment, and to promoting export. Ultimately this strategy leads to contribute toward the economic growth of developing countries. For example, economic infrastructure development cooperation in areas such as roads, railways, ports, airports, transport/communication and power, contributes to investment climate improvements. In addition, training for engineers and managers by Association of Overseas Technical Scholarship (AOTS) and JICA, and expert dispatch programs by Japan Overseas Development Corporation (JODC) contribute to human resources development in the trade area of

developing countries.

The sharing of assistance by Japanese assistance-related organizations is summarized as follows. First, for the capacity development of the Government, JBIC has played a major role in the “hard” aspect by supporting infrastructure building, and JICA has played a major role in the “soft” aspect by assisting institutional building. In terms of assistance for trade-related policy making and implementation, JICA and partly JETRO have played important roles. In addition, assistance to the government for enhancing its export promotion services has been implemented mainly by JICA and partly implemented by JETRO as its cooperation with export promotion organizations. With regard to SMEs capacity development, JETRO, JODC and AOTS have played major roles in extending assistance. Assistance to private industrial associations have been mainly charged with JETRO

With the above mentioned sharing of roles, the coordination among JICA and other assistance related agencies has been effective. Furthermore, in each developing country, the ODA task force among embassies, JICA, JBIC and JETRO is held and the coordination among agencies is strengthening. However, for further development, it is necessary to discuss more effective ways of sharing roles without sticking to each agency’s formulated roles.

Looking at the trends in the donor community, in order to solve the problems of limiting the aid channel only to “G to G”, it has become mainstreamed to pursue a “best-mix” assistance of “G to G” and “G to B” in accordance with unique conditions and development stages of developing countries. (With regard to assistance in the area of trade and investment, in most cases end-beneficiaries are the private sector. However, we focus on “direct” beneficiary when we discuss whether beneficiaries are the government or the private sector.) In pursuing such best-mix assistance, if roles of individual agencies are fixed, it is difficult to respond the needs of a host country flexibly, due to the shortcomings of schemes of individual agencies. For instance, JICA mainly implements G to G projects and it uses relatively long time to prepare for the start of projects, and JETRO expert are targeted at short-term needs. In a country where social capacity is not developed smoothly, such as the Philippines and Indonesia, it is necessary to consider the new channel through which Japan’s assistance is input to a private sector. Furthermore, in addition to existing cooperation roles of each agency, the new role sharing needs to be formulated for the new international cooperation.

#### 7.1.4 Consistency with a developing country’s development policy

The four countries we evaluated in this report adopted export-oriented industrialization policies by the mid-1980s. More specifically, the governments encouraged investment in export-oriented

industries by policy measures such as low-interest policy financing as well as provided subsidies and lowered export-tariffs. In addition, as trade liberalization advanced in the world through the WTO, FTAs, and EPAs, the governments have shifted their focuses from export promotion assistance targeting at individual industries/companies to establishment and improvement of the system and environment to promote capacities in the private sector.

In the meantime, Indonesia and the Philippines, faced with strong competitors such as Malaysia and Thailand in the neighborhood, set the same targets as those relatively advanced countries. Such target settings were not only pursued by the local governments themselves but also strategically encouraged by the donors. In that sense, donors' assistance was consistent with development policies of those countries. However, it need to be carefully reviewed whether development policies of Indonesia and the Philippines themselves were appropriate, taking also into consideration domestic protectionist policies of these countries.

In a country where industrial development has been achieved to a certain level and its national income is relatively high, such as Thailand and Malaysia, social capacity has also been developed to some extent. Therefore, the focus of the recipient government's policy is to grow high value-added industries based on the already developed social capacity. Accordingly, assistance to these countries should focus on the firms sector, rather than on the government sector, to promote direct investment and imports. Development assistance to Thailand and Malaysia is already shifting in this direction. Also, these countries are expected to become a center for South-South cooperation toward less developed countries, which is a challenge for these countries. JICA is already considering how to promote South-South cooperation by these countries.

## 7.2 Lessons learned and recommendations

In this section, based on the lessons learned from evaluation results for the four countries, we set forth recommendations for enhancing aid effectiveness especially in the situations where social capacity is not smoothly being developed. More specifically, we point out the importance of accurately identifying social capacity development stages, conducting ex-ante program planning, actively seeking to adopt “G to B” approach, and extending well-targeted assistance that matches the country’s social capacity with a proper consideration of the local strategies.

### (1) Toward program-based assistance

Based on the evaluation results of Indonesia and the Philippines, JICA’s assistance has made contributions to the governments’ capacity development to some extent. However, when considering consistency of JICA’s assistance with capacity development of the whole society including the business sector, these countries have not been able to reach the system-working stage. Therefore, assistance inputs are required to enhance ownership of the targeted countries. In sum, it is necessary to plan assistance programs that take into consideration comprehensive social capacity development, which is social capacity development that comprises three capacity factors and two actors in this evaluation.

When actually making programs, we need to consider capacity levels that are identified based on the Social Capacity Assessment, and development assistance’s timing, quantity, quality, and sequence based on the development stages. Above all, major focus is placed on what kind of assistance is necessary to advance the development stages from the system-making stage to the system-working stage. After the end of each assistance input, developing countries themselves are expected to invest resources as required.

The initial period of the system-making stage or the period from pre-system-making stage to the self-management stage may last a few decades; therefore, it is not realistic to expect one program is sufficient. In the four countries from 1980 to 2005, focuses of development assistance shifted from industrial development to responsive measures for trade liberalization. As seen in such a shift, it is inevitable to change programs in response to the environmental changes. In fact, programs would have mid-term goals such as shift to the system-working stage, covering the period of 5 to 10 years.

However, here we show a long-term cooperation program in order to show the overall picture covering from the system-making stage to the self-management stage. Based on the evaluation

results of the four countries as well as OECD (2001) and IFIC-JICA (2003), the overview of trade-related cooperation programs in accordance with social capacity development stages is shown in Table S.12. This is taken as a conceptual model as it may not be applied as it is to any countries and regions.

Table S.12 Development assistance programs that correspond to  
social capacity development stages

Social capacity development stage	Preparation stage	System-making stage	System-working stage	Self-management stage
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Trade sector

Policies and Measures (P)	Export-promoting development plan				
	Establishment of trade-related legislation (Response to liberalization and facilitation such as WTO)				
Human, financial and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)				
	Assistance for Trade Center (Export-support, information, training for private companies)				
Knowledge and skills (K)	Acquisition, analysis and release of information such as statistics				
Support for south-south cooperation					

Industry promotion sector

Policies and Measures (P)	Promotion and development of SMEs, supporting industry and industry				
	Establishment of industry-related legislation				
Human, financial and physical resources in organization (R)	Promotion of SMEs, supporting industry and industry				
	SMEs promotion organization				
Knowledge and skills (K)	Acquisition, analysis and release of information such as statistics				
Support for south-south cooperation					

Note: dark gray indicates that focused inputs are required; light gray indicates that preliminary or follow-up inputs are required.

Source: the author

Cooperation programs can be classified into two types. Programs which directly deal with export promotion and programs which aim at enhancing competitiveness of firms in a host country.

In trade related area (in a narrow sense), Master Plan on export promotion should be formulated at the Preparatory Stage. Master Plan is a basic policy for developing social capacity and clarifies areas which require assistance. Master Plan should be formulated in consideration of enhancing firms' competitiveness. Based on Master Plan, from the system-making stage to the system-working stage, assistance, which are related with three factors such as "policy and measure" ("P" factors), "human, financial, and physical resources in organization" ("R" factors) and "knowledge and skills" ("K" factors), should be input. At the system-making stage, assistance for development of trade-related law system (P), organization and human resources development in customs/quarantine or trade finance agencies (R), statistical data collection/analysis/publishing support (K), should be input.

When capacity development assistance achieves a certain results (this period is considered as the latter part of the System-Making Stage), assistance for development of trade-facilitation law ("P" factors) and establishment of "trade centers" ("R" factors), should be input. As the experience of Thailand shows, to make assistance more effective, assistance toward export promotion agencies should be implemented at the same time. Training center and export promotion organization should be managed as one entity. Through capacity development in three factors in the government sector, the government becomes able to support capacity development in the firms sector. With developing related capacity, firms can contribute to the advancement of capacity development. It can be assistance that JICA can newly cooperate with a host country in the following fields; Formulating Master Plan, Promoting participation in law-formulation process, enhancing understanding on the legal system and fostering firms' feedback to services provided by related organizations.

At the early system-working stage, assistance, which was input at the late system-making stage, should be implemented continuously. As the case in Indonesia shows, at the completion of capacity development, extending the scope of trade center projects from the capital to the regions could have larger impacts. When the capacity development stage enters the self-management stage, Japan's assistance should focus on fostering South-South cooperation.

On the other hand, sequential inputs are basically required in the area of industrial development. At any rate, trade promotion (in a narrow sense) and SMEs/supporting industries promotion should be closely connected each other to enhance export performance.

In addition, in order to ensure effectiveness of development assistance programs, overarching perspectives are necessary; in other words, it is important to consider not only trade promotion, and SMEs/supporting industries promotion but also public sector reform and improvement of market conditions. It is also important to consider priorities of trade promotion in the country-level

development plans.

Also, there are possibilities that the region can not enjoy efficient resource allocation when individual countries pursue independent programs on their own. In this regard, it may be necessary for countries to undertake policy coordination and to make cooperative programs at the regional level with due consideration to benefits of individual countries. As far as the four countries in this evaluation are concerned, it is expected that the frameworks of Association of Southeast Asian Nations (ASEAN) and the East Asian Community will be utilized to discuss export promotion and SMEs promotion policies that benefit individual countries.

(2) From “government to government (G to G)” to “G to G plus government to business (G to B)”

The most important point in assisting capacity development is to develop all of the society’s capacity by utilizing various actors. It is necessary to choose the best actors among them, without limiting the choice to the targeted actor. As the Philippines case shows, to put assistance into the firms sector could be a more efficient way if there was severe human and financial constraints in the government sector.

In 2001, the World Bank, International Financial Corporation (IFC), International Labor Organization (ILO), United States Agency for International Development (USAID), Department for International Development (DFID), and German Technical Cooperation (GTZ) held a Small Firm Promotion Donor Committee. The committee published “Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention 2001 Edition”, in which assistance to BDS facilitators, not to BDS providers, is emphasized. Currently each assistance agencies are implementing projects based on the guideline. It can be said that G to B assistance is established as a dominant option, based on international discussion. However, here we have to note that assistance to BDS providers should not be dismissed completely.

Canadian International Development Agency (CIDA) has implemented provider-assistance in Indonesia and the Philippines. In the case of Private Enterprise Accelerated Resource Linkages Phase II (Pearl 2) Project in the Philippines, target organizations are decided based on the proposals from chambers of commerce and industrial association. Competitive environment is created by limiting assistance according to the quarterly results. It may be effective to input assistance only a provider is expected to continue its activity after the termination of assistance. When the provider becomes able for providing service, the focus of assistance should be shifted to the facilitator. The relationship between provider assistance and facilitator assistance is not a trade off but a

complementary one. Assistance should be implemented with it in mind.

### (3) Applying past experiences to South-South cooperation

The EPA between Japan and East Asian countries has been criticized for its ineffectiveness because of a prolonged negotiation process and many exemption items. To improve the situation, it is necessary to foster capacity development assistance in the trade-related area in least developed countries such as Cambodia, Laos, Myanmar, and Vietnam (CLMV). Under the circumstance, Thailand and Malaysia are especially expected to play a major role to implement South-South cooperation. The importance of such activity is rising to proceed toward the future “East Asian Community”.

From a wider perspective, all the four countries are expected to play important roles to implement South-South cooperation for African development which is the most important issue in development assistance. Malaysia has already been accepting trainees as already discussed. MATRADE is starting to accept trainees from Year 2006. IETC of Indonesia plans to start cooperation towards Africa with the support of JICA.

JICA and other Japanese agencies have the assistance experience of “placing importance not only development results but also capacity development process.” Supporting South-South cooperation is a challenge for these organizations to change the quality of their activities. It is also to the benefit of the four countries to implement South-South cooperation, which requires them to review their past policies and improve their policy making and implementation process more efficiently and effectively. For Indonesia and the Philippines, which are still in the process of moving from the system-making stage to the system-working stage, South-South cooperation may be inevitably limited in its scope and effectiveness, but reviewing their experience at this stage and conveying their experiences to other countries is an important learning process and is expected to enhance their ownership.

No matter what regions, CLMV or Sub-Saharan Africa, we consider to apply the experiences of the four countries, there remain issues for serious consideration such as including social capacity development in the agricultural sector in scope in addition to the manufacturing sector.

For instance, there is necessity to fully explain the difference between Asia and Africa and the applicability of the Asian development experience to African counties based on their intrinsic efforts (ownership). Furthermore, it is essential to secure consistency with each targeted country’s policy and coordination among donors.

To conclude, it is important to re-classify Japan's cooperation experiences in the trade sector and the East Asian countries' development experience, and to use the lessons derived from these experiences as a guide for South-South cooperation.

# Chapter 1



## Chapter1 Goal, background, subject of evaluation

### 1.1 Background of evaluation

In the East Asia region, the development of EPAs (Economic Partnership Agreements), including Free Trade Agreements (FTAs), is accelerating among ASEAN countries, Japan, Korea and China. The effect of EPA's conclusion is expected to lead to the activation of the economy of the region, including Japan.

Japan, since the 1980's, has implemented technical cooperation in the trade and investment sector. JICA's technical cooperation in this sector has included assistance for developing training centers for trade business such as "trade center"<sup>1</sup> projects which were implemented as project-type technological cooperation (currently called technical cooperation project) and technological cooperation centered on Capacity Development (CD) for Indonesia, Thailand, Philippines, and Malaysia.

In the meantime, the trade and investment environment in the East Asia area has greatly changed. As mutual dependence in the region deepens, the new ways of cooperation and interdependence in this region have been sought to develop. Under such circumstances, it is necessary for JICA to continue to implement its assistance in order to better serve the demands of building institutions necessary for free and efficient competitive markets, enhancing balanced economic infrastructure, and strengthening competitiveness in the private sector under the circumstances where moves for economic partnership have been accelerating. At the same time, changes in the trade and investment environment have affected the ways of development assistance. In the 1980s, JICA's assistance mainly focused on industrial promotion in specific sectors; on the other hand, in recent years, major focuses have been placed on how to respond to the World Trade Organization (WTO) and EPAs/FTAs, which seek to promote economy based on market principles.

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<sup>1</sup> As a result of research in the field, we confirmed that these centers do not focus on training only. For instance, the MATRADE of Malaysia does some training but its main activities are sending trade missions, organizing trade fairs, and promoting exports by providing related information. Also The Regional Export Training and Promotion Center (RETPC) which is the subject of phase 3 holds training in export and promotion of export as its two main activities, as its name suggests. Therefore, it can be assistance that to view these as a trade training center approach is not appropriate. We will perform the evaluation by regarding them as a trade center approach which includes trade promotion as well.

In light of the aforementioned background, JICA commissioned the Joint Venture of Hiroshima University and Mitsubishi Research Institute, Inc., a their party, to implement this evaluation study with the following three main purposes:

- (1) Identify and map out factors of Social Capacity that promote economic cooperation from the perspectives of actors including the Government and the Firms, and analyze how these factors affect the total system of trade and investment.
- (2) Identify development stages of Social Capacity in trade and investment in the targeted four countries, namely Indonesia, Malaysia, the Philippines and Thailand, evaluate the impact of JICA's assistance on Social Capacity Development of those countries, contemplate what kind of roles JICA's assistance including trade center projects should play in the future (self-sustainability). In evaluating JICA's assistance, assistance by other Japanese governmental organizations such as Japan Bank for International Cooperation (JBIC) and Japan External Trade Organization (JETRO) were also considered.
- (3) Propose recommendations for JICA's future assistance in order to better surve the demands of building institutions necessary for free and efficient competitive markets, enhancing balanced economic infrastructure, and strengthening competitiveness in the private sector under the circumstances where moves for economic partnership have been accelerating.

## 1.2 Framework of evaluation

### 1.2.1 Basic concept of social capacity assessment

This report aims to evaluate Japan's cooperation that is done mainly by JICA in the field of trade, from the standpoint of capacity development, and to show lessons for the future. We will use the method of Social Capacity Assessment as developed by the 21<sup>st</sup> century COE program of Hiroshima University "Social Capacity for Environmental Management and International Cooperation" for the capacity development of the trade area, and we will set three agendas of analysis.

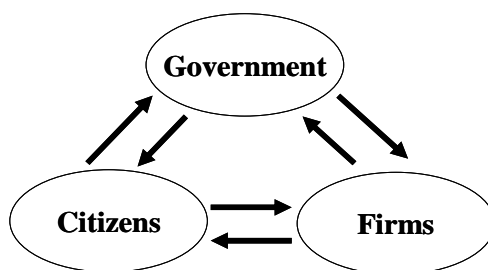
The objectives of the COE program are to formulate integrated index of social capacity for environmental management (SCEM), to develop a model for social environmental management system and to generate an effective approach for international environmental cooperation assisting SCEM in developing countries.

The approach to analyze CD and international cooperation which uses the concept of "social

capacity” (See Chapter 2 of this report), is effective not only in environmental issues but also in other fields of development and aid. In this evaluation we applied the CD model which the COE program has been developing to the Capacity Development in the field of trade.

This report will propose Social Capacity Assessment (SCA) as a methodology of the CA that is necessary to materialize the CD approach. To begin with, Social Capacity is defined as the capacity to solve the different problems of development of each social actor, composed of the government, the firms, and the citizen, and also the comprehensive capacity that includes the interaction of each actor. (Figure 1-1)

Figure 1-1 Social Capacity



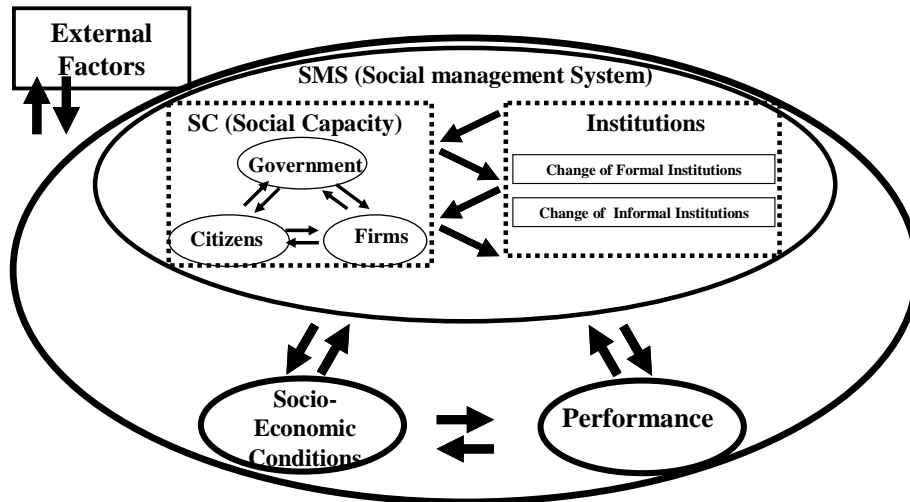
Source: the author from Matsuoka, Kuchiki, (2003)

There are some caveats when this concept of Social Capacity is applied to Trade Capacity Development (TCD); these caveats include:

- (1) In the trade and investment sector, the firms play a greater role and the government plays a more limited role than in the other development sectors such as environment, education, and health.
- (2) The citizens play an even more limited role than the other actors in the trade and investment sector.
- (3) Impact of development assistance and economic cooperation on development (trade) performance is relatively limited. (Other factors such as exchange rates, economic performance of export markets, and competitive relations with other countries have more impacts.)

The interaction of social capacity and institution is grasped as a Social Management System (Matsuoka and Kuchiki eds 2003). As shown in the figure S.1, the Social Management System is defined in the mutual relationship with the socioeconomic conditions and the environmental quality. Also, it seems to have the similar relationship with the external factors. The social system as a whole is called Total System (Matsuoka and Kuchiki eds 2003, Matsuoka et al 2005).

Figure 1-2 Total Systems and Social Management System



Source: Matsuoka, others(2005)

The factors affecting trade performance include long term development vision of society and economy, political leadership realizing the vision, efficient government, effective management of foreign currency, cooperation between government and private sector and political stability. In this study, we use the analytical concept to interpret those factors. The approach enables us to clarify key factors for develop trade performance through the historical example of the countries in terms of development process of social capacity.

### 1.2.2 Evaluation Questions

The system of questions is shown in Table 1-1

Evaluation Questions:

Large term: Whether the aid which JICA performed in the four countries (such as trade centers) was effective for Trade Capacity Development; and whether the consistency with the policies of the government and cooperation with other aid organizations was considered.

Medium term: question No.3 and 4 cover social capacity (Figure 1-1) and total system (Figure 1-2). Analysis of those questions leads the evaluation of question1 based on JICA's actual aid inputs.

Table 1-1 Question system of this evaluation

Evaluation item : Large items

Was a series of JICA's cooperation centering on the trade sector (such as "Trade center") in 4 countries effective for each country's Trade Capacity development?  
At that time, did JICA consider consistency with local government's policy system and coordination with other donor agencies?

Evaluation items		Necessary information and data	Source	Data collection method
Middle items	Small items			
1. Have impacts of JICA's assistance in such the trade sector been appropriate in relation to time, quantity, quality and the local government's policy and input of other donors?	1.1 Was there compatibility between social capacity development and development stage?	2.4 data, JICA related cooperation project	Related documents JICA	Documents review Interview
	1.2 Was there consistency between local government and policies?	JICA related cooperation project, Local governmental policy	Related documents Related ministries, departments	Documents review Interview
	1.3 Did JICA work together with Japanese other organizations and Foreign donors?	JICA and other donors related cooperation project	Related documents Other donors	Documents review Interview
	1.4 Was there consistency in Japanese higher policies?	JICA related cooperation project, Japanese government policy	Related documents	Documents review
2. What kinds of relationship were there among social capacity development, social economic situation and export performance?	2.1 How have total social capacity development of government and companies changed?	3.1, 3.2, 4.1, 4.2 data		
	2.2 How have social economy situation changed?	Related data (income level )	Statistical materials	Documents review
	2.3 How have export performance changed?	Related data (industrial export ratio)	Statistical materials	Documents review
	2.4 What kinds of relationship were there among social capacity, social economic situation and export performance?	2.1-2.3 data		
3. How have company's export capacity been developed?	3.1 How have company's each capacity element been developed? • Formulation and implementation of measures • Human resources and Organization • Knowledge and Technology (Know-how and Information)	Situation of Capacity development in each capacity element	Statistical materials Companies	Documents review Interview Questionnaire survey
	3.2 What kinds of relationship are there between company's attribute (industry, scale, capital structure) and capacity development?	Company attribute and Situation of capacity development	Companies	Questionnaire survey Interview
	3.3 How have economic and industrial group and export support industry (management consultant, training service, trading company) contribute? • Policy recommendation • Export support service	Activity condition Evaluation by Companies	Related documents Economic and Industrial groups Related ministries, departments Companies	Documents review Interview Questionnaire survey
	3.4 How did government's policies affect capacity development of export companies?	Evaluation by Companies	Companies	Questionnaire survey
4. How have capacity to promote government's export been developed?	4.1 How have government's each capacity element been developed? • Formulation and implementation of measures • Human resources and Organization • Knowledge and Technology (Know-how and Information)	Situation of Capacity development in each capacity element	Statistical materials Companies	Documents review Interview Questionnaire survey
	4.2 Have coordination between related policies such as development of SME, attraction of investment and organizations been appropriate?	Improvement condition of each measure Activity condition in Related ministries and departments	Statistical materials Related documents Related ministries, departments	Documents review Interview
	4.3 Have export promotion activity of "Trade Center" been appropriate?	Activity condition of "Trade Center"	Statistical materials Related documents "Trade Center"	Documents review Interview

Source: the author

### 1.2.3 The subject of evaluation

The subject of evaluation is Indonesia, Malaysia, Philippines, and Thailand. These four countries have close economic relations with Japan through trade and investment, and Japan has extended its assistance to those countries in the area of trade and investment. These four countries are desirable subjects for evaluation in order to evaluate how development assistance is placed in the trinity of assistance, trade and investment.

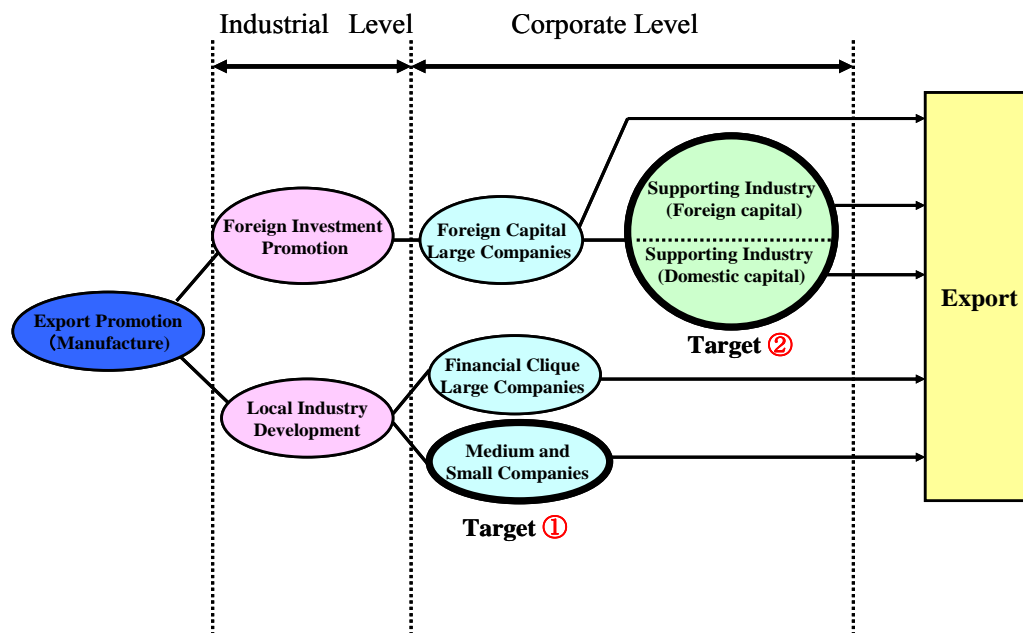
ASEAN cooperation projects by the then Ministry of International Trade and Industry (MITI) under the trinity of assistance, trade, and investment began in 1982. In 1983, the Trade center, which is the

main project of evaluation, was first founded in Thailand. Japan's cooperation in the field of trade, including JICA's, began to take full effect at this time. Therefore, the period of evaluation will be mainly from 1980 to the present (2005).

During this period, JICA's assistance in trade has been mainly targeted at local small and medium enterprises (SMEs) in the manufacturing sector. Promoting SMEs is important in terms of not only promoting trade but also reducing poverty through job creation; therefore, SMEs promotion has its significance in the context of socio-economic development. Taking these factors into consideration, this evaluation is mainly targeted at SMEs in the manufacturing sector.

“Trade sector” narrowly means the direct export-promotion such as the trading business, the provision of marketing services for companies, and the development of the trade-related law. In addition, the assistance for the fosterage of SME/supporting industry, which is the indirect export-promotion like improving the companies' competitiveness, is also included in this evaluation scope. Such inclusion is necessary because those latter items are important for improving export performance, not to mention the importance of Capacity Development in the narrow meaning of trade sector.

Figure 1-3 Setting of target groups



Source: the author

#### 1.2.4 Process and organization for the study

The study team consists of analysts from Hiroshima University and Mitsubishi research institute, external advisers (professors, JICA members etc.). The study meetings were held six times in the last 12 months. In addition, study team (Hiroshima University and Mitsubishi research institute) conducted field research 5 times including interview surveys (face to face interview and mail questionnaire survey).

The schedule of the survey is as follows.

Figure 1-4 Time table of the study

	2004		2005											
	February	March	April	May	June	July	August	September	October	November	December	January	February	March
Domestic study				□		□		□		□				□
Field study		■		■			■	■			■			■

Figure 1-5 Organization of the study

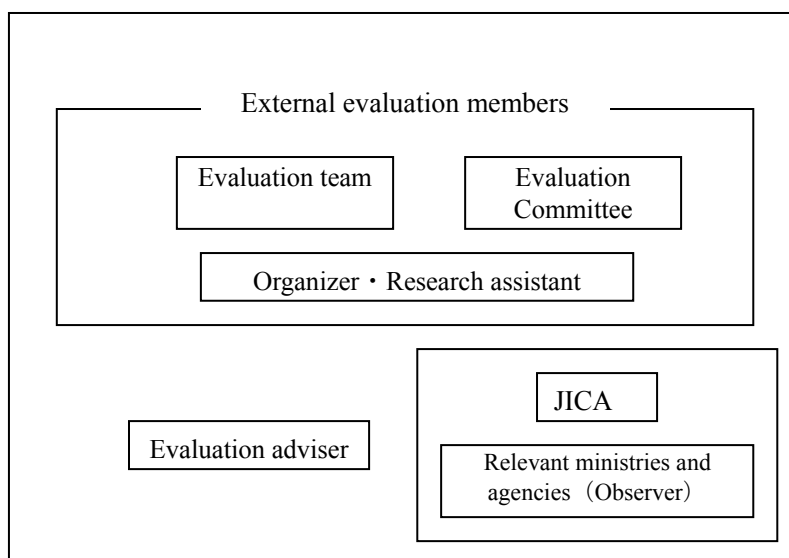


Table 1-2 Evaluation Committee Member

<p>1. Hiroshima University-Mitsubishi Research Institute, Inc. Joint Venture Evaluation Team (Concurrently served as Evaluation Committee members)</p> <p>Shunji Matsuoka Professor, Graduate School for International Development and Cooperation, Hiroshima University (Leader of the Evaluation Team, Evaluation method expert, Chairman of Evaluation Committee)</p> <p>Mamoru Kobayashi Research Director, Mitsubishi Research Institute International Project Center (Sub-Leader of the Evaluation Team, Economic cooperation expert)</p> <p>Yoshi Takahashi Associate Professor, Graduate School for International Development and Cooperation, Hiroshima University (Human development expert)</p> <p>Shinichi Mizuta Policy Analyst, Mitsubishi Research Institute International Project Center (Trade policy expert)</p> <p>Katsuya Tanaka Assistant Professor, Hiroshima University, Graduate School for International Development and Cooperation (Economic policy expert)</p>
<p>2. Evaluation Committee Members</p> <p>Akihumi Kuchiki Director-General, Research Planning Department, Institute of Developing Economy, Japan External Trade Organization (Until July 2005) Executive Vice President (in charge of Institute of Developing Economy), Japan External Trade Organization (Since July 2005) Visiting Professor, Hiroshima University, Graduate School for International Development and Cooperation</p> <p>Atsushi Suzuki Senior Coordinator, Planning Division, Japan External Trade Organization</p> <p>Yasuhiro Yamada Director General, Administrative Affairs Department, Japan External Trade Organization</p> <p>Hisatsugu Yoshida Statutory Auditor, Japan Indonesia Petrochemical Investment Corporation</p>

<p>3. Evaluation Adviser</p> <p>Shujiro Urata Professor, Graduate School of Asia-Pacific Studies, Waseda University</p> <p>Tango Keiichi Senior Executive Director, Japan Bank for International Cooperation (Until September 2005)</p> <p>Teruyuki Tanabe Executive Director, JBIC Institute, Japan Bank for International Cooperation</p>
<p>4. Research Assistant</p> <p>Takashi Kudo Master's Course Graduate School for International Development and Cooperation, Hiroshima University</p>
<p>5. Organizer</p> <p>Etsuko Chiba Mitsubishi Research Institute International Project Center</p>
<p>6. Japan International Cooperation Agency</p> <p>Satoko Miwa Director, Office of Evaluation, Planning and Cooperation Department, Japan International Cooperation Agency</p> <p>Kazuaki Sato Deputy Director, Office of Evaluation, Planning and Coordination Department, Japan International Cooperation Agency</p> <p>Akihisa Tanaka Country and Thematic Evaluation Team, Office of Evaluation, Planning and Coordination Office</p> <p>Muneyuki Kozu Associate Expert, Country and Thematic Evaluation Team, Office of Evaluation, Planning Coordination Department, Japan International Cooperation Agency</p> <p>Tsutomu Nagae Team Director, Trade, Investment and Tourism Team Group 1 (Economic Policy and Private Sector Development) Economic Development Department, Japan International Cooperation Agency</p> <p>Takayuki Oyama Trade, Investment and Tourism Team Group 1 (Economic Policy and Private Sector Development) Economic Development Department, Japan International Cooperation Agency</p> <p>Jyun Saotome Trade, Investment and Tourism Team Group 1 (Economic Policy and Private Sector Development) Economic Development Department, Japan International Cooperation Agency</p>

#### 7. Observer

Hiroshi Masuyama

Deputy Director, Trade and Investment Facilitation Division, Trade and Economic Cooperation Bureau, Ministry of Economy, Trade and Industry (Until September 2005)

Mitsutoshi Okabe

Trade and Investment Facilitation Division, Trade and Economic Cooperation Bureau, Ministry of Economy, Trade and Industry (Since October 2005)

Yukihito Tanaka

Technical Cooperation Division, Trade and Economic Cooperation Bureau, Ministry of Trade, Economy and Industry (Since October 2005)

Kanji Kitazawa

Senior Deputy Director, Aid Planning Division Economic Cooperation Bureau, Ministry of Foreign Affairs (Until September, 2005)

Yukio Yoshii

Senior Deputy Director, Aid Planning Division Economic Cooperation Bureau, Ministry of Foreign Affairs (Since September, 2005)

#### 1.2.5 Discussions over CD

Discussions over CD have evolved as follows. Looking back on the field of development and aid from the standpoint of CD, the 1990s were a time when limits on the replacement approach became clear. (Fukuda-Parr *et al.* 2002) The replacement approach is one that imports the knowledge and technologies of the developed countries to replace those of developing countries. It has been pointed out that instead of the replacement approach, the development of social capacity according to the ownership of the developing countries is essential for continuing development performance, and that the Social Capacity Development approach is important for such. (Fukuda-Parr *et al.* 2002)

The development of the Capacity Assessment method, which is indispensable for the realization of the CD approach, has shown some progress in stakeholder (institutional, organizational) analysis, and institutional analysis, though a total methodology has not been fully discussed. (Morgan and Taschereau 1996, Lopes and Theisohn 2003) .

The JICA Task Force on Aid Approach/Strategy (2004) points out that the aid organizations and international organizations of Europe and the US emphasize reform of institutions. JICA's technology cooperation project emphasized the development of capacity of individuals and

organizations. However, as to the definition of capacity, it is bound by the framework of individual, organization, society/institution. As to the proposal of CD, it adopts another axis involving the government, profit private sector, and non-profit private sector, and analyzes capacity. But here again, the relation between the divisions is not presented.

According to the OECD (2001), CD became a main approach at the end of the 1990s. It became known as a kind of total approach related to total development goals and strategy for reduction of poverty<sup>2</sup>. The OECD (2001) was published in this context. This guideline described the prerequisite<sup>3</sup> of the Trade Capacity Development (TCD), and the factors of an effective trade policy process<sup>4</sup> as shown in Table 1-3, and each country is organized by type and each priority policy is shown. But it does not describe the method of evaluating the social capacity which is necessary as a precondition of aid that takes CD into consideration.

The resistance from developing countries against economic partnership and free trade system is still active while economic partnership had been accelerating among countries. The objection to economic partnership comes from the understanding that it worsens poverty issue in developing countries. Trade capacity development is important to eliminate such a miss understanding Japan has been seeking for developing economic partnership rather than simple free trade system through promotion of free trade system sustained by aid for capacity development. In this sense assessment of JICA's assistance based on capacity development is important as well.

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<sup>2</sup> According to the OECD (2001), after the 1970's, there existed movements written below in the aid regarding trade investment promotion. First, in the 1970's, it was popular to perform aid for export industries in marketing in foreign markets. It focused on development of "off shore markets" so it did not lead to the development of wide scope capacities of exports which included the product development that met the market needs. In the 1980's and early 1990s, free trade was promoted. This was performed as a part of a structure adjustment program, but it resulted in the fact that some countries gained interest in trade and investment and other countries did not. In the 1990s this backlash was widely recognized, and many movements toward free trade were slowed down by mitigation of loans. After this, to replace free trade, the promotion trade came to the forefront. Particularly with the aim of cutting down costs of handling trade, and to make familiar the rules, processes, and institutions of the international trade system, WTO, UNCTAD, UNDP, and ITC performed aid for developing countries.

<sup>3</sup> There are five particular items. 1. Trade and its liberalization contributes to development. 2 The developing countries want integration with the global economy. 3. The new rules of a global economy promise a big occasion and present a large problem to be solved. 4. The formulator of trade policy has a large role in developing the capacity related to the trade of developing countries. 5. To deal with trade problems that the developing countries face, the donor countries can contribute to the strengthening of the trade system of countries.

<sup>4</sup> A coherent trade strategy which has consistency with the total development strategy of the developing countries. 2 An effective consultation mechanism among three different groups, governments, corporations, and civil society. 3 An effective mechanism which adjusts policies inside the government division. 4 A strategy for effective acquisition, exploitation, and analysis of trade-related information. 5 The networking of trade promotion organizations and trade policy development which is a precondition of local organization of research. 6. Linkage with the private sector. 7. A strategy which takes into account the change of external environment such as the global trade system and the local trade system of every major beneficiary.

Table 1-3 Policies of the priority seen by types of aid-receiving countries.

COUNTRY-TYPE /REGION	NATIONAL PRIORITIES				INTERNATIONAL	
	Traditional trade agenda		New trade agenda		Traditional trade agenda	New trade agenda
	POLICY	INSTITUTIONS	POLICY	INSTITUTIONS		
Low income countries, weak institutions (Sub- Saharan Africa)	Lower tariffs;dispersion;shift t to domestic	Strengthen customs;drawback;te mporary admission	Measures to enhance efficiency of transport and transit regimes; phase out monopolies	Develop national capacity to design regulatory policies; protect indigenous knowledge, assets	Build capacity to participate in negotiations	Assess development relevance of international co- operation; impact of regulatory norms (SPS, TBT)
Low income countries, strong government (Southern Africa)	Reduce border barriers	Reduce red tape;adopt Kyoto trade facilitation measures	Services liberalization; emphasis on competition as opposed to change in ownership	Upgrade public standards setting and enforcement bodies; protect indigenous knowledge, assets; pro-competitive regulation	Use international agreements to reduce border barriers	Use international agreements as anchors for domestic policy
Transition (Europe and Central Asia)	Maintain relatively low and uniform tariffs	Develop customs and related infrastructure; regulations	Develop legal and regulatory regimes for services	Develop national capacity to design regulatory policies	Build capacity to participate in negotiations	Use international agreements as anchors for domestic policy;negotiate improved market access for natural persons
Middle income countries, low protection (Latin America & Caribbean, E. Asia & Pacific)	Limit extent of discrimination resulting from RIAs	Adopt Kyoto trade facilitation measures	Enhance technology policies; E- commerce; develop competition policy	Develop WTO- legal,appropriate IPR regime and institutions;	Explore scope for common standards and trade procedures	Explore scope for common standards in regulatory areas affecting trade and investment
Middle income countries, high protection (Middle East & North Africa)	Significantly reduce border barriers; limit discrimination from RIAs	Reduce red tape;adopt Kyoto trade facilitation measures	Services liberalisation;end monopolies;draft competition law	Pro-competitive and prudential regulation;establish competition authorities	Use RIAs to reduce red tape,facilitate trade	Use international agreements as focal points and anchors for domestic policy

Source: the author

## Chapter 2



## Chapter2 Method of Evaluation

This evaluation was conducted in two stages.

1. Conduct capacity assessment (Social Capacity Assessment in this report) in the field of trade in the country of subject.
2. With the result of the capacity assessment, evaluate the relevance of the necessary aid and its contribution for social capacity development for achieving Aid effectiveness.

Each method is explained below.

### 2.1 Social capacity assessment

#### 2.1.1 Applying social capacity assessment method in the field of trade.

By Analyzing the relationship among the social management system, social economic condition, performance, and also the capacity of each social actor which constitutes the social-management system, and its relationship with institutions, the SCA method makes clear the standard of the country's social capacity, and the development path. The analysis consists of Actor Factor analysis, Path analysis, and Development stage analysis. The main method analysis will be discussed later on.

On the other hand, as to the development of medium and small-sized corporations and supporting industry, which is the main subject of evaluation, some research is already presented. This includes questionnaire research to corporations.

Levy, Berry *et al.* (1999) conducted a questionnaire research to corporations, as to the evaluation of export aid service(marketing aid, financial aid, technological aid) provided to middle and small-sized manufacturing corporations(includes supporting industry). The subject was countries and sectors which were considered as success in previous research.(Indonesia: clothes, latan furniture, wooden carving furniture Colombia: clothes, machines, leather goods Korea: fabric, automobile parts, electronics parts, factory automation Japan: fabric, automobile parts, artillery) As a result, the conclusion that appropriate employment of collective support is most important in achieving export promotion, was derived. Especially, as to the marketing side the period of entry when the dealing costs are high, and as to the technical side, when the development of network is not enough, are cases when the collective support is effective.

But the provider of aid service does not have to be the government. For instance the representative means of collective support regarding marketing is the trade fair. It is sometimes more effective done by industry groups, local governments, chamber of commerce and trade. And the average effect of collective support is lower than the private or market base aid, some are used as a supplement for the trade fare and are highly valued.

Urata (2000) is a proposal relate to middle and small-sized corporations policy, but it evaluates export aid as well. Five problems are pointed out. (1)export activity(maintenance of information, routes of export, marketing)and activities of the ministry of export promotion(information on export market, trade fairs) is not enough.(2)development of human resources: IETC, which provides practical studies, should be more active.(3)trade finance :middle-sized and small-sized corporations have no method for using banks so they have difficulty getting loans.(4)management procedures by government: It takes a long time for customs procedures (particularly with imports), and export incentive institutions are not well maintained.(5)rural problems: many export promotion institutions are maintained, but the combination of those institutions is not going well and is not used properly. And it proposes that viable SMEs should be the only subject of aid and not all small and middle-sized corporations should be the subject<sup>11</sup>.

This previous research, points out some problems and solutions, but it does not make clear which solution should be made a priority and when it should be applied. The analysis with the SCA method can contribute in this point.

We will discuss the analysis tool of SCA below.(Matsuoka, others 2005)

### 2.1.2 Actor Factor Analysis

The Actor Factor Analysis consists of Actor analysis and Factor analysis. Actor analysis, analyzes the level and condition of social ability from the standpoint of the condition of each social actor (government, export industry, private export service provider) and its relation, and makes clear which actors are strong or weak, and their relations.

Factor Analysis analyzes the present status from the standpoint of the components of social capacity

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<sup>11</sup> The Overseas Economic Cooperation Fund (1999) gathered from research of corporations the answers for the decline in the trade expansion rate. The main factors are a decline of need in the export market (China), the difficulty of searching for funds(Indonesia), the development of competitive powers of other countries, and the lack of export market information(China).

and points out the factors capacity development standard and its problems<sup>12</sup>. In practice, we make and evaluate the matrix of issue and the factors of capabilities. The three factors adopted are (1) abilities to plan and perform policies, (2) resources of humans and organization, (3) knowledge, information, and technology needed for its basis.

As to the government, the issues are maintenance of basic conditions, planning and employment of trade related policy, service for trade aid. As to the export corporations, the factors are product development, production, marketing, trade. As to the provider of private export service, the issues are policy presenting, trade aid service (see

Figure 2-1)

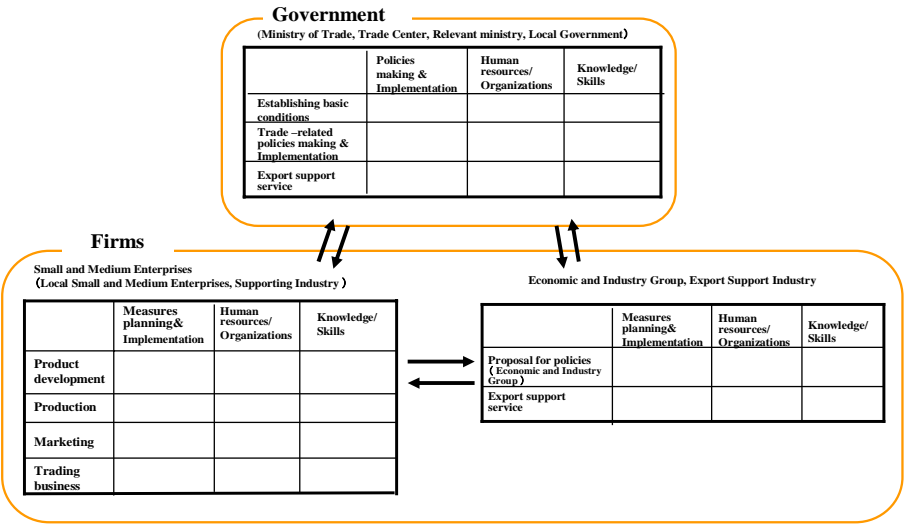
Especially as to the condition of social capability of the recent years (2000 and 2004), the policies of every actor, and the data of human, organizational resource, data of knowledge and technology was taken out from the questionnaire results which was performed in each country. On the other hand, for it was difficult to find data regarding the period from 1980 to present, we used a more easy method as to the Actor Factor analysis (See

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<sup>12</sup> To measure the social capacity more objectively, Indicator Development is required. Indicators express the accumulation level of capacity based on the basic variables that define the social capacities derived from the Actor Factor analysis written above. It is particularly important how to measure the capacity standard which constitutes the capacity of the social actors. In this evaluation, Indicators are not made because it is difficult to obtain data for a long period.

Table 2-1).

Figure 2-1 Actor Factor Analysis: in depth



Source: the author from Institute for International Cooperation Japan International Cooperation Agency(2003) , Lawrence

Table 2-1 Actor Factor Analysis: simple analysis

	Policies and measures	Human resources/ Organization	Knowledge/Skills
Government	Related-law/ Mid-term Plan	Related-specialty organizations	Related statistics/ white papers
Firms	Productivity	Ratio of manufacturing employment to total employment	Educational Level
Government-Firm Relations	Dialogue and Meetings between Government and firms	—	—

As to the companies it was difficult to obtain the indexes of the three factors for the 4 countries during the study. Due to this, we use labor productivity for “P” factor, employment ratio for “R” factor in manufacturing sectors and gross enrollment ratio to secondary education.

As to governments we use regal infrastructure on trade promotion, small and medium enterprise midterm plan for trade promotion and small and medium enterprise for “P” factor, trade training center, trade promotion agency, financial institution for small and medium enterprise. We also use statistics and reports on trade and manufacturing by governments for “K” factor.

Table 2-2 Evaluation Items in Actor Factor Analysis

Government

Policy and Measure (P)	<ul style="list-style-type: none"> <li>• Formulation and implementation of Medium and long-term plan (National development plan) on industry and trade</li> <li>• Formulation and implementation of export promotion policies (basic plans)</li> <li>• Establishment and operation of export-related law system and basic law</li> </ul>
Human, Financial and Physical Resources in Organization (R)	<ul style="list-style-type: none"> <li>• Human resources: Personnel distribution in each department relevant to export promotion policies</li> <li>• Financial and Physical resources: Fiscal measures required for export promotion policies</li> <li>• Organization:               <ol style="list-style-type: none"> <li>(1) Establishment of export promotion organization and overseas office</li> <li>(2) Establishment of organization which utilize human and physical resources and knowledge, skills and information</li> <li>(3) Promotion of partnership in the national and local government</li> </ol> </li> </ul>
Knowledge and Technology (K)	<ul style="list-style-type: none"> <li>• Statistical information, documents, manual, study and research data</li> </ul>

Company

Policy and Measure (P)	<ul style="list-style-type: none"> <li>• Formulation and implementation of measures related to management strategy</li> <li>• Acquisition of ISO9000 and 14000</li> </ul>
Human, Financial and Physical Resources in Organization (R)	<ul style="list-style-type: none"> <li>• Human resources: Personnel distribution in each department relevant to management strategy</li> <li>• Financial and Physical resources: Expansion of facilities, equipments, materials, capital</li> <li>• Organization               <ol style="list-style-type: none"> <li>(1) Establishment of department related to management strategy</li> <li>(2) Implementation of TQC (Total Quality Control), personnel system, knowledge management</li> </ol> </li> </ul>
Knowledge and Technology (K)	<ul style="list-style-type: none"> <li>• Management and sales know-how, production technology, manual</li> </ul>

Relationship between the government and companies

Policy and Measure (P)	<ul style="list-style-type: none"> <li>• Meeting between government and companies</li> </ul>
Human, Financial and Physical Resources in Organization (R)	<ul style="list-style-type: none"> <li>• (Government side) Meeting company's needs in training by the government (Trade center)</li> <li>• (Company side) Participation in training by the government (Trade center)</li> <li>• Mobility of human resources between the government and private companies</li> </ul>
Knowledge and Technology (K)	<ul style="list-style-type: none"> <li>• (Government side) Meeting company's needs in provision of information by the government (trade center)</li> <li>• (Company side) Use of information provided by the government (trade center)</li> </ul>

Source: The author, Institute for International Cooperation, Japan International Cooperation Agency (2005), JICA assistance approach/strategic task force (2004), Murakami/Matsuoka (2005)

The analysis using a same kind of matrix is done in JICA Task Force (2004) on Aid Approaches/Strategy “Capacity Development Handbook for JICA staff: For Improving the Effectiveness and Sustainability of JICA's Assistance” In the case of vocational training, it is organized by two axis. The actors, government, profit private sector, non-profit private sector, and individual, organization, society. In the analysis of this evaluation, three points are different. The relationships of the actors are stated as the factors of social capabilities, the factors of the capabilities are defined as three factors, and there are special issues for every actor.<sup>13</sup>.

### 2.1.3 Development stage analysis

The development stage of social capability is divided into the System-Making Stage, System-Working Stage, and Self-Management Stage, and we seek to make clear at which stage the current social ability standard is. We also analyze how it got to that stage(regarding the Path analysis), and the next rational goal of social capacities standard and path. Moreover, we construct the prerequisite for making clear the quality and quantity, and timing of aid for the program of development policy and aid policy.

(1) The System-Making Stage is the period when the discipline for social management system is developed. For instance, in the case of capacity development of the government sector, the implementation of trade laws, trade promotional organizations, and mid-term plans for trade promotion is the benchmark. However, in the implementation of these, great contributions are possible from export corporations and private export aid service providers. In this sense, though the capacity is realized in the capacity of the administrative division, it is plausible to assume there is a large social capacity in the background. We will consider that the synchronicity has started when either of these benchmarks have been implemented. When every benchmark has been implemented, it is thought that the critical minimum for a social system has been achieved, and the stage moves to the next System-Working Stage.

(2) The System-Working Stage occurs when after the implementation of institutions, exports are promoted on a full scale. The performance of export shows the tendency for improvement. It is a

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<sup>13</sup> While we do not adopt an Institutional Analysis due to the restrictions in data, such an analysis forms a counterpart to the Actor Factor Analysis.

In an Institutional Analysis, the institution as a rule regulates the social actors (players), and as a medium for social capacity, is analyzed. The institutions that define the current social capacities and the necessary reform to form the next social capacity are identified. Not only formal institutions such as law, but also informal institutions such as social norms are analyzed. Furthermore, the bundle of institutions and complementability and substitutability of institutions will be considered.

process in which, following the accumulation of export experience by corporations and the trade aid by governments, know-how as a society is accumulated and capacities to solve different problems are developed. When it becomes possible to change the organization in response to change in problems it confronts(both governmental, corporate) it can be said that it has moved to Self-Management stage.

(3) The Self-Management Stage is the period when interrelationships between government and corporation have become strong, and the system develops autonomously. From the standpoint of international corporations, it is important that the developing countries can utilize capital and resources without the aid of other countries in the transition to Self-Management.

## 2.2 The evaluation of contributions in Japan's cooperation for developing export capacities in trade sector

### 2.2.1 The viewpoint of evaluation and the standard of evaluation

In Table 1.1, We have organized the viewpoint and the standard of evaluation as a precondition to present the method of evaluation.

As a viewpoint of evaluation, two large viewpoints, "Total evaluation of JICA's aid in the field of trade" and "The contribution of JICA's aid in the social capacity development of the country of subject" are set. In the latter view, the government division and the corporation division are analyzed in relation to the actors.

For each viewpoint evaluation standard which has relation to the OECD, DAC5 items were set. The item which is important to the goal of this evaluation is taken into account. The standard of evaluation is as follows.

- (1) The consistency with the development stage of social capacity.(timing of aid entry and exit, relevance)
- (2) Contribution of aid to Social Capacity Development (effectiveness, efficiency)
  - Capacity development of government: effectiveness and development of export promotion capabilities of government, development of administrative capabilities, solution capabilities to new problems, consistency with government acceptance capabilities.
  - Capacity development of the corporate sector: effectiveness and the development of export capacity, development of competitive power of corporations, incentive for export,

consistency with the maturity of industry.

(3) Partnership with domestic organizations and coherence with superior policies (relevance)

(4) Consistency with the policy of the country of subject (relevance)

We analyze JICA's contribution to social capacity development (government) and JICA's aid consistency to social capacity development stage.

The analysis on the former is conducted based on number of projects<sup>14</sup> since it is very difficult to obtain detailed data on M/M and budget. We recognize that those approaches can be appropriate for analysis.

Table 2-3 Matrix of viewpoint and standard of evaluation

Evaluation criteria Evaluation view		Effectiveness	Efficiency	Impact	Sustainability	Validity
Evaluation of JICA's Assistance in Trade sector		•Improvement of Social Capacity (Transition of Development Stage)	•Improvement of Social Capacity Rate /Project Input •Compare Efficiency with another assistance form	•Poverty Reduction, Contribution to Social Economic Development (=Social Economic Situation)	•Formulation of Self-directed mechanism for Social Capacity Development (Transition to Self-directed Period)	•Compatibility with Social Capacity Development Stage (Timing of Project Input and Withdrawal ) •Consistency with Local Policy •Coordination with relevant authorities and other donors •Consistency with higher policies
Effect of JICA's Assistance on Social Capacity Development	Government	•Improvement of Government's Export Promotion Capacity	•Efficiency of Government's Export Promotion Capacity Improvement	•Impact on other government institutions •Improvement of Administrative capacity	•Capabilities to cope with new problems	•Consistency with Government's Acceptance Capacity
	Companies	•Improvement of Company's Export Promotion Capacity	•Efficiency of Company's Export Promotion Capacity Improvement	•Improvement of Company's Competitiveness	•Incentives for Export Promotion	•Consistency with Industry Sector Maturity

Source: the author

### 2.2.2 Evaluation of contribution to development of social capacity.

In 2.2.2 the subject of evaluation was whether the JICA project has consistency with the development stage of social capacity. In this item, we will evaluate how the project contributed to CD.

These contents will be discussed.

1 Direct contribution to CD from a project

2 Indirect contribution to CD as a spill-over effect of a project

3 Contribution to CD from synergetic effects from other countries

In the actual analysis, (1) and (2) (Where it is possible) are focused on and evaluated. (3) can be included in (1) and (2), so it is not considered an independent subject.

<sup>14</sup> The projects continue over 3 years are, for instance, counted for 3 projects

Specifically, information on contributions to CD from existing reports are extracted and evaluated, regarding projects by JICA. The evaluation will be done for each actor (government, corporation) , factor (policy and measures, human resources and organization, knowledge and skill), and issue (implementation of basic conditions, implementation of systems for the management of trade-related policies and institutions, trade export services)

### 2.2.3 Consistency of aid with the development stages of social capacity

This section is to make clear at what stage the entry and exit of the aid(organized by type) were performed, and to evaluate the consistency of timing, quality(form of entry, actor) of each aid with social capacity development stages. This evaluation, in DAC 5 categories, is regarded as an evaluation of relevancy.

As to the typology of aid we take up the following items following the discussion of JICA Institute for International Cooperation (2003)

Type according to issues

- (1) The enhancement of trade aid service capacity(trade center)
- (2) Implementation of trade institution and development of human resources (development of response capacities to international trade and investment rule)
- (3) Planning and implementation of investment promotion policy.
- (4) Planning and implementation of industry promotion policy.

Categories based on each issue

#### 1. Trade sector

- (1) Policy/measure factors
  - (a) Export-promoting development plan (master plan)
  - (b) Trade-related legislation (liberalization and facilitation)
- (2) Human resource/organization factors
  - (a) Trade legislation / Human resource development (such as customs/quarantine and trade finance. Including the enhancement of capacity to respond to the international trade/investment rules)
  - (b) Aid for providing export-support services to the private companies (Trade center)
- (3) Knowledge/skill factors
  - (a) Assistance to gather, analyze, and disclose information such as statistics

## 2. Industry (SME/supporting industry) promotion sector

### (1) Policy/measure factors

- (a) Development plan of SME/supporting industry/industrial promotion
- (b) SME/supporting industry/industrial promotion
- (c) Industrials-related legislation

### (2) Human resource/organization factors

- (a) Aid for providing export-support services to the private companies (SME promoting agency)

### (3) Knowledge/skill factors

- (a) Assistance to gather, analyze, and disclose information such as statistics

## 2.2.4 The consistency with higher level policy and the partnership of JICA and domestic organizations<sup>15</sup>

Aid policy in the field of trade in Japan has the characteristic represented in the new aid plan of 1987, “development strategy oriented to growth through the trinity of aid<sup>16</sup> trade, and investment” We evaluate whether JICA’s actual aid has consistency with these higher level policies and whether it has a full partnership with domestic organizations.

## 2.2.5 Consistency with policies of developing countries

We evaluate the consistency of Japan’s aid policies with policies of developing countries.

It can be said that policies are planned according to the conditions and development stage of each country, or according to long-term goals and external competitive conditions. For instance, if a country has competitive power in agricultural goods, one judgment would be to adopt a policy with emphasis on agriculture, and another would be to promote other industries such as the manufacturing industry. Either way the focus of evaluation is on whether Japan’s aid was performed according to the actual policies.

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<sup>15</sup> Tomimoto(2005) writes that there are two views for the definition of Policy Coherence: (1) The view of “development absolutism” proposed by the OECD. To achieve the development goals(development of social economy and elimination of poverty), the policies of the developing countries should be set so as to multiply the effect of the policies of the developed countries.

(2) Policies formulated by developed countries to secure national interests and ODA policies also contribute to the development target of developing countries. In this evaluation, we will consider coherence (1).

<sup>16</sup> In the aid of the New Aid Plan, aid other than ODA by the ministry of industry and trade is also included.



## Chapter 3



## Chapter3 Indonesia

### 3.1 Trade sector assistance from Japan

This chapter will give a general overview of Japan's assistance to Indonesia's trade sector. Trade sector assistance for industrial development comes in many forms, including investment promotion, the fostering of small and medium-sized enterprises and supporting industry, and assistance for industrial development in addition to direct aid for trade promotion.

#### 3.1.1 Trade sector assistance provided by JICA

JICA's main trade sector assistance to Indonesia from 1980 onward is shown in projected-base (Table 3.1). The Trade Commerce Statistical System Development Project, conducted from 1981 to 1982, is one of the projects that was implemented before Indonesia's Trade Training Center Project (IETC), which is during our principle evaluation period. The Trade Training Center Project, Phase 1 Project was carried into effect in 1988. After Phase 2(1996), the District Trade Training Development Center Project (RETPC) was implemented in 2002 as a local development project.

The volume of JICA's trade sector assistance has increased since the late 1990s. For instance, from 1997 onward, a technical cooperation project (then known as the project for technical cooperation) called the Custom Improvement Investigation, and an investigation development called the Custom System Improvement Investigation were implemented. Then, from 2000 onward, assistance programs with the direct purpose of promoting the government's ability formation like the WTO's capacity building program and those concerned solely with environment improvements such as Trade Environment Improvement Investigation have come into force. Hence, JICA's trade sector assistance has come to have more variety.

Now let us turn to JICA's assistance directed at fostering local-based small and medium-sized enterprises and supporting industry. According to Table 3.1, as an early form of technical cooperation JICA started a small and medium-sized enterprises' development project in 1984, which ran until 1986. This project's purpose was to foster small and medium-sized enterprises. From the late 1980s to the late 1990s, however, technical cooperation projects and development investigations designed to assist small and medium-sized enterprises were not carried into effect, and it was only after the late 1990s that JICA started to put importance in the field. Similarly, development investigation and technical cooperation for supporting industry were implemented only after the late 1990s onward. Japanese companies branching out into Indonesia from the 1980s to the early 1990s can be considered a sign of the recognition of the importance of fostering supporting industry.

Meanwhile, what can be said about JICA's assistance to industrial development in general? In the 1980s, JICA was engaged in the foundations Metallization Industry Development Center and Industrial Technique Information Center, and functional assistance. From 1989 to 1991, the Industry Sector Growth and Development Project was implemented as an industrial promotion project with the main aim of fostering export industries. This project was innovative in the sense that JICA formed a Joint Venture with the private sector in order to be engaged in development investigations. However, after the late 1990s onward, industrial promotion assistance has not been implemented as part of an ambitious project including development investigation and technical cooperation, . The major emphasis has shifted to the developments of the above mentioned small and medium-sized enterprises and supporting industry.

Table 3-1 JICA's main assistance in the performance of trade and investment, fostering small and medium-sized enterprises and supporting industry, and industrial development sector (plan's name and the conducted year)

Trade and Investment																											
(1) Trade Training Center																											
Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Indonesia Export Training Center(Phase1)	Technical Cooperation Project																										
Indonesia Export Training Center(Phase Follow-up)	Technical Cooperation Project																										
Indonesia Export Training Center(Phase1 Aftercare)	Technical Cooperation Project																										
Indonesia Export Training Center(Phase2)	Technical Cooperation Project																										
Indonesia Export Training Center(Phase2 Follow-up)	Technical Cooperation Project																										
Regional Export Training and promotion Center	Technical Cooperation Project																										
(2) Establishment of Trade System and Human Resources Development																											
Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Trade Commercial Statistics System Development Project	Technical Cooperation Project																										
Indonesia Trade Sector Human Resources Project	Technical Cooperation Project																										
Improvement of Trade Procedures Administration Project	Technical Cooperation Project																										
Improvement of Customs System in Indonesia	Development Study																										
Capacity Building Program on the Implementation of the WTO Agreements	Development Study																										
Improvement of Trade Environment in capital region Project	Development Study																										
Export Promotion (Market Analysis & Development)	Senior Volunteer																										
Improvement of Customs Procedures on Special Fields (Intellectual Property Rights)	Short-term Dispatch of Experts																										
Management of Export Credit Agency	Long-term Dispatch of Experts																										
Promotion of Trade, Investment and Industry	Promotion of Assistance Efficiency																										
2. Promotion of SMEs and Supporting Industry																											
(1) Promotion of SMEs																											
Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Project on Promotion of SMEs	Technical Cooperation Project																										
Promotion of SMEs	Short-term Dispatch of Experts																										
Support for SMEs	Promotion of Assistance Efficiency Project																										
Enhancement of SMEs Cluster Project	Development Study																										
SMEs Human Resources Development Project	Development Study																										
(2) Promotion of Supporting Industry																											
Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Project on Supporting Industries Development for Casting Technology	Technical Cooperation Project																										
Industrial Promotion and Development Plan(Supporting Industry)	Development Study																										
The First Phase of the Follow-up Study on the Development of Supporting Industries in Indonesian Export Promotion	Development Study																										
The Second Phase of the Follow-up Study on the Development of Supporting Industries in Indonesian Export Promotion	Development Study																										
3. Industrial Sector Promotion																											
Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Industrial Sector Promotion and Development Project	Development Study																										
Promotion of Industrial Standardization and Quality Control Project	Development Study																										
Industrial Property Rights Administration	Long-term Dispatch of Experts																										
Development of the Manufactured Foods Products	Senior Volunteer																										

Note: the name, Project Method Technical Cooperation is unified as Technical Cooperation Project

Source: A.Ministry of International Trade and Industry, *The conditions and matters in economic assistance* (each year's version)

B. Ministry of Foreign Affairs, *Official Development Assistance (ODA White Book)* (each year's version)

C. JICA(2003), *Effective Approach to Development Subjects: trade and investment promotion*

Research group was formed based on the articulated above. The performance of Technical Cooperation Project was not mentioned in details document A and B, therefore based only on C.

Meanwhile, JICA's acceptance of trainees' in trade and investment, small and medium-sized enterprises sector is shown in Table 3.2. Its acceptance of trainees improves the capability of staff members working for Indonesia's government-affiliated organizations. Participation rates in the 1980s show that training for trade-related organizations has been conducted consistently and that the scale of the acceptance has expanded from 1999 onward. On the other hand, although there were nine acceptances in 1999 for the small and medium-sized enterprises' development sector, there have been either zero or one acceptances in every other year since the program was implemented ., As a whole, the acceptance rate remains low.

Table 3-2 JICA's acceptance of trainee's from Indonesia's trade and investment, small and medium-sized enterprises' sector

	(number of trainees)																											
	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	80~05 total	
SMEs	1	0	1	1	1	0	0	0	0	0	0	0	1	0	0	0	1	1	1	9	1	1	0	0	0	0	19	
Investment	0	0	0	0	0	0	1	2	1	2	2	1	2	1	1	3	2	3	0	3	2	5	3	5	3	1	43	
Export	0	0	0	0	1	1	1	0	1	2	1	0	1	4	1	0	0	0	1	4	1	1	1	0	29	0	50	
Trade	5	4	8	4	1	5	2	2	3	4	7	4	5	2	1	1	1	3	3	23	5	13	6	19	4	2	137	
Total	6	4	9	5	3	6	4	4	5	8	10	5	9	7	3	4	4	7	5	39	9	20	10	24	36	3	249	

Source: JICA's data

### 3.1.2 Assistance from Japan in trade expansion

Apart from JICA, technical cooperation by Japan External Trade Organization (JETRO), the Association for Overseas Development Corporation (JODC), the Association for Overseas Technical Scholarship (AOTS) and as a fundamental condition for trade and investment, the Japan Bank for International Cooperation (JBIC)'s yen-loan-financed service are also considered to be Japanese trade sector assistance<sup>17</sup>. These programs are surveyed below.

#### (1) JETRO

Table 3.3 shows JETRO's assistance to Indonesia. JETRO was an organization originally aimed at developing Japan's trade, but under the influence of economical globalization, it has enhanced other countries' industrial infrastructure and implemented assistance to reinforce exporting capability especially in Asian areas, to which many Japanese companies have branched out.

The industry development plan conducted from 1989 to 1991 is a striking example in the history of its relationship with JICA. This is because JETRO formed a consortium with the private sector and

<sup>17</sup> There are more Japanese government agencies that are associated with trade and investment promotion JBIC which focuses on international finance (export finance, overseas investment finance, and so on) and NEXI which offers trade and investment insurance. Cited in JICA(2003)

worked on a development investigation.

Table 3-3 JETRO's main assistant performance for Indonesia's trade and industrial development

Trade and Industry Promotion Center Project in Developing Countries (AC Project : Asian Cooperation Project, 1982~2000)	<ul style="list-style-type: none"> <li>✚ Promotion of local small and medium enterprises               <ul style="list-style-type: none"> <li>- Development of local small and medium enterprises</li> <li>- Spreading appropriate technology of small and medium enterprises</li> <li>- System Standard Technology Information Cooperation Project</li> </ul> </li> <li>✚ Development of Product Export Project               <ul style="list-style-type: none"> <li>- Instruction for Product Improvement</li> <li>- Instruction for Trade Promotion</li> </ul> </li> </ul>
Supporting developing countries' local industrial basis project (1996 ~)	<p>Implementation of support for automobile and devices, electric and electronic product and devices sector</p> <ul style="list-style-type: none"> <li>✚ Instruction for development of local industries               <ul style="list-style-type: none"> <li>- Dispatch of experts to strengthen basis of industrial activities</li> <li>- Dispatch of technical guidance experts</li> <li>- Support for training of industrial trainers</li> </ul> </li> <li>✚ Promotion of local industrial exchanges               <ul style="list-style-type: none"> <li>- Promotion of industrial exchanges</li> <li>- Holding wide-area industrial exchanges events</li> </ul> </li> </ul>
Strengthening developing countries' supporting industries project (SI Project: Supporting Industry, 1994 ~)	<p>JETRO's assistance includes studies on situations of supporting industries, dispatch of experts, acceptance of trainees for development of supporting industry.</p> <p>In Indonesia, JETRO's assistance includes studies, dispatch of experts and acceptance of trainees in such sector as press working and plastic processing.</p>
Participation in JICA's Industrial Promotion Development Study	<p>JETRO organized JV with private companies for Studies on Asian export promotion based on the New Aid Plan in 1987 and participated in JICA's Development Study as a consultant.</p> <p>JETRO conducted studies on handicraft, rubber products, aluminum ware, and ceramic products in Indonesia from 1989 to 1991.</p>
Training of Trade Promotion Organizations' staff (1988~2002)	<p>JETRO invited middle-management executives in Indonesian trade promotion organization and implemented training in Japan.</p> <p>JETRO accepted trainees in 1988,1989,1991 from Indonesia.</p>

Source: JETRO (2000) "forty-year footprint of JETRO"

## (2) JODC and AOTS

JODC's performance in dispatching experts and AOT's acceptance of trainees are shown in Table 3.4 and 3.5. In order to assist the development of economy, trade and industry human resources in developing countries, to facilitate Japanese company's local operational presence and to assist business management and technical advancement, JODC, which is an accepting corporation for Japanese companies in developing countries and local companies not sponsored by Japan, has been dispatching experts with specialized abilities and operating aid programs to increase productivity, improve product quality and business management of accepting corporations. Experts were dispatched to a wide array of manufacturing businesses in Indonesia, including those in the textile, electron-and-electric, car, and chemical products industries. In recent years, experts have also been

dispatched to the service sector and the total number of mid-and-long-term experts dispatched from 1979 to 2004 is at least 1100.

On the other hand, AOTS is accepting and training overseas industrial technique trainees in order to promote international economic assistance and to contribute to the promotion of mutual economic development and friendly relationships. Its field of acceptance is also wide-ranging. The total sum of Indonesians trained by AOTS from 1980 to 2004, trained both in Japan as a part of trainees' acceptance project and overseas by dispatched tutors, is over 12,000.

Table 3-4 JODC's TA professionals sent to Indonesia

Year	1979~1988 total	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1979~2004 total
Long-term Experts (number of experts)	202	61	35	41	55	41	59	36	34	63	48	32	12	9	3	20	27	778
Short-term Experts (number of experts)	52	5	12	12	8	2	8	4	2	5	45	45	23	36	53	17	10	339
Total	254	66	47	53	63	43	67	40	36	68	93	77	35	45	56	37	37	1,117

Note: Short term is within one year. Long term is longer than one year and shorter than two years. The figure is the number of professionals newly dispatched every year.

Source: JODC

Table 3-5 The number of participating AOTS trainees from Indonesia

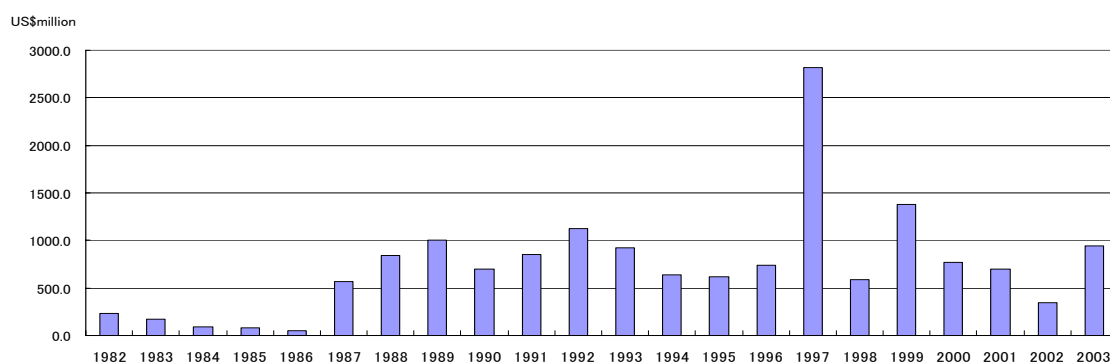
Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1980-2004 Total
Acceptance of Trainees (number of trainees)	341	260	348	317	367	307	265	287	262	299	432	421	450	438	484	673	612	542	351	409	385	268	229	237	251	9,235
Overseas training (number of trainees)	42	50	50	37	50	41	0	170	22	30	60	126	98	165	293	264	250	172	157	75	373	180	176	338	449	3,668
Total	383	310	398	354	417	348	265	457	284	329	492	547	548	603	777	937	862	714	508	484	758	448	405	575	700	12,903

Source: AOTS

### (3) JBIC

Although it is not a direct form of assistance to the trade sector, JBIC has been active in providing yen loans for Indonesia's economical-infrastructure improvement which is essential for industrial development. Figure 3.1 shows the change in the amount of yen loan since 1980. Here we can see that the yen loan program includes assistance to social service sectors like medical-and-health and education. The main destinations, however, are infrastructure improvement projects: electricity, roads, railways, harbors, and water and sewerage systems.

Figure 3-1 Performance of yen loans to Indonesia



Note: calendar year, DAC counting based, net inflow

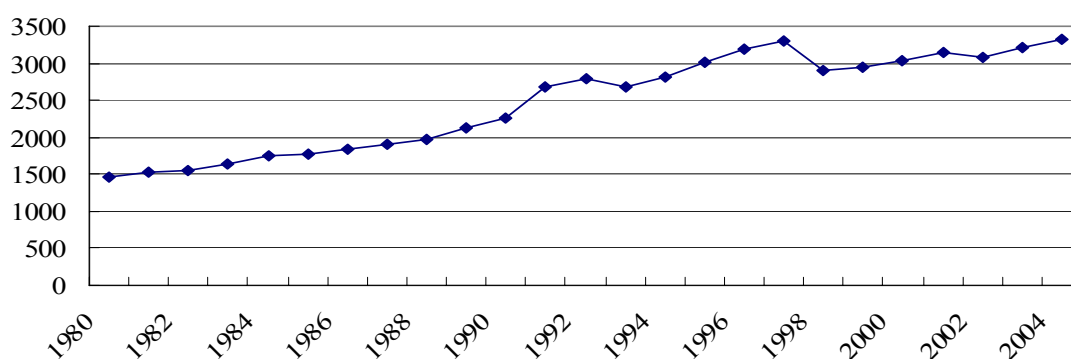
Source: Ministry of Foreign Affairs

## 3.2 Economic development, trade and investment trends

### 3.2.1 Economic development

First, let us look at Indonesia's economic development by its per capita GDP using Purchasing Power Parity (PPP). Using the year 2000 as base, Indonesia's per capita GDP in real terms was \$1,500 in 1980, but gradually upturned and went over \$2,000 in 1990. Followed by further growth in the early and mid 1990s, it reached a level of over \$3,000. However, as Indonesia was affected by the Asian economic crisis in 1997, growth reversed and GDP fell back under \$3,000 for a time. After an initial recovery to \$3,000, it has since been shifting in between \$3,000 and \$3,500.

Figure 3-2 Indonesia's per capita GDP (PPP, Constant 2000 international \$)



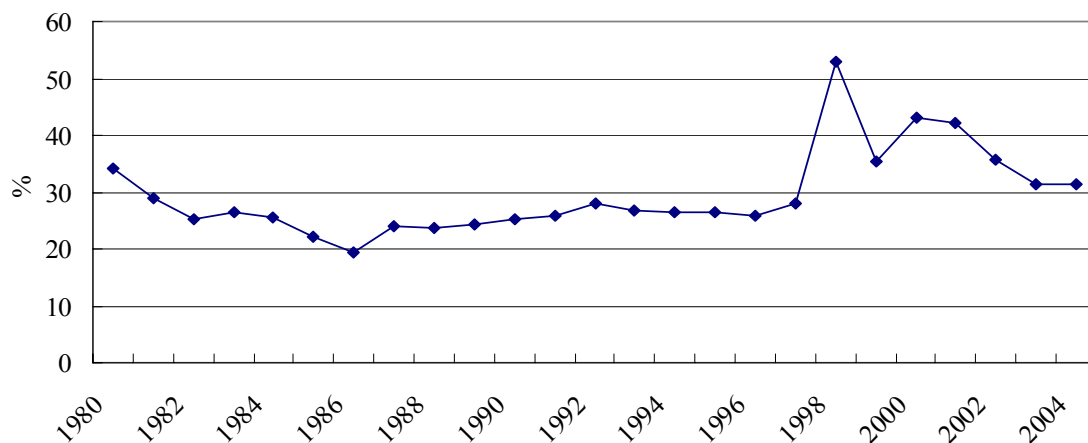
Source: World Development Indicators

### 3.2.2 Trade and direct investment

#### (1) Trade trends

Figure 3.3 indicates the transit of Indonesia's commodity and service export to GDP ratio. The rate of exports to total GDP was 34% in 1980, but later dropped below 30% and in 1986 it dropped to a level under 20%. The background cause of this decline, was the deterioration in the world market of oil, which was Indonesia's major export commodity item. In 1986 the crude oil price plunged particularly far. Hence, it is clear that the world's market deterioration directly affects Indonesia's exports.

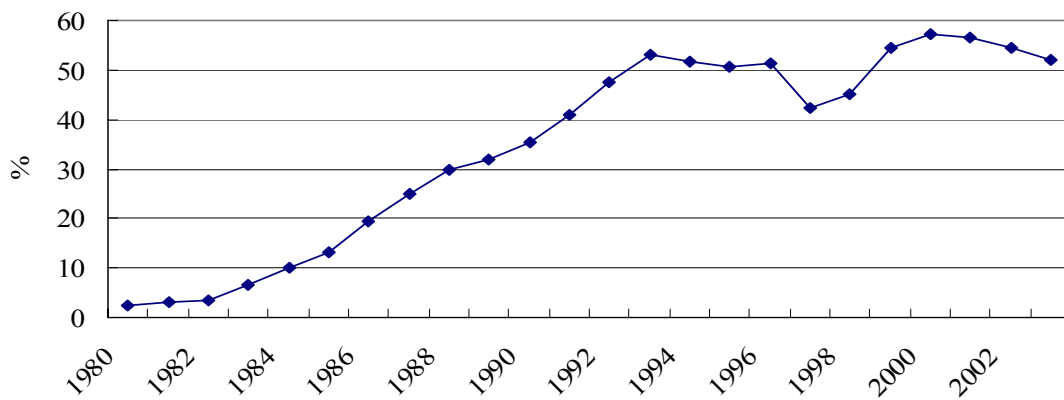
Figure 3-3 Shift of Indonesia's commodity and service export to GDP ratio



Source: World Development Indicators

The slowdown of Indonesia's export of oil and gas, however, was coupled with its non-oil and gas export's growth, and brought about change in the country's export structure as a result. In the early 1980s, when oil and gas exports started to falter, it was the nonmanufacturing industries such as raw materials (natural rubber) and oil from animals and plants (palm oil) which were expected to pick up the slack and shore up the export decline.

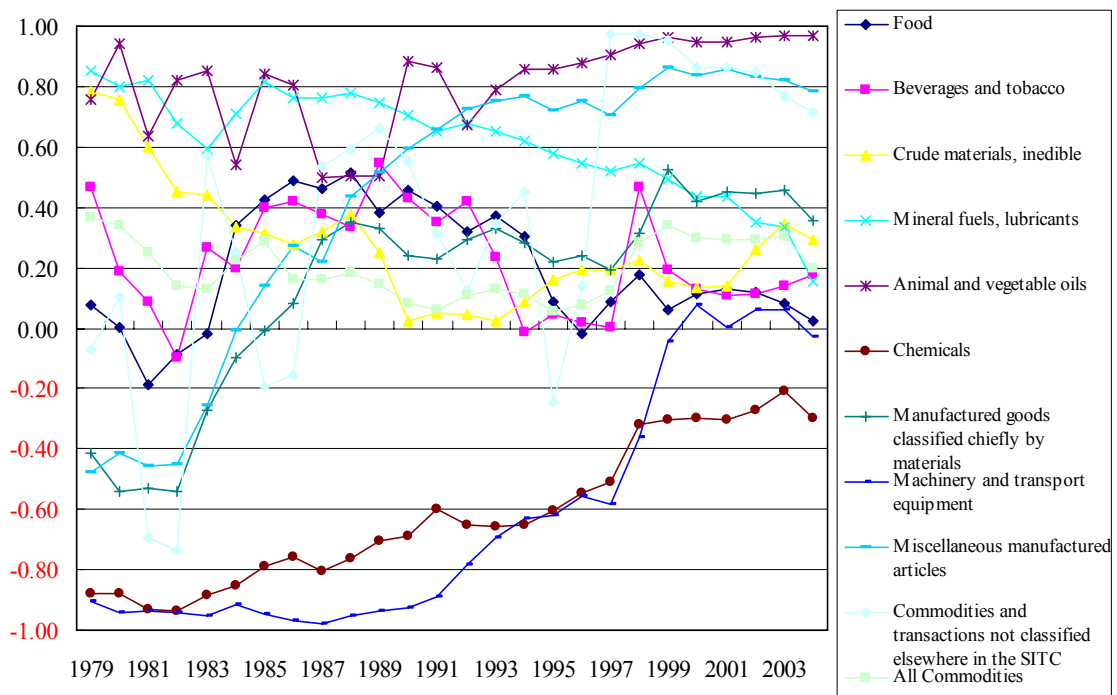
Figure 3-4 Rate of Indonesia's manufacturing exports among commodity exports



Source: World Bank, World Development Indicators

But then, exports in the manufacturing sector, for instance, textiles, started to grow. As shown in Figure 3.4, The percentage of total exports coming from the manufacturing sector was less than 3% in 1980. However, it went over 10% in 1984, and reached 30% in 1989. The sector continued to grow rapidly and in 1995, was the origin of over 50% of Indonesia's total exports.

Figure 3-5 International competitiveness of Indonesian export items (SITCI assortment)



Source: United Nations, Commodity Trade Statistics Database (COMTRADE)

Lastly, by looking at the transition of the global competitiveness index  $(\text{export} - \text{import}) / (\text{export} + \text{import})$ , let us discuss the changes in Indonesia's ability to compete in overseas markets in the trade sector, particularly in the manufacturing sector. Among the product assortments shown in Figure 3.5, chemical products, raw material products, machine and transportation equipment, and miscellaneous manufacturing goods are considered comprise this sector. Among all these products, Indonesia had a high level of global competitiveness in miscellaneous manufacturing goods such as textiles, accessories, and house furniture. In the miscellaneous manufacturing goods trade, Indonesia started to run surpluses in the mid 1980s and boasted a high level of global competitiveness from the late 1980s till the 1990s. These days, however, Indonesia is losing its strength in this field due to the appearance of competitors: China and Vietnam.

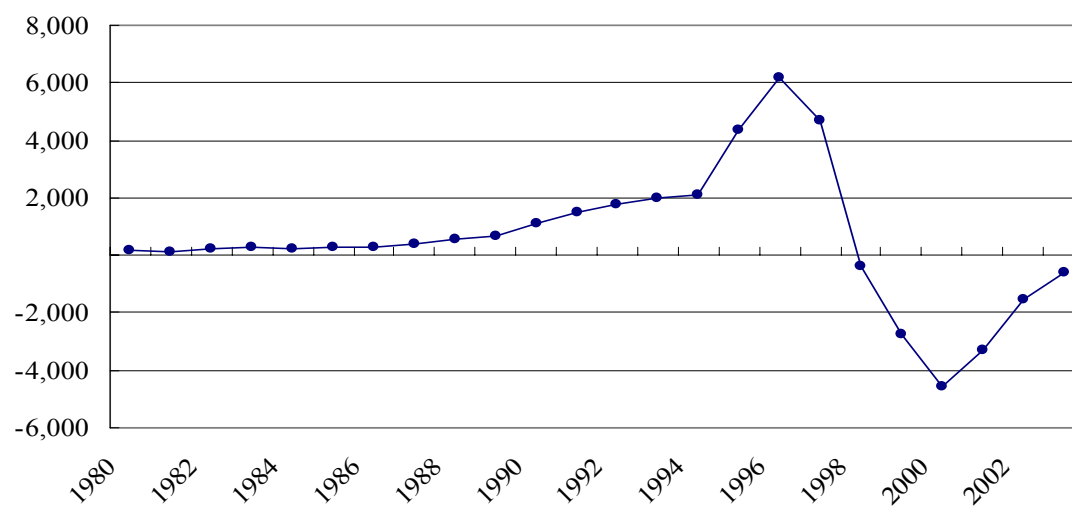
Meanwhile, within Indonesia's manufacturing sector, the machine and transportation equipment industry boosted its competitiveness in the 1990s. While Indonesia exports electronics and car parts, it also imports half-finished and finished products. In 2004, exports and imports in the machine and transportation equipment industry sector were almost equally balanced. Compared to the years before the 1990s, exports from this sector have developed considerably, and shown significant growth.

## (2) Direct investment

According to Indonesia's balance of payments statistics, the net inflow of direct investment in 1980 was \$180,000,000. Throughout the 1980s, the inflow increased dramatically and it reached a level of approximately 3 billion dollars in the mid-1980s. After the 1985 Plaza Accord, the direct investment net inflow exploded further partly because of an influx of capital from Japan and as a result, it crossed the 10 billion mark. Direct investment accelerated still further in the 1990s. It went over 20 billion dollars in 1993 and exceeded \$40 billion in 1995. It surpassed \$60 billion in 1996.

But after the outbreak of Asia's economic crisis (1997), outflows exceeded inflows and the net inflow rate thus became negative. After the collapse of the Soeharto administration in 1998, Indonesia's domestic affairs went through a period of continuing instability, and dark clouds hung low over direct investment. The waves of outflow briefly calmed down in 2001, but the downturn of direct investment is still on going. Some factors such as the fact that decentralization is encouraging district-level corruption; the increase of industrial disputes as the result of the legalization of the formation of labor unions after 1998's collapse of Soeharto administration; and the delay in realizing a new investment law which incorporates clear-cut rules to equally deal with foreign and domestic capitals, are offered up as potential explanations for this downturn.

Figure 3-6 Foreign direct investment net inflows to Indonesia (net inflows, BoP, current US\$)



Source: World Bank, World Development Indicators

### 3.3 Trade capacity building in firms

#### 3.3.1 Small and medium-sized enterprises (SMEs) and business organizations

##### (1) Small and medium-sized enterprises

This evaluation project's main scope is to look at the capability formation<sup>18</sup> of small and medium-sized enterprises (in the manufacturing sector). Therefore, the survey is to overview the private sector based on the fundamental data of small and medium-sized enterprises.

The number of establishments by size of firm, number of employees, and value added in the manufacturing sector are summarized in Table 3.6. The number of large and medium-sized enterprises as well as the number of establishments they own and individuals they employee is growing. In contrast, while the number small-sized enterprises' as well as their additional values is increasing, the number of their employees is decreasing. (This is thought to be the result of the usage of narrow range criteria.) Household-sized enterprises make up large share of total industries. They made up about 90% in 2000. As for the number of employees, large and medium-sized enterprises are extending their share of total employees, but still the household enterprises still employee the largest share.. Behind these figures, we can see the fact that most of the manufacturing traders in the district are household-sized enterprises.

Table 3-6 The number of establishments in Indonesia's manufacturing sector's by size of firm, number of employees, and the additional values

Year	Number of establishments			Number of employees			Value added (Billion Rupiah)		
	Large / Medium	Small	Household	Large / Medium	Small	Household	Large / Medium	Small	Household
1979	7,960	113,024	1,417,802	827,035	2,794,833	4,491,887	160	187	291
1986	12,765	94,534	1,416,636	770,144	2,714,264	5,175,843	9,348	775	1,254
1991	16,494	122,681	2,350,984	2,993,967	978,506	3,786,326	29,948	1,608	2,404
1996	22,997	228,978	2,501,569	4,214,967	1,915,378	4,075,763	93,332	4,612	4,094
2001	21,396	230,721	2,307,562	4,385,923	1,761,510	4,348,548	269,630	12,012	14,794

Note: large/medium is over 20 employees, small is from 5 to 19, household is 5

Source: Central Bureau of Statistics, *Statistics Indonesia*, (each year's version)

Since large and medium-sized enterprises are defined as having more than 20 employees in Table 3.6, excluding small ones, most enterprises are counted in this classification. This makes it difficult to

<sup>18</sup> Indonesia's definition of small and medium-sized enterprises adopts the definition based by the number of employees; large-sized(100 and over); medium-sized(over 20, less than 100); small-sized(over 5, less than 20); household-sized(over 1, less than 5)

capture the actual conditions of small and medium-sized enterprises. Therefore, although there is a constraint of period (from 1995 onward), more detailed classifications are adopted in Table 3.7. What is peculiar about the number of establishments is that, the majority has shifted from enterprises with more than 100 and less than 500 employees(1995) to the ones which are considerably smaller-sized with more than 30 and less than 50 employees(from 2000 onward). Similarly, regarding the share employees', companies with between 100 and 499 employees made up the greatest proportion in 1995, but from the year 2000s onward, small enterprises with 30 to 49 employees and large enterprises with more than 500 have come to have a bigger share. Finally, the additional value have increased remarkably within the large sized enterprises.

Table 3-7 numbers of establishments by size of firm, employees,  
and additional values among large and medium-sized enterprises

	Number of Employees	Share in total (%)	Share in total (%)	Share in total (%)
1995	20~29	1.0	0.1	0.0
	30~49	11.6	2.3	0.4
	50~99	22.5	8.9	5.3
	100~499	60.2	63.2	53.5
	500~	4.6	24.9	40.0
2000	20~29	3.7	0.5	0.1
	30~49	62.2	12.1	5.4
	50~99	3.4	1.0	2.4
	100~499	18.4	30.6	33.9
	500~	12.3	55.8	57.5
2002	20~29	3.3	0.4	0.1
	30~49	61.5	11.5	5.2
	50~99	3.2	0.9	1.7
	100~499	17.6	28.4	28.8
	500~	14.3	58.8	63.2

Source: Central Bureau of Statistics, *Statistics Indonesia* (each year's version)

In what ways do small and medium-sized enterprises contribute in the export field? Since the official statistics of small and medium-sized enterprises are not yet developed in Indonesia, the data is quoted from Urata (2000) (Table 3.8). Exports from small and medium-sized enterprises are defined as those that come from locally-based companies. It is also necessary to note that not only direct exports but also indirect exports are included. The share hovers around the 5% level. It went up temporarily right after the Asian economical crisis, but cannot be considered to have a major contribution.

Table 3-8 Share of small and medium-sized enterprises among Indonesia's exports

(Unit: US \$ millions)

	1993	1994	1995	1996	1997	1998	1999
Total Export (A)	36,823	40,053	45,418	49,814	63,444	48,848	25,922
Exports of Small Industry and Small Trade (B)	1,685	2,214	2,160	2,503	2,522	3,646	1,205
(B)/(A)	4.6%	5.5%	4.8%	5.0%	4.7%	7.5%	4.6%

Source: Urata(2000)

## (2) The situations of economic groups

In Indonesia, The Indonesian Chamber of Commerce and Industry(KADIN) has the biggest voice. It was established in 1987, and nowadays, it has a network that covers 30 states, and 442 regions and cities, with 160 economic groups under its umbrella. Its main role is to make policy recommendations based on the views collected from all member enterprises, including small and medium-sized ones. In addition installing the past chairperson of KADIN as the Coordinating Minister for Economic Affairs under the Yudhoyono premiership, the Government has accelerated operations to promote trade investments. In October 2004, it published a book of policy recommendations (*"Revitalization of Industry and Investment"*).aimed at improving the macroeconomic situation from 2004 to 2009 This was published with the advice given by the experts dispatched from JETRO. KADIN is continually asking JETRO to dispatch experts in order to prepare for the development of industrial statistics.

## 3.3.2 The progress of export capacity development

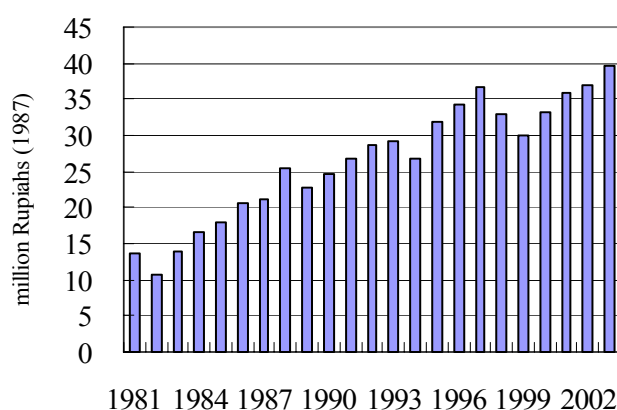
To adequately discuss the formation of enterprises' sector export capabilities, the first thing to be done is to analyze the process of formation based on actor/factor analysis (a simplified way). Alternative indicators were settled on to indirectly measure the three constituent factors that make up export capability; 'policy and counter plan (factor "P")', 'human resource: and organization(factor "R")', and 'knowledge and technique(factor "K")'. To put it another way, the manufacturing industry's labor productivity (additional values/ number of employees) was used as a proxy for 'policy and counter plan(factor "P")', the percentage of total employees employed by a particular industry for 'human resource: and organization(factor "R")', and secondary education enrollment rate for 'knowledge and technique(factor "K")'.

By selecting these indicators, there was an attempt to capture the potential capability, not only in the enterprises that are actually exporting, but also in others. Since it is difficult to set up an indicator that evaluates enterprises' plans comprehensively, productivity was adopted as a result. In addition,

due to the restriction of the data, indicators for ‘policy and counter plan’ and ‘human resource: and organization’ had to include, not only small and medium-sized enterprises, but the entire manufacturing industry, and to measure ‘knowledge and technique’ had to adopt general indicators which cover, not only the manufacturing industry, but the whole economy. Each is believed to have a certain degree of validity regardless.

Reflecting the decline of additional values, associated with the economic downturn, there are some cases in which labor productivity is lower than the previous year. However, despite the downturn in the days after the economic crisis, it has now recovered its previous level. As a whole, it can be said that it has been growing steadily throughout the period from 1981 onward. But the level is still lower than that of the advanced nations. For instance, Indonesia’s labor productivity in 2000 was US\$3,932 using year 2000 dollars, but Japan’s was \$73,864.<sup>19</sup> The difference of capital intensity caused by labor costs may explain this difference, but nevertheless, the gap is still huge .

Figure 3-7 Labor productivity in Indonesia’s manufacturing sector



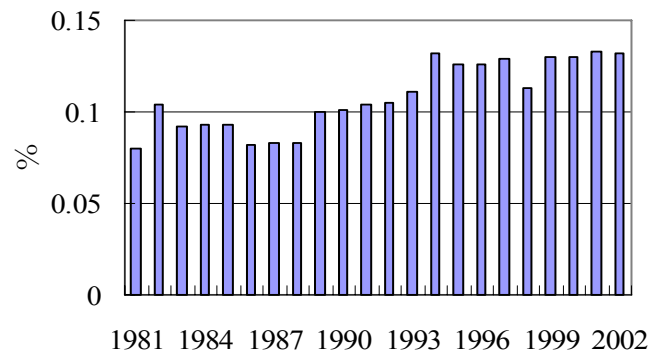
Source: World Development Indicators, ABD Key Indicators

The percentage of total employees in the manufacturing industry passed 10% in the early 1990s, and dropped only once immediately following the economic crisis. Since then, it has been hovering around the low 10%<sup>s</sup>. Compared to 1980, the most recent figures indicate improvement, but in the contrast with the other evaluated countries and the industrialization experiences of advanced nations, its standard level is not necessarily high.<sup>20</sup>

<sup>19</sup> The figures were calculated based on the data cited in Ministry on Internal Affairs and Communications, Bureau of Statistics (2006)

<sup>20</sup> As for Japan, productivity had already reached 30.7% by 1962. It reached its maximum in 1973's with 36.6, it kept on out flowing to the Third Industry (What is the third industry? That is not a common term in English.) and the numbers are down to 27.5% in 2004.

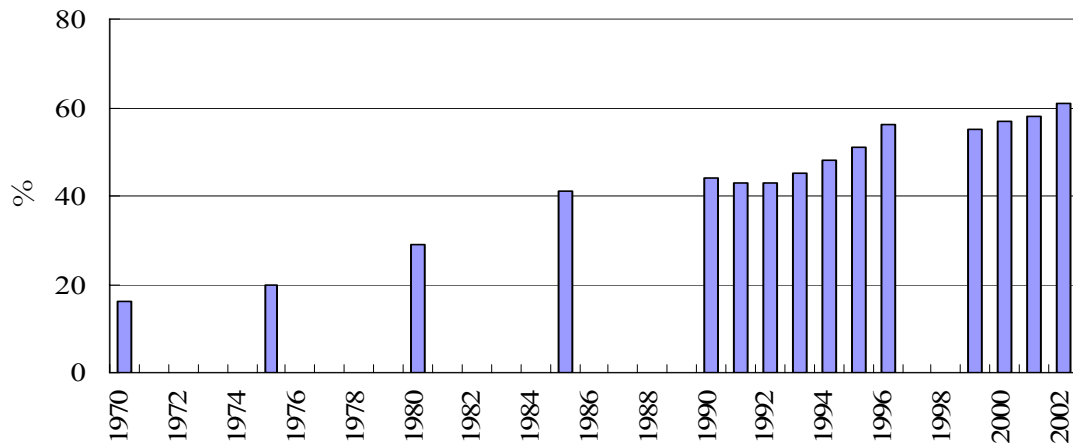
Figure 3-8 The proportion of total employees in the manufacturing sector in Indonesia



Source: World Development Indicators, ABD Key Indicators

Last of all, the secondary education enrollment rate has doubled throughout the period: from 1980 and 2002. Moreover, it is growing steadily in general. However, it is only about 60% and remains lower than in other countries.<sup>21</sup>

Figure 3-9 The secondary education enrollment rate in Indonesia



Source: Global Education Database

To sum up, from the viewpoints of ‘policy and counter plan’, ‘human resource: and organization’, and ‘knowledge and technique’, enterprises’ export capabilities are growing steadily, but remain at a low level compared with the advanced nations.

<sup>21</sup> The secondary education enrollment rates in advanced nations are followed: Japan 100%, Canada 98%, UK 95%, France 92%, Korea 91%, Australia 90%, Germany 88%, US 87% .(Global Education Database)

### 3.3.3 Self-analysis of trade capacity by enterprise

A questionnaire, which asked the respondents to self-evaluate their own competitive strengths, was conducted as a part of this evaluation project. Based on the results of this questionnaire, we discuss below the present condition of enterprises' export capability, particularly in small and medium-sized enterprises.

In Indonesia, a small and medium-sized firm are defined as having less than 100 employees. However, for the sake of comparison with other nations, the World Bank's standard, in which small and medium-sized enterprises are defined as those having less than 300 employees, is adopted for selection. (Hereinafter small and medium-sized enterprises refer to enterprises with less than 300 employees.)

#### (1) General overview of responded enterprises

The questionnaire study in Indonesia was conducted from September 2005 to October 2005 on about 400 users of the Indonesia Trade Training Center. As a result, it received 132 answers in total. Among all respondents, 72 out of a total 122 in the year 2000 and 83 out of 132 in 2004 were small and medium-sized enterprises.<sup>22</sup> Based on the results of the study, these small and medium-sized enterprises are classified according to their characteristics in four areas; business styles, areas of industry, major markets, and foreign fund rates.

##### (a) Business model

For business styles, respondents were asked to describe themselves as either ; (1)manufacturers and direct exporters; (2)manufacturers and indirect exporters; (3) non-manufacturers and exporters; or (4) others. In 2004, 75.5% of the total answered (1)manufacturer and direct exporters. Followed by 11.9% for (2)manufacturer and indirect exporters, and 7.7% for (3) nonmanufacturer and exporters.

At same time(2004) among small and medium-sized enterprises 71.4% answered (1)manufacturer and direct exporters, 12.9% answered (2)manufacturer and indirect exporters and 10.3% answered (3) nonmanufacturer and exporters. In other words, more than 70% of the responding enterprises as well as more than 70% of small and medium-sized ones are manufacturer and direct exporters.

##### (b) Industry

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<sup>22</sup> The numbers of enterprises does not always match the total sum of responding, since some did not give us a valid answer for all of the questions and for some of the questions, multiple answers were allowed

The responding enterprises came from a broad spectrum of industries but on the whole, very few categorized themselves as belonging to the four machinery areas and many responded that they belonged to light industries such as textiles, clothing and wooden products. Many chose ‘others’ as their answer, but as the segmental breakdown in Table 3.10 shows, the percentage of light industries, including furniture and textiles, is high.

Table 3-9 Industries reported in answers

Company Scale	Food	Apparel and textile	Pulp and paper	Chemical	Medical goods	Petroleum and coal product	Wood product	Rubber product	
Small and Medium (under 300 people)	6	12	2	4	1	2	26	2	
Large ( more than 300 people)	4	9	0	0	1	0	8	2	
Company Scale	Glass, soil and stone product	Iron and steel	Nonferrous metal	Metal products	General machinery and parts	Electric equipment and parts	Transport equipment and parts	Precision equipment and parts	Others
Small and Medium (under 300 people)	5	2	5	0	1	3	0	0	28
Large ( more than 300 people)	0	1	0	2	1	2	3	0	14

Source : The questionnaire interview by the study team

Table 3-10 Detailed categorization of “other” in 2004

Breakdown of Others (Medium and Small Companies)		Breakdown of Others (Large Companies)	
Types of Industries		Types of Industries	
Handicraft	8	Garment (underwear)	3
Furniture	7	Shoes	3
Rattan Product	2	Furniture	3
Pump Dispenser	1	Pharmaceutical	1
Vegetables & Fruits	1	Decorative Glass	1
Photo Album	1	Ceramics	1
Bag & Suitcase	1	Writing Instruments	1
Ornament	1	Electronic Musical	1
Household goods	1		
Shoes	1		
Pottery	1		
Sea Grass & Bamboo	1		
Leather (Imitation)	1		
Spices, Herbs	1		

Source : The questionnaire interview by the study team

(c) Export destination

Among the respondents, areas such as ASEAN, Japan, Middle East, Eastern and Western Europe, Northern America, Latin America were common destinations for export. According to Indonesia's trade statistics, exports to ASEAN, Japan and Northern America are increasing. Therefore, the result of this investigation is consistent with official trade trends. Western Europe is also a big market, but the statistics tell us that the export value of the whole region is still under or at least not above ASEAN, Japan and Northern America<sup>23</sup>. This result may be due to the fact that multiple answers were allowed.

Table 3-11 Distribution of major trade destinations in 2004

Major export market	Small and medium companies	Total
ASEAN	30	48
Japan	26	45
China	6	13
South Korea	9	18
Central Asia	8	11
South Asia	4	7
Middle East	23	40
Western Europe	38	70
Eastern Europe	17	28
Africa	9	17
North America	15	37
Central and South America	20	36
Oceania	10	21
Others	1	5

Source : The questionnaire interview by the study team

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<sup>23</sup> Albeit Western Europe was the popular answer, this is possibly due to the fact that the questionnaire allowed multiple answers and there are many enterprises that exports to any of, although the size of it may be small, the countries that constructs Western Europe which numbers a lot.

#### (D) Foreign ownership

80% of the responding enterprises were regional and had no foreign funds. Among small and medium-sized enterprises, more than 90% were regional. The rate is also high among large enterprises with more than 300 employees, but compared to the small and medium-sized ones, the percentage with foreign funds was higher.

Table 3-12 Foreign ownership (2004)

Small and medium	Foreign capital ratio	0%		50%			80%	95%		100%	計
	Number of companies	61		2			1	1		2	67
Large	Foreign capital ratio	0%	35%	50%	60%	74%		95%	99.96%	100%	計
	Number of companies	25	1	4	1	1		1	1	6	40

Source : The questionnaire interview by the study team

#### (2) Analysis of export capacity of SMEs based on questionnaires

The questionnaire also asked the respondents to self-evaluate their own competitive power, which includes production, product development, marketing and trading affairs, considering three factors: (a) total competitiveness, (b) the number of skilled technical staff members and (c) technical know-how. Respondents were asked about (b) the number of skilled technical staffs and (c) technical know-how because these are the factors that as seen as constituting (a) total competitiveness. Since it is a self-evaluation by enterprises, the measure of export capability cannot be assumed to be objective. Yet, the transition can be determined from a comparison of 2000 with 2004, and the results generated by analysis of the 3 factors with each of the 4 items indicate the differences in the relative degree of capability formation.

Comparing answers from 2000 and 2004, we see that the average evaluations in most items and factors improved in 2004. Taking a closer look at each enterprise, however, many were evaluated the same. Most of them considered their own competitiveness to be equal to that of other domestic enterprises in the same trade. There were some but not many that acknowledged themselves as the top-leading enterprises within the country.

Looking at each factor that forms capability separately, we see that in 2000, more respondents rated

themselves highly in production than in any other field. This is followed by research development, marketing and finally trading affairs. However, research development overtakes production by a narrow margin in 2004. Turning to the evaluation of total competitiveness, the result was the same in 2000 and 2004: technical know-how  $>$  the number of skilled technical staff members  $\geq$  total competitiveness. In consequence, it can be inferred that the technical know-how and human resources which accumulated in-house are not always combined with competitiveness.

Small and medium-sized enterprises that showed high-performance in growth of sales and export values from 2000 to 2004 were selected from among the respondents. Table 3.13 shows such enterprises' self-evaluations.

Based on their self-evaluations, enterprises are divided into two groups. One contains those that evaluated any of the factors, production, product development, marketing and trading affairs, as a five (very high: the red-shaded part), and the other contains those that did not. In Table 3.13, enterprises that produce processed products such as handicraft and clothing are numbered 1 to 22 and the ones that produce minimally processed products like coal, spices and plastic, stone products are numbered 23 to 29. According to this table, enterprises producing processed products tend to have a high opinion of factors that construct their own capability.

In other words, the performance of companies that produce minimally processed products' is greatly affected by external factors such as supply-and-demand and currency exchange matters in exports. In contrast, the performance of enterprises dealing with processed products is more affected by their own capability. Expanding the debate, if Indonesia is to make the most of its processed products (which are generally high-value additional) for economic development and achieve the industrial advances through export promotions, it is essential that enterprises' self-evaluations improve .

Note that, among the enterprises which deal with processed products, home furniture makers neither have high self-evaluations (No2, 5, 10, 11, 14, 15) nor do they match the tendency mentioned above. This is possibly due to the structural characteristics of Indonesia's furniture industry (i.e. operations to specialize in minimally processed products, family-oriented management, small-sized enterprise or contract manufacturing delivery system, etc...). In any case, these points need further investigation.

Table 3-13 Answers on export performance and self evaluation on trade capacity

	Products (2004)		Sales amount (million rupiah)			Export value (million rupiah)			Production		Product Development		Marketing		Trading business	
	Items	attribute (note)	2000	2004	Increase	2000	2004	Increase	Number of Skilled/Specialized Staff	Technology/Know-how	Number of Skilled/Specialized Staff	Technology/Know-how	Number of Skilled/Specialized Staff	Technology/Know-how	Number of Skilled/Specialized Staff	Technology/Know-how
Company 1	Basket & Flower Vase	1	5,000	150,000	2900.00%	5,000	150,000	2900.00%	5	5	4	4	4	4	5	4
Company 2	Furniture & Handicraft	1	50	950	1800.00%	50	950	1800.00%	4	4	4	4	4	4	4	4
Company 3	Copper Rod	1	494,591	3,633,053	634.56%	.	2,777,489	-	4	4	4	5	4	5	4	4
Company 4	Door Handle	1	861	2,719	215.74%	88	813	819.79%	2	3	2	3	2	3	2	2
Company 5	Rattan Furniture	1	100	300	200.00%	100	300	200.00%	3	3	3	4	3	3	3	4
Company 6	Handicraft	1	1,000	2,400	140.00%	.	700	-	4	5	5	5	5	5	3	5
Company 7	Instant Coffee	1	10,000	22,000	120.00%	10,000	22,000	120.00%	4	5	4	5	5	5	5	5
Company 8	Decorative Glass	1	93,200	200,150	114.75%	93,200	200,150	114.75%	5	5	4	4	5	4	4	4
Company 9	Doctor Clothes	1	10,000	20,000	100.00%	10,000	20,000	100.00%	4	N/A	N/A	N/A	4	N/A	N/A	4
Company 10	Rattan Furniture	1	500	1,000	100.00%	500	1,000	100.00%	3	3	3	3	3	3	3	3
Company 11	Furniture	1	2,750	5,000	81.82%	2,000	3,000	50.00%	4	4	3	3	3	3	3	3
Company 12	Furniture	1	2,000	3,000	50.00%	2,000	3,000	50.00%	4	2	3	3	3	2	2	2
Company 13	Pearl	1	1,000	1,500	50.00%	500	600	20.00%	4	5	4	4	4	5	4	5
Company 14	Carving & Furniture	1	250	350	40.00%	250	350	40.00%	4	4	4	4	3	3	3	3
Company 15	Furniture	1	7,500	10,000	33.33%	7,500	10,000	33.33%	4	4	4	4	4	4	4	4
Company 16	Underwear	1	4,000	5,007	25.18%	4,000	5,007	25.18%	2	3	2	3	1	2	2	3
Company 17	Basket & Flower Vase	1	900	1,100	22.22%	800	1,000	25.00%	5	5	5	5	4	4	4	4
Company 18	Food & Infant Milk	1	3,500	4,000	14.29%	900	1,200	33.33%	4	5	5	5	3	4	1	4
Company 19	Shoes & Sandals	1	5,000	5,500	10.00%	5,000	5,500	10.00%	3	3	N/A	1	2	3	3	2
Company 20	Garment & Textile	1	7,500	7,650	2.00%	7,500	7,650	2.00%	4	4	5	4	4	4	4	4
Company 21	Handicraft	1	50	50	0.00%	20	30	50.00%	4	4	4	4	4	3	4	3
Company 22	TV Rack	1	2,000	2,000	0.00%	1,500	2,000	33.33%	5	4	5	4	4	4	5	4
Company 23	Dammar, Betelnut Formicacid, Coal	2	500	2,800	460.00%	500	2,800	460.00%	2	2	2	4	2	3	2	3
Company 24	Spices & Argo Products	2	500	2,000	300.00%	500	2,000	300.00%	3	3	3	3	3	3	3	3
Company 25	Iron Pipe	2	3,000	7,000	133.33%	3,000	7,000	133.33%	4	4	4	4	4	4	4	4
Company 26	Daily Goods & Natural Products	2	5,000	7,000	40.00%	5,000	7,000	40.00%	N/A	N/A	N/A	N/A	4	4	4	4
Company 27	Plastic	2	3,000	4,000	33.33%	1,000	1,500	50.00%	2	3	N/A	N/A	1	2	3	3
Company 28	Stone Product	2	100	125	25.00%	100	125	25.00%	4	3	4	3	4	3	3	4
Company 29	Vegetables	2	110,000	120,000	9.09%	110,000	120,000	9.09%	4	4	3	4	4	4	3	4

Note: 1= High degree processing products , 2= Low degree processing products

Column1: Case studies of Indonesian enterprises

Alongside the questionnaire investigation, interviews were directly conducted with some enterprises. Based on the interviews, selected cases that show Indonesian enterprises' export trends and capability are listed below.

1. Indonesian enterprise A (location: Surabaya, major exported goods: handicraft)

Enterprise A is a small and medium-sized enterprise established in 1993. Its products are iron-made handicrafts and small-sized furniture. When the business started, there were five employees, but now there are twenty. This May, it founded SME's Gallery for exhibitions and sales, together with another handicraft trader and a small-scale apparel company. It is in the middle of an expansion of operations. Recently, it received an inquiry from a Japanese Enterprise for its' metallic decorated door-handle.

Presently, it has sales of 500 billion Rp. (about 5 billion yen) per year. Through an association with a US trading company (buyer) based in Yogyakarta, it began exporting in 2000. Exports make up 60 % of total sales and domestic sales make up 40%. The company utilizes buyers like the one mentioned above in several nations, and its major markets are India (40%), US (20%), Canada (20%) and others (20%). The said enterprise frequently takes advantage of the training at RETPC in Surabaya. They are satisfied with the training received so far price decision, and management and internet (collecting information and building up a website) programs. The company expressed its willingness to participate in training programs in accountancy, or stock control and design if such programs are offered in the future. Enterprise A participates in the sale and exhibit (Jakarta) sponsored by NAFED. Similarly, it has taken part in the International Trade Fair in Makuhari, Japan, and is making good use of the government's service.

The enterprise highly evaluates RETPC's training service and has demonstrated its strong trust in RETPC by printing RETPC's logo (P3ED) on the opening memorial brochure of its SME's Gallery (a shop selling its own products and the exhibited handicraft products made by nearby small manufactures.

2. Indonesian enterprise B (location: Jakarta, major export goods: rubber-made fenders and buoys)

Enterprise B is a local industry founded by its ex-president in 1954. Its main products are rubber-made fenders and buoys used in harbors and government-backed construction such as bank protection work and port construction work. There were 140 employees in 2000, and that number

remained basically unchanged in 2004. The company's capital fund is 16 billion Rp. and its sales ranged from 180 to 200 billion Rp./year from 2000 to 2004.

Apart from producing and selling its own products (50% of the sales), Enterprise B also engages in trade by importing and selling related products (50 % of the sales). 90% of the products it produces or imports are sold domestically and the rest are exported. Since the Asian Currency Crisis, the company has adopted the policy of producing and selling onshore procurement products. It does not have a stable market, but has exported to markets in Europe and Singapore. In the last few years, they have on occasion also made deliveries to places like Myanmar and Taiwan.

Training conducted by experts dispatched from a Swedish company, which is one the enterprises' customers, has been useful in enhancing its production know-how. It once sent an employee to the Trade Training Centre (IETC)'s for training, but the trained employee left the company after the program. Ever since, they have struggled with the question of how best to utilize training programs. The company is under the impression however, that IETC is out of date both in terms of its quality-testing machines for rubber-related products and its facilities. Furthermore, the enterprise has tried training programs offered by KADIN and some economic groups, but felt that the costs of participation outweighed the benefits. Enterprise B said that generally, training is noticed only through the press. Furthermore, the company believes that in order to improve training programs, organizers must listen to the needs and complaints of participants, but said that the organizers lacked the desire to actively communicate with participants.

All in all, it is this 'attitude' that matters in the government's assistance towards enterprises. For instance, a consultant, trying to acquire ISO, asked a government-related consultant for it only to find out that it was waste of money and time. The consultant re-asked a private consultant in Singapore and finally got it. In addition to this "let them wait," attitude, corruption is still strongly-rooted in governmental services. Likewise, in the case of ODA, there is no room for local industries in the yen loan program, since consultants bid based on a specific Japanese company's specifications. To make things worse, after the AFTA, the import tax on rubber-related products in ASEAN will drop down to 0% from 5%. Noticing the situation in Malaysia, where local industries are protected by imposing a 40% tax, Enterprise B expressed its displeasure with the Indonesian government and questioned whether it had any interest in protecting indigenous industry. 'No revolution in public services, "we don't have any desire to accept government services ' is the enterprises' candid opinion., Briefly, the enterprise received assistance from foreign nations 2 years ago through UNDP's free equipment and material provision.

3. Indonesian enterprise C(location: Jakarta, main export goods: furniture for office and general use)  
When the business started in 1971, 2 employees were producing and selling cassette tapes. It then

expanded its business to CD racks, office furniture and furniture in general. In peak periods, the export sales of its own brand goods reached \$180 million, but it now exports only half as much. This decline can be explained by the sharp competition it faces from products made in China and Malaysia. However, the situation is changing for the better, since the two countries' products have been detected in Middle East markets for using illegally logged materials. Its major markets are the US, Middle East and the Western EU. The enterprise relies on agents for its sales and its buyers are companies, hotels and the consumer public. Exports make 70% of total sales and it is said that domestic sales are stable. 400 employees are currently working for the enterprise, but ever since the Currency Crisis, the number has been reduced. (However, it becomes 'large-sized' with more than 25,000 employees, if we include the employees of its 5 related-companies, which deal with bed clothes products, exhibition projects and so on...) It used to export to Japan, and has a patent permitted by Japan's Patent Agency.

The enterprise has sent 3 or 4 employees to IETC's training scheme (basic export procedure course and product management course). Enterprise C's impressions were: 'IETC should try harder to inform user enterprises about what kind of training courses it has.': 'ISTC should communicate intimately with users'. Additionally, Enterprise C took several jabs at NAFED's trade fair (offered with a subsidized participation fee) stating that it was ill-prepared for buyers' participation and that there was sometimes no response on buyer's information. 'Compared to this, IETC is doing OK' the enterprise said. According to the said enterprise, private services conducted by economic groups' have shown no improvement and cannot be evaluated. (Being affiliated, but we have not made any contact so far, and does not know that KADIN's service exists) It has used JETRO's service and is going to participate in the exhibition in Tokyo.

### 3.4 Capacity building of the government to expand Indonesian export

#### 3.4.1 Government agencies provide service related to export

Based on JICA (2003), the functions of trade-related government agencies are organized in Table 3.14. The larger items in the table are ‘basic condition improvements’, ‘formulation of trade-related policies and developing systems to operate them adequately’ and ‘export assistance service’. “Basic condition improvements” include improvements in fundamental economic infrastructure, the legal system, and education. “Formulation of trade-related policies and developing systems to operate them adequately” indicates specialized policies for trade, development of the legal system and trade-related procedures. Export assistance service can be divided into “soft” and “hard” programs. The former covers commodity fairs, fair trades, and providing information about overseas trade policies and procedures. On the other hand, the latter includes various types of technical assistance for enhancing international competitiveness.

The main regulating authorities for each item are shown in Figure 3.14. But the MOT and the MOI are considered to be most important programs for the formulation of policies for trade and small and medium-sized enterprises and the development of systems to operate them adequately. .

Table 3-14 The list of government agencies related to trade in Indonesia

Government function in trade sector (Large items)	Government function in trade sector (Small items)	Examples	Regulating authority
Establishing Basic Conditions	Legal System Development for Commercial Transactions	Development of Civil laws, Commercial laws, Registration laws, Rehabilitation, reorganization and Bankruptcy law, Antitrust law, Immigration law and alien registration law	
	Provision of Economic Infrastructure	Transportation Infrastructure, Electricity generation, Transmission and Distribution Infrastructure, Telecommunication Infrastructure, Financial System, Standards and conformity Assessment System, Intellectual Property Rights, Statistics	Ministry of Transportation
	Creation of Business Environment for Domestic Industries	Various forms of deregulation to promote new entries into the market, Establishing financial institutions, Promoting research and development activities, Supporting business services for small and medium enterprises	<u>DGSMSIT</u>
	Industrial Human Resources Development	Human resources development for science and mathematical education, as well as information technology education at elementary and intermediate levels of schooling, and High level specialized skills, English education, Certified engineers systems, Vocational training and job matching	IETC, Ministry of National Education
Establishing System for Formulating Trade-related Policies and Institutions and their Proper Implementation	Formulation and Implementation of Industrial and Trade Policies Based on Medium- to Long term Perspectives	Formulate and implement their industrial and trade policies and implement WTO agreements	<u>Bureau of Planning (MOT)</u> , Bureau of Planning (MOI)
	Establishment of Trade related Laws, Regulations, and Institutions	Basic Laws on Export and Import, Basic Laws on customs, Import-related laws (Quarantine Law), Export processing zone, Trade-related financial system(Trade insurance, export finance), Establishment of export promotion organization	Bureau of Planning (MOT), NAFED
	Trade-related procedures	Test, Inspection, Custom, Quarantine	DGIT (MOT)
Export support service	Providing information on the overseas markets	Organizing marketing seminar, trade shows and exhibitions of products	IETC
	Providing information on Foreign and domestic trade procedures, Incentives	Foreign trade system, procedure and business custom, Information on incentives, Strengthening of functions of trade promote organization	<u>NAFED</u>
	Fostering Viable Private Sector	Management and technical guidance, Training for Product development and agrotechny	<u>IETC</u>

Source: the author

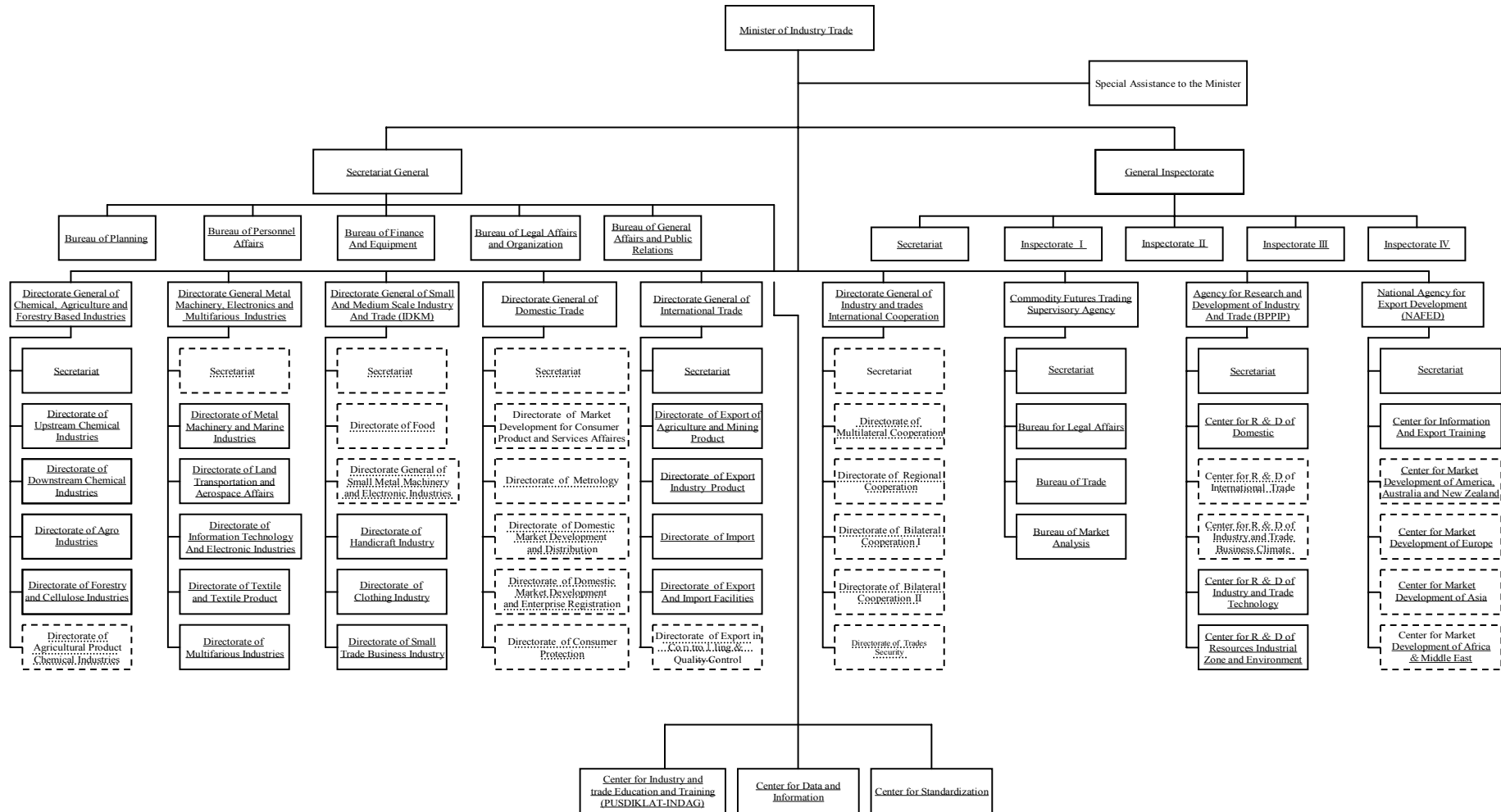
MOT and MOI merged to form MOIT in 1996, in order to implement policies of trade promotion and industrial development as a unit (refer to Figure 3.10). However, after the inauguration of the new government in 2004, it was re-divided and is still in the middle of organizational restructuring. The reason for its re-division has not been announced yet, but it is sensed that it was mainly because this would allow them to create more cabinet posts. Some administration officials have also questioned the necessity of re-division.

MOT's present organizations take over with those of the Department of Trade and Industry for the most part. MOI's present organization is shown in Figure 3.11.

MOT has not been significantly affected by the re-division. In fact, some even appreciate the re-division saying that MOT has become more nimble as a result. The draft of MOT's five-year-plan (from 2005 to 2009) has just been put together, with a numerical target of 10.1% growth in the export rate. As actual tactics to enhance competitiveness, cluster advancement and brand enhancement are emphasized. Moreover, there is a request to accept JICA's experts in the Bureau of Planning, in order to gain advices on policymaking and MOT has acted energetically.

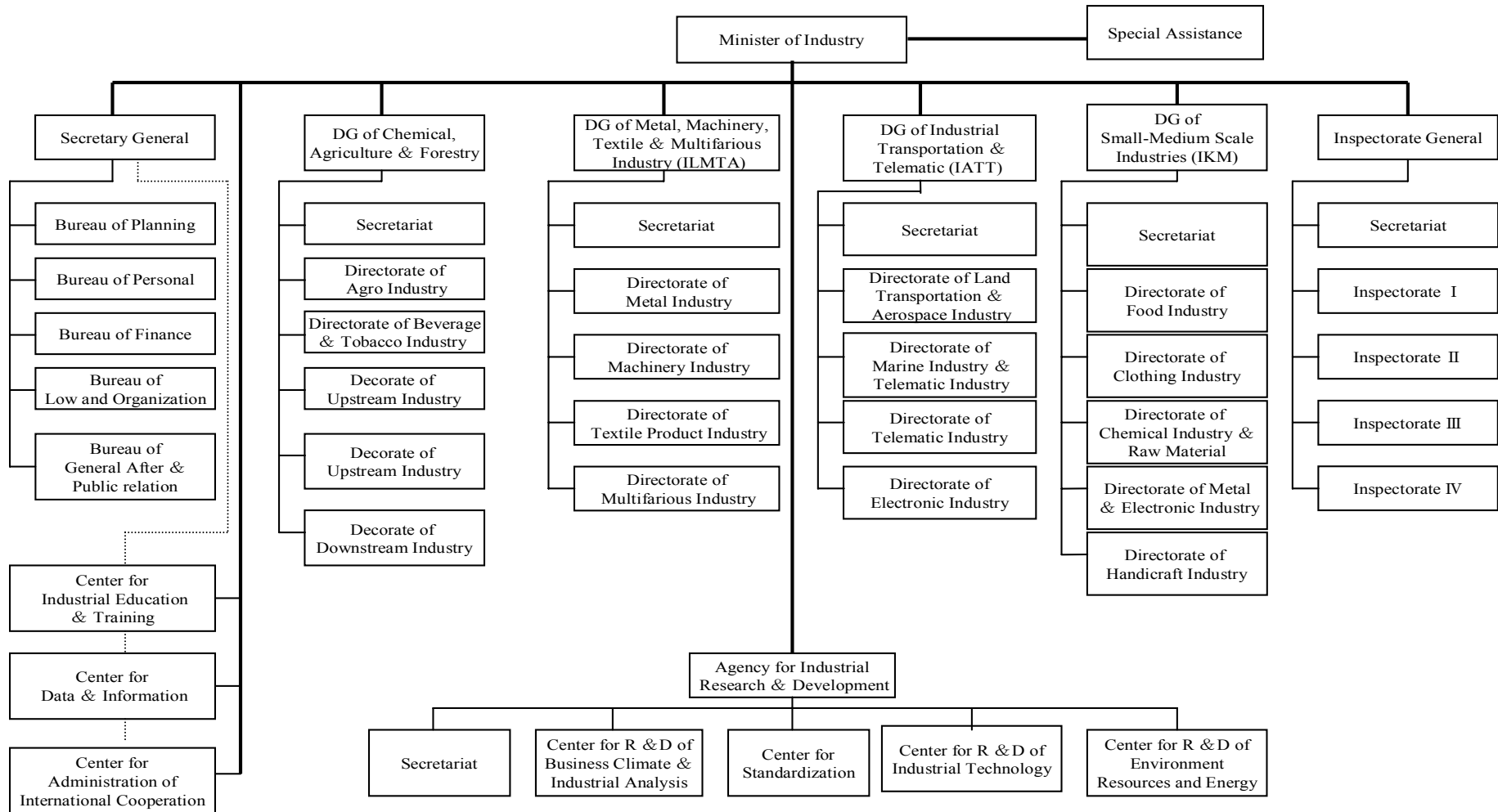
On the other side, MOI's organization was badly affected by the division from MOT. It took almost a year after the re-division to decide personnel affairs above the level of division chief and is at last finalizing its organizational system. Though their mid-term industry development policy is nearly finalized it is apparent that there are still serious problem with their approach., By loosening its control over its local agencies through a process of decentralization, it puts emphasis on local government functions and coordination between the center and the regional governments. But in fact, the contradiction of the two goals are actually obvious. While the Ministry argues for the promotion Makassar's metal processing industry as the emphasis of their cluster approach for activating local industries, the local government desires the fostering of agro industry.

Figure 3-10 Organizational structure of Ministry of Industry and Trade (at the point of 2004's division)



Source: the author based on documents from MOI

Figure 3-11 Organizational Figure of Ministry of Industry



Source: the author based on documents of MOT

We now shift focus to NAFED, which provides export development service to non-oil and natural gas product manufacturers.

When founded in 1971, NAFED was a semi-governmental organization under the direct control of the President, but in 1976, it was put under the control of the Ministry of Trade. During this period, it opened its first overseas office in Hamburg, Western Germany (1973), and by 1997, it had opened an additional twelve overseas branches. Though all offices were closed down due to the economical crisis (1997), six were re-opened in 2002 in cities like Osaka, and five are planned to be opened in 2006. At the time of this study (2005), there were 382 employees, roughly the same number as there were in 1995. This is because the organization has not recruited any new members since then.. There is a concern that many will reach the official age limit and retire in the mid-term and that technical transfer will become inadequate as a result.

NAFED's present organization Figure is shown in Figure 3.12. Up until the establishment of the Minister on Industry Trade in 1995, NAFED was organized around a product-by-product but after this point, it was reorganized around a market-by-market . This reorganization was not only based on enterprises' requests. It is said to have a strong political reason; to prevent overlaps with the former Ministry of Industry. There was further reorganization in 2004, but the market-by-market framework has remained. MATRADE, which is discussed below, has lines for both market-by-market and product-by-product, but it is difficult for NAFED to do this because of its resource: constraints and it is still not at the stage where it can begin product development and foster industries tactically, based on the market's demand.

The Trade Training Center (IETC), which was created in cooperation with JICA, also belongs to NAFED and plays an overall role related to trade development. Table 3.15 and 3.16 indicate the growth of its main activity: export forums and commodity fairs. The steady growth of its establishment is significant.

Figure 3-12 Organizational Structure of NAFED



Source: NAFED's papers

Table 3-15 Numbers of NAFED-sponsored export forums and participants  
(1991-2003)

Year	Market Survey/Market Brief (Number)	Participants (Numeber)
1991	76	349
1992	22	386
1993	36	377
1994	48	375
1995	27	360
1996	24	450
1997	47	504
1998	21	541
1999	30	562
2000	42	588
2001	50	600
2002	42	500

Source: NAFED's papers

Table 3-16 Numbers of exhibitors and buyers at NAFED-sponsored commodity fairs and  
the amount of trade transactions (1986-2003)

Year	Exhibitors	Buyers	Trade Transaction (US\$ Million)
1986	210	150	10.7
1987	304	303	87.4
1988	340	649	54.4
1989	359	1,301	67.9
1990	424	1,616	76.6
1991	550	2,580	105.3
1992	611	3,201	131.0
1993	621	4,055	155.9
1994	650	4,525	162.1
1995	Joining Indonesian Development Exhibition'95	1,249	28.9
1996	549	3,725	34.6
1997	604	2,626	54.6
1998	800	2,799	71.3
1999	919	3,158	53.5
2000	1,100	5,364	103.0
2001	919	4,335	47.2
2002	1,187	2,501	72.4
2003	1,182	3,843	95.8

Source: NAFED's papers

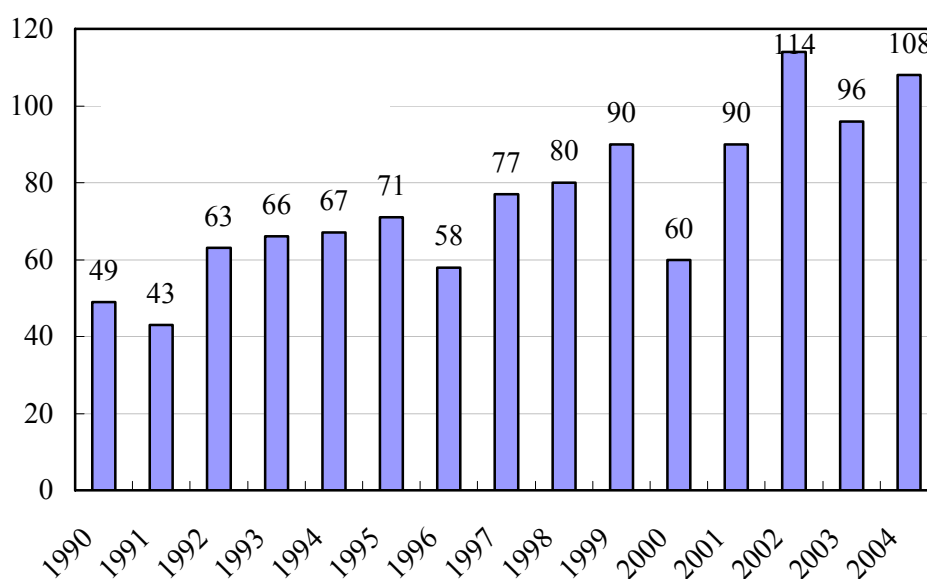
Alternatively, as noted above, it is IETC's role to develop human resources in individual enterprises.

The IETC's main activities are trading practice, quality management programs, exhibitions, and foreign language training programs. The development of these programs is shown in Figure 3.13 and 3.14. As a whole, IETC has steadily expanding its activities. Main users are private enterprises (refer to Figure 3.15).

IETC was implemented by JICA's Technical Cooperation Project (now known as the Project for Technical Cooperation) in 1988 and is currently in Phase 3 (2002-2006). The RETPC Project is in operation. The goal of this project is to improve techniques in trade training, business Japanese, export inspection and exhibit training (Phase 1), to improve capacity to set up and run trade training programs (Phase 2) and to expand IETC's achieved-results in the regions (Phase 3).

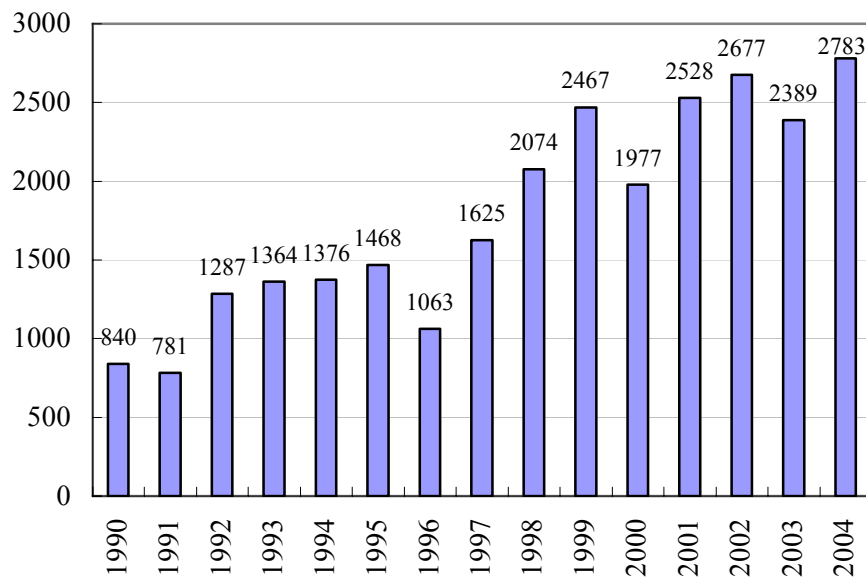
In Phase 3, trade training, and market information and trade development services are provided to four regions (Surabaya, Medan, Makassar and Banjarmasin). Table 3.17 and 3.18 indicate the expansion of RETPC's activities in Surabaya, which is high in demand and growing steadily.

Figure 3-13 Trends in the numbers of training programs sponsored by IETC



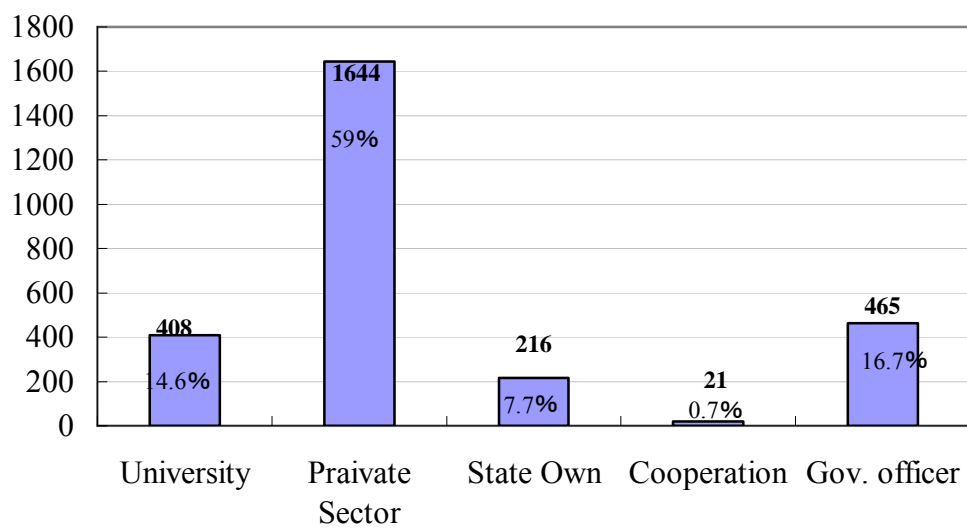
Source: IETC's papers

Figure 3-14 Trends in the number of IETS-sponsored training participants



Source: IETC's papers

Figure 3-15 Categories of IETC-sponsored training participants (2004)



Source: IETC's papers

Table 3-17 Trade information and trade promotion activities sponsored by RETPC

Activity	2002	2003	2004	2005 Plan	Until
<i>I Export Information</i>					
1. Library					
Books, Magazines, etc	394	770	1208	1250	201
Visitors	133	746	620	750	239
2. Print Out Information					
Brochure and Leaflet	1150	3684	1689	2000	1086
Library Leaflet and Mini	1150	3235	705	1000	1274
Catalogue Product Display	300	300	905	1000	581
RETPC Info	-	-	2000	2000	1000
3. Internet Information					
Inquiry / Buyer Need	-	15	129	150	168
Other Trade News	-	6	6	10	5
<i>II Export Promotion</i>					
1. Mini Display					
Mini Display Participants	32	37	50	50	33
Visitors	72	701	620	750	233
2. Fasilitasi Fair Participants					
- National Exhibition	-	1	3	3	1
- Foreign Exhibition	-	-	-	1	-
3. Business Consultation					
Marketing	6	48	47	50	15
Exhibition	1	6	5	10	8
Product	2	7	15	10	3
4. Business Contact/Buyer Reception Desk/BRD	1	5	9	10	-
5. Workshop (Seminar, Information Dissemination)	-	6	14	15	12

Source: RETPC, Surabaya's papers

Table 3-18 Trade training programs sponsored by RETPC

Activity	2002	2003	2004	2005 Plan
1. Export Training Implementation	12	19	15	17
Trade Training (Class)	8	12	7	9
IT Training	3	4	4	4
Distance Learning (TV-C)	1	3	4	4
2. Number of Participants	294	523	387	475
3. Number of Instructors	29	32	21	25
Local (Surabaya)	10	16	6	15
Jakarta	15	14	6	5
Foreign Country (Japan and Australia)	4	2	9	5
4. Training Text Book	12	19	15	17
5. Training Need Survey by Questionnaire	150	300	250	300
6. Cooperation Training (With Region/City)	-	3	5	6

Source: RETPC, Surabaya's papers

### 3.4.2 Trade promotion capacity development in the government sector

In the governmental section, as mentioned, capacity development is analyzed by using benchmarks correlating to the capacity constituent factors listed below.

Necessary factors to build-up a system

1. 'Policies and measures': Trade Development Law, Basic Law covering Small and Medium-sized Enterprises
2. 'Human resource: and organization': trade training center, government agency and financial institutions specialized in small and medium-sized enterprises
3. 'Knowledge and skill': mid-term projects for export development and small and medium-sized enterprises

The system shifts to System-working Stage only when all these conditions are met

Legally speaking, in the case of Indonesia, legislation concerning the promotion investment and export was formulated in the late 1960s and Small Company law in 1995. From an institutional standpoint, certain progress has been made." From an institutional standpoint, certain progress has been made. However, the further amendment is needed in terms of the delay of the constitution of new investment law and the incompleteness of the SME law. As for the medium-term plan, it was innovative that exportation of nonoil/natural gas was reinforced in the third five-year plan. As to the Action Plan of each ministry, it has not necessary consolidated systematically until recent years. At present, Ministry of Technology has been organizing Industrial Policy Medium-term Plan, Cooperative Corporation/Ministry of SME has been working on Medium-term Action Plan, and Ministry of Commerce has also working on formulation of the similar Medium-term Plan.

Regarding organizational development, specialist organizations such as NAFED (1972) and DCSME (1983) were established in considerably early years. However, as is apparent from the merger (1996) and split-up (2004) of the Ministry of Trade and Ministry of Industry, the whole government is still engaging in trial and error in its attempts to build-up the system (i.e. it is in the System formulation stage). Coordination of exports and small and medium-sized enterprises has been difficult in the case of central government, which has many related players in the organization. Given the emergence in 2001 of newly-empowered local governments as a consequence of decentralization, coordination has become more important than ever.

In terms of the knowledge/skill factor, a statistics was already established in 1980, but white books

which require the analysis of the related areas has not been published at this point. NAFED has been bringing out annual reports since the beginning of the 1980s and Export Information Center has been maintaining the market information for the domestic export-industry and the foreign buyers. However, further improvement is needed to provide the information that includes business analysis.

Figure 3-16 Trade capacity building in the government sector

	1960	1970	1980	1990	2000
Policies and measures (Related laws)	Foreign Investment Law(1967) Free-Trade Area Basic Law(1970)			Small Enterprises Law(1995)	
Human resources and organizations (Related specialized organization)	Indonesia Investment Coordinating Board (1967) Indonesia Credit Insurance Public Corporation (1971) National Agency for Export Development (1972) Department of Cooperative SMEs(1983) Indonesia Export Training Center (1989)			Ministry of Industry and Trade (1996) Indonesia Small and Medium Firms Development Public Corporation(2000) Decentralization (2001) Division of Ministry of Trade and Industry(2004)	
Knowledge and skills (Mid-Term Plans in related sectors)	The Third Five Years Plan(1979-1983)			Ministry of Trade Five Years Plan(2005-2009) Mid-Term Plan of Ministry of SMEs and Cooperatives(2005 – 2009)	

Source: the author

### 3.4.3 Evaluation by private sector of the government in supporting export

We now turn to an analysis of the government's export promotion policies, trade-related services and economic group's trade-related services, using the results collected from the enterprise questionnaire.

Satisfaction with most government programs improved (refer to Table 3.19). Those programs and services which showed improvement were further classified into three groups according to whether respondents: (1)Noted further improvement to a previously satisfactory program (2)Shifted their evaluations from a negative to positive rating or (3) Noted improvement but still rated the service unsatisfactory Examples for each classification are as follows: (1)Infrastructure (communication and water supply), human resource: development (university education for employees), set-up and running export processing zones: (2)certification system of governmental standards, human resource: development (all three items apart form university education which was originally evaluated as plus: (3)industry and trade development policies (capital support, tax benefits), efficiency of customs procedures.

Respondents saw no improvement in the legal system and its operation, certain types of infrastructure (commodity distribution, electricity supply), and industry and trade development (financial support, tax benefits). With the exception of "energy supply," these programs and services received below-average ratings (<3), and thus it seems that there are still concerns to be addressed.

As a whole, significant improvements were seen in many areas. Most notably, all human resource: development programs now receive a positive rating. In contrast, complaints remained in parts of infrastructure and trade-related items. The worst-rated programs/services were capital support, tax benefits and customs procedures, the latter of which was thought to be inefficient.

Table 3-19 Evaluation of policy measures to support export

		Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged
Evaluation of The Government's Export Promotion Measures	Improvement of legal systems				◎(-)
	Infrastructure building	Logistics			◎(-)
		Electricity			◎(+)
		Communication	◎		
		Water Supply	◎		
	Standard certification system		◎		
	Human resources development	Elementary and secondary education	◎		
		College/University education	◎		
		Vocational education	◎		
		Training programme for engineers	◎		
	Industrial and Trade development policy	Financial support			◎(-)
		Tax preferences			◎(-)
	Response to the trade liberalization	Reduction of import tariffs for raw materials		◎	
		Reduction of obstacles for foreign export		◎	
	Establishment and operation of the export processing zone	◎			
	Efficiency of the customs procedure			◎	

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3. ◎(-) indicates that the average score was below three and the sample did not improve after four years.

4. ◎(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author makes the table according to the research.

Next we shall compare the evaluations of the government's trade-related service to those offered by economic groups'(refer to Table 3.20).

Among government programs, commodity fairs and exhibitions in marketing fell into group (1), information supplements in manufacturing into group (2) and individual consultation in manufactory activities, all marketing programs with the exception of commodity fairs and exhibitions, and individual consultation in trade business fell into group (3). Respondents saw no significant improvements in training seminars in manufacturing. To sum up, services have improved but there are still complaints about many items.

On the other hand, among services offered by economic groups, commodity fair and exhibition in marketing fell into group (1), information supplements in both manufacturing and product development, all three items except commodity fairs and exhibitions in marketing, and all three items in trade business fell into group (2) and individual consultation and training seminars in both manufacturing and product development fell into group (3) Respondents saw significant

improvements in all areas.. To summarize, while there are still complaints to deal with in some areas, all programs have shown improvements, respondents expressed greater satisfaction and most programs had plus ratings. As a whole, private sector services are more appreciated.

When one compares the evaluations of the government's trade-related services with those of the economic groups' services, one can see that there are still many items that have complaints to be addressed on the governmental side. Furthermore, many economic groups' items received plus ratings and on a whole were given high marks.

Table 3-20 Evaluations of trade related services provided by the government and the local business groups

			Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged-
Evaluation of trade-related services for companies by the government	Production	Individual counseling, Consulting			⊙	
		Training, Seminar				⊙(-)
		Provision of information		⊙		
	Product development	Individual counseling, Consulting			⊙	
		Training, Seminar			⊙	
		Provision of information			⊙	
	Marketing	Individual counseling, Consulting			⊙	
		Training, Seminar			⊙	
		Trade Fair, Exhibition	⊙			
		Provision of information			⊙	
	Trading business	Individual counseling, Consulting			⊙	
		Training, Seminar		⊙		
		Provision of information		⊙		
Evaluation of Trade-Related Services for Companies by the Business Sector	Production	Individual counseling, Consulting			⊙	
		Training, Seminar			⊙	
		Provision of information		⊙		
	Product development	Individual counseling, Consulting			⊙	
		Training, Seminar			⊙	
		Provision of information		⊙		
	Marketing	Individual counseling, Consulting		⊙		
		Training, Seminar		⊙		
		Trade Fair, Exhibition	⊙			
		Provision of information		⊙		
	Trading business	Individual counseling, Consulting		⊙		
		Training, Seminar		⊙		
		Provision of information		⊙		

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3. ⊙(-) indicates that the average score was below three and the sample did not improve after four years.

4. ⊙(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author makes the table according to the research.

### 3.5 Indonesia's capacity development in trade and evaluation of support from Japan

#### 3.5.1 Social capacity building path and development stages

Here we discuss development path of trade social development and development stage.

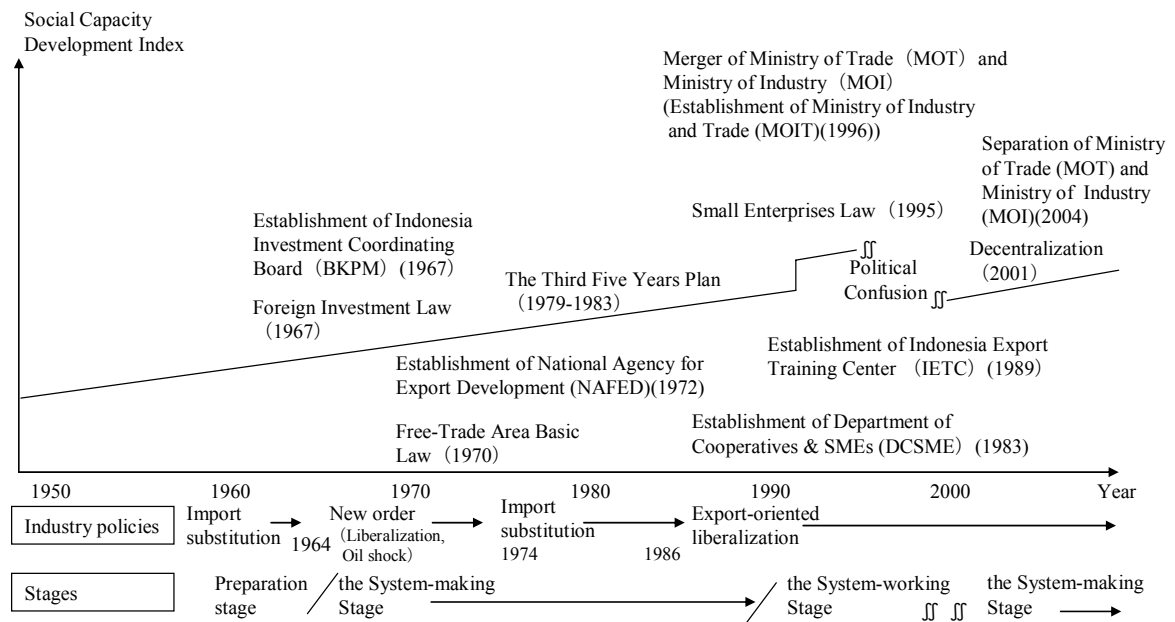
- (1) Historical assessment based on development stage analysis
- (2) Assessment of social capacity based on actor/factor analysis
- (3) Analysis on cause-effect relation between socio-economic development level and export performance as basis for the discussion on social capacity development

Figure 3.17 shows Indonesia's social capacity formulation path organized according to enterprise and government divisions.

In the enterprise division, labor productivity (policy and measures) and academic level (knowledge and skill) are growing steadily. However, their standards are not as high as in advanced nations. The growth of the employment rate in the manufacturing sector is less impressive and its standard remains low. In the government division, system formulation and operation, which showed some progress during the Soeharto administration, have suffered from the break down in system maintenance caused by political and economic confusion. As of late, the legal situation has improved to some extent and the groundwork has been laid for the systematic implementation of concrete development plans

In total, Indonesia made little progress in social capacity development in either the government sector or private enterprise until the mid-1990s. Much of what was initially gained was then lost in the climate of political confusion and economic crisis in the late 1990s. Today Indonesia has rebounded somewhat and has almost advanced out of the System-re-making stage.

Figure 3-17 Indonesia's social capacity development in trade-related field



Source: the author

Secondary we study current social capacity of Indonesia based on actor/factor analysis. Table 3.21 indicates the achievement level of Indonesia's social capacity development by using a checklist. Facilitating and limiting factors of the capacity development are also examined with the result of analysis. We also mention factors related to promotion and deterioration of capacity development.

Table3-21 Social Capacity Development in the trade sector (Government capacity and relationship between Government and Enterprise)

Capacity Factors	Check items of capacity evaluation	Indonesia	
		1980	2005
Policies and Measures (P)	Medium and long-term plan-making (National development plan) on industry and trade	✓	✓
	Establishment of basic laws on export promotion	✓	✓
	Establishment of basic laws on SMEs promotion		✓
	(Relationship between the government and enterprises) Dialog and meeting between the government and enterprises		✓
Human, financial and physical resources in organization (R)	Establishment of export promotion organization	✓	✓
	Establishment of overseas office of export promotion organization	✓	✓
	Establishment of SMEs promotion organization		✓
	Self-management organization		
Knowledge and skills (K)	Publication of statistics		✓
	Publication of trade white paper		
	Publication of annual report by export promotion organization		✓

Note 1. Cells are checked when items are achieved.

Source: the author

Regarding to the development of capacity factors in the governmental sector, “policy/action factors (“P” factor : the formulation of medium-to-long-term plan of industry/trade [National Development Policy] and fundamental law and basic plan of export/SME promotion)” have steadily achieved the benchmark. “Human resources/organization factors (“R” factor factor the establishment of export-promoting agencies [the establishment of foreign and local offices, SME promoting agencies, and the organizational restructuring adapting to environmental changes])” have not accomplished its organizational restructuring in response to the change of environment. The stagnation of “human resources/ organization” factors (“R” factor) is considered to be the limiting factors of capacity development of other two factors.

“Knowledge/skill factors” (“K” factor) have met a certain standard of the establishment of statistics. As to the white books and annual reports of related organizations, there must be ameliorations. It is conceivable that the limiting factors rest in the room for improvement because the establishment of other two reports needs more political and strategic judgment compared to the establishment of

statistics.

In terms of the business sector, compared to the situation in 1980 each capacity factor shows steadily growth, though it does not score a high standard (Table 3.22). It seems the inducement of foreign direct investments (FDIs) became the facilitating factors that reflect the impact of “K” factors on two others. The relationship between the government and enterprises (including economic organizations) was reinforced recently because the past chairman of Indonesian Chamber of Commerce and Industry (KADIN) became a Coordinating Minister for Economy in 2004.

Table 3-22 Social Capacity Development in the trade sector (Companies’ capacity)

Policies and measures (P) (Labor productivity of manufacture industry constant 2000 US\$)	Human, financial and physical resources in organization (R) (Ratio of employees in manufacture industry to employees in total, %)	Knowledge and skills (K) (Enrollment rate of secondary education, % )
1,628 (1981)	8 (1981)	29 (1980)
3,932 (2003)	13 (2002)	61 (2002)

Source: the author

As to government sector the System-making stage was transited System-making stage to System-working stage under Suharto administration until turmoil by Asian financial crisis in 1997 and 1998. Indonesia’s social capacity stage set back to System-making stage due to the turmoil. Indonesia is now reconstructing social capacity through development of regal infrastructure and implementation of development plan.

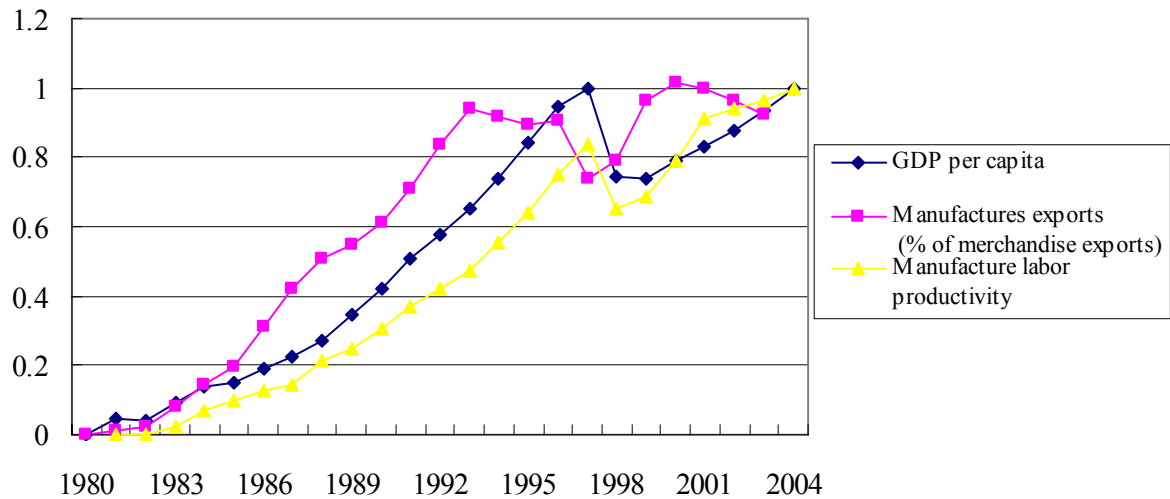
As to business sector labor productivity “P” factor and education level, “K” factor are steady growing while they are not sufficient. The employment ratio in manufacturing sector (“R” factor) is also in the similar situation.

Next, the relationship that social capacity mutually defines the socioeconomic standard and the export performance during the course of social capacity development will be ascertained.

For Indonesia, the development process of the total system is composed of three factors (refer to Figure 3.18). Items mentioned above are indexed. Labor productivity (“P” factor) in the manufacturing industry was adopted as the standard of capacity, GDP per person as the standard of

socioeconomic status, and industrial export rate as the standard of performance. As one can see, during the period up until the mid-1990s, all three standards improved. Bolstered by the weakness of the rupiah after the economic crisis, industrial exports increased and propelled the standards of social capacity and socio-economic status upward.

Figure 3-18 Total System Indexes measuring the social capacity development



Source: the author

### 3.5.2 Contribution of JICA's assistance to capacity development of the government

We discuss how JICA's aid inputs have contributed to social capacity development of the government. Figure3-19 shows chronological inputs of JICA's aid by the social development factors. The number of the projects is classified into the factors and summed up annually.

Figure 3-19 JICA's assistance inputs in Indonesia by development themes by capacity factor

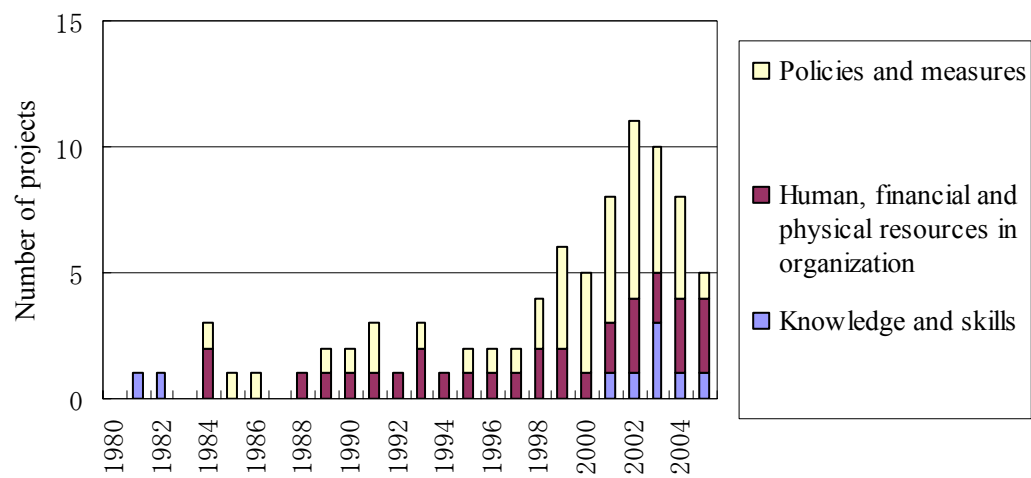


Table3-23 shows the inputs of the projects in detail.

Table 3-23 JICA's assistance inputs in Indonesia by development themes

Capacity factor	Development themes	Name of projects	1980	1985	1990	1995	2000
Policies and measures (P)	Export-promoting development plan	The Second Phase of the Follow-up Study on the Development of Supporting Industries in Indonesian Export Promotion					
	Establishment of trade-related legislation	Improvement of Customs System in Indonesia					
		The Capacity Building Program on the Implementation of the WTO Agreements					
		Improvement of Customs Procedures on Special Fields (Intellectual Property Rights)					
		Management of Export Credit Agency					
		Improvement of Trade Environment in capital region					
	Promotion and development of SMEs, supporting industry and industry	Project on Promotion of SMEs					
		Industrial Sector Promotion and Development Project					
		Plan making of Human Resources Development in Skills and Technique Sector					
		Industrial Promotion and Development Plan (Supporting Industry)					
		The First Phase of the Follow-up Study on the Development of Supporting Industries in Indonesian Export					
		Support for SMEs' promotion					
		Project on Supporting Industries Development for Casting Technology					
		Support for SMEs					
		Enhancement of SMEs Cluster Project					
		Promotion of Industrial Standardization and Quality Control Project					
	Establishment of Industry-related legislation	Industrial Property Rights Administration					
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development	Improvement of Trade Procedures Administration Project					
	Assistance for trade center	Indonesia Export Training Center (Phase1)					
		Indonesia Export Training Center (Phase1 Follow-up)					
		Indonesia Export Training Center (Phase1 Aftercare)					
		Indonesia Export Training Center (Phase2)					
		Indonesia Export Training Center (Phase2 Follow-up)					
		Regional Export Training and promotion Center					
	Promotion of SMEs, supporting industry and industry	Establishment of Metal Processing Promotion Center					
		Establishment of Industrial Technique Information Center Project					
		SMEs' human resource development project					
		SMEs' human resource development project (Follow-up)					
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information and skills	Development of trade commerce statistics system					
		Export promotion (Market analysis, development )					
		Industrial Project Development Basic Study (Improvement of Trade Environment in Indonesian capital region)					
		Promotion of trade, investment and industry					

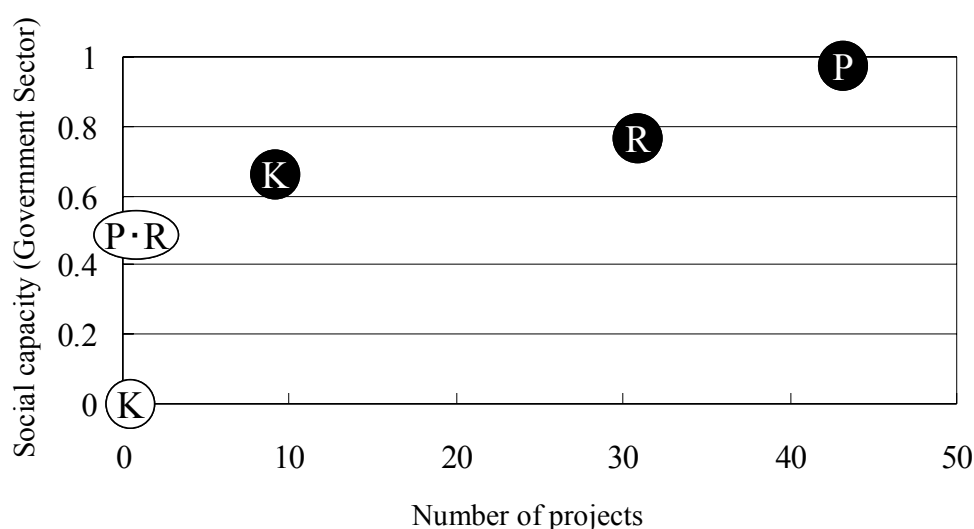
Source: the author

In order to examine contribution of JICA's assistance to capacity development of the Indonesian government, we plotted the number of projects in the horizontal axis and the social capacity (the government) in the vertical axis in Figure S.3, showing changes by capacity in 1980 and in 2005.

Here, the projects are sorted out based on capacity factors and counted in each year (Table S.2). With regard to the social capacity (the government), based on the benchmark of achievements, each factor is graded either 1 (achieved) or 0 (not achieved) and the average scores are calculated for each factor category.

As a result, it turned out that Indonesia has advanced its capacity in the factors that JICA has extended a lot of inputs, which indicates that JICA's assistance has been effective. "K" factors of the Indonesian government have remained at a low level; however, the growth rate of this factor category is high in spite of relatively small inputs of JICA's assistance, which indicates that JICA's assistance has been efficient.

Figure 3-20 Contribution of JICA's assistance to capacity development of the Indonesian government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

### 3.5.3 Consistency with Indonesia's social capacity development stages

Table 3-24 shows Indonesia's social capacity development stages and JICA's assistance inputs. During the period from 1980 to the present (2005), Indonesia was in its System-making stage; therefore, all JICA's assistance inputs are shown under its column. JICA's assistance inputs have

sorted out in accordance with relevant capacity factors.

Table 3-24 Stages of social capacity development and JICA's support

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan	2		
	Trade-related legislation (Response to liberalization and facilitation such as WTO)	13		
	Promotion and development of SMEs, supporting industry and industry	24		
	Establishment of industry-related legislation	4		
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)	1		
	Assistance for Trade Center (Export-support, information, training for private companies )	22		
	Promotion of SMEs, supporting industry and industry	8		
	SMEs promotion organization	0		
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information (such as statistics) and skills	9		
	Acquisition, analysis and release of industry-related information (such as statistics) and skills	0		
Support for south-south cooperation		0		

Note. The numbers are the total number of projects

Source: the author

In concert with the change to export-oriented industrialization in the mid-1980s, JICA began assistance programs focused on small and medium-sized enterprises development, industrial development and also created the trade training center. These inputs are thought to have made a significant contribution to Indonesia's system formulation.

Once Indonesia entered the final phase of the system-making stage in the mid-1990s, JICA responded by developing assistance programs geared toward enhancing the trade system and human resources. Moreover, now that the assembly industry's FDI has increased, JICA has also started to work on the development of supporting industry. As a result of the confusion after the economical crises and afterwards, it became necessary to rebuild the system and regain what was lost. For this purpose JICA implemented various additional programs including those aimed at investment promotion. This is different from what occurred in Malaysia and Thailand, where according to plan, assistance was expanded stage by stage as the countries progressed.

The transition from the system-making stage to the system-working stage is the significant landmark for both the aid input and the export promotion including the engagement of the local government and enterprises. Therefore, both qualitatively and quantitatively intensive inputs of resources are required if necessary. If these inputs and Indonesia's self-help efforts pay off and the transition of capacity development succeeds, it can be concluded that the secular variation of the input amount has been relevant.

Inputs to the trade training centers (IETC, RETPC) can be considered reasonable, given that the needs for trade training was and still is great in the region. However, given Indonesia's performance and given the money, time and resources that have been expended on this program over a nearly 20 year period it could be argued that there is a need to review the effectiveness and relevance of the entire export development project.

What it comes down to is that JICA's trade sector aid in Indonesia, additional and intensive aid inputs to actualize the transition to the System-Working Stage was needed because the Indonesia's social capacity has not sufficiently developed compared to Malaysia and Thailand. This type of inputs, which can be found in the case of the Philippines, is called "additional input" aid<sup>24</sup>. In the case of Malaysia and Thailand, additional and intensive inputs of aid are not necessary to complete the transition of the development stage of social capacity. As the capacity development progresses, the main aid-targeted area shifts, and sequentially, the addressed aid carries out. This is called "sequential input" as opposed to Indonesia.

Considering each project conducted in Indonesia, there are some cases of "sequential-input". At the phase 1 of IETC, establishing IETC itself and putting external services on track were the main focus. At the phase 2, the focus was shifted into fostering human resources. At the phase 3, IETC became sufficient to achieve self-income based on evolving its training business, and progressed into RETPC. In local areas, Surabaya, where previously being provided aid, has independently proceeded, and it is trying to play a role to support other RETPC. RETPC project as a whole has faced its completion and is shifting its goal to support Africa.

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<sup>24</sup> When compared to Malaysia and Indonesia, it can be said that Indonesia has not developed social capacity. On the other hand, compared to the developing country in general, Indonesia has achieved a remarkable progress. JICA's aid is evaluated as adequate for Indonesia's capacity building in the final stage of System-Making Stage.

#### 3.5.4 Consistency with Indonesia's development policy and the cooperation of JICA with other Japanese agencies

In Indonesia, there was no choice but to set up a similar strategic target such as Malaysia and Thailand that are accumulating enough export capacity. To put it another way, the governments of the four countries have a common goal: fostering export industries to earn foreign currency and by using that as leverage, improving the whole economy. Therefore, offering corporative assistance to each country was a valid strategy.

Japan considers the ASEAN four as a whole because, these countries are vital to Japanese national interest. Thus Japan has implemented the same type of inputs in each country. Under this assumption shared by all Japanese stakeholders, it can be regarded that the coordination between JICA and other domestic organizations and the consistency of JICA's effort with the local government's policy have been ensured. There is also a fact that there has been a gap between the community's acceptance capacity and the local government's political direction.

As a movement to consistency to Indonesian development policy and corroboration between Japan and Indonesia, the Government and Private Sectors Forum was launched in December, 2004. Governments and enterprises from both Japan and Indonesia meet up at the Forum. The chairperson of Japan's and Indonesia's Economy Committee and the executive head of JJC are the co-chairs and within the forum several group meet including: 'official gathering', the 'planning and coordination committee' and the 'working groups' (tax system, labor, infrastructure, industry competitiveness and small and medium-sized enterprises). When President Yudhoyono visited Japan, the SIAP, a policy agreed to by both PMs, was added to the agenda (June, 2005). The observation of SIAP's implementation as well as the debate on important items like judicial reform and capacity formulation will take place in the coordination committee.

The working group of industry competitiveness and small and medium-sized enterprises has forged an action plan (Table 3-25) and is carrying it into effect step by step.

Table 3-25 Government and Private Sectors Forum  
Action plan of the working group of industry competitiveness and  
small and medium-sized enterprises

Theme	Large items	Middle items	Small items	Implementing agency	Implementing date
Competitiveness / SME	Formulation of industrial strategy to improve Indonesian competitiveness	Formulation of strategy for major industries (Electric and electronic equipment, Automobile, Textiles and Garment )	Review and analysis of competitiveness in each sectors by public and private dialog, Writing report	Ministry of Industry (Indonesia chamber of commerce, Jakarta Japan Club, JETRO)	Report by October 2005
			Increase the local supply rate, technology transfer, dialog between public and private for supplier development, research and development	Ministry of Industry, National Development Planning Agency, Research and Technology Agency	Review by March 2006
		Analysis of export industrial product competitiveness in global market	Establishment of survey team	Ministry of Commerce (Indonesia chamber of commerce, JETRO)	Report by October 2005
		Promotion of cluster development	Formulation of Action Plan based on past survey	Cooperative union, Ministry of SME, Ministry of Industry, Minister of Economic Adjustment, National Development Planning Agency	Start in July 2005
	Promotion of Supporting Industry	Enhancement of policy adjustment in government	Establishment of working group for close coordination among ministries	Minister of Economic Adjustment	by the middle of 2005
		Capacity Development on marketing, Design, packaging technique for Indonesia's SME		Ministry of Industry (Supported by JICA)	Start by October 2005
		Promotion of human resources development	Establishment of team and center for introduction of SME management consultants	Ministry of Industry (Supported by JICA)	by the middle of 2005 (Establishment of Human Resource Development "Clinic" and Team ) within 2006 (Establishment of Center)
			Improvement of human resources development by private Sector	Matsushita Gobel Education Foundation (YPMG) , (YDBA) (Supported by JETRO)	October 2005
		Implementation of Supporting Industry Programme (SIP)	Formulation of technical support programme for SIP program	Ministry of Industry (SIP team)	by May 2005
			Holding Fair in Jakarta and Bringing SME mission from Japan	Ministry of Industry, Ministry of Commerce (SIP team)	October 2005
			Holding of investment seminar in Japan	Ministry of Commerce, Investment Coordinating Board (Supported by JETRO)	July 2005 (after submission of Investment law draft is desirable)
	Improvement of services for investors by Investment Coordinating Board	Formulation of integrated investment policies	Deliberation on New Investment law, One-Roof service and tax preference	Minister of Economic Adjustment, Ministry of Commerce, Ministry of Finance	Ongoing (focus on tax incentives in forum this year ) ,by July 2005 (submit investment law draft)
		Improvement of BKPM's investment promotion	Establishment of Help desk in BKPM Making Investment Rule Book	Investment Coordinating Board Investment Coordinating Board (Supported by JICA)	After establishment of new Investment law Start in 2005
	Intellectual property protection in domestic market	Proper implementation of intellectual property laws	Development of information sharing system, building intellectual property rights data base, training for	Ministry of Legal and Human Rights, Ministry of Industry (Supported by JICA)	Start in 2005
	Introduction of International Industrial Standards	Harmonization of industrial standardization in ASEAN area	Introduction of EURO fuel standard	Ministry of Industry, Ministry of Commerce, Ministry of Energy and mineral resource, Agency of National Standard, Upstream petroleum gas Control Organization, Ministry of Environment	Start in 2005
		Start investigation on certification system including industrial standard test system by private test center and Registration Foreign Certification organization (RFCO)	Establishment of Survey team	Ministry of Industry, National Standard Agency	by July 2005
	Enhancement of Public understanding on Economic Partnership Agreement (EPA)	Holding of EPA seminar in major cities		Ministry of Commerce (Supported by JICA)	Start in April 2005, Finish in March 2006

Source: Jakarta Japan Club website

### 3.6 Lessons learned and recommendations

#### 1. Program-based aid

In Indonesia, like in the other objective countries, cooperation has been implemented in order to have the positive effects of the trinity of assistance, trade and investment. Looking back ex post, projects have been implemented in order of their perceived necessity. However, since the gap between target settings and capacity standards was considerably large assistance programs were not implemented according to an efficient and effective schedule like in Thailand and Malaysia. To realize efficient and effective inputs and to carry forward the intended program, it is crucial to pay attention to the timing. For the future it might be considered additional input will be necessary. More importantly, however, effective and efficient input can be emphasized the good example for that is ITC, which has realized autonomy and operational development. The case shows us significance of capacity development and ownership toward aid program rather than individual aid project.

#### 2. From “G to G” to “G to G plus G to B”

Experiences in Indonesia demonstrate the futility of crafting stand-alone aid projects solely for the government sector, in an environment where enterprises suffer from insufficient capacity. In these cases, promoting inputs into non-government sectors is a valid strategy, as we shall see later when we study cooperative programs such as CIDA<sup>25</sup>. This case shows it is possible for nongovernmental sector to play as a BDS provider and/or facilitator. This is one of the options for aid program for social capacity development.

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<sup>25</sup> Though CIDA is authorized by the government, it actually conducts the Private Enterprise Participation Program that is adopting G to B (Government to Business) approach for the private agencies (chamber of commerce and industrial institutions). One of its components, Institutional Strengthening, implements the organizational reinforcement of the Indonesia Womens' Business Association (IWAPI), the Sulawesi Regional Economic Board (KAPET), and other economic organizations. This project includes Technical Assistance to Micro-enterprises and SME Clusters. It brings the results by conducting the product development and the technical cooperation in coordination with the organizational reinforcement.

Not only the engagement by a single donor but also the collaborative program among donors is being carried out, and Japan is also participating in it. In 2003, International Finance Corporation (IFC) has launched the Program for Eastern Indonesia Small and Medium Enterprise Assistance (PENSA) that aims at fostering the medium-sized companies (about 20 to 100 employees) in East Indonesia. In addition to Japan, Australia, Canada, Holland, Swiss, and Asian Development Bank (ADB) invest in the trust fund. The program has five offices in Indonesia and conducts the project for facilitating access to the finance and inter-industrial relationship. In the program, Handicraft Export Promotion Program implementing in Bali directly aims at the export promotion. In addition to the comprehensive technical-cooperation to the pilot groups, the program provides training to the whole industries, consulting to the indigenous industries, and fostering the support agencies. In July 2005, under the joint auspices of the program and JICA, a seminar named Marketable Handicraft's Design Access for Japan and Production Skills was organized.

3. The strategic positioning of trade sector assistance: Application to the least developed countries: CLMV countries and African areas

In the days ahead, it is important to implement assistance, not only in Indonesia's capacity formulation in the aforesaid sectors, but also under the strategic aim to apply them in the least developed countries in East Asia. IETC's officials as well as Thailand's ITTI and Philippines's PTTC have joined the human resource: development working group which was launched in 1992 under the AEM-METI,.

Assisted by AOTS, IETC has been working on the third country training and these experimental cases are expected to develop in the related fields.

For example, IETC has processed a partnership with the Kenya's African Institute for Capacity Development (AICAD) that was supported by Japan's charge-free/technical cooperation project. In September and October 2005, IETC conducted the survey of trade training needs in Tanzania and Uganda. In November 2005, IETC dispatched the training inspectorates to the East African three countries including Kenya. These south-south cooperation by Indonesia expects to contribute to the capacity development of Indonesia itself through the realignment of own experiences.