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UNIVERSITY OF THE WITWATERSRAND

INFORMING INDUSTRIAL POLICY IN UGANDA: INTERACTION BETWEEN INSTITUTIONS, TECHNOLOGY AND MARKET REFORMS

Thesis Submitted to the Graduate School of Public & Development Management at University of The Witwatersrand for the Degree of Doctor of Philosophy

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Submitted for a the degree of Doctor of Philosophy

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Juma Anthony Okuku

ABSTRACT

This study examines the motive ideas and assumptions that have informed industrial policy in Uganda since 1945. I deploy a historical perspective in order to understand the process of industrial policy and hope to capture the practices of industrial policy so as to explain the failure to pursue a successful industrialisation process in the country. The objective is to explain the nature of Uganda's industrial policy practices, historically, with the view to deepening our understanding its impact on the industrialisation process. The study contends that industrial policy and industrialisation are often products of numerous historical, social, economic and political considerations. The major finding of this thesis is that the lack of a coherent industrial policy was a major contributing factor in the explanation of Uganda's stunted industrialisation process.

Secondly, the study analyses industrial policy practices in light of the imposition of Structural Adjustment Programmes (SAPs) on the country. Apart from the specific policies and institutional framework under SAPs, the study endeavours to explain their impact on industrial sector and it is focused on three themes: i) effects of liberalisation and privatisation on industry, ii) the sources of finance for industry and iii) the technology policy and its implications for industrial policy. The study as well addresses the public-private sector interactions which are seen as an expression of embryonic embedded autonomy.

The study contends that for industrial policy to be effective at the national level and enhance competitiveness of industry there should be a selective, sectoral focus approach rather than a general regulation of the entire economy. Given the variant sectoral characteristics and features, the understanding of specific sectoral needs is critical to avoid a generalised industrial policy practices. The focus on sectors brings out similarities and differences which may inform state policy towards each of them. To illustrate the differences and similarities between sectors and the need for differentiated industrial policy options, we take the cases of the textile and fish processing industry sub-sectors.

In conclusion, the thesis contends that to advocate for industrial policy in the current global context constitutes a movement away from traditional interventionism and goes beyond the market versus the state dichotomy and recommends their close interactions to realise sustained industrialisation. In this case, the interaction between institutions, technology and market reforms as the basis of a coherent industrial policy. From a policy perspective, this study attempts to provide an analysis that may lead to improved industrial policy-making within Uganda's broad political economy.

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ABBREVIATIONS

ACC	African Chamber of Commerce
ADB	Africa Development Bank
AGOA	African Growth and Opportunity Act
ATM	African Textile Mills
BCGA	British Cotton Growing Association
CDC	Commonwealth Development Corporation
CDO	Cotton Development Organisation
CFTU	Confederation of Free Trade Unions
CMB	Coffee Marketing Board
CMC	Common Man's Charter
DFCU	Development Finance Company of Uganda
DFF	Development Finance Fund
DLF	Development Loan Fund
EAC	East African Community
EACM	East African Common Market
EAIRO	East African Industrial Research Organisation
ECGS	Export Credit Guarantee Scheme
EDP	Enterprise Development Programme
EOI	Export Oriented Industrialisation
EPZs	Export Processing Zones
ERP	Economic Recovery Programme
ERS	Export Refinance Scheme
EU	European Union
FDI	Foreign Direct Investment
FEZs	Free Economic Zones
FTZs	Free Trade Zones
GDP	Gross Domestic Product
GMOs	Genetically Modified Organisms
ICB	International Commercial Bank
IDA	International Development Association
IDC	Industrial Development Corporation
IFAD	International Fund for Agricultural Development
ILO	International Labour Organisation
IMC	Indian Merchants Chamber
IMF	International Monetary Fund
IPE	Institutional Political Economy
ISI	Import Substitution Industrialisation
ITCRF	Investment Term Credit Refinance Fund
JBIC	Japan Bank for International Co-operation
LDCs	Less Developed Countries
LMB	Lint Marketing Board
MCP	Master Craftsman Programme
MFEZ	Multi-Facility Economic Zone
MNCs	Multinational Corporations
MoFPED	Ministry of Finance, Planning and Economic Development
MP	Member of Parliament
MPS	Ministry of Public Service
MTAC	Management Training and Advisory Centre
MTTI	Ministry of Trade, Tourism and Industry
NARO	National Agricultural Research Organisation
NICs	Newly Industrialising Countries
NIS	National Innovation System
NRA	National Resistance Army
NRM	National Resistance Movement

NSSF	National Social Security Fund
NTB	National Textiles Board
NTC	National Tobacco Corporation
NTC	National Trading Corporation
NYTIL	Nyanza Textiles Industries Limited
OGL	Open General Licence
PERD	Public Enterprise Reform and Divestiture
PMB	Produce Marketing Board
PSF	Private Sector Foundation
PSRRC	Public Service Review and Reorganisation Commission
PU	Privatisation Unit
R&D	Research and Development
SAPs	Structural Adjustment Programmes
TEMAU	Textile Manufacturers Association of Uganda
TICAF	Tororo Industrial Chemical Fertilisers
TRIMs	Trade-Related Investment Measures
TUFMAC	The Uganda Fish Marketing Corporation
TUMPECO	Uganda Metal Products and Enamelling Company
UAFU	Uganda African Farmers Union
UCB	Uganda Commercial Bank
UCC	Uganda Cement Corpration
UCC	Uganda Chamber of Commerce
UCI	Uganda Cement Industries
UCSB	Uganda Credit & Savings Bank
UDB	Uganda Development Bank
UDC	Uganda Development Corporation
UEB	Uganda Electricity Board
UEPB	Uganda Export Promotion Board
UEPC	Uganda Export Promotion Council
UFPEA	Uganda Fish Processors and Exporters Assocaition
UGCEA	Uganda Ginners and Cotton Exporters Association
UGIETA	Uganda Importers, Exporters and Traders Association
UGIL	United Garments Industries Limited
UGU	Uganda Growers Union
UIA	Uganda Investment Authority
ULATI	Uganda Leather Tanning Industry
UMA	Uganda Manufacturers Association
UMACIS	UMA onsultancy and Information Services
UNBS	Uganda National Bureau of Standards
UNBS	Uganda National Bureau of Statistics
UNCCI	Uganda National Chamber of Commerce and Industry
UNCST	The Uganda National Council for Science and Technology
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
UOPSA	Uganda Oil Seeds Processors Association
URA	Uganda Revenue Authority
USC	Uganda Steel Corporation
USSIA	Uganda Small Scale Industries Association
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organisation

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Dedication

This thesis is dedicated to my parents, Mr Lawrence Okuku Okumu (R.I.P) and Mrs Nafula Okuku who always stressed to me the importance of education and knowledge in life. Special dedication goes to my son, Che Justus Kwang'a who has been an inspiration and is an expression of hope that there is a future in the quest for knowledge which he shall likely pursue.

Declaration

I Juma Anthony Okuku, hereby declare that the work contained in this thesis is my own work and has never been submitted for any award in any other university.

December, 2006 **Signature……..**

Figure 1: Location of Areas of Research on Uganda Map

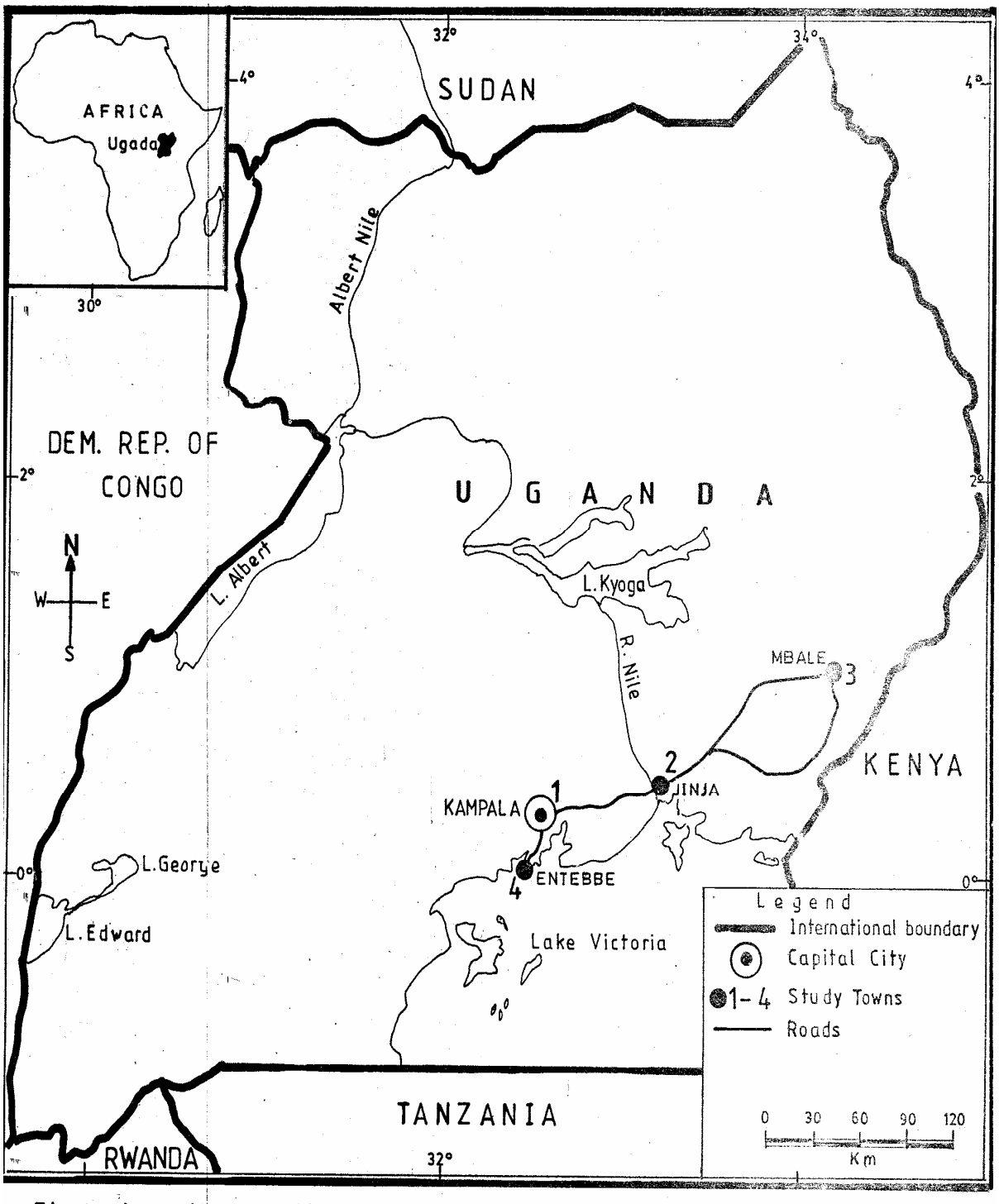

Fig.1. Location of the Study Towns in Uganda.

CHAPTER ONE

1. INTRODUCTION TO THE RESEARCH PROBLEM

1.0 Introduction

Industrial policy has often been informed by particular ideas and assumptions about what government should or should not do and the extent of state intervention to promote industrialisation. Industrial policy presupposes clearly defined objectives and an organised system under particular institutional arrangements with a shared vision for industrial transformation. Industrialisation never proceeds independently of the concrete institutional and historical context. Uganda's industrialisation process has not been informed by a coherent industrial policy. In addition to understanding what informs the industrial policy, the aim of this study is to investigate the factors and actual constraints to the industrialisation process of Uganda.

This chapter presents the overall introduction to the study: First, the background to the problem is stated. Second, the overall problem of industrial policy is presented within the context (both historical and current) of Uganda's industrialisation process. Third, the research problem is precisely stated. Fourth, the purpose of the study is stated. Fifth, the research aims and objectives are spelled out. Sixth, key research questions are stated. Seventh, the rationale or the significance of the study is presented. Eighth, research methodology is presented. Finally, the organisation of the thesis is outlined.

1.1 Background to the Research Problem

This study focuses on the problems and possibilities of industrial policy in Uganda. The industrial strategy pursued by post-colonial regimes in Uganda up to 1990s with the onset of privatisation, was conceived after the Second World War by the British colonial state. The first development plan by the colonial state, the Worthington Development Plan for Uganda (1946), did not spell out an industrial policy.[1] An approximation to industrial policy can be seen in the establishment of Uganda Development Corporation

[1] Uganda Protectorate (1946), Worthington Plan: *The Development Plan for Uganda*, London. This was a ten (10)-year development plan that was heavily influenced by the Labour government in United Kingdom (UK). The Plan laid out concrete proposals aimed at institutional and structural changes in the colonial economy. It emphasised the public sector and did not include serious considerations for the private sector. The Plan proposed the construction of a power station, state participation in industrial development and initiation of co-operatives. This informed the establishment of Uganda Development Corporation (UDC) as the first public sector undertaking to spearhead Uganda's industrial development.

(UDC) in 1952 which aimed at spearheading the industrialisation process by the state in partnership with private companies and individuals. Prominent among the private companies and individuals were actors such as Madhvani Group and Mehta Group, who were also owners of the two sugar estates in existence then. Basically, UDC was a product of the colonial development project. It acted as the mediator of the colonial and post-independence industrial policies.

The First Five-Year Development Plan, (1961/2–1965/6), followed in the footsteps of Worthington Plan, (1946) and the World Bank Mission Report, (1961). The newly elected Prime Minister, A M Obote, consented to their recommendations.[2] Both documents advocated for the Import Substitution Industrialisation (ISI). The Development Plan would continue the production of cement, beer, saw mills and sugar refineries. The stress was on semi-processing of primary products, prominently Cotton (textiles) and Coffee and did not recommend value addition and advanced manufacturing in the country. Up until President Milton Obote's 1 May Day Nakivubo Pronouncements of 1970 that nationalised most significant Asian and British Industries, ISI was the major industrial strategy being pursued.[3]

The "economic war" declared by President Idi Amin in 1972, which expropriated Asian properties, resulted in the generalised economic disarray and political instability.[4] The "economic war" distorted the ISI as the entrepreneurs who had been the major link in mainly import dependent economy in terms of machinery and were mainly Asians were expelled. The industrial sector and the areas that complemented industry, particularly agriculture, mining, trade and commerce as well as education was disrupted by the unplanned take-over of Asian enterprises. Underlying this whole process was that there was no coherent and well articulated industrial policy.

---

[2] Uganda Government (1961), *The First Five-Year Development Plan, the Worthington Plan 1946* and the World Bank Report on Uganda (1961). As President Milton Obote put it in the forward to the World Bank report, "In 1960 the World Bank carried out an economic survey mission and the report entitled *"The Economic Development of Uganda"* was published in 1961. The World Bank mission made practical recommendations supported by analysis as a basis for the programme of development of Uganda covering the period 1961/62 to 1965/66. My Government broadly accepts the recommendations in the report and has produced a development plan closely modelled on them" It is interesting to note that the World Bank took an implicitly pro-ISI stance at this early stage of Uganda's development.

[3] The Nakivubo Pronouncements refers to the declaration of partial (60%) nationalisation of industries, banks and several commercial enterprises by the Obote, regime on May Day 1970. Barya, J.John (1986) *The Impact of Foreign Capital on the Performance of the Uganda Development Corporation (UDC) – A Legal and Socio-Economic Analysis*, LLM, Warwick University and Onyach-Olaa, Martin (1989), Industrialisation Policies and Strategies of Uganda: 1962-1989, MA (Economics), University of Manchester, United Kingdom.

[4] "Economic War" referred to the declaration by Idi Amin to expel Asians from Ugandan economy based on the perception that they were involved in illegal repatriation of capital from the country.

By 1980, the formal economy had all but collapsed. The first Structural Adjustment Programmes (SAPs), lasting from (1981-84) stressed the rehabilitation of ISI industries related to coffee and cotton processing within the broad framework of macro-economic stability. The Second SAPs under the National Resistance Movement (NRM), regime from 1987 to the present, has had far-reaching impact on the economy. This phase emphasised macro-economic stability, Foreign Direct Investment (FDI), privatisation of government parastals and the return of the expropriated Asian properties in the context of market reforms and full exposure to international "competition".[5] Thus, SAPs were perceived as a remedial strategy but still characterised by an incoherent industrial policy.

The problem at the level of industrialisation, however, still remains. Although there has been a revival of some industries and establishment of new ones, manufacturing remains negligible as compared to agriculture with over 80% contribution to Gross Domestic Product (GDP). The industrial policy framework remains ill-defined and incoherent, although one is in the process of being crafted.[6] The conception of technological transfer remains old-fashioned, that is, through FDI. There is little conception of a broad technological capacity building effort within a dynamic national innovation system to enhance the country's industrial competitiveness. The Uganda National Council for Science and Technology (UNCST) which is responsible for technology policy formulation remains under-funded and under-staffed with little linkage to the industrial sector. Here in lies the policy problem, the effects of which the study aims to explain.

The Ugandan policy-makers seem not to have thought through the consequences of the unbridled market reforms being pursued by the state under SAPs for the future of manufacturing capability and competitiveness of Uganda firms. The failure of industrialisation in Uganda in the last 50 years, however, must be seen in broad, complex, historical, political and economic processes confronting the country.

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[5] Barya, J.John (1995), *Industrialisation and Technological Acquisition in Uganda: An Analysis of the Policy, Legal and Institutional Framework with Three Case Studies*, Research Report Submitted to the International Development Research Centre (IDRC), Ontario, Canada, February.

[6] Ministry of Tourism, Trade and Industry (2007), National Industrial Policy: *A Strategy for Uganda's Transformation, Competitiveness and Prosperity,* Kampala, August. This follows various versions of industrial strategy policy statements since 1994.

1.2 The Historical Context of Uganda's Industrial Policies

The establishment of an industrial sector in Uganda was influenced by two major factors: establishment of Asians as entrepreneurs, particularly after World War II and, secondly, the then ruling Labour Party ideology of state control. During the colonial period and the period of Kenya-Uganda railway construction, Uganda experienced the first influx of Asians. After the completion of the railway about 6,000 Asians decided to remain in Uganda. By 1953, Asians held 97.5% of trade in the main city of Kampala. Almost the entire sugar production and cotton processing and ginning were in their hands. By 1963, there were over 82,000 Asians, equivalent to just about 1% of the total Uganda population.[7] These owned various commercial units and industries. Asians therefore became the first industrialist (entrepreneurial) class of Uganda.

During the same period, the colonial authorities of the 1940s and early 1950s preferred public corporations on the grounds of political ideology and organisational reasons influenced by the Keynesian revolution.[8] Britain, under the Labour Party government of 1945-51 was undertaking a remarkable expansion of the public enterprise sector of the economy. The Labour Party with socialist-leaning political ideology was for the state to control the key sectors rather than have it left to the private sector. At the organisational level, public corporations were chosen and not the government departments in the promotion of industry because they were in a better position to give a combination of public ownership, public accountability and business management for public ends. This resulted in the formation of UDC in 1952, with funds from cotton and coffee proceeds, and was given the mandate to spearhead investment in the industrial sector.[9]

By the time of independence in 1962, given the structure of the accumulation process that discriminated against Africans, the main groups that could accumulate and invest were the Asian entrepreneurs and the colonial state owned and controlled UDC. By 1962, therefore, an indigenous Ugandan industrialist (entrepreneurial) class in Uganda

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[7] Government of Uganda (1964), *Background to the Budget*, Entebbe, p.25

[8] Middleton, Roger (1987), "The Rise and Fall of the Managed Economy" *Middleton, Refresh 5* (Autumn 1987), p.5. According to Middleton, Keynesian revolution refers to the economic theorising by John Maynard Keynes, (1883-1946), a British economist whose ideas are particularly remembered for advocating interventionist government policy. Keynesianism was informed by the view that governments know how to control the economy and secure full employment. The essential message of the Keynesian revolution was that capitalist economies were not self-stabilising by virtue of some automatic market mechanism – hence some form of government intervention would be needed to stimulate demand and help the economy get back full employment.

[9] Mamdani, Mahmood (1976), *Politics and Class Formation in Uganda,* New York, London: Monthly Review Press.

barely existed. During the first decade of independence in 1960s, government's macro-economic policy framework was that of a mixed economy where the private sector was allowed to operate side by side with government, with certain sectors, which were considered strategic reserved for the state. In the context of the absence of an indigenous entrepreneurial class, the state intensified the drive towards the industrialisation of the economy through UDC by investing substantially in agro-allied and processing industries, mining, agricultural enterprises and manufacturing.

The industrialisation strategy adopted was that of a market-based, state-led ISI. The objectives of ISI were to help raise the standards of living of the people, to provide employment opportunities, to supply consumer goods and to add value to the natural resources through processing. Emphasis was put on the production of low-skill import substitutes. There was also a gradual move towards the Ugandanisation of the economy.

The "Move to the Left" in late 1960s and the consequent "Nakivubo Pronouncement" in May 1970 were attempts to fulfil partially the objective of Ugandanisation.[10] This action, as that of "economic war" in 1972, was informed by the ideology of economic nationalism. To underline, briefly, the difference between the "Move to the Left" and the "economic war", it can be noted that two differ significantly. While Ugandanisation in the context of the "Move to the Left" was an exercise in state building or transformation and was intended as a step by step control over the economy, the 1972 "economic war" represented state destruction as it was unplanned and destroyed the entrepreneurial class in the economy.

The second independence decade of the 1970s witnessed the expropriation of the non-Ugandan business followed by an adhoc allocation of business to Ugandans who had no entrepreneurial culture. By 1979, the manufacturing sector had all but collapsed. Despite the fact that there were 50 factories in the medium and large-scale sector operating in 1971, by 1981 at the launch of SAPs, 15 of these had completely closed down and the capacity utilisation of the remainder was only around 25%. In the small industries sector, 870 establishments were operating in 1971. By 1981, only 418 could be identified and of

[10] Nabudere, Dan, (1980), *Imperialism and Revolution in Uganda*, London and Dar es Salaam: Onyx, Tanzania Publishing House and Jorgensen Jan, (1981), *Uganda: A Modern History*, London: Croom Helm.

these 162 had closed down and 256 were operating only intermittently, the rest had vanished.[11]

In the 1980s, attempts were made to revitalise the manufacturing sector in three ways: rehabilitation, liberalisation and return of the expropriated properties to the former Asian owners. During this period there were moves by government to rehabilitate and to liberalise the economy. The Expropriated Bill (1982), which was enacted by parliament in 1983, sought to return the expropriated properties to their original Asian owners. Some economic recovery was registered due to the rehabilitation and the attempted privatisation measures. Despite these efforts, by the early 1990s, the contribution of the manufacturing sector to total GDP had not yet achieved the 12% level of the 1960s.[12]

Finally, the macro-economic framework of the 1980s was continued in the 1990s by opening up the economy fully and gearing it for regional and international competition. The early 1990s saw the setting up of several institutions to aid the process of industrial transformation. These included: the enactment of the Investment Code and the creation of the Uganda Investment Authority (UIA), liberalisation of foreign exchange market, Privatisation Unit (PU), Land Act and Uganda Export Promotion Board (UEPB) and Uganda Revenue Authority (URA), among others, moves which aimed at preparing the economy for competitive regional and world markets. It should be noted that the missing link in all these efforts was the lack of a concrete articulation of the notion of industrial policy, which would act as a guiding programme for the acquisition of technology and the enhancement of the industrial competitiveness of Uganda's industrial sector. Below we give Uganda's basic economic data.

1.3 Current Context: Basic National Economy of Uganda

This section gives basic data on Uganda's national economy. The first part outlines the geography and general economic data of the country. The second part outlines the contribution of the manufacturing sector to the national economy through the index of industrial production, labour market indicators and the major industrial groups in the country.

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[11] Onyach-Olaa, Martin (1992), "Industry in Uganda: Current State, Problems and Prospects", a paper presented at the *National Economic Workshop*, Entebbe, 27th-28th November, pp 3-4.
[12] Ibid, p.4.

1.3.1 Geography and Basic Economic Data

Uganda is a land locked country situated in East Africa at 1.00 degrees N and 32 degrees East with a total area of 235,887 sq km of which 193,504 are land and 42,383 inland waters. It has borders with Kenya to the East (933 km), Tanzania to the South (396 km), and Rwanda to the South West (169 km), The Democratic Republic of Congo (DRC) to the West (765 km) and Sudan to its North (435 km). (See figure 1).

Uganda is endowed with fertile soils, regular rainfall and mineral deposits of copper, cobalt and newly discovered oil. The agricultural sector controlled by mainly small farmers (peasants) is the most important sector for the country's economy employing about 80% of the work force. Its main exports are coffee, fish and fish products, tea, gold, cotton, flowers and other horticultural products.

Uganda's economy has increasingly become monetised as evidenced by the share in GDP of the non-monetary sector which declined from 76% in 1990 to about 36% in 2001, signalling a return to market transactions. The GDP growth (at factor cost) was 5.4% during the fiscal year 2003/04 compared to 4.5% recorded in 2002/03. The real GDP growth increased in 2004/05 to 6.4% but again declined in 2005/06 to 5.1%. The decline is attributed to fall in agricultural output due to prolonged drought conditions and effect on industry sector due to energy crisis.

The principal countries that Uganda exports to, remain in Africa. During the 2005, Kenya supplied the largest imports to Uganda. The other main trading partners were South Africa, Egypt and Swaziland. Imports to Uganda consist mainly of investment capital equipment, vehicles, petroleum, medical supplies and cereals. The principal countries from which Uganda imports are Kenya, India, UAE, South Africa, Japan, US. Below we have the contribution to GDP percentage contribution by sector.

Table 1.1: ***Gross Domestic Product (GDP) at Constant (1997/1998) Prices:***

Percentage Contribution by Sector, 2001/02 – 2005/06

Sector	2001/02	2002/03	2003/04	2004/05	2005/06
Agriculture	36.5%	35.7%	34.1%	32.5%	31.0%
Mining & Quarrying	0.7%	0.7%	0.7%	0.8%	0.7%
Manufacturing	8.7%	8.6%	8.5%	8.9%	8.3%
Electricity & Water	1.3%	1.3%	1.3%	1.3%	1.2%
Construction	6.6%	7.0%	7.5%	7.8%	8.4%
Wholesale, Retail Trade & Hotels	12.7%	12.8%	12.9%	13.0%	13.5%
Transport & Communication	4.9%	5.5%	6.3%	7.2%	8.2%
Community Services	13.2%	12.9%	13.0%	12.8%	13.0%
Rent & Owner – occupied Dwellings	6.9%	6.9%	6.9%	6.8%	6.7%
All net taxes on Products & Imports	8.5%	8.7%	8.7%	8.9%	9.0%
Total GDP at Market Prices	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Statistical abstracts, UBOS, 2006.

From the above table agriculture remains the major contributor to gross domestic product as the country remains an agricultural economy. Manufacturing contributes less than 10 % of the GDP. The other major contributor is the trading and service sector.

1.3.2 The Structure of Manufacturing

Contributing 8.5% of Real GDP, 5% of total advertised employment and over 20% of export earnings, manufacturing sector still remains relatively small. The growth of formal manufacturing has come under severe strains, mainly from an ongoing power crisis, but also other constraints like bad roads, lack of favourable long term financing and has shown negative growth between 2004/05 and 2005/06 by 3.5%.[13]

[13] Statistical Abstract, UBOS, 2006.

Table 1.2: *Index of Industrial Production, Annual Group Summary*

2001-2005 (Base 1997/98=100)

Group	No. of Establishments	Weight	2001	2002	2003	2004	2005
Foods & Beverages	48	39.3	131.9	135.3	136.4	141.6	123.8
Drinks & Tobacco	12	18.6	119	122.5	137.3	153.9	179.2
Textiles, Clothing & Footwear	7	4.6	166.3	168.4	207.4	267.1	249.0
Paper and Printing	13	6.2	183.8	156.7	192	189.4	182.8
Chemical Products	22	8.2	138.2	132	150.7	149.1	183.1
Bricks and Cement	11	5.6	148.6	167.9	158.5	207.7	200.1
Metal Products	19	10.5	204.9	202.2	178.6	226.8	302.2
Miscellaneous	17	7	103.7	152	151.6	188.8	179.6
Total	**149**	**100**	**141.4**	**145.5**	**151.2**	**169.2**	**175.3**

Source: Abstracts UBOS, 2006.

From the above table, it can be noted that the manufacturing sector is based largely on the processing of agricultural commodities, such as cotton, coffee, sugarcane and food crops. There are a number of large-scale industries producing beverages, tobacco, wood and paper products, construction materials and chemicals. The small-scale manufacturing is dominated by the clothing industry, but also includes maize processing units, furniture-making and general workshops. The growth rates of various sectors are represented in the table. The growth of formal manufacturing, however, has seen strains, owing mainly to the current power crisis, but also from other constraints such as bad transport networks, lack of long-term financing services that resulted in negative growth between 2004/05 and 2005/06 by 3.5%.[14]

There exists a substantial emerging industrial class in Uganda. This class is dominated by the old Ugandan Asian industrialists namely the Mehta , Madhavani group of companies and Karmali (Mukwano).

The Madhvani Group is estimated to employ between 7,000 and 10,000 workers and the contribution of around 8% of total tax revenue collection in Uganda at present down from approximately 10% in corporate and excise taxes in 1970 before the Asian expulsion in 1972.

[14] Statistical Abstract, Uganda Bureau of Statistics (UBOS), 2006.

The Mehta Group of Companies employs approximately 7000 workers and a contribution of about US $ 7 million in taxes.

The Mukwano Group of Companies is one of the largest conglomerates in Uganda. It employs more than 10,000 workers and contributes about US $ 20 million in taxes annually. Below are selected major industrial groups in Uganda's economy.

Table 1.3: ***Selected Major industrial groups and their constituent firms***

A) Madhvani Group of Companies	**B) Mehta Group of Companies**
1. Kakira Sugar Works (1985) Ltd	1. Sugar Corporation Ltd
2. Steel Corporation of East Africa Ltd	2. UGMA Engineering Corporation
3. East African Glass Works (1995) Ltd	3. Cable Corporation
4. Associated Match Company (1985) Ltd	4. Agro-Chemical & Food Company Ltd
5. Madhvani Soap Industries Ltd	
C) Mukwano Group of Companies	**D) Alam Abid Group of Companies**
1. Mukwano Industries Uganda Ltd	1. Casements (A) (1965) Ltd
2. A.K. Oils and Fats Ltd	2. Steel Rolling Mills Ltd
3. Mukwano Personal Care Products Ltd	3. Roofclad (1986) Ltd
4. A.K. Plastics (U) Limited	4. Oxygas Ltd
5. Mukwano Sweets & Confectionaries Ltd	5. Crocodile Tools Co. Ltd – Formerly Chillington Tool Co.
E) Mulwana Group of Companies	**F) Spear Group of Companies**
1. Nice House of Plastics Ltd	1. GM Tumpeco Ltd
2. Uganda Batteries Ltd	2. Wava Beverages Ltd
3. Jessa Milk Processing (1994) Ltd	3. Wava Holdings
G) Sembule Group of Companies	4. Wava Engineering
1. Sembule Steel Mills Ltd	5. Spear Motors
2. Sembule Electronics Ltd	
3. Shelter Ltd	
4. ATC Sembule (Computers)	

Source: From My Fieldwork, 2006.

Apart from sugarcane, milk and oil seeds, which are produced in the country, most of the raw materials and component parts of the firms above are all imported. They function

mainly as assembling plants with very minimal backward and forward linkages. In the table below we outline the basic labour market indicators.

Table 1.4: *Selected Labour Market Indicators*

Indicators	Male	Female	Total
Uganda labour force (Number '000)	4,634.2	5,138.4	9.773
Labour force in Non-Agriculture informal sector (Number '000)	1,418	1,142	2,560
Working poor (Number '000)	1,629	1,876	3,505
Labour force Participation Rate (%)	80.3	79.9	80.1
Employment to population Ratio (%)	78.2	76.6	77.4
National Unemployment Rate (%)	2.6	4.2	3.5
Urban Unemployment Rate (%)	7.6	17.0	12.2
Youth Unemployment Rate (%)	7.5	8.8	6.3
Share of youth to Total	51	62	58
Underemployment Rate (%)	18.9	15.1	16.9

Source: Uganda National Household Survey (UNHS), 2002/03.

The Uganda National Household Survey (UNHS) 2002/03 showed that Uganda's labour force stood at 9.8 million persons, of which 2.6 were in non-agriculture informal sector. Of the 9.8 million persons in the labour force, 3.5 million persons were the working poor. The unemployment rate was 3.5 percent, while the underemployment rate is 17 percent.[15]

1.3.3 The Industries Selected for Illustration of Industrial Policy Practice

The details of contributions by the sub-sectors selected for illustration of the practice of industrial policy, namely i) clothing and textiles sector and ii) fish processing are outlined in their respective chapters. What follows are brief overviews.

1.3.4 Overview of the Clothing and Textiles Industry

The clothing and textile industry, in its current modernised form, is important because processes remain very labour intensive, skill requirements are generally low and exporting textiles is still one of the best options to enter the world market and create employment in a country like Uganda.

[15] Uganda Bureau of Statistics (UBOS), (2006), p.13.

Uganda has a strong history of textile manufacturing dating back to the 1950s. Uganda's textile industry consists of 29 ginneries with a total capacity of 1,100 bales a day. Actual production is, however, only 500 per day. There are also eight textile mills in the country, yet none are major exporters. Ugandan textile firms employ an average of 275 workers. Recent investment guides outline opportunities in the manufacturing of textile products such as lint, fabrics and mixed fabrics and fibre yarns. Uganda cotton farmers do not use pesticides, creating opportunities for the processing of organic cotton products. A substantial faction of the agricultural population is involved in cotton growing especially in the Eastern and Northern parts of the country.

1.3.5 Overview of the Fish Processing Industry

The fish processing and export business has become a major contributor to the national economy. Fisheries products have become Uganda's main commodity export, only next to coffee. Five of the East African great lakes lie within Uganda's territory. Lake Victoria, the world's second largest lake, has a surface are of 68,000 square Km and is shared between Tanzania 51%, Uganda 43% and Kenya 6%. The lakes can enable sustained fish processing and export.

The industry provides livelihood to a substantial part of the population. By 2005, more than 350,000 people were directly employed by the fisheries industry in Uganda and over 1.2 million were indirectly employed.[16] Fishing operations are conducted by local fisher people. Industrial fishing that uses more sophisticated mechanised techniques is not allowed as it would lead to the depletion of fish stocks more rapidly thus endangering local livelihoods.

The fish processing industry consists of 17 operating firms which employ between 150 and 400 workers on average. With the decline in the traditional exports of coffee, tea, tobacco and cotton, there has been their replacement by non-traditional exports, one of which is fish. By 2001 non-traditional exports had overtaken traditional exports. The best export performance has been observed in Uganda's fish sub-sector followed by horticulture.

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[16] Nakaweesa, Dorothy (2006) "Uganda Fish Exports Earn US $ 143 million in 2005)", *The Monitor*, 4th January.

1.4 Statement of the Research Problem

Significant industrialisation has not been achieved in Uganda, as in most of sub-Saharan Africa, because of the failure to institute coherent industrial policies which are cognisant of the complex historical, political, economic and social context of the country. The basic research problem to be confronted is, to understand the failure to institute coherent industrial policies as the major explanation for Uganda's stunted industrialisation. Although a measure of success was achieved by this strategy and manufacturing sector accounted for, on average 12% per annum of the total GDP in the 1960s and Uganda was able to export some of its manufactured products such as textile and sugar within the East Africa region,[17] the less than optimum performance of ISI was mainly due to the non-selectivity, lack of a strategy that would be based on experience and the concrete contextual analysis of the various components of the economy. The wholesale ISI policies hardly paid attention to the process of reaching national and international competitiveness by local firms, as they remained cripplingly static and the political instability the 1970s accentuated the process.

Secondly, there exists a knowledge gap in the studies on Uganda's industrial policies and industrialisation, apart from a 1967 study,[18] Barya (1986)[19] and Onyach-Olaa (1989)[20] the rest are general, limited and superficial to understanding Uganda's industrial policies. The general studies include: Campbell (1975)[21], Mamdani (1976)[22], Naburere (1980)[23] and Jorgensen (1981)[24]. The studies offer inadequate understanding of the importance of a coherent industrial policy to guide industrialisation. They are concerned with general political economy and tend to ignore the micro-economic mechanisms in support of the industrial sector.

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[17] Onyach-Olaa, Martin (1992), "Industry in Uganda: Current State, Problems and Prospects", a paper presented at the *National Economic Policy Workshop*, Entebbe, 27th –28th November, p.3.

[18] Stoutjesdijk, E. J., (1967), *Uganda's Manufacturing Sector: A Contribution to Analysis of Industrialisation in East Africa*, Kampala and Nairobi: East African Publishing House.

[19] Barya, J, John (1986), *The Impact of Foreign Capital on the Performance of the Uganda Development Corporation (UDC) – A Legal and Social Economic Analysis*, Master of Laws, Warwick University.

[20] Onyach-Olaa, Martin (1989), Industrialisation Policies and Strategies of Uganda: 1962-1989, MA (Economics), University of Manchester, UK.

[21] Campbell, Horace (1975), The Political Struggles of Africans to Enter the Market Place in Uganda, 1900-1970, MA Thesis (Political Science), Makerere University.

[22] Mamdani, Mahmood (1976), Politics and Class Formation in Uganda, New York: Monthly Review Press.

[23] Nabudere, Dan (1980), Imperialism and Revolution in Uganda, Dar es Salaam: Tanzania Publishing House.

[24] Jorgesen, Jelmert, Jan (1981), Uganda a Modern History, London: Croom Helm.

Studies specific to the industrial sector suffer from a number of weakenesses. First, Barya (1986) is a legalistic study of UDC with dependency theoretical perspective. The central thesis of the study is that UDC was merely an instrument of foreign capital in collaboration with the local state. This is a rather narrow conception of the importance of institutions in the process of industrialisation in developing countries like Uganda. The major problem with public institutions has been their lack of coherence and failure to act as agents of transformation by building managerial and technological capacities and enhance industrial competitiveness.

Second, Onyach-Olaa's (1989) study is a general statement on industrialization policies and strategies in post-colonial Uganda. The specifics of industrial policy are not analysed. The discussion of choice of technology is narrowly focused on resource and capital saving strategy.[25] The studies do not analyse the broad consequences of the unbridled market reforms for future of manufacturing capability of Uganda's industries, particularly their competitiveness.

This study, therefore, is an attempt to fill that knowledge gap as the above studies do little to advance knowledge on the industrialisation process in Uganda. This is perhaps the first major study that is focused primarily on Uganda's industrial policies in the context of recent market reforms. The application of industrial policy framework is likely to aid in accomplishing this task as a guide to both the policy makers and firm owners in their planning and implementation of dynamic industrial policies.

1.5 Purpose Statement

The purpose of this research is to investigate why and how the failure to formulate a coherent industrial policy may explain the failed industrialisation process in Uganda. This limited the proper conceptualisation of the industrialisation process and tended to undermine the possible development of an entrepreneurial state. Such a state would have provided supportive infrastructural investment and targeted incentives necessary for stimulating technological learning, the accumulation of technological capacity in firms thus enhancing their competitiveness.

[25] Onyach-Olaa, Martin (1989), Op. Cit p.138.

The current industrial policy environment is such that, for the bureaucrats and the entrepreneurs, rather than lay emphasis on the development of technological innovation, acquisition of technology and learning, have tended to use their strong political connections to maximise short-term accumulation interests. Clearly, there is need to re-think past industrial policies and institute new ones. To do this, the socio-political bases of industrialisation must be clearly defined.

1.6 Study Aims and Objectives

General Objective

The central objective of this study is to undertake a systematic investigation into what informs the nature of industrial policy and the industrialisation process in Uganda, focusing on the interaction between institutions, technology and the market reforms. The aim is to explain the problematic of Uganda's industrialisation process with the view to suggesting priority areas for future industrial policy

Specific Aim and Objectives

More specifically, the aim and objectives of this study are to:

1. Examine, through an analysis of historical data and recent industrial policy practices, their determinants and their implications for a comprehensive formulation of coherent industrial policy.

2. To investigate the nature of institutions concerned with industrial development, their organisational efficacy, networking, coherence and their capacity to support and promote an effective industrialisation process.

3. To study the specific cases of the development of technological capabilities, managerial capacity of individual firms in selected sectors for industrial development and competitiveness in the context of state policy and market reforms.

4. To identify additional institutional and policy reforms required as compliments to industrial policy in order to improve overall performance of the economy in general and the industrial sector in particular.

5. To build a theoretical and empirical case for the importance of a coherent industrial policy and an effective national innovation system to develop technological capabilities, managerial capacity and competitiveness in late industrialising economies.

6. Suggest priority areas for future industrial-policy relevant research.

1.7 Research Questions

i) What explains the lack of a coherent industrial policy in Uganda's industrialisation experience?

ii) What institutional mechanisms may be crafted to ensure coherent industrial policies?

iii) What should be the new industrial policy direction for sustained industrial development in Uganda?

1.8 The Rationale/Significance of the Study

The study of the industrialisation process remains critical for development theorists and practitioners interested in the structural transformation of African economies in general and Ugandan one in particular. Industrialisation is essential to long-term development. Every country that has achieved sustained growth has also seen a structural transformation of its economy away from primary production toward industry. Industrial development is necessary to raise incomes and employment, to diversify exports and to extend markets. In nearly all economies, particularly those of East Asia, for instance, manufacturing has been the critical medium of structural transformation from a low-productivity, low-income economy into one that is dynamic and diversified. Industrialisation, therefore, stands out as the solution to poverty and unemployment in countries like Uganda in the long term.

More importantly, there is need to re-think the past industrial policies in Uganda. There is, however, uncritical acceptance of the standard SAPs by Uganda's current policy-makers. Therefore, in the absence of clearly spelled out measures to enhance Uganda's capacity to move up the technological ladder through learning and innovation, the study

of industrial policy and the industrialisation process could provide a vision for the Ugandan economy to do more than export unprocessed primary commodities, such as coffee, cotton and tea.

A United Nations Conference on Trade and Development (UNCTAD) study argued that it is not possible to rely on market forces alone to move economies through the various stages of industrialisation and export orientation.[26] This is because there are a number of market failures, problems of coordination, imperfect and asymmetric information, economies of scale, missing markets and imperfect competition in most developing economies. Since these factors impose themselves on the pace and direction of the industrialisation process, the question of how best to manage this process gains in importance. Industrial policy, in this instance, becomes crucial.

The study is intended to contribute to knowledge, both theoretically and in the area of public policy debates on industrial development. The growing importance of the need to rationalise industrial processes merits serious attention from the academic community. The study recognises the point that industrial policy and industrialisation are often products of numerous historical, social, economic and political considerations. Industrial policy in itself, however, may not be a panacea to the industrial development problems in Uganda but it is rather a major guide to the industrialisation process.

Below I outline the methodology used in the collection of data. Data collection methods are often informed, first, by the philosophical disposition of the researcher and second, by the information needed from the research.

1.9 Methodology and Data Collection Method

This section of the chapter describes the research methodology used in data collection for this study. Research has been described as a systematic and organised effort to investigate a specific problem that needs a solution. Thus, a research process is based on logical relationships between subjects of investigation and not just beliefs.[27] I carried out

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[26] United Nations Conference on Trade and Development (UNCTAD), (1996), UNCTAD Secretariat Report to the Conference on *East Asian Development: Lessons for a New Global Environment*, Geneva, Switzerland p.16.

[27] This section relies mainly on the following texts: 1) Neumann, W. (2000*), Social Research Methods: Qualitative and Quantitative Approaches*, Boston: Allyn & Bacon, 4th edition and Gary King, Keohane. R and Verba S. (1994), *Designing Social Inquiry: Scientific Inference in Qualitative Research*, Princeton, New Jersey: University of Princeton.

the research for this study in cities of Kampala, Jinja, Entebbe and Mbale in Uganda where the firms in the illustrative cases studies (textile industry and fish processing) are located.

1.9.1 Research Design

The research conducted was policy-oriented as it was concerned and paid particular attention to the actions of government to leverage the selected industrial sub-sectors upwards. The focus of the research was with selected *key informants* in the state bureaucracy, owners and managers of the selected firms. This is because the research is intended to provide Ugandan policy-makers in government, and indeed the industrial sector as a whole, the information and options needed to understand and find solutions to shortcomings in the specified industrial sectors. (See appendix: 2).

The choice of an appropriate research design is a crucial building block of the research process. It determines the actual construct of the research and leads to a framework within which the data is collected and analysed. This research was designed in two broad ways: first, there was a broad qualitative review of industrial policy practices and what informs their past and the motive forces behind the policies. Second, the research was based on case studies where *key informants*, based on well-specified questions were probed. It is based on a relatively flexible structure: neither pre-determined nor loose.

Qualitative research methods have been used for data collection and analysis in this research, based on particular techniques. Though this is a primarily qualitative study, it was supplemented with quantitative data in form of statistical tables which enhance clarity and thus inform policy implementation and decisions.

First, the evidence is derived from primary raw data acquired through interviews with key informants, both in the bureaucracy and the industrial sector. I apply the case study method, which enables one to examine in detail how various policy measures affect the performance of the specified industrial sub-sectors. This is because framing a case study around particular questions may lead to more focused and relevant description of the policy process.

Second, more data is derived from published literature which includes: dissertations, published and unpublished materials, government and its other agencies reports and newspaper reports. This is because to understand the complexity of the current problems in the selected sub-sectors, it is important to understand what happened in the past and how it impacts on what is taking place at the present in order to come up with new policy directions for the future.

1.9.2 Data Collection Techniques

This study adopts a multi-logical approach based on a mixture of techniques. Principally, it relies on the multiple case study method emphasising the use of primary data, semi-structured interviews and key informants' approaches. First, the interviews were conducted with key informants, in-depth, face-to-face, based on well-structured, interview schedules. The key informants were mainly government policy-makers, owners and managers of the selected firms in the sub-sector case studies of the textile and fish processing industries. The semi-structured interviews were preferred as we predetermined the issues to be covered, the informants to be interviewed and the sequence of the questions to be asked. This method leads to systematic collection of data with relative accuracy. The specific questions are outlined in the interview schedules attached (See appendices 3-11).

Second, secondary sources consisted of literature on government intervention historically, industrialisation, policy formulation, evolution of Uganda's policy framework, government policy documents, studies and reports on institutions connected with industrialisation, among other sources were referred to.

1.9.3 Sampling

The first action in primary data collection was the sampling of the firms in a particular selected sub-sector. The main objective of sampling is to collect primary data on mechanisms and indicators of policy practices through the study of specific cases in order to deepen our understanding of industrial policy making. Given the minute size of Uganda's industrial sector, the major firms in the selected sub-sectors were systematically sampled. Uganda at the time of fieldwork (2004-2005) had four (4) major textiles manufacturing firms. Thus, in the textile sub-sector, 4 major firms were selected. Second, in the fish-processing sub-sector, 3 out 17 firms were systematically selected. Detailed

interviews were conducted with key informants in both sub-sectors on issues of ownership, sources of finance, sources of technology, size in terms of sales, size in terms of employment and export status. Important, in both sectors, was the role of their respective business associations.

The disproportionate number of firms chosen was due to one major factor which was the acceptability to be interviewed by firm owners. The selection of more that one industrial sector was for illustrative purposes and to stress the need for a differentiated industrial policy as there are specific sectoral needs and characteristics.

1.9.4 Limitations

The biggest limitation was the unwillingness for some selected key informants to avail themselves for interviews due to mainly unfulfilled appointments, particularly by policy - makers. The second limitation was the unwillingness to allow access to documents such as reports on various aspects of the economy. Even when a key informant availed himself, the impression was given that the research was being interruptive of their duties. There was a tendency to evade "sensitive" questions. However, the depth of interview data allowed for cross-referencing and validity checks.

At the sub-sector, firm level, there was as well unwillingness for firms to respond unambiguously to questions regarding the workings of the firms, particularly their financial, investment plans, wage policy, financial support from government and other related matters as these were regarded as trade "secrets". However, with the help of personal networking, most of these limitations were overcome, particularly the limitation of documents such as reports. Despite these limitations, the data collected was rich and valuable. Below is an outline of the structure and scope of the thesis.

1.9.5 Structure and Scope of the Thesis

This thesis is divided into three parts with nine chapters. Part one is composed of three chapters, one, two and three. Chapter one is the introduction. It spells out the objectives, background problem statement, context, rationale and significance of the study, definition of key concepts and dimensions of industrial policy. The final part of the chapter outlines the methodological issues and data collection methods that were applied in the study.

Chapter two presents the literature review and examines the different views that inform industrial policies and the industrialisation in Third World development from a political economy perspective. There is a review of specific industrial policies embedded in ISI and socialist industrialisation model in the Third World. The failure of developmentalism and the rise of neo-classical discourse and assumptions are discussed. The chapter confronts the neo-classical conception and categorisation of the policies following the EOI strategy as non-interventionist. This conception of EOI as non-interventionist is found to be problematic. Finally, a brief comparative historical experience of industrialisation in sub-Saharan Africa is made to give the study a broad regional perspective. Part two consists of three chapters: four, five and six. It forms both the historical/ institutional background and empirical examination of industrial policies practiced in Uganda since 1945.

Chapter three constitutes the analytical framework. This chapter has four main objectives. First, it is a reflection on recent theoretical debate on the efficacy of institutions and whether they matter in the development process. The central argument here is that there is need to move away from the traditional notion of institutions as constraints and see them as devises which enable the achievement of economic goals. Secondly, the chapter attempts to highlight the institutional complexity of the relationship between states and markets. I contend that to understand the workings of the market economy, there is need to study a wide range of institutions, prominent among them is the state, which affect and are affected by the market. An effort is made to analytically unravel these relationships in the study of industrial policy. Thirdly, we examine the notions of "late" industrialisation, technological learning and national innovation system as elements of institutional political economy. In "late" industrialisation, states play a critical role in taming domestic and international market forces. Fourth, the theoretical debate for and against industrial policy practice is presented. Finally, an assessment of the relative importance of states and markets in the European "early" industrialisation, the experience of East Asian "late" industrialisation and their institutional underpinnings are highlighted. This analytical framework emphasises the fundamentally political nature of the market and applies the political economy logic to the analysis of the market, and not just to the analysis of the state. The contention is that markets are, in the end, political constructs in the sense that they are defined by a range of formal and informal institutions.

Chapter Four covers the institutional foundations of Uganda's industrial policies in a periodised manner from 1945 to 1980 at the on-set of SAPs. First, it considers industrial policies in the "late" colonial period (1945-62). Second, it outlines the institutions that were crafted by colonial policy-makers to support the industrialisation process. Third, it examines the industrial policies during the immediate post-colonial period (1962-1972). Fourth, it discusses the "economic war" policy of 1972 and its impact on Uganda's industrialisation processes. Efforts are made to link these processes and their implications for the adoption of SAPs in the early 1980s.

Chapter five covers industrial policies under the SAPs period, 1981-2006 and is divided into two phases. The first section discusses industrial policies of phase 1: SAPs under Obote II regime, 1981-85. Reference is made to the efforts at the rehabilitation of industry and complementary sectors, liberalisation of the economy, return of the expropriated Asian properties and the critical issue of sources of finance for industry. The second section examines industrial policies under SAPs phase II: from 1987-2006. I discuss the practice of industrial policies in the context SAPs that stress liberalisation and privatisation. The critical issue of financing industry and the intensification of politics and patronage in financing industry is examined.

Chapter six examines the institutional reforms, particularly the reform of the bureaucracy, and the creation agencies in support of the industrial sector and implementation of aspects of SAPs. First, the various bureaucratic reforms, particularly in the traditional civil service, and the reorganisation of Ministries, are examined. Second, I make an overview on intermediate institutions – business associations which are critical in the implementation of industrial policies and they are an expression of embryonic embedded autonomy. Finally, we discuss the question of technology policy. This is examined based on the premise that the success of the overall strategy of industrialisation of any country, to a large extent, depends on the nature of the institutions that enable the adoption, innovation and acquisition of technological knowledge.

Part three is as well organised under three chapters: seven, eight and nine. It is composed of case studies of two industrial sectors (textiles and fish processing) to illustrate the practice of industrial policies both before and after SAPs, and the conclusion. Chapter Seven discusses the clothing and the textile industry sector. Through a sketch of its development history, we examine the legacy of the state interventionist ISI policy

through the 1950s and 1960s. The second part covers the impact of expropriation of the Asian entrepreneurs in 1972 on the textile industry. The third part looks at the impact of the adoption of SAPs since 1981, on the textile industry. Efforts are made to assess the viability of the textile industry in Uganda under the current global economic trends without a national textile policy.

Chapter eight discusses the fish processing industry. The industry has risen in importance and is now the second major foreign exchange earner next to coffee in Uganda. The chapter addresses four issues. The first section looks at the structure and the evolution fish processing industry from being state-controlled to FDI-dominated. The second section assesses the implication of the industrialisation process based on a fragile natural resource base which can easily suffer from the "tragedy of the commons" (lakes). The third section evaluates the stress on export orientation as an industrial policy in a sector dominated by FDI with little connection to the national economy. The fourth section looks at the competitive strategies, dependence on export markets and their impact on local fisher people. Finally, we discuss the public-private interactions in the fish processing industry and its contribution to value chain upgrading and the implementation of industrial policy.

Chapter nine presents the conclusion. This chapter is concerned with three issues. First, it offers a brief summary of the central arguments of the thesis. Secondly, it sums up the major finding on industrial policy practices and their limitations. These have implications for the contribution to the industrial policy debate; draw beneficial lessons of the past and the problems associated with errors that may have been made along the way in the context of the practice of industrial policy in the current global context. Finally, the chapter identifies potential future areas of research and industrial policy innovation.

CHAPTER TWO

2. LITERATURE REVIEW

2.0 Introduction

This chapter constitutes a broad literature review and a critical analysis of the different paradigms that have informed industrial policies in the post-World War II Third World development. The review of the literature is important in the sense that it helps one to understand the various dimensions of the research problem. First, it identifies the research that has been carried out on the subject. Second, it exposes the contributions and the limitations that the policy measures taken in the industrialisation process confronted. This would partly explain why particular industrial policies may have not been so successful. Finally, it enables one to focus on the solutions to the knowledge gap in the Third World industrialisation process hence transcending the previous limitations.

The purpose of this chapter is to review the various schools of thought that have informed the study of development in general and industrial policy and industrialisation processes, in particular. These can broadly be put into three categories: i) developmental school, (1945-75), ii) neo-classical school, (since 1975) and iii) the institutional approach which is discussed in next chapter 3. For each category and period the study analyses the motive ideas and assumptions behind the industrial policies and industrialisation process. The study attempts to show that in an effort to industrialise, Third World states have had to engage in different forms of developmentalism.

The first part of this chapter looks at the basic concept of industrialisation and what is meant by industry. The second part reviews developmentalism by analysing the experience of the application of Import Substitution Industrialisation (ISI). The third part looks at the socialist industrialisation model adopted by several Third World countries and offers explanations why it was a dismal failure in most cases. The fourth part deals with the Export Oriented Industrialisation (EOI) policy advocated by the neo-classical theory as practiced through the institutional mechanism of Foreign Direct Investment (FDI), Export Processing Zones (EPZs) and the notion of value chain and upgrading. Finally, a brief review of industrial policy practices of sub-Saharan African countries after independence is outlined.

2.1 Industry and Industrialisation

Industry is usually taken to mean a broad class of similar products, embracing numerous plants and firms. Thus, iron and steel is customarily spoken of as an industry. In a more localised definition, industry is seen as an economic activity generally regarded as a separate activity from agriculture, trade (wholesale and retail), and services (transport and telecommunication, hotels and restaurants, community service.[1] In the Ugandan context, industry includes the following sub-activities: mining and quarrying, manufacturing (both formal and informal), utilities (electricity and water sectors) and construction.

Industrialisation is a more complicated process. Industrialisation has been at the centre of transformation of societies into modern economic entities. Modern industrialisation can be located in the 19th century with the centre being England. The basic definition is that it is a process of social and economic change whereby a human society is transformed from a pre-industrial to an industrial state. It means a replacement of human labour by machinery to manufacture goods. In this way it induces a shift from home (craft) to factory based-production and initiates transition of an economy from agrarian to one based on industry. Thus, there have to occur changes both in technology and products.

In a more rational sense it is a process whereby a share of industry in general and manufacturing in particular in total economic activities increases. According to Sutcliffe, a country is regarded as industrialised when a certain minimum percentage (say 25%) of its Gross Domestic Product (GDP) arises in the industrial sector.[2] This has to be reflected in the share of employment.

To be considered developed a country must have a certain level of industrialisation. Industrialisation, however, has never been automatic. Historical evidences suggest that the process of industrialisation has been influenced deliberately by external interventions

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[1] This is the definition used in the Uganda Bureau of Statistics (UBOS) Statistical Abstract 2006 for purposes of computing GDP of the country and value addition of economic activity in the fiscal year 2005/06.

[2] Sutcliffe, R. B (1971), Industry and Underdevelopment, London: Addison-Wesley Publishing Company, pp 16-18.

such as government policies.[3] During the first industrial revolution, the British government intervened by restricting the movement of skilled craftsmen to abroad to minimise the flight of technological capability. Similarly in the 18th and 19th century, United states and Germany intervened vigorously. Since then industrialisation has taken place under different circumstances.

Alice Amsden notes that the nature and the role played by technical knowledge, separates industrial revolutions in England, Germany and the United States on one hand, from the industrialisation that occurred in twentieth-century agrarian societies. Industrialisation occurred in England on the basis of invention. To catch up, USA and Germany industrialised on the basis of innovation. Japan and other East Asian countries have industrialised on the basis of learning through importing technology from abroad and assimilating, adapting and improving on it.[4] This is the process referred to as *late industrialisation* – where the central tendency among leading firms is learning rather than invention or innovation of significantly novel technology.[5]

For the Third World aspiring to industrialise, it is important to take note of the changed global circumstances for effective process of industrialisation, particularly through absorption of rapidly changing technology. To be noted are the differences in the character of the institutions on which late industrialisation is based and managed. The drive to industrialise in Third World countries, one can argue, is due to the psychological desire to catch-up, that is, to bridge the gap with the developed countries as speedily as possible. According to some, industrialisation in the Third world has passed through various phases of developmentalism which we review below.

2.2 Developmental School (1945-1970s)

The study of industrialisation in the Third World was undertaken within a developmentalist framework consisting of modernisation and dependency theories. The developmentalist model is a post-World War Two phenomenon and dominated development theorising from around 1945 to early 1970s. Developmentalism consists of

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[3] From the classical observation by Fredrich List, (1885), Alexander Gerschenkron, (1962), Landes David (1969) and more recently Amsden Alice, (1989 and Wade Robert (1990), state interventionist policies have always been the drivers of the industrialisation process.

[4] Amsden, Alice (1989), *Asia's Next Giant: South Korea and Late Industrialisation*, Oxford: Oxford University Press, pp3-7.

[5] Ibid, p.4. The discussion of the notion of late industrialisation is done in the next chapter.

three sets of strands namely modernisation, structuralism and dependency, each with its own policy prescriptions for the industrialisation of the Third World.

2.2.1 Developmentalism

Developmentalism applied insights or theories to explain the logic of social action in the south. Developmentalism is linked to liberal ideology and the idea of progress. The central thrust of modernisation theory is evolutionary. Its claim is that to develop, Less developed Countries (LDC), would pass through a series of stages mirroring the history of Western countries.[6] The theory viewed social reality through a series of binary opposites, a particular dualism: – modern versus traditional, industrial versus pre-industrial. It believed that in the transition from 'traditional' to 'modern' forms of social organisation, already completed in the industrialised West, the complex interactions between social change and economic development, mediated by politics, could be traced with some precision, using 'structural-functional analysis' and the topology of social structure derived from Weber by Talcott Parsons.[7]

Developmentalism in the 1950s focused narrowly on how the economies of former colonies might be transformed and made more productive as decolonisation approached. The focus here is to examine its perception of how development could be brought about. Its goal was growth and the agent of development was the state and the means of development was the macroeconomic policy instruments, basically, a conscious commitment to state intervention. This could be achieved in several ways: first, modern values being diffused through education and technology transfer to the 'elites' of the periphery. This would entail 'big push' industrialisation, pro-capital and pro-big large-scale manufacturing based on capital-intensive technology imports. Second, state intervention that provided a basis for ISI as a market-oriented, state-led development process informed by the distrust of unfettered markets.

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[6] Rostow, W.W (1960), *The Stages of Economic Growth:Non-Communist Manifesto,* (Cambridge: Cambridge University Press). In Rostow's schema, development is a five state process from traditional to modern society. Using the metaphor of an aeroplane, Rostow's stages are as follows: 1) Stationery (traditional society), 2) Pre-conditions for take-off, 3) Take-off, 4) Drive to maturity and 5) Mass consumption society (modern society).

[7] Quoted in Leys, Colin (1996), *The Rise and Fall of Development Theory*, (London: James Currey Ltd), p.9.

In its 'classic' form, economic developmentalism posited a modern sector acting as a pole of development from which the industrial revolution would eventually diffuse out to the rest of the Third World society.[8] LDCs were thought unlikely to generate sufficient capital internally hence foreign capital needed to be mobilised. For the developmentalists, shortage of capital necessitated a policy of "unbalanced growth" - concentrating investment where it realised the greatest return and hence the most rapid accumulation of capital.

Developmentalism emphasises the positive aspects of foreign capital as well as foreign trade. Characteristics such as new resource inflows, employment generation, access to technology and entry to foreign markets have been emphasised as ways that foreign capital promotes development.[9] Thus, following the First World countries, Third World countries embarked on a programme of "Big Push", rapid, catch-up industrialisation.[10] The premises of the notion of big push were pro-capital and pro-big, large-scale manufacturing and mega-projects which were favoured over small scale ones in the belief that the highest return and productivity gains were to be found in the capitalist 'growth poles' of secondary industry. This was informed by the assumption that progress would evolve through diffusion or trickling down of capital and technology. These premises were then linked to capital-intensive technology imports from the West in complete disregard of factor endowments in labour abundant developing countries.

The pro-big capital and pro-urban biases had continuously formed the cornerstone of successive western originated development theories: Rostow's stages theory,[11] Albert Hirschman's unbalanced growth theory,[12] Arthur Lewis's dual economy theory,[13] and

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[8] Smith, Tony (1985), "Requiem or New Agenda for Third World Studies", *World Politics*, Vol. 37, No.4, (July), p.550.

[9] Stallings, Barbara (1990), "The Role of Foreign Capital in Economic Development" in Gereffi, G., and Wyman, Donald, (eds.), *Manufacturing Miracles: Paths of Industrialisation in Latin America and East Asia*, New Jersey: Princeton University Press, p.57.

[10] The urge to "leapfrog" development, which means a quantum leap from one stage to another without experiencing the intermediate steps between the two. The experience of East Asian industrialisation could be given as an example of leapfrogging.

[11] Rostow, W.W (1960), *The Stages of Economic Growth*, Cambridge: Cambridge University Press. Take-off into sustained growth principle was based on the simple Harrod-Domar identity that in order for the growth rate of income to be higher than that of the population (so that per capita income growth is positive) a minimum threshold of the investment to GNP ratio is required given the prevailing capital – output ratio.

[12] Hirschman, Albert (1958) *The Strategy of Economic Development*, New Haven: Yale University Press, "unbalanced growth" identified the lack of decision-making ability in the private and public sectors as the main bottleneck to development. The prescription for breaking through this bottleneck was to create a sequence of temporary excess capacity of social overhead facilities whereby creating a vacuum and an attractive physical environment would encourage the build-up of directly productive activities.

trickle down theory of various theorists. All these economists called for pro-urban, big-scale and capital-intensive industrialisation strategies as a prescription for economic development of the Third World countries. These prescriptions were accommodated by the first generation of post-independence leadership elites in the South, who aspired to achieve rapid economic development of their countries. As a result, they were reflected in the capital-intensive ISI strategies of many developing countries.

The diffusionist assumption behind the transfer of technology and capital to LDCs as a development mechanisms had a number of limitations. First, the diffusionist approach fails to recognise that its alleged solutions – the intensification of market relations – are at the origin of all the difficulties that LDCs face.[14] Second, by introducing state-of-art technology – ensuring that the most up-to-date production technologies were transferred to the Third World without concurrent institutions of creative and innovative adoption in the domestic economy could not, by itself, secure sustained industrialisation process. Third, the perception that the causes of underdevelopment were domestic, internal to the developing nations themselves, were rather narrow. It ignored the impact of the link between international forces and local actors in the development process. Fourth, the idea of engineering solutions to development obstacles to economic diffusion through the use of force or by building of consensus, so that institutions are ultimately created that can make the process of change self-sustaining, was rather mechanical. This is because modernist developmentalism is silent about the social character of the development process. As a result, its policy prescriptions were essentially statist and mercantilist rather than entrepreneurial and capitalist. In the final analysis, the central problem of modernist developmentalism is that it was unilinear and ethnocentric in its conception of change in the Third World. These criticisms are carried further as we review the experience of the import substitution strategy.

2.2.2 Import Substitution Industrialisation (ISI)

The review of the literature on ISI is heavily dependent on Latin American and East Asia experiences. It is these societies that first embarked on the process of industrialisation in

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Alternatively, the process could start by a build-up of directly productive activities ahead of demand, which in turn would generate a need for complementary social overhead projects. This meant concentrating investment where it realised the greatest return and hence the most rapid accumulation of capital.

[13] Lewis, Arthur (1954), "Economic Development with Unlimited Supplies of Labour", *Manchester School*, May. The naïve two-sector model, continued to assign to substance agriculture an essentially passive role as a potential source of "unlimited labour" and "agricultural surplus" for the modern sector.

[14] Smith, Tony (1985), "Requiem or New Agenda", Op Cit. p.551.

the Third World. The review notes the differences between the applications of the ISI strategy in these economies. While Latin American and sub-African economies implemented "across-the-board" import substitution and protectionism with little horizon on export markets, the East Asian industrialists did not see import substitution and export orientation as mutually exclusive. They combined both strategies. The differences in the industrialisation process between these regions are partly explained by these differing practices.

The second thrust of developmentalism to industrialise was state intervention through ISI as a market-oriented, state-led development strategy. Post World War Two ISI was informed by a particular variant of structuralism based on the Latin American industrialisation experience.[15] The central idea associated with structuralism in the 1950s and 1960s was the belief that market failure is a perverse feature of the underdeveloped economy with the corollary that the state has an important role to play in correcting it.[16] All countries intending to industrialise, globally, relied on ISI. In this section, we review what constitutes ISI policy. Secondly, we point the rationale for its practice. Thirdly, we reflect on the various policy instruments for its operation. Finally, we point out the limitations of ISI.

Albert Hirschman argues that ISI is an industrialisation practice that starts predominantly with the manufacture of finished consumer goods that were previously imported and a moves on more or less rapidly and successfully, to the 'higher stages' of manufacture, that is, to intermediate goods and machinery, through backward linkages effects.[17] In general, import substitution refers to "a set of ideas about why mass poverty has prevailed and continues to prevail in many countries while other countries have grown rich and about a general approach to the elimination of poverty."[18]

In practice, especially in sub – Saharan Africa, ISI was based on the belief that controls on imports coupled with unselective support of any industrial investment, would be enough to bring about a sensible kind of industrialisation. There were three major

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15 Prebisch, Raul (1950), *The Economic Development of Latin America and Its Principal Problems*, New York: United Nations. Usually referred to as "Prebisch Manifesto".
16 Onis, Zaya, (1991), "Review Article: The Logic of the Developmental State", *Comparative Politics*, Vol.24, No.1 October, p109.
17 Hirschman, Albert (1971), "The Political Economy of Import Substituting Industrialisation in Latin America, in Albert O. Hirschman, (1971), *A Bias For Hope: Essays on Development and Latin America,* New Haven and London: Yale University Press, p.91.
18 Bruton, Henry (1998), "A Reconsideration of Import Substitution", *Journal of Economic Literature*, Vol.XXXVI (June), p.904.

reasons for pursuing ISI. It was perceived that ISI would bring about: i) more rapid transfer of technological innovation in industry than in agriculture – thus raising economy wide productivity levels. ii) greater absorption of labour in an era of rapid population and urban growth and iii) the movement of factors of production into industry and away from exports, a process that would reduce the latter as a share of national output and improve the terms of trade.[19]

In practice, therefore, ISI is a trade pattern under which imports are actually being replaced by domestic products. Import substitution as such is not an incentive system first; it is a choice of products and a choice of production processes and organisational technologies for which incentives subsequently had to be designed.[20] ISI belongs to a school of thought that conceptualises development as a "catch-up" process. To catch up, Third World countries embarked on two variants of industrialisation: import substitution and import reproduction. Lynn Mytelka draws the contrast of the two practices in industrialisation process.[21]

According to Lynn Mytelka, import substitution is constituted by identification of the purposes embodied in imported products; determine their relevance to the local environment and designing a product that conforms most closely to domestically available inputs, material and non-material. Within the context of import substitution strategy, there is no automatic assumption that given product categories are homogenous either in the characteristics of the product – its quality, size, colour, material inputs and design – or in the processes through which it is produced. The reduction of imports as a share of domestic consumption thus occurs without requiring that the locally made product be identical to the formerly imported one. On the other hand, import reproduction strategies take the 'product' as their point of departure rather than 'purpose'. Import reproduction strategies; thus, ignores the extent to which products incorporate concepts of functionality, cost, quality and aesthetics that correspond to the producer's principal market sale.[22]

In a process of import substitution, 'production' is not the sole end; rather it becomes part of a more complex process of technological learning that encompasses product

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19 Love, L Joseph (2005), Op.Cit, p.103.
20 Mytelka, K, Lynn (1989), "The Unfinished Promise of African Industrialisation", *African Studies Review,* Vol. 32, No.3, December, p.79.
21 Ibid, p. 79.
22 Ibid

specification and design, process choice and change in social organisation of production. Given this characterisation, to what extent can it be said that the ISI developmentalism as practiced in the 1950s to the 1970s in most of the Third World states was import substitution or import reproduction?

ISI was practised within a particular institutional context and applied various policy instruments in its operation. There were three salient features of this industrialisation: the "political regime" and the nature of the state and the relation of local capital to the state, the financial basis of this industrialisation and the "trade regime" that prevailed.[23] The resort to ISI was prompted by a number of factors. According to Raul Prebisch in the context of Latin America, the stimulation of development from abroad by constant increase in exports of primary products had come to an end.[24] Thus, these countries no longer had an alternative between vigorous growth along those lines and internal expansion through industrialisation. Therefore, the "structure" of the economies of the developing countries had to be changed in fundamental ways if they were to compete on equal terms in the World markets, and a market mechanism could not bring about this sort of structural change.[25] This was influenced by Keynesian ideas that a perfectly functioning market may not ensure full utilisation of resources. The appropriate strategy was deliberate development policy based on state intervention and replacement of imports from the rich North with domestic production. Large-scale comprehensive planning, rather than the market, was assumed to be the appropriate instrument.[26]

The major policy instrument for ISI that has come under scrutiny is the policy of protection of local firms based on infant industry argument.[27] Therefore, to industrialise,

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23 Mkandawire, Thandika (1988), "The Road to Crisis, Adjustment and De-Industrialisation: The African Case", *Africa Development*, Volume, XIII, No. 1, p.8.

24 Prebisch, Raul (1950), *The Economic Development of Latin America and Its Principal Problems,* New York: United Nations, p.6. Raul Prebisch was an Argentinean economist who initiated what can came to be known as Latin American structuralism. He was the director of his country's first central bank from 1935 to 1943, subsequently the Executive Secretary of ECLA, Economic Commission for Latin America, 1949-63 and the first Secretary General of the UN Conference on Trade and Development (UNCTAD) 1964-69. In the above study, Prebisch introduced the notion of an industrial, hegemonic Centre and an agrarian, dependent Periphery as a framework for understanding the international division of labor. He hypothized that the two elements were related to a process of unequal exchange. To change this inequality, industrialisation was the solution. The school of thought that emerged focused on structures, blockages and imbalances and hence the name "Structuralism". Thus, for the early structuralists, industrialisation was seen as the single-most important objective in a development programme, since historically the process was associated with rapid economic growth and high per capita incomes, Love L., Joseph, (2005), "The Rise and Decline of Economic Structuralism in Latin America", *Latin American Research Review*, Vol.40, No.3, (October) p.101-2.

25 Bruton, Henry (1998), Op Cit, p.906.

26 Ibid, p.907.

27 Infant industry argument is based on the notion that setting up new industries involves great risk, hence the producer has to be provided with extra incentives to enter industry and that foreign competition could

given the existence of already industrialised and highly productive economies (North), the countries of the South must protect their economies from imports from the North and concentrate on putting in place new activities that will produce an array of manufactured products currently imported.[28] Apart from the infant industry argument, protectionism was justified on the basis of experience of the now advanced countries[29]. Prebisch's support for industrialisation did not imply the wholesale protectionism of inefficient and uncompetitive industries. In his view, the imperative of post-war trade and industrialisation policy required a judicious combination of import substitution and export promotion rather than blanket protectionism. A policy of autarky is as absurd as free trade.[30]

The second policy instrument was that of state participation in the economy. Apart from the rejection of market solutions, state participation was justified on the historical experience of the now developed countries. In the historical period in which they began their industrialisation processes, the countries that are now developed applied policies of active state participation in combination with free functioning of the market and formulated theories, which gave technical backing to these policies.[31] As a result, in the 1950s up to the 1970s, Third World countries opted for an approach involving deliberate industrialisation with state participation in support of the private sector.[32] Behind this approach was the nationalist quest for greater control of the economy in the absence of national industrial capitalist classes and to ensure accumulation in light of the reticence of foreign capital.[33]

The third policy measure was to induce capital formation. Sources for financing industrialisation have important political implications. The financing of ISI had to come from domestic savings augmented with foreign savings. The policy objective was to accelerate the rate of investment. Domestic savings were considered the primary constraint and the earliest arguments for foreign investment and aid rested on the

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ruin the new industry. According to Friedrich List, industrialisation in countries with little or no experience in manufacturing will not take place according "to natural course of things" in the face of foreign competition, hence the need for selective protection.

28 Bruton, Henry (1998), "A Reconsideration of Import Substitution", p.904.

29 Chang, Ha-Joon, (2002b), *Kicking Away the Ladder*: *Policies and Institutions for Development in Historical Perspective*, London: Anthem Press.

30 Dosman, Edgar (2001), "Markets and the State in the Evolution of the Prebisch Manifesto" *CEPAL Review*, 75, p.91.

31 Gonzalez, Norberto (2001), "The Motive Ideas Behind Three Industrialisation Processes", *CEPAL Review*, December, p.103.

32 Ibid, p.106.

33 Mkandawire, Thandika (1988), Op cit., p.17.

assumption that the savings of the poor countries had to be supplemented by foreign savings if acceptable growth rates were to be achieved. Foreign investment as a source of capital and technology was emphasised. In addition, capital goods had to be imported to facilitate the process of industrialisation. This produced balance of payments pressures and to counter these pressures, a variety of tariffs, import licences and exchange controls were instituted.[34] In summary, the thinking that produced ISI was: get the investment rate up, import capital, with its in-built technology and soon the end of underdevelopment would be at hand.[35]

Briefly, although ISI has been perceived as a failure in bringing about development, it scored a number of achievements. Basically, the 1950s up to early 1970s were boom years. There was substantial public sector development in many African countries, often with direct involvement of foreign firms and the World Bank, which raised the share of manufacturing in the national products of various countries. Imports rose faster although technology transfers had mixed results. To note, the import substitution achieved from the 1950s onwards was more of a result of deliberate, state-led economic policies.[36] This boom period had some contradictory outcomes, though. The excess profits of the first ISI industrialists set up resistances against further industrialisation.[37] Second, the main effect of these boom decades was to undermine the argument that developing countries could not export. Finally, in Africa's case, investments by foreign firms and the World Bank later became sources of difficulties of many kinds – balance of payment problem, budget deficits and productivity growth, in particular.[38]

2.2.3 A Critique of Import Substitution

The major critique of ISI is that as practiced it lacked dynamism and had little focus at graduation as exporters. As far as the research problem is concerned, ISI lacked coherence and was not selective and targeted on what may be considered as critical sectors that would enhance the productivity and competitiveness of particular economies.

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34 Bruton, Henry (1998), Op Cit, pp 907-8.
35 Ibid, p.909.
36 Schmitz, Hubert (1984), "Industrialisation Strategies in Less Developed countries: Some Lessons of Historical Experience", *Journal of Development Studies*, Vol. 21, No.1 October, p.2.
37 Hirschman, Albert (1971), Op Cit, p 109.
38 Bruton, Henry (1998), Op Cit. p.918.

Critics of ISI have attributed its failure to the practice and application of particular policy instruments, prominent of which is protectionism based on infant industry argument.[39] Frederick List, the foremost proponent of the theory of infant industry protection did not recommend "across-the-board" protection of the whole manufacturing sector. According to him protection has to be temporary, selective and targeted and not excessive. The "across-the-board" import substitution practiced in LDCs was a misapplication of infant industry argument that List advanced and it was a reaction to import restrictions as a result of balance-of-payments problems and not because of a clear industrial and trade policies. As a result, there was a tendency to favour non-essential, luxury industries with ready markets provided by the elite. To List, state intervention in the economy at the appropriate time and in appropriate amount was indispensable precondition for successful development.[40]

The second concern is whether what failed was import substitution or import reproduction. The bulk of the new industries were in the consumer goods sector and undertaken in accordance with known processes and on the basis of imported inputs and machines. ISI was wholly a matter of imitation and importation of tried and tested processes. ISI brought in complex technology, but without the sustained technological experimentation and concomitant training in innovations that are characteristics of the pioneer industrial countries.[41] This imitation led to import reproduction rather than import substitution, which should have entailed a more complex process of technological learning and upgrading accompanied with change in social organisation of production.[42]

Most of the smaller African states, for instance, did not actively pursue an import substitution strategy. An array of import substitution measures did appear in (Kenya, Zimbabwe, Ivory Coast and Nigeria) in the 1960s – but they were mainly ad hoc measures. As Roger Riddell argues, import substitution did not fail in Africa; rather it was never really tried.[43] The principle reason for the failure of import substitution, therefore, was that as practiced, it created an environment that discouraged learning.[44]

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[39] Shafaeddin, Mehdi, (2000), "What did Frederick List Actually Say?", UNCTAD, *Discussion Paper* No.p.18-19.
[40] Senghaas, Dieter (1989), "Friedrich List and the Basic Problems of Modern Development", *Economics*, Vol.40, p.65.
[41] Hirschman, Albert (1971), Op Cit, pp 92-93.
[42] Mytelka, Lynn (1989), Op Cit, p.79.
[43] Riddell, Roger (1990), Op Cit p.38.
[44] Bruton, Henry (1998), Op Cit, p. 903.

The supposed "failure" of ISI to graduate into exporters must be put in context. ISI consisted of three phases, thus: i) the first phase involved the relatively easy substitution of simple domestically produced consumer goods for previously imported items, ii) the second and the more difficult type involved the production of intermediate goods and consumer durables, a shift from "horizontal" to "vertical" ISI – so dominated to describe an integrated line of production of fewer final goods and their inputs and iii) the production of capital goods would follow.[45] This is not what occurred in most Third World countries.

First, according to Albert Hirschman, the industrialists who first appear in non-industrial countries may not be all that much in favour of dynamic industrial development as they are satisfied with excess profits in the first phase of ISI and set up resistance against further industrialisation.[46] Second, most of the new industries set up were exclusively to substitute imports, without any export horizon on the part of either the industrialists themselves or the government so as to transcend the "easy" substitution phase. Third, lacking in self-assertion, the industrial interests failed to vigorously press for enabling institutional arrangements – exports, subsidies, preferential exchange rates, or more radically, an exchange rate that is undervalued rather than overvalued, to support them in the export drive. Fourth, export drive is very demanding and the new industrialists lacked the capacity to initiate it. To initiate an export drive, an industrialist must frequently make special investments in research, design and packaging; he must assemble a specialised sales force, delegate considerable authority, among other measures.[47]

One of the fundamental causes of the "failure" of import substitution that is hardly stressed in the literature is the negligence of the agricultural sector. Under ISI as practiced in most LDCs, it did not seem generally appreciated that a sluggish agricultural sector would most inevitably penalise the growth of non-agricultural sectors.[48] The expansion of domestic markets could only come about as a result of the mobilisation of dormant resources in all sectors of society, particularly those in agriculture, by means of necessary reforms and technological innovations as well as purposive protective measures on the part of the state. Agro-industrial linkages are critical in terms of supply of labour from agriculture to industry, supply of raw materials, provision of surplus

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45 Love, L Joseph (2005) Op Cit, p.104.
46 Hirschman, Albert (1971), Op Cit, p.108.
47 Ibid, pp 115-18.
48 Bruton, Henry (1998), Op Cit, p.914.

capital for investment in industry and the agricultural sector acting as a market for industrial goods. Historical experience teaches that it is futile to attempt to achieve successful industrialisation in the absence of a prosperous agriculture.[49]

The failure of ISI developmentalism can best be appreciated if put in context. The failure of ISI may be attributed to the form it took. It was imitative and more of import reproduction rather than import substitution. It came to suffer from what was referred to as import substitution syndrome.[50] That syndrome consisted of reliance on central planning effort, a set of nominal tariffs that generally showed little economic rationale, quotas, exchange controls, overvalued exchange rates that contributed to unemployment and under-utilisation of capital in capital scarce economies, penalised exporting and had a difficult wage setting situation. Agriculture was as well neglected.

ISI approach requires implementation of a wide variety of policies and interventions at multiple levels from establishing and enforcing industrial, technological and sectoral targeting, the promotion of local content, the acquisition and upgrading of technology, the creation of basic knowledge infrastructure and general infrastructure. This is exceedingly complicated and is best done within the framework of social, political and cultural institutions, which affect and shape the effectiveness of any strategy.[51] Much of the measures were not carried out in the practice of ISI, as there was no systematic application in most LDCs. As Jagdish Bhagwati observes, the failure of ISI regime might come not so much from the excessive degree of import protection, but from "chaotic pattern" that such protection is allocated within the various import substitution industries.[52] It is within this context of a failed industrialisation process that dependence theory critiqued modernist developmentalism and aspects of ISI.

2.2.4 Dependency Critique of Developmentalism

The dependency theory critique of the nature of industrialisation based on ISI was that the capitalist penetration it endangered intensified dependence, particularly technological dependence. Second, it shifted the emphasis away from internal to external factors,

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[49] Senghaas, Dieter (1989), Op cit p.69-71.
[50] Bruton, Henry (1998), Op Cit, p.914.
[51] Narula, Rajneesh (2002), "Switching from Import Substitution to the "New Economic Model" in Latin America: A Case of not Learning from Asia", a paper presented at *the Strategic Management Society Annual International Conference* in Paris, September 22-25, p.3.
[52] Bhagwati, N, Jagdish (1978), *Anatomy and Consequences of Exchange Control Regimes*, Cambridge, MA: Ballinger Publishing Co., p.209.

emphasising the Centre – Periphery dichotomy. Third, it stressed the outflow of surplus facilitated by the Multinational Corporations (MNCs) and the local capitalist and ruling classes – the compradors. Fourth, it advocated for de-linking from the international system and pursuing self-reliance through socialism. Thus, according to dependency theory, the solution to development dilemma cannot lie in the greater reliance on market forces but in more radical promotion of national or regional industrial policies, which include greater control of foreign enterprise, greater scrutiny over imports of technology, reform of the tax and incentive system and the redistribution of income.[53]

The dependency critique of the stagism of developmentalism focused on its universalism. Dependency argued that the states of development could be defined by any nation and not by a universal economic law imposed by outsiders. In addition, developmentalism focused entirely on the internal conditions of the countries, leaving external factors behind and ignoring the heavy colonial heritage of LDCs.[54]

Second, the dependency critique of ISI was based on the failure of ISI strategy to solve the problems and it had instead aggravated them. In addition, there was a proliferation of MNCs in industrialisation to produce for the internal markets. The protectionist tariffs of ISI strategy or rather import reproduction and the search for cheaper labour costs increased foreign industrial investment. The major observation by dependency theory was that the nature of dependence was no longer that of industrial dependence but a technological dependency. The problems of balance of payments that ISI attempted to resolve were dramatically aggravated due to the technological dependence on the centres. Rather than importing consumer goods, ISI involved importing capital goods – machinery, new technologies, patents and licences which were very expensive. The technology transferred did not adapt to the uniqueness of every region. By early 1960s after a decade of ISI, balance of payment deficits, trade deficits, increased marginalisation of the population and inflation continued to affect the regimes.[55]

Gunder Frank's theory of the development of underdevelopment is, from an economic viewpoint, an internal critique of ISI.[56] Far from reducing dependence on foreign imports, ISI strategies exacerbated it. The greater the industrial development, the more

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[53] Schmitz, Herbert (1984), Op Cit, p.4.
[54] Grosfoguel, Ramon (2000), "Developmentalism, Modernity and Dependency Theory in Latin America", *Nepantla: Views from the South*" p.354.
[55] Ibid, p.356.
[56] Frank, Gunder (1967), *Capitalism and Underdevelopment in Latin America*, New York: Monthly Review Press.

imports cost as a share of the value of outputs. But of concern for the dependency theorists was who the beneficiaries were. Among the winners of ISI developmentalism were the MNCs and the financial institutions that often enjoyed more governmental protections and incentives than did local "infant industry".

Third, there emerged dependency critique of the role of the "national" capitalist class. In the literature on industrialisation it is often stressed that an industrial bourgeoisie should be the leading class.[57] For the Third World with a minimal development of an industrial class, the focus was the international capital, MNCs and the state. As a result, ISI was based on international capital and state entrepreneurship.

In dependency theory, there emerged two contending strands of views on industrial capitalist class. One that concentrated on the external relations and the other that focused on the local side of dependent development.[58] To the "old" school of dependency, national industrial groups, which had been formed during the previous period, became associated to MNCs and that was becoming a transnational bourgeoisie associated with MNCs hence eroding the process of national development.[59] To this school, the "national" bourgeoisie did not represent a progressive or reliable ally to dismantle the structures of the world capitalist system that reproduces "underdevelopment" in the periphery.[60] To the "old" wave of dependency theory, the national bourgeoisie was simply seen as compradors – agents of foreign domination.

The "new" wave of dependency writing inspired by Fernando Henrique Cardoso focused on the relationship between the state, foreign and local firms.[61] This is what Peter Evans refers to as the triple alliance.[62] The strategy of dependent development – essentially the phase of ISI in which MNCs came to play an expanded role, resulted from a particular transnational class coalition, with the MNCs as most powerful. The power of the MNCs within the triple alliances stemmed from the flexibility inherent in transnational

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[57] Evans, Peter (1982), "Reinventing the Bourgeoisie: State Entrepreneurship and Class Formation in Dependent Capitalist Development", *The American Journal of Sociology*, Vol. 88, p.210.

[58] Ibid, p.211.

[59] Chibber, Vivek (2004), "Reviving the Developmental State? The Myth of a National Bourgeoisie", Department of Sociology, University of California, Los Angeles, *Theory and Research in Comparative Social Analysis*, Paper No.20. Chibber review the notion of a national bourgeoisie and argues that it is more of a myth in the current global situation such that national development strategies will have to generate a new kind of politics, p.18.

[60] Grosfoguel, Ramon (2000), Op Cit p.360.

[61] Cardoso, H, Fernando (1973), "Associated – Dependent Development: Theoretical and Practical Implications in Alfred Stepan, (ed.) *Authoritarian Brazil* (New Haven: Yale University Press).

[62] Evans, Peter (1979), *Dependent Development: The Alliance of Multinationals, State and Local Capital in Brazil*, (Princeton, N.J: Princeton University Press).

organisation, the weight they had in the national economy, particularly in the most dynamic sectors. The economic problems attributed to dependence on foreign firms are numerous: the introduction of inappropriate products, patterns of consumption, technologies and production processes, undesirable trade behaviour, particularly – transfer pricing.[63]

Thus, LDCs remained dependent, in fact, intensified their dependence in the ISI period. But as Stephan Haggard notes, the preoccupation with dependence deflects attention from the central theoretical question: under what conditions will the state supplant foreign investments in strategic sectors, support local capital in doing so, or tighten its regulatory grip? [64] Colin Leys provides part of the solution as to how to study and theorise the conditions under which other peripheral countries have and others have not experienced significant measures of growth.[65] In particular, the focus should be on the process of domestic capital accumulation, which has formed the basis for the constitution of one particular class. The argument is that what produces underdevelopment is not the "transfer of surplus" appropriated from the periphery, a transfer is an effect of structures at the periphery which militate against the productive investment of the surplus at the periphery.[66]

In the current global context, attaining enabling conditions for accumulation of capital remains difficult. One solution would be to reinvent the local bourgeoisie. But as Peter Evans observes in the case of Brazil, reinventing the local bourgeoisie is problematic. In Brazil, the economic constraints created by the regime's commitment to abide by the "normal" rules of internationalised oligopolistic competition made it difficult for the state to promote the interests of local capital. [67]

Dependency critique was that developmentalism had a tendency to ignore how domestic political forces constrain economic policy and shape state responses to the external environment, downplay the critical role of the state in development. States in the Third World are not merely comprador states. Developing countries have witnessed state intervention because governments had to perform more functions in order to trigger

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[63] Haggard, Stephan (1990), *Pathways from the Periphery: The Politics of Growth in the Newly Industrialising Countrie*s, (Ithaca, London: Cornell University Press).
[64] Ibid p.22.
[65] Leys, Colin (1978), "Capital Accumulation, Class Formation and Dependency", *Socialist Register*, p.245-5
[66] Ibid, p 246.
[67] Evans, Peter (1982), Op Cit, pp 211-2.

industrial growth. Down-playing the critical role of the state in development by dependency theory was a result of its failure to study and understand class relations in the periphery concretely and the genuine gains in economic strength that have become apparent recently in several Third world countries with the help of state intervention. Alice Amsden notes that some developing countries, due to their size, manufacturing, know-how and human capabilities have managed to beat the system.[68] Finally, dependency theory did not question the justification for developmentalism and accepted the superiority of industrial progress, technology and methods of production. Perhaps the most controversial proposition by dependency theorists was the suggested solution: socialist industrialisation alternative as the new form of social and economic organisation for LDCs.

2.2.5 The Socialist Model and Industrialisation

Several Third World countries were attracted to what was thought to be a "socialist" model of industrialisation that would transform their economies from dependent capitalism to dynamic self-sustaining economies. The attempt at socialist industrialisation in LDCs was based on one of the policy alternative advanced by dependency theory – de-linking. Several less developed countries saw the need to de-link as far as possible from the international economy and pursue self-reliance, while nationalising the economy to stem the likely outflow of capital this would incur. Here, we briefly review the origins of the socialist model, its component parts, assumptions, practices and limitations of socialist industrialisation in LDCs.

The socialist experiments in the Third World were informed by several experiences and convictions. Socialist development experiments in LDCs are viewed as a logical outcome of the failures of dependent capitalism and as nationalist reactions to imperialism and underdevelopment.[69] Domestically, the ruling classes, particularly the "national" bourgeoisie were regarded as puppets of foreign interests.[70] The solution to this failure was to institute socialist industrialisation. Drawing from the experience of Soviet Union, Paul Baran argued for socialist industrialisation, though not at the expense of agriculture,

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[68] Amsden, H. Alice (2003), "Comment: Good-bye Dependency Theory, Hello Dependency Theory", *Studies in Comparative International Development*, Spring Vol.38, No.1, p. 37.
[69] Fagan, R., Deere, D., and Coraggio, J., (eds), (1986), *Transition and Development: Problems of Third World Socialism*, (New York: Monthly Review Press).
[70]Leftwich, Adrian (1992), "Is there a Socialist Path to Socialism?" *Third World Quarterly*, Vol.13, No.1 p.35

both of which were prominent parts of Soviet industrialisation.[71] Industrialisation was seen not merely as the establishment of conventionally defined industries but as a comprehensive process of both social and technical change throughout the whole economy. Industrialisation was seen as providing the most effective means of dissolving the ties of dependence and defending LDCs against hostile international pressures – military, political and economic.[72] Samir Amin advocated for a self-reliant economy – one in which there is complete circuit of capital internally since it produces its own capital goods.[73]

Second, the socialist model of development entailed five major elements: nationalisation of industry, socialisation of agriculture, abolition or limitation of markets, state control of the distribution of goods and services and establishment of a comprehensive planning system.[74] In most cases in the Third World, the system of ownership of means of production was such that the government and the bureaucracy controlled all aspects of the economic organisation or partially by allowing collective ownership through co-operatives with minimum private ownership. The key feature of decision-making in a socialist economy is through central plan. Typically, a central planning agency sets out production targets for goods and services over a period of a few years and how these goods and services will be distributed through allocation. A key feature of centrally planned economic system is that the price mechanism has a limited role. The central planning body makes the vital economic decisions and then implements them in form of output targets for enterprises, which are owned by the state. Overall, central planners allocate state-owned resources towards particular areas of production.

For most of LDCs, drawing on the experience of Soviet Union, state-owned resources came to be directed at establishment of heavy industry and the production of capital goods using highly mechanised capital-intensive techniques of production. The adoption and practice of socialist industrialisation in the Third World was problematic in a number of ways.

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71 Baran, Paul (1952), *The Political Economy of Growth….p.*
72 White, Gordon, Murray Robin and White Christine (eds), (1983), *Revolutionary Socialist Development in the Third World,* (Brighton: Wheatsheaf Books, Harvester Press), p.11.
73 Amin, Samir (1974), "Accumulation and Development: A Theoretical Model", *Review of African Political Economy,* No.1.
74 Colburn, D., Forrest and Rahmato Dessalegn (1992), "Rethinking Socialism in the Third World", *Third World Quarterly*, Vol.13 No.1, p.159.

First, the context of the Third World was inadequate for socialist industrialisation. This is because "socialism is not only a developmental process, but a societal state arising out of prior developments. It presupposes a secure material – industrial base", which were in short supply in Third World countries.[75]

Second**,** state ownership of means of production and centrally planned industrialisation in the Third World was difficult given the inadequacy in bureaucratic capacity. Planned growth demands effective institutional structures, particularly of information gathering. The collection, processing and transmission of information through a hierarchical structure were very costly and unsound. Increasingly, state intervention came to lead to the growth of an unproductive bureaucracy.

Third, the socialist economic system that was established was unable to develop and implement new technologies and methods of production. The nature of the transfer of technology did not differ much from that of the non-socialist Third World economies. Much of the technology imported remained unchanged and outdated with no vigorous catch-up processes.[76]

Fourth, the structure of production inherited from colonialism was heavily oriented to export of cash crops and minerals (raw materials) and could not easily be re-oriented towards local needs and industry. These were fragile economies that depended on international trade. They had to develop under adverse internal and external conditions. They faced many of the external constraints as their non-socialist counterparts: distorted political economies, weak base of available resources, dependence on a few commodities and balance of payments deficits. They as well needed raw materials, wider markets for finished products or import of advanced technology.[77] Attempts at autarkic policy favouring economic diversification would have to contend with local markets being insufficiently large, particularly in small countries, to justify investment in certain lines of production where economies of scale may be crucial. There was therefore no possibility of escaping dependence on generating export earnings.[78] They had to trade, borrow and deal with the material culture of capitalism.[79]

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75 Leftwich, Adrian (1992), Op Cit, p. 39.
76 Oyzerman, Theodore, (2003), "Marxist Concept of Socialism and Real Socialism", *Social Sciences*, Vol.34, No.1, p.38.
77 White, Gordon., et al (eds), (1983), Op Cit, p. 15-18.
78 Colburn and Rahmato (1992), Op Cit, p. 165.
79 Fagen, R., et al (eds), (1986) Op Cit, p. 14.

Despite the difficulties of constructing socialism in the context of the Third World conditions, some advances were made in terms of industrialisation in most "socialist" countries. Several countries experienced quantitative as opposed to qualitative rapid industrialisation with largely little innovation in industrial processes resulting in the inability to implement new technologies and methods of production.[80] In Tanzania, for instance, there was substantial growth in industry from a very low base but it was largely of the classic ISI variety, or rather of import reproduction with limited technological innovation.[81] At the same time as in the case of other "socialist" Third World countries, the Tanzanian state was beset by unfavourable economic conditions and failed to alter the fundamental causes of dependence and poverty.

Perhaps, the most successful case of socialist industrialisation has been that of China.[82] After the 1949 revolution, China embarked on a conscious process of industrialisation. There were particular favourable policies towards private capital. The basic guidelines of policy were "utilisation, restriction and gradual transformation" of the private sector. Industrialists and merchants were defined as the "national bourgeoisie", an ally against imperialism contrary to their conception as "compradors" by the dependency theory. But this was only for a short period.[83] By the 1960s, the industrial sector had gradually been incorporated into the new system of planned production and distribution.[84] The record of 1960s and 1970s suggests the growing incapacity of state institutions to direct the economy in socially productive ways through the traditional mechanisms of political mobilisation and bureaucratic control. This changed in the 1980s as the reform policy emphasised selectivity.

The Chinese experience on the state's role in industrialisation process brings out a number of lessons.[85] First, the need to resist any simple, ahistorical generalisations about the economic impact of state intervention and support the case that different forms and degrees of state involvement are appropriate at different stages of the industrialisation process, with traditional directive methods having relevance and effectiveness in initial

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[80] Oyzerman, Teodore (2003), Op Cit, p.38.
[81] Freund, W. M., (1980), "Class Conflict, Political Economy and the Struggle for Socialism in Tanzania", *Africa Affairs*, p.486.
[82] The overview is concerned with the efforts to industrialise under socialism prior to the Post Mao economic reforms beginning in 1978.
[83] White, Gordon and Wade, Robert (eds), (1986), *Developmental States in East Asia*, *IDS Research Reports*, No.16, Institute of Development Studies, University of Sussex, UK, p.208.
[84] Ibid, p.211.
[85] Ibid, p.261.

periods of basic construction of structural change. Second, all stages, not merely in more 'mature' phases of industrialisation, state involvement need to be selective in scope of involvement, whether in terms of types of economic decisions or of different economic sectors. More flexible forms of involvement should be adopted, notably between directive and guidance methods. Third, there is need to strike a balance between state agencies and productive units. Finally, questions of economic management and reform in state socialist context are deeply political and not susceptible to merely technical solutions.

Overall, most Third World "socialist" states faced several constraints, both historical and institutional in their efforts at industrialisation. Perhaps the most critical was the generalised nature of state intervention whereby the most important and concentrated centres of production were nationalised as were houses of capital, commerce and foreign trade. The state became landlord, industrialist, banker and merchant, all at the same time, which could only lead to compounded inefficiency.[86]

In general, the ideology of developmentalism and the idea of the interventionist state is inseparable. From the 1950s to 1970s, development analysts and policy-makers, implicitly or explicitly, viewed the state as the primary mechanism of overcoming certain major constraints inherent in the domestic and international context of the "new nations". Where nation states were weak or non-existent, they had to be "built".[87] With the persistence of dependence and generalised economic crises in the 1970s, both in the "socialist" and non-socialist Third World countries, there emerged a critique of the variant developmentalism from the neo-classical theory, particularly of state interventionism.

2.2.6 The Failure of Developmentalism and the Rise of Neo-Classical Theory

Both structuralism and dependency theories and their "socialist" variants through various policy decisions, particularly unselective state intervention, produced inefficient programmes of industrialisation such that by the 1970s economic crisis had set-in most of the Third World. This discredited interventionist policies resulted into a return to market theory. The new policies went back to neo-classical economic theory that claimed

[86] Colburn and Rahmato (1992), Op Cit, p.161.
[87] White, Gordon (1984), "Developmental States and Socialist Industrialisation in the Third World", *Journal of Development Studies*, Vol. 21(1).

that the only way to restore growth and economic stability was to remove most of the state's power to control prices and allocate economic resources and transfer decisions to competitive markets.

Central to neo-classical theory is the notion of comparative advantage that, if it exists, will lead to efficient reallocation of international resources, largely due to specialisation and the division of labour. According to neo-classical theory, the market is at its best an automatic mechanism, which ensures an efficient and pro-developmental allocation of resources as opposed to the contention that the market left unguided will in many cases, fail to produce that benevolent output.[88]

As far as industrialisation is concerned, neo-classical theory puts stress on export-oriented industrialisation (EOI). EOI is defined as a set of trade and industrial policies, which do not discriminate between production for domestic market and exports, or between the purchases of domestic goods and foreign goods.[89] Here we examine the institutional mechanism through which EOI has been practiced including: foreign direct investment (FDI), export processing zones (EPZ) value chains and upgrading as policy instruments that would bring about growth and development in LDCs. This seeks to answer one key question: who are the key movers in EOI? : EPZs, export subsidies, FDI, credit to upgrade exports?

2.2.7 Export-Oriented Industrialisation (EOI)

Neo-classical economics makes a basic distinction between "inward-looking" and "outward-looking" regimes of trade and finance, roughly equivalent to "import substituting" and "export promoting". The two sides of the distinction are treated as mutually exclusive and are the point of the liberal prescriptions.[90] To the neo-classical school, ISI was a failure mainly because it was inward-looking. The verdict of the failure of ISI gained force when an alternative phenomena emerged which showed all signs of success. Countries that switched emphasis during the 1960s to EOI, particularly in East Asia, achieved the most remarkable rates of economic growth.[91] Given the startling

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[88] Wade, Robert (1986), "State Intervention in 'Outward-looking' Development: Neo-classical Theory and Taiwanese Practice", in White, Gordon and Wade, Robert, (eds), (1986), *Developmental States in East Asia*, *IDS Research Reports* Rr, No. 16, University of Sussex, p.26.
[89] Chowdhury, Anis and Islam, Iyanatul (1993), *The Newly Industrialising Economies of East Asia*, London and New York: Routledge, p.4.
[90] White, Gordon, and Wade Robert (1986), Op Cit, p.3.
[91] Schmitz, Hubert (1984), Op Cit, p.9.

success of East Asian countries, EOI proponents hold this alternative as the "pathway" that should be followed by all countries wishing to industrialise.[92]

Under EOI, market forces supposedly determine the type of production that will take place, producing within a country's comparative advantage and consequently at lower domestic resource costs per unit of foreign exchange than ISI. For a successful EOI, the role of the state is essentially to stay out of the way and not grant favourable incentives (or discriminatory disincentives) to any particular sector of the economy.[93] The policy prescription of EOI strategy is based on a number of assumptions. First, that export penetration will enable firms to overcome the constraints on sales imposed by absolute size and dynamism of the domestic market. Second, that exporting, by exposing firms to foreign competition, technology and marketing, can lead to productivity gains that would not be obtainable from sales in the domestic market. Third, that exports allow access to imports that can be purchased with the foreign exchange they generate. Fourth, that if an export-oriented strategy attracted FDI that would not have come to the economy under an import substitution regime, there will be further benefits that go beyond the monetary value of increases in exports.[94]

The neo-classical explanation and policy prescriptions are based on the claim that East Asian success was due to the adoption of the "right" policies, by liberalising imports, adopting "realistic" exchange rates and providing incentives for exports, reliance on market forces and integration into the World economy that yielded results superior to the protection and dissociation from the World economy.[95] According to Krueger[96] the essence of an export promotion strategy is to "systematically promoting exports" in addition to a liberalised trade and payment regimes. The mere absence of an import-substitution bias would not provide such a systematic push. Two questions remain though: 1) whether successful EOI was due to such policy prescriptions and 2) whether

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92 Gibson, Martha (1992), "Export Orientation: Pathway or Artefact?", *International Studies Quarterly*, 36, p331.
93 Ibid, p.333.
94 Weiss, John (2005), "Export Growth and Industrial Policy: Lessons from the East Asian Miracle Experience", Asia Development Bank Institute, *Discussion Paper*, No.26. pp 9-10.
95 Prominent for the explanation are several scholars: Balassa, B and Associates, (1981), *The Structure of Protection in Developing Countries*, Baltimore: John Hopkins Press, Bhagwati, J.N., (1978) *Foreign Trade Regimes and Economic Development: Anatomy and Consequences of Exchange Control Regimes,* Cambridge, Mass.: Ballinger Press, Krueger, Anne (1978), *Foreign Trade Regimes and Economic Development: Liberalisation Attempts and Consequences*, Cambridge. Mass. : Ballinger Press among others.
96 Krueger, Anne (1978),Op Cit, p.282.

EOI can provide a successful strategy for all countries as many of the proponents suggest.

The conception that categorises the policy of states following the EOI strategy as non-interventionist is particularly problematic and the association of export-orientated strategies with free-market policies is, likewise unfounded.[97] An examination of the historical, social and political contexts of these countries suggests that these contexts were major determinants of the success of such a strategy. As was the case of South Korea, a very conscious and directed set of economic policies including uniform exchange rates, tax exemptions for exporters, reduced prices for inputs and access to credit for investment were implemented.[98] Second, a significant proportion of the increased LDCs' exports came to be carried out by foreign subsidies or by local producers which were sub-contracted by foreign manufacturers or trading house.[99]

The Newly Industrialising Countries (NICs), development was a result of a set of international circumstances, particularly relatively favourable access to international markets and international finance.[100] This was in the context of a buoyant transnational banking market that developed over the 1960s and 1970s, specialising in borrowing and lending of currencies outside the country of issue, commonly known as the "Euro-dollar" market. The access to this private capital market allowed countries, which obtained large volumes of credit to avoid the influence of IMF conditionality on economic policy.[101] In the 1970s the poorest countries were unable to follow the strategy, as they were subjected to the IMF/World Bank stringent conditions as sources of finance. Thus, the key to the introduction of an export-led strategy among the NICs was the availability of capital from Japan and USA coupled with creation and access to

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97 Several studies on East Asian Industrialisation has adduced evidence to the contrary. Among these are: Amsden, Alice (1989), *Asia's Next Giant: South Korea and Late Industrialisation*, New York and Oxford: Oxford University Press, Wade, Robert, (1990), *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialisation,* Princeton, N.J: Princeton University Press and Haggard, Stephan, (1990), *Pathways from the Periphery: The Politics of Growth in the Newly Industrialising Countries*, Ithaca and London: Cornell University Press.

98 Gibson, Martha (1992), Op Cit, pp 232-4.

99 Schmitz, Herbert, (1984), Op Cit, p.10.

100 Bienefeld, A., Manfred (1982), "The International Context for National Development Strategies: Constraints and Opportunities in a Changing World", in Bienefeld M., and Godfrey Martin (eds), *The Struggle for Development: National Strategies in an International Context*, (New York: John Wiley & Sons Ltd), pp 25-64.

101 Schmitz, Herbert (1984), Op Cit, p.11.

markets for manufacturing in Japan and the NICs, especially during the Korean and Vietnam wars.[102]

To the neo-classical school, the state should remain "neutral" and not intervene in the economy. Yet, one of the key conditions for the development of successful export-oriented industrialisation strategy in East Asia was a strong institutional state linked to the business community with a certain level of embeddedness and able to adopt and fully implement the necessary policy reforms.[103] The state control over industrial development is held to have been extensive and decisive in bringing about economic growth in East Asia. The NICs were not the liberal, market-oriented economies they appeared to be.[104]

There is a tendency to present import substitution and export-orientation as mutually exclusive. Yet, ISI must be seen as a precondition for successful export-led growth. Successful exporters were countries in which import substitution was relatively successful in building up an industrial structure, which was not merely limited to local production[105]. The exporting states, as a primary prerequisite to effective involvement in exports, were to bring institutional changes to enable more industries to export. To do this the states evolved an autonomous state strategy whose objective was to upgrade domestic firms by selective restrictions of FDI and the use of technology imports with foreign participation largely limited to targeted sectors, with complex industrial policies that encouraged upgrading.[106]

The prescription of EOI to Third World countries in the current global conditions is less than optimal. This is because the policy confronts several limitations both theoretical and contextual. The international conditions under which the East Asian NICs prospered no longer obtain. Second, the protectionism in advanced countries discriminates most severely against LDC manufactures. Third, most of the Third World government lack political autonomy, which is a major factor in their ability to undertake many of the policies required in order redirect the economy.[107]

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[102] Stubbs, Richard (1999), "War and Economic Development: Export-Oriented Industrialisation in East and Southeast Asia", *Comparative Politics*, Vol. 31 No.3 (April) pp. 344-347.
[103] Ibid, P.340.
[104] Wade, Robert (1990), Op Cit.
[105] Schmitz, Herbert (1984), Op Cit, p.13.
[106] Narula, Rajneesh (2002), Op Cit, p.5.
[107] Gibson, Martha (1992), Op Cit, p 335.

In summary, it could be argued that ISI is a pre-condition for successful export-led growth under particular political conditions. Whereas the development debate has conceptualised ISI and EOI as an either or proposition, in reality export-oriented policies are not necessarily in direct competition with import-substitution policies. Both can be performed simultaneously and often are. The dichotomy between export-orientation and import-substitution is not a necessary dichotomy. Not only is the putative success of EOI a misrepresentation of the actual experience of the Asian countries, it distorts the perception of what is possible and desirable for other developing countries around the world.[108] As Nen Liang observes, the NICs actually pursued an infant industry based export-oriented, "protected export promotion" strategy, not the commonly perceived static comparative advantage – based "export promotion" strategy, their protectionist policies are not mere exceptions, but integral elements of their export-oriented strategy.[109] Below we examine the institutional mechanisms employed to advance the EOI strategy thus: FDI, EPZ and upgrading the value chain.

2.2.8 Foreign Direct Investment (FDI)

FDI is one of the presumed institutional mechanisms linking export-orientation to growth as it is based on the transfer of state of the art technology normally required to compete successfully in the world market for manufactures.[110] It is based on the assumption in neo-classical economics that of the FDI "spillovers". The spillovers concept suggests that after a certain threshold is reached in terms of the level of inflow of FDI to a host country, a number of benefits in form of technology transfer, production linkages, the training of human resources and local entrepreneurial development, among others "spillover" into the host economy.[111] Thus, FDI brings to the recipient country not only capital and foreign exchange but also managerial ability, technical personnel, technological knowledge, administrative organisation and innovations in products and production techniques.[112] It is on the basis of these presumed benefits that FDI has been prescribed to all Third World countries as a vehicle

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108 Ibid, p. 342.
109 Liang, Neng (1992), "Beyond Import Substitution and Export Promotion: A new Typology of Trade Strategies", *The Journal of Development Studies*, Vol.28, No.3, April, p.447.
110 Thorbecke, Erik (2005), "The Evolution of the Development Doctrine" mimeo, p.21.
111 Mortmore, Michael, and Vergara Sebastian, (2004), "Targeting Winners: Can Foreign Direct Investment Policy Help Developing Countries Industrialise?" *The European Journal of Development Research*, Vol.16, No.3, autumn, p.500.
112 Meier, Gerald (1985), *Leading Issues in Economic Development*, 4th edition, New York: Oxford University Press, p.324.

for industrialisation. A close look at successful exporters suggests that such benefits are not automatic.

Most countries that succeeded in exports had particular institutions nationally which enabled them to implement such policies. First, the composition of foreign capital is more important than volume since they lead to different dynamics. Barbara Stallings, while contrasting East Asian and Latin American experiences, notes that the dominant source of foreign capital was FDI in the later.[113] As implied by the term itself – investors maintained direct control over their assets. This control meant that foreign capitalists acquired a great deal of economic and even political power vis-à-vis the state and local capital, thus limiting the growth of domestic capitalist capacities in Latin America.

Given that the purpose of foreign capital is to further the interests of those who provide it, development of the host country is a fortuitous side effect at best which will only come about if the host government maintains enough autonomy and control to guarantee that the benefits are shared between providers and recipients of foreign capital.[114] This was not the case for most Third World states. Instead, the issue involved in foreign investment as seen from the perspective of government officials in such states, is simply to extract the greatest personal share from whatever wealth or income that might be generated by the private actors.[115]

The positive effects of FDI are not automatic for host countries and depend on the instituted policies and other factors such as historical and structural distinctions within states. Stephan Haggard argues that variations in the role of foreign capital among countries pursuing similar strategies must be explained by the political and economic threats foreign firms pose, the level of development by local firms when MNCs enter and the political links between the private sector and the government.[116] What differentiates the East Asian states from other LDCs is that they instituted domestic policies that enabled them to benefit from FDI. In Taiwan, for instance, domestic

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113 Stallings, Barbara (1990), "The Role of Foreign Capital in Economic Development", in Gereffi Gary and Wyman, Donald (eds), *Manufacturing Miracles: Paths of Industrialisation in Latin America and East Asia*, Princeton, NJ: Princeton University Press, p.81.
114 Stallings, Barbara. (1990), Op Cit, p.84.
115 Lauridsen, Laurids (2004), "Foreign Direct Investment, Linkage Formation and Supplier Development in Thailand during the 1990s: The Role of State Governance", *The European Journal of Development Research* Vol.16, No.3, autumn, p.563.
116 Haggard, Stephan (1990), Op Cit, p.194.

producers in selected sectors were protected not only from imports competition but also from foreign firms operating in the domestic market.[117]

To benefit from FDI, the government must ensure that dynamic interaction with FDI becomes part of the national development strategy. The centrepiece in the interest in FDI is acquisition of technology. The adoption of foreign- invented technology has proved to be a condition for industrial development. Again the transfer of technology cannot happen passively without the active participation of government. Beneficial spillover effects and enhancement of industrial development are dependent upon governmental strategies.[118] How much of the aggregate benefits of FDI spread throughout the economy – depends on "linkage" effects of FDI or local sourcing by foreign firms. The central problem for the recipient country, therefore, is how to devise policies that will encourage a greater flow of foreign resources and at the same time ensure that it makes the maximum contribution to the achievement of development objectives.[119]

To capture the spillovers, the successful exporters have adopted the "target winners" strategy as opposed to "picking winners" strategy of ISI.[120] In practice, the government targets lead MNCs whose corporate strategies are more attuned to their developmental circumstances and industrial aspirations, in order to locate nodules of their international systems of integrated production into the economy. The idea is to implement national policies that will convince, cajole or incentivise the MNCs into improving and upgrading those capabilities to sustain more technologically sophisticated industrial activities producing more benefits for the domestic companies and employees in the process.

While FDI is desirable for the late industrialising countries, the benefits can only be realised within a particular institutional context. The view that FDI shall lead to technology "spillover" automatically may be mistaken. One of the reasons for the failure of several countries to benefit from FDI is that they did not construct institutions for the transfer of technology and creation of alternative sources of financing industrialisation.

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117 Wade, Robert (1990), Op Cit, p.148.
118 Soreide, Tina (2001), "FDI and Industrialisation: Why Technology transfer and New Industrial Structures may Accelerate Economic Development", Chr. Michelsen Institute, Development Studies and Human Rights, *Working Paper*, 3, p.13.
119 Chowdhury, Anis and Islam, Iyanatul, (1993), Op Cit, p.108.
120 Mortimore, Michael and Vergara (2004), "Targeting Winners: Can Foreign Direct Investment Policy help Developing Countries Industrialise? *The European Journal of Development Research*, Vol.16, No.3, p.500.

Below we examine the promise of Export Processing Zones (EPZ) for the industrialisation of Third World Countries.

2.2.9 Export Processing Zones (EPZ)

EPZ is part of the "big push" strategy into export markets. It has been prescribed by the neo-classical theorists to Third World states as the best way to attract FDI, manufacture and export cost-competitive products to the more prosperous markets of the developed world. EPZs are industrial estates where land, utilities, transport facilities and even buildings are provided by the government, at subsidised rates. Labour is frequently organised under government supervision and subjected to more stringent rules than those governing the work as a whole. The zones offer additional incentives, such as complete tax holidays, unlimited profit repatriation and duty free entry of goods destined for exports.[121]

According to neo-classical theory, EPZs provide exceptional opportunities to improve free market activities and to exploit comparative economic advantage.[122] The firms in EPZs have to export all their production in return for enjoying duty-free and tax free imported inputs, good infrastructure facilities and simplified administrative procedures for trade and remittances.[123] It is suggested that EPZs produce benefits for the host country by attracting FDI, generating employment, increasing exports, and promoting economic linkages via technology transfer and use of local materials, hence bring about industrialisation.[124] The concern here is to examine the extent to which EPZs can be a mechanism for the industrialisation of LDCs.

The adoption of export-led growth strategies by developing countries is directly responsible for the considerable expansion of EPZs in recent years. Beginning with the establishment of the first EPZ (the Shannon Free Zone) in Ireland 1959, by the end of the 1960s, there were a dozen or so such zones, mostly in Asia (Taiwan, South Korea, Singapore, Hong Kong and India) and in Latin America (Mexico, Columbia and

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121 Haggard, Stephan (1990), Op Cit, p.201.
122 Gruebel, Herbert, (1982), "Towards a Theory of Free Economic Zones", *Review of World Economics*, Vol. 118, p.46-47.
123 Wade, Robert (1990), Op Cit, p.139.
124 Spinanger, Dean (1984), "Objectives and Impact of economic activity Zones – Some Evidence from Asia", *Review of World Economics*, Vol.120, p.65.

Dominican Republic). Subsequently, the concept spread and such zones multiplied both in the developing and in the developed countries.[125]

In general, the EPZs were important in the early period of the export-oriented strategy in the larger NICs, but their importance should not be exaggerated. Hopes pinned on such zones by developing countries as vehicles of industrialisation, are frequently excessive. As Stephan Haggard notes, in both Taiwan and Korea, the export take-off began before the construction of EPZs. In Taiwan, for instance, EPZs contributed 16% of exports between 1976 and 1980. [126]

Second, in terms of development, the objective of EPZs is to facilitate industrialisation particularly by attracting FDI, in terms of technological capacities and acquisition of skills for national workforce. This is because EPZs reflect the inevitable technological and organisational - (management, marketing) limitations of indigenous enterprise at the outset of industrialisation.[127] The transfer of technology through EPZs, however, has been less than optimal. The type and the forms of operation within EPZs seem to constitute an obstacle to the existence of significant technological transfer, activities largely correspond to stages of component assembly and sub-assemblies that are part of a global production process and value chain, the technically advanced elements which remain unavailable to local sub-constructors.[128] In effect, technology is not transferred as the principle behind the EPZs encourages the development of assembly plants requiring low-skilled labour and producing goods with low value added.

Third, countries establishing EPZs expect them to stimulate economic development through accelerating industrial growth and by providing employment. Other than the direct creation of employment in EPZs, the amplitude of effects induced in the rest of the economy depends on numerous factors such as the inward investment strategy adopted by the country concerned and its initial level of development.[129] Even then, given the objective of relying on low skilled labour for competitiveness, the quality of jobs created is rather low.

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125 Cling, Jean-Pierre and Letilly, Gaelle (2001), "Export Processing Zones: A Threatened Instrument for Global Economy Insertion?" *Document de Travail* (DIAL), DT/2001/17, November, p.10.
126 Haggard, Stephan, (1990*),* Op Cit, p.201.
127 Sannassee, R.V., and Pearce, Robert (2002), "Multinationals, Export Processing Zones and Development: The case of Mauritius", p.3 at http://www.aueb.gr/deos/EIBA 2002.files/PAPERS/C234.pdf
128 Cling and Letilly (2001), Op Cit, p.23.
129 Ibid, p.16.

The experience of economies where EPZs were established is that they did not lead to implanting of an industrialisation process. Neither were EPZs a bed of roses. In the practice of the EPZs, the labour force has been instead subject to repression. Through a combination of coercion and legislation, wages and working conditions have been kept artificially different from the rest of the economy: below average wages, long working hours, substantial dependence on low-skilled, female workers in order to maintain competitiveness.[130] As was the case in Korea, there was new legislation that extended special protection against labour disruption to foreign investors and firms in export processing firms. These varied new restraints on workers as seen in very slow real wage gains for workers during the early 1970s.[131]

The other limitation of EPZs prescription as a policy is the tendency to downplay the centrality of the state in their effective operation. In a study of Free Economic Zones (FEZ) in China, which are an equivalent to EPZs, while the large flow of foreign investment supports the market model of neo-classical economics, which attributes investment growth to government deregulation, this government regulation is selective and partial, reflecting the state policy to shape and isolate FEZs into special economic environments for foreign investment. [132]

In general, the expansion of EPZs has been mainly of benefit to a few emerging countries, located principally in Asia. The historical example of emerging Asian countries shows that the creation of free zones can in no way be considered to have been the central thrust of an industrialisation policy, but at best as a component of such a policy whose success depended on a number of objective conditions.[133] Below we briefly review recent experiences of industrialisation in sub-Saharan Africa.

2.3 Experiences of Industrialisation in Sub-Saharan Africa

The literature on industrialisation in sub-Saharan Africa has tended to focus on three issues: First, the failure of industrialisation in general, particularly the import substitution

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130 Chowdhury, Anis and Islam, Iyanatul (1993), Op Cit, p.167.
131 Deyo, Frederic (1990), "Economic Policy and the Popular Sector", in Gereffi Gary and Wyman, Donald, (eds), *Manufacturing Miracles*, p.187.
132 Chen, Xiangming (1994) "The Changing Roles of Free Economic Zones in Development: A Comparative Analysis of Capitalist and Socialist Cases in East Asia"*, Studies in Comparative International Developmen*t, fall, Vol.29, No.3, p.18.
133 Cling and Letilly (2001), Op Cit, p.5.

variety. Second, the on-going process of de-industrialisation under SAPs) and its policy prescriptions aimed at total liberalisation of the market, and third the literature that builds the case for industrial policy.

There is substantial literature on the failure of sub-Saharan Africa's industrialisation.[134] Inspite of the channelling of substantial resources to promote and establish manufacturing in sub-Saharan Africa, the manufacturing bases of most countries remain small.[135] The supposed failure of industrialisation is attributed to the policy of ISI adopted after independence. Lynn Mytelka attributes this failure to the views of the policy-makers on the industrialisation process.[136] African policy-makers equated industrialisation to mass production. Moreover, mass production of import-reproduction kind that went hand in hand with what has become known as "industrialisation by invitation" – efforts to induce capital engineering, management and marketing skills to flow from North to South.[137] Basically, African states adopted ISI in its static form. In a process of import substitution, production is not the sole end. Rather it becomes part of a more complex process of technological learning that encompasses product specification and design, process choice and change and the social organisation of production. Second, ISI came to be seen as a permanent, general and non-selective strategy, an end in itself, and not as a tactic in the industrialisation process. Yet, in the successful NICs, for instance, ISI was seen as temporary and intimately linked to EOI.

At another level, the failure to industrialise has been attributed to lack of technology policies.[138] It is argued that these policies remained largely implicit rather than explicit and that the current institutions for managing them are inadequate to the task. While these arguments often offer some explanation, they leave out the possible socio-political causes of the failure of state intervention through ISI to bring about industrialisation. The failure of ISI must be seen in the broader context of the failure of the governing elite to reconstruct the post-colonial state as well as its failure to understand the institutional and

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134 To mention a few among others: Mkandawire, Thandika (1988), "The Road to Crisis, Adjustment and De-industrialisation: The African Case", *Africa Development*, Vol.13, No.1, Mytelka, Lynn (1989), "The Unfulfilled Promise of African Industrialisation", *African Studies Review*, Vol.32, No.3, December, Vitta, B. Paul (1990), "Technology Policy in Sub-Saharan Africa: Why the Dream Remains Unfulfilled", *World Development*, Vol.18 No.11 and Himbara, David (1993), "The Failed Africanisation of Commerce and Industry in Kenya", *World Development*, Vol.22, No.3.

135 Riddell, Roger (1993), "The Future of Manufacturing Sector in Sub-Saharan Africa" in Callaghy, T, M., and Ravenhill, John, (eds), *Hemmed In: Responses to Africa's Economic Decline*, New York: Columbia University Press.

136 Mytelka, Lynn (1989), Op Cit, p.78.

137 Ibid, p.79.

138 Vitta, B, Paul (1990), Op Cit, p.1479.

political processes underlying effective state intervention. The African states, for instance, are seen as too incompetent to try any form of intervention.[139] In a situation where holding positions of power within the state apparatus is seen as an opportunity to acquire wealth,[140] where development is not a priority and the political instrumentalisation of disorder reigns, the Afro-pessimist view is that any form of state intervention to promote development is likely to end up in dismal failure.[141] However, there are always possibilities. Instead of reforming the whole state system, there is a possibility of developing "islands" of bureaucratic competence within particular institutions with the mandate of promoting industrialisation.

The pervasive use of parastatals (public enterprises) as agents of industrialisation was a dismal failure. The public sector under an unreconstructed state was assigned a dominant role in ISI strategy in much of sub-Saharan Africa and most of them ended in failure. David Himbara notes in the case of Kenya, that the state agencies created for this purpose failed to achieve their dual objectives of becoming architects of the private sector of African capitalism or consolidating themselves as viable instruments of state capitalism.[142] The main shortcomings were that the parastatal organisations possessed neither the technical skills nor the financial resources necessary to accomplish the goals. One point that the literature on public enterprises in Africa does not bring out is that their failure was not simply because they were public enterprises. Public enterprises were at the centre of industrialisation in the successful East Asian NICs, for instance. The underlying difference can be found in the institutional basis of the policy. The set of institutional and political arrangements in much of sub-Saharan countries were not compatible with approximate mix of state intervention and market orientation in the economy as was the case in the East Asian NICs.

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139 There is a whole range of literature on state failure in sub-Saharan Africa which include: Evans, Peter (1992), "The State as the Problem and Solution: Predation, Embedded Autonomy and Structural Change", in Stephan, Haggard and Robert, Kaufman (eds) (1992), *The Politics of Economic Adjustment: International Constraints, Distributive Conflict and the State,* (Princeton, New Jersey: Princeton University Press), Bayart, J,F (1993), *The State in Africa: The Politics of the Belly*, London: Longman., Bayart, J-F, Stephen, Ellis & Hibou, Beatrice (1997), *The Criminalisation of the State in Africa*, (Oxford: James Currey and Bloomington: Indiana University Press) and Chabal, Patrick & Jean-Pascal Daloz (1999), *Africa Works: Disorder as Political Instrument*, (Oxford: James Currey and Bloomington: Indiana University Press), among others.

140 Bayart, J-F (1993), Op Cit, p.87.

141 Chabal and Daloz (1999), Op Cit, pp 124-163.

142 Himbara, David (1993), Op Cit, p.469.

The second set of literature on African experience focuses on de-industrialisation under Structural Adjustment Policies and its prescriptions.[143] The common thread in this literature is that it challenges the neo-liberal assumptions underlying the industrialisation strategies for Africa. To reverse the current de-industrialisation process, there is need for more than just free markets. Howard Stein contends that the explanation for African industrial malaise is underdetermined in the sense that it misses fundamental structural causes.[144] Overall, the World Bank/IMF prescriptions will likely de-industrialise the existing manufacturing base in many African countries without encouraging any replacement. It is argued that while there are problems with the structure of industry in Africa, hoping that the market will solve the difficulties is no substitute for developing an industrial policy.[145]

The denial of a central role of the state by The World Bank and IMF by restricting it to dealing with law and order issues, yet the state has been so crucial in the process of late industrialisation, has accelerated the de-industrialisation process in Africa. African economies find themselves denied the use of the state. In the absence of indigenous capital, waiting for arrival of foreign investors has only led to stagnation and de-industrialisation.[146] Deborah Brautigam observes that in the case of Taiwan, the industrialisation support policies involved an extensive government role, while structural adjustment programmes in Africa are predicted on reducing the role of the state.[147] The hostility to the African state by SAPs precludes the state's crucial involvement to resolve market failures, which result in de-industrialisation.

Sanjaya Lall's concern with SAPs prescriptions for industry is with what it leaves out. While there should be no need for debate about the need for reform of African industry, SAPs prescriptions leave out the crucial element of skills and technical capabilities.[148] The chances of failure of SAPs in this context are greater. Lall suggests that given the

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[143] Among these are: Mkandawire, Thandika (1988), "The Road to Crisis…", Op Cit, Mkandawire and Soludo (1999), *Our Continent, Our Future: African Perspective on Structural Adjustment*, (Trenton: Africa World Press, Inc), Stein, Howard (1992), "De-industrialisation, Adjustment, the World Bank and IMF in Africa", *World Development,* Vol.20, No.1, Riddle, Roger (1993), "The Future of Manufacturing Sector in sub-Saharan Africa" in Callaghy, Thomas and Ravenhill John (eds), (1993), *Hemmed In:.,* Lall, Sanjaya (1995), "Structural Adjustment and African Industry", World Development, Vol.23, No.12 and Sachikonye, M Lloyd (1999), *Restructuring or De-Industrialisation? Zimbabwe's Textile and Metal Industries Under Structural Adjustment*, Research Report No.110, Africa Nordic Institute, Uppsala, Sweden.

[144] Stein, Howard (1992), Op Cit, p.83.

[145] Ibid, p.94.

[146] Mkandawire, Thandika (1988), Op Cit.

[147] Brautigam, Deborah (1994), "What Can Africa Learn from Taiwan? Political Economy, Industrial Policy and Adjustment", *The Journal of Modern African Studies*, Vol.32, No.1.

[148] Lall, Sanjaya (1995), Op Cit p.2022.

need to remedy market deficiencies to achieve sustainable industrial development, the first step in adjustment should be to improve the states intervention capabilities.[149] This is because both the "market-friendly" model, in World Bank mold, and the industrial policy model, require an exceptionally capable bureaucratic apparatus in order to work. [150]

Given the historical analysis of the African industrial performance and the experiences of industrial processes in other developing countries outside Africa, SAPs for industry is rejected.[151] What is needed is to be sensitive to both price and market signals, while not shunning the explicit promotion of manufacturing and the furthering of inter-linkages with other sub-sectors of the economy. Sachikonye adduces evidence in the Zimbabwean case on how SAPs had undermined several manufacturing sub-sectors before they had been prepared for international competition. [152]

A theoretical and empirical question remains though: is there a possibility of developing a viable industrial policy under SAPs? SAPs presuppose that economies should move in the direction of a liberalised market where the forces of supply and demand are the basis of allocation of resources in the economy. On the other hand, industrial policy implies state intervention in the process of resource allocation. But as Lall observes, there is scope for industrial policy left but under the new rules, it remains a grey area. Four ways are suggested through which African governments may overcome the restrictions on state intervention that come with liberalisation. First, much may depend on the skills of the government concerned in designing measures that are permitted or camouflaging ones that are not. Second, it is necessary to build strong government capabilities to deal with trade disputes in the World Trade Organisation (WTO), by developing the legal and economic expertise to deal with disputes that may lead to losing competitive advantage. Third, the management of the liberalisation processes, which offers one potential avenue for the exercise of industrial policy over the medium term. Finally, he suggests the application of technological capability approach, which suggests the need for gradualism in the liberalisation process. It proposes the removal of high, sustained and indiscriminate protection and other barriers to competition. The introduction of competition has to be subject to the time and resource needs of learning. [153]

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149 Ibid, p.2029.
150 World Bank (1993), *The East Asian Miracle: Economic Growth and Public Policy*, (New York: Oxford Press).
151 Riddell, Roger (1993), Op Cit, p.239.
152 Sachikonye, L (1999), Op Cit..
153 Lall, Sanjaya (2000), "Selective Industrial Policies in Developing Countries: Theoretical and Empirical Issues", *Working Paper* No.48, Oxford: Queen Elizabeth House, p.33.

To most African governments, this may be a Herculean task. Ironically, the case for infant industry is accepted by some World Bank studies. These are some of the loopholes in the system that should be exploited by African governments. Though limited, there remains scope for a selective industrial policy exercise in the African situation. The World Development Report conceded some ground on the need to have effective states in the development process.[154] The report's basic argument is that governments are now believed to be important and the priority is to make them work better rather than downsize them though it remains dogmatic on the issues of liberalisation. The enhancement of state capacity is now recognised as fundamental in the development process.

The third set of literature on African industrialisation is one that builds the case for industrial policy.[155] Sanjaya Lall raises the central question of the need for African industrialisation.[156] It is argued that instead of asking whether Africa should industrialise, it would be sensible to ask that: given the need for industrialisation, what sorts of industries should be set up, at what pace and most important, what action should be taken to ensure that they are operated efficiently? Roger Riddell raises a case for what he refers to as a "benign interventionist" policy, which would be sensitive to both price and market signals, while not shunning either the explicit promotion of manufacturing.[157] On the basis of historical analysis of African industrial performance and the experience of the industrial process in other developing countries outside Africa, Riddell rejects the underlying assumption of SAPs that forces of supply and demand, the market-determined price regime should determine and set pace for change in the structure of industrialisation in the economy. To Lall the problem with past intervention was non-selectivity and lack of strategy rather than the selection and strategy based on experience,

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154 World Bank (1997), *The World Development Report: The State in a Changing World*, New York: Oxford University Press.

155 These include: Riddell, Roger (1993), "The Future of Manufacturing sector in Sub-Saharan Africa" in Callaghy, T.M., and Ravenhill, John (eds), *Hemmed In: Responses to Africa's Economic Decline*, New York: Columbia University Press, Pack, Howard (1993), "Productivity and Industrial Development in Sub-Saharan Africa", in *World Development*, Vol.21, No.1, Lall, Sanjaya (1992), "Structural Problems of African Industry" in Stewart, Frances., Lall, Sanjaya., and Wangwe, Samuel (eds) *Alternative Strategies in Sub-Saharan Africa*, London: Macmillan, Lall, Sanjaya, and Stewart, Frances (1996), "Trade and Industrial Policy in Africa" in Ndulu, Benno, and Van De Walle, (eds) *Agenda for Africa's Economic Renewal*, Oxford: Transaction Publishers, Lall s., and Wangwe, Samuel (1998), Industrial Policy and Industrialisation in Sub-Saharan Africa" *Journal of African Economies*, Vol.7 Supplement 1, Owusu Francis, and Samatar, Abdi, Ismail (1997), "Industrial Strategy and the African State: The Botswana Experience" *Canadian Journal of African Studies*, Vol.31 No.2, and Mkandawire, Thandika and Soludo, Charles (1999), *Our Continent, Our Future: African Perspectives on Structural Adjustment*, Trenton, New Jersey: Africa World Press, Inc., among others.

156 Lall, Sanjaya (1992), Op Cit, p.106.

157 Riddell, Riddell (1993), Op Cit, p.239.

analysis and economic evaluation.[158] Wholesale ISI hardly paid attention to the need to reach international competitiveness. On the whole, the importance of socio-political bases for successful industrial policy is hardly considered. Proponents of industrial policy must take these issues into serious consideration.

2.4 Conclusion

This chapter set out to examine the broad literature on developmentalism and associated industrial policies in the Post-World War II Third World Economies. Prior to the review, we defined what constitutes an industry and industrialisation and noted that both concepts are context specific both local and global. The literature was discussed under six related themes. First, modernist developmentalism posited a modern sector acting as a pole of development from which the industrial revolution would eventually diffuse out to the rest of the Third World societies. We have observed that the diffusionist assumptions on the transfer of technology through "big push", pro-capital, pro-big, large scale manufacturing without concurrent institutions for creative and innovative adoption within the domestic economy, could not, by themselves, secure sustainable industrialisation process.

Second, the dominant thrust of the efforts to industrialise in LDCs was based on state intervention through ISI as a market oriented, state-led development strategy. While this strategy achieved relative success in a number of Third world economices by raising the share of manufacturing in their national products, it had several shortcomings in its practice. First, according to Fredrick List, there was need for infant industry protection which had to be temporary, selective and targted and not excessive. The "across-the-board" import substitution as practiced in the 1950s to the 1970s was a misapplication of the infant industry argument on which it was based. Second, ISI in practice was imitative which led to import reproduction that took the "product" as their point of departure rather than the purpose. Third, apart from the form of the ISI that was practiced being unselective and imitative import reproduction type, there was little effort to graduate from being infants to mature industry.

The third theme of the review examined the notion of socialist industrialisation as several LDCs adopted this model. This mode of industrialisation was seen by policy-makers as

[158] Lall, Sanjaya (1992), Op Citp 125.

providing the most effective means of dissolving the ties of dependence and defending LDCs against hostile international pressure – military, political and economic. It was noted that the adoption and the practice of socialist industrialisation in much of the Third World was less than optimum. We argue that "socialist industrialisation" failed mainly due to the fact that socialism is not only a developmental process, but a societal stage arising out of prior developments. It presupposes a secure material-industrial base, which were in short-supply in Third World countries.

Fourth, it is noted that the failure of ISI developmentalism and the "socialist" variants of industrialisation resulted in the emergence of the dominance of neo-classical discourse with its claim that the only way to restore growth and economic stability was to remove the state's power to control prices and allocate economic resources and transfer decisions to competitive markets. Neo-classical discourse, as far as industrial policy is concerned, puts stress on EOI practiced through the institutional mechanism of FDI, EPZ and value chain upgrading. The literature suggests a number of caveats on EOI. First, the conception that categories the policies of states pursuing EOI strategy as non-interventionist, is particularly problematic. Secondly, the association of export oriented strategies with free-market policies is likewise unfounded as the state was critical in the success of EOI, for instance, in East Asia. Third, the literature suggests that we should transcend the tendency to present ISI and export-orientation as mutually exclusive. ISI is a precondition for successful export-led growth under particular political conditions.

The literature brings out the reality that the experience of industrialisation efforts in most of sub-Saharan Africa was largely dismal as far as implanting industrialisation process is concerned. It was noted that inspite of the channelling of substantial resources to promote industrialisation in sub-Saharan Africa, the results have been dismal with very low levels of manufacturing. There are several reasons for the failure: 1) ISI was adopted in a static form. In the process of import substitution, production is not an end in iself as was practiced in much of sub-Saharan Africa. 2) Technology policies remained largely implicit rather than explicit and the institutions for managing them were inadequate to the task. 3) The set of institutional and political arrangements in much of sub-Saharan African countries were not appropriate for dynamic industrialisation.

In the final analysis, while industrialisation has been problematic in Africa and other Third World countries, the solution is not to abandon the idea of industrialisation but to rethink past industrial policies.

The above literature review has been at a broader level. The themes that have been reviewed shall be applied in chapter four which discusses Uganda's institutional foundations in the practice of industrial policy. What follows in the next chapter is the analytical and theoretical framework of the study.

CHAPTER THREE

3. ANALYTICAL AND THEORETICAL FRAMEWORK

3.0 Introduction

Over the past 50 years scholars in the field of economics, development and social sciences, in general, have been debating the efficacy of institutions in development applying several approaches. The first objective of this chapter is to set up the analytical framework and theoretical assumptions in the study of industrialisation. The second objective is to suggest a framework within which we can develop and offer alternative explanations for the failure to pursue successful industrialisation in Uganda type of economies.

Prominent among the approaches to the study of industrialisation are modernisation and dependency theories. This chapter shall not repeat the theoretical discussion of the modernisation and dependency theories which were examined in chapter two. A detailed discussion in this chapter shall be focused on three approaches, namely: 1) structuralism 2) neo-liberalism and 3) institutional political economy.

3.0.1 Structuralist Approach

Structuralism as an approach emerged out of Latin American intellectual movement spear-headed by Raul Prebisch,[1] based on the notion that undeveloped economies were characterised by pervasive market failures. Prebisch introduced the notion of an industrial, hegemonic Centre and an agrarian, dependent Periphery as a framework for understanding the international division of labour. He hypothesised that the two elements were related by a process of unequal exchange based on structures, blockages and imbalances, hence the name "structuralism". Assuming a greater rate of technological innovation in industrial countries, he argued that there were different responses to the behaviour of the business cycle by primary exporters and by manufacturers resulting in secular effects.[2] For development to occur in the Third

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[1] Prebisch, Raul (1950), *The Economic Development of Latin America and its Principal Problems*, New York: United Nations.

[2] Love, L, Joseph (2005), "The Rise and Decline of Economic Structuralism in Latin America: New Dimensions", *Latin American Research Review*, Vol.40, No.3, October, p.101.

World, there was need for the removal of the blockages and imbalances vis-à-vis the Centre and embark on industrialisation.

To the structuralists, the presence of widespread and pervasive market failures implied that state intervention was critical for the success of the development project.[3] Structuralism had two major assumptions. First, for the early structuralists, industrialisation was seen as the single most objective in the development programme, since historically the process was associated with rapid economic growth and high per capita incomes. Second, industrialisation seemed to offer a partial solution to employment requirements.[4]

In the 1950s and 1960s, structuralism became popular with both theorists and policymakers and made three major contributions to development theory and policy. First, it drew attention to the significance of capital accumulation, externalities in the process and the importance of manufacturing in economic growth. According to structuralism, industrialisation would ensure more rapid transfer of technology and absorption of labour. Second, it illuminated the dangers of a strategy that involved indiscriminate integration into the free international division of labour, particularly for a country in the early stages of development.[5] Third, the state-led ISI strategy as advanced by structuralism, achieved relative success in a number of Third World economies by raising the share of manufacturing in their national products.[6]

The application of the structuralist schema in most of the Third World economies came to suffer from two major weaknesses: 1) indiscriminate protectionism and 2) a naïve conception of the state as well as the political processes underlying effective state intervention.[7] This resulted in several negative outcomes.

First, due to indiscriminate protectionism, ISI contributed to inflation because of monopolistic elements in the domestic market for industrial goods. There was the protection of manufacturing sector as a whole, where as the "infant-industry" argument

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[3] Onis, Ziya (1995), "The Limits of Neo-liberalism: Towards a Reformulation of Development Theory", *Journal of Economic Issues*, Vol.XXIX, No.1 March, p.98.
[4] Love, Joseph (2005), Op Cit, p.102.
[5] Onis, Ziya (1995), Op. Cit, p.105.
[6] Schmitz, Herbert (1984), "Industrialisation Strategies in Less Developed Countries: Some Lessons of Historical Experience", *Journal of Development Studies*, Vol.21, No.1 October, p.2.
[7] Onis, Ziya (1995) Op.Cit, p.99.

suggested the need to disaggregate the manufacturing sector and to provide protection to a few sectors at a time.

Second, the ISI protectionist policy did not have a "sunset clause" – a given time horizon on protection. Domestic as well as foreign firms in sheltered industries often became highly efficient at rent-seeking, hiding behind tariff walls, or other forms of protection which allowed grossly inefficient industries to arise. ISI distorted price signals and punished exporters when the policy was pursued through single, overvalued exchange rate or a multiple rate favouring importers of industrial equipment and inputs.[8] Finally, ISI was seen as an end in itself by most policy makers and entrepreneurs. Yet, successful exporting nations in East Asia went through ISI first, as part of a sequence leading to export substitution.

The second major weakness of structuralism was the naïve conception of the state. Structuralism subscribed to an idealistic and benevolent conception of the state. First, given its preoccupation with market failure, structuralism believed that government action to correct market failure would necessarily and automatically result in superior economic performance and welfare. Second, structuralism neglected the possibility that in absence of the required institutional and political bases, state intervention would prove to be counterproductive, with pervasive "government failure" emerging as a natural substitute for the pervasive market failure that state intervention was designed to correct in the first place.[9]

These are the weaknesses that the neo-liberals exploited and challenged resulting in the demise of structuralism as the dominant paradigm in the 1960s and 1970s. First, the neo-liberals re-defined the nature of state and the politics of accumulation. Second, they demonstrated the highly inefficient nature of industrialisation in many Third World countries based on heavy and indiscriminate protectionism.[10] This resulted in the ascendance of the neo-liberal approach.

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[8] Love, Joseph, (2005), Op Cit, pp 104-06.
[9] Onis, Ziya, (1995), Op Cit, p.99.
[10] Ibid, p.117 This was reflected in the work of Anne.O Krueger (1974), "The Political Economy of Rent-Seeking Society", *American Economic Review,* 64 (June), pp 291-303.

3.0.2 Neo-liberal Approach

Neo-liberalism refers to the doctrine that economic life should be as untrammelled by constitutional, legal and administrative constraints as it is possible to achieve, consistent with the maintance of a stable society and market place.[11] David Harvey has recently given its wide-ranging definition that:

> "Neo-liberalism is in the first instance a theory of political economic practices that proposes that human beings can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterised by strong private property rights, free markets and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. …State interventions in markets (once created) must be kept to a bare minimum because, according to the theory, the state cannot possibly possess enough information to second-guess market signals (prices) and because powerful interest groups will inevitably distort and bias state interventions (particularly in democracies) for their own benefit" [12]

To note, briefly, neo-liberal conception of development arose on the basis of the failure of structuralist theories. Structuralism in many countries resulted in irrational policy decisions, combined with "monopoly rents" and produced inefficient industrialisation programmes resulting in economic crisis by the late 1970s as state intervention was discredited and led to market theory and policy managed by the World Bank and IMF.

Neo-liberalism made two major contributions: 1) reconceptualisation of the role of the state in development and 2) the practice of rent-seeking. Neo-liberalism viewed the state as a distinct, well-organised and powerful interest group of self-maximising politicians and bureaucrats whose primary objectives are to maximise their personal wealth and power.[13] The state, therefore, could not be benevolent as the structuralists assumed.

Second, neo-liberalism contended that state intervention led to rent-seeking. The extensive micro-level state intervention in form of heavy protectionism, subsidised loans, price ceiling on public enterprise products designed to encourage industrialisation and private sector development tended to foster the emergence of powerful interest groups which in turn undermined state power. The energies of these interest groups came to be focused on lobbying for state rents.[14]

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[11] Colclough, Christopher and Manor, James (eds), (1991), *States or Makets? Neo-liberalism and the Development Policy Debate,* Oxford: Clarendon Press, p.1.
[12] Harvey, David (2005), *A Brief History of Neo-liberalism*, Oxford: Oxford University Press, p.2.
[13] Onis, Ziya, (1995), Op Cit, p.100.
[14] Ibid, p.101.

The alternative, according to neo-liberalism, was the institution of free trade and free markets that would produce the best results and would remove the capacity of non-accountable states to use political power to extract rents from society and make irresponsible economic decisions.[15] Since the early 1980s, Third world countries have been conditioned to apply these policies, particularly that of taking both politics and the state out of the market through substantial liberalisation and privatisation. Accordingly, the only positive role of the state was the provision of secure property rights. These policies have been very difficult to implement.

The first major weakness of neo-liberal theory is its view of the role of the state in development. Instead of having a differentiated view of the state, neo-liberalism simply demonised it.[16] The state can play a positive role in the development process although this depends on its organisational efficacy.

Second, while the neo-liberal political economy argues for taking the state out of the market, the introduction of market-oriented reforms in practice required a certain level of capability of the state. The hostility towards the state led to the failure of "rational policies" and a partial return to the state through the "good governance" agenda.

What appears to be missing in both the structuralist and neo-liberal frameworks is Karl Polanyi's important proposition that the market is an "instituted process". Both the policy measures and institutions adopted in the market economy, has a crucial bearing on its future performance.[17] It is this missing link that Institutional Political Economy (IPE) attempts to capture.

3.1 Institutional Political Economy (IPE) Approach

Institutional Political Economy (IPE) approach is that body of theory that defines the market, the state, institutions, politics and their mutual relationships as contradictory and problematic. Although this approach has deeper historical basis, the review here is based

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15 Williamson, John (1990), "What Washington means by Policy Reform", in Williamson J (ed), *Latin American Adjustment, How much has Happened*?, Washington D.C: Institute for International Economics, outlines 10 points that constitute what is referred to as Washington consensus: fiscal discipline, public expenditure priorities (infrastructure, health and education), tax reforms, financial liberalisation, achieving competitive exchange rates, trade liberalisation, establishing the proper climate for FDI, privatisation, deregulation and strengthening property rights.

16 Evans, P (1995), Op Cit, pp 22-25.

17 Onis, Ziya, (1995), Op Cit, p.116.

on recent revisionist writings by several authors.[18] It emphasises the fundamentally political nature of the market and applies the political economy logic to the analysis of the market, and not just to the analysis of the state.[19] This approach's explanation of the development process goes beyond the methodological individualism of much of the current neo-liberal theory as it illuminates the various dimensions of development.

The institutional political economy tradition takes institutions as a major factor in economic development as they act to alter capabilities, change incentives, and modify behaviour and attitudes of development actors.[20] The IPE approach grounds assertions of institutional effects in the analysis of actions of specific groups and organisations. Given particular social, institutional legacies and initial conditions, different societies adapt differently to economic transformation. Thus the study of industrial policy and industrialisation could be enhanced by IPE. IPE is appropriate as industrialisation never proceeds independently of the concrete institutional and historical context.

This section of the analytical framework covers five main areas. The first section is a reflection on recent theoretical debates on institutions and their varying impact on the development processes among countries. The argument in this section is that there is need to move away from the traditional view of institutions as constraints and focus attention on institutions as devises, which enable the achievement of economic goals and more importantly, see them as constitutive of the interests and worldviews of the economic actors.

The second section looks at the states and markets. The state, as is the market, should be seen as a historically rooted institution, and not simply a collection of strategic individuals. To understand the workings of the market, we need to understand a wide range of institutions that affect and are affected by it. Several notions in relation to the state are discussed, among these: developmental state, bureaucracy, embedded autonomy and state autonomy.

The third section looks at the notion of late industrialisation, technological learning and national innovation system. Technological capacity is critical in the industrialisation

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[18] Among these include: (Chang, Ha-Joon, 2002, Rodrik, Dani, 2000, Evans, Peter, 1995, Lall, Sanjaya, 1990, Wade, Robert, 1990, Amsden, Alice, 1989 and Johnson, Chalmers, 1982).

[19] Chang, Ha-Joon, (2002a), "Breaking the Mould: An Institutional Political Economy Alternative to the Neo-liberal Theory of the Market and the State", *Cambridge Journal of Economics*, 26, p.557.

[20] Lall, Sanjaya, (1990), *Building Industrial Competitiveness in Developing Countries*, (Paris: Development Centre Studies, OECD), p.11.

processes. The fourth section is a theoretical discussion of the various dimensions of industrial policy. Finally, an assessment of the relative importance of the state and markets in European industrialisation and in the "late" industrialisation experiences is made and their institutional underpinning is highlighted.

To study industrial policy and whether it makes a difference in the development processes of nations is to resurrect the debate on states and markets, that false dichotomy, in the development process. This has far-reaching implications for theoretical understanding of the development process and policy choices available to Third World countries. The study of industrial policy raises multiple theoretical and empirical issues. This theoretical framework is based on four themes that emerge in the literature: a) Institutions, b) The state versus the market debate, c) The notion of embedded autonomy and d) Late industrialisation and technological learning.

3.1.1 Institutions

Institutions have been defined in various ways. The neo-classicals as represented by Douglas North define institutions as "a framework within which human interaction takes place". [21] According to them they are the rules of the game of a society, thus, the humanly devised constraints that structure human interactions. Institutions are composed of formal rules, (statute law, common law, regulations), informal constraints (conventions, norms of behaviour and self-imposed codes of conduct) and the enforcement characteristics of both.[22] In IPE, on other hand, institutions are defined as "systematic patterns of shared expectations, taken-for-granted assumptions, accepted norms and routines of interaction that have robust effects on shaping the motivations and behaviour of sets of interconnected social ties".[23] Chang and Evans further note that in modern societies, institutions are usually embodied in authoritatively coordinated organisations with formal rules and capacity to impose coercive sanctions, such as the government or the firms.

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[21] North, Douglass (1990), *Institutions, Institutional Change and Economic performance*, Cambridge, UK: Cambridge University Press, p.4.

[22] North, Douglass, (1995), "The New Institutional Economics and Third World Development", in Harriss, J., Hunter, J., and Lewis Colin (eds) *The Institutional Economics and Third World Development*, London & New York: Routledge, p.23.

[23] Chang, Ha-Joon and Evans, Peter, (2001), "The Role of Institutions in Economic Change" A Paper prepared for the meeting of *The Other Canon Group*, Venice, Italy, January, 13-14, p.1.

Dani Rodrik notes that it is useful to think of institutions broadly as a set of humanly devised behavioural rules that govern and shape the interactions of human beings, in part by helping them to form expectations of what other people will do.[24] Thus, institutions include both formal rules and informal norms, customs, conventions and standard operating practices which structure the relationships between individuals and social groups. Institutions are then conceived of as socially constructed, routine produced and behaviour regulating frameworks.[25] In development, institutions – arrangements between units that go beyond arms-length relationships to define and specify ways, in which these units can co-operate or compete and can, resolve collective action problems. The state is certainly one such institution.[26]

While organisations may be embodiments of institutions, a more adequate vision of how institutions shape economic behaviour and outcomes has to be developed. This calls for a move away from the traditional view of "institutions" as *constraints* and focus attention to institutions as devises, which *enable* the achievement of economic goals, and more importantly, see them as *constitutive* of the interests and worldviews of economic actors.[27] One must move away from the economistic model, which dominates the current discourse on institutions, and look at institutional change as dependent on interest-based cultural/ideological projects. Crafting and changing institutions requires changing the worldviews that inevitably underlie institutional frames. Ideological conception of institutions shape economic behaviour and outcomes. Institutions must not be seen only as *constitutive* or *enabling* but also as *constraining*, all at the same time, in a combined logic.

By the order of things, institutions matter.[28] This contention has been a result of the inadequacy of both the statist and neo-liberal approaches with the rise of institutionalist criticism of state reductionism and the market fundamentalism in the respective perspectives. Following the institutionalist criticisms, neo-liberal doctrine has recently come to admit the importance of institutional factors in understanding the role of the

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[24] Rodrik, Dani, (2000), "Institutions for High Quality Growth: What They are and How to Acquire Them" *Studies in Comparative International Development*, Fall, 2000, Vol.35, No.3, p.4.
[25] Lauridsen, S., Laurids (1995), "Introduction" in Institutions and Industrial Development Experiences, International Development Studies, Occasional Paper No. 16, p.1-2.
[26] Doner, Richard, (1992), "Limits of State Strength: Towards an Institutionalist View of Economic Development" *World Politics*, Vol.44 (April), p.401.
[27] Chang, Ha-Joon and Evans, Peter., (2000), Op Cit., p.5.
[28] Increasingly, the question that is being asked is that "which institutions matter? This can be partially answered that which institutions matter depends on the context.

state in development.[29] This is reflected in the writings of Douglas North and The World Bank.[30] But there should be no mistaken interpretation that these state-friendly noises from the World Bank are a prelude to abandoning its market fundamentalism. As in one of the above writings, the World Bank is still embedded in its technocratic conception of development – building institutions for markets.[31] The notion of institutions is broader than that. Institutions are constituted and ultimately instituted not simply "built". Institutions are important in the sense that any analysis and discussion of states should necessarily involve certain views about the structure of power and the relationship between social structures and human actions.

The study of development is no longer seen as a process of capital accumulation, but rather as a process of organisational change. Along with organisations, culture and norms are involved. The role of state power in shaping both organisational structures and culture is central. Essentially, turning the focus on institutions brings new considerations in development. Preferences depend on beliefs and expectations rooted in shared cultural understandings. Relationships among economic agents are based on loyalties and identifications not easily reduced to the pursuit of material ends. Technological change is shaped by incentives as well as shaping them.[32] IPE argues that behaviour may be changed not only through changing institutions that define incentives for individuals, but also through ideological and institutional changes that influence individual motivations.[33]

Peter Evans argues against what he refers to as "institutional monocropping" – the presumption that the most advanced countries have already discovered the one best institutional blueprint for development and that its applicability transcends national cultures and circumstances.[34] Imposing new sets of formal rules without simultaneously reshaping the distribution of power that underlies prior institutional arrangements is a

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[29] Chang, Ha-Joon, (1997) "An Institutional Perspective on the Role of the State: Towards an Institutional Political Economy", a paper presented at the International Conference on *"Institutions and Economic Development – Towards a Comparative Perspective on State Reform"*, November 12-14, Rio de Janeiro, Brazil, p.3.
[30] North, Douglas (1994), "Economic Performance Through Times", *American Economic Review*, Vol.84, No.3, The World Bank, (1993), *The East Asian Miracle: Economic Growth and Public Policy*, The World Bank, (1997), World Development Report, and World Bank, (2002), World Development Report: *Building Institutions for Markets*, (Oxford: Oxford University Press).
[31] The World Bank (2002), *Building Institutions for Markets*, (Oxford: Oxford University Press)
[32] Evans, Peter, (2002), "The Challenge of the "Institutional Turn": New Interdisciplinary Opportunities in Development Theory", paper submitted for volume on *The Economic Sociology of Capitalist Institutions*, June, pp.3-4.
[33] Chang, Ha-Joon, (2002a), Op Cit. p.555
[34] Evans, Peter, (2002a), "Beyond "Institutional Monocropping": Institutions, Capabilities and Deliberative Development, mimeo, p.7.

dubious strategy from a political economy perspective. For Chang Ha-Joon, institutional monocropping constitutes, in Frederick List's phrase, "kicking away the ladder".[35] He argues that the institutions currently imposed on the South are not in fact those that characterised the now developed countries during their ascension and that the imposition of these institutions will make development more difficult in the South, not easier.[36] The crafting of institutions must take into consideration the local context. Institutions are not a natural phenomenon. They are constituted on the basis of particular "values" - worldviews, moral codes and social norms, about development and by operating under these institutions, individuals inevitably internalise some of these values and they have themselves changed.[37] The critical institutions in organisational change and in the industrialisation process include: the state, markets, bureaucracy and embedded autonomy.

3.1.2 States and Markets

The states and markets are central institutions in the development process. In IPE perspective, the state, as is the market, is seen as a historically rooted institution, not simply a collection of strategic individuals. The state and the market have not always existed. They have been socially created and constituted over time. The interaction of the state and society is constrained by institutional sets of relations. Economic outcomes are products of social and political institutions, not just responses to prevailing market conditions.[38]

For states to be successful in fostering development, they need a considerable degree of internal cohesiveness, which is generally supplied by the presence of a robust, Weberian bureaucratic corps and inter-agency interactions.[39] State effectiveness depends on a number of elements: the state acts as a corporate entity, internal coherence based on effective, rule following bureaucracy and appropriate power among state policy agencies. In order to be effective developmentally, the state must have the capacity to impose discipline on domestic firms. Internal cohesion and centralisation are presumed necessary

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35 Chang, Ha Joon, (2002), *Kicking Away the Ladder: Policies and Institutions for Development in Historical Perspective*, London.
36 Evans, Peter., (2000a), Op Cit, pp.8-9.
37 Chang, Ha-Joon (2002a), Op Cit. p.554.
38 Evans Peter, (1995), *Embedded Autonomy: States and Industrial Transformation*, New Jersey: Princeton University Press, p.18.
39 Chibber Vivek, (2002), "Bureaucratic Rationality and the Developmental State", *American Journal of Sociology*, Vol. 107, No.4, p.951.

if principle-agent and collective action problems within the state are to be overcome.[40] In addition to the ability to discipline firms, planners need to also have the capacity to discipline other state agencies. This is because if the state is to be successful in its efforts to promote industrial transformation, a crucial precondition is that it has to have the internal cohesion necessary to carry it out. To elaborate, we focus on two notions in relation to the state: developmental state and bureaucratic rationality.

3.1.3 Developmental state

There is extensive literature on the developmental state.[41] The notion of developmental state has been variously conceptualised. Adrian Leftwich defines developmental states as "states whose politics have concentrated sufficient power, autonomy and capacity at the centre to shape, pursue and encourage the achievement of explicit developmental objectives, whether by establishing and promoting the conditions and direction of economic growth, or by organising it directly, or a varying combination of both."[42] A more embracing conceptualisation is given by Moon Chung-In and Rashemi Prasad that:

> Central to the developmental state are state structures characterised by executive dominance, bureaucratic unity and technical competence of bureaucrats, a large pool of policy instruments, selective and strategic use of resources and instruments and the political capability to insulate economic decision-making and implementation from contending political and social interests.[43]

The logic of the developmental state rests on a combination of bureaucratic autonomy with an unusual degree of public-private co-operation. State intervention in the economy relies on organisational and institutional links between politically insulated state agencies and major private sector firms.[44] Thus, developmental states are "organisational complexes in which expert and coherent bureaucratic agencies collaborate with the organised private sectors to spur national economic transformation."[45]

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[40] Doner, Richard, (1992), "Limits of State Strength: Towards an Institutionalist View of Economic Development", *World Politics*, Vol.44, (April)", p.399.

[41] Among these are: Johnson, Chalmers, (1982), Wade, Robert, (1990), Amsden, Alice, (1989), Haggard, Stephan, (1990) and Woo-Cumings, (1999), *The Developmental State*, Ithaca and London: Cornell University Press and numerous articles.

[42] Leftwich, Adrian (1995), "Bringing Politics Back In: Towards a Model of the Developmental State*", The Journal of Development Studies*, Vol.31, No.3, February, p.401.

[43] Moon, Chung-In and Rashemi, Prasad, (1994), "Beyond the Developmental State: Networks, Politics and Institutions" *Governance: International Journal of Policy and Administration*", Vol.7, No.4, p.360.

[44] Ziya,Onis, (1991), "The Logic of the Developmental State", *Comparative Politics*, Vol.24, No.1, p.114.

[45] Doner, Richard, Ritchie, Bryan, and Slater, Dan, (2005), "Systemic Vulnerability and the Origins of Developmental States: Northeast and South Asia in Comparative Perspectives, *International Organisation* 59, spring. P.327.

The developmental state undertakes a leading role in the creation of comparative advantage. It works with and often promotes the market. The market is employed as an instrument of industrial policy by exposing particular industries to international competitive pressures. Developmental states systematically manage the market as a means of long-term economic transformation. The top priority of action on economic development is operationalised in terms of growth, productivity and competitiveness. East Asian developmental states have been able to control and coordinate the private sector by creating and expanding resources and allocating them strategically. Expanded resources and their strategic use are done through innovative policy instruments, especially: credit, tax, wage policies and industrial associations.[46]

With very close attention to the historical, institutional and political context, East Asian NICs constructed developmental states whose central mission was the long-term transformation of their economies. Underlying the political and institutional requirements for effective state intervention in form of strategic industrial policy are two features associated with the developmental state, namely, the unusual degree of bureaucratic autonomy and public-private cooperation.[47]

3.1.4 Bureaucracy

The bureaucratic state is a crucial background determinant for all legal and institutional underpinning of capitalism. Bureaucratically structured public organisations, using their own set of decision-making procedures are a necessary compliment to market-based institutional arrangements.[48] In general, it has been noted that economic success requires a highly capable coherent economic bureaucracy, closely connected but still independent of the business community.[49] Such a bureaucracy needs to be politically insulated from societal forces, competent and meritocratic. Insulation permits officials to formulate policy and to mediate the influence of foreign capital independently of powerful distributional coalitions.[50] This enables officials to both push for new activities and

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[46] Moon and Rashemi, (1994), Op Cit. pp.362-63.
[47] Onis, Ziya, (1991), Op Cit. p.114.
[48] Rauch, James and Evans, Peter, (1999), "Bureaucracy and Growth: a Cross-National Analysis of the Effects of Weberian State Structures on Economic Growth", *American Sociological Review*, Vol.64, October, pp. 29-30.
[49] Evans, Peter, (1998), "Transferable Lessons? Re-Examining the Institutional Prerequisites of the East Asian Economic Policies", *Journal of Development Studies*, Vol.34, No.6, p.69.
[50] Doner, Richard, (1992), Op Cit. p 399.

discipline firms that may be recipients of state centred rents aimed to act as incentives for production.

A competent, well-organised and meritocratic bureaucracy is important for effective policy. Any state embarking on economic transformation project has to undertake organisational reforms to create such a bureaucracy. A high quality bureaucracy is not necessarily one equipped with people with advanced training in economics or management. "What is most needed for successful policy is the ability of policy-makers to make a good judgement on main issues, and not specialist knowledge, which can be acquired by consulting experts and also by "learning-by-doing" on the job".[51] De-emphasising the cultural dimensions of bureaucracy implies that constructing a new bureaucratic tradition may not be as difficult as some people argue it to be. Good bureaucracies can be relatively quickly built, if there is a political will and appropriate institutional reforms.[52] The appreciation of the past experience and practice of the bureaucracy is necessary as the history of institutions matter. The building of a bureaucracy is path dependent but they can be built.[53] For that matter, in the construction of a bureaucracy, one would have to "unlock" certain types of behaviour.

Drawing on experiences from developing countries, James Rauch and Peter Evans observe that what seems to be more important than the political system or tradition is the existence of a "weberian" bureaucracy based on competitive recruitment and well-defined career path that make politically motivated hiring and dismissal difficult if not impossible. [54]

In most Third World countries, there is entrepreneurial scarcity hence the need for bureaus organised as pilot agencies to act as nodal points to unleash entrepreneurial spirit. State entrepreneurship is important in the absence of a private sector. The entrepreneurial state defines growth, productivity and competitiveness of its economy. It

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51 Chang, Ha-Joon, (2001), "Institutional Foundations for Effective Design and Implementation of Selective Trade and Industrial Policies in the Least Developed Countries: Theory and Evidence" , a paper prepared for IDRC project on *Economic Policy-Making and Implementation in Africa* A Case Study of Strategic Trade and Selective Policies, mimeo, p.12.

52 Chang, Ha-Joon, (1999), "Institutional Foundations for Effective Design and Implementation of Selective Trade and Industrial Policies: Theory and Evidence", a paper prepared for the IDRC project on *"Economic Policymaking and Implementation in Africa: A Case Study of Strategic Trade and Selective Industrial Policies"* pp.14-15.

53 Greener, Ian, (2002), "Theorising Path Dependency: How Does History Come to Matter in Organisations?", *Journal of Management History: Management Decisions*, Vol.40, No.6, p.614.

54 Rauch, James and Evans, Peter, (2000), "Bureaucratic Structure and Bureaucratic Performance in Less Developed Countries", *Journal of Public Economics*, No.75.

explores opportunities and sets the direction for the private business to follow. It pays consistent and coordinated attention to problems and opportunities of particular industries based on long-term perspectives.[55] The installation of coordinating agencies is, therefore, an important component of enhancing the state's strategic capacity.[56] Effectiveness of the state, the bureaucracy, the market, and industrial policy mechanisms may best be realised through what is referred to as embedded autonomy.

3.1.5 Embedded Autonomy

The notion of embedded autonomy refers to "a concrete set of connections that link the state intimately and aggressively to particular social groups with whom the state shares a joint project of transformation".[57] These social ties bind the state to society and provide institutionalised channels for the continued negotiation and re-negotiation of goals and policies. This embeddedness is critical in the practice of industrial policy, which implies much denser and more intimate ties between bureaucrats and society, since bureaucrats must have access to information about industrial operations at a sectoral level.[58] Eliciting entrepreneurship and facilitating the creation of new productive capacities requires a more complicated involvement in the affairs of the citizenry than simply eliciting their support. Such involvement with the private sector enables the state to have genuine capacity to formulate long-term goals, acquire information needed to effectively pursue those goals, in form of feedback, yet be sufficiently constrained by forces outside of the state so that its actions do not simply foster the interests of state elite.[59]

Embeddedness is necessary for information and implementation, but without autonomy, embeddedness will degenerate into a super–cartel, aimed, like all cartels, at protecting its members from changes in the status quo.[60] Charles Polidano notes that "the bureaucracy, no matter how cohesive, can do no more than provide the machinery for policy coordination and ensure that each Ministry of government is aware of what the others

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[55] Yu, Fu-Lai, (2001), "Towards a Theory of the Entrepreneurial State", *International Journal of Social Economics*, Vol.28, No.9, pp 754-5.
[56] Chibber, Vivek, (2002), "Bureaucratic Rationality and the Developmental State", *American Journal of Sociology*, Vol.107, No.4, January, p.959. Chibber argues that in order to be effective as a developmental state, bureaucratic rationality must also be structured in an appropriate apportionment of power among state policy agencies. The micro-level focus needs to be supplemented by attending to the mesolevel concern for the relations between state agencies themselves, p.952.
[57] Evans, Peter, (1995), Op Cit, p.59.
[58] Evans, Peter, (1998), Op Cit., p.68.
[59] Wright, Erik, (1996), "Featured Essay, A Review of Embedded Autonomy: States and Industrial Transformation", by Evans, Peter., *Contemporary Sociology*, Vol.25, Issue 2 (March), pp 176-9.
[60] Evans, Peter, (1995), Op Cit, pp.57-58.

are doing. Apart from relations with civil society, particularly those involved in economic transformation project, there must be inter-agency interactions."[61] At the heart of these interactions is the notion of state autonomy and intermediate institutions.

3.1.6 State Autonomy

State autonomy – "the ability of states to act independently of the wishes of non-state actors and social groups as a component of state capacity", is an essential element in successful state intervention.[62] State autonomy is expressed through the exercise of state power. According to Michael Mann, state power takes two forms: despotic and infrastructural power.[63] Despotic power entails a range of actions, which the elite is empowered to undertake without routine, institutionalised negotiation with civil groups. Infrastructural power on the other hand, refers to the capacity of the state actually to penetrate civil society and to implement logistically political decisions throughout the realm. This approximates to what Peter Evans calls embedded autonomy. These two are analytically autonomous dimensions of power. The developmental role of the powerful state, however, is not a constant. It has essentially fluctuated, sometimes promoting it, and sometime retarding it.[64]

State autonomy can be an important element of state capacity and it is the reason why state intervention does not degenerate into perpetual subsidisation of inefficient rent-seeking industries, but does not guarantee state effectiveness.[65] As in the case of East Asia, state autonomy expressed itself through setting performance targets of industry, the readiness to withdraw support from unsuccessful firms, the diversion of resources from consumption to investment and the creation of efficient public corporations.[66] This was possible because of the state connectedness, embeddedness, with the private sector actors. 'Connectedness' can magnify both the state's capacity to make informed decisions and its logistical ability to carry them out. Autonomy enables the state to be selective about which groups to "connect" with and on occasion, to strike out on its own without

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61 Polidano, Charles, (2001), "Don't Discard State Autonomy: Revisiting the East Asian Experience of Development", *Political Studies*, Vol. 49, p.520.
62 Ibid, p.524.
63 Mann, Michael, (1989), "The Autonomous Power of the State: Its Origins, Mechanisms and Results", in John Hall, (ed.), *'States in History'*. Oxford: Blackwell, pp113-117.
64 Ibid, p.135.
65 Polidano, Charles., (2001), Op Cit., p.515.
66 Ibid, p. 524.

support from any group.[67] This occurs through state interactions with intermediate institutions.

3.1.7 Intermediate Institutions

Intermediate institutions provide the interface between the bureaucracy and the firms in various sectors. Bureaucracies engaged in a dialogue with the private sector may get detailed feedback on policies. Without its embedding in dense network of public-private interface, it is argued, an autonomous state can easily degenerate into power unto itself. While without a high degree of autonomy through political insulation, an embedded state will be "captured" by powerful private sector interest groups.[68] Given this kind of autonomy, a network of links to social groups with an interest in the state's project of industrial transformation will magnify rather than reduce the capabilities of the state. In practice, connectedness would mean increased competences instead of capture.[69]

The efficacy of embedded autonomy depends on the consistent practice of a combination of state corporate coherence and institutional arrangements that allow for continual negotiation between state and society about the economic objectives to be pursued and the means of pursuing them. States may not offer the sole or the best institutional responses to collective action dilemmas inherent in industrialisation. As Richard Doner observes, "business groups, producers' associations and/or public-private consultative bodies may solve free rider and information problems".[70] Development requires the consent, indeed the active participation of diverse economic actors. State domination does not necessarily translate into national power. Apart from the state, the market is essential in the political economy perspectives.

3.1.8 The Market

The "market" is typically understood as "the price mechanism" and analysed through some definition of "competition", by neo-classical theory.[71] IPE, however, highlights the institutional complexity of the market. To disentangle this complexity, it is necessary to

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[67] Ibid, p.525
[68] Chang Ha-Joon, (2001), Op Cit, pp. 24-25.
[69] Evans, Peter. (1995), Op Cit., p.50
[70] Doner, Richard, (1992), Op Cit., p.429
[71] Samuels, Warren, (2004), "Markets and Their Social Construction", *Social Research*, Vol.71, No.2 p.357.

look at the economy more broadly as an instituted process.[72] To understand the workings of the market, we need to understand a wide range of institutions that affect and are affected by it.[73] The way a market economy is organised and the specific mix of competition and collaboration that emerges in response to the policy measures and institutions that it adopts, will have a crucial bearing on its future performance. Perhaps most controversial is the notion of "free market".

Defining the "free" market and therefore what counts as state intervention is problematic.[74] No market is "free" as all markets have some state regulations about who should participate in which markets and on which terms. Markets are ultimately determined by the rights – obligation structure that underlies their relationships. Markets rely on other institutions. The capitalist system is made up of a range of institutions, including markets, as institutions of exchange, the firms as institutions of production and the state as the creator and regulator of the institutions governing their relationships as well as other informal institutions such as social convention.[75] A market economy, therefore, is necessarily "embedded" in a set of non-market institutions. It relies on a wide range of non-market institutions that perform regulatory, stabilising and legitimising functions.[76] Every well-functioning market economy is a mix of state and market, intervention and laissez faire. Bureaucracies and organisations do not necessarily stand in opposition to markets. Rather, they are crafted and instituted in an effort to underpin and to unleash market forces. The market is as such a product of other institutions. Markets are in the end political constructs in the sense that they are defined by a range of formal and informal institutions that embody certain rights and obligations, whose legitimacy is ultimately determined in the realm of politics.[77] The practice of late industrialisation is an expression of this notion of markets.

Late industrialisation, in Gerschenkronian sense, relies on more than the market. The state allocates resources to the industrialists. Resource allocation is driven not by the markets alone but by the institutions and forces that form and operate through markets,

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[72] Polanyi, Karl, (1992), "The Economy as Instituted Process", in Granovetter, M., and Swedberg, R., (eds), *The Sociology of Economic Life*, (San Francisco and Oxford: Westview Press).
[73] Chang, Ha-Joon, (2002a), Op Cit., p. 551.
[74] Ibid, p.542.
[75] Ibid, p.544-46.
[76] Rodrik, Dani, (2000), "Institutions for High Quality Growth: What They are and How to Acquire Them", *Studies in Comparative International Development*, Fall, 2000, Vol.35, No.3, p.10.
[77] Chang, Ha-Joon, (2002a), Op Cit. p553.

plus the agents' actions.[78] Most important for this study, is the understanding of the financing of the industrialisation process which is discussed in details in chapter four and five.

The financial structure can be used to test state efficacy because it is the overarching mechanism guiding the flow of savings and investment, delimiting the options of industrial policy, and managing flows to different industrial sectors.[79] Financial systems go beyond markets and serve to transform savings into investment and allocate those funds among competing users.[80] Since markets as institutions are essentially political, there are various types of financial systems, each of which has different consequences for the political ties between the banks, industry and finance. There are three types of financial systems: 1) a system based on capital markets with resources allocated by prices established in competitive markets, 2) a credit-based system with critical prices administered by government, and 3) a credit-based system dominated by financial institutions.[81] The East Asian industrialisers opted for the second category - the credit-based system with critical prices administered by the government. That system made possible industrial sectoral upward mobility. Under such structure, firms rely on bank credit – to the extent that the banks are the main suppliers – for raising finance beyond retained earnings.[82] This is one of the factors that facilitated rapid industrialisation in East Asia.

In general, the success or failure of policy has institutional basis. Successful cases of industrial policy have as one of their central points, sets of institutional and political arrangements compatible with an appropriate mix of state intervention and market orientation in the economy. This is vindicated by the experience of late industrialisers.

3.1.9 Late Industrialisation

The phenomenon of 'late' development should be understood as "a process in which states have played a strategic role in taming domestic and international market forces and

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78 Samuels, Warren, (2004), Op Cit., p.358.
79 Woo, Jung-en, (1991), *Race to the swift: State and Finance in Korean Industrialisation*, New York: Columbia University Press, p.6.
80Zysman, John, (1983), *Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change*, Ithaca, N.Y.: Cornell University Press, p.57.
81Ibid, p.55.
82 Woo-Jung-en, (1991), Op Cit. p.11.

harnessing them to national ends".[83] This was given expression in the paradigm of "late" industrialisation and the practice of industrial policy. Late industrialisation can be defined as "a process of industrialisation whose central tendency among leading firms is learning rather than invention or innovation of significantly novel technology".[84] The general properties of an industrialisation based purely on learning appear to be quite distinct from those of an industrialisation based on pioneering technology. Such a process requires a particular set of institutions. It is a new paradigm, in terms of the operation of the market mechanism and the role of the state. It is not merely an extension of advanced-country capitalism.[85]

The mode of late industrialisation has been the borrowing of technology from more technically advanced societies, based on what may be called learning. As Alice Amsden observes, "borrowing requires creativity, just as innovation or invention requires learning from others". [86] In common parlance is the idea that late industrialising countries need not re-invent the wheel. Unfortunately, some nations, particularly those in sub-Saharan Africa, have taken this idea of no need to re-invent the wheel too literally. While there may be no need for re-inventing the wheel, the process of acquiring technology from inventors or innovators is very engaging. At the centre of this process is technological learning.

3.1.10 Technological Learning

Technological learning refers to the mechanisms and processes by which technological progress is brought about. It is central to productivity growth and different types of product and process improvement.[87] In contrast to economic ideas of learning-by-doing, technological learning is a dynamic, difficult and costly process.[88] This implies that a late developer must leapfrog - make a quantum leap from one stage to another without

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[83] Onis, Ziya, (1991), Op Cit, p.110.
[84] Amsden, Alice, (1989), *Asia's Next Giant: South Korea and Late Industrialisation*, (New York and Oxford: Oxford University Press), p.4.
[85] Amsden, Alice, (1990), "Third World Industrialisation: 'Global Fordism' or a New Model?", *New Left Review,* No.182, p.31.
[86] Ibid, p.15.
[87] Hobday, Michael (1995), *Innovation in East Asia: The Challenge to Japan*, (Aldershot: Edward Elgar Publishing Limited, p.32-33.
[88] Ibid, p.32.

experiencing the intermediate steps between the two.[89] This means developing industries, which are dynamic yet, do not accord with given comparative advantage.[90]

The central tendency amongst successful late industrialisers has shifted from absorption of foreign technology through copying and self-teaching to the adoption of foreign technology through investing in foreign licences and technical assistance.[91] Late industrialisation is a recipe for the deconstruction of the notion of comparative advantage and the creation of competitive advantage.

Late industrialisation through learning demands considerable state intervention and direction of the national economy in order to transcend the constraints of lateness derived from the pre-existing structures of the world economy.[92] Whether India, or Turkey, East Asia or Latin America, a general characteristic of late industrialisation is the existence of a developmental state - a state that mobilises and directs resources for developmental purposes. Because late industrialisers do not have the competitive weapon of new technology, their governments have had to play a far more interventionist role than in the past. Not only have they protected new and other industries from foreign competition, they have targeted strategic firms and industries for special incentives, including loans at concessionary interest rates, subsidised rents and restrictions on foreign investment.[93]

At the heart of successful late industrialisation is a reciprocal principle of subsidy allocation. Big businesses in East Asia get extensive government support, for example in form of cheap credit for targeted industries and incentives to research and development (R&D). In exchange for subsidies, the government holds big business accountable for achieving concrete, monitorable performance standards with respect to, say exports and worker training. The reciprocity principle is the linchpin of industrial policy in Japan, South Korea and Taiwan.[94]

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[89] Hong, Sung Gul, (1992), *The Politics of Industrial Leapfrogging: The Semi-Conductor Industry in South Korea and Taiwan*, (PhD Dissertation in Political Science), Northwestern University, p.2.
[90] Lo, Dic, (1995), "Techno-Economic Paradigm versus the Market: on Recent Theories of Late Industrialisation", *Economy and Society*, Vol.24, No.3, p.464.
[91] Amsden, Alice, (1989), Op Cit. p.20.
[92] Henderson, Jeffrey, (1993), "Against the Economic Orthodoxy: On Making of East Asian Miracle", *Economy and Society*, Vol.22, No.2, (May) p.208.
[93] Amsden, Alice, (1993), "Asia's Industrial Revolution: 'Late Industrialisation' on the Rim", *Dissent*, summer, p.328.
[94] Amsden, Alice, (1993), Op Cit. p.331.

The practice of industrial policy as expressed in the late industrialisation paradigm may not be enough to bring about industrialisation in backward countries. Conscious and systematic processes must be constituted for the adoption, diffusion and mastery of industrial technology. Technology may be defined as "the set of skills, knowledge and procedures for making, using and doing things in both market and non-market settings".[95] The concept of technology thus includes technical knowledge, (knowledge about machines and production processes) as well as institutional arrangements and skills, which are necessary to efficiently transform inputs into outputs. Sharp and Pavitt argue that technology is not like 'manna from heaven', and not easily obtained and costlessly applied. On the contrary, it is often complex, multi-dimensional and specific to a particular firm, and a large part of it is tacit, uncodifiable knowledge that derives mainly from trial, error and learning.[96]

3.1.11 Value Chains and Upgrading

Value chain refers to "the productive activities that lead to and support the end use of a set of related products or services, including lead firms".[97] The concept of upgrading on the other hand refers to making better products, making them more efficiently, or move into more skilled activities.[98] Due to recent changes in production systems, distribution channels and financial markets, and the spread of information technologies, enterprises are increasingly integrated in value chains that often operate across many different countries. Value chain analysis focuses on the dynamics of inter-linkages within the productive sector, especially the way in which firms and countries are globally integrated. It is particularly useful for new producers – including poor producers and poor countries that are trying to enter global markets in a manner which would provide for sustainable income growth.[99]

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[95] Ahrens, Joachim., (2002), "Governance and the Implementation of Technology Policy in Less Developed Countries" *Economics of Innovation & New Technology*, Vol.11 (4-5), p.443.
[96] Sharp, Margaret, and Pavitt, Keith., (1993), "Technology Policy in the 1990s: Old Trends and New Realities" Journal of Common Market Studies, 31 (2), p.130.
[97] Sturgeon, J., Timothy (2001), "How do we define Value Chains and Production Networks", *IDS Bulletin,* Vol.32, No.3, p.9.
[98] Guiliani, E, Pietrobrlli, C., and Rabellotti R, (2000), "Upgrading in Global Value Chains: Lessons from Latin American Clusters", *World Development*, Vol.33, No.4, 552.
[99] Kaplinsky, Raphael and Morris, Mike (2002), *A Handbook for Value Chain Research*, Prepared for International Development Research Centre (IDRC), Canada, p.2.

For LDCs, the recognition of ways in which firms can be inserted into global value chains has impact on the formulation of the strategies for industrialisation.[100] Firm upgrading involves insertion into local and global value chains in such a way as to maximise value creation and learning.[101] The application of value chain and upgrading practices as a means of industrialisation presupposes the existence of an industrial base such that all that is needed is to upgrade and become competitive. The reality is that for most of the Third world the policy should be to establish industrial bases. Third world development problem should not be reduced to competitiveness. The real question is what kind of policies and institutions are most conducive for improving local competitiveness.[102] This is because the local and national institutional environment, in which they are, profoundly influences firms and industries and how they function. Value chain analysis and upgrading may be more relevant in the emerging economies, NICs, which have shifted their development focus from simple export-oriented industrialisation to an emphasis on the on-going access to higher value activities in the global value chain.

The notion of value chains and upgrading has critical implications for industrial policy and industrialisation in LDCs. The policy tools used for promoting industrial development and competitiveness in LDCs have changed substantially in the past 25 years. ISI has given way to export promotion. Subsidies and protection aimed at promoting particular industries have largely given way to generic policies aimed at supporting competitiveness through human resource development, access to credit, business development services, along the value chain, among others. Trade-Related Investment Measures (TRIMs) are being phased out, with implications for LDCs industrialisation.[103]

The historical experiences of the NICs do not imply that industrial policy is irrelevant. The overall goal of much of industrial policy is still remains. Some of these policies remain relevant for LDCs in moving new firms through the various stages of acquiring manufacturing, design, marketing and branding capabilities until they are able to design and market products in their own names. The centrality of state support remains

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100 Humphrey John, (2003), "Opportunities for SMEs in Developing Countries to Upgrade in a Global Economy", *SEED Working Paper*, No.43, ILO, Geneva, p.4.
101 Gereffi, Gary, Humphrey, John and Kaplinsky, Raphael, (2001), "Introduction: Globalisation, Value Chains and Development" *IDS Bulletin*, Vol.32, No.3 July, p.4.
102 Ernst, Dieter, (1998), "Catching-up, Crisis and Industrial Upgrading: Evolutionary Aspects of Technological Learning in Korea's Electronics Industry", Danish Research Unit for Industrial Dynamics", (DRUID), *Working Paper* No.98-16, p. 9.
103 Humphrey, John., (2003), Op Cit, p.14.

necessary in the face of increasing competition. There is need for incentives and financial support to firms in the shift towards product design, branding and investment in research and development (R&D).[104]

Industrial policy, in addition to its objective of industrial transformation of LDCs, ought to be informed by a critical understanding of value chain and upgrading, which enhance competitiveness. This is because understanding how these value chains operate is very important for LDCs firms and policy makers because the way value chains are structured has implications for newcomers.[105]

3.1.12 National Innovation System

The acquisition and development of technological capabilities can best be realised through a national innovation system, which refers to institutions and mechanisms supporting technical innovation and change. The innovation system encompasses the processes by which firms master, implement and designs manufacturing processes that are new to them. The system concept refers to a set of institutions whose interactions determine the innovative performance of national firms.[106] The national innovation system is a very broad concept with features such as education and training institutions, science and technical institutes, user-producer interactive learning, knowledge accumulation, adapting foreign technology, promotion of strategic industry among others.[107] To adapt and develop technological capabilities calls for a dynamic interaction of all the above institutions and processes.

It has been argued that most developing countries are inept at using industrial technologies.[108] Given this ineptitude, the rationale of developing a more complex innovation system is questioned. For example, Martin Fransman observes that it is increasingly being argued, particularly in the U.S.A and Europe that national technology

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104 Ibid, pp15-17.
105 Gereffi, Gary., et al, (2001), Op Cit, p.3.
106 Nelson, R.ichard, and Rosenberg, Nathan., (1993), "Technical Innovation and National Systems" in Nelson, Richard (ed), *National Innovation System: A Comparative Analysis*, New York & Oxford: Oxford University Press, pp 4-5.
107 Freeman, Chris, (1995), "The 'National System of Innovation" in Historical Perspectives", *Cambridge Journal of Economics*, Vol.19, p.7.
108 Lall, Sanjaya, (1996), "Understanding Technology Development", in Lall, S., (ed*) Learning from the Asian Tigers: Studies in Technology and Industrial Policy*, London: Macmillan Press Ltd, p.27.

policy designed to give national firms a competitive edge based on superior technology has become obsolete in a globalised world.[109]

Contrary to this notion of globalisation, national systems of innovation remain essential in the development process. As Richard Nelson and Rosenberg point out, at present national governments are committed to trying to define and protect or advance, what are regarded as specifically national technological capabilities in key areas.[110] The nation-state's ability to adapt to internationalisation will continue to heighten rather than diminish national differences in state capacity and the associated advantages of national economic co-ordination.[111] The acquisition of technological knowledge; knowledge of products, process and organisational technologies is the most important type of knowledge for economic growth. Scientific knowledge is important in that it lies behind the full understanding of technological knowledge and generation of new technological knowledge. Competence – how to run firms efficiently, how to invest, how to innovate is another type of knowledge required. Policy knowledge is also important. How to design and administer policies successfully often requires a good knowledge of economic and administrative principles.[112]

Historically, for instance, countries intending to catch-up with the more advanced had to learn technology and construct national systems for technological acquisition to realise development. For late industrialising Germany, Friedrich List theorised the need for a national system and advocated not only protection of 'infant' industries but also a broad range of policies designed to accelerate, or make possible industrialisation and economic growth. He stressed the crucial importance of technological accumulation through a combination of technology imports with local activities and pro-active interventionist policies to foster strategic 'infant' industries.[113]

In contemporary times, the technical sophistication of South Korea, Taiwan and other NICs, has led other nations that today have a weak manufacturing sector to wonder how they might emulate the performance of the successful NICs. As Nelson and Rosenberg

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[109] Fransman, Martin, (1995), "Is National Technology Policy Obsolete in a Globalised World? The Japanese Response", *The Cambridge Journal of Economics*, Vol. 19, p.95.
[110] Nelson, Richard., and Rosenberg, Nathan (1993), "Technical Innovation and National systems", in Nelson R. (ed), p.18.
[111] Weiss, Linda, (1998, *The Myth of the Powerless State: Governing the Economy in a Global Era*, Cambridge: Polity Press, p. 212.
[112] Lipsey, G, Richard, (2002), "Some Implications of Endogenous Technological Change for Technology Policies in Developing Countries", *Economics of Innovation and New Technology*, Vol.11 (4-5), pp. 331-2.
[113] As quoted in Freeman Chris, (1995), Op Cit, p.19.

note, "there is clearly a new spirit of what might be called 'techno-nationalism' in the air, combining a strong belief that the technological capabilities of a nation's firms are a key source of their competitive prowess, with a belief that these capabilities are in a sense national and can be built by national action".[114] At the centre of South Korea's, Kim Linsu[115] and for Taiwan, Hou and Gee,[116] technological capability was national system of industrial innovation. Kim Linsu argues that economic progress could be attributed to many factors but the most important of all may be technological capabilities, which is a combined outcome of various economic, social and technical inputs.[117] Technological capability enables one to assimilate, use, adapt, change or create technology and to develop new products and processes in response to a changing economic environment.

The national innovation system is, therefore, critical in the acquisition of technological capabilities. The important point, though, is that the development of technological capabilities is neither costless nor automatic. It is acquired through effort to apply existing information and to accumulate technological knowledge to evaluate and choose technology. This effort takes the form of investments in technological capability through skills training and research and development, which is the ability to make effective use of technological knowledge.[118] For developing countries, industrial competitiveness depends on how well individual firms manage the process of technological and managerial development. Dahlman and Ross-Larson note that inventing products and processes is not at the centre of technological development needed for successful industrialisation.[119] However, the processes of technological skill acquisition face market and non-market obstacles.

Sanjaya Lall observes that technology development faces a number of market failures and governments need to intervene to overcome them and promote deepening and diversification.[120] This is because market forces do not always induce intensive technological changes that are warranted. The development of capabilities is an outcome

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114 Nelson and Rosenberg, (1993), "Technical Innovation and National System", p.3.
115 Linsu, Kim, (1993), "National System of Industrial Innovation: Dynamics of Capacity Building in Korea" in Nelson, Richard (ed). *National Innovation Systems*…pp. 357-383.
116 Hou, Chi-Ming and Gee, San, (1993), "National Systems Supporting Technical Advance in Industry: The Case of Taiwan", in Nelson, R. (ed), *National Innovation Systems*…pp. 384-413.
117 Linsu, Kim, (1993), Op Cit., p.258.
118 Westphal, Larry and Howard, Pack., (1986), "Industrial Strategy and Technical Change: Theory versus Reality", *Journal of Development Economics*, Vol.22 p.105.
119 Dahlman, Carl,, and Ross-Larson, (1987), "Managing Technological Development: Lessons from the Newly Industrialising Countries", *World Development*, Vol.15, No.6, p.759.
120 Lall, Sanjaya, (1992a), "Technological Capability and Industrialisation", *World Development*, Vol.20, No.2, p.165.

of complex interactions. The differences in technological capabilities of nations and the consequent core companies are a reflection of institutional differences in the mode of importing, improving, developing and diffusing new technologies, products and processes.[121]

In spite of globalisation, the nation-state, national economies and national systems of innovation are still essential for the development process. Technology policy has to be guided by a strategic vision at the national level. The ultimate goal of development is to create a dynamically innovative economy, whose citizens can prosper whatever the state of the global economy.[122] In this sense, the national innovation system must be seen as part and parcel of industrial policy. To achieve competitiveness there is need for the total organisation and articulation of the economy. Of critical importance is openness to foreign ideas and knowledge, and a capacity to absorb these and blend them with existing capabilities.[123] The states, in general and industrial policy in particular, are critical in the process.

The shift in theoretical debate is that from "why we need innovation policy" to "what kind of policy is needed" at the various phases of development of a country.[124] The radical changes in the environment, globalisation and information technology revolution necessitate a shift towards an integrated policy process rather than a continuation of prevailing minor policy processes. It therefore, becomes increasingly important for governments and private firms in developing countries to be aware of technological developments of the cutting edge technologies and not just to be satisfied with finding niches and copying established technologies at the later stages of their development.[125] In general, globalisation increases the need for strong national innovation systems. As it poses new opportunities and challenges that local firms are ill-equipped to address on their own, public policy must continue to cajole and assist these firms by signalling opportunities, reducing risks and engaging in research and development.[126] The process

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121 Freeman, Chris (1995), Op Cit, p.20.
122 Westphal, E, Larry, (2002), "Technology Strategies for Economic Development in a Fast Changing Global Economy", *Economics of Innovation and New Technology*, Vol.11 (4-5), p.276.
123 Ernst, Dieter, (2002), "Global Production Networks and the Changing Geography of Innovation system: Implications for Developing Countries", *Economics of Innovation & New Technology*, Vol.11 (6), p.519.
124 Bartzokas, Anthony, and Teubal, Morris.(2002), "A Framework for Policy Oriented Innovation Studies in Industrialising Countries", *Economics of Innovation and New Technology*, Vol.11 (4-5), p.478.
125 Lipsey, G, Richard, (2002), "Some Implications of Endogenous Technological Change for Technology Policies in Developing countries" *Economics of Innovation and New Technology*, 2002, Vol.11 (4-5), p.342.
126 Ernst, Dietr., (2002), Op Cit., p.517.

of policy responses to challenges is increasingly complex due to the fact that the emerging forms of economic activities and competition indicates new roles for policy.[127] Constructing or changing institutions requires changing the worldviews that inevitably underlie their institutional frames. The combination of the above institutions and policies is critical for industrial transformation. What then is the relevancy of the institution of an industrial policy regime?

3.2 Dimensions of Industrial Policy

Industrial policy is a generic term for a spectrum of policies that are utilised for the purpose of promoting a country's economic development. It encompasses a wide range of policies designed to affect production, consumption, investment and foreign trade in the way government considers desirable.[128] The definition of industrial policy tends to be too broad and overloaded to be useful in practice. Chang Ha-Joon proposes to define it as "a policy aimed at particular industries and firms as their components to achieve the outcomes that are perceived by the state to be efficient for the economy as a whole".[129] In practice of successful industrial policy, the focus has been on the narrow conception that takes targeting as the core of industrial policy.[130] This is done through both formal and informal institutions. The central objective is to alter resource allocations towards particular sectors, firms or activities.

Chalmers Johnson advances a more comprehensive definition of industrial policy. According to him, "industrial policy means the initiation and co-ordination of governmental activities, through targeting, to leverage upward the productivity and competitiveness of the whole economy and of particular industries in it…. Industrial policy is first of all an attitude and only then a matter of technique. Above all, it means the intrusion of goal-oriented, strategic thinking into public policy. There is no such a thing as a government not having an industrial policy".[131]

In general, industrial policy is a micro-economic policy implemented at the level of the firm or industry. While the target is usually particular firms or sub-sectors, several

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127 Bartzokas, Anthony and Teubal Morris, (2002), Op Cit. p.479.
128 Mihn, Kyoung-Hwie, (1988), "Industrial Policy for Industrial for Industrialisation in Korea", Korea Institute for Economics and Technology, *KIET Occasional Paper*, No.88-03, p.4.
129 Chang, Ha-Joon, (1994), *The Political Economy of Industrial Policy*, Cambridge: Macmillan, St.Martin's Press, p.60.
130 Chang, Ha-Joon, (1998), "Evaluating the Current Policy in South Africa", *Transformation*, 36, p.53.
131 Johnson, Chalmers, (1984), "Industrial Policy Debate Re-examined", *California Management Review*, Vol. XXVII, No. 1 Fall, p.74.

instruments are employed ranging from direct subsidies to companies, loans and loan guarantees and tax incentives. Other policy instruments include: government procurements, preferential licensing, Research and Development (R&D) support, infrastructure development, worker assistance, trade promotion, control and regulation.[132]

All governments intervene to shape their economies' productive structures by default or design. Since, in modern times, industrial activity is the cornerstone of national economic development, all states practice a wide variety of industrial policies, albeit under different names and in different forms. In this sense all countries have an industrial policy; neither should industrial policy be reduced to targeting.

There are arguments for and against the practice of industrial policy in developing countries with both theoretical and policy implications. On one hand, the proponents of industrial policy advance several arguments based mainly on the notion of complexity of the development process. On the other hand, the opponents advance contrary arguments and contend that all selective industrial policy is economically undesirable and harmful.

3.2.1 Theoretical Arguments for Industrial Policy

In this section, a detailed discussion of the various theoretical arguments in favour of industrial policy is presented. The basic argument is that there is room for state intervention where there is market failure – when a competitive market system does not yield the socially efficient outcomes. But what should be noted at the outset is that the conception, content and forms of industrial policy differ, reflecting the state of development of a given economy, its national and historical circumstances, international conditions and its political and economic situation, resulting in considerable differences from nation to nation and from era to era.[133] The case for industrial policy can broadly be grouped around a number of themes: a) market failure, b) coordination task, c) informational externalities, d) need for technological upgrading through FDI and e) economies of scale.

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132 Jarboe, Kennan, (1985), "Book Review: A Reader's Guide to Industrial Policy Debate" *California Management Review*, Vol.XXVII, No.1, Fall, p.199.
133 Hiroya, Veno, (1983), "Industrial Policy: Its Role and Limits", *Journal of Japanese Trade and Industry,* Vol.34, July-August.

Why industrial policy? One of the central points of the proponents of industrial policy is the emphasis on the centrality of the state and related institutions in fostering the development process. It has been observed that historically, no country has entered into modern economic growth without the state's targeted intervention or collaboration with large-scale private sector entities.[134] One of the most critical functions of the state is to facilitate economic development and to enhance popular welfare. For the Third world countries where the task of economic transformation is enormous, there arises need for special policy practices that will facilitate the attainment of rapid industrialisation. The structures of developing countries are significantly different from those of industrialised countries, to such an extent that economic outcomes in response to similar events in each environment will systematically reflect such differences and approaches.[135] Thus, a country's economic position relative to more advanced nations directly influences the nature of state intervention in its development process. Empirically, the rise of East Asian economies where the state has implemented strong industrial policy measures and created industrial sectors that had not previously existed such as steel, shipbuilding, transportation, petrochemicals and semiconductors with great success, has aroused interest in industrial policy.[136]

Secondly, market failure – which leads to slow development and workings of market institutions in less developed as opposed to richer economies, provides one of the basic rationales for expanding the scope of state intervention.[137] This is because in the developing countries, it is not so much due to market failure that necessitates state intervention but more of the need to create markets, which may best be created by the state through structural reforms. Even in the absence of market failure, a less developed economy requires the government's extra intervention to speed up industrial growth and structural transformation. It is, however, noted that not all market failures require state intervention.[138] Intervention may be best justified where market failures significantly

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134 Shapiro, Helen and Taylor, Lance, (1990), "The State and Industrial Strategy", *World Development*, Vol.18 No.16, p.863 and Chang, Ha-Joon, (1994), Op Cit.

135 Coclough, Christopher., and Manor James. (eds.) *States or Markets? Neo-liberalism and the Development Policy Debate*, Oxford: Clarendon Press, p.2.

136 Henderson, Jeffrey and Appelbaum, R.Paul, (1992), "Situating the State in the East Asian Development Process" in Henderson, J and Appelbaum, R (eds.), *States and Development in the Asian Pacific Rim,* London: Sage Publications, p.22

137 Shapiro Helen., and Taylor, Lance (1990), Op Cit, p.863.

138 Lall, Sanjaya, (1994), "Industrial Policy: A Theoretical and Empirical Exposition", *International Development Centre,* (Queen Elizabeth House: Oxford University), p.2.

retard industrial development and where market driven solutions fail or take too long to emerge.

Industrial policy not only makes sense but can sometimes provide a better alternative both to the unregulated market and to other forms of state intervention, for example, central planning.[139] Strategic industrial policy guided by a strong (pro-active) developmental state can be carefully employed to strengthen national firms and economies in this potentially hostile and destructive international environment.[140] In a context where the economy is ever-changing and complex, state intervention leads to the creation of leverage points with which to influence the direction of the economy. The key sectors or industries are those with extensive linkages to the economy rather than few attachments to other industries.

The coordination task of industrial policy is perhaps the most critical justification of its practice. Industrial policy can and should play an important role in resolving the coordination problems that cannot be easily dealt with by the market mechanism. Moreover, the market mechanism, which is seen as the invisible hand by Adam Smith, is particularly bad at resolving coordination problems that require large-scale changes like industrial crisis or restructuring.[141] Chang, Ha-Joon notes that the deficiency of the unregulated market as a coordination device was already recognised by Karl Marx, who saw firms as islands of planned economy in the capitalist sea of anarchy. Therefore, investment coordination by the state is a way of avoiding over-investment and under-investment due to the difficulty of making credible commitments concerning one's investment decisions.[142] To effectively execute this task, calls for clear policy-making in government, consultation among business, government and labour and create competent analytical systems capable of looking at the economy as a whole. Coordination, if correctly implemented, ensures articulation of multiple policy instruments with the entire

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139 Chang, Ha-Joon, (1994), Op Cit, p.55.

140 Elsner, W., and Groenewegen, J., (2000), *Industrial Policies After 2000*, London: Kluwer Academic Publishers, p.474.

141 Chang, Ha-Joon, (1994), *The Political Economy of Industrial Policy*, p.55. Adam Smith with his doctrine of "invisible hand" claims that the pursuit of individual interest leads to a socially optimal result. Thus, when each person attempts to maximise his/her own individual satisfaction, it is as if there is and "invisible hand" that arranges that society thereby achieves better outcomes than if each person had tried to act for public interest. Smith recognises that the invisible hand will fail whenever there is conflict of self-interest and where self-interest leads to socially undesirable outcomes, Farmer, J. David, (1996), Contemporary Conceptual Space: Reading Adam Smith, *Journal of Management History*, Vol.3, No.3, p.249.

142 Chang, Ha-Joon, (1994), Op Cit. p.70.

production system rather than a single industry or sector and many economic objectives, not just short-run efficiency.[143]

To enhance competitiveness in industry, a certain level of technological mastery must be attained. State involvement is important. In developing countries, local industry cannot start from scratch without access to foreign technology. A certain level of domestic control is necessary as to leverage the local firms for acquiring foreign technology cheaply and pressurising foreign companies to make joint ventures with local entrepreneurs.[144] Secondly, the acquisition and the creation of technology demands colossal resources to carry out Research and Development, (R&D). This cannot be left to the market forces alone as the requirements may be beyond individual firms or sectors. It requires an industrial strategy, which should be seen as a matter of managing technological change to achieve dynamically efficient industrialisation. "Technology…does not merely include the knowledge of physical processes that transform inputs into outputs (technical knowledge). It also includes the knowledge of procedural and organisational – that is, institutional arrangements for carrying out the transformations".[145]

Sustainable competition demands a shift by firms to modern sectors or more complex technologies. Yet, market prices, though important and effective signals for adjusting supply and demand in the short-run, are quite inadequate as guides for investment decisions about new technologies, choice of producers and scales of production. The combination of state prodding and subsidies may transform what could have been a risky, if not impossible, industry into an attractive proposition. Alexander Hamilton noted that "Capital is wayward and timid in lending itself to new undertakings, and the state ought to excite the confidence of capitalists, who are ever cautious and sagacious, by aiding them to overcome the obstacles that lie in the way of all experiments".[146]

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[143] Jarboe, (1985), Op Cit, p.214.
[144] Evans, Peter., (1995), Op Cit. p.100.
[145] Howard, Pack and Westphal, Larry E., (1986), "Industrial Strategy and Technological Change: Theory versus Reality", *Journal of Development Economics*, Vol.22, pp 87-104.
[146] Alexander, Hamilton, (1755-1804), was the first Secretary of Treasury of the United States. For our case, apart from the proposal to create a national bank, which helped steady the economy by controlling inflation, Hamilton encouraged governmental influence on industry through his "Report on Manufactures". His efforts in initiating a national bank, debt assumption and a protective tariff helped establish a stable economy through which the newly created United States could grow and prosper. *Alexander Hamilton: America's Financial Genius*, http://www.rich.frb.org/educational_info/academic

Closely related to the above argument is the notion that government is more willing to incur up-front losses than commercial participants. Sectors such as iron and steel, for instance, generate externalities whose benefits are desirable that they warrant government support.[147] For developing countries, required investments are enormous in comparison to the savings or even national capital stock available. Although it may provide adequate signals for marginal changes, price mechanisms cannot guide "big" industrial decisions, nor can it be relied upon to induce the massive resource transfer necessary for industrialisation. Public interventions are required both to support investors via protection, subsidies, cheap credits and investment directly to break critical bottlenecks.[148]

In addition to crafting an industrial policy, therefore, the state should necessarily be entrepreneurial in light of missing markets and institutions. The entrepreneurial orientation of the state comes from the recognition that some industries and some products are more important for the future growth of the economy than others and hence the need to concentrate scarce capital in strategic industries.[149]

Industrial policy is deemed necessary in enhancing a country's manufacturing capability.[150] Macro-economic measures, though important, are not sufficient for the vigorous development of manufacturing. The state should intervene to promote industrial development if necessary through targeting.[151] Targeting does not mean the promotion of technologies that are unlikely to develop on their own, it means, rather, helping them to achieve the necessary economies of scale and manufacturing efficiency without which they can never become internationally competitive.

Contrary to the notion that globalisation renders state intervention irrelevant as critiqued by Martin Fransman,[152] Linda Weiss observes that the nation-state's ability to adapt to internationalisation will continue to heighten rather than diminish national differences in

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147 Howard, Pack, (2000), "Industrial Policy: Growth Elixir or Poison? Industrial Policy Debate", *World Bank Research Observer*, Vol.15, No.1 (February) p.18.
148 Shapiro and Taylor, (1990), Op Cit, pp 862-3.
149 Yu, T. Fu-Lai, (2001), "Towards a Theory of the Entrepreneurial State" *International Journal of Social Economics*, Vol. 28, No.9, p.760.
150 Cohen, Stephen. and Zysman, John, (1987), *Manufacturing Matters: The Myth of the Post-Industrial* Economy, (New York: Basic Books Inc.).
151 Reich, Robert, (1982), "Why US Needs Industrial Policy", *Harvard Business Review*, January –February and Johnson, Chalmers., (1984), Op Cit, p.77.
152 Fransman Martin, (1995), "Is National Technology Policy Obsolete in a Globalised World? The Japanese Response" *Cambridge Journal of Economics*, Vol.19, p.95.

state capacity and the associated advantages of national economic coordination.[153] The state remains relevant both at the level of policy and the organisation of production. With intensified competition, it remains critical in the support for national firms or sectors and in enhancing the vitality of their value chains.

Industrial policy must of necessity recognise and deal with these concerns. One important condition for the success of industrial policy is for it to be based on a coherent vision for the future of the industrial structure of the economy backed by an overall bureaucratic coherence. However, there are several contrary arguments on industrial policy.

3.2.2 Theoretical Arguments against Industrial Policy

The opponents of industrial policy advance contrary arguments. This section discusses the arguments against the practice of industrial policy. Among these include: i) the problem of picking winners within the two dimensions of lack of information and the encouragement of rent-seeking. ii) rejection of infant industry arguments, iii) the problems with targeting and iv) that industrial policy undermines the legitimacy of the state. These arguments are critically examined below.

Firstly, the new consensus seems to be that all selective industrial policy is economically undesirable and harmful. The government's role is simply to establish an economic environment in which market forces will realise the efficient allocation of resources. Consequently, there is no legitimate government role in 'selectivity' by altering the market driven allocation of resources between productive activities discriminatively among industries except as necessary to overcome market failures. The consensus points to the invisible hand of the market as the best allocating force to bring about systematic growth.[154]

Secondly, it is argued that economic problems stem from too much, not too little government interference in the market and that the recommendations of industrial policy

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153 Weiss, Linda, (1998), *The Myth of the Powerless State: Governing the Economy in a Global Era*, (Cambridge: Polity Press), p.212.
154 Pack, Howard, (2000), "Industrial Policy: Growth Elixir or Poison?", *The World Bank Research Observer*, Vol.15, No.1 (February).

place the government even further at odds with the free workings of the market.[155] Slow progress in Less Developed Countries, (LDCs), has been attributed to the excessive economic intervention by their governments. Market failure is seen as mainly caused by excessive intervention rather than as providing a case for its further, even more pervasive extension.[156] But as Peter Evans argues, in the contemporary world, withdrawal and involvement are not the alternatives.[157] State involvement is a given. The appropriate question is not "how much" but "what kind". The concern here is the question of state capacity to intervene appropriately.

Thirdly, the consensus rejects the infant industry argument that since the structures of developing countries are less developed, there is need for nurturing industries and firms that can compete against their counter-parts in developed economies.[158] It is argued, with substantial evidence, that most selective interventions in most countries have been ineffective, costly and corrupt.[159] The failure of ISI can be attributed to misapplication of policies of protection. The problem with the opponents of ISI is that they treat infant industry protection as simply the use of tariff and non-tariff barriers to give domestic producers a chance to get established. This is misleading, however, because infant industry protection includes a whole array of other instruments – including subsidies through credit, tax concessions, privileged links to research institutes, targeted technical education, public procurement and the like. The case for infant industry protection is not a case for tariff and non-tariff barriers. It is a case for public support, of which trade protection is one kind, among many others.

Contrary to the opponents of industrial policy practice, infant industry protection and proactive selective industrial policies more generally can be efficacious and should be regarded as a legitimate instrument of national development. Industries in developing countries, potentially competitive in world markets, save for catch-up costs associated

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155 Reich, James, (1982), Op Cit , p.75.
156 Colclough and Manor, (1991), Op Cit, p.6.
157 Evans, Peter. (1995), Op Cit, p.10.
158 Infant industry argument is an argument for government intervention for a limited time period only to correct a transient distortion. The industries initiating the processing of manufacturing would have to incur temporary excessive costs in the initial stages but they would eventually be able to compete on equal terms with foreign producers in the domestic or world market if they were given temporary tariff protection to enable them to establish themselves. This is the argument that was advanced by both Frederick List and Alexander Hamilton.
159 In Symposium on Infant Industries (2003), published in the *Oxford Development Studies*, Vol.31, No.1, several authors, among them, (Adrian Wood, Roberts John, Robert Wade, Chang, Ha-Joon and Gavin, Williams) examine the various dimensions of the infantry industry propositions.

with late entry, might efficiently be protected in the early years of their development. Frederick List, the advocate of infant industry protection noted that it is a common clever device when anyone has attained the summit of greatness for him to *kick away the ladder* by which he has climbed up, in order to deprive others of the means of climbing up after him. In this lies the secret of the cosmopolitan doctrine of Adam Smith.[160] Virtually all the now developed countries used public support for domestic industry, including trade protection, until their industries became strong enough to compete in conditions of more or less free trade. Not only did the now developed countries virtually rely on public support as they were developing, including trade protection, once at the stage of sufficient endogenous productivity growth to be able to compete without public support, also repudiated these same practices – not only for themselves but also for everyone else, and even disavowed their earlier use of them.[161]

Fourthly, targeting constitutes an important part of industrial policy. Consequently, the critics of industrial policy have focused their attacks on the technical difficulty and political corruptibility of the targeting exercise, which they hardly lack supporting evidence and even turned targeting into a dirty word.[162] There are two major problems associated with targeting: first, uncertainty and second, rent seeking.[163]

It is true that there is a lot of uncertainty associated with selective intervention – uncertainty about where and how to intervene and about what results to expect.[164] It is also true that the information problem arises because the state does not possess enough information to decide correctly on the future industrial structure of the economy.[165] But it is also the case that the private sector as well suffers from the problem of imperfect information. It is the information externalities generated by ignorance in the private sector that creates a useful public role by the state.[166]

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[160]List, Fredreich, (1885) *The National System of Political Economy*, translated by Sampson Lloyd, Augustus M. Kelley, Publishers and quoted in Wade, (2003), Symposium on Infant Industries, (2003), p.10

[161] Chang, Ha-Joon, (2002) b, *Kicking Away the Ladder: Policies and Institutions for Development in Historical Perspectives,* London: Athem Publishers.

[162] Chang, Ha-Joon, (1998), Op Cit, p.57.

[163] The term rent-seeking was introduced by Krueger Anne in the 1974 article, "The Political Economy of the Rent-Seeking Society" below. The observation was that in many market-oriented economies, government restrictions upon economic activity give rise to rents of a variety of forms – including but not limited to bribery, corruption, smuggling and black markets, and often people compete for rents. The implication is that the competition for rent displaces the productive efforts and benefits.

[164] Howard, Pack and Westphal, Larry (1986), Op Cit p.103.

[165] Chang, Ha-Joon, (1994) Op Cit, p.80.

[166] Rodrik, Dani (2004), "Industrial Policy for the Twenty-First Century", a paper prepared for UNIDO, September, http://www.ksg.harvard.edu/rodrik/ p.1.

Fifthly, the proponents of rent-seeking theory have argued that under state promotion policies, instead of devoting their time and effort to managing production efficiently, managers will tend to concentrate their effort on lobbying state officials to establish and maintain policy created rents.[167] The bribes as a result lower the return on investment and rent-seeking contracts cannot be enforced in court. Therefore, by this logic, any form of state intervention can only result in stifling of development in the process of its interactions with the entrepreneurs. For that matter government needs to maintain its autonomy from the private interests.

But these arguments and assumptions do not take into consideration a number of factors: first, the state can elicit useful information from the private sector only when it is engaged in an on-going relationship with the private sector – a situation that has been termed by Peter Evans as "embedded autonomy".[168] Second, the arguments ignore the question of how states are configured, how their incumbents are recruited or how they are linked to other social groupings. Third, sight is often lost of the fact that governments need to learn how to promote industrial development. Finally, the notion of 'imperfect markets are better than imperfect states' seems to introduce an unwarranted pessimism if not defeatism into the debate on industrial policy.[169]

According to this argument, therefore, industrial policy, should not be used because it undermines the legitimacy of the state.[170] This is because by opening the door for special interests, industrial policy practice can erode the image of the state as a social guardian and therefore make people question its intentions. Secondly, it gives bureaucrats the power to allocate property rights and hence creates scope for bureaucratic corruption. In addition to its efficiency consequences (for example an industrial licence may go to an inefficient producer), corruption may have consequences for legitimacy of the political system and democratic control. But as Chang Ha-Joon argues, legitimacy is concerned

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167 Krueger, Anne, (1974), "The Political Economy of Rent-Seeking Society", *The American Economic Society*, June, Vol.64, No.3 and Buchanan, et al (eds.) (1980), *Towards a Theory of the Rent-Seeking Society*, (College Station: Texas A and M University Press).

168 Evans, Peter, (1995), Op Cit.

169 Schmitz, Hubert and Hewitt, Tom (1991), "Learning to Raise Infants: A Case Study in Industrial Policy", in Colclough, C., & Manor, J., (eds), *States and Markets? Neo-Liberalism and the Development Debate*, (Oxford: Clarendon Press), p.174.

170 Krueger, Anne, (1990), "Government Failures in Development", *Journal of Economic Perspectives*, Vol.4 No.3, summer p.18.

with the socio-economic system as a whole and as such legitimacy is not confined to industrial policy.[171]

Arguably, the problem of rent seeking should not be seen in zero-sum terms. Many problems and costs associated with state-created rents identified by rent-seeking theory may be reduced through appropriate institutional arrangements.[172] Rent seeking should not be regarded as endemic to state intervention per se, but rather resulting from specific political conditions. The solution, therefore, lies in more fundamental reforms of socio-political formations. Dic Lo argues that the conceptualisation of the state as a collection of self-interested bureaucrats, and hence government failures as inevitably worse than market failures, is naïve.[173] The defining moment for the success of state intervention is not simply to pick winners and perpetually protect them regardless of their performance but to look for parts of government where there is bureaucratic competence, where there is professional expertise with a certain amount of autonomy to formulate and implement policy. The right way of thinking about industrial policy, as Rodrik Dani argues, is, as a discovery process, – one where firms and government learn about underlying costs and opportunities and engage in strategic coordination.[174] Political institutions and relations are better understood as products of historical evolution and social engineering rather than a utility maximisation choice and the analysis of them should be placed in their specific context.

The opponents of industrial policy argue that it is less subject to democratic control because it is open to bureaucratic discretion, in contrast with other "even-handed" general policies. Against this view Chang Ha-Joon observes that "some degree of bureaucratic control is necessary for any society of reasonable sophistication, because many decisions have to be taken in response to rapidly changing situations and cannot, except at the cost of total stasis and chaos, be 'left' until a highly democratic decision-making process has been completed."[175] It is not just only industrial policy that suffers from the problem of democratic control.

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171 Chang, Ha-Joon, (1994), Op Cit, p.85.
172 Chang, Ha-Joon and Cheema Ali, (2002), "Conditions for Successful Technology Policy in Developing Countries – Learning Rents, State Structures and Institutions", *Economics of Innovation and New Technology,* Vol.11, (4-5), p.372.
173 Lo, Dic, (1995), "Techno-Economic Paradigm versus the Market: on Recent Theories of Late Industrialisation", *Economy and Society*, Vol.24, No.3, p.464.
174 Rodrik, Dani, (2004), "Industrial Policy for the Twenty-First Century" paper prepared for UNIDO, at http://www.ksg.harvard.edu/rodrik/ p.3-4.
175 Chang, Ha-Joon, (1994), Op Cit. p.87.

The opponents of industrial policy further argue that post-industrial economies are moving to service activities; hence favouring manufacturing is not only unnecessary but also harmful. It is argued that we need not and indeed should not, have policies that favour manufacturing, not to mention industrial policies geared to the needs of specific sector. This argument ignores the importance of linkages in the economy. The more advanced or modern the production process, the longer and more complicated the chains of linkages.[176]

Effective industrialisation requires particular supporting institutions, which are in short supply in most developing countries. Although an effective industrial policy regime does require an appropriate set of supporting institutions, the difficulty of building them should not be exaggerated. Countries learn from their own past experience and from other countries and engage in institutional innovations. Institutional innovations do not necessarily take a long time. Learning from other countries with different institutions does not necessarily mean that a country has to exactly copy their institutions.[177]

According to the opponents of industrial policy, the East Asian crisis of 1997-98 was attributed to the practice of industrial policy – that is, too much intervention resulting in cronyism. Using South Korea as a case, Chang, Park and Yoo contend that the crisis was not due to government intervention.[178] They argue that the crisis resulted from uncoordinated and excessive investments in the private sector, financed by imprudent amounts of short-term foreign debt, which in turn had been made possible by rapid and ill-designed financial liberalisation and a serious weakening of industrial policy. It was the demise of industrial policy rather than its perpetuation, which drove the South Korean economy into crisis. It was the dismantling of the traditional mechanisms of generating and coordinating long-term investment rather than the perpetuation of the traditional regime, which made South Korea's corporate debt and foreign borrowing situations difficult.

The main argument about the efficacy of industrial policy is not really between intervention and non-intervention, but about which form intervention is carried out and for which ends. While the proponents of industrial policy stress its necessity, the

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176 Cohen and Zysman, (1987), Op Cit. p.10.
177 Chang, Ha-Joon, (1994), Op Cit. p.88.
178 Chang, Park and Yoo, (1998), "Interpreting the Korean Crisis: Financial Liberalisation, Industrial Policy and Corporate Governance", *Cambridge Journal of Economics*, No.22, p.737.

opponents emphasise its insufficiency. In other words, industrial policy is both the solution and the problem. What is needed, however, is the exploration of intermediate factors that link the two extreme positions. Institutions and their practice through various mechanisms may be considered as crucial intermediate factors in bridging these extremes. These theoretical reflections can best be illuminated by the historical experience of the now developed and NICs as far as states and markets are concerned.

3.3 States and Markets: Comparative Institutional Perspectives

In institutional political economy perspectives, the classic interpretations of Weber,[179] Polanyi[180] and Gerschenkron,[181] of the development process have brought the relative importance of the state to the fore in the analysis of European industrialisation, puncturing the myth of the original industrial revolution as a purely private process. The statement that captures Weber's stress on the centrality of bureaucracy is that "capitalism and bureaucracy have found each other and belong intimately together".[182] According to Collins Randall, the bureaucratic state is a crucial background determinant for all legal and institutional underpinning of capitalism, but there must be a separation of the administrator from treating the office and its incomes as private property.[183] The major problem of the expansion of capitalism, Randall contends, is that of the development of the mind of capitalism.

The Weberian perspective does not negate the positive effects of strengthening market institutions, but it does postulate that bureaucratically structured public organisations, using their own distinct set of decision-making procedures, are a necessary compliment of market-based institutional arrangements. For Weber, these public structures are not of an extraneous interest but, instead, are the key to all of the institutional structures of rational capitalism. To him, the operation of large-scale capitalist enterprise depended on

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179 Weber, Max, (1922, 1978), *Economy and Society: An Outline of Interpretive Sociology*, Berkeley: University of California Press.
180 Polanyi, Karl, (1944), *The Great Transformation: The Political and Economic Origins of Our Time*, Boston: Beacon Press.
181 Gerschenkron, Alexander, (1962), *Economic Backwardness in Historical Perspectives: A Book Essays,* Cambridge, Massachusetts: Harvard University Press.
182 Weber, Max, (1968), *Economy and Society*, Guenter Roth and Claus Wittich, (eds), New York: Bedminster Press, p.1395.
183 Randall, Collins (1992), "Weber's Last Theory of Capitalism: A Systematisation" in Granovetter M., & Swedberg, R., (eds.), *Sociology of Economic Life*, Boulder: Westview Press, pp.93-104.

the availability of the kind of order that only a modern bureaucratic state could provide.[184]

Karl Polanyi, as an institutional economic historian, observes that "there was nothing natural about laissez-faire, free markets could never have come into being merely by allowing things to take their course".[185] The 'invisible-hand' theory of social order is, indeed, a mere utopian ideal for market society. Economic relations must always be seen as embedded in a matrix of social ties. Markets are not givens, they are social constructions.

Karl Polanyi's central observation is that:

> "The road to free markets was opened and kept open by an enormous increase in continuous, centrally organised and controlled interventionism. … The introduction of free markets far from doing away with the need for control, regulation and intervention, enormously increased their range. Administrators had to be constantly on the watch to ensure the free working of the system".[186]

Fred Block and Margaret Somers concur that the road to the free market was paved with continuous political manipulation whether the state was actively involved in removing old restrictive regulations or building new political administrative bodies to bolster the factors of production of the new market economy.[187] The 'natural' self-regulating market was politically and socially constructed in its origins. According to Karl Polanyi:

> "Neither a national nor an international system can depend on the automatic regulants… the institutional fabric must maintain and control the economic scheme of things. To allow the market mechanism to be sole director of the fate of human beings and their natural environment, indeed, even of amount and use of purchasing power, would result in the demolition of society".[188]

Therefore, Polanyi provides a keen sense of the degree to which the creation and maintenance of markets depend on state action. The life of the market has been intertwined not just with other kinds of social ties, but with the firms and policies of the state. An effective state was not simply an adjunct to the market, but was an essential prerequisite of the formation of market relations.[189] Linda Weiss and John Hobson, note

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184 Evans, Peter, (1995), Op Cit., pp.29-30.
185 Polanyi, Karl., (1944), Op Cit., p139.
186 Ibid, p.140.
187 Block, Fred and Somers, Margaret, R., (1984), "Beyond the Economistic Fallacy: The Holistic Social Science of Karl Polanyi", in Skocpol, T., *Vision and Method in Historical Sociology*, Cambridge: Cambridge University Press, p.56.
188 Hechter, Michael, (1981), "Karl Polanyi's Social Theory: A Critique", *Politics and Society,* Vol.10, No.4, p.413.
189 Evans, Peter, (1995), Op Cit., p.29.

that the point is not just the Polanyian principle that market exchange depends on state power. It is that the markets require some form of central co-ordinating agency in order to effect change and adjustment to continuously changing conditions of competition.[190]

Alexander Gerschenkron[191] and Albert Hirschman[192] can be broadly categorised as theorists of "late" development. Gerschenkron as a theorist of European industrialisation argues that in very important respects the development of a backward country, may, by virtue of its backwardness, tend to differ fundamentally from an advanced country. Basically, his central thesis is that there is more than one path to development. Countries setting out to become industrialised are likely to forge their own policies, sequences and ideologies to that end. Conditions of backwardness make it imperative for countries developing late to institute an organised system in the development process. As he puts it, "…the more backward a country, the more likely its industrialisation was to proceed under some direction, depending on the degree of backwardness, the seat of such direction could be found in investment banks, in investment banks acting under the aegis of the state, or in bureaucratic controls".[193]

The degree of state intervention required for promoting development increases in proportion to relative backwardness. It is these institutional arrangements that would bring about development in a backward country. Gerschenkron observes that "to break through the barriers of stagnation in a backward country, to ignite the imaginations of men, and to place their energies in the service of economic development, a stronger "medicine" is needed than the promise of better allocation of resources or even lower price of bread".[194] The peculiar conditions of late development necessitate vision, ideological commitment and different institutional arrangements. The market, as it were, is not enough.

Albert Hirschman as well addressed the issue of economic development in backward countries. He argued against the theory of balanced growth, which he saw as a justification for centralised governmental direction.[195] He as well rejected the notion that

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190 Weiss, Linda, and Hobson, John, (1995), *States and Economic Development: A Comparative Historical Analysis*, (Oxford: Blackwell Publishers), p.8.
191 Gerschenkron, Alexander., (1962), Op Cit., p.7.
192 Hirschman, Albert, (1958), *The Strategy of Economic Development*, New Haven: Yale University Press.
193 Gerschenkron, A.lexander, (1962), "Reflections on the Concept of 'prerequisites' of Modern Industrialisation" in *Economic Backwardness in Historical Perspectives*, p.44.
194 Gerschenkron, Alexander, (1962), Op Cit., p.24.
195 Hirschman, Albert., (1958), *Op Cit.,* p.54.

the problem in the Third World was lack of capital, arguing that, "…savings and productive investment are as much a result as a cause of development". Neither can market forces alone resolve this. He contends that development depends not so much on finding optimal combinations for resources and factors of production as on calling forth and enlisting for development purposes, resources and abilities that are hidden, scattered or badly utilised.[196] Particular institutional arrangements to mobilise these resources have to be put in place to transform backwardness.

Albert Hirschman argued against the key role that is attributed to the generation of savings as the major basis of capitalism. It is totally wrong, he contends, to leave out of the account changes in much more strategic variables, such as corporate savings, technical innovation and entrepreneurial skills, not to speak of cultural and institutional factors.[197] The condition of backwardness in the Third World is bound to make their development into a less spontaneous and more deliberate process than was the case in the countries where the process first occurred.

The idea of induced decision-making and the creation of 'multi-dimensional conspiracy', which refers to creating sectoral dynamism for development, is of particular interest here. Among the institutions that may stimulate decision-making, the state is an obvious candidate. To play this role, the state must do more than provide a predictable environment or gather available capital together into larger lumps. The state is seen as a potential source of 'disequilibrating' incentives that make decisions harder to avoid and thereby induce private capital to become more entrepreneurial.[198]

The focus on sectors creates 'multi-dimensional conspiracy'. Inducing decisions by the state focusing on sectors creates sectors and social groups that come to identify their future with the future of the sector. Having helped bring new entrepreneurial groups into a sector, the state can focus on nurturing them and promoting their further evolution.[199] The resulting dynamism in the economy within these sectors and beyond is what Hirschman refers to as 'multi-dimensional conspiracy'.

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196 Ibid, pp.3-5.
197 Hirschman, Albert, (1992), "The Rival Views of Market Society" in Hirschman, A.O., *Rival Views of Market Society and Other Essays*, Cambridge: Harvard University Press.
198 Evans, Peter, (1995), Op Cit., p.31.
199 Ibid, p.78.

The post World War 11 period was dominated by such theorising in development. As a result, most Third World states stressed the centrality of the role of the state in the development process. However, it was mainly the NICs of East Asia (South Korea, Taiwan, Singapore), which put into practice Gerschenkron's and Hirschman's schemas of economic development. The crucial factor was the construction of developmental states by these late industrialising countries.

The success of late industrialisation cannot be assumed. Such success has to be orchestrated through industrial policy. Theoretically, the recent relative rise of East Asian economies where the state has implemented strong policy measures with great success has aroused interest in industrial policy. From a broadly institutionalist perspective, several studies generated critical evidence of the East Asian development experience, which questioned the link between the idea of a free market and the outward-oriented model, postulated by the neo-liberals.[200] Chalmers Johnson demonstrates the key role of institutions underlying rapid economic growth in Japan. Alice Amsden articulates the late industrialisation paradigm that underpins the technological mastery of the East Asian tigers. Robert Wade's central thesis is that the superior economic performance of East Asian economies is to a large extent the consequence of very high levels of investment, more investment in certain key industries than would have occurred in the absence of government intervention. Second, the exposure of many industries to international competition in foreign markets, though not in domestic markets. Within a particular institutional framework, therefore, the state made conscious, deliberate interventions and selection of industrial sectors to enhance their competitiveness, particularly in the export market. Successful industrialising countries are those that addressed these concerns through a particular institutional framework.

What is common to successful cases of late industrialisation is a good mix of competition and co-operation, which has been achieved through quite different sets of policy interventions and the institutions supporting these interventions.[201] Therefore, the concerns of the neo-liberals with 'rent-seeking' and corruption aside, particular institutions, organised in a particular way, must be instituted in order to have a successful industrialisation process in a given context.

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[200] Mainly, Johnson, Chalmers, (1982), *MITI and Japanese Miracle*: The Growth of Industrial Policy, 1925-1975, Stanford: Stanford University Press, California, Amsden, Alice. (1989), *Asia's Next Giant* and Wade, Robert, (1990), *Governing the Market*.

[201] Onis, Ziya, (1995), "The Limits of Neoliberalism: Toward a Reformulation of Development Theory", *Journal of Economic Issues,* Vol.XXIX, No.1 (March), p. 97.

A central theoretical and empirical question then arises: why has industrial policy succeeded in East Asia and yet has largely been a litany of disasters in Africa and Latin America? The success of policy is not derived from its definition as a good policy. The consistent pursuit of any policies, whether they are aimed at 'getting prices right' or implanting local industry, requires the enduring institutionalisation of a complex set of political machinery.[202] The success or failure of policy therefore has an institutional basis. Successful cases of industrial policy had, as one of its central points, a set of institutional and political arrangements compatible with an appropriate mix of state intervention and market-orientation in the economy.[203]

The pervasive failure of industrial policy in much of Africa and Latin America must be seen as a result of the failure to reconstruct the post-colonial state as well as failure to understand the institutional and political processes underlying effective state intervention. Ziya Onis observes that the state can play a positive role in the development process. The state's ability to perform a positive role, however, is not guaranteed by definition but depends on its organisational characteristics including the quality of personnel, the degree of internal cohesion, and the degree of its autonomy or insulation from rent-seeking pressures. [204]

An effective industrial policy calls for intrusion of goal-oriented, strategic thinking into public economic policy. Needless to say, however, industrial policy is no panacea to problems of industrialisation. Like any other policy, or any other form of economic co-ordination, it has its own costs and benefits. But for developing countries, it remains one of the most important policies for their transformation and enhancement of their industrial competitiveness.

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[202] Evans, Peter, (1992), "The State as Problem and Solution: Predation, Embedded Autonomy and Structural Change", in Stephen, Haggard and Robert, R.Kaufman, (eds), (1992), *The Politics of Economic Adjustment*: *International Constraints, Distributive Conflicts and the State*, (Princeton, New Jersey: Princeton University Press, p.141.
[203] Onis, Ziya, (1991), Op Cit, p.110.
[204] Onis, Ziya, (1995), Op Cit, p.115.

3.4 Conclusion

The thrust of this chapter was to set up the analytical framework for the study. Thus the basis of this theoretical framework has been to integrate the theoretical themes that impinge on state intervention through industrial policy and set up a framework for interpreting research findings and policy conclusions.

Institutional political economy perspective points towards the importance of multiple logics in the theorisation and practice of industrial policy, in this case, in terms of interactions between institutions, technology and markets. The issue of industrial policy and interactions between institutions, technology and market reforms calls for a multi-dimensional perspective and multiple logics. The problem of industrialisation and its resolution necessitates the support of both public and private order institutions.

The possibility of institutions and their capabilities to bring about change are historically contingent. The differences in development trajectory are rooted, to a significant degree, in differences in national histories and cultures including the timing of a country's entry into the industrialisation process. The institutional political economy perspectives illuminate the differences and similarities in the given national institutions, laws, policies and processes. It is within this analytical framework that we examine what informed industrial policy and how the various institutional mechanisms have manifested themselves in the processes of Uganda's industrialisation since the end of World War Two to the present. The basic objective of the chapter was to capture, analytically, the relationship between the state and the market penetration and the efficacy of industrial policy. This may provide the entry point to the analysis of industrial policy and the imagination that should guide the formulation of a robust industrial policy.

As noted in the previous chapter, this study shall attempt to focus on institutional framework and the basis of industrial policies in Uganda. Thus, in the next chapter we examine Uganda'sinstitutional foundations for industrialisation prior to the adoption of SAPs in June 1981.

CHAPTER FOUR

4. INSTITUTIONAL FOUNDATIONS OF UGANDA'S INDUSTRIALISATION

4.0 Introduction

This is the first data chapter of this study. It entails a detailed analysis of institutional foundations of Uganda's industrialisation. It is primarily sourced from materials in the archives and secondary sources, both published and unpublished. The reliance on secondary sources as opposed to primary sources is due to the difficulty of locating the architects of Uganda's industrial policies in the 1950s to 1970s for interviews. Yet the knowledge of the past institutional frameworks is so crucial in explaining the nature of the current industrial policies.

The purpose of this chapter is to situate Uganda's industrialisation within its institutional history. This is because a significant problem of the study of institutions in Uganda is that there are relatively few data points. It is therefore particularly important to go back to history in order to salvage some historical materials and experiences. The problem of institutional incoherence in the practice of industrial policy which may be a major contributing factor in the explanation of Uganda's stunted industrialisation process can best be understood historically. In this study it is noted that industrial policy and industrialisation are often products of numerous historical, social, economic and political considerations. There lies the importance of this chapter to the problem under study.

This chapter examines Uganda's institutional foundations for industrialisation since "late" colonial period, 1945-1980. The chapter is periodised into three phases: 1) 1945-62, 2) 1963-1971, and 3) 1972-1980 with attendant institutions for implementing industrial policy. The first section deals with the "late" colonial period, 1945-1962. Under this phase we examine several institutional elements: the colonial state and associated bureaucracy, the coordination agencies, the control over resources, peak business associations, technical education and entrepreneurship. An attempt is made to understand the influence of these institutional mechanisms to the nature of the industrialisation that occurred during this phase.

The second section examines the industrial policies during the immediate post-colonial government phase, 1963-1971. We probe the idea of initial conditions at the time of independence and the continuity of the industrial policies of the colonial period. We argue that the inherited institutions presented both possibilities and obstacles to the industrial transformation process in Uganda.

The third section deals with the "economic war" policy period, 1972-1980. In this phase we examine the impact of the abrupt changes brought about by the "economic war" in Uganda's political economy in general and industrial policies, in particular. The institutional framework for industrialisation which had been established in the colonial period, inherited, built-on with attempted modification through the "Move to The Left" during the immediate post-colonial period, was literally wiped out as policy-making was replaced by the rule by decree. This period is characterised by two elements: i) the expropriation of Asian properties and ii) the unplanned expansion of the public sector. We analyse how these two actions triggered a process of decline in economic growth resulting in de-industrialisation such that by 1979, with the end of the Idi Amin regime, most of the industrial sector had been decimated.

Finally, we conclude with a discussion of the implications of these institutional distortions for industrial policies under SAPs beginning in June 1981. The focus on institutions is informed by the view that policies do not operate in an institutional vacuum and therefore it is only logical that the success or failure of a particular process depends on the institutional arrangement within which they are constituted, enabled and constrained.

4.1 "Late" Colonial Industrialisation - 1945 – 1962

Uganda's industrial policies in the "late" colonial period are underpinned by the definition of the colonial state. A colonial state is an alien administrative – coercive apparatus imposed by the metropolitan state over a more or less arbitrarily defined territory for the economic and strategic ends of the metropole.[1] To realise this objective, the colonial state established institutions and mechanisms to expropriate surplus from domestic producers both for its maintenance and for the benefit of metropolitan

[1] Jorgensen, Jelmert, Jan, (1981), *Uganda: A Modern History*, London: Croom Helm, p.134.

interests in industry, commerce, banking and shipping. The result was what Teddy Brett refers to as colonial non-industrialisation.[2]

Basically, Uganda was to serve as a reservoir of cheap raw materials for British industry and consequently a market for its finished goods. Therefore, the institutions that were established were those that facilitated the extraction of surpluses from the agricultural producers. These included marketing boards, co-operatives, taxation and forced labour. The colonial economic planners did not take industrialisation seriously. The attempts by non-colonial capitalists such as Indians and Japanese to invest in Uganda were officially discouraged. When a proposal for a blanket factory in Uganda by the Japanese was suggested in 1935, the general issue of industrialisation arose and the Governor of Uganda (supported by the Governor of Tanganyika) opposed the proposal. The Governor of Uganda stated, "so far as Uganda is concerned, it can be definitely stated that it is of great importance to preserve the agricultural population and therefore I do not favour the idea of industrialisation".[3] Most of the colonial industrial policy was of processing of raw materials, mainly to reduce weight and protect quality and other bulky materials like cement, which could more cheaply be produced locally. Industrialisation in Uganda, therefore, was a post WW II phenomenon.

The post-World War Two industrialisation was driven by a number of factors. First, was the need by the colonial state to accumulate surpluses in order to finance the reconstruction of the British shattered economy and maintain monopoly over the colony by capturing the market from other foreign investors and also to act as a dollar saving and earning exercise as some of the products were exported to earn dollars.[4] Second, there existed substantial finances saved through the "Price Assistance Fund" extracted from cotton and coffee producers. Christopher Wrigley, the colonial economic historian conservatively estimated that by 1953, "voluntary" savings amounted to 82 million pounds.[5] It was these resources that were applied to construct a hydroelectric dam at Owen Falls dam, Jinja, which was to provide low cost power for industrial and commercial activities in Uganda and Kenya and create a multiplier effect on the pace of

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[2] Brett, Edward,.A., (1973), *Colonialism and Underdevelopment in East Africa: The Politics of Economic Change*, London: Heinemann, pp. 266-282.
[3] Nabudere, Dan, (1980), *Imperialism and Revolution in Uganda,* Dar es Salaam, Tanzania Publishing House, p.100.
[4] Mamdani, Mahmood, (1976), *Politics and Class Formation in Uganda*, New York: Monthly Review Press, p.202.
[5] Wrigley, Chris, (1959), *Crops and Wealth in Uganda: A Short Agrarian History*, Kampala: East African Institute of Social Research (MISR).

industrialisation. The finances were as well used to kick-start ISI and fund the Africanisation programme in the 1950s. Industrialisation was undertaken largely with the country's resources and thus not dependent on outside capital.[6]

It has been observed that political power is directed to specific economic ends[7], thus in this case the colonial state created institutions which, would act as a basis of industrialisation in Uganda. The concern here is the examination of the nature of these institutions and whether this explains the character of the industrialisation that took place. These include: the bureaucracy, coordination agencies, institutions for control resource flows, financial institutions and intermediate associations. In the absence of an indigenous capitalist class, the industrialisation process came to be state-led.

4.1.1 The Colonial Bureaucracy

The colonial administration crafted a fairly lean, efficient and highly motivated bureaucracy. Though conditioned by the colonial context, the recruitment and promotion were based on merit and performance. Honesty, integrity, patriotism, incorruptability and dedication were the underlying pillars, although in the interest of British colonial authority.[8] The concern here, however, is a reflection on the worldviews that inevitably underlay institutional frames and what the bureaucracy did to promote or impede industrialisation. First, the colonial state, in league with expatriate firms, determined the overall orientation of the domestic economy through the control of economic policy.[9] The colonial state institutions were set up to coordinate a limited industrialisation. Its responsibility for day-to-day decisions, however, gave rise to a measure of autonomy in its practice.

As expected, economic growth was envisaged essentially in terms of the promotion of a narrow range of export staples while imports mainly took the form of consumer goods, which were taxed for revenue, rather than for the promotion of infant industry.[10] What was critical for development was the attitude of colonial civil servants towards the

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[6] The Economist Intelligence Unit, (1957), *Power in Uganda: A Study of Economic Growth Prospects for Uganda with Special Reference to the Potential Demand for Electricity*, London, p.67.
[7] Mamdani, Mahmood, (1984), *Imperialism and Fascism in Uganda*, Trenton, New Jersey: Africa World Press, p.6.
[8] Langseth, Petter, and Mugaju, Justus (1996), *Post-Conflict Uganda: Towards an Effective Civil Service*, Kampala: Fountain Publishers, p.2.
[9] Jorgensen, Jelmert, Jan (1981), Op cit., p.135.
[10] Ehrlich, Cyril, (1973), "Building and Caretaking: Economic Policy and British Colonial Africa, 1890-1960, *Economic History Review*, Vol.26, Issue 4, November.

colonised people as it crystallised in government action. The civil service recruitment and staffing was influenced strongly by racism and paternalism. There was emphasis on the separation between the races in the civil service, not only in terms of positions open on the basis of qualification of race, but also differential rates of pay, though this was abolished in 1954.[11] Paternalism remained a major practice in the civil service. This may be noted in the colonial attitude towards the local civil servant thus: the "local officer is young and inexperienced so he must therefore, be closely guided and controlled and his hand held for a long period".[12]

The civil servant was in most times a product of public school or Oxford and Cambridge (Oxbridge), who imposed a particular set of values. According to them, trade would harm Africans so it was not to be allowed. What is of concern is the stifling effects of their paternalism upon social and economic change in Uganda.[13] This bureaucratic prejudice towards commerce had crippling effects upon the emergence and growth to maturity of an indigenous entrepreneurial class. By the 1950s in Uganda, the shortage of African traders began to worry government. Its bureaucratic solution was to establish a department whose officers were to teach book-keeping and other skills peripheral to business ability.[14] This was in contrast to treatment of Asians. Mahmood Mamdani notes that the thrust of the colonial policy was to 'keep the African out of the market place and in the agricultural economy – away from activities (commerce) which would give him the reason, the skill, the vision and the opportunity to organise the masses". [15] The "support" for Asian manufacturers after World War Two, was, therefore, simply strategic.[16]

Teddy Brett in a contradictory observation points out that "at no point was any official attempt made formally to forbid private attempts to establish manufacturing industries. Potential non-African entrepreneurs were made fully conscious of lack of support which

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11 Apter, E, David, (1961), *The Political Kingdom in Uganda: A Study of Bureaucratic Nationalism*, Princeton, New Jersey: Princeton University Press, p.197. The differential pay was such that the Africans were paid 3/5 of the salary given to Europeans doing similar job, The Uganda Herald, January, 1952. This was abolished in 1954.

12 (Uganda Protectorate), 1960/1:3), Entebbe archives.

13 Ehrlich, Cyril, (1954), "Some Social and Economic Implications of Paternalism in Uganda", *Journal of African History*, VOL.IV.

14 Ehrlich, Cyril, (1973), Op Cit., p.651.

15 Mamdani, Mahmood., (1975), "Class Struggles in Uganda", *Review of African Political Economy*, No.4, November p.31.

16 Saul, John, (1976), "The Unsteady State: Uganda, Obote and Idi Amin", *Review of African Political Economy*, No.5, p.25.

any attempts to break into the sector would likely receive. Second, the effects of policy made themselves felt in the failure to give any direct assistance to such assistance or to put financial pressures upon them which they could not hope to withstand". [17] While not officially spelt out, the colonial state was not supportive of the establishment of manufacturing industries in the country.

The colonial bureaucracy was limited in its mission as an institution to bring about change that would be enduring. Although state posts provided African bureaucrats with opportunities to accumulate capital to go into commerce when the Africanisation policy was launched, both during and after colonialism, there was limited institutionalisation of the idea of bureaucracy. A competent, well-organised and meritocratic bureaucracy is critical for effective policy implementation. Justus Mugaju observes that the inherited post-colonial civil service in Uganda was devoid of cultural attributes, shared values and historical traditions. It was an artificial institution, which did not have any social foundations.[18]

4.1.2 Coordination agencies and institutions for control over resource flow

Institutions that provide control over resource flows and organisational capacity, particularly entrepreneurial vision, which provides focal points around which private sector investment decisions can be co-ordinated, are critical in the industrialisation process. The most important institutions for the initiation and coordination of Uganda's industrialisation was the Uganda Development Corporation (UDC), Co-operatives and Marketing Boards, which are discussed in detail below

The experience of the industrialisation process is that countries setting out to industrialise at a disadvantage makes it imperative to institute an organised and co-ordinated system in their development process.[19] Such systems have the power and legitimacy to oversee activities across different agencies and resolve potential conflicts between them. Late colonial Uganda was not different. The colonial state (economic ministries), in general, the bureaucracy and Uganda Development Corporation (UDC) in

[17]Brett, Edward, A., (1973) Op Cit., p, 275.
[18] Mugaju, Justus, (1996), Op Cit, p.3.
[19] Gerschenkron, Alexander, (1962), *Economic Backwardness in Historical Perspective: A Book of Essays*, Cambridge, Massachusetts: Harvard University Press.

1950s, in particular, oversaw the colonial industrialisation process.[20] Unlike the successful late industrialisers of East Asia, Uganda did not have a single supra-agency to oversee the rest and coordinate the industrialisation process.[21] The roles were combined. In Uganda's case, UDC approximated to such an agency. It encouraged, promoted and assisted the establishment of new industries and the improvement and expansion of others.

While the bureaucracy dealt with the general economic policy, UDC provided an entrepreneurial vision in terms of creation and state ownership of a number of enterprises. The construction of Owen Falls Dam to produce cheap electricity to run the industries was critical in the realisation of this vision. Together with the extension of roads, railways and telecommunication lines, the institutional context of industrialisation had been set up. Here we examine the extent to which these institutions, in practice, advanced Uganda's industrialisation process.

The impetus for industrialisation in Uganda came after the Second World War. A strong colonial official commitment to increased industrialisation was to emerge in the early fifties, especially the period under Sir Andrew Cohen's Governorship. But in this case the attitudes of the earlier period continued to exert their influence. Industrialisation was not to be carried out by the indigenous entrepreneurs but by the colonial state. The Royal Commission Report noted that: "in the context where the direction and control of new capital investment can be conveniently vested in the state, as in the case of public utility, no particular difficulty need arise".[22] These attitudes produced UDC as an agent of Uganda's industrialisation. UDC was essentially an instrument of colonial state-led development. It was at times used to supplant private enterprise. In 1957, for instance, UDC bought the NYTIL, from the government, which had earlier bought the newly established company from the Calico Printers Association.[23]

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[20] Several studies stress this point. Among them : Barya, JJ, (1986), *The Impact of Foreign Capital on the Performance of the Uganda Development Corporation – A Legal and Socio-Economic Analysis*, LLM dissertation, Law School, Warwick, UK, Brett, E.A (1973), *Colonialism and Underdevelopment in East Africa*, Mamdani, M., (1976), *Politics and Class Formation in Uganda*, Nabudere, D., (1980), *Imperialism and Revolution in Uganda* and Jorgensen, J J, (1981), *Uganda: A Modern History.*

[21] Having an overarching single supra-agency, though necessary, is not a sufficient condition in the coordination of the industrialization. There are several mechanisms of coordination, not only through formal bureaucratic power concentration, but also through informal means to judge the concentration/ fragmentation of the economic bureaucracy. Depending on the manner of the exercise of state power, a single supra-agency could be subjected to abuse in terms of rent-seeking and patronage.

[22] H.M.S.O, (1955), *The East African Royal Commission Report, 1953-55*, London, p. 109, Entebbe archives.

[23] The Economist Intelligence Unit, (1963), *Uganda: The Background to Investment*, prepared for Government of Uganda, P.40, Entebbe archives.

Prior to the formation of UDC and its entry into ISI, there were some attempts at "industrialisation" by the colonial state. This took the form of compulsory cotton ginnery acquisition. This was informed by the policy of Africanisation of industry and commerce.[24] As a result of the 1949 revolts, the policy of granting ginneries to Africans was extended.[25] The co-operatives were declared legal, brought under state supervision through the 1946 Co-operatives Act and granted finances to expand their activities.[26] The policy unveiled was to help the controlled co-operative sector by acquiring 21 ginneries and allocate them to African co-operatives over a period of ten years. The colonial state took a number of actions after the allocation of cotton ginneries to African co-operatives. First, it launched training programmes in gin fitting as part of the government's wider scheme to encourage and equip Africans to take part in the ginning industry.[27] Second, institutionally, financial support was provided through newly created bank, the Uganda Credit &Savings Bank (UCSB) and the African Loan Fund was established in 1954 to assist applicants who could not normally offer the type security `required for loans and from the Banks funds.[28] Third, in a departure from the colonial government's declared policy on acquisition of ginneries for African operators was receded to allow the North Mbale Union to build one.[29]

The question remains whether the co-operatives were the appropriate institutional mechanism that would enhance Uganda's entrepreneurship and bring about industrialisation. In the context of lack of capital, co-operatives can act as critical institutions for resource mobilisation. But in this case, the character of their introduction and the worldview underlying their operations could not create the necessary entrepreneurial spirit which could lead to sustained industrialisation. First, the acquisition of ginneries opened up the possibilities for a few handpicked co-operatives to enter into the cotton industry, where profits were virtually assured without much risk-taking or imaginative decision-making. Second, the co-operative sector was dependent on the

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[24] Africanisation (Ugandanisation) took two forms: 1) "providing opportunities and facilities to Ugandan Africans so as to enable them to take a bigger share of commerce and industry", 2) "Africanising top executive posts" entailing "a systematic replacement of non-Africans and other non-citizens by Ugandan Africans in the senior executive posts", *Report of the Committee on Africanisation of Commerce and Industry in Uganda"* Uganda Government, 1968), p.1.

[25] Campbell, Horace (1975), *The Political Struggles of Africans to Enter the Market Place in Uganda, 1900-1970*, MA Thesis, Political Science, Makerere University, Kampala, p.180.

[26] Mamdani, Mahmood, (1975), Op Cit., p.40.

[27] *The Uganda Herald*, 19 July 1952, archives, Africana, Makerere University.

[28] Government of Uganda, (1975), *Origins and Growth of Uganda Commercial Bank, 1950-75*, Entebbe: Uganda Printers.

[29] *Uganda Argus*, 15 December, 1955, p.7, archives, Africana, Makerere University.

colonial state for financial support, auditing skills and experience and could not hold out much potential for challenging the foreign hegemony in the processing of cash crops. The ginneries were the dilapidated and 'silent' ones. Third, independent African businessmen could not qualify for assistance under the terms of the acquisition ordinance. Fourth, some of the emerging entrepreneurs simply used the co-operatives as stepping-stones to move into other business ventures and to national political arena.[30] Thus the creation of UDC promised a more entrepreneurial enhancement role.

UDC's contribution to Uganda's industrialisation has been a subject of controversy. While it has been praised by John Katende, et al (eds.), it has been critiqued by John Barya.[31] UDC was the agency set up in 1952 to accomplish the industrialisation process under the influence of the then dominant ideology of state-led development. The central objective of UDC, however, was to develop private enterprise. The colonial policy envisaged it to give private enterprise "a start" and/or to enter into partnerships with it.[32] This was after foreign investment failed to materialise and the colonial state stepped in to use the UDC as the vehicle of industrialisation.[33] Together with local Asians who took the opportunity of new infrastructure investments such Uganda Electricity Board, (UEB) and who foresaw the coming Africanisation of trade and moved into manufacturing. Here we examine the extent to which UDC as an institutional mechanism, promoted industrialisation in Uganda.

First, the industrial activity that arose in the 1950s led to the establishment of a number of factories, which led to expansion of the working class hence creating an internal market for the industrial goods and food stuff from the countryside. Second, the partnerships between mainly British corporations and UDC led to technological acquisition in terms of machinery and know-how that was imported into Uganda. Third, the colonial state encouraged the UDC to foster African entrepreneurship. The Small Industries Fund (SIF) was initiated with an allocation of 20,000.00 pounds, but the major problem was that the small African craftsmen did not even know about its existence.[34] Four, UDC had a certain amount of attraction for overseas investment because it

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30 Campbell, Horace, (1975), Op Cit., pp. 180-202.
31 Katende, John, et al (eds.) (1976), *The Law of Business Associations in East and Central Africa*, Nairobi: East African Literature Bureau and Barya, J.J (1986), *The Impact of Foreign Capital on the performance of the Uganda Development Corporation*.
32 Nabudere, Dan, (1980), *Imperialism and Revolution in Uganda*, Dar es Salaam: Tanzania Publishing House, pp97-108.
33 Jorgensen, Jelmert, Jan, (1981), Op Cit, p.160.
34 Campbell, Horace, (1975), Op Cit., p.208.

showed that the local people, the colonial state, were prepared to put their own money into development schemes.[35] It also offered prospective investors a free research service. UDC search for foreign partners was helped by its clear freedom from government control and dedication to commercial principles.[36] Investment expanded employment possibilities.

While, in general, UDC was successful, like the co-operatives before it, it suffered from a number of shortcomings. First, UDC was not built as an agent of transformation of the Ugandan economy. It was part of the colonial strategy of neo-dependence through joint state and British ventures in ISI and British supplied; Uganda financed infrastructure development.[37] These extraverted investments could not deepen Uganda's industrial capacities. Second, while UDC was very successful in narrow economic terms, it was nevertheless a highly bureaucratised answer to the problem of transferring technology to an underdeveloped environment of Uganda, and one which did very little to stimulate indigenous entrepreneurship or to evolve truly autonomous solutions to the problem of raising the level of local economic activity.[38] Third, the main beneficiaries of UDC operations were foreign investors because the direction of investments, the methods of production and types of technology were being determined by foreign capital interests who set up industries behind the tariff walls. Fourth, few of the UDC subsidiaries neither created new capacities nor were they undertaken with planned, backward linkages for the future development of their sources of raw materials.[39]

At a regional level, the emergence of British firms committed to establishing manufacturing facilities inside the East African market, combined with the negative effects of policy in agricultural processing and marketing upon the emergence of indigenous entrepreneurship was likely to ensure that the industrialisation process would be heavily dependent upon the importation of expatriate capital and skills when it got underway.[40] To build concrete institutional foundations for industrialisation called for more comprehensive institutionalisation of the industrial process. It needed a different conception of what constitutes industrialisation.

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35 *The Uganda Herald*, 4 April, 1953, p.4., archives, Africana, Makerere University.
36 Onyach-Olaa, Martin, (1989), *Industrialisation Policies and Strategies of Uganda, 1962-89*, MA Dissertation, Economics, University of Manchester, UK, p.70.
37 Jorgensen, J.Jan, (1981), Op Cit., p.188.
38 Brett, Edward, A. (1973), Op Cit., p.281.
39 Barya, J.John, (1986), Op Cit., pp27-29.
40 Brett, Edward, A., (1973), Op Cit., p.280.

4.1.3 Control over Financial Resources

Control over financial resources is critical in ensuring the success of industrial policies by providing the state with the power to influence the private sector investment decisions, and more importantly, by giving it power to discipline the non-performers. Lack of finance and credit has been one of the explanations for retarded industrialisation in Uganda.[41] The most common conception of the centrality of finance in development is that which emphasises the availability of credit to entrepreneurs. What is crucial is the understanding of the political economy of finance. The financial structure is the mechanism guiding the flow of savings and investment, determining the options of industrial policy and managing flows to different sectors.[42]

The control over financial resources is perhaps the most critical institutional mechanism for ensuring the success of industrial policies by providing the state with the power to influence the private sector investment decisions, and more importantly, by giving it power to discipline the non-performers. The colonial state carried out such control through its banking and monetary sector. The political logic of colonial financial structure may offer us substantive explanation of nature of Uganda's industrialisation process. The financial structure was as well reinforced by the attitudes towards Africans in the market-place. The Hilton Young Report of 1929 declared that Africans "may for generations, or conceivably for all time, lack the capacity to maintain all the activities of a complex civilisation".[43] If banking is considered complex, then colonial bank lending policies were informed by such attitudes. Here, we examine how this control over financial resources was exercised and the implications this control had for the industrialisation process of the country.

The control over the industrialisation process was done through the banking system. Banks have operated in Uganda since 1906 when the National Bank of India (National & Grindleys Bank), Standard Bank of South Africa, (1912), among others, were established. There were six expatriate commercial banks and Uganda was a member of the East

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41 Among these: Ghai, Dharam, P, (1966), *Taxation for Development: A Case Study of Uganda*, East African Studies, No.23, Nairobi: East African Publishing House, Newlyn, W.T, (1968), *Finance for Development*, East African Studies, No.30, Nairobi: East African Publishing House, Gershenberg, Irving., (1972), "Banking in Uganda Since Independence", *Economic Development and Cultural Change,* No.20 and Ddumba-Ssentamu, John, (1993), *The Role of Commercial Banks in Deposit Mobilisation in Uganda*, PhD Dissertation, Economics, Makerere University, Kampala.

42 Woo, Jung-en, (1991), *Race to the Swift: State and Finance in Korean Industrialisation*, New York: Columbia University Press, p.1.

43 Ehrlich, Cyril, (1973), Op Cit., p.658.

African Currency Board.[44] As institutions, they operated in the interest of expatriate (British) and Indian capital. Their practices and regulations could not enable a process of entrepreneurship and industrialisation, particularly by Africans.[45]

Through the banking system and several commercial programmes, the colonial state controlled the finances. These included: Uganda Credit and Savings Bank, Small Industries Development Fund, African Loans Fund (1954), the African Traders Development section of the ministry of commerce, African Business Promotions and the Co-operative Credit Scheme (1961), in addition to expatriate banks and insurances houses.[46] What was done in practice, however, was against the promotion of the industrialisation of Uganda.

Expatriate banks sought banking monopoly. A case in point is the National Bank of India that pressed the colonial state for formal recognition of its monopoly as official bankers of the state. The resulting agreement of 1913 remained in force until 1966.[47] The lending policies of the banks constrained the emergence of an African entrepreneurial class. Although there was expansion of banking services in the 1950s, the loaning policies acted as obstacles for potential African entrepreneurs. African traders and farmers faced problems in finding co-signers and in mortgaging crops or land. Thus, most of the African savings channelled into British or Indian banks were lent, as in the past, to Indian and European merchants and manufacturers, to multinational corporations, and to the state.[48]

The Uganda Credit and Saving Bank, (UCSB), the forerunner of Uganda Commercial Bank (UCB), was created in 1950. The purpose of the bank was to mobilise deposits from the public and facilitate loans to Africans in furtherance of agricultural, commercial building and co-operative society activities.[49] UCSB was not particularly useful to African entrepreneurs, the supposedly intended beneficiaries. It required land or a life insurance policy as collateral, such that only the wealthy *mailo*[50] land owners or their

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[44] Gershenberg, Irving., (1972), "Banking in Uganda Since Independence", *Economic Development and Cultural Change*, No.20.
[45] Nabudere, Dan, (1980), Op Cit pp. 61-71.
[46] Saul, John, (1976), Op Cit., p.25.
[47] Jorgensen, Jelmert, Jan, (1981), Op Cit., p.137.
[48] Ibid, p.188.
[49] Government of Uganda, (1975), *Origins and Growth of Uganda Commercial Bank 1950-75*, p.9.
[50] *Mailo* land is a coinage by the Baganda in reference to the lands that were surveyed at the onset of colonialism because the surveys were calculated in terms of miles.

educated children were eligible for loans.[51] The policy of UCSB was to give cash to those who could provide the necessary collateral. The solution to the collateral condition would have been a broad land reform and titling of land in the whole country, whereby all land owners would possess land titles. To the present day, no national land survey and registration has occurred which would solve the constraint of collateral to borrowing funds for investment.

The colonial banking systems operated as a pool of savings from rural areas and made them available to borrowers in urban areas.[52] It was not intended to develop a local entrepreneurial class. According to Diana Hunt, although the number of applications for bank loans was high in 1950s and 1960s, half the loans went to agriculture, 'by value'. Most loans went to co-operative unions for the construction of processing factories and to private individuals, particularly civil servants, for the construction and purchase of residential buildings.[53]

At the regional level, the colonial currency system, particularly the East African Currency Board also served to channel resources from the colony to metropole. The Currency Board was mainly a mechanism of integrating a local currency system with the British one aimed at linking British and East African production and financial systems. Deposits received in East Africa, a large part was sent back to London for banking and application elsewhere.[54]

Reflection on the political economy of finance during this period brings out the constraining character of the colonial financial structure on the country's industrialisation process. Gershenberg[55] observes that commercial banking in Uganda, as most of Africa, can be criticised for not having made a greater contribution toward indigenous economic development. There was no systematic development banking system until after independence.

4.1.4 Intermediate Institutions

The existence of intermediate business/industrial associations that link the state apparatus with individual firms or sectors in ensuring the implementation of industrial

[51] Campbell, Horace., (1975), Op Cit., pp. 202-212.
[52] Jorgensen, Jelmert, Jan, (1981), Op Cit., p.144.
[53] Nabudere, Dan, (1980), Op Cit., p.68.
[54] Ibid, pp.64-5.
[55] Gershenberg, Irving., (1972), Op Cit., p.505.

policies are critical for industrialisation. These are the institutions that provide the interface between the bureaucracies executing industrial policies and the firms that are at the receiving end of those policies. Bureaucracies engage in dialogue with the private sector and therefore they are able to get detailed feedback on their policies, albeit through different mechanisms depending on the country and thereby receive a constant feedback on their policies from those who were affected by them.[56] It is at this level that principles are translated into concrete plans and enforced by industrial associations.

Under colonialism, intermediate institutions existed in form of merchant associations and farmers associations. Being a colonial context, the dialogue between the colonial state and the associations was only partial. While the colonial relations with those representing the expatriate capital were mutual and that with the Asians ambivalent, that with Africans was essentially repressive. As a result most of the African associations created were geared towards the removal of colonialism and not for the implementation of industrial policies.

There were several business associations representing different interests in the colonial economy. These included: The Uganda Chamber of Commerce (UCC), Indian Merchants Chamber (IMC), African Chamber of Commerce (ACC), Cotton Association, Uganda African Farmers Union (UAFU) and Uganda Growers Union (UGU). Here we examine the nature of the interaction between the colonial state and these business interests. UCC worked closely with colonial public bodies.[57] The private sector enterprise wanted more than "inactive non-interference".[58] Sir Andrew Cohen, the 'enlightened' colonialist, sought closer relations with business interest groups. Though the Indian Merchants Chamber had existed for long, Cohen was the first Governor to attend a gathering organised by the chamber.[59] UCC which was dominated by Asian entrepreneurs was vehemently opposed both to the co-operative societies' entry into crop processing as an initial programme of cultivating African entrepreneurship and the

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[56] Chang, Ha-Joon, (2001), "Institutional Foundations for Effective Design and Implementation of Selective Trade and Industrial Policies in Least Developed Countries: Theory and Evidence", a paper prepared for IDRC project on *Economic Policy Making and Implementation in Africa: A Case Study of Strategic Trade and Industrial policies*, p.23.
[57] *The Uganda Herald*, 24 March, 1953, p.1, archives, Africana, Makerere University.
[58] *The Uganda Herald*, 17 December 1953), archives, Africana, Makerere University.
[59] *The Uganda Herald*, 12 June 1952, p.1, archives, Africana, Makerere University.

colonial state's entry into ISI through UDC.[60] Thus the Chamber was opposed to the acquisition of ginnery policy that targeted Africans co-operatives. The Chamber argued that African participation in cotton processing was best fostered by private industry and the "nationalisation" would reduce African participation to a status of employee rather than owner.[61] It acted more as a support system for colonialism than a business interest association.

Like the Uganda Chamber of Commerce, the Indian Merchants Chamber was from the beginning concerned to influence the government economic policy.[62] Often the merchants' Chamber was used for political ends, such as representation on the Legislative Council (Legco) because they believed that the government was likely to pay more attention to them as representatives of a commercial organisation than as officers of ordinary Indian association. Thus it sought political representation as a way of advancing their commercial interests. This was logical in the sense that in general, political power responds to representative organised interests.

Intermediary institutions were also breeding grounds for leadership in colonial bureaucracy. J.P Simpson, the Chairman of the Representative Members Organisation was originally associated with Uganda Company, became Chairman and General Manager of UDC, was a past president of the Uganda Chamber of Commerce.[63]

4.1.5 Technical Education and Entrepreneurship

Structural transformation of a dependent economy into an economy geared more to local resources and human needs requires engineers, technicians and agronomists as much as if not more than bureaucrats and clerks. In Uganda, emphasis on academic education undermined colonial rule but also tended to preserve structural dependence by creating an educated African bourgeoisie, which benefited from the maintenance of structural dependence.[64] Thus the outstanding feature of the government sponsored large-scale

[60] Jorgensen, Jelmert, Jan, (1981), Op Cit., p.189.
[61] Jorgensen, Jelmert, Jan, (1981), Op Cit., p.158.
[62]Morris, H.S., (1968) *The Indians in Uganda*, London: Weidenfeld and Nicholson, pp.111-12.
[63]Apter, David, (1961), Op Cit.,, p.165.
[64] Jorgensen, Jelmert, Jan, (1981), Op Cit., p. 165.

industries was total reliance on imported entrepreneurial skills (managerial and technical) as well as components and some raw materials.[65]

In contrast, Kenya spent most money on industrial rather than clerical training. Between 1913 and 1924 technical schools were opened in Machakos, the Coast Province, Masai Reserve and at Kabete near Nairobi.[66] The colonial education reforms did not depart much from this general tendency. On the education of Africans, reorganisation and expansion of teacher training, improvement of terms of service for teachers, expansion of secondary and primary education, were emphasised.[67] There was no focus on technical education as much as it should have been done.

One element, which is usually ignored when looking at the institutional context of industrialisation, is the quality of labour, its treatment and commitment. Peter Gutkind makes pertinent observations on the importance of work commitment in raising productivity.[68] To establish a new economic order, to increase productivity by means of a committed and stable labour force is probably less related to skills, education, incentives, traditional attachment and attitudes than it is to the perception that the African worker has his place in the social, economic and political order. The situation of the worker under late colonialism was influenced by the broader colonial situation that denied the African people a sense of belonging and humanity.

Nevertheless, in the 1950s and 1960s there occurred modest industrialisation with the small manufacturing sector in Uganda that produced a significant range of mass consumption goods. The goods included: cotton and rayon pieces of goods, edible vegetable oil, soap, sugar, hoes, fishing nets, corrugated iron roofing, bicycle tyres and fertilizers. The sugar industry had spawned an engineering works and a small steel industry, which produced construction materials, spare parts and hoes for growers was established.[69] Out of 264 manufacturing establishments reported in the 1963 annual surveys of industrial production, 102 manufacturing establishments, 39% started

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65 Egau, Deborah, (1975*), Small Scale and Cottage Industries: Their Role in Industrialisation in Uganda*, MA, Dissertation (Economics), , Makerere University, Kampala, p.32.
66Brett, Edward, A., (1973), Op Cit p.278.
67 *The Uganda Herald*, 2 April 1953, archives, Africana, Makerere University.
68 Gutkind, Peter, (1968), "African Responses to Urban Wage Employment" International Labour Review, p.166.
69 Jorgensen, Jelmert, Jan, (1981), Op Cit., p.22.

production between 1955 – 1961, among them: Nyanza Textiles Industries Limited, (NYTIL) Tororo Industrial Chemical Fertilisers (TICAF) and the Copper Melting plant in Jinja.[70]

Generally, by the end of colonialism, the character of the "middleclass" whether as entrepreneurs, bureaucrats or intellectuals were pathetic. They lacked the vision, expertise and experience required to transform the economy into one that was more integrated and less dependent. The question of what was to be done after colonialism centred almost exclusively on the Africanisation of state bureaucracy and trade rather than on transformation of the economic structures.[71] As Teddy Brett concurs, "instead of developing a strong entrepreneurial base in marketing, processing and manufacturing and thereby providing the basis for an organic growth of an indigenous capitalist class, with a level of technology adapted to local circumstances, the colonial state ensured the dominance of imported capital and skills and hence continued dependence on the outside". [72]

In essence, Uganda remained an agrarian economy. While there was modest industrialisation, the major sources of appropriation of surpluses extracted from the peasantry, were marketing boards and co-operatives. These institutional mechanisms continued to be the major internal sources of financing industry in the subsequent period during independence, the external sources being Aid and Foreign Direct Investment (FDI).

4.2 Immediate Post-Colonial Industrial Policies, (1962-71)

This period was presented with a number of possibilities and obstacles in industrial transformation process. Three salient features informed the industrialisation process. i) enhanced state-led industrialisation, ii) Ugandanisation policy and, iii) Foreign Direct Investment (FDI). A particular legal framework and specific policy instruments buttressed these policies. The industrial policy and the industrialisation process during this period must be looked at within the broad social and political context of the country.

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[70] Kaberuka, Willy, (1977), *An Index of Industrial Production for Uganda, 1966-1975*, MSC, Dissertation, Makerere University, p.8.
[71] Jorgensen, J J (1981), Op Cit., p.178.
[72] Brett, Edward, A, (1973), Op Cit., p.304.

The policy immediately after independence had two major thrusts: on the one hand, the consolidation of the inherited institutional arrangements in addition to creating new ones, and on the other hand, opening the economy to foreign investors to provide new investments. This took the form of ISI dominated by public enterprises along side the private sector, both local and foreign. More broadly, the process was embedded in the ideology of developmentalism.

4.2.1 Import Substitution Industrialisation (ISI)

ISI – that industrialisation practice that starts predominantly with the manufacture of finished goods that were previously imported was the industrial strategy that was followed from the 1950s to 1980s in Uganda. ISI in Uganda was practised within a particular institutional context and applied various policy instruments in its operation. Three salient features informed ISI: the nature of the state and its relation to local capital, the financial basis of industrialisation and the trade regime that prevailed. ISI in Uganda is examined against the above features.

Uganda inherited a particular state structure, institutions and development programmes from colonialism, which it simply built on, as they were very difficult to transform. At the centre of the post-colonial state were a small elite political class and bureaucracy with a very limited vision of what it entailed to transform the economy. Both the political elite and the bureaucrats were responsible for the formulation and implementation of policy. The central problem was that the new "ruling" class had no economic base and the 'elite' bureaucracy was technically with little experience and lacked the important gradient of meritocracy. These two limitations had major implications for the development process. But perhaps the element that had more far reaching implications was the ruling class's possession of relative autonomy with considerable room for manoeuvre. With this relative autonomy, the political class had the option creating public property under their control or engage in the accumulation process directly.[73] The political class together with the bureaucracy opted for both control of state resources through the expansion of the public sector and the use of their bureaucratic position to engage in individual accumulation process through investment in small-scale concerns. As a result, the

[73] see, Mamdani, Mahmood, (1975), "Class Struggles in Uganda", *Review of African Political Economy*, No.4, November, and Saul, John, (1976), "The Unsteady State: Uganda, Obote and Amin", *Review of African Political Economy*, No.5.

political class and bureaucrats diverted the resources which would have been applied to the broader ISI project to mainly personal consumption.

At the political level, the industrialisation policy of import substitution and the emphasis on public sector investments was informed by the above objectives of new political leadership as was in all newly independent Africa. In the context of the inherited state-led industrialisation process, it was thought that in order to develop, government had to take a leading position in the economy – public enterprises would generate surpluses, which government planners would then re-invest in high economic priority areas. This was thought to lead to more rapid economic development than would be the case if major investments and resource allocation decisions were left to the private investors.[74] This explains the state focus on public investments through UDC.

As had been under colonialism, UDC became the main mechanism for implementing the post-colonial state-led ISI industrialisation process as it had a successful past record as an initiator of projects both on its own and in co-operation with the private interests. UDC was organised along commercial lines with the government as the sole shareholder, with normal managerial operations left to the directors and executives.[75] UDC's collaboration with private actors such as Madhvani Group and Mehta Group created the mixed structure of private and public participation in the manufacturing sector and reflected the pragmatic approach, which the Uganda government had chosen towards industrial development.[76] By the mid 1960s, UDC dominated the industrial scene and through subsidiaries and associated companies it had formed active partnerships with privately owned enterprises. At the beginning of 1968, there were 3600 registered commercial and industrial enterprises in Uganda. Approximately 10% were publicly owned, 13% were foreign owned and the rest were privately owned. But the most dominant ones were state owned and controlled. Among were: Uganda Cement Industry (UCI), Nyanza Textiles Industries Limited, The Uganda Metal Products and Enamelling Company

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74 Kashugyera, Lance, (1997), *Privatisation in Uganda: A Case Study of International Distillers, Nile Breweries, and Crown Bottlers,* MA Dissertation (Economic Planning and Management), Makerere University, p.2.
75 Onyach-Olaa, Martin, (1989), Op Cit., p.18.
76 Stoutjesdijk, E. J., (1967), *Uganda's Manufacturing Sector: A Contribution to the Analysis of Industrialisation in East Africa,* The Makerere Institute of Social Research, (MISR), Kampala: East African Publishing House. p.11.

(TUMPECO), Tororo Industrial Chemicals and Fertilizers (TICAF), and several subsidiaries.[77]

One significant change in the structure of industrial sector was the emphasis and a shift of ownership from private to public. In 1967, parliament enacted the Uganda Development Corporation Act, directing it to hold a 51% share in any new ventures it participated in. According to the Act, the government by itself could start industries where private investors were not forthcoming.[78] Thus, when the post-independence period became disorganised politically, so were its initiatives disrupted leading to economic collapse and industrial decimation following the "economic war" in the 1970s.

In 1960s ISI, apart from the public sector in the form of UDC, industrialisation was driven forward by the existence of the East African Common Market (EACM), the East African Community (EAC) and the entrepreneurial Asian class. The EACM/EAC facilitated the ease of exchange of inputs, technical assistance and marketing of the products while the entrepreneurial Asian community built up thriving industries in the private sector spread all over the country.[79] Typically, ISI was characterised by quantitative restrictions, high tariffs on competing imports and broad based economic controls that subsidised the industrial sector.

4.2.2 Africanisation / Ugandanisation Policy

This is one of those policies that were inherited from colonialism. The reform of the public service was based on the proposals designed to accelerate the pace of Africanisation.[80] The proposals included the introduction of a scheme to give special experience and accelerated promotion of suitable local officers and give compensation to expatriate officers affected, measure for intensified and improved training courses and

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[77] Ibid, pp. 37-59.
[78] Onyach-Olaa, Martin, (1989), Op Cit., p.32.
[79] Dhetemwa, Godfrey, (1992), *Effects of Devaluation on a Selected Number of Industries in Uganda*, MA Disseration, (Economics), *Economic Policy Planning and Management*, Makerere University, p.22.
[80] Uganda Protectorate, (1961), Sessional Paper No.2 – *The Future Developments in the Public Service of Uganda*. Entebbe.

new training arrangements. Thus, there were energetic steps taken to speed up the localisation of the civil service in preparation for the country's independence.[81]

During independence, the central purpose of Africanisation was to reduce the dependency of Uganda's economy on foreign personnel in the bureaucracy by recruiting Ugandan nationals and Ugandanising commerce. As a result the transition was highly politicised. It took on the form of broad developmentalist ideology and did not focus specifically on the industrial process. Building on what had been initiated in the 1950s, a commission for "Africanisation" was set up to look into the matter and make recommendations.[82] In order to implement this policy, a division for Ugandanisation, Training and Recruitment was created in the Prime Minister's Office and a permanent Secretary appointed by 1962.[83] This was an opportunity to overhaul the colonial bureaucracy and build one that would contribute to the structural transformation of Uganda. The transition instead assumed a colonial character as the incoming political elite and bureaucracy were content with inheriting the colonial structures.

The major focus of the Africanisation policy was on the economy. The stress was on the Africanisation of commerce as a way of promoting African entrepreneurship. Since industry was state-controlled through UDC, the focus was to promote African ownership of small-scale industries, marketing and processing through co-operatives-owned ginneries and coffee processors. Specific policy measures were taken. These included: 1) establishment of the Management Training and Advisory Centre, Kampala, 2) Creation of the Small Industries Development Fund and 3) the Development Loans Fund (1965) at Uganda Commercial Bank.[84]

The Advisory Centre trained a few small businessmen in bookkeeping, budgetary control and business organisation, beginning 1965. This did not entail acquisition of technological skills and more complex entrepreneurial knowledge, which are critical in the industrialisation process. Secondly, while the creation of a small-scale fund was noble, the funds were not focused on the small businessmen. The Ministers and senior civil

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[81] Republic of Uganda (1974), *Report of the Public Service Salaries Commission, 1973-74*, Chaired by John Bikangaga, Kampala, p.13.
[82] Uganda Protectorate, (1962), Sessional Paper No.7 - *Report of Commissioners for Africanisation*, Entebbe, archives.
[83] Onyach-Olaa, Martin, (1989), Op Cit., p.24.
[84] Campbell, Horace, (1975), Op Cit., pp.349-352.

servants obtained loans to establish "small-scale industries". Most of the funds for small industries went to Members of Parliament (MPs) to set up maize mills, milk pasteurisation plants, brick making factories and for saw mills. The mills operated at a loss because the "businessmen" employed incompetent relatives, such that by 1971 55% of the small industries had failed.[85] The Development Loans Fund from UCB suffered the same fate. Created in 1965 at UCB to finance enterprises and agriculture, the fund came to be appropriated by leading politicians and bureaucrats at will. They failed to pay the loans and their interest mainly because they were given on political rather than on economic consideration.[86] Most of the top African "businessmen" were bureaucrats who employed their relatives while they remained secure in their bureaucratic posts.

In 1968, a committee on Africanisation chaired by a Member of Parliament, Francis Mugeni, was appointed.[87] The resulting report made several recommendations. Two recommendations stand out as relevant to this study. First, it was recommended that foreign firms had to Africanise their top executive posts and place more Africans on boards of Directors. Second, it called upon the National Trading Corporation (NTC), which had been set up in 1966, to be more dynamic in its struggle with the entrenched Asian firms. There arises two problems with these recommendations. First, the occupation of executive posts by Africans in the foreign-owned firms would not in itself enhance their capacity to control the economy. Second, the struggle against Asians was misdirected, as they were not the real controllers of the economy. The NTC was not up to the task. The corporation was ineffective in so far as the bureaucracy was not interested in enforcing on-going innovation and technical change that might have been associated with indigenously centred industrialisation.[88]

4.2.3 Financing Industrialisation and FDI

To finance industrialisation the government used two broad approaches: On one hand, government mobilised local resources, particularly increased export of coffee and cotton, coupled with the creation of local financial institutions in form of banks, insurance

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[85] Ibid, p.352.
[86] Ibid, p.356.
[87] Uganda Government, (1968), *Committee on Africanisation of Commerce and Industry in Uganda*, Entebbe: Government Publishers.
[88] Campbell, Horace, (1975), Op Cit., p351.

houses and building societies.[89] On the other hand, it encouraged private Foreign Direct Investment (FDI) and Foreign Aid within a particular institutional framework and enabling incentives.

By the time of independence in 1962, the financial institutions were basically British which dominated the economy. Three British banks: Barclays, Grindleys and Standard Chartered by 1965 continued to control over 80% of all commercial deposits in the country. Thus, through the control of local savings, foreign banks had an iron grip over the future of direction of economic activity in the country: they channelled local savings to finance mainly foreign enterprises.[90] To finance industrialisation, the state created several financial institutions to mobilise domestic savings and allocate them to indigenous firms and enterprises.

It is within this context that the post-colonial regime created its own banks to mobilise and finance its development strategy. In 1963, the Co-operative Act was passed. Important in this case, the Act created the Co-operative Bank in 1963, the first indigenous commercial bank to carry out commercial as well as development banking business. Apart from being seen as vehicles of Africanisation policy, the bank allocated resources for processing to ginneries and coffee hurries before export. Secondly, in 1965, the government made its first equity investment in the banking sector by establishing Uganda Commercial Bank (UCB) under the Act of Parliament No.22 of 1965 as the successor to the Uganda Credit and Savings Bank.[91] In addition, the National Insurance Corporation (NIC) was established in addition to Postal Savings Bank. To oversee this financial structure, the Bank of Uganda, was established under the Bank of Uganda Act of 1966 as the central bank.[92]

While the creation of these financial institutions was a step in the right direction, their impact on development in general and industrialisation in particular remained minimal.

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[89] Juma, A., Okuku, (2004), "Agrarian Basis of Uganda's Industrialisation Process: The Contribution of the Cotton and Coffee sectors, a paper presented at the 2nd Institutional Framework for Industrialisation Workshop in Uganda, entitled: *The Challenge of Agricultural Led Industrialisation in Uganda*, 23-24, August, Centre for Basic Research, (CBR), Kampala.

[90] Mamdani, Mahmood., (1983), Op Cit., p.24

[91] Ddumba-Ssentamu, John, (1993), *The Role of Commercial Banking in Deposit Mobilisation in Uganda*, PhD Thesis, (Economics), Makerere University, Kampala, pp.26-27.

[92] Ibid, p.16.

Gershenberg in his study of the role of commercial banking in Uganda's economic development showed that UCB was not successful in acting as a spur to other commercial banks or in serving as a source of funds for small African retailers. [93]

Much of the financing of industrialisation was through the Development Finance. Company of Uganda (DFCU) in which Uganda Development Corporation, (UDC), the premier industrial agency in Uganda, had interests. DFCU was formed in 1964 as an associate in equal partnership with the British and German Development Corporation (Commonwealth Development Corporation, (CDC), UK and Industrial Development Corporation of West Germany) to promote medium-scale private enterprise. DFCU was basically a centre that provided information to foreign capital on local circumstances as well as a convenient co-ordinating link and source of finance for the investors. Most of the companies that sought to invest in UDC did so as joint ventures. [94] The other source of finance for industrialisation was envisaged to be FDI.

4.2.4 Foreign Direct Investment (FDI)

For the post-colonial government, the belief was that for rapid economic development to occur not only was foreign finances necessary but also private foreign investment and managerial know-how were critical. It was recognised that foreign participation was a necessity given the lack of indigenous capital and entrepreneurial skills.[95] FDI was, therefore, identified as one of means for financing industrialisation in Uganda. This followed advise to the government from the World Bank to finance its development from raw materials exports and foreign state and private capital finance in form of FDI and aid.[96] The government set out to implement this belief through a number of policy measures. The state had to create a conducive policy environment. The government enacted three major legal instruments: 1) The Industrial Charter, (1964) 2) The Foreign Investment (Protection) Act, (1964) and Foreign Investment (Regulation), 1965.

The special encouragement to foreign investors was expressed in the Industrial Charter, the Foreign Investment (Protection) Act and the Industrial Licensing Act, 1969. The

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[93] Gershenberg, Irving, (1972), Op Cit.
[94] Barya, J, John, (1986), Op Cit., pp 39-40.
[95] Stoutjesdijk, E.J, (1967), op cit., p.11.
[96] Mamdani, Mahmood., (1983), Op Cit., p.23.

Charter and Foreign Investment (Protection) Act, instilled confidence in the investors. They assured foreign investors security of their investments, remittance of profits and repatriation of profits and a reasonable tax regime. In line with the policy of Africanisation/Ugandanisation, an approved enterprise was required to train and employ as a high proportion of Ugandans as was reasonably possible at all levels. Second all approved enterprises had to use East African materials for their operations. Therefore, the Charter envisaged a contractual regime on specific matters such as tax and tariff concessions, introduction of Ugandans in enterprises, importation of raw materials and indigenisation of the manufacturing programme.[97] In general, capital equipment and raw materials were import duty free, while the income tax regime provided generous allowances for the write-off of capital expenditure. These measures were aimed at the development of local entrepreneurial capacities.

The Foreign Investment (Protection) Act was aimed mainly at providing certain guarantees to foreign investors. It provided two major guarantees to certificate holders of approved enterprises. 1) No Approved Enterprise should be compulsorily taken possession of or acquired except in accordance with the provisions of section 13 of the Uganda Constitution. 2), Certificate holders had the right to transfer out of Uganda any approved foreign currency and at the prevailing rate. What may be noted here, however, are two concerns. First, the right to the transfer of profits meant that there would be little expansion of industrial establishments in the country, since there would be limited reinvestment of some of the profits within the economy. Second, the incentives to private investors were practically always directed at the subsidisation of the use of capital, thus reducing the employment effects of new projects, which always relied on "expatriates".[98]

The existence of the Act did not stop the government from slowly moving towards the nationalisation of foreign investments in the subsequent years. Towards this end, the UDC, which was meant to start investments with big capital outlays and then sell them to private investors, was given a legal right to control 51% in some businesses it had started and this included such projects like Tororo Industrial Chemicals and Fertilisers

[97] Onyach-Olaa, Martin, (1989), Op Cit., pp.27-28.
[98] Stoutjesdijk, E. J, (1967), Op Cit., p.99.

(TICAF), Uganda Cement Industries (UCI) and Nyanza Textiles Industries Limited (NYTIL).[99]

Finally, the Industrial Licensing Act's main purpose was to direct investment to those areas or sectors where government felt it would give the highest economic and social returns to the economy. Before any industrial licence was granted to any industrialist for manufacturing of a specified article/product, the "Industrial Licensing Board" was interested to know how many Ugandans the manufacturing establishment would be able to employ.[100] The overall tendency, however, was that most foreign investors, who operated within the framework of domestic politics preferred partnership with UDC for political protection and national image.[101]

In 1969, another policy instrument for enhancing the industrial sector was to be introduced. This was the reinforced public participation in production and recognition of the importance of local capital formation. The government had realised that it was critically desirable to check the high rate of capital inflow or importation and to increase the rate of domestic capital formation.[102] This is what informed the enacting of the Trade Licensing Act, (1970), which made it illegal for non-citizens to participate in wholesale trade.[103] Thus, the stress was on local capital formation and local savings as vital for future development of the economy. It was within this institutional framework coupled with protectionism and the urge to expand into the East African common market, that Uganda's industrial policy was practiced

4.2.5 Nationalisation

Nationalisation – the transfer of resources from the private sector to the public realm, was the general political action taken in most of the Third World countries to control the "commanding heights" of their economies. Nationalisation was often mistaken for a transition to socialism. Inspired by the Arusha Declaration in Tanzania, President Obote

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[99] Obwona, Marios, (1999), *Determinants of Foreign Direct Investments and Their Impact on Economic Growth in Uganda*, Report submitted to Economic Policy Research Centre, Makerere University, Kampala, p.8.
[100] Onyach-Olaa, Martin, (1989), Op Cit. p.21.
[101] Barya J, John, (1986), Op Cit., p.31.
[102] Egau, Deborah., (1975), Op Cit., p.37.
[103] Government of Uganda, (1970), *The Trade Licensing Act*, Entebbe: Government printers.

launched The Common Man's Charter (CMC).[104] It was supposedly based on socialist principles with serious implications for economic development in Uganda in general, and industrialisation in particular. In line with the populist pronouncements in much of Africa, it stated that:

> "…In our move to the left strategy, we affirm that the guiding economic principle will be that the means of production and distribution must be in the hands of the people as a whole. The fulfilment of this principle may involve nationalisation of enterprises privately owned" [105]

This was followed, on May Day 1970, in a policy statement that became known as "Nakivubo Pronouncement", the government took a bold step to implement the above principle. Through nationalisation, the government would acquire a controlling share of 60% of banks, insurance firms, oil companies and most large private companies and manufacturing establishments and also be excluded from external trade. In all, about 100 firms were to be affected.[106] These pronouncements, did not, and could not change the structure of industry in Uganda.

By the time of the 1971 coup by Idi Amin, there was no clear and coherent industrial policy as such. Amin reversed the whole process by denationalising all the nationalised companies. Under decree 18/1971, nationalisation was no longer necessary. With the military coup, Uganda entered a new phase, not only of industrial policy change but also of economic and political policies. Within a year, however, Amin had turned against Asian property interests and later Western, especially British companies as the military regime launched the "Economic War" in 1972. The reality of the situation can be illustrated by the resulting de-industrialisation.

4.2.6 Limitations of ISI policy

There were several limitations of firms under UDC and FDI. The first limitation is that all the major companies under UDC were monopolies, yet a dynamic process of industrialisation demands competitiveness to spur innovation in industrial processes and products.

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[104] Milton, Obote, (1969), *The Common Man's Charter*, Kampala: Milton Obote Foundation.
[105] Ibid, para. 38.
[106] The Nakivubo Pronouncement, (1970), May Day Speech by President Obote, Kampala.

Second, ISI was heavily dependent on imported inputs, particularly technology and some raw materials. For instance, imports of producer materials rose from 27.4% in 1963 to 36.3% in 1966 as a share of total imports.[107] This went against one of the cardinal aims of ISI to save foreign exchange earnings. There was as well a limited consideration of efficiency and competitiveness in the regional export market.[108]

Third, the form that industrialisation took was that of import reproduction rather than import substitution. Import reproduction is restricted to the manufacture of products without their qualitative enhancement and little learning. In the process of import substitution, production is not the sole end; rather it becomes part of a more complex process of technological learning that encompasses product specification and design, process choice and change in social organisation of production.[109] This was not the case in Uganda. Instead, the industrialisation was of the import reproduction variety, which could not lead to the creation of a dynamic industrial structure based on technological deepening and innovation. As Mahmood Mamdani observes, most of the investments were last-stage assembly plants. Raw materials and quite often, semi-manufactured components were imported from the parent monopoly overseas. All firms initiated in the 1950s and 1960s were linked to foreign monopolies or states.[110] Tables of selected investments below illustrate this.

Table 4.1: *Selected Investments from the 1950s (Before Independence)*

Name of Company	Foreign Monopolies/States Involved
1. Nyanza Textiles	Bleachers' Association (UK) Calico Printers' Association
2. Concrete Constructions (U) Ltd	British Steel Reinforcements Ltd
3. Universal Asbestos Manufacturing Co.(EA) Ltd.	Universal Asbestos Manufacturing Co.Ltd (UK).
4. East African Distillers Ltd	Ducan, Gilby, Mathieson Ltd (UK)
5.Uganda Meat Packers Ltd	A. Baumann and Co.Ltd (UK)
6. Kilembe Mines Ltd	Colonial Development Corporation (UK) Frobisher Ltd (UK)

Source: Mamdani, (1983:24)

[107] Egau, Deborah., (1975), Op Cit., p33.
[108] Stoutjesdijk, E., J, (1967), Op Cit., p.12.
[109] Mytelka, K.Lynn, (1989), "The Unfinished Promise of African Industrialisation", *African Studies Review*, Vol.32, No.3, December, p.79.
[110] Mamdani, M., (1983), Op Cit., p.24.

The British colonial monopoly and virtue dependence by firms on British capital is reflected in their ownership and in all cases markets. The selected investments in the 1960s below reflect a decisive link between Uganda and other Western monopolies. Independence did not bring about a transformation in the nature of the industrial sector. There was instead expanded dependence of the economy on foreign monopolies in general.

Table 4.2: *Selected Investments from the 1960s (After Independence)*

Name of Company	Foreign Monopolies / States Involved
1. Tororo Industrial Chemicals and Fertilizers (Ltd)	International Ore and Fertilizers Corp. (UK) Falconbridge Nickel Mines (Canada) Imperial Chemical Industries (UK)
2.Steel Corporation of EA Ltd	Societa` in Accommandita Luigi Pomini (Italy) Societa` Per Azioni Fratelli Orsenigo (Italy)
3.Uganda Garments Industries Ltd (UGIL)	Marubeni-Ida Co.Ltd (Japan) Yamato Shirts Co.Ltd (Japan)
4. Uganda Fishnet Manufacturing Ltd	Nippon Rayon Co.Ltd (Japan)
5. Development Finance Co.Ltd of Uganda.	Deutsche Gesellschaft (West Germany)
6.Lira Spinning Mill	Government of the Soviet Union

Source: Mamdani (1983:24)

The encouragement of foreign industrial investment, just as UDC which was the central agency of industrialisation, was non-selective. An effective industrial process demands a focused, selective and periodised establishment of industries. In a context of resource constraint, an effective industrial process calls for selectivity. In the 1960s, for instance, apart from manufacturing plants, UDC controlled, through subsidiaries, a number of tea estates, cattle ranches, a chain of hotels, national parks and participated in hire-purchase, banking, mining and food processing.[111] An effective industrial policy needed selectivity.

[111] Onyach-Olaa, Martin, (1989), Op Cit., p.33.

The policy-makers did not take into consideration the importance of an expanded domestic market – needed agrarian reform.[112] In general it can be observed that Uganda's industrial process simply took "baby-steps" which could not lead to dynamic and sustained industrialisation. It is within this context, that the governing elite launched what they called a "Move to the Left", known as the Common Man's Charter, in 1969 and culminated in the Nakivubo Pronouncements of May 1970 which nationalised 60% of private industries and enterprises.

4.3 The "Economic War" Policy and De-Industrialisation (1972-80)

Industrial policy, after the reversal of the partial nationalisation pronouncements of May Day 1970, was informed by two major features: i) expropriation of Asian property and ii) The unplanned expanded participation of the public sector in the context of the general decline in the economy and the resulting de-industrialisation.[113] The institutional framework that had been established in the colonial period and the immediate post-colonial period were literally wiped out, as they were replaced by the rule by decrees of the military regime.

The first policy measure of the military regime was to reverse the measures announced on May Day 1970, which had far reaching changes in the basic industrial policy. In 1970, the government had decided to acquire a controlling interest in a number of private companies and manufacturing establishments, and also to exclude private enterprise from external trade. This policy had only been partially put in effect when the military took power early in 1971. The new regime decided to reverse this strategy.[114] Under decree 18/1971, it was no longer required that the government must take over 60% of the shares of any nationalised company.[115] It reduced state participation from 60 to 49% in 11 companies (including three in manufacturing), though 60% participation continued in seven other companies covered by the pronouncements.

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[112] Agrarian reform would have enabled the land owners to use the land as collateral to borrow from banks for investment and possibly expand production for the maket.
[113] The concept of de-industrialisation simply denotes a situation in which, over time, the contribution of the industrial sector decreases rather than increasing.
[114] Commonwealth Secretariat, (1979), *The Rehabilitation of the Economy of Uganda*, Volume II, London p.105.
[115] S.1 of Companies (Government and Public Bodies Participation) Act (Amendment) Decree, 1971

The attempt to be selective as espoused in the Third Five Year Development Plan (June 1971- June, 1976), which was referred to as the "Development Manifesto", by defining the role of government and the private sector, never materialised in practice.[116] It was envisaged that government would have control over, power generation, water supplies and exports of major cash crops. In addition to the private sector, there would be joint ventures in all enterprises engaged in a limited number of sub-sectors of strategic importance. These included: commercial banking and insurance, iron and steel production, sugar production and processing of petroleum products. These plans remained largely on paper.

In less than a year, the reversal on nationalisation was as well invalidated as General Idi Amin expelled the Asian entrepreneurs, managers and technicians in 1972 in what he declared was an "economic war".[117] From this time Uganda entered a period of unpredictable policy regime, which inevitably resulted in de-industrialisation.

The second policy measure by the military regime saw the expropriation of the non-Ugandan businesses followed by an adhoc allocation of the businesses to the public sector and Ugandans who had no industrial culture in terms of technical know-how and organisation.[118] The expropriation had two major effects: i) economic growth fell as investments dried up as manufacturing firms had less confidence in Uganda's political and economic stability as skilled managers were replaced by largely unskilled people, often drawn from the military and with little education.[119] ii) expanded public sector as expropriated industries were allocated to UDC. Thus, there was unplanned shift of ownership from private to public, causing a strain on the managerial and financial capacity of UDC.

These two actions triggered a process of decline in economic growth resulting in de-industrialisation due to a negative growth rate in the manufacturing sector. By 1979, at the end of the Amin regime, most of the manufacturing establishments had ground to a

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[116] Ministry of Planning, *Uganda's Third Five-Year Plan, 1971/72 – 1976/77,* Entebbe: Government Printers.
[117] "Economic war" was the designation the Idi Amin put to his expulsion of peoples of Asian Origin from Uganda, the nationalisation of some of the foreign firms (especially British) and their allocation to state corporations or individuals.
[118] Baberuka, Willy, (1975), Op Cit., p.20.
[119] Bigsten, Arne and Kayizzi-Mugerwa, S, (2001), *Is Uganda an Emerging Economy? A Report for OECD project "Emerging Africa"*, Research Report No.118, Nordic Africa Institute, (NAI), Uppsala, p.17.

halt. Despite the fact that there were 50 factories in the medium and large-scale sector operating in 1971, by 1981, 15 of these were completely closed down and the capacity utilisation of the remainder was only around 25%. In 1971, when the last full industrial survey was conducted, the whole industrial sector was reported to comprise about 970 establishments employing ten or more people, and a much larger number of cottage industries compiled by the Ministry of Industry recorded only 464 establishment. Almost 40% of the reported establishments had temporarily ceased operations while the remainder were operating on average with very low capacity utilisation of around 20% (compared to 70% in 1970).[120]

The most critical effect of the "economic war" was the loss of the entrepreneurial talent of the Asian community as most skilled people who dominated the industrial and commercial activities and qualified Ugandans and aid-financed technical assistance personnel left the country.[121] Where they remained, there was a great deal of political interference in administrative and financial matters, which resulted in inefficiency and general demoralisation.[122] The loss of skilled personnel affected both private and public sectors.

Second, the unplanned expansion of the public sector, led to further de-industrialisation. While the Nakivubo Pronouncements advocated a systematic step-by-step 60% acquisition of control of the private sector investments by government, the "economic war" was spontaneous with 100% control over the expropriated industries. This had devastating effect on the industrialisation process in general and industrial policy regime in particular.

Within three years, the number of parastatal bodies increased by nearly 100 and in 1975 more foreign businesses was expropriated. The public sector grew enormously and the strains this exerted on public sector financial and managerial resources had far-reaching ramifications.[123] Uganda lacked the hundreds of managers, engineers, accountants and other professional personnel to replace those who were forced out. No objectives or

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120 World Bank, (1982), *Uganda: Country Economic Memorandum*, Washington D.C., pp.77-78.
121 Onyach-Olaa,Martin, (1989), Op Cit., p108.
122 Commonwealth Secretariat, (1979), *The Rehabilitation of the Economy of Uganda*, Vol.II, p.106.
123 Katumba, A.B, (1988), The State of the Industrial Sector – 1984, Makerere Institute of Social Research, (MISR), *Occasional Paper*, No.006, p.4.

guidelines were provided for the new managers, except for periodic prohibitions on price increases.[124]

The unplanned transfer of several expropriated enterprises to UDC and later, the creation of several new parastatals, dealt a further blow to the industrialisation process. By 1971, UDC, the premier agency for industrial development in Uganda, had 36 subsidiaries and 22 associated companies. After 1972 with the expulsion of Asians, more than 100 companies were appendaged to UDC causing operational strain. The expulsion of Asian and British technicians and managers, created problems for UDC whose management, engineering, accounting and marketing capacities were now constrained.[125]

In 1974, the government decided to "re-organise" UDC. Several industries were taken away from UDC. In addition, the government created several new parastatals. Both actions disrupted the industrialisation process. This heralded the destruction of UDC. Many of the viable subsidiaries of the UDC group, such as Nytil and Uganda Cement Industries, were allocated to new parastatals. Those transfers were never made legally and there were therefore no payments for the equity shares, which were arbitrarily taken away from UDC. By the second half of the 1970s, with all viable manufacturing units allocated to the new parastatals, UDC was reduced to a skeleton staff only in the headquarters.[126]

The takeover of Asian and British enterprises by government without compensation inspite of the provision for it in the decree, further discouraged FDI. This was compounded by the political instability and uncertainty which plagued Uganda under the military dictatorship. The expropriated enterprises collapsed or operated at very low capacity. For instance, in 1971, industrial enterprises were operating at about 70% capacity but by 1976, the average production was 30% of the capacity or below.[127] The attempt to attract foreign investment through the Foreign Investment Decree, of 1977,[128] was totally unsuccessful, though this was attributed to lack of an enabling investment law. The real reason for lack of foreign investment was not the absence of an enabling law. It was due to political uncertainty following the 1972-73 expropriations that had led

[124] Commonwealth Secretariat, (1979), *The Rehabilitation of the Economy of Uganda*, Vol.1, p.2.
[125] Barya, J.John, (1986), Op Cit., p.66.
[126] Ibid, p.74.
[127] Ibid, 73.
[128] Uganda Government, (1977), *The Foreign Investments Decree*, Law Reform Commission, Entebbe: Government Printers.

to capital flight and lack of new investments. The state had as well disrupted the process of mobilisation on internal savings for investment.

The creation of new parastatals created an institutional and policy nightmare. Several parastatals created were given the responsibility to manage the expropriated industries. Among these were: National Textile Board (NTB), National Tobacco Corporation (NTC), Uganda Cement Corporation (UCC), Lint Marketing Board (LMB), Produce Marketing Board (PMB) and Uganda Steel Corporation (USC). This presented several policy-making problems leading to institutional difficulties. Some industries were simply extracted from UDC. Some were put directly under the Ministry of Industry and not under UDC.[129] These parastatals came to be afflicted with a number of shortcomings. The managers of the new parastatals lacked both managerial competence and entrepreneurial skills, while the private individuals who acquired the smaller businesses had soon stripped them of most assets.[130] The problems of management and public administration of parastatals, taken away from UDC and new ones created in government ministries, continued to bedevil economic policy making in Uganda. The new parastatals were largely used for state patronage. While earlier on they were sources of tax revenue, in form of corporate taxes, rents, licences and rates, they now depended on the government for survival.[131]

The issue of markets further dented the industrialisation process. From its inception, Uganda's ISI strategy was developed with an eye on the East African Common Market. The legacy of this ISI strategy caused the industrial sector of Uganda a lot of problems during the 1970s, especially when the East African Community collapsed in 1977. Trade restrictions were not only from outside East Africa but also within the East African region.[132] The break-up of the East African Community, reduced competition as protection of local industries was enforced leading to inefficiency. The market also narrowed contributing to under utilisation of installed capacity as Kenya and Tanzania established their own industries, particularly the textile industries. In addition, the general political atmosphere was not conducive to investment.[133]

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129 Onyach-Olaa, Martin, (1989), Op Cit., p.39.
130 Bigsten, A and Kayizzi-Mugerwa, (2001) Op Cit.,, p.17.
131 Uganda Government, (1977), *The Action Programme*, President's Office, Entebbe, p.45.
132 Onyach-Olaa, Martin, (1989), Op Cit., p.106.
133 Kaberuka, Willy, (1975), Op Cit., p.24.

There were some attempts to revive the economy. First was an attempt to energise the Small Scale Industries. In 1974, Uganda Commercial Bank (UCB) carried out a feasibility study as a prelude to launching a Small Scale Industry (SSI) scheme. By April 1977, 2% of UCB deposits was set aside for the scheme. The scheme did not pick up immediately despite intensive publicity in the mass media. The funds set aside for the SSI scheme were not fully utilised because a) lack of foreign exchange to import plant and machinery b) lack of adequate security for the required loans and c) lack of an institutional framework to develop and train SSI entrepreneurs at the grassroots level.[134]

In summary, one could argue that a form of naïve economic nationalism – the desire to reduce dependence on private foreign capital, and ensure that the "commanding heights" of the economic activity were under domestic control,[135] informed the above economic policies. The creation of public enterprises, which contributed to industrial growth in other countries,[136] was based on systematic and gradual changes unlike the Uganda case where there was unplanned seizure of Asian properties. Since the expropriated industries were not planned for, none achieved the developmental reasons and objectives for nationalisation. Public enterprises failed to raise savings for re-investment in either the industrial or other sectors. They could not fill the entrepreneurial gaps left by departing Asians through state participation. Neither could they accelerate technical progress and technical change nor rapid diffusion of improved techniques, among others.[137] The government, inspite of nationalising the enterprises, did not have the capacity to replace machinery. It could neither repair nor maintain the operational ones due to lack of expertise and financial resources.[138]

The result was the decline and virtual collapse of the industrial sector in the 1970s. The decline started in the 1970s but in the 1980s, government worked to reverse the situation both through the return of selected parastatals bodies to the private sector, rehabilitation and the adoption of a more liberal industrial strategy. The Dudley Seers report[139] offered three options for the revival of the industrial sector's large state-owned units: i) to stay in

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134 Kibuka, M.M., (1981), "Financing of Small-Scale Industries in Uganda" *in Strategies for Spreading Small-Scale Industries in Uganda*, Published by Ministry of Industry, Kampala.
135 Third Five-Year Plan, 1971/2 – 1976/77.
136 Much of the East Asian industrialisation was carried out by public sector firms.
137 Onyach-Olaa, Martin, (1989), Op Cit. p.113.
138 Kaberuka, Willy, (1975), Op Cit., p.23.
139 Commonwealth Secretariat, (1979), *The Rehabilitation of the Economy of Uganda*, London, p.15.

public hands by returning them to UDC, ii) to be passed to Uganda nationals and iii) to be returned to foreign control. These proposals were overtaken when Uganda adopted a Structural Adjustment Policy package under IMF/World Bank in June 1981.

4.4 Conclusion

This chapter set out to examine the institutional foundations of Uganda's industrial policies. These were discussed around five themes. First, the "late" colonial industrial policies from 1945-62. We have observed that in order to realise its objectives, the "early" colonial state established institutions and mechanisms for expropriation of the surplus from domestic producers of mainly coffee and cotton, both for its maintenance and for the benefit of metropolitan interests. It was mainly after the World War II, in the "late" colonial period that the state, through its bureaucracy and UDC as the entrepreneurial coordination agency was tasked to oversee the colonial industrialisation project.

Secondly, to finance the project, the colonial state created institutions through which funds were extracted, such as the coffee and cotton marketing boards. The colonial state as well controlled sources of finance through the banking and monetary policy sector. Thirdly, to facilitate the implementation of industrial policies, several business associations representing different interests in the colonial economy were allowed to operate. We note, however, that intermediate institutions in form of associations such as Uganda Chamber of Commerce (UCC) and the Indian Merchant Chamber acted more as a support system for colonialism than for business interests. These industrial policies, however, led to modest industrialisation by the time of independence.

Fourthly, the inherited institutions presented both possibilities and obstacles to industrial transformation. We noted that at the centre of the post-colonial state were a small elite political class and bureaucracy with limited vision that could not transform the economy. I observed that the policy of recruiting Ugandan nationals into the bureaucracy and Ugandanising commerce in themselves could not transform the economy. We noted that while the state took two broad approaches to finance industry: first, through local resource mobilisation (proceeds from mainly coffee and cotton) and second, through FDI, the ultimate stress on FDI could not lead to autonomous industrialisation.

Fifthly, I observed that the unplanned expropriation of the Asian properties and the expansion of the public industrial sector had devastating impact on industry. I noted that the "economic war" resulted in the loss of entrepreneurial talent of the Asian community, the qualified Ugandans and aid financed technical assistance left the country. The unplanned transfer of the expropriated enterprises to UDC, the premier agency for industrial development, dealt a blow to Uganda's industrialisation process.

The combination of these distortions in the institutional and policy-making processes ensured that by the end of the Idi Amin regime in 1979, there had occurred serious decline and virtual collapse of the industrial sector. It is within this context that the Obote II regime that came to power in 1980 had to implement SAPs which is discussed in the next chapter.

CHAPTER FIVE

5. INDUSTRIAL POLICIES UNDER STRUCTURAL ADJUSTMENT PROGRAMMES (SAPs) 1981-2006

5.0 Introduction

This is the second data chapter of this thesis. It is mainly based on government documents (published and unpublished), material from archives and newspaper reports. The purpose of this chapter is to provide evidence of actual government support for the industrial sector and the inadequacies in its implementation. The chapter sets out to discuss the nature of Uganda's industrial policies under a liberalised policy framework of SAPs from June 1981 to 2006.

Basically, since the early 1980s, industrial development in sub-Saharan Africa has occurred within the broad macroeconomic context dominated by short-term, market-based structural adjustment programmes, with no or minor industry-specific policies proposed to encourage the expansion and diversification of the industrial sector.[1] The central objective of this chapter is to examine the practice of industrial policy in context of SAPs. The problem is that SAPs have no specific industrial policy prescriptions and are premised on an ideology that is antithetical to strategic thinking about industrialisation.[2] Its application in the Ugandan context has not been an exception to this premise.

In the previous chapter it was noted that Uganda's industrialisation process was dominated by state intervention through import substitution. Thus, SAPs as its starting point, viewed ISI as the central weakness of the nationalist project of industrialisation that unfolded in the 1960s and was built-on the late colonial industrialisation initiative of the 1950s. ISI in the 1950s and 1960s created a complex of import-dependent industries whose existence became predicated on the continuous transfer of resources from

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[1] Riddell, Roger, (1993), "The Future of Manufacturing Sector in Sub-Saharan Africa" in Thomas M, Callaghy and John Ravenhill, (eds), *Hemmed In: Responses to Africa's Economic Decline*, New York: Columbia University Press, p.215

[2] Mkandawire, Thandika., and Soludo, Charles (1999), *Our Continent Our Future: African Perspectives on Structural Adjustment*, Trenton New Jersey: Africa World Press, p.107

agriculture, which had literally collapsed by 1979 at the end of the 1972 "economic war".[3] Based on free market theory, SAPs proposition is to dismantle ISI as it is seen as an unmitigated disaster due to state-induced market distortions.[4]

This chapter is divided into two sections representing the two phases of SAPs in Uganda. The first section discusses phase one, (1981-85), which was mainly concerned with: i) rehabilitation of the economy in general, ii) return of expropriated properties, iii) attraction of foreign investment and iv) continued stress on import substitution.

The second section discusses phase two, (1987-2006) involved: i) several structural reforms ii) widespread liberalisation and privatisation of the economy, iii) stress on FDI, and iv) creation of several institutions to facilitate export-oriented industrialisation (EOI). Apart from specific policies and institutional framework, the focus shall be on three main themes: i) effects of liberalisation on industrial sector, ii) the impact of privatisation on industry iii) sources of financing of industry. The important role of technology policy is discussed in chapter six which deals with institutions in support of the industrial sector. This is because among others, these factors have profound implications for the industrialisation of Uganda.

5.1 SAPs and Industrial Policies, Phase One – The Obote II Period (1981-85)

The period of June 1981-85 constitutes the first phase of SAPs in Uganda. The Obote II regime stressed re-organisation and rehabilitation of the economy as a whole and not new investment, under Recovery Programme of 1982-84.[5] Central to the programme was the return of the expropriated property to former owners, mainly Asians, closing or privatisation of some of the parastatals, re-organising the rest of the parastatal sector and hiring the parastatal sector managerial positions on the basis of technical qualifications and competence.[6] The rehabilitation focused on a number of core elements: i) rationalisation of existing productive enterprises through a judicious policy of financial assistance to priority industries, ii) a comprehensive improvement

[3] Mamdani, Mahmood, (1990), "Uganda: Contradictions of IMF Programme and Perspectives", *Development and Change*, Vol.21, p.427
[4] Mkandawire, Thandika, (1988), "The Road to Crisis, Adjustment and De-Industrialisation: The African Case", *Africa Development*, Vol.XIII, No.1, p.26
[5] Commonwealth Secretariat, (1982), *Recovery Programme 1982-84,* Government of Uganda, London
[6] Ibid, p.3.

in the industrial and resource management by government and iii) judicious use of scarce foreign exchange to potentially export-oriented enterprises so as to enhance future foreign earnings as well as save on exports. It is these objectives that informed the rehabilitation efforts.

5.1.1 Rehabilitation Efforts under SAPs

Rehabilitation efforts aimed at broadening the economic base to minimise the existing excessive dependency on agricultural sector, raise the level of industrial and mineral production as a means of changing the structure of the economy. This was implemented by direction of resources to priority areas and encouraging private investment, both local and foreign. To achieve this, there were steps to revise the 1964 Foreign Investment (Protection) Act with a package of incentives.[7] The recovery programmes were short-term rehabilitation plans designed to channel financial resources into selected priority areas, which could produce quick returns with minimum investment. This short-term focus could not solve the distortion that had been inflicted on the industrial sector in the 1970s. With rehabilitation at the forefront of government economic policy, there was no specific focus on industry. The government, however, took some measures in support of industry. Even in the context of SAPs, the state implemented some supportive measures to prop up industry. The policy of rehabilitation ran into the early 1990s prior to the outright privatisation policy.

First, given the distortion and poor performance of the industrial sector during the 1970s and changes in political and economic policies in 1980s, government did decide to return to UDC those manufacturing units which were under its management through parastals in anticipation that the industrial sector would again experience rapid growth.[8]

Second, the Central Bank, Bank of Uganda, apart from working to maintain internal stability of the Uganda shilling, sometimes guaranteed foreign loans to the industrial sector on behalf of government. In the 1981/82 budget, for instance, provision was made to bail out parastatals that could not recover their expenses. These included Lake

[7] Commonwealth Secretariat (1982), *Recovery Programme, 1982-84*, Vol. 111, Industry.
[8] Government of Uganda*, (1983), Background to The Budget, 1983-1984, p.21.*

Katwe Salt Project, Uganda Cement industry, (UCI), Kilembe Mines, among others.[9] The industrial sector, being boosted by special allocations of foreign exchange from the Central Bank, gained some momentum, growing at an average of 6.1 per cent over 1981 to 1983 period. Given the level to which production had dropped, this growth did not make much difference. By 1984, however, the sector was again back on a declining trend.[10]

Third, the government as well allocated the "aid" finances from International Development Association (IDA), an arm of the World Bank, to several industries, through Uganda Development Bank (UDB) and Uganda Commercial Bank (UCB) that were now mere conduits of the borrowed finances. It was on the basis of these finances that there was some industrial recovery in such manufacturing plants such as Uganda Breweries, Uganda Baati, manufacturers of galvanised corrugated iron sheets.[11]

In the whole process, the manufacturing industries were allocated about 25% of the programme funds during this period as most of the funds were targeted at the agricultural sector on whose revival the industrial sector depended as it would provide the raw materials and earn foreign exchange to import the necessary capital and intermediate goods for industry.[12] The key demand by the World Bank was the return of expropriated firms to their form Asian owners. This would restore confidence in private sector investments. To revive industry, therefore, the policy measure taken was the return and privatisation of the enterprises that had been expropriated in 1972 "economic war" to the former Asian owners. This was given institutional expression through the Expropriated Properties Act, 1983.[13] Despite the adoption of SAPs, the state remained central in the industrial restructuring process.

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[9] Katumba, A.M (1988), "The State of the Industrial Sector, 1984", *Occasional Paper,* No.6, Makerere Institute of Social Research, p.5

[10] Kasekende, L, Atingi-Ego and Sebudde, R (2002), *The African Growth Experience: Uganda Country Study*, mimeo, p.46

[11] Government of Uganda, (1983), *Background to The Budget, 1983-1984*, p.21.

[12] Commonwealth Secretariat, (1982), *Recovery Programme and Projects, 1982-84: Industry*, Vol.111, p.12.

[13] Government of Uganda, (1983), *The Expropriated Properties Act, 1983*, Entebbe.

5.1.2 The Expropriated Properties Act, (1983)

This Act came into force on 23rd February 1983. It provided for the transfer of properties and businesses acquired or otherwise expropriated during the 1972-73 "economic war", to the Ministry of Finance and their return to former owners, taking into account the claims of former owners who might wish to be compensated. The Act was a move towards divestiture (privatisation) strategy, which was in line with the new government role of the provision of parametric policies a rather directive policy since the adoption of SAPs in 1981.

This section proposes to evaluate the effects of the Act on industry and in terms of its resolution of the ownership problems, which had adversely affected the performance of the industrial sector. The Act partially resolved the ownership problems as some of the nationalised properties were returned to their former owners (mainly Asians). By the end of 1983, the ownership of 69 out of 172 enterprises that had been identified for return to former Asian owners had been repossessed.[14] This went some way in creating confidence and improving performance of the sector. The implementation of the provisions of the Act thus resulted in a slight reduction of the uncertainties regarding the ownership of industries and helped increase in profitability of some industries.[15] With the resolution of ownership, the new owners could access loans. The return of the Asian properties would also have two other effects. The divestiture aimed at reducing the burden of subsidisation on government as most of the enterprises were run on government subsidies. Second, it revived some confidence in private investment, as foreign investors were encouraged to return. Perhaps, the most far-reaching impact on industry, it was hoped, would be the privatisation of nationalised industries and liberalisation of the economy.

5.1.3 Liberalisation and its Effect on Industry, 1981-85.

In June 1981, the government introduced an integrated, liberalised package of monetary and fiscal policies designed to: i) increase prices and other incentives to producers, ii) reduce smuggling, iii) removal of price controls and iv) reduce inflation by stimulating

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[14] Dhetemwa, Godfrey, (1992), *Effects of Devaluation on a Selected Number of Industries in Uganda,* MA (Economics), Economic Policy Planning and Management, Makerere University, p.28.
[15] Government of Uganda, (1985), *Background to the Budget, 1985-1986*, Entebbe: Government Printers, p.26.

investments and production.[16] This did away with fixed exchange rate and replaced it with what was known as the "float". Liberalisation had mixed effects.

The floating of the Uganda shilling resulted in the increases in wages and the cost of public utilities. This sharply increased the costs to the Uganda industries and tended to weaken the competitive edge of Uganda products vis-à-vis imported goods. The effect of the float on the industrial sector was that it faced problems of working capital, marketing and under-capacity utilisation.[17] This was due to the fact that the government left the industrial sector to compete side by side with other sectors for the foreign exchange funds from foreign "aid" which was auctioned at the Central Bank. In most cases, the manufacturing sector was usually out bid in foreign exchange market, mainly by the export/import traders, hence failing to raise the necessary capital to run their enterprises.[18] The industries also found it increasingly difficult to compete in the market, for several reasons. First, due to the costs of production, and second, because of the increased contraband goods smuggled into the country without taxation

The devaluation of the Uganda shilling, made it difficult for both the rehabilitation and the running of the repossessed industries. While the repossession of the expropriated properties took place, the most pressing problems that militated against even the mere rehabilitation of industry were: the devaluation of the Uganda shilling, which made it difficult for industries to purchase both machinery and inputs or repay loans, lack of managerial skills or exacerbation of mismanagement by political appointments, IMF/World Bank conditionality, particularly credit squeeze, suffocated some industries.[19] The increasing vulnerability of Uganda industries to external pressures can be evidenced by the sources of finances. With the acceptance of SAPs, the World Bank advanced loans on which Uganda's industrialisation came to depend. For autonomous industrialisation to occur, the source of finance is important as it has implications on what priorities to fund.

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16 Obote, A.Milton., (1981), *Budget Speech: First Step to Recovery*, Entebbe: Government Printers.
17 Onyach-Olaa, Martin, (1989), Op Cit., p129.
18 Mamdani, Mahmood. (1990), Uganda: Contradictions of the IMF Programme and Perspective, *Development and Change*, Vol.21, p.445.
19 Barya, J, John, (1995), *Industrialisation and Technology Acquisition in Uganda: An Analysis of the Policy, Legal and Institutional Framework with Three Case Studies*, Research Report submitted to the International Development Research Centre (IDRC) Ontario, Canada, p.14.

5.1.4 Sources of Finance for Industry

The Ugandan banks were no longer sources of finance but had become mere conduits of foreign "aid" funds allocated to industry. The investment funds for medium and large-scale industrial sector, mainly from the World Bank, were channelled through the Uganda Development Bank (UDB). UDB was strengthened in three ways: i) expansion of its equity base (over $10.0m), ii) attraction of more than $50.0m in new funds to be lent to the industrial sector and iii) provision of technical assistance.[20] By 1986, the major sources of external "assistance" for manufacturing sector were the "Industrial Sector Development Loans" which were administered through Uganda Development Bank (UDB) and Uganda Commercial Bank (UCB). The thirty three manufacturing establishments involved were accorded high priority with reasonable prospects for viable operation.[21]

The major concern here is that the World Bank dictated to which sector of industries loans were lent. Loans went mainly to processing plants of cotton and coffee for export, the raw materials needed in Europe and USA, although some of the funds were directed at the importation of machinery and spare parts for industrial sector.

During the period 1981-84, industrial development policy was controlled through Bank of Uganda, the liberalised foreign exchange operations and primarily through the flexible exchange rate policy, basically a monetarist policy regime. The working capital bottleneck that resulted from devaluations, the tight monetary policy and the high interest rates tended to choke industrial rehabilitation without any selective reprieve.[22] With the realisation of the disastrous effects of liberalisation on industry, the Minister of Finance indicated that government would protect local industry and took the supporting measures necessary to maintain local production.[23]

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[20] Government of Uganda, (1984), *The Background to the Budget, 1984-85*, Entebbe: Uganda Government Printers, p.33.
[21] Government of Uganda (1986), *The Background to the Budget, 1986-87*, Entebbe, Uganda Government Printers, p.45.
[22] Banugire, Firimooni, (1987), "IMF Structural Adjustment Policy in Uganda, 1980-87", *Weekly Topic*, Wednesday, October, p.7.
[23] Government of Uganda (1984), *The Background to the Budget, 1984-85*, p.9.

In general, the attempted SAPs, which were implemented between 1981-83, largely failed because of their inability to address the structural basis of the crisis. The programme was not fully implemented and was abandoned after June 1984. This was mainly for three reasons: i) SAPs depended for its success on continued flow of foreign finance and not enough of it was obtained on a continuous basis and ii) there were non-economic reasons, especially the civil war which was being waged by National Resistance Army, (NRA), the guerrilla army led by Yoweri Museveni, since February 1981, contributed to the failure of the programme.[24] iii) Perhaps, the major cause of the failure of SAPs in this first phase was contextual. The effect of devaluation when combined with liberalisation, in the context where market incentives gave no preference to productive over speculative investments, was bound to end in failure. As Mahmood Mamdani observes on both the first and second phases of SAPs, the Open General Licence (OGL) for industries, which was taken as a major concession to industry over trade, was at the same time a major step backward, because an OGL for all industries implied the absence of any industrial priorities. [25]

Priority or non-priority industries cannot be distinguished simply by reference to the end product (mass consumer as opposed to luxury products). The real distinction requires looking at the production technology and the import requirements of each industry. This would require raising three issues: i) the agents of change in industry, ii) the nature of markets for expanded production and iii) the sources of finance for industrialisation. In other words, recognising the institutional context of industrialisation is critical. These questions were largely left out in both the first and second phases of SAPs. The second phase of SAPs saw extended liberalisation, privatisation and several institutional reforms with implications for the industrial sector. The institutional reforms are discussed in chapter Six.

5.2 SAPs and Industrial Policies, Phase Two – 1987-2006

This phase witnessed extended institution of both economic and structural reforms. After some hesitation and practice of a populist barter trade and administrative allocation

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[24] Ochieng, Erisa, (1996), "Stabilisation and Adjustment Programmes in Uganda, 1981-1995, *International Development Consultants*, Kampala, p.4

[25] Mamdani, M., (1990), Op Cit., p.446-51.

of "essential" commodities: sugar, salt, soap, from 1986 to 1987, the second phase of SAPs was launched in May 1987 by the NRM regime and still runs up to the present day, though in different forms. The reform was embodied in the Economic Recovery Programme (ERP).[26] ERP were a bold economic reforms geared at stabilising the economy as a basis for rapid and sustained recovery of the productive sectors. This was revised and replaced by the ERP (1988-1992).

Before we discuss the details of the implementation of SAPs in the second phase, it is important to underline its differences with the first phase. First, the Museveni regime by 1987 faced both a desperate economic situation without even basic consumer commodities and increasing political opposition from elements of the regime that had been overthrown the previous year. Second, the NRM could carry out reforms without being beholden to a particular political class. Politically, the NRM had captured state power by relying on the rural support rather than the urban classes which would feel the immediate effects of the reforms. Apart from the reforms enabling it to consolidate political power, the reforms were bound to meet minimal resistance. It is within this social and political context that SAPs were launched in the second phase. This may be a major explanation of the class basis of government support to the various entrepreneurs in it drive to build a "middle class". The reforms served the double objectives: economic revival and political consolidation.

SAPs in this phase has had two central thrusts: a) macro-economic stabilisation through tight fiscal management – balance of payments stability, reducing inflation, lower interest rates, market-led market reforms, foreign exchange reforms and trade liberalisation and b) the growth strategy defined through the agricultural export-led growth initiative that would take advantage of the liberalised environment created by the removal of trade tariffs.[27]

In the years between 1987 and 1999, the Government of Uganda, introduced several programmes destined to rehabilitate the industrial capacity (Emergence Relief and Rehabilitation of 1986) to stabilise the economy and restore its infrastructure and social

[26] Government of Uganda, (1987), *Economic Recovery Programme*, Kampala.
[27] Rugasira, Andrew, (2004), "Sustainable Economic Growth and the Era of Structural Adjustment: Observations on Uganda", a paper presented at a workshop on *Agricultural-Led Industrialisation in Uganda,* Centre for Basic Research (CBR), Kampala, p.8.

services, the 1987/88 to 1991/92 reforms to re-orient the economy towards private sector-led growth and The Way Forward I and II, 1990-1995, through structural adjustment.[28]

Prior to the implementation of these policies under SAPs phase II (1987-2006), the government carried out several structural/institutional reforms. Among these was the reform of the bureaucracy, which would be at the centre of the implementation of these policies. The reform of the bureaucracy was expressed through the commissioning of Public Service Review of 1989.[29] These institutional reforms are discussed in the next chapter 6.

For this period, we examine the five major features of SAPs that had implications for the industrial sector. These include: i) liberalisation ii) privatisation of the public sector firms, iii) financing of industrialisation through FDI, iv) financing industry with foreign aid and loans and v) politics and patronage in the financing of industry. Both the SAPs and the accompanying structural reforms, particularly the reform of the bureaucracy, had implications for industrial policy practices and the distinctive nature of the industrial sector.

5.2.1 Liberalisation and the Industrial Sector

The first major element of liberalisation was that of foreign exchange which had been the perennial obstacle to industrial activity, by removing the bureaucracy of securing it from the Central Bank. This followed in the footsteps of the Berg Report[30] that had identified the inability of most African countries to generate enough foreign exchange to cover their import requirements as the major obstacle to their development.[31] The liberalisation of foreign exchange aimed at the elimination of this constraint, bureaucratic meddling and was accompanied by a determined effort by the government to reduce its own deficit

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[28] Siggel, E., and Ssemogerere, G, (2001), "Uganda's Policy Reforms, Industry Competitiveness and Regional Integration: A Comparison with Kenya", EAGER, *Discussion Paper*, p.3.
[29] Government of Uganda (1990), *Public Service Review and Reorganisation Commission (1990).* The details of bureaucratic reforms are discussed in Chapter six.
[30] World Bank, (1981), *Accelerated Development in Sub-Saharan Africa: An Agenda for Action,* Washington, DC.
[31] Sender, John and Smith Sheila, (1984), "What's Right with the Berg Report and What is Left of Its Critics", *IDS Discussion Paper*, 192, June, p.16. The major problem of the Berg argument about the shift towards export–oriented manufacturing is over timing. Berg over-estimates feasible rates of increase in SSAs manufactured exports, p.28.

and therefore monetary expansion, which reduced inflation substantially while increasing exports.[32]

The trade and payments liberalisation and private sector-led strategy may not provoke the intended supply side response, as was the case in Uganda where there are market imperfections and weak markets. The manufacturing sector, as was the market, in Uganda was small and by 1995 was only 7% of the GDP, comprising small-scale enterprises, producing simple consumer goods, dependent on imported inputs and generating minimal value added. In this context, liberalisation may lead to de-industrialisation, the transfer of resources to foreigners and the concentration of economic power in a few hands.[33] Thus, liberalisation had mixed effects on industry.

Liberalisation gave easy access to foreign exchange but it also made it easier to import cheap competing commodities. The massive devaluations that followed eroded the working capital bases and reduced capacity utilisation of most industries and led to closure of some. The liquidity squeeze aggravated the shortage of working capital. Trade liberalisation and the removal of import restrictions allowed for an inflow of cheap imported goods, based on the avoidance tax by smuggling into the market.

The state launched anti-smuggling measures, which remained ineffective. What compromised government policy in the fight against smuggling and tax evasion was the participation of politically highly placed agents later in the programme, for example, DANZE Enterprises, a private company set up to make profits for the ruling party, NRM. In its heyday, DANZE Company routinely smuggled a wide variety of merchandise: sugar, cooking oil, shoes, jute bags, bed sheets, blankets, sweaters, hoes axes and matches.[34] Several firms were subjected to competition from these smuggled goods, some of which were produced under subsidy abroad.[35] This resulted in the closure

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[32] Harvey, Charles and Robinson, Mark, (1994), The Design of Economic Reforms in the Context of Political Liberalisation, *Uganda Country Study*, European Commission, p.10.
[33] Ochieng, Erisa, (1996), Op Cit, p13.
[34] *The Daily Monitor*, (1997), February 7th, p.9.
[35] Dhatemwa, Godfrey Arnold, (1992), *Effects of Devaluation on Selected Number of Industries in Uganda,* MA Dissertation (Economics), Makerere University, Kampala, P.27.

of some industries, for example, Lessian bags, hoes and textiles resulting in de-industrialisation and unemployment.[36]

The interest rate liberalisation and wanton pursuit of so-called positive interest rates[37] were the root cause of the non-performing loans in the commercial banks, resulting in the collapse of banks in the late 1990s.[38] At the height of the high interest rates (up to 50%) in the period of 1989-93, many industries were running at losses and some had to close. Price de-control allowed industries to adjust their prices but it also increased the price of inputs and utilities, a trend that intensified with further privatisation of power generation and supply.[39] On the positive side, there was increased output as foreign trade was liberalised and imported inputs became more freely available.[40]

Second, the focus of practically every aspect of SAPs is to create a competitive environment in a given local economy in which entrepreneurial decision-making would be conditioned mainly by market forces. Thus, the business environment in Uganda was progressively liberalised through the elimination of export and industrial licensing and price controls, the removal of most import prohibitions, the introduction of the Investment Code (1991) and the creation of the Uganda Investment Authority, (UIA) to expedite registrations and encourage foreign investment. The investment code replaced the Foreign Investment Act (1977) and Industrial Licensing Act (1969). The Industrial Licensing Act of 1969, which emphasised control and contradicted the Investment Code, was suspended and eventually repealed in October 1992. By 1992, there had been almost complete liberalisation of the imports and the licensing system.[41]

The abolition of the Industrial Licensing Act and the assumption that with the free access to foreign technology entrepreneurs are said to be free to invest, expand and

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[36] Government of Uganda, (1995), *National Strategy and Programme of Action for the Development of the Industrial Sector,* mimeo, p.2.
[37] In late industrialisation context it may be prudent to get prices "wrong" as Amsden observes in South Korean case, see Amsden Alice, *Asia's Next Giant*, (1989).
[38] Details of the collapse of banks and the implications for industrial policy shall be discussed under the section of financing industrialisation under SAPs that is examined later in the chapter.
[39] Ochieng, Erisa (1996), Op Cit.,, p.27. The Uganda Electricity Board (UEB) and the concession offered to ESKOM, South Africa since 2002.
[40] Harvey, Charles and Robison, Mark, (1994), Op Cit., p.2.
[41] Brett, Edward, A (1996), "Structural Adjustment, Efficiency and Equity in Uganda" in Poul Engberg-Pedersen, P. Gibbon, Peter, Raikes and Lars Udsholt, (eds*), Limits of Adjustment in Africa: The Effect of Economic Liberalisation, 1986-1994*, Copenhagen: Centre for Development Research, pp 324-25.

modernise in response to markets, was to prove less than optimal for Uganda's industrial transformation. The dismantling of the structures such as the industrial licensing and marketing boards, that sustained much of the earlier industrial growth, particularly in the 1950s and 1960s, leaves the country unprepared to capture benefits from the more technologically advance investors. The concern here is the effect of the liberalisation of marketing boards, particularly of coffee and cotton.

The earlier process of industrialisation in the 1950s and 1960s had depended on surpluses extracted from coffee and cotton through the marketing board mechanisms. While it is the case that marketing board mechanisms had come to be abused, particularly from the 1970s, the situation called for their restructuring and not dismantling. Together with co-operatives, marketing boards acted as an important link with the agricultural sector as they processed the crops, provided marketing linkages as co-operatives provided vital inputs to producers, coffee and cotton.

By drawing on the industrialisation experience in East Asia, for instance, suggests that individual decisions of entrepreneurs based on market considerations generally do not add up to strategy of industrial development and industrial restructuring unless government intervenes actively and directs the markets to achieve a transformation of their comparative advantage into competitive advantage. Thus, abolition of these institutions must be seen as a mistake.

Third, the compounded impact of removing restrictions together with increased efforts to raise tax revenue by increasing taxation of the manufacturing sector made the negative effects doubly felt. High rates of taxation, VAT, excise duties, income tax made local manufactured goods further unable to compete with imported products and this instilled into the economic system an anti-local product bias in favour of imported products: textiles, soap, utensils and other mass consumption goods.[42] The specific case of VAT was negative to industry. Many industrialists found VAT of 17% too high, especially when compared to Kenya's 15% (and in light of Kenya's lower production costs and easier access to the sea).[43] The low capacity in many manufacturing establishments is due

[42] Rugasira, Andrew, (2004), Op Cit, p.16.
[43] Bigsten Arne and Kayizzi-Mugerwa, Steve (2001), *Is Uganda an Emerging Economy?* A Report for the OECD project "Emerging Africa", Research Report No 118, Nordic Africa Institute, NAI, Uppsala.

to low effective demand, high taxes, lack of working capital, unreliable utilities and the open door policy.[44]

For developing countries that need to deepen their industrialisation process, opening up of the economy must be done as part of a coherent strategy, the existing base of learning be utilised and further developed under increasing international competition with appropriate selective and functional interactions, and the government retains a significant role in resource allocation in the liberalisation process.[45] The rapid and sweeping opening-up of the economy to market forces with no underlying strategy is less than optimal to bring about industrial transformation. The industries that have been established have very little backward and forward linkages and remain import dependent.

Liberalisation as well resulted in the growing of foreign debt.[46] For instance in 1980, just before the first IMF programme began, Uganda's debt/service ratio, the percentage of export earnings that must go to service foreign debt, was 18.9%. By 1985, it had climbed to 55%. When the second IMF programme began in 1987, this ratio was 59.6%, by 1992, it was 80%. These ratios have serious implications for economic policy as the resources that may have been used to import capital goods and various inputs that would enhance industrial production were used to service debts.[47]

In general, liberalisation created an economy that was fundamentally import dependent, trade-biased and given little impetus to agricultural modernisation and industrial deepening. Official documents show no indication of a well-worked out industrial strategy that actually comes to terms with the heavy import dependence of the industries created in Uganda over the past five decades.[48] Without industrialisation and the modernisation of agriculture – a shift from peasant subsistence farming to an economically more advanced farming, a policy framework that merely encourages the financing and engaging in speculative trading activities will not deliver the necessary

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[44] Ochieng, E, (1996), Op Cit., p.28.
[45] Lall, Sanjaya and Latsch Wolfram, (1998), "Import Liberalisation and Industrial Performance: The Conceptual Underpinnings", *Development and Change*, Vol.29 p.458.
[46] With recent cancellation of multilateral debt, the debt has been reduced from $4.5 billion to $500 million, *The Daily Monitor*, May 11, 2006. But expanded administrative expenses since the 1990s through a bloated bureaucracy and government machinery have ensured increasing indebtedness.
[47] Mamdani, M, (1991), "Response to Critics", *Development and Change*, pp. 352-3.
[48] Mamdani, M, (1990), Op Cit., p.448.

social and economic transformation of the country. The speed and spread of liberalisation must take note of the level of the development of productive capabilities, particularly, technology.[49] Liberalisation did not take the Ugandan context into serious consideration. This trend is further observed in the privatisation process.

5.2.2 Privatisation of the Public Industrial Sector

Privatisation refers to "the transfer of ownership from the state to the private sector by sale – full or partial – of on-going concerns or by sale of assets following liquidation".[50] The privatisation of public sector industries was one of the features of SAPs implementation. The public sector in Uganda expanded very rapidly with the expulsion of the Asian business community in 1972 as several expropriated industrial firms were transferred to public sector management, UDC. The unplanned transfer only resulted in mismanagement and their collapse by the end of the 1970s. By 1979, the average capacity utilisation of industrial concerns was down to about 20%. Mismanagement took its toll on efficiency. Employment levels dropped, as did contribution by industry to foreign exchange earnings. From being an exporter of some industrial products, particularly in the East African region, Uganda became a net importer only ten years later.[51]

The attempts at rehabilitation and the return of expropriated Asian properties to the former owners between 1981-85, as discussed above, could not revive the industrial sector. The efforts to return the various nationalised firms to UDC as a way of reviving the industrial sector were futile as UDC was no longer the entrepreneurial agency that it had been in the 1950s and 1960s. The "economic war" of the 1970s had essentially disoriented industrial sector to a point of no return, requiring wide-ranging reforms and renewed vision for industrialisation. Little changed in terms of the revival of the industrial sector in the early 1980s. The depth of the reforms in the late 1980s underlines the differences between the two phases.

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[49] Lall, Sanjaya, and Latsch, Wolfram, (1998), Op Cit.,, p.458.
[50] Ddumba-Ssentamu, John and Mugume, Adam, (2001), *The Privatisation Process and its Impact on Society*, a report submitted to *Uganda National NGO Forum* (Secretariat, Kampala), Structural Adjustment Participatory Review Initiative, (SAPRI), p.1.
[51] Tiwaidha-Kyama, P. (1994*), Privatisation Strategy in Development: Some Policy Options for Public Industrial Sector in Uganda*, Report submitted to Netherlands International Institute for Management, Maastricht, p.ii.

In 1986, the NRM government inherited at least 146 state owned enterprises excluding banks. Government had majority holding in 138 and minority interest in 8 enterprises.[52] By the end of 1989, there were 116 public companies of which 60 were industrial. UDC in 1991 controlled 35 companies of which only 28 were operational. Separately from the UDC, many enterprises were owned directly by government ministries, in particular the Ministry of Industry and Technology, which was responsible for 45 parastatals.[53]

Overall, the public enterprises were characterised by low capacity utilisation, large operation costs (low profitability), low productivity and increasing lack of liquidity and indebtedness. The entire sector was glutted with a non-productive and unmotivated labour force riddled with poor management.[54] For instance, in 1988, the aggregate loss suffered by 31 of the manufacturing public enterprises amounted to US $ 8.3 million. The public enterprises were as well responsible for up to 45 to 65% of the country's total external indebtedness.[55] In an 1992 survey of parastatals on the eve of privatisation, 19 out of 30 major parastatals were making loses.[56] Thus, the parastatal sector had become a major burden on the government budget and consumed about 10% of government expenditure.[57]

Following the launch of ERP as a SAPs strategy in 1987, the Uganda government published a policy statement on Public Enterprise Reform and Divestiture (PERD) in November 1991, which outlined the government's privatisation strategy. The privatisation of public enterprises was informed by the World Bank views on the economy, which argued that there should be non-interference in the workings of the markets accompanied with policy-making that reflects economic rationality and a fundamental concern for enhanced economic efficiency and productivity.

Privatisation covers at least four separate components: charging, contracting out, denationalisation and liberalisation. These in turn can be categorised into three distinct

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[52] Ddumba-Ssetamu, and Mugume, (2001), Op Cit., p.10.
[53] Livingstone, Ian, (1998), "Developing Industry in Uganda in the 1990s" in Hansen, B Bernet and Twaddle Michael, (eds), *Developing Uganda*, Oxford: James Currey, p.45.
[54] Ddumba and Mugume, (2001), Op Cit., p.10.
[55] Kashugyera, Lance, (1997), *Privatisation in Uganda: A Case Study of International Distillers, Nile Breweries and Crown Bottlers,* MA Dissertation, (Economic Policy and Planning), Makerere University Kampala, p.41.
[56] Ministry of Finance and Economic Planning (1993*), Public Enterprises Survey for Uganda, 1992,* Kampala, p.10.
[57] Ochieng, Erisa, (1996), Op Cit., p.8.

operational areas: i) total divestiture ii) fractional divestiture – part sell and joint venture and iii) Leasing and liberalisation.[58] Operationally, Uganda's privatisation process mainly took the form of divestiture. Institutionally, the divestiture was implemented through the World Bank-financed Privatisation Unit (PU), based on the PERD Act that was enacted in 1993.[59]

The concern here is to examine the implications of the privatisation process and its assumptions on the organisation and promotion of the industrial sector. Uganda's privatisation strategy had two basic objectives: first, to reduce the direct role of government in the economy and second, to develop the correspondingly greater role of the private sector.[60] Overall, it was aimed at revitalising the private sector, increase economic efficiency and thereby generate economic growth and consequently, development. These objectives are assessed against the results of privatisation on the industrial sector. Since 1993, 105 public enterprises have been divested (including 31 liquidations) as per PERD statute. By 2001, there were 34 enterprises remaining to be privatised. Again, as is the case with liberalisation, the results of privatisation have been mixed. The table below shows that after privatisation, there was a reduction in direct government subsidy to enterprises. But the expenditure and support shifted into various forms as equity support, financial terms and fiscal terms as can be noted in the table below.

Table 5.1: Uganda*: Public Enterprises Subsidies from Government (billion in Uganda Shillings)*

Type of Subsidy	**1994**	**1995**	**1996**	**1997**	**1998**
Direct Subsidies	19.408	56.270	52.356	100.345	8.827
Equity support	78.760	55.313	52.168	3.437	40.415
Financial Terms	57.042	65.958	72.842	71.628	74.774
Fiscal Terms	18.024	20.578	89.79	7.728	45.068
Other	35.303	10.560	20.336	26.964	70.069
Total	208.537	208.679	206.681	210.102	186.153

Source: Background to the Budget, 1999/2000

58, Heald, David, (1984), "Privatisation: Analysing its Appeal and Limitations", *Fiscal Studies*, No.5.
59 Harvey, Charles and Robinson, Mark, (1994), Op Cit., p.52.
60 Government of Uganda, (1991), "Policy Statement on Public Enterprise Reform and Divestiture", (Ministry of Finance, September).

First, the fiscal impact of the removal of subsidies is rather mixed. While the government has reduced expenditure due to the withdrawal of direct subsidies to parastals, the government expenditure has remained more or less the same or even increased as the government has shifted from direct to indirect subsidies to public enterprises for the period 1994 to 1997. There was a shift in the category contribution: The most remarkable being indirect subsidies or equity support which dropped between 1994 and 1998 as a result of indirect subsidies being converted into direct subsidies. Overall, however, privatisation has reduced subsidies to public enterprises and has led to increases in government income especially when taxes paid by the privatised firms have exceeded the sums previously paid to public enterprises. For instance, the 39 companies surveyed paid an average of Uganda shillings 1.8 billion in 1997, Uganda shillings1.6 billion in 1998 and Uganda shillings 2.1 billion in 1999.[61] Therefore, the privatisation programme went some distance in reducing the fiscal burden of subsidies on the state.

At the industry level, privatisation made a number of achievements. An impact assessment of the Uganda privatisation programme[62] identified a number of improvements in Uganda's industrial sector. First, of the 21 companies surveyed, 10 were in the manufacturing sector. For those companies, capacity utilisation increased from an average of 11% in 1993 to 51% in 1998. Notable increases in capacity utilisation were in the cases of: i) The Uganda Metal Products and Enamelling Company (TUMPECO) which increased its capacity from 8% at hand-over (1994) to 40% in 1999 and ii) Lake Victoria Bottling Company Ltd which increased capacity from 22% at hand-over in 1993 to 45% in 1998.[63] Second, there is evidence from the firms surveyed that there was increased productivity in terms of output in nearly all companies reviewed. Remarkable growth was realised with Nile Breweries Ltd increased its capacity from 0.6 million crates of beer to 7.8 million crates per annum (130%). This improvement in capacity coupled with investment in machinery and equipment by the privatised firms has been accompanied by a change in their product mix, gearing to meet consumer tastes and demand.[64] But there are more fundamental issues against which privatisation, as a development policy, particularly in the promotion of industrialisation, must be judged.

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[61] Ddumba-Ssetamu and Mugume, Op Cit., pp 45-46.
[62] Uganda Manufacturers Association (UMA) (2000), *Impact Assessment of the Uganda Privatisation Programme, (Kampala), July.*
[63] Ibid, p.10.
[64] Ibid, p.31.

One of the cardinal objectives of privatisation was the promotion of the private sector, particularly the local entrepreneurial class. Given the constraint of capital by the local entrepreneurs, the state would need to build their capacity by transferring resources to local firms or even financing the creation of new ones. What occurred was the reverse. The major problem is that the advocates of both privatisation and liberalisation have a naïve view of the state in countries like Uganda. They underestimate the centrality of politics and patronage in economic decision-making.[65]

Rather than build an entrepreneurial class, privatisation introduced a new and more vicious round of corruption from which foreign nationals and state officials were the sole beneficiaries.[66] Several examples abound. The government sold state enterprises to its own supporters and at give away prices. Among these companies was, Lake Victoria Bottling Company, Print Pak, Masindi Hotel, Soroti Meat Parkers, Uganda Meat Parkers and Uganda Commercial Bank (UCB), among others, all of them were sold to the political incumbents and supporters of the regime. The most significant of these was UCB, through which funds would be passed to the local entrepreneurs. This was sold at cut-rate price. UCB had been re-capitalised at a cost of US$72 but sold to a Malaysian company at US $ 11million.[67] Top government officials used the money realised from the sale of state enterprises to extend their patronage network. Through presidential directives, funds were transferred to supporters of the regime. A case in point is that of regime functionaries like Mwebesa (for his dairy plant in Mbarara) and Sembule (for his steel mill in Kampala), who got proceeds from privatisation to inject in their private businesses.[68]

The implication of the way privatisation was handled and proceeds spent, the process benefited individuals from "powerful" families. A Select Committee on Privatisation that was set up in 1998 presented its report in November, in which it decried 'growing nepotism' and how 'some politically powerful families have been manipulating the process of privatisation".[69] Under pressure from politicians, the Privatisation Unit

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[65] Mwenda, Andrew, (2000*), Patrimonialism and Free Market Reforms in Uganda: The Politics of Privatising State Enterprises,* MSc Dissertation, Development Studies, University of London.
[66] Tukahebwa, Geoffrey, (1998), Op Cit., p.69.
[67] Mwenda, Andrew, (2000), Op Cit., p.14. We make extended discussion of the implications of these practices for the financing of the industrialisation in the next section of the Chapter.
[68] Ibid, p17.
[69] Parliament of Uganda, (1998), *Interim Report of a Select Committee on Privatisation*, (Kampala, November).

encouraged assets stripping in some enterprises and created monopolies in others for the benefit of certain politically powerful purchasers. The purchase of public enterprises by a few 'powerful' families, politically connected, meant that resources increasingly came to be concentrated in a few hands. Thus, the objective of using the proceeds from privatisation to advance industrialisation was defeated at the altar of patronage and corruption.[70]

The other objective of the privatisation policy in Uganda was to broaden the share of ownership by the locals thereby fulfilling the social goals. As the report on the PERD Bill put it:

> "A country where large players on the economic scene do not have an interest at heart is one with little influence on its economic issues. For that reason we strongly recommend that Ugandans should be encouraged to have a stake in Uganda's industries. The local private sector therefore should be given priority to purchase the enterprises either in their individual capacity or in association. It is important to avoid the unfortunate politically unattainable situation where all divested enterprises are taken over by foreign entrepreneurs".[71]

Privatisation failed to address the fear by indigenous people of the transfer of resources to foreigners. In a survey to assess the socio-economic impact of privatisation, the majority of the respondents expressed the feeling that public enterprises were given away to foreigners at the cheap.[72] According to this survey, locals bought 55 per cent of the public enterprises, while foreigners bought 37 percent. However, foreigners bought public enterprises with higher value constituting 75 percent of the total divestiture proceeds. The value of public enterprises bought by locals constituted 16 per cent of the total divestiture proceeds.[73] Thus, the objective of broadening ownership among Ugandans as stipulated in the 1993 PERD statute, section 20 was not met. SAPs and the attendant privatisation ignored the institutional context in which the privatised resources could be transferred to the indigenous entrepreneurial class.

While privatisation in the context of a crisis economy may be a necessary condition, it may not, on its own, be sufficient to generate the necessary momentum for renewed

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[70] Tangri, Roger and Mwenda, Andrew, (2001), "Corruption and Cronyism in Uganda's Privatisation in the 1990s, *African Affairs*, No.100, pp 117-133.
[71] Parliament of Uganda, (1993), *The Public Enterprises Reform & Divestiture Bill 1993: Report from the Joint NRC Committees on the Economy and Parastatal Bodies*, (Kampala, March).
[72] Ddumba-Ssentamu and Mugume, Adam (2001), Op Cit, p.39.
[73] Ibid, p.39.

growth and development. In privatising public enterprises, the possibility of "market failure" needs to be considered. The failure of public enterprises should not be taken as an automatic proof that private entrepreneurs would do better. In a country like Uganda where the stock market has just been initiated, with very limited local capital and a narrow internal market due to low incomes, the private sector if not supported by the state, may as well find it difficult to take root.[74] This illustrates the critical importance of state finance or guarantees of loans to the private sector in economies like Uganda.

5.2.3 Financing Industrialisation and Investment

A detailed analysis of the financial structure of Uganda's economy is beyond the scope of this study. However, no analysis of industrialisation can be meaningful without mentioning the key aspects of the financial system through which it is financed. Uganda's financial system is relatively underdeveloped. By 2003, the formal sector encompassed the central bank, 13 licenced commercial banks, 9 credit institutions, 14 insurance companies, 3 development institutions, 3 building societies and the Postal Savings Bank.[75]

There are three points discussed here. i) the sources and control over finance by the state, ii) liberalisation of the financial sector and iii) the shift from credit-based system with critical prices administered by government to a market-based system in the financial sector. These reforms have had major implications for the financing and investment in the industrial sector.

During the pre-adjustment period, government played a major role in determining credit flows through a system of subsidies, interest rate ceilings, credit allocation and direct intervention and ownership. The liberalisation and privatisation of financial institutions under SAPs has had tremendous implications for domestic financial system in general and the financing of the industrial sector, in particular.[76] Historical experiences of industrialisation illustrate the centrality of finance in the process. Control over finance

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[74] Uganda's Stock Exchange is in its infancy. It was only launched in October, 1999. There are very few companies that have listed on it.

[75] Kasekende, Louis and Ating-Ego, Michael, (2003), "Financial Liberalisation and its Implications for the Domestic Financial System: The Case of Uganda", *African Economic Research Consortium*, (AERC), Research Paper, 128, February, p.6.

[76] Ibid.

gives the state power to influence and direct economic policy. To finance industrialisation, the state would deploy the following instruments: direct subsidies to companies, loans and loan guarantee, tax incentives, government procurements, research and development and worker training assistance. Under SAPs and the general liberalisation policy these would be considered elements of distortion.

The central question in industrial development is that of the sources of the finance for industrialisation and whether the sources are primarily local or foreign as this determines the priority and non-priority of industries to be financed. Without subsidies and credit allocation as stipulated under SAPs, there arose the question of what would be the source of finance for industrialisation and investment in Uganda?

The immediate source of finance for industry under SAPs was envisaged to be the proceeds from the privatised public enterprises. According to the divestiture statute,[77] the proceeds from the divested public enterprises were to be deposited in divestiture account in commercial and development banks and the Ugandan entrepreneurs would borrow the funds for investment to promote industrial development. In practice, this did not occur, due to a number of shortcomings in the statute and political practices as regards finances by the ruling elite. Second, there was no specific percentage of these funds earmarked for industrial investment.

The Statute, (1993), had open-ended prescriptions on the use of divestiture proceeds. Section 23(C) of this law provided that the proceeds of sale in the divestiture account may be used "to do anything necessary to attain the most favourable conditions of divestiture". It was not until the PERD Amendment Act, (2000),[78] that a more objective criterion for the application of proceeds, to promote Ugandan entrepreneurs involved in agricultural and industrial development was introduced.[79] Second, although these funds were supposed to provide investment capital for Ugandan entrepreneurs, no specific industrialisation programme was instituted to link up with the funds. A specific

[77] Uganda Government, (1993a), Public Enterprises Reform and Divestiture Statute, No.9.
[78] Uganda Parliament. (1997), The Public Enterprises Reform and Divestiture (Amendment) Bill 1997.
[79] UMA, (2000), Op Cit p.47.

industrialisation programme was necessary indicating priority industries and the requirements for entrepreneurs to acquire investment capital.[80]

Moreover, under SAPs there was a shift in the bank lending policy, which was accompanied by a sharp credit squeeze to the state sector. The point of squeezing the flow of credits to the state sector was to increase its flow to the private sector. One major failing of policy throughout the two IMF programmes, from early 1980s to early 1990s, was that the commercial banking policy did not reflect and thus reinforce any investment priorities. Little was directed to production as most of the bank credit went to crop finance, commerce and trade.[81] Liquidity squeeze aggravated the shortage of working capital. The limited contribution of bank loans to expanded industrial production is blamed both on the scarcity and high cost of credit. The banking policy and the cost of credit had negative implications for Uganda's industrial sector as it was rendered less competitive, given the fact that local firms have small retained earnings.

Bank of Uganda administers six credit programmes aimed at promoting economic growth and development through medium and long-term finance. These include: EIB-Uganda Apex private sector Loan Scheme, Investment Term Credit Refinance Fund (ITCRF), the Development Finance Fund (DFF), the Bank of Uganda Export Refinance Scheme (ERS) and the Export Credit Guarantee Scheme (ECGS). Due to lack of collateral and failure to penetrate export markets, however, this has meant that the private sector firms have not made use of these funds, as they have remained unutilised such as EIB Apex Scheme and the ERS funds. The Uganda banking sector further frustrated export trade through demand for unrealistic collateral to guarantee export trade.[82] Moreover, Uganda has a very high cost of borrowing which has further frustrated the private sector.

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[80] Tukahebwa, Geoffrey, (1998), "Privatisation as a Development Policy", in Hansen, H B and Twaddle, Michael, (eds), *Developing Uganda*, Oxford: James Currey, p.70.

[81] Mamdani, Mahmood, (1990), Op Cit., pp441-3.

[82] Kibikyo, David (2004), "Public-Private Linkages in Uganda: Lessons for Agricultural-Led Industrialisation", A Paper presented at the Second Industrialisation Conference entitled *"Agricultural- Led Industrialisation in Uganda"* Organised by Centre for Basic Research (CBR) and Uganda Management Institute (UMI), held on 23-25th August, p.8.

The liberalisation of the financial sector was made necessary by the fact that past policies had led to financial repression,[83] which was seen as hindrance to the development of the institutional capacity of financial institutions in their development of the commercial viability of their operations. Credit and interest rate restrictions discouraged savings mobilisation and led to unsatisfactory lending arrangements. In general, the financial sector suffered from the low savings rate, deficiencies in the availability of credit, and general lack of confidence in the financial sector.[84]

The May 1987 economic reform policies provided for the establishment of a revolving fund credit facility for lending to commercial banks for the provision of short-term credit to priority import. The ERP of 1987 introduced a number of reforms: an elaboration of regulatory institutions, the introduction of prudential guidelines, the privatisation of banks and insurance companies.

The immediate response to liberalisation was an explosion in financial services, as the number of banks doubled, accompanied by a profusion of ancillary finance, mortgages, insurance and brokerage houses, the endpoint of deregulation. Lured by burgeoning opportunities and heady profits, investors, entrepreneurs and professionals flowed to the banking industry. Rather than mobilising savings, the banking system engendered speculation based on short-term borrowing, with little going to industry. Industrialisation demands a long-term, selective financing. The shift to a market-based system in the financial sector was based on the assumption that it would stimulate domestic resource mobilisation and increase the capacity of the banking system to support private sector participation in economic development.[85] Paradoxically, financial savings, real value lending to the private sector and investment all declined in the wake of liberalisation.[86]

Liberalisation of the financial system and move away from the directed-credit system misses the Gerschenkronian developmental perspective which would tell us that a credit

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[83] Wasike, David (1999), "Financial Institutions and Industrialisation in Uganda 1987-96: A critical Survey of the Credit Institutions" a paper presented at the *Institutions and Industrial Development Workshop* at Marienlyst Falster, Denmark 19-21 May , p.4. Financial repression involves government restrictions to the free operation of the financial system through interventions in financial markets and public ownership of banks.

[84] Government of Uganda (1992), *The Way Forward II: Medium Term Sectoral Strategy 1991-95,* Ministry of Planning and Economic Development (MPED), Kampala, p.5.

[85] Kasekande, Louis and Atingi-Ego, M (2003), Op Cit., p.1.

[86] Wasike, David (1999), Op Cit., p.4.

system based on equity and securities markets is an artefact of early industrialisation, and that the model of state or bank-influenced industrialisation is a consequence of "lateness" in world time and in the absence of abundant capital in the private sector.[87] Uganda being a "late" industrialiser needs a directed-credit system, albeit a reformed one. This is because the control of the financial system can be used to build up the social conditions needed to support the government objectives.

In the wake of the liberalisation of the financial sector, coupled with internal weaknesses in the banking sector, there was a spate of the collapse of several commercial banks, which were supposed to act as sources of finance for industry.[88] Thus, the institutions for mobilising domestic savings, which could be transformed into loans to industry, were in a crisis. The primary causes of the failures of these banks were mainly internal and less due to liberalisation. First, there exhibited incredibly bad corporate governance on the part of those entrusted with the stewardship of these banks. Second, there was persistent under-capitalisation of the banks throughout their operating lives. Third, there was imprudent credit, in particular, over-indulgence in the respect of insider loans, coupled with inadequate loan/loss provisioning and fourth, there was consistently weak supervision of these banks by Bank of Uganda.[89]

It could be argued that the banking crisis was not a result of excessive government intervention, as SAPs advocates would have us believe. Instead it resulted from imprudent short-term debt made possible by weak supervision and regulation of the banking system. The institutional aspects of changing from a rationed to a free market in credit was neglected, especially the issue of bankers' ability to judge and manage risk and the lack of information by the regulators. It is this asymmetry of information that created perverse incentives for risky lending that in turn provoked a financial crisis which had serious implications for credit to the industrial sector, and indeed the entire economy in the 1998-99 period.

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[87] Woo, Jung-en (1991), *Race to the Swift: State and Finance in Korean Industrialisation*, New York: Columbia University Press, p.7.

[88] Mpuga, Paul (2002), "The 1998-99 Banking Crisis in Uganda: What was the Role of the New Capital Requirements?", *Journal of Financial Regulation and Compliance,* Vol.10, No.3, pp 224-242, Kafureka, Lawyer (2000), "The Banking Crisis in Uganda, 1999", CBR *Occasional Paper* No.3/2000 and Government of Uganda (2000), *Report, of Judicial Commission of Inquiry into the Closure of Banks*, Chaired by Justice James Ogoola, Kampala, November.

[89] Government of Uganda (2000), *Report of Judicial Commission of Inquiry Into the Closure of Banks*, p.1.

While the fragility of the banking system – where there was widespread insecurity of holding long-term financial assets, imprudent lending and overwhelming insider lending in the banks[90] called for reform, the importance of financial intermediation for industrialisation demanded corrective measures not the closure of the banks. A developmental state aiming at industrial transformation cannot afford to let temporary liquidity problems close major banks or firms.

The only exception was Uganda Development Bank (UDB). Between 1980 and 1997, the largest percentage of its portfolio was in the support of the industrial sector. Unfortunately, this is not the case at present as the bank is under-capitalised with no plans to recapitalise it so as to perform its critical mandate of development financing. The table below indicates the industrial distribution of UDB portfolio over 17 year period.

[90] Wandera, Augustine (2003), *Fragility in Uganda's Banking System: Analytical Issues and Some Lessons for Financial Sector Liberalisation Policy*, Draft report submitted to the *African Economic Research Consortium*, May.

Table 5.2: *Industrial Distribution of UDB Portfolio, 1980-1997*

Sector	Total Owing		Net Assets	
	Amount in (M.shs)	% of Total	Amount in (M.shs)	% of Total
(A)AGRICULTURE				
Crop	5291.43	10.47	2726.0	14.5
Livestock	2344.76	4.64	1098.0	5.8
Total Agriculture	**7636.19**	**15.11**	**3824.0**	**20.3**
Export Trade	186.47	0.37	130.0	0.7
B) INDUSTRY				
Chemical, fuel and energy.	766.67	1.52	259.0	1.4
Foods &Beverages	11478.19	22.72	5739.0	30.5
Iron, Steel & Metal Fabrication	1270.81	2.51	1040.0	5.5
Leather, Footwear and Rubber	3432.57	6.79	905.0	4.8
Non-Metallic Minerals &Mining	3319.06	6.57	-	-
Paper & Printing	1216.61	2.41	410.0	2.2
Wood & Timber	1660.87	3.29	400.0	2.2
Other Industry	14528.32	28.75	5909.0	31.4
Total Industry	**37673.06**	**74.55**	**14662.0**	**78.0**
Tourism, Hotels and Services	5035.39	9.96	183.0	1.0
GRAND TOTAL	**50531.11**	**100.00**	**18799.0**	**100.0**

Source: Uganda Development Bank (UDB).

As can be seen in the table above, among the broad sectoral categorisations, industry took the largest share, at 75%. Agriculture comprised only 15% by comparison. The Bank had, between 1980 and 1994, invested up to US$120m in the industrial sector. The investments helped in the gradual revival of the country's industrial sector. The failure to capitalise the Bank and emphasis development financing has resulted in it receding into insignificance as far as financing development in Uganda is concerned. What is needed is the revival of development banks to finance, cheaply, the medium and long-term projects rather than the current reliance on commercial banks in development financing.

The other possible source of finance for industry that the state and the entrepreneurs could have taken advantage of are Pension Funds from the National Social Security Fund (NSSF), Postal Office Bank savings,[91] incentive rewarding taxation system and the manipulation of the cost of utilities, particularly power, in Alice Amsden's words by getting the utilities "price wrong".

The point here, however, is that the Ugandan financial system is not geared towards the deliberate promotion of local industrial capacities. This can be illustrated by the emphasis that the government placed on FDI.

5.2.4 Foreign Direct Investment (FDI) and Industrial Sector

FDI refers to a lasting interest by a resident enterprise/individual in one economy (direct investor) in an enterprise resident in another economy (the direct investment enterprise). It comprises of three components namely, equity investment, re-invested earnings and inter-company loans.[92] FDI involves investment of foreign assets into domestic structures, equipment and organisations. It is thought to be more useful to a country than investment in equity in the case where the stock exchange is undeveloped.

Under SAPs, FDI was seen as the major source of finance for industrialisation. The FDI is assumed to provide much needed capital, technology, and new opportunities for optimal utilisation of resources, employment and support to the export effort of the host country. Apart from the direct equity participation, foreign companies add to capital formation through their ability to raise additional finance from international banks and other financial institutions.[93] Given the low level of domestic savings,[94] financing industrialisation in Uganda came to rely on FDI.

The institutional context for FDI is provided by UIA whose broad function is to promote, facilitate, supervise and market Uganda's investment opportunities through a

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[91] Pension Funds and post bank savings played a major role in the financing of industrial transformation of Japan.
[92] Bank of Uganda, Uganda Bureau of Standards and UIA (2004), *Private Sector Investment and Investor Perceptions in Uganda, 2003 Report*, Kampala, p.iii.
[93] UNCTAD, (1999), *Investment Policy Review of Uganda*, Geneva, August, p.8.
[94] Obwona, M and Ddumba – Ssentamu, John (1996), "Determinants of Domestic Savings in Uganda", *Economic Policy Research Bulletin,* Vol.2. No.2, September.

coordinated national investment programme.[95] Since its institution, UIA has provided the environment in which investments have surged. The supportive economic policies undertaken by government led to private sector confidence. This provided a strong thrust for the increased private sector investment. As at 1990, for instance, Uganda witnessed disinvestments to the order of $ 6 million. But since 1993, FDI inflows grew rapidly. The average net annual inflow during 1993-97 was around $112 million and in 1997, FDI inflows reached $250 million, double that of 1996.[96]

Between 1991 July and February 1997, the UIA had received 2,508 project proposals out of which 2,118 had been approved. By September 1997, 2,200 planned investments had been attracted in the country in various sectors of the economy worth US$3.6 billion. During this period, newly wholly foreign-owned investment increased from 2 percent to 34 percent of the total private investment. Joint ventures increased from 16 per cent to 32 percent. On the other hand, new wholly locally owned investment decreased from 82 percent to 34 percent.[97] Between 1993/94 and 1994/95, private investments increased from 5.6 per cent to 9.1 percent of the GDP.[98] In general, private investments increased by an average of 13 percent per annum in the 1990s and its share of GDP by 1999 averaged 10 percent.[99] The market value of the stock of Foreign Direct Equity Investment (FDEI) increased by 21.8% from US$539.9 million in 2000 to US$657.5 million in 2001. In book value terms, therefore, FDEI grew by 33.1%.[100]

Given the history of FDI in Uganda and the changed view of FDI since the collapse of Soviet Union and its East European allies, Uganda has performed well in attracting FDI, as MNCs have tended to divert their investments to Eastern Europe. The concern here, however, is to evaluate the efficacy of FDI as a source of industrial finance for Uganda's industrialisation process. The benefit of FDI to Uganda's economy is evaluated at several levels: i) value addition, ii) new uses for local resources, iii) technology absorption, iv) support for ancillarisation, v) net foreign exchange accruals and vi) local capacity building, in terms of costs and benefits. We focus on the origins, actual accruals,

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[95] Nalwanga, M.V.B (2000), *Foreign Direct Investment (FDI) and Performance of the Manufacturing Sector in Uganda: 1991-1999*, MA Dissertation (Economics), Institute of Economics , Makerere University, Kampala, p.22.
[96] UNCTAD, (1999), *Investment Policy Review of Uganda*, Geneva, August, p.3.
[97] Uganda Investment Authority (1999), *Analysis of Investment Performance 1991-1998*, Vol.1, Media and Management Information Services Division, Kampala and (UIA) *Investor Survey Report*, (1997), Kampala.
[98] Obwona, Marios (1998), "Determinants of Foreign Direct Investments and their Impact on Economic Growth in Uganda", *Economic Policy Research Centre*, Makerere University, Kampala, p.10.
[99] UNCTAD (1999), Op Cit., p.8.
[100] Bank of Uganda, UBOS and UIA (2004), *Private Sector Investment and Investor Perception in Uganda: 2003 Report*, Kampala, p.27.

composition, technological transfer employment, local linkages and their implications for the development of the local industrial sector.

First, according to the various surveys that have been conducted by UIA, the major sources of FDI are United Kingdom, Kenya, India, Canada and South Africa.[101] Apart from South Africa, FDI coming from these countries may be misleading. It can be attributable largely to exiled Asians victims of the 1972 "economic war" who were forced to flee Uganda. Before their expulsion in 1972, there had been about 70,000 Asians in various sectors of business. They regained their properties and injected capital towards rehabilitating industries.

The return of Asians and the repossession of their firms that had been expropriated in 1972, however, underlines the importance of FDI to Uganda's economy. The return of Asian properties to its former owners was a key demand by the World Bank at the start of SAPs in 1981. Second, because of the experience of the expropriations, the former major Asian investors like the Madhvani Group preferred to be identified as foreign investors. The Madhvani Group, the largest conglomerate in Uganda, has since the mid-1980s been rehabilitating their sugar, beer brewing, soaps and oil businesses, as foreign investors and not as returned residents.[102]

On their return in 1979, the Madhvanis entered an agreement with the government of Uganda but preferred to be categorised as foreign investors.[103] The group came to be registered as a single resident foreign subsidiary. Section 5 of the Agreement, which elaborates on the notion of "single resident", spells out that the "single-resident foreign subsidiary of the MADHVANI foreign trust" is Madhvani International, S.A, a corporation duly organised and existing under the laws of Panama, having offices at Trafalgar House, 11 Waterloo Place, London S.W.1, England (herein referred to as "MISA"). The Agreement then was really between the Uganda Government and a foreign company, Madhvani International S.A (MISA), incorporated in Panama and based in England.

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101 UIA conducts annual survey reports on private investments. There have also been several surveys on FDI financed by the World Bank, USAID among others: *Private Sector Investment and Investor Perceptions in Uganda, 2003 Report*, (UIA), *Investment Policy Review of Uganda*, (UNCTAD), 1999 and *Foreign Investor Perceptions on Uganda,* (Consorzio Italiano Consulenti (CIC), Italy, 1999 and *Investment Response to Structural Reforms: Firms Survey Evidence from Uganda*, (World Bank), 1998.

102 UNCTAD (1999), Op Cit., p.5.

103 "Memorandum of Agreement by and between the Government of the Republic of Uganda and the Heirs of Jayant Madhvani", dated October, 1979. See Mamdani, M, (1980), "The Madhvani Agreement: A Critique", *Weekly Topic*, Friday, 19, pp6-7.

Thus, the vast majority of FDI flowing into Uganda by mid-1990s came from those firms with previous experience in Uganda or East Africa. Their experience in Europe and elsewhere enabled them to add new value to their rehabilitated industries in Uganda. The most important attribute being considered as foreign investors.

Second, there is a big discrepancy between the book value of the proposed FDI and actual investment figures. On the basis of various in-house UIA surveys taken in 1993, 1994 and 1995, all had proposed/actual conversion rates between 38 % and 40%, which is low in comparison with other countries outside sub-Saharan Africa.[104] During the period of 1991-1998, foreign investment plans amounted to US$ 2.4 billion, of which about 34 per cent were realised. Domestic investors had planned an additional US $1.4 billion, of which about US $624 was actually invested. While the manufacturing sector has attracted the largest share of investment, according to UIA surveys, a substantial part of the investment was in the rehabilitation of old industries and not the creation of new productive capacity.[105] In a survey based on 1457 projects, the projects that were wholly Ugandan owned had a higher rate of abandonment and a slower rate of implementation than projects with a foreign component. The majority of the abandoned projects (79%) were wholly Ugandan owned. 8.7% were wholly foreign owned, while 12.3% were joint ventures.[106] The major reasons for not implementing or abandoning projects immediately after securing the investment license are financial constraints, low markets and competition, suggesting the need for targeted support to industry from the state in terms of financing and enhancement of technological capacity.[107]

Third, one of the claims of FDI is that it enhances export-orientation and linkages with local producers. Typically, FDI exploits the raw materials and cheap labour of developing countries and exports abroad. Investment flowing into Uganda with little exception targets the domestic market.[108] While a dimension of FDI is focused on manufacturing, its impact has been in the domestic market–oriented, import-substituting (import reproduction) type of investment. FDI is concentrated mainly in beverages/soft drinks and breweries for the local market. The other industries, such as sugar, textiles, cement, footwear, packaging, plastics and food processing have also attracted some FDI. Overall,

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104 Obwona, Marios (1998), Op Cit., p.11.
105 UNCTAD (1999), Op Cit., p.6.
106 UIA (2000), *Final Report on The Investor Survey, 2000*, Kampala, p.xii.
107 Ibid, p.36.
108 Obwona, Marios., (1998), Op Cit., p.12.

value added in manufacturing appears limited as processing, in several cases, involves only repackaging. The packaging industry, (for packaging, fish, flowers), where half of the firms are foreign, is important for the success of Uganda exporters.[109]

There has been very limited export-orientation, although rising. In the UIA survey[110] sectors that reported the highest percentage of product export, based on 391 firms, were fish and fish farming 100%,[111] floriculture, 72.2%, manufacture of soap, 75%, cotton and textiles 53%, metal products 51.9% and rubber and plastic products 50%. The main export destinations are the East African Countries where 134 companies export, followed by Europe with 77 companies and COMESA by 55 companies. North America, the largest economy and Asia with the fastest growing economies in the world are not being targeted as potential destinations. The general characteristic of these exports is that they are primary products that have very minimal value addition.

Foreign investors in these industries co-exist with local firms, but in most cases they have not established linkages with the local economy. Thus, the upgrading of industries in the value chain is non-existent. FDI linkages with the local economy and the upgrading of industries in the value chain, globally, have never been automatic. There are have to exist institutional arrangements which facilitate learning in the value chain. The UIA is the institution that would encourage partnership-based investment which would enable the local Ugandan entrepreneurs to learn how to produce efficiently and competitively.

The capital goods manufacturing industries and export-oriented industrial establishments are still minimal. Most industries depend on imported inputs for their production, for instance, steel 97%, paper 94% and plastics 94%.[112] According to a UNCTAD survey, foreign firms have reduced their use of imported inputs. [113] In 1993, 76 per cent of the firms reported that they imported more than half of their intermediate inputs, whereas the figure was 60%. Among the firms that imported less inputs, 85% linked the decline in importation to the purchase of local inputs, while 15% to production of such inputs with the firm. Though they are reducing imported inputs, FDI manufacturing operations

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109 UNCTAD (1999), Op Cit., p.6, and p.10.
110 UIA (2000), Op Cit.,, p.44.
111 Reflecting the fact that the fish fillet is destined for Europe and Asia as the locals resort to the bare fish bones left after filleting, locally referred to as *Mugongowazi*.
112 Ddumba-Ssentamu, John (2000), "Employment Creation and Poverty Reduction: Impacts of Industrial Investment in Uganda", In Bachou, Salim (2000), (ed.), *Investment for Poverty-Reducing Employment in Uganda*, unpublished manuscript, Kampala, p.92.
113 UNCTAD (1998), *Survey of Foreign Firms in Uganda (Company's Profile)* , Geneva, June, p.11.

remain import-dependent. Their qualitative impact on the economy is therefore very limited.[114]

Fourth, FDI's other main contribution is supposed to be job creation and the increased output of manufactured goods. In all operations licensed by UIA between 1991 and 1999, FDI employed more people in all years than local investments. The investment projects as licensed by 1999 when fully implemented were expected to generate around 95,000 jobs. Half of these would be in the manufacturing sector, mainly in agro-based industries and production of simple consumer goods.[115] This points to the fact that FDI to the country are involved in labour intensive as opposed to capital intensive investments.[116]

One of the claims of FDI is the question of technology transfer. A mid 1998 survey by UNCTAD of foreign firms in Uganda, indicated that linkages with parent companies and other foreign firms have brought them technology, management, export markets, equity capital and training, though visits to some firms noted that manufacturing generally involved use of low technology.[117] UIA's other objective is stimulating local and foreign investment by providing information to industrial sector on appropriate technology. UIA's survey of technologies and skills in Uganda industries indicated a limited level of technology transfer contrary to UNCTAD claims. Technology transfer occurred in terms of imported machinery and employment of expatriates, with maintaince of the machinery not properly mastered. Most foreign investors employed foreign skills and claimed this was due to lack of skilled local people.[118] Second, there is claim that the Uganda Science and Technology system is poorly adapted to meeting local industry needs due mainly to lack of coordination between government and research institutions and the private sector. In the UIA study, however, it was observed that there are many technical personnel in Uganda who have basic technical knowledge. For FDI to transfer technology, the investors would hire local skills and train them as part of human resources development.

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114 Obwona, Marios (1998), Op Cit., p.21.
115 UNCTAD (1999), Op Cit., p.8.
116 Nalwanga, M.V.B (2000), *Foreign Direct Investment and the Performance of the Manufacturing Sector in Uganda: 1991-1999*, MA (Economics) Dissertation, Makerere University, Kampala, p.56.
117 UNCTAD (1999), Op Cit., pp 8-9.
118 UIA (1998), *A Survey of Technologies and Skills in Uganda Industries*, Kampala, June, p.35.

The problem of the limited technology transfer by FDI must be seen in the context of the form it takes. The transfer of technology, historically, has never been automatic. The institutional context is critical. Prior to FDI, institutions for negotiating the technology transfer, including maintenance and training, must be put instituted. There should be a provision requiring that every technology importation should incorporate training programmes in installation, operation and maintaince. There is a critical role of the state in this regard. Rather than leave the process to voluntary initiatives by FDI or market forces, active participation by government with industries in educating and training appropriate quantities of skilled workers is a prerequisite to the transfer of technology. In the context of SAPs, these necessary institutional arrangements if the Ugandan economy is to benefit from FDI shall further be negated with the establishment of old-style Economic Processing Zones (EPZ).

5.2.5 Export Processing Zones (EPZs)

EPZs are part of the "big push" strategy into export markets financed by FDI that Uganda is applying. Uganda has sought to introduce EPZs spearheaded by government through UIA for investors in order to make Uganda more competitive internationally. This follows the recommendation by the UNCTAD review that the country moves away from the concept of the traditional "Free Trade Zone" (FTZ) and Export Processing Zones (EPZ) as a model of development and set up a bold new concept for a "Multi-Facility Economic Zone" (MFEZ).[119] The MFEZ would provide facilities for all targeted industrial projects both export and local market oriented.[120] This "new" concept retains all the elements of the "old" with its limitations as a spring board of industrialisation. This is because MFEZs are industrial zones where "unfavourable" laws and regulations are replaced by best practices in order to attract investors. They are areas for both export-oriented industries with all the necessary infrastructure and services such as utilities, customs and planning services, streamlined primary and secondary licensing and other approvals. Several projects for establishment of industrial parks have been set up in Luzira industrial site on a 26 acre plot located 5km from the city and Namanve a 938 hectare park, near Kampala.[121]

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[119] UNCTAD (2000), *Investment Policy Review of Uganda*, Geneva, pp.50-51.
[120] UIA (2000), *Multi-Facility Economic Zones (MFEZ) Establishment in Uganda*, Kampala, p.3-4.
[121] Songa Martha, (2000), "Uganda's Industrial Future lies in Namanve Park", *The Monitor*, Monday, August 07, 2000.

Apart from the addition of support for local market focused manufacturers, under this "new" concept labour would still be organised under government and subjected to stringent rules after repealing the "unfavourable" laws. Second, the concept does not stress the enhancement of technological capacities of the local firms through linkages with FDI and the acquisition of skills for national firms. Third, given the objective of relying on low skilled labour for competitiveness, the quality of jobs created would be rather low.

The return to the old-style Free Trade Zones (FTZs) as seen in the concession in Rakai district in Central Uganda, contradicts the so-called new concept of MFEZ.[122] The government of Uganda granted permission to a cult-like Spiritual Foundation, through its Kagera Eco-Cities Ltd to operate an autonomous 200 square mile Lake Victoria Free Trade Zone, Sseesamirembe City State, within the boundaries of Uganda. This state will have the authority to enact its own laws, maintain its judiciary and immigration department, besides having a government headed by a Governor. Such FTZ is unlikely to lead to implantation of industrialisation process in the country. To note, these projects are being introduced at the time when there is a collapse of similar EPZs in neighbouring Kenya.[123] With no coherent inward investment strategy, EPZs as means of financing Uganda's industrialisation are bound to achieve little.

5.2.6 Financing Industry with Foreign Aid and Loans

The financing of industrialisation in Uganda has also relied on foreign aid and loans. Since the accent of the NRM administration, Uganda has been favoured with external assistance both in form of loans, grants and donations. Between 1986-1990, for instance, the country received US$ 1.3 billion in form of loans and credits.[124] During the period 1980 – 1998, the World Bank and IMF advanced to Uganda 20 different types of reform loans.[125] Aid has provided a crucial cushion since reforms started, first for the repair of essential infrastructure, second, to enable the country to undertake reforms, thus

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122 *Sunday Vision*, (2006), "Rakai Free Trade Zone Dangerous", February, 19.
123 A Joint Report (2005), "Kenyan EPZs to shed more Jobs as US ends Textile Quotas under AGOA", *The East African*, Monday May 16.
124 Parliament of Uganda (1991), *First Report of National Resistance Council (NRC) Committee on The Economy on State of Economy,* Kampala, February, p.23.
125 Holgren, T, Kasekende L, Atingi-Ego, M and Ddamulira, D (1999), "Aid and Reform in Uganda: Country Case Study, *Economic Policy Research Centre*, Makerere University, Kampala, pp5-9.

exhibiting high donor dependence.[126] Politically, aid has been used for power consolidation by funding patronage networks on which the NRM regime is built.

The concern here is how the funds were utilised. The Committee on the Economy observed that the largest bulk of the funds in the initial SAPs phase were allocated to defence, finance and planning which claimed close to 60%, agriculture and industry were together allocated less than 20% for the period 1986-90. The trend was maintained in the later period.[127] These allocations reveal a particular priority hierarchy, which shows that productive sectors have been at the bottom of the national priorities. It would be more strategic to focus on agricultural and industrial sectors where improved and increased production could lead to the satisfaction of domestic demand and save on imports while the surplus products can be exported to earn the needed foreign exchange to improve the balance of payment situation.

Despite the neo-liberal regime, however, the state continued to support the industrial sector and the economy as a whole on the basis of foreign aid and loans. Following reform measures in June 1981 and the approval of the First Reconstruction Credit by the IDA, foreign exchange was made available for imports of replacement of machinery, equipment, spare parts and raw materials for the industrial sector, which was allocated more than 50% of the total foreign exchange available.[128] During 1987/88, the disbursement of loans from the World Bank totalled US $65 million. The industrial sector was given priority in the allocation of funds taking between 25-35% of the total. In addition, the government obtained a line of credit from the Netherlands and British Aid through Barclays and Standard Chartered Banks. Over 50 large, medium and small scale industries in key sub-sectors were funded with these credits.[129]

The Open General License (OGL) system was introduced in January 1988, aimed at obtaining a positive response from key industries. The system, however, was limited to efficient public and private industries in 7 priority industries, namely textiles, blankets, soap, mattresses, beverages, tobacco and cement. In 1988/89 period the allocation of foreign exchange through this system amounted to US $ 2.7 million and contributed to positive developments in manufacturing by providing industries with foreign exchange to

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[126]Bigsten Arne and Kayizzi-Mugerwa, S (2001), Op Cit., p.23.
[127] Parliament of Uganda (1991) *First Report of NRC Committee on the Economy*… p.24.
[128] Government of Uganda (1981), *Background to the Budget*, 1982/83, p.75.
[129] Uganda Government, (1989), *The Background to the Budget, 1988/89*, Kampala, p.54.

import urgent spare parts and raw materials.[130] In the same financial year, Uganda Development Bank (UDB), with the assistance of Bank of Uganda embarked on a Bulk Purchases Scheme to alleviate the Small Scale Industries, SSIs' constraint of availability of machinery, tools and raw materials at reasonable prices. During this period about Uganda Shillings 100 million was spent on the scheme as UDB at the same time offered free feasibility studies to SSIs entrepreneurs. The major problem with this support is that it was not selective and focused in context of limited funds.

5.2.7 Politics and Patronage in Financing of Industry

The financing of industry, as was the case with privatisation, has not escaped the patronage politics and networks that have been constructed in Uganda's "free market" economy. Rather than enhancing local industry through financial support, government on a number of occasions sunk massive resources in failing companies where the political leadership seem to have personal stakes. The major beneficiaries have been the Asian and local politically connected entrepreneurs.

In two cases, for instances, government picked the debts of several Asian businesses belonging to M.N Methta, Madhvani and Sekhar Mehta. State support for industry is a legitimate undertaking if the industry is critical to the country's development. However, this was not the case. In August, 1998, government paid US$ 4 million of Mehta debts and planned to clear the Mehta group's local debts amounting to Shs.3.4 billion owed to Stanbic and Bank of Baroda despite state refusal to bail out local investors such as Kato family, former owners of the International Commercial Bank (ICB). Government paid a total of US $95 million including US$68 million for Mehta Group and US$27 million for Madhvani family conglomerate. Earlier, parliament stopped Ministry of Finance from paying US$6.2 million to Mehta Group.[131]

The same Groups (Mehta and Madhvani) are to benefit from the present crazy with land giveaways by government (President Museveni) to investors. What explains the offer of these subsidies to these particular groups? There are two possible explanations: one economic and the other political. First, with the return of Asian properties to the former

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[130] Uganda Government (1990), *The Background to the Budget, 1989/90*, Kampala, p.67.

[131] See various issues of *Uganda Confidential*, (1998), that is, "Government to lose US$20 million in dubious Payment for Madhvani Loans", Number, 315, 20-26, November and "Stop Government Payment of Shs.3.4 billion for Mehta's Local Banks Loans", Number, 311, 23-29, October.

owners that had been expropriated in 1970s and the added investments since the early 1990s, the Asian Groups of Companies remain representatives of foreign capital with increasing influence on the Uganda economy. Such subsidies are often approved of by the World Bank representatives in Uganda who are over-seeing the implementation of SAPs. The support for the Asian propertied class partly advances the interests of foreign capital in Uganda.

The second explanation is that the Asian entrepreneurs lack local political power. The result is that they have to seek alliance with the local ruling elite for their mutual benefit and protection. With wide discretionary authority conferred on the governing elites in the implementation of reforms, public resources have been used in unaccountable and non-transparent ways to help the government maintain its political dominance.[132] The Asian entrepreneur class comes in handy in the manoeuvre by the ruling elite to consolidate its political power. In return for political protection of their investments, the Asian class is expected to contribute funds for the servicing of the numerous patronage networks of the rulers that have been established. It is said that the Asian entrepreneurs have had to contribute funds to political campaigns in the current electoral politics. In return, the government has had to allocate state resources to them, especially land.[133]

The second instance, which is not supportive of local industrialisation efforts, is the BIDCO agreement.[134] The government signed a loan with the International Fund for Agricultural Development (IFAD) on 26th May 1998 to support the development and production of vegetable oil in Uganda. The government signed a US$112 loan agreement to guarantee a private vegetable oil company, on 4th April 2003. Government undertook to give BIDCO 26,500 hectares of land on a 99-year lease to grow palm oil and process vegetable oil. BIDCO would pay rent Shs. 10,000 only, equivalent to $5, per year. Government would indemnify the company and its subsidiaries for any loses, damages, costs, claims, demands and expenses rising from any breach of the provisions. Under the

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132 See Mwenda, Andrew & Roger, Tangri (2005), "Patronage Politics, Donor Reforms and Regime Consolidation in Uganda" *African Affairs*, Vol.104.

133 Due the secretive nature of such "deals", it was difficult to adduce evidence of funds changing hands. The only evidence based on press reports being the insistence by President Museveni to give away thousands of hectares of land to both Metha and Madhvani. Metha is supposed to be allocated 7000 hectares of degezzetted Mabira Forest near Kampala for growing sugarcane while Madhvani shall be allocated up to 40,000 hectares (160 square kilometres) of land belonging to the Internally Displaced Persons (IDP) in northern Uganda.

134 Uganda Government (2003), *Agreement Between the Government of the Republic of Uganda and BIDCO Oil Refineries Ltd for the Development of Oil Palm Industry in Uganda*, Ministry of Finance, Planning and Economic Development, (MoFPED), Kampala.

agreement, government offered to construct and maintain roads leading to all sites in the country where the project will be and to connect Bugala Island, the centre of the project, onto the national grid as well as build weather stations. Government further commits to provide fertile land, water and process work permits for company staff.

While these incentives may be necessary to attract FDI, the question of local industry development is left out. The agreement does not spell of any safeguards, neither the number of weather stations at $50,000 each nor the plant capacity for the vegetable oil plant. The whole question of technological transfer is not even mentioned. Without local linkages, BIDCO with its tax holiday and enormous incentives shall likely lead to the collapse of local vegetable oil industries such as Madhvani, Mukwano Industries, Mbale Soap Oil, Kengro, Unilever, Nile Agro and 45 oil millers in northern Uganda, under the Uganda Oil seeds Processors Association, (UOPSA).[135]

Like the cases of banking policy or privatisation, the characteristic feature of this type of FDI is that decisions were not based on commercial assessment of risk against expected returns or beneficiation of local industry in terms technological acquisition and enhancement of competitiveness but on political favouritism and patronage.

5.2.8 Conclusion

This chapter has examined the industrial policies under SAPs which can be divided into two phases, was based on government documents, survey reports, records from the archives, unpublished dissertations, newspaper reports and secondary literature. The analysis of the data revealed several findings: 1) Industrial policies in the first phase of SAPs (1981-85), were directed at correcting the disortions that had been inflicted on the industrial sector by the Idi Amin regime in the 1970s. Thus, SAPs from June 1981 put stress on the rehabilitation of the public industrial sector under UDC and the return of expropriated firms to the former Asian owners. In particular, the return of several industries to UDC which were under various Ministries did not correct the distortions. 2) The introduction of the liberalised package of monetary and fiscal policies while leading to modest improvement in industry, did not resolve the problem of industry. This was mainly due to two reasons: i) the source of finance for industry and ii) the non-prioritisation of industry in the policy process. We observe that for autonomous

[135]Kibikyo, D (2004), Op Cit., p.7.

industrialisation to occur, the source of finance is important as it has implications for what priorities to fund. I note that the World Bank dictated to which industrial sectors the loans went to. Secondly, there was no prioritisation of the industries that could be financed. The combination of these shortcomings and political instability led to the collapse of phase 1 of SAPs.

The Second Phase of SAPs (1987-2006) saw extended liberalisation, privatisation and several institutional reforms with implications for industrial policy and practice. Several findings can be noted: first, in terms of the implementation of the prescribed SAPs, this phase was more successful, particularly in the creation a liberalised economy though with some shortcomings. Thus in terms of liberalisation, the reforms created an economy that is fundamentally import-dependent, trade-biased and has given little impetus to agricultural modernisation and industrial deepening. It is noted that the speed of liberalisation did not take note of the level of development of productive capabilities of industry, particularly of technology. Several industrial firms subjected to competition from smuggled goods had to close (see pp. 169-70). Secondly, privatisation resulted in a number of achievements. As noted on p.176, several firms increased their capacity utilisation and increased productivity in terms of output. The other major achievement is that privatisation led to s substantial expansion of the industrial class in Uganda. But it as well had shortcomings. Rather than build an entreprenueral class, privatisation introduced a new and more vicious round of corruption from which foreign nationals and state officials were the major beneficiaries. While privatisation in the context of a crisis economy may be a necessary condition, it may not, on its own, be sufficient to generate the necessary momentum for renewed growth and development.

Thirdly, the policy makers did not adequately address the question of sources of industrial finance as these are critical in determining the pririoty and non-priority of industries to be financed. While the state intended to raise finances through the privitasation of public enterprises, this did not take place. In addition, there was no industrialisation programme indicating priority industries and the requirements of entrepreneurs to access investment capital.

Finally, the financing of industry came to be influenced by the politics of patronage. Rather than enhancing local industry through financial support, government supported selected industries on the basis of patronage. Even where FDI was encouraged as a way

of financing industry, the decisions were not based on commercial assessment of risk against expected returns or beneficiation for the local industry in terms of technological transfer to enhance competitiveness but on political favouritism and patronage.

In conclusion, it could be argued that successful industrial policies require selectivity, prioritisation and coherence of the institutions that formulate and implement policies. This was made more difficult by the conditionalities of SAPs. It is in light of this, that we examine the institutions and the institutional reforms that created several semi-state agencies in support of the economy in general and the industrial sector, in particular, in the next chapter.

CHAPTER SIX

6. INSTITUTIONAL REFORMS AND AGENCIES IN SUPPORT OF THE INDUSTRIAL SECTOR

6.0 Introduction

This is the third data chapter of this thesis. It is based on primary data derived from in-depth interviews with officials from the Ministries of Public Service, Ministry of Tourism, Trade and Industry (MTTI) and support agencies, particularly, the Uganda Investment Authority (UIA), Uganda National Council of Science and Technology (UNCST), Uganda Industrial Research Institute (UIRI) and the Uganda Manufacturers Association (UMA). The primary data is supplemented with documents (published and unpublished), newspaper reports and academic articles.

There are several purposes of this chapter. First, is to differentiate the current institutions from those inherited from the colonial period. Second, to assess whether these newly created and reformed institutions work in coordination with each other in the process of formulation and implementation of industrial policy. Underlying the subsequent analysis is the assumption that policy making is an essentially political process. The institutional capabilities or limitations can best be understood within the social and political context.

In the previous chapter, we examined the central elements of Structural Adjustment Programmes (SAPs): liberalisation, privatisation and their impact on the industrialisation process. This chapter looks at the civil service (bureaucracy) reforms with a brief background, the creation of several agencies to support SAPs and their efficacy in the formulation and implementation of industrial policies in Uganda. The bureaucracy is a critical institution in the formulation and implementation of policies. Therefore, the reform process demanded the review and institution of relevant agencies for policy implementation in general and industrial policy in particular.

This chapter is divided into six sections. The first section is a brief overview of the working of the bureaucracy prior to the reforms. Second is the reform agenda of the

bureaucracy as a whole. The third section outlines the various agencies revived or created to support the development process, among these include: the UIA, UEPB, the PSF and the Uganda National Council for Science and Technology (UNCST). The fourth section is a reflection on the efficacy of the industrial policy framework that was crafted as part of the reforms. The fifth section takes specific focus on the technology policy as expressed in the creation of UNCST due to the centrality of technological upgrading in the industrialisation process. Part six deals with the business peak association, Uganda Manufacturers Association, (UMA), related associations and their involvement in the formulation and implementation of industrial policy. State-business interaction is an important expression of embryonic operationalisation of embedded autonomy. The above institutional reforms and mechanisms are fundamental to the successful formulation and implementation of a robust industrial policy.

6.1 Brief Background to the Civil Service Reforms

This brief narrative on the background to the civil service reforms is based on an in-depth interview with a former long serving Permanent Secretary (PS) of the Ministry of Public Service, Mr Peter Uchanda[1] According to him, the policy environment in the immediate independence period in the 1960s was conducive to policy-making. "The elected government was easy to consult as it involved civil servants in policy-making through the Presidential Economic Commission which met regularly and made concrete proposals". Any economic policy was discussed with the producers through co-operatives and industrial associations. Until the 1970s, when the Idi Amin military regime ruled by decree, the general political environment encouraged transparency and the policy-makers in collaboration with producers could collectively identify bottlenecks in policy implementation. For instance, in the 1960s when the government decided to establish the Meat Parkers Industry in Soroti town in Eastern Uganda, senior civil servants participated in policy-making particularly as they gave professional advice on the establishment of government ranches that would supply the meat raw material to the industry.

According to Mr. Uchanda, the civil service during the 1960s period was characterised by a number of features: First, political interference was very minimal as the bureaucracy was relatively autonomous. Second, the recruitment into civil service was based on merit

[1] Interview with Mr. Peter Uchanda, former PS, March, 2004, (See Key Informants, appendix, 1).

and were followed with little interference in the work of the Public Service commission. The military rule in the1970s saw the gradual erosion of these feature as there arose the tendency of ministerial arrogance, growing recruitment of relatives without merit and the increasing problem of funding for civil service operations.

The further decline of the civil service performance came during the return of Ugandan exiles after the collapse of the Idi Amin regime in 1979. The returnees (former exiles) failed to follow the civil service rules. The civil service was recruited and dismissed at will, purportedly fighting "Aminism".[2] Little was done to reverse this practice in the early 1980s. According to Mr. Uchanda, what was needed was a selfless, patriotic bureaucracy imbued with a public spirit and hope in the future of the country. It is within this context that the reform of the bureaucracy was done in late 1980s.

6.2 The Reform of the Bureaucracy

The reform of the bureaucracy entailed a review of the civil service and creation of several institutions with the mandate covering trade or industry. These included the bureaucracy (civil service) and related state institutions such, the Ministry of Trade, Tourism and Industry (MTTI), Ministry of Finance and Planning and their related subsidiaries such as Uganda Investment Authority (UIA), The Uganda Export promotion Board (UEPB), The Private Sector Foundation (PSF), which are dealt with in the second section.

The Ugandan bureaucracy, like those in most sub-Saharan African countries, had by the time of the reforms, become over-extended, ineffective with very little capacity to formulate and implement policy. Thus, in the context of the need to implement SAPs, the bureaucracy had to be reformed. The main objective of public service reform was to increase the efficiency, effectiveness and the capacity to promote economic and social development. The idea was to reduce the bureaucracy to a small, well-trained, well-remunerated and motivated force. The first attempt to reform the bureaucracy was through the 1982 Civil Service Restructuring programme under Mr. Martin Orech, the then Permanent Secretary of the Ministry of Public Service. This did not amount to much as it was not implemented.

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[2] Aminism refers to the legacy of the Idi Amin regime which was characterised by arbitrariness, absenteeism, corruption and nepotism among other ills.

The substantive reform of the public service was conducted under the Public Service Review and Reorganisation Commission, (PSRRC) (1989-1990), which noted that:

> "…Government has, over the years, over-extended itself, competing with its own citizens by straying into areas of economic, industrial and commercial activity (which are) otherwise not the domain of government …thereby fostering proliferation of activities, overlaps in jurisdictions, duplication of functions and poor coordination".[3]

Informed by the neo-liberal view of the state, the Review Commission recommended the government to shed off some of the existing activities that could be better performed by the private sector through liberalisation and simplification of the procedures for taxation and licensing so as to remove the frustrations that impeded the private sector (markets), both formal and informal in their operations.[4] The reform aimed at the trimming or outright elimination of inefficient government bureaucracy and agencies.

The Review Commission conducted its work in the context where the World Bank was less hostile to the role of the state. The report while still treating the state as a major part of the the problem of the economic decline, it at the same time saw the state as a major part of the solution but it had to be reformed first. [5] The reform agenda, as per World Bank, was focused on three major policy measures: a) advising governments on how to reduce the size of the civil service b) devise appropriate salaries policies and c) implant better financial management.

The application of these reform measures in Uganda led to some economic recovery, averaging a GDP growth of 7.4 per cent from 1994/5 to 1998/9. By mid 1990s, the economic logic of adjustment was internalised within the state, especially the increasingly powerful Ministry of Finance and Economic Planning (MoFPED) whose bureaucrats have imbued the neo-liberal views on the state.[6]

The concern here is not only to examine the extent to which the reformed bureaucracy is performing, or re-engineering economic recovery but also the examination of

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[3] Uganda Government (1990), *Report of Public Service Review and Reorganisation Commission, 1989/1990*, Kampala, Volume 1, p.ii

[4] Ibid, p.iv.

[5] By 1989 the World Bank had slightly retreated from its dogmatic view of the state as the problem and now saw it as part of the solution, particularly the need of developing its capability to formulate and implement policies. See World Bank (1989), *Sub-Saharan Africa: From Crisis to Sustainable Growth*, Washington, D.C

[6] Harrison, Graham (2001), "Post-Conditionality Politics and Administrative Reform: Reflections on the Cases of Uganda and Tanzania", *Development and Change*, Vol.32, p.663.

institutional structures and policy-making processes and their implications for implementation of industrial policy.

In reviewing the experience of reforming African civil services, Olowu notes that their major preoccupation is purely with technical concerns of reducing the size but failed to tackle the more challenging task of building and sustaining the institutional capacities within the framework of political, cultural, economic and fiscal changes.[7] In Uganda, this preoccupation with size was expressed through the retrenchment of civil servants and the organisational restructuring of Ministries. Uganda reduced the number of Ministries from thirty-eight to twenty-one as a prelude to its own civil service reforms.[8]

In line with the notion of "roll-back" the state advocated by the World Bank, the PSRRC recommended the implementation of both the down-sizing (retrenchment) of the civil service and the freeze on recruitment into the civil service effective 1st July 1989.[9] The objective was to make the bureaucracy more efficient and effective. However, as Primo Nyokatre notes: "while retrenchment resulted into reduction in the number of civil servants and had a demoralising effect of staff in the short-run due to the stigma attached to it, there is no clear-cut evidence to show that it has resulted into easily measurable and observable improvement in the productivity of the stayee public officers in the long-run".[10] Neither have civil service jobs been cut. As indicated in the table below, the civil service has been expanding annually since the reforms were carried out.

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[7] Olowu, Bamidele (1999), "Redesigning African Civil Service Reforms", *Journal of Modern African Studies*, Vol.37, No.1, (March), p.2.

[8] Ibid, p.2. But much of this reduction has been reversed to the extent that Uganda as at present boasts of 71 Ministers. In line with the politics of patronage and clientelism, several ministers are attached to a single ministry hence maintaining high public administration expenditure.

[9] Public Service Review and Re-organisation Commission (PSRRC) (1989), Op, Cit, pp, ii and p.327.

[10] Nyokatre, Primo, (2002), *The Effect of Retrenchment of Staff Performance: The Case of Ministry of Public Service*, MA Dissertation in Public Administration and Management, (MPAM), Department of Political Science, Makerere University, p.iv.

Table 6.1: ***Civil Service Size after Reforms***

Year	Size of civil service	Percentage Change
1999	166,460	-
2000	178,080	7.0
2001	191,120	7.3
2002	204,182	6.8
2003	223,895	9.7
2004	240,119	7.2
2005	243,338	1.3

Source: Uganda Computer Services

The reform of the bureaucracy was one of the key policy reform measures pursued by the government under SAPs. The idea was to reduce the civil service to a small, well-trained, generously remunerated and motivated workforce. It was hoped that this would in turn form the backbone of effective promulgation and implementation of government policies. To understand the limits of Uganda's much acclaimed one has to look at the implementation of the reforms.

First, concurrent with the trimming of the civil service, government and "donors" embarked on the creation of new and specialised agencies to implement specific aspects of structural reforms. These included Uganda Revenue Authority (URA), Uganda Investment Authority (UIA), Uganda Coffee Development Authority (UCDA) and several others. Just like the retrenched civil service had been recruited on the basis of political affiliation, tribal and family considerations, government turned around and used the opportunity provided by the creation of these specialised agencies to reward its political and tribal clients with jobs.

The recruitment into semi-autonomous agencies meant that the reduction in the civil service is far less than the above official figures represent. Recruitment into these agencies swelled the size of the state apparatus almost to its original size. Therefore, rather than reduction, the key change resulting from the civil service reform was a reconfiguration of the civil service from a monolithic institution suspicious of the NRM regime to a fragmented set of agencies at the mercy of the ruling elite.

Second, the post-reform ex periences indicate that the pre-occupation with numbers obstructed the need to address the core of the problem in the bureaucracy. The problem of bureaucratic capacity in Uganda goes deeper than the problem of numbers. First, as the PSRRC noted, there was and still there is, abysmally low salaries and wages operating in the public service as a whole.[11] This has had the effect of the inability to attract and retain high quality professionals.

Third, several years of political turbulence and upheavals left a legacy of patronage and evasion of controls which could not be corrected immediately by retrenchment. The now deep-rooted patronage networks have led to a breakdown of the merit recruitment system which is critical to the resuscitation of the Ugandan bureaucracy. Patronage networks are the key factor in the distortion of the policy framework.

Fourth, the reform agenda for the bureaucracy in Uganda ignored the centrality of the politics of patronage. The control over resources through the bureaucracy is perceived as a vehicle of wealth accumulation. With the bureaucrats' control rights over firms' business operation, such as taxation, licensing, public utilities; they have solicited bribes to accumulate wealth.[12] The preference of patronage networks has resulted in the creation of autonomous projects within different ministries destroying the coherence of the bureaucracy further.[13]

Given the increasingly unclear career path in the civil service with insecurity of tenure due to the practice of retrenchment and favouritism, the occupation of a bureaucratic office has come to be seen as an opportunity to use the prerogatives of the office to maximise private interests and accumulate before exit.[14]

Finally, in general, the reform of the bureaucracy has taken place in the context the strategies of liberalisation and privatisation intended to change the way in which the state interacts with the firms, shifting from command methods to market mechanism. Little attention was paid to possibility of the private (business) interests to penetrate the

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11 Public Service Review and Re-organisation Commission, (PSRRC) (1989), Op Cit, p.ii.
12 Svensson, Jakob (2000), "The Cost of Doing Business: Firms' Experience with Corruption in Uganda, The World Bank: *African Region Working Paper Series*, No.6, p.11.
13 Interview with, Mr. Okulo, CN, Assistant Commissioner of Industry and Technology, MTTI, 2 October, 2007.
14 Svensson, Jakob (2000), "Who Must Pay Bribes and How Much?: Evidence from a Cross-Section of Firms in Uganda", The World Bank: *Policy Research Working Paper*, 2486, p.2.

bureaucracy and use it, especially to evade tax and engage in smuggling, activities which have negative implication for industrialisation.[15]

The efforts, through retrenchment, appropriate salaries and implanting better financial management to create an efficient and effective bureaucracy within a state characterised by corruption and patronage, have achieved dismal results due to the fact that the efforts leave out fundamental institutional mechanisms that impinge on policy-making processes. Perhaps this is given a clearer expression in the reform process of the ministries concerned with the formulation and implementation of industrial policy.

The second thrust in the reform of the bureaucracy was through ministerial re-organisation. This followed the recommendation by the PSRRC that the whole ministerial line-up should be streamlined and re-organised to bring down the total to 20 or 21 Ministries altogether as it was hoped this would increase their efficiency.[16] The concern here is with the three Ministries whose re-organisation immediately impinged on the practice of industrial policy. Thus: The MoFPED, MTTI and Public Services ministries.

First, administrative reforms at the ministry level led to shift of industrial policy from Ministry of Tourism, Trade and Industry (MTTI) in terms of policy formulation and implementation to Ministry of Finance, Planning and Economic Development (MoFPED). In 1992 government classified its ministries as "core" and "non-core" ministries where the "core" have the first call on budgetary resources.[17] MTTI is a "non-core" ministry.[18] The Ministry of Planning and Economic Development were merged in 1992, to create the 'super ministry', hence a "core" ministry, principally concerned with the tasks of financial management rather than planning and development. The Executive Secretary of UMA, and indeed the bureaucrats interviewed, argued that the MTTI must

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[15] Hellman, Joel et al (2000), "Seize the State, Seize the Day": State Capture, Corruption and Influence in Transition", The World Bank: *Policy Research Working Paper*, 2444, p.1 In Uganda's instances of private interest penetration of the state was discussed in the previous chapter (The Politics of Patronage and Financing of Industry).

[16] Public Service Review and Re-organisation Commission (PSRRC) (1989), Op, Cit, p.ii.

[17] Kitakule Sarah, (1998), *Report on Current Situation, Vision and Strategy for Trade and Industrial Policy Research in Uganda*, Submitted to Uganda National Council of Science and Technology, December, p.8.

[18] With the Budget cuts in 2002 to finance war in the North of Uganda and patronage networks, MTTI neither qualified for increases in budget allocations within the short term expenditure framework nor be protected against mid year budget cuts, Mulumba Isaac, "Trade Ministry to lose Budget Allocations", *The Monitor*, 27 November.

be given the necessary support as the core ministry concerned with the implementation of industrial policy.[19]

Increasingly, there has been centralisation of power to MoFPED and to a lesser extent to the Ministry of Public Services.[20] In particular, MoFPED is the ministry that serves as a conduit between the state and donor/creditors. All agreements for project and programme funding are signed by the Permanent Secretary of the Ministry of Finance regardless of the target Ministry.[21] These reforms have had serious implications for the formulation and practice of industrial policy and indeed, other development policies in the country.

First, the shift of policy formulation to the MoFPED relates directly to the ascendance of monetarism within the state, that is, the overriding concern with budgetary expenditure and more effective rising of taxes.[22] But another reason for the extended powers to MoFPED is that the Ministry is manned by the President Museveni's bureaucratic allies who usually respond without question to the presidential demands for finance to fund his patronage networks.

Second, "all donor funded projects – the only significant source of capital spending in the system – were managed centrally by the Ministry of Finance and Planning".[23] Rather than stress and fund MTTI, Ministry of Finance has received a disproportionate amount of training and 'technical' assistance, that is, externally funded posts to experts (almost always expatriates). Donors have funded research groups within MoFPED with a view to improving the technical competence of economic planning and policy making and the World Bank and UNDP have introduced incentive schemes into MoFPED to enhance the performance and motivation.[24] As a result of the Ministry of Finance's hegemony over the policy-making process, due to the control of the donor finances and its relative technical competence funded by the donors, it has become arrogant and acts without regard to other ministries programmes. For instance in 1999, the original budgets set by

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19 Interview with Mr. Hilary Obonyo, UMA, 16 October, 2007.
20 Harrison, Graham (2001), Op, Cit, pp 663-7.
21 Ibid, p.664.
22 Harrison, Graham (2001), "Post-Conditionality Politics and Administrative Reform: Reflections of the Cases of Uganda and Tanzania", *Development and Change*, Vol.32, p.664-665.
23 Brett, E A (1994), "Rebuilding Organisational Capacity in Uganda Under the National Resistance Movement, *Journal of Modern African Studies*, Vol.32 No.1, p.68.
24 Lamont, Tim (1995), "Economic Planning and Policy Formation in Uganda" in P.Langseth et al (eds), *Uganda: Landmarks in Building a Nation*, Kampala: Fountain Press, p.16-19.

the Uganda Ministry of Finance for all ministries, departments and agencies were unilaterally reduced mid-term by MoFPED.[25]

Third, the Ministry of Public Service itself, the heart of the bureaucracy, has acted in a similar manner. The funding by donors for the reform of the bureaucracy offered the ministry the opportunity to project its own agenda on the rest of the line ministries. The training efforts of the Public Service have been compromised by donor prerogatives. With donor funding came a new set of regulations concerning the techniques of the policy processes. Donors look for and fund corporate plans within ministries, departments, and agencies, based on frameworks which set out specific policies, executing agencies, timeframes and funding requirements.[26] The capacity-building mandate of the ministry is further undermined by the presence of expatriate personnel on donor-funded contracts which reinforces both the international orthodoxy of reform and the new methodologies of donors.

Both the Ministry of Public Service and MoFPED are the focal points of the donor-driven policy making framework in Uganda. Donors view the finance ministry and the public services ministry as the two central executing ministries with which they must deal – the former managing money and the latter the personnel [27] Both Ministries, and indeed the rest of the economy remain donor funded and driven.

Relegated to the sidelines of economic policy-making and funding, MTTI is hampered in carrying out its mandate as far as industrial sector is concerned. The rise of monetarism under SAPs has led to the displacement of the needed strategic focus on industrial policy. The idea of focused industrial policy has further been scattered by the creation several specialised agencies dealing with matters related to industrialisation. Concurrent with the trimming of the bureaucracy and the re-organisation of ministries, the government and donors embarked on the creation of new and specialised agencies to implement specific aspects of SAPs.

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[25] Harrison, Graham (2001), Op Cit, p.666.
[26] Ibid, p.670.
[27] Ibid, p.666-7.

6.3 Specialised Agencies in Support of the Industrial Sector

The data for this section of the chapter was derived from interviews with key informants and officials of specialised agencies UIA, UNCST, MTTI and UMA. The data is supplemented with secondary literature and newspaper reports.

The revival and the creation of specialised agencies was guided by the contemporary pro-market policy bias whose concern is how to enhance efficiency, productivity and growth by expanding the role of the private sector and market forces, mainly with a supportive mandate through various institutions.[28] This supportive or facilitating bureaucratic role is to maintain market conditions, arrange business licences, coordinate contracts, supply information to consumers and investors, and arrange finance for investors, among other roles. The Uganda government with support of foreign loans and "donor" finance set up several agencies to support the process of economic development. These included the Uganda Investment Authority (UIA), Uganda Revenue Authority, (URA) and the Privatisation Unit (PU).

Second, the other institutions in policy network confront similar obstacles to the performance of their mandates as MTTI. The Uganda Export Promotion Board (UEPB), established by statute in 1996, traces its history to the Uganda Export Promotion Council (UEPC) that was established in 1969. The political instability, especially the one that begun in the early 1970s and continued into the mid – 1980s saw the UEPC's activities grind to a halt. UEPC was reactivated in 1986 and restructured in 1996 as UEPB. UEPB has mainly focused on understanding markets better, how to penetrate them and what their peculiarities are. Unlike its Kenyan counterpart, Uganda government has not instituted incentive programmes and created support institutions to encourage the development of exports.[29]

The Private Sector Foundation (PSF) was established in August 1995 financed by USAID. The membership of the PSF is business associations and public sector organisations, which facilitate the private sector. The foundation advises government on

[28] Haque, N., Shamsul, (1998), "The Paradox of Bureaucratic Accountability in Developing Nations under a Pro-market State", *International Political Science Review*, Vol.49, No.4, p.362-3.

[29] Kenya has set up export development programmes such as : Manufacturing Under Bond (MUB), where bonded premises for manufacturing and export are operated under customs supervision, duty and VAT exemption on imported plant, machinery, equipment, raw materials, Export Processing Zones (EPZs) and the Export Promotions Programmes Office (EPPO), which administers Duty and VAT waiver on imported raw materials by manufacturers producing for export.

policy issues affecting private sector development. PSF promotes and seeks to institutionalise policy dialogue between government and the private sector in order to reduce policy uncertainty and build confidence with both domestic and foreign investors.

The most important institution for our case is the Uganda Investment Authority (UIA). The in-depth interviews with two of its officials brought out the thinking behind its operations.[30] The interviews were focused on five elements of its mandate: 1) capacity to handle investments, 2) investment incentives, 3) job creation, 4) technology transfer and 5) re-investment.

Both respondents were of the view that UIA has capacity to attract investment and has a competent bureaucracy. The administrative capacity is underpinned by the way the recruitment of staff is carried out. The positions are always advertised, based on merit and the recruited staffs are often sent for further training in the best investment practices. While this may be the case, there seems to be some biases in recruitment as the composition of the recruited staff seem to be regionally, tribally inclined contradicting the claim of being based on merit and competence.

Second, asked about the basis on which investment incentives are given, Mr. K Kyoratungye argued that "World over incentives are given to reduce costs of start-up and encourage first time investors". While this may be correct, there has been a tendency for foreign investors to demand for subsidies at the initial investment from government mainly through lobbying President Museveni as was the case in Tri-Star Apparels Ltd that we discuss in detail in chapter seven.

Third, one of the claims of FDI is that of job creation in a given economy. Both respondents agreed that UIA has not been able to monitor and verify whether the investors created jobs as is usually claimed in their investment proposals. Apart from not bothering to question the quality of jobs created, Mr. Kyoratungye was of the view that, "There is no need to flow-up whether the proposed job creation is implemented or not. Government or UIA cannot determine the schedule for investors. Companies find it difficult to maintain expatriates so in the end they employ locals". This attitude by bureaucrats who are tasked with policy implementation defeats the objective of FDI. As policy implementers, the bureaucrats at UIA must ensure the implementation of the FDI

[30] Interviews with Mr. Mukasa Issa, Director of Investment Promotion Division and Mr. Kyoratungye Karemente, Director, Strategic & Management Information System Division 15 October, 2007.

claims if they are to be beneficial and enhance capacity of industrial sector in particular and the national economy in general.

Fourth, technology transfer is supposed to be one of the key benefits from FDI. Yet the respondents at UIA confirmed that ensuring technological transfer is not made a central demand on the investors at the time of application for the investment licence. According to Mr. Mukasa, "There is no need to demand for technology transfer agreements or registration as Uganda's economy is fully liberalised". This is perhaps the weakest part of UIA. Technology transfer is critical for industrialisation, particularly when it takes the form of licensing as opposed to mere importation of machinery. UIA should be at the forefront at implementing policy on technology transfer. Technology transfer, globally, has never been automatic. It has always been induced in those economies where it has been successful through prodding the FDI and instituting learning mechanisms.

Fifth, to enhance industrial capacity, UIA would be expected to put stress on re-investment of the proceeds from production and exports by the investors. Both officials at UIA noted that there are no conditions set on re-investment in Uganda's economy. Mr. Kyoratungye argued that "re-investment is a question of demand and supply: What is required is establishment of a friendly environment where there is reliable power supply, road networks, serviced land" and re-investment shall occur. There are several concerns about the efficacy of such an institutional framework and attitudes to bring about sustained investment, particularly in industry. From the above, several issues can be noted.

First, the proliferation of institutions has not necessarily led to efficient policy formulation and implementation. Both UEPB and PSF suffer from failure to have sector focus. While PSF is well funded, UEPB budget, which falls under MTTI, is low and its cash budget regime is often suddenly cut. This is a major handicap to implementation of its mandate.[31]

Second, their creation of new agencies resulted in further bloating of the public service as indicated in table above (p.204). The down side of this expansion was that meritocracy in recruitment into these agencies, as has become of the central public service, was thrown to winds. These specialised agencies were turned into arenas for patronage by dispensing

[31] Kitakule, S, (1998), *Report on the Current Situation, Vision and Strategy*…. pp11-20.

state jobs to the clients of the political class. The public servants were recruited on the basis of political affiliation, tribal, kinship and family considerations rather than on professional merit and competence. Yet competence is a critical element in the formulation and implementation of policy. Finally, while there have been lots of investments in terms of quantity, the issue of quality and systematic sectoral focus has been left out.

6.4 Industrial Policy Institutional Framework

The primary data for this section is derived from an official of MTTI[32] and the Minister of State for Industry and Technology speech at the National Industrial Policy Stakeholders Forum.[33]

Since 1994 there have been attempts to construct a coherent industrial policy through several documents.[34] These documents outlined Uganda's industrial policy. They were typical market-oriented policy statements that located Uganda's industrialisation process within free markets and export orientation. These policy statements did not take into consideration the moment and the context within which Uganda had to industrialise. The policy framework remained general. There was no attempt to identify, selectively, strategic sectors that would create, in the words of Hirschman, a "multi-dimensional conspiracy" – the generation of dynamic economic activities in other sectors. Alexander Gerschenkron suggested that the moment of industrialisation determines which industries must serve as the country's engine of growth and the nature of that growth in turn determines the social, technical, financial resources and institutional foundation structures that must be mobilised for industrialisation to be successful.[35]

The basic motivation for current national industrial policy is the drive for it to become a strong agent in achieving the national vision and aspiration to sustained structural economic transformation.[36] In an interview with the Assistant commissioner (MTTI),[37]

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32 Mr. Okulo Cankwo, Assistant Commissioner, Department of Industry & Technology, (MTTI)
33 Prof. Ephraim Kamuntu (2007) "Industrialisation: The Viable and Proven Route to Economic Transformation and Prosperity for all", Imperial Hotel Kampala, 20th – 21st September.
34 Ministry of Tourism, Trade and Industry (MTTI) and Friedrich-Ebert Foundation (1994), Uganda: Industrialisation Policy and Framework, 1994-1999, Kampala, November, MTTI (1999), Industrialisation Policy and Framework, 1998-2002, Kampala and MTTI (2003), Strategic Framework for Industrialisation in Uganda, Kampala, January.
35 Gerschenkron, Alexander (1962), *Economic Backwardness in Historical Perspective: A Book of Essays*, Cambridge, Massachusetts: Harvard University Press.
36 Prof. E. Kamuntu (2007), Op cit. p.6.
37 Mr. Okulo Cankwo, 2nd October, 2007.

he stated that the focus of the industrial policy shall aim at promoting export oriented industries as opposed to import substitution industries, the major reason being the "failure" of the ISI strategy. The change in industrial policy focus has been influenced by three (3) events overtime: i) globalisation ii) liberalisation and iii) politics.

First, there is a realisation that for industries to be competitive, Uganda's industry must be knowledge-based. The stress of the new industrial policy is on technological acquisition. The government is aware of the fact that for industrialisation to occur there must be stress on technological absorption capacity. Accordingly, the government has to organise an enabling environment within a deliberate policy framework to take into account of what is happening globally.

Second, following the thinking of SAPs, for industries to be competitive, they have to be liberalised. Industrial policy initiative in its current form is caught between liberalisation and state intervention to support industry. The policy recognises the need for state involvement in certain sectors and instances. Liberalisation should not taken as an end in itself.

Third, the national policy recognises the fact that industrialisation is a political process. Despite the policy of liberalisation, the thinking the Ministry of Industry is that private interests, both big and small industries, have to be supported particularly in the financing of industry. In this regard, the proposal during the Forum on industrial policy was that Uganda Development Bank (UDB) and UDC should be revived and linked to the industrial sector. Accordingly under the new policy regime, "There will be strong support for small and medium enterprises (SMEs) as a primary vehicle for fostering entrepreneurial capabilities, innovation and competitiveness and for linkage and interaction with big industries as part of Uganda's industrial sector"[38]

Over the years, the weakness of the industrial policy regime has been due to a number of factors, particularly the way liberalisation was carried out. More specifically, the disbandment of UDC in 1993, which had deviated from its original objective, instead of an industrial promotion agency had been turned into a holding company, implied the removal of institutional mechanism that was an embodiment of entrepreneurial vision and responsible for the relatively organised implementation of Uganda's industrial policy

[38] Prof. Kamuntu, E, Op cit, p.13.

over the years. The result has been the emergency of fragmented bureaus in form of Ministry of Finance and Planning and Uganda Investment Authority (UIA) engaged in their own tuft wars with near eclipse of the Ministry of Trade, Tourism and Industry without coherence and coordinated approach to industrialisation.

The Investment Code (1991) and as amended in 1997, is too general to promote a competitive industrial sector. It has no inbuilt mechanisms or indicators to monitor trends in some key determinants of competitiveness, such as the introduction of advanced technology, or the upgrading of human skills. The investment code, even as amended, lacks focus on industrial development. As a result, there is no agency that can provide entrepreneurial vision and institutional mechanisms to act as agents of transformation and implantation of an industrial sector. The above agencies, could not implement the policies competently. This explains the shoddy implementation, inefficiency, incoherence and corruption that are seen in the coordination of investments, collecting of taxes and privatisation process. The implementation of the proposed industrial policy regime should be able to overcome the above past weaknesses. The next section examines the efforts to acquire technology for industrialisation under SAPs in the country.

6.5 Institutions for Technology Policy (UIRI & UNCST)

This section of the chapter is based on in-depth interviews with technocrats at the two institutions mandated with technology policy and research and development (R&D) namely: Uganda National Council and Science and Technology (UNCST) and Uganda Industrial Research Institute (UIRI). The interviews were based on specific questions regarding their operations, collaboration, challenges, interactions with private sector firms, interactions with UMA and the technocrats' views on the impact of liberalisation on technology policy.[39]

Broadly, technology policy may be defined as systematically stimulating technical progress, that is, enhancing the skills, (know-how and know-why), and procedures applied in the production of goods and services.[40] The concept of technology includes technical knowledge (knowledge about machines and production processes) as well as

[39] UNCST & UIRI (See interview outline appendix No.3).
[40] Ahrens, Joachim, (2002), "Governance and the Implementation of Technology Policy in Less Developed Countries". *Economics of Innovation and New Technology*, Vol.11 (4-5), p.445.

institutional arrangement and skills, which are necessary to efficiently transform inputs into outputs.[41] The success of overall strategy of industrialisation of any country, to a greater extent, depends on the chosen technology strategy. Technological capabilities are at the centre of industrialisation processes. The development of capabilities needs the entrepreneurial state to intervene and promote their deepening because market forces or FDI as we have seen above, do not always induce intensive technological changes that are warranted.[42] The availability of technical and engineering skills are among the key requirements for industrial upgrading and the development of competitive enterprises. These skills are produced through the national innovation system.[43] The late industrialisation paradigm presupposes that the development of technological capabilities in late industrialisers is through learning.[44] Learning can best take place in particular institutional configuration, a national innovation system. The policy for the development of technology, therefore, is critical for the industrialisation process. The experience of countries that have industrialised, there have been two major components of technology policy: import of technology and promotion of in-house R&D.

The major thrust of Uganda's technology policy has been to entirely import the necessary technology from the developed countries since the inception of its industrialisation process. The tendency has been to import capital through FDI throughout the post-colonial period. This approach to technology acquisition continued under SAPs with its policy prescriptions of free market-orientation. The *Washington consensus* which informs SAPs, is silent on technology let alone industrial policy and postulates a non-interventionist, minimal role of the state, limited to macro-economic stabilisation, liberalisation and getting prices right.[45] For developing countries, technological transfer can only occur if they have acquired sufficient technological capabilities and institutional capacities to identify suitable technologies and to adapt, absorb, and improve the technologies imported from abroad.[46]

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41 Ibid p.443.
42 Lall, Sanjaya, (1992), "Technological Capability and Industrialisation" *World Development*, Vol.20, No.2, p.165.
43 Nelson, Richard and Rosenberg, Nathan (1993), "Technical Innovation and National Systems" In Nelson Richard (ed) *National Innovation System: A Comparative Analysis*, New York & Oxford: Oxford University Press, p.5.
44 Amsden, Alice (1989), *Asia's Next Giant: South Korea and Late Industrialisation,* New York: Oxford University Press.
45 Williamson, John (1990), "What Washington Means by Policy Reform", in *Latin American Adjustment, How Much has Happened?* Williamson J., (ed), Washington, DC: Institute for International Economics.
46 Ahrens, Joachim (2002), "Governance and the Implementation of Technology Policy in Less Developed Countries" *Economics of Innovation and New Technology*, Vol.11 (4-5), P.442.

Technological acquisition and policy in Uganda is examined at three levels: 1) national science and technology policy efforts at endogenous technological change. 2) transfer of technology from developed countries and the forms it takes. 3) the linkages of both endogenous technological change and technology transfer with the local industrial sector. Before the late 1980s, Uganda did not have any clear policy in regard to technology transfer, adoption, acquisition or assimilation.[47] As mentioned in all budgets of the period, "aid" was mainly utilised for the procurement of a wide range of equipment, spare parts and raw materials for the various projects. It was not until in 1986 that a Department of Industry and Technology in the Ministry of Industry was established and the pledge that the government would develop an indigenous scientific capability intended to adapt or develop appropriate technology for the development of industry and other sectors.[48] The institutional expression of these efforts was the reform of the Uganda National Research Council (UNRC) and the creation of the Uganda National Council for Science and Technology (UNCST) (1990), Uganda Investment Authority (UIA), (1991) and Uganda Industrial Research Institute (UIRI).

6.5.1 Uganda National Council for Science and Technology (UNCST)

The national science and technology system is coordinated by UNCST. In 1990, the government enacted a statute for the establishment of UNCST.[49] Among the functions of UNCST is to advise government on and co-ordinate the formulation of an explicit national policy on all fields of science and technology and also assist in the promotion and development of indigenous technology. Several years later, there was no explicit national science and technology policy, and therefore no recognised guidelines on technology transfer, especially through FDI.[50] This is because UNCST has not pursued it

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47 Barya, J, John (1995), *Industrialisation and Technology Acquisition in Uganda: An Analysis of the Policy, Legal and Institutional Framework with Three Cases Studies*, A Report Submitted to the International Development Research Centre (IDRC) Ontario, Canada and the Carnegie Corporation of New York, USA.

48 Government of Uganda (1986), *The Background to the Budget, 1986-87*, Entebbe: Government Printers, p.47.

49 Government of Uganda (1990), *Uganda National Council for Science and Technology, Statute No.1*, Entebbe.

50 Kabasa, Paul (2000), *Private Investment and Technology Transfer in Uganda between 1991 and 1997*, A dissertation submitted as partial fulfilment of a degree in MA (Economic Policy and Planning) of Makerere University, pp. 8-9.

mandate purposively. It has instead become a focal point of no less than eight International Projects about which the scientific community knows hardly anything.[51]

In an interview with the Assistant Executive Secretary of UNCST,[52] contrary to the above representations, UNCST has conducted several research projects to guide it in the formulation and implementation of Uganda's technology policy. These include : i) Level of endogenous Technological Capability of Agro-based industries in Uganda (1999), ii) Study on Management Requirements for the Integration of Science and Technology in the Private Sector (2000) and Pilot Survey on Science and Technology Innovations for Products from Traditional Research Institutions and Industries (2004-5)[53] among others. The bureaucrats contend that UNCST conducted the research with particular resource constraints which has supported policy formulation. "The problem is the low level of public understanding of the mandate of UNCST. The role of UNCST is not to carry out but to coordinate research"[54]. While this may be the case, technology innovation and policy dynamism demands more than the above kind of research. It entails putting into action a process of access to new technologies, mastering them and adapting them to local conditions, which the above studies are incapable of engineering.

The Assistant Executive Secretary was supportive of the current policy that emphasises importation of technology. This is seen as the most practical and faster route of acquiring technology as it is costly to develop technology internally. While this is the realistic approach, it may not enhance Uganda's technological capacity in the long-run. For sustainable transfer of technology to Uganda's industrial sector, there is need for dynamism in institutional arrangement for accessing, mastering, improving upon them and adapting to local conditions.

The Assistant Executive Secretary pointed out one major weakness is lack of policy "networking". The two institutions concerned with technology policy do not operate as one or as complementary to each other. This is identified as one of the shortcomings of technology policy as they operate as rivals rather than complementary bodies. UNCST is

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51 Tindimubona, Alex (2000), *National Policy Dialogue on Research and Technology Development in Uganda: An Assessment,* A report submitted to the European Commission, DG Development, European Centre for Development Policy Management, (ECDPM), Maastricht, p.14.

52 Interview with Mr. I.N, Barugahara, 17.8.2007.

53 UNCST (1999) *Level of Endogenous Technological Capability of Agro-Based Industries in Uganda*, Kampala and UNCST (2000), *A Report on the Study on Management Requirements for the Intergration of Science and Technology in the Private Sector*, Kampala.

54 Interview with Mr. I.N, Barugahara. 19.8.2007.

affiliated to the Ministry of Finance Planning and Economic Development MFPD and UIRI is attached to the Ministry of Industry and Trade (MTTI). While UNCST formulates S&T and innovation policy and UIRI focuses on development of industrial research, the Innovation Fund which is important to both is under MTTI. These uncoordinated operations limit the effectiveness of both technology policy institutions.

The inertia in technology policy is compounded by low levels of the funding of Science and Technology S&T by government. While "S&T as a percentage of government expenditure increased from 3.3% in 2004/05 to 3.7% in 2005/06"[55], it remains minimal as the larger burden of funding national technological advance is left largely in the hands of "donors" as indicated in the table below.

Table 6.2 : *STI Sector Funding for FY 2005/2006*

Item	Recurrent	Capital	Total	Donor Contribution To GOU Budget	Breakdown of "Donor" Funding to S&T
R&D[56]	5,423,710	29,107,342	34,531,052 (25%)	19,630,248 (56.8%)	52.7%
STET[57]	10,053,201	16,179,500	26,232,701 (19%)	11,497,500 (43.8%)	30.8%
STS[58]	35,430,876	41,717,500	77,148,376 (56%)	6,132,000 (7.9%)	16.5%
S&T TOTAL	**50,907,787**	**87,004,342**	**137, 912,129 (100.0%)**	**37,259,748 (27%)**	**100.0%**

R&D as % of GDP	0.3%
R&D as % of Government Expenditure	0.9%
S&T as % of GDP	1.2%
S&T as % of Government Expenditure	3.7%

Source: MFPED: Background to the Budget, 2005/06 and UNCST 2007[59]

The national technological capacity that would act as a catalyst in industrial transformation can not be sustained while depending on "donations". This is because

[55] Government of Uganda (2007), *National Science, Technology and Innovation Policy*, May, Kampala, p.7.
[56] Research and Development.
[57] Scientific and Technical Education Training.
[58] Scientific and Technical Services.
[59] Government of Uganda, *National Science, Technology and Innovation Policy*, Draft, May 2007.

the question of national priorities cannot be addressed by "donors". Secondly; the linkage between UNCST and the firms is hardly stressed.

Most profound is the technocrat's views on the impact of liberalisation on technology policy. According to him, "when the economy is open the country benefits as the population gets access to better quality goods, prices reductions and knowledge transfer."[60] While this may be true, technology transfer is never automatic. There must be concrete institutional arrangement to facilitate that transfer. The concern with opening of the technology transfer market is that the private sector is selective based on profits with little concern for the national technological capacity. The private sector profit motive overshadows industrial development concerns. Liberalisation in the absence of focused institutional arrangement for technology acquisition implies that there is no home grown mechanisms and policy initiative to enable the acquisition of technological knowledge through learning from the more advanced nations. Under the influence of neo-liberal thinking, the bureaucrats at UNCST as those in UIA have not crafted mechanisms through which technology transfer could occur. Next we look at UIRI.

6.5.2 Uganda Industrial Research Institute (UIRI)

UIRI is the other organisation in technology transfer network. UIRI's major objectives include developing appropriate technology so as to create an efficient and competitive industrial sector, to adapt foreign technologies that suit the local conditions and to create technological information centre for industrialists.[61]

Started several years ago as part of the East African Industrial Research Organisation, (EAIRO), it has grown very slowly in the last 20 years. Operating under the Ministry Tourism, Trade and Industry (MTTI) and with the technical and financial support from the Chinese government, its initial mandate was to cover two specific sectors: food technology and ceramics. Its performance at the development of technology has been dismal. The most positive element is the attempt to build-up local analytical laboratory capacity instead of sending samples to European laboratories as has been the custom.[62]

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[60] Interview with Mr. I N, Barugahara.
[61] *The New Vision* (2001), "UIRI Seeks Appropriate Technology" Tuesday, 20 November, p.30.
[62] Tindimubona, Alex (2000), National Policy Dialogue, p.16.

In an interview, the new Executive Director of UIRI acknowledged the dismal performance of the organisation in its contribution to Uganda's economy in general.[63] He rejected the impressive statistics and glossy reports about Uganda's achievements and noted that "Uganda exports are mostly raw materials as opposed to finished or value added products" His solution to dependence on foreign expatriates is to develop internal capacities to ensure technological transfer. There is a promise under the new leadership of moving beyond "cut and paste" experiences of other countries. He stressed that "the strategies that are formulated and implemented must be based on our circumstances" But first the management shall have to deal with organisational weaknesses and limited resources.

As noted by one researcher earlier, both research bodies suffer from organisational weaknesses. UIRI leadership is weak and dominated by foreign experts from China, the UNIDO and FAO. UNCST on the other hand occupies a very low position in the powerful Ministry of Finance and Planning, as the Ministry appears not to view R&D as a priority.[64] As a result both UNCST and UIRI have been ineffective in fostering R&D and hence technology transfer.

The transfer of technology to Uganda remains outdated as it is through the mechanism of importation of technology or embedded in FDI. The technological dependence on FDI is a result of the mental subordination that arises from a strong sense of inferiority and incapacity towards science and technology. The central tendency amongst successful late industrialisers has shifted from the absorption of foreign technology through copying and self-teaching to the adoption of foreign technology through investing in foreign licences and technical assistance.[65] Yet, the Uganda Investment Authority (UIA) has made little efforts for deliberate, positive and conscious attempt to have the acquisition of technology as a major component of investments from abroad or by Ugandans. Since 1991 when licensing of investments under the Code commenced, by 1994 there had been only one agreement registered for the transfer of technology.[66]

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63 Interview with Dr.Charles Kwesiga, 18. August, 2007.
64 Tindimubona, Alex (2000), "National Policy Dialogue", p.25.
65 Amsden, Alice, (1989), *Asia's Next Giant*… p.20.
66 Barya, John Jean, (1995), *Industrialisation and Technology Acquisition in Uganda: Analysis of the Policy, Legal and Institutional Framework with Three Case Studies*, Submitted to the International Development Research Centre (IDRC) Ontario, Canada & the Carnegie Corporation of New York, pp29-31.

FDI as a means of technology transfer presents a number of limitations. The initial FDI transfer of technology to Uganda took the form of "packaged transfer or packaged licensing" where technology was acquired through a single transaction, mainly through the UDC. It is a form of tied purchase. This means an obligation either expressly or impliedly imposed upon Uganda to purchase the technology, know-how and other technological equipments from a specified monopoly.[67] UDC until it abolition in early 1990s, did not take the initiative to invest in light industries which would manufacture machines or machine parts in Uganda. This created an economy without forward and backward linkages due to failure to stimulate indigenous technical knowledge and consumption of local raw materials.[68] An example of such technology transfer is the Mukwano Industries, Kampala. Established in the mid 1980s, the industries rely on imported, packaged technology, which gives responsibility regarding installation, provision of expertise, repairing, importing raw materials to technology supplier to the expatriates in the industry. By 1992, it had 42 expatriates, all Asians. The expatriates man all the key mechanical areas of the industry. They do the repairing, they compile and analyse data regarding performance, recommend what machines and spare parts to buy. Overall, the technology cannot be unpackaged due to technological lock-ins.[69]

A more recent study notes that despite the steady inflow of foreign capital, (FDI), since the early 1990s, an extremely weak infrastructure has set limits on the depth of its participation in deepening technological capacities in Uganda.[70] Hence, the persistence of this form of technology transfer based on importation is informed by the path dependent nature of technological processes that need to be "un-locked" to achieve technological progress in the country. The necessity of un-locking technological processes is compounded by the dearth of basic and high technology infrastructure that would enhance learning, innovation and efficiency of local industries. As a result of the stress on technology importation, there is little linkage of foreign acquired technologies to the local industry sector. This would best be built through a national innovation system.

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67 Munulo, J (1987), *A Critique of Imported Technology and Development in Uganda in Conjunction with Law and Development,* A paper submitted in partial fulfilment of the requirements for the award of the Degree of Bachelor of Laws of Makerere University, p.62.

68 Makeera, Salim (1992), *Technology Transfer and its Impact in the Industrial Development of Uganda*, A dissertation submitted in partial fulfilment of the requirements for the award of the degree of Bachelor of Laws of Makerere University, p.100.

69 Makeera, Salim (1992), *Technology Transfer*…pp. 142-168.

70 Rasiah, Rajah and Tamale, Henry (2004), "Productivity, Exports, Skills and Technological Capabilities: A study of Foreign and Local Manufacturing Firms in Uganda", Institute for New Technologies (INTECH), *Discussion Paper Series*, p.29-30.

The Uganda science and technology system is comprised of the above institutions and several educational and research institutes. However, as UNCTAD report observes, the system is poorly adapted to meeting the needs of local industry. Most critical is lack of coordination between the government, technology support institutions and the private sector.[71] During the period of 1991-1997, for instance, there were no reported cases by UNCST of collaboration of foreign investors in research and development (R&D) with indigenous R&D institutions, with the only research done being market surveys of consumption of products of manufacturing enterprises with the aim of improving the marketing of their products.[72]

According to the bureaucrats who were interviewed at UNCST and UIRI, the causes of Uganda's poor performance in science and technology include: i) inadequate financial support, ii) little appreciation of science and technology , iii) limit of technology transfer due to inappropriate imported technology and uncoordinated technology development and application.[73] The major problem, however, is that research and development remain unprioritised in national strategies with minimum efforts to absorb, innovatively, the technology from foreign sources and adapt them to local conditions.

Implementing technology policy does not only require clear objectives and credible commitment on part of the government but, equally important, a competent and meritocratic bureaucracy that is closely related to the business sector but yet can act sufficiently independently of particularistic pressures. Next we examine the manufacturers association and its contribution to industrial policy formulation and implementation. Secondly, we assess the extent to which the association moves beyond the alleged rent-seeking inclinations of business associations in their operations.

6.6 Industrialists and the Uganda Manufacturers Association (UMA)

The primary data for this section of the chapter was derived from in-depth interview with the Executive Director, UMA, documents, published literature and newspaper reports. The focus of the interviews was on a number of themes: i) the policy environment. ii) national industrial policy, iii) operations of UMA, iv) views on financing

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71 UNCTAD (2000), *Invest Policy Review of Uganda*, Geneva, p.10.
72 Kabasa, Paul (2000), Private Investment and Technology Transfer in Uganda, p.83.
73 Interviews with UNCST and UIRI officials above.

industry, v) private-public interactions, vi) technology policy, vii) preferential treatment of foreign investors, viii) relations between Uganda Asian industrialists and local industrialists and ix) way forward for Uganda's industrialisation. (See interview schedules, appendices No.6 and 7).

The most significant private sector institution in the industrial policy network is UMA, although there are theoretical misgivings of business associations that view them as rent-seeking special interest groups. According to Olson, "interest groups, like business associations, always pursued distributive objectives, seeking unproductive rents rather than the common or public interest". [74] More recently, his view of associations has grown dimmer arguing that interest groups such as business associations typically had "a very narrow, rather than encompassing interest. It therefore faces incentives that are much more detrimental to society than those facing the secure stationary bandit, often also worse than those that face the gang with a protection racket, and not much better for society than those facing the individual".[75] This view assumes the worst about business associations, which may not be accurate.

On a positive note, Doner and Schneider, categorise the business association contributions in terms of positive responses to state failures and market failures. Thus:
"The "market-supporting" activities of associations are instances where associations push under-performing states to provide: property rights, incorrupt administration and infrastructure. The "market-complementing" activities of associations are functions that that overcome market failures of various sorts including imperfect and costly information, low investment in training, and lack of coordination in investment in upgrading". [76]

It is within this framework that the contribution of UMA to the development of Uganda's industrial sector is analysed. UMA represents the majority of firms in Uganda's manufacturing sector. UMA has a membership of more than 700 firms categorised into small, medium and large scale industries. The Small Scale industries are considered for

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74 Olson, Mancur, (1982), *The Rise and Decline of Nations*, New Haven: Yale University Press.
75 Olson, Mancur, (1997), "The New Institutional Economics", in *Institutions and Economic Development*, edited by Christopher Clague, Baltimore: John Hopkins University Press, p.46.
76 Doner F, Richard and Schneider, Ben Ross (2000), "Business Associations and Economic Development: Why Some Associations Contribute More Than Others", *Business and Politics*, Vol.2, No.3, p.262.

employees 10-24, Medium scale, up to 50 employees and large scale for employees above 50.[77]

UMA was established in the early 1960s primarily as a forum to represent the dominant Asian manufacturing interests then but was defunct for much of the 1970s and 1980s because of mass expulsion of Asians in 1972 and the subsequent contraction and decline of the indigenous manufacturing sector as a result of political and economic turmoil that followed. It was revived in 1988.[78] UMA is run by a small team of qualified staff headed by an Executive Secretary, who reports to Executive Director and by year 2000 had over 700 member firms, both manufacturing and trading. Its objectives are to promote, protect and coordinate the interests of industrialists in Uganda, to act as a watchdog and effective mouthpiece for its members and advise government on key policies affecting industry.[79]

In an interview, the Executive Director reiterated the motive of the revival of the association. Thus:

> "Given the collapse of the manufacturing sector as a result of the expulsion of Asian entrepreneurs in the 1970s, the sector had to be revived and had to survive. The constraints that the industrial sector confronted could not be overcome by individual firms. The problems of price, availability and quality could best be solved collectively, hence the formation of UMA".[80]

UMA has evolved into a key institution in representing the interest of the private sector, in general and the industrial class in particular. Prior to becoming a key institution, in its formative years UMA built its capacity with the support of the donor community, which include, UNIDO, USAID and Canadian Business Association[81] that assisted in the development of data collection and policy analysis. The support/information given has helped UMA to prepare and argue for its positions and demands to government.[82] By the year 2000, UMA had evolved into an association of over 700 member firms, not necessarily manufacturing firms. Through various market-supporting and market-

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77 UMA (2007*), The Status and Performance of Uganda's Manufacturing Sector in 2006*, Final Report, UMA Business Unit, June, p.113.
78 Harvey, Charles and Robinson, Mark (1994), *The Design of Economic Reforms in the Context of Political Liberalisation: Uganda a Country Study,* p.20.
79 Barya, J, John, (2001), "Foreign Political Aid, Democratisation and Civil Society in Uganda: A study of NOTU and UMA, 1990-2001", Seminar, paper *Centre for Basic Research*, (CBR), 8 March, p.27.
80 Interview with Executive Director, (UMA), Mr. Hilary Obonyo, 16 October 2007.
81 *The Monitor* (1998), "UMA Ten Years of Success" 21 April, p.15.
82 Barya, J.John, (2001), "Foreign Political Aid….", p.37.

complementing activities, UMA has endeavoured to fulfil its mandate of advancing the Ugandan industrialists' interests.

Over the years, it has developed a strong partnership with government in policy designing through dialogue. It has forged partnership with government and donor community in which key economic issues affecting the manufacturing sector and the whole economy are discussed and policy measures agreed.[83] In 1991, it spearheaded the setting up of the Presidential Forum, which includes all key stakeholders in policy-making and the private sector. A focal point for the work of the Policy Unit was the October 1992 National Forum on Strategic Management which provided for formal opportunity for government officials to establish a working relationship with the private sector with a view to identifying and implementing actions to promote private investments and export growth. Since then, UMA routinely sends copies of its policy papers to the president, permanent secretary and senior officials of MFPED, which increases the credence of its interventions.[84]

According to the Executive Director, the major success of UMA over the last 20 years is that it is now recognised, accepted and respected by government and "development partners" as the voice of the majority of Uganda's manufacturing sector. No major economic policy is implemented without consulting UMA.[85]

While the above reports and writings claim strong partnership and harmonious dialogue between UMA and the state, UMA confronts two major obstacles in its operations. First, there is a tendency for the government to involve UMA in policy-making "through invitation". "If a policy is to be owned, the various interest groups must be involved from the initiation, not simply invited".

Second, there remains hostility towards the private sector by the civil servants. The UMA Executive Director further observed that:

> "The main challenge of UMA has been getting the public to appreciate that the private sector can make a contribution to development. There is need to change the mind-set of the civil service. The expanded role of the private sector in the development process involves loss of sovereignty and powers in areas which were

[83] *The Monitor* (1998), "UMA Contribution to National Development", 21 April, 17.
[84] Harvey, Charles and Robinson M., (1994), *The Design of Economic Reforms*… p.21.
[85] Interview with Mr. Hilary Obonyo, 16 October, 2007.

> controlled by the public sector. The civil service is not willing to change its attitude"[86]

The tension between the bureaucracy and the private sector is bound to result in prolonged ineffectiveness in the implementation of industrial policy. While not being submissive to the demands from the private sector, what is needed is a particular interaction between the state and entrepreneurs that enables the state to have genuine capacity to formulate long-term goals.

UMA uses advocacy, consultation and lobbying in partnership with government through constant dialogue, representation on policy-making bodies and since 1992-97 through the National Forum to advance manufacturers interests.[87] The private sector through UMA participates in the budget process, which has been well received by government. UMA has on a number of occasions participated in the speed and sequencing of trade reform programme through its representation on various government bodies as it makes proposals on issues of budget and taxation. Academic researchers, local consultants have in addition taken part in the policy reform process through UMA.[88] For instance, UMA proposals to government to institute a transparent government procurement policy were granted. Government instituted a policy of 20% price advantage to local products, conforming also to COMESA rules of origin to be enforced for all government procurement contracts. This encouraged local manufacturers to compete relatively fairly with their overseas counterparts.[89] This was seen as supporting local industry.

In the interview, the Executive Director argued that UMA proposals are not aimed at blanket protectionism of the manufacturing sector. The Director noted that:

> "UMA is not an organisation that is waiting for the distribution of unproductive rents. For any manufacturer to be protected, one best protection is to be competitive in three areas: quality, price and quantity. To ensure competitiveness, UMA has a Standards Committee to assist members to produce quality products at competitive rates".[90]

This positive and competitive attitude by the leadership illustrates the attempt by UMA to transcend the alleged rent-seeking inclinations of business associations.

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86 Interview with Mr. Obonyo, Hilary, 16 October, 2007.
87 Barya, J.John (2001), Op Cit, p.28.
88 Holmgren, T, Kasekende, Louis, Atingi-Ego and Damulira, D, (1999),"Aid and Reform in Uganda: Country Study," *Economic Policy Research Centre* (EPRC), Makerere University, Kampala, p.28.
89 UMA (1998), *UMA Proposals for the 1998/1999 Budget and Economic Policy*, Kampala, May 13, p.29.
90 Interview with Mr. Obonyo Hilary, 16, October, 2007.

In what may be referred to as a market complementing process, UMA has over time been able to demand and /or recommend reduction and changes in various tax categories such as excise duty, aspects of VAT administration, import duty, excise tariff, Pay As You Earn (PAYE) and certain changes have been made to reflect those demands over the years. Government has generally heeded UMA demands on reducing taxation on beverages and combating smuggling.[91]

In January 1999, East African Heads of State met in Arusha and issued a communiqué indicating the intention of the three countries to eliminate internal tariffs by July 1999. UMA was at the forefront of the rejection of this proposal. UMA urged government not to endorse zero-tariff resolution until measures to boost competitiveness and export capacity for regional market are put in place in Uganda. The removal of tariffs when Uganda is still a high cost producer could force manufacturers to relocate to Kenya where production is cheaper and export trade is less bureaucratic. The removal of tariffs would lead to loss of revenue by government, which would result in increase of domestic taxes on consumption and income. This would create a "high tax" regime in Uganda and thereby further suppress domestic demand for local products and discourage investment in Uganda.

UMA further observed that the Zero Tariff regime would be a set-back to Uganda's industrial growth, which averaged 16 % for the period 1990-1997, and would delay the attainment of a critical mass of industrial activity for the sustainable industrialisation of Uganda.[92] This was reinforced by the Minister of Finance who noted that the Zero tariff system without a common external tariff would not work and the commonality of customs coding was necessary if all the countries were to benefit.[93] If the internal tariffs were to be eliminated, Uganda would eventually lose out because it is not yet at the same level with Kenya and Tanzania. To some, this would be seen as an argument for protectionism associated with ISI whose time had passed.[94] In an earlier article, Erisa Ochieng argued against this type of thinking using the age-old argument that protecting an industry from the competition of imports involves imposing a cost on domestic

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91 Barya, J.John (2001), "Foreign Political Aid…", p.32.
92 UMA (1999), *Proposal on National Economic Policy*, Submitted to His Excellency the President of Uganda, Yoweri Kaguta Museveni, Kampala, April, pp3-5.
93 Parliament of Uganda (1999*), Report of Sessional Committee on Finance, Planning and Economic Development on the Finance Bill, 1999*, Kampala, p.2.
94 See Ochieng, Erisa (1992), "Protecting Home Industries: A Critique", *The New Vision*, 20 March.

consumers to benefit the producer. Prior to the opening, Uganda must develop capacity to compete.

The free market view that free trade is a strong force of economic change may be flawed. Before Ugandan industrialists can compete in the region, they must be competitive enough at home. This calls for a particular institutional context in which manufacturing and export trade takes place. To achieve that competitiveness, Uganda needs strategic protection of specific industries, effective taxation policy, targeted concession credit and dynamic export orientation, which does not see export-orientation and import substitution as mutually exclusive.

The Executive Director of UMA was of the view that while the above policies were important, the defining element that is critical is the development of the infrastructure: roads, power, water, industrial land and skilled labour. There need to be addressed for sustained growth. In particular, the problem of persistent power shortage remains the major problem at present.[95] In a study commissioned by UMA of 150 firms, 12 %, which is a total of 18 companies, were planning to close down due to the power shortage that has increased the cost of doing business.[96]

Apart from power shortages, the other major problem is that of corruption. According to the current Chairman of UMA, Mr. James Kalibala, corruption in government is stifling the private sector's efforts to do business with government – the largest buyer of goods and services in the country. He notes that:

> "Often, lucrative government tenders are offered to bidders who are not most competent but those with the deepest connection to the public office administering those tenders. Wrong evaluation and awarding of contracts and tenders in government affects the private sectors in doing business with government. This appears to be due to bias and favouritism".[97]

UMA has also attempted to address the problem of information and transaction costs for the industrial sector, popular in New Institutional Economics (NIE), at three levels. i) information services, ii) trade fair and exhibition and iii) consultancy services as supports for local industry.

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[95] Interview with Mr. Hilary Obonyo, 16 October, 2007.
[96] UMA (2007), *The Status and Performance of Uganda's Manufacturing Sector in 2006*, Op Cit, p.80.
[97] Biryabarema, Elias (2007), "UMA boss decries kickbacks", *The Monitor*, March 10-16.

First, UMA has an information centre that runs a business-matching service to facilitate the formation of joint ventures as well as inform members and the general public about the association's activities with a comprehensive database. Related to this, UMA hosts the Technological Information Promotion System (TIPS), an information network on investment opportunities, trade and technology in developing countries. At a very small fee, the TIPS network enables one to obtain regularly (weekly) useful business information.

Second, in addition to the above, UMA renders strategic support to members to improve their products through the various Sub-Committees and the Business Unit which assists members to get certification both local and international by running an ISO programme.[98]

Third, UMA conducts Trade Fair and Exhibitions annually with two major objectives, 1) to promote products manufactured locally and 2) create an environment for the local and foreign members to interact and share business ideas.

Fourth, in 1990 UMA established Consultancy and Information Services (UMACIS), which provides business and technical consultancy services and information for investors.[99] The provision of information has contributed to awareness of local products and helped reduce transaction costs amongst local manufacturers.

Finally, UMA has made contributions to the upgrading of local industry. Since August 1993, the Association in conjunction with USAID has been operating a fund aimed at helping entrepreneurs prepare good business plans.[100] In 1997, UMA was selected by the USAID – funded PRESTO Project to host the internationally renowned Enterprise Development Programme (EDP), an entrepreneurship programme of an intensive 80-hour instruction programme taught in two-weeks on full-time basis.[101] In 1998, UMA established a fully-fledged training centre at the Secretariat to provide practical training to member firms focusing on topical issues and has organised various seminars.[102]

There are other business associations in the policy network but with limited significance for the local manufacturing sector. These include the Uganda National Chambers of

[98] Interview with Mr. Obonyo, Hilary, 16 October 2007.
[99] *The New Vision*, *African Industrialisation Day Supplement,* Wednesday, 28 November (1996).
[100] Kitakule, Sarah (1995), "No Alternative to Good Planning", *The New Vision*, 19 January.
[101] *The Monitor*, UMA to Train Experts, 13 August (1997).
[102].*The Monitor*, "UMA Ten Years of Success" 21 April, 1998.

Commerce and Industry (UNCCI), which was as well revived in 1988 and is the apex organisation representing the sectoral associations organised along district lines. Its main objectives are to promote the interests of Uganda business and to provide information to its members on government policies. It has not had much going for the industrial sector. UNCCI representatives are sometimes invited to attend sessions of select committees dealing with economy and industry, although this is not perceived to be especially effective as a channel for influencing policy. The other association of significance is the Uganda Small Scale Association (USSIA). Founded in 1979, has thousands of members and several branches across the country. It has several programmes to support entrepreneurs but most prominent of them is The Master Craftsman Programme (MCP), funded by UNIDO for strengthening national capacities for the promotion of micro entrepreneurs called MCP advisers provided with technical and business skills to fellow entrepreneurs.[103] While MCP overall thrust is supportive of economic reforms, its focus is on the problems of its members to access credit and affordable utilities.[104] Both associations can be said to be focused on the "market-supporting" activities.

The dialogue between the government and these institutions in the policy network amounts to what may be regarded as an embryonic notion of embedded autonomy. Embeddedness does not mean cosy relations between the state and individual private firms, but an overall government-business interface that is distinguished by transparent consultation, cooperation, and coordination mechanisms, in which public officials and representatives of a sector participate.[105] While most of what is agreed on may not have been implemented, the above initiative indicates a process in the right direction of upgrading skills for industrialisation. The assumption by NIE proponents that interest groups' major reason for existence is rent seeking and distribution of privilege may not be accurate. The problem, though, remains that of numerous patronage networks in Uganda's public service.

Behind this apparent harmonious interaction within the industrial class, there is intense struggle by sections of the industrial class, particularly the Uganda Asians, to influence the political leaders and get favours, particularly loans from government. In an interview

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[103] *The New Vision*, "Uganda Small Scale Industries Association ensures that that the small sector develops" Tuesday, 20 November, 2001, p.29.
[104] Harvey, Charles and Robinson, Mark (1994), *The Design of Economic Reforms in the Context of Political Liberalisation: Uganda Country Study*, European Commission, December, pp21-23.
[105] Ahrens, Joachim (2002), "Governance and the Implementation of Technology Policy in Less Developed Countries", p 461.

with the Executive Director of UMA, he decried the continued preferential treatment of foreign investors and Ugandan Asians. He argued that "government policy should be based on principles and not individual favouritism. For instance, the focus of policy could be on agro-processing industry. If this is taken as a policy, it must be generalised".[106]

Finally, recent policy documents reflect the present philosophy of the Uganda government towards industrialisation and development in general. The Poverty Eradication Plan, covering the period up to the year 2016/17, sets the tone for future budget allocations: All public expenditure programmes are to have poverty eradication focus. The Medium-Term Budget Framework 1997/98 introduced sectoral hard budget ceilings to reflect the national expenditure priorities. The sectors with expenditure priority are primary education, primary health care, water and environmental sanitation, agricultural extension to smallholders, as well as roads construction and maintaince.[107] Clearly there is no specific focus industrialisation both as a programme or a national priority as if industrial transformation is not part and parcel of the process of poverty eradication.

The Executive Director of UMA noted that one major weakness is that government has no clear policy in support of the small and medium enterprises which constitute the majority of UMA membership. A clear policy would enhance these enterprises and expand employment opportunities. He further argues that "There is need to establish a proper industrial policy framework and implement it accordingly because the future of industry lies in an organised approach"[108]

There is recognition that a politico-institutional foundation of policy reform in general and technology or industrial policy in particular is an unalterable prerequisite for long-term development. Regardless of whether a government decides to follow the policy prescriptions of *Washington consensus* or whether it opts for a more activist role to overcome co-ordination failures and other market imperfections, a complex politico-institutional structure needs to be put in place in order to make government more effective in accomplishing whatever tasks it undertakes. The focus should be on specific

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[106] Interview with Mr. Obonyo Hilary, 16 October, 2007.
[107]Siggel, E., Ssemogerere G. (2001), "Uganda's Policy Reforms, Industry Competitiveness and Regional Integration: A Comparison With Kenya, EAGER, *Discussion Paper*, p.5.
[108] Interview with Mr. Obonyo Hilary, October, 2007.

characteristics of government machinery such as autonomy, rationality, efficiency and technocratic capability, which make public administration less dependent on the disruptions of politics.

At the national level, the focus should be on sectors rather than on the entire economy. The practice of industrial policy can best be examined by a focus on sectors or sub-sectors. Given the variant sectoral characteristics and features, the understanding of the specific sectoral needs is critical to avoid a generalised industrial policy practice. The country's economy is composed sectors and sub-sectors that vary in terms of technology, market, levels of owner and institutions of their governance which demands varying industrial practices. Thus, the focus on sectors brings out similarities and differences which inform state policy towards them. The issue of focusing on sectors is illustrated in the next two chapters.

6.7 Conclusion

This chapter set out to examine the institutional reforms under SAPs, particularly the reform of the bureaucracy, the revival and creation of several agencies and their implications for industrial policy making. It was based on in-depth interviews with government bureaucrats and representatives of the industrial class through UMA, secondary literature and newspaper reports. The analysis revealed several findings. 1) While the major objective of the public service reform was to increase the efficiency and effectiveness of policy making by the bureaucracy, the post-reform experiences indicate that in practice the reforms were pre-occupied with reduction in numbers. Reducing numbers and imposing new sets of formal rules without simultaneously reshaping power within the bureaucracy was less than optimal to bring about effective policy making. 2) The post-independence reform experiences indicate that the preoccupation with numbers obstructed the need to address the core problem in the bureaucracy, namely low levels of salaries and lack of competitive recruitment into the bureaucracy. These are important for several reseasons. First, the low salaries make it difficult to attract and retain high quality professionals, on merit, with the capacity to formulate robust policies. Second, several years of political turbulence and upheaval left a legacy of patronage and job insecurity which could not be corrected by retrenchment. Third, the reform agenda for the bureaucracy ignores the centrality of the politics of patronage. Finally it is noted

that little attention was paid to the possibility of the private sector interests to penetrate the bureaucracy and use it negatively.

3) The creation of several new agencies such as UIA, UNCST and UIRI, while necessary, have not performed optimally. Several years after their creation, UNCST and other related agencies have not developed explicit national science and technology policy, and therefore no recognised guidelines on technology transfer, especially through FDI. 4) The intermediate agencies, particularly UMA, have made some contribution to the implementation of industrial policy. The relationship between UMA and government amounts to what could be regarded as embryonic embedded autonomy. However, behind the apparent harmonious interaction, there is intense struggle by sections of the industrial class to influence political leaders which results in the incoherence of industrial policy as government offers favours, without stress to priority sectors, to particular individuals as opposed to supporting the whole industrial class.

Finally, it is noted that proliferation of institutions has not necessarily led to efficient policy formulation and implementation. Likewise, effective industrial policy can be done by having a sectoral focus rather than generalised practice of industrial policy for the whole economy. The illustration of the need for a differentiated industrial policy practice is done in the selected sector case studies in the next two chapters: chapters seven and eight.

CHAPTER SEVEN

7. THE TEXTILE AND CLOTHING INDUSTRY

7.0 Introduction

This is the fourth data chapter of the thesis. The purpose of this chapter is to illustrate, as a case study, the possibilities and limitations in the practice of industrial policy in the Ugandan context since 1945. It is based on primary data from textile firms and secondary data. The primary data was collected through interviews based on interview schedules[1] with government officials in the Ministry Tourism Trade and Industry (MTTI) and with the Chief Executive officers (CEOs) of three textile manufacturing firms namely: i) Southern Range (Nytil) Ltd, ii) Phenix Logistics (Ltd) and African Textile Mills (Ltd) (ATM). The secondary data was based on documents and newspaper reports. Secondary data is the source of information on the historical outline of the chapter and the fourth textile firm, Apparels Tri Star (Ltd), as it was not possible to interview the CEO or management which was embroiled in a failed government subsidy to the firm scandal.

The selection of the textile industry as an illustration of industrial policy practice, is premised on several factors both internal and external to the country's economy. First, at the time of fieldwork, 2004-2005, the textile industry was taunted as a strategic sector that had to be supported by government through subsidies to boost Uganda's export earnings, particularly African Growth Opportunity Act (AGOA). Second, the textile industry is the oldest manufacturing venture in the country introduced in the colonial period in the 1950s. Therefore, it is an industry in which substantial tacit knowledge has been accumulated over several decades which can easily be revived. Third, the industry is based on cotton as a raw material which can be widely grown in the country which has conducive climate for cotton production. Fourth, the industry is usually labour intensive and therefore could absorb substantial labour force hence reducing on unemployment. Fifth, the industry requires a relatively modest amount of capital and has a short period of return on investment. Sixth, the industry possesses forward and backward linkages in that both the raw cotton and the textiles could be exported and the same time has a

[1] Interview Schedule on Textile sector (See Appendix No.8).

home market for the manufactured products like textiles, oil, animal feeds. Finally, with a particular involvement of the state, the above comparative advantage could be reconstructed to create competitive advantage in both external and internal markets.

This chapter is divided into three major parts. The first and second parts are based on secondary data. The first part examines the structure and the historical legacy of the textile industry from colonialism to the time of the expropriation of the Asian properties in 1972. The second part looks at the textile industry under the "economic war", in the 1970s. The third part is based on primary data collected from interviews and secondary sources mainly newspaper reports. It examines industrial policy practices in terms of government support to the above textile firms under SAPs. Thus in this chapter I examine the changing role of the state intervention, the policy instruments applied and their impact on the textile manufacturing sub-sector.

The basic argument in this chapter is that the textile industry development experience in Uganda is informed by several factors, namely i) the historical legacy of state interventionist ISI policy through the 1950s and 1960s. ii) The expropriation of Asian entrepreneurs in 1972's "economic war", iii) the rise of the second-clothing usage and iv) the adoption of SAPs and its attendant policy prescriptions since the early 1980s.

7.1 The Structure of Uganda's Textile Industry

The textile and clothing industry can be defined to include those firms that engage in spinning yarn, weaving, knitting clothes and finishing processes. The textile manufacturing sub-sector comprises of four major textile manufacturing industries and numerous small and medium firms: The major firms include: i) Southern Range (Ltd) (formerly NYTIL), ii) African Textile Mills, (ATM), iii) Tri Star Apparel (Uganda) Ltd, iv) Phoenix Logistics (formerly UGIL).[2] The small and medium garment manufacturers are numerous and are approximately 400 in Kampala city alone. They produce safari suits, army uniforms, police uniforms, shirts, dresses, blouses and trousers. These are not a subject of this study.

[2] Tri Star Apparel (Uganda) Ltd has since collapsed and closed in October, 2006. African Textile Mills (ATM) and Simba Blankets are operating at very low capacity and may soon close (early 2006).

Table7.1: ***The Major Manufacturers of Clothing & Textiles***

Firm	Current Capacity (bales)	Installed Capacity (bales)
Phenix Logistics (U) Ltd (UGIL)	**1, 200**	**3,600**
Southern Range Nyanza (NYTIL)	**9,000**	**23,000**
Goustar Lira Spinning Mill	**7,000 (2006)**	**27,000**
Africa Textile Mill Mbale	**2,000**	**9,000**
TOTAL	**19,200**	**62,000**

SOURCE: CDO (2001).

The Uganda textile industry is based on the cotton as the raw material. Cotton has traditionally been one of Uganda's most important commodities and currently accounts for 3.4% of foreign exchange receipts. At its peak in 1969/1970 when the production was nearly 500,000 bales, cotton contributed as much as 40% of foreign exchange earnings. Touching on the lives estimated at more than nine million Ugandans (about 30% of the population) living at the substance level, cotton and the associated textile manufacture is designated as a strategic export.

The overall decline in production and export of raw cotton has been matched by a decline in the ginning and the textile manufacturing sector as well. As illustrated by the table below, in the year 2004, cotton accounted for only about 6.6% of the country's foreign exchange earnings; it was number 4 export earner and contributed $ 43 million in the total export value.

Table7. 2: *Share of Cotton to GDP and National Exports 1998-2005*

Year	GDP (US$ million)	National Value of Exports (US$ million)	Cotton Export Earnings (US $ million)	Share of GDP (%)	Cotton Share to National Value of Exports (%)
1998	**5, 746.4**	**536.8**	**7.69**	**0.13**	**1.43**
1999	**6, 721.2**	**478.8**	**17.41**	**0.26**	**3.64**
2000	**5, 260.2**	**401.7**	**22.09**	**0.42**	**5.5**
2001	**5, 308.0**	**451.8**	**13.43**	**0.25**	**2.97**
2002	**5, 509.7**	**467.6**	**9.52**	**0.17**	**2.04**
2003	**5, 941.4**	**522.5**	**17.75**	**0.3**	**3.4**
2004	**7, 152.7**	**653.3**	**42.80**	**0.6**	**6.6**
2005	**7, 653.4**	**812.9**	**28.82**	**0.4**	**3.5**

Source: Uganda Bureau of Statistics (2006)

Inspite of years of rehabilitation efforts and privatisation, by 1998 immediately after privatisation, on average, the capacity utilisation of the textile industries was low at less than 30%. This was a result of the run-down state of the factories, lack of proper management, poor quality of products, poor marketing and more significantly the large importation of cheaper products, which included second-hand products. Most of the products are sold on the local market with a small percentage exported. The focus of this study is, however, on the four major textile industries. In the late colonial period, there existed only one major state-owned textile firm: Nyanza Textiles (Ltd), NYTIL which has since 1996 been privatised.

To understand the challenges that the Uganda textile manufacturing sub-sector is confronted with at present, it is important to have a historical perspective that brings to the fore the institutional framework within which the industry has operated. Knowledge of the historical experience of the phenomena may help unravel the industry's intricacies. Thus, below I examine the historical legacy of the textile manufacturing sector from its inception in the 1950s to 1981 with the adoption of Structural Adjustments Programmes (SAPs).

7.2 The Historical Legacy: Colonial and Independence Period, 1950-80

The modern Uganda textile and clothing industry traces its origins in the colonial period, particularly with the establishment of Nyanza Textile Industries (NYTIL) Ltd in 1956, which dominated the market into the 1970s. The British Cotton Growing Association (BCGA) had introduced Cotton in Uganda in 1903, the raw material on which the textile industry is based. The production of cotton in Uganda was to replace the loss of the American market as a source of raw materials for the British textile Industry. With the industrialisation of USA, the pioneer British industry, the Lancashire textile industry, lost its most important guaranteed supply of raw cotton as the America industrialists needed the US cotton for their industries.[3] Thus, cotton was introduced in Uganda by the British to secure the raw materials for its textile industry. Prior to the establishment of NYTIL in 1950s, the textile industry took on the form of processing of raw cotton – ginning, mainly for export and limited clothing industry, which produced piece goods from imported yarn. In 1954, the company undertook the dyeing and the bleaching of imported grey cloth in Tanganyika. The two activities satisfied only a small proportion of total demand in East Africa, and all other products were imported.[4]

NYTIL was formed in 1953 as one of the largest colonial government ventures undertaken with CALICO Printers Association (CPA) Ltd of UK, located at Jinja.[5] This was influenced by the dominant ideology of public ownership which prevailed both in England and globally after World War II. It started production in 1956 as a vertically integrated textile mill comprising of a spinning mill, weaving shed and Finishing Department. Nytil, therefore, marked the beginning of import substitution manufacturing of clothing.

In this section, we look at the broad state policy framework that facilitated the growth of the industry. The factors include: ownership, role of the state-UDC, the raw material base, the technological base, local and regional markets and more broadly, the

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[3] Mamdani, Mahmood (1975), "Class Struggles in Uganda", *Review of African Political Economy*, *ROAPE*, No.4 November, p.27.
[4] Stoutjesdijk, E. J (1967), *Uganda Manufacturing Sector: A Contribution to the Analysis of Industrialisation in East Africa*, Makerere Institute of Social Research, (MISR), Kampala: East African Publishing House, p.46.
[5] Uganda Development Bank (UDB) (1989), *Report of Textile Sector Study for Uganda*, Vol.1, P-E Inbucon: Werner International, p.2.

institutional framework: cotton research centres, the co-operative unions, Lint Marketing Board, (LMB), the finances and labour.

7.3 The Textile Import Substitution under colonialism: 1950-62

First, the ISI under colonialism was state-led. Initially NYTIL, the premier textiles manufacturing firm was a private venture owned by CALICO Printers. Faced with initial difficulties due to heavy competition from, especially East Asian producers, mainly China, Japan and Pakistan, the state took it over with the purchase of some shares by UDC and this action stopped its loss making trend. In 1957, CPA sold to the Uganda Government and in 1958 NYTIL became a wholly state-owned subsidiary of UDC by acquisition of the Uganda Government's 58.5 per cent share and loan holding. The former owners, the CPA, were appointed as managing agents.[6] Thus, through UDC, the state mobilised and interacted with private capital as expressed in the acquisition of shares in Nytil and prodded the private capitalists, particularly Asians, to invest in the manufacturing sector.

It should be noted, however, that the success of NYTIL was not only due to the fact that it was state-led and owned. The state implemented several measures that established the viability and the competitiveness of the industry and led to its rapid growth. One of the major factors behind this fast growth was the local production of raw cotton in most parts of Uganda, especially in the eastern and northern Uganda.[7] Uganda had a favourable source of raw materials – cotton, on which the textile industry was based. The textile industry does not demand highly skilled labour. In addition, there existed a ready market for cloth both local and regional. The other factor was the availability of cheap power. The Owen Falls Dam had been constructed to provide low cost electricity for industrial and commercial activities in Uganda and the region. NYTIL was built near the dam and along the railway line for easy transportation.

We have above discussed ISI strategy in general terms. This section now proposes to look at how the ISI strategy was applied to the textile industry. At the centre of ISI

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[6] Stoutjesdijk, E, J (1967), Op Cit p.47.

[7] Kiganda, C, John (1993), *The Effects of Liberalisation of the Cotton Sector on the Performance of the Cotton Ginneries: A Case Study of the Eastern Region*, MA (Economic Policy and Planning) Dissertation, Makerere University, p.1.

strategy in the textile industry was NYTIL. The establishment of NYTIL was strategic. The state objective was to substitute textile production, save and earn foreign exchange and regain control of the textile market in East Africa that had been threatened by Japanese goods in 1950s.[8] As an infant industry, for it to prosper, protection was necessary. Shortly after CALICO Printers had sold out to the government, Kenya and Tanganyika agreed to raise the duty on imported cotton cloth to 30% *ad Valorem,* combined with some specific duties. As a result, NYTIL for the first time made profits in 1959, employment grew and assets were accumulated.[9] Thus, protectionism had positive results as it enabled local expansion of textile production in the expanded local and regional market.

The period witnessed the emergence of products other than cloth based on local cotton: soap, edible oil and cattle feeds as import subsititutes. Thus, the colonial state policy provided the local and regional protected environment that natured the growth and competition of the textile industry in Uganda and the East African region. What was paramount to state policy, however, was the extraction of surpluses from its colony to aid in the reconstruction of the British economy, which had been shattered by the war. This was realised within a particular institutional framework.

Particular institutions mediated the state policy towards the textile industry. Critical among these were the cotton co-operative unions that ginned the cotton and the Lint Marketing Board (LMB), formed in 1948 that marketed it. Cotton research centres were geared to produce standard cotton. The state bureaucracy particularly that located in the Ministries of Agriculture and that of the Ministry Co-operatives and Marketing contributed to the consolidation of the textile industry through their extension services. While the co-operative unions ensured the production of quality cotton, the marketing boards were used to mobilise surpluses from peasant growers. At their inception in the 1940s and 1950s, they were purportedly intended to: i) be agents of price stabilisation, ii) provision of government revenue, iii) prevention of inflation, iv) prevention of exploitation of farmers by middlemen and v) the maintenance of quality. While it is true that the marketing boards were used to accumulate enormous surpluses, which were deposited with Bank of England and aided British war and reconstruction efforts, it is

[8] Mamdani, Mahmood (1976), Op Cit., p.253.
[9] Stoutjesdijk, E. J (1967), Op Cit., p.46-7.

also the case that some of the funds were used to finance the above infrastructural projects particularly power generation, including the establishment of UDC, the coordination agency, which were supportive of the industrialisation process in the country, in general.[10]

In addition, in the support for textile marketing, the colonial state appointed Lebel (East Africa) Ltd as a distributing and marketing agent of NYTIL products. Lebel (EA), Ltd was incorporated in 1952 by M/s Calico Printers Association Ltd of UK, for the purpose of distributing NYTIL fabrics and products throughout East Africa. Later in the 1970s Lebel offices were opened in Nairobi and London. The company performed well, both locally and abroad, until 1974 after the declaration of the "economic war" when the export of fabrics was banned to meet the local demand.[11]

It is this state support, protection and institutional arrangements, therefore, which played a critical role in fostering the emergence of the textile industry in the colonial period. In addition to the textile industry, a small manufacturing sector in Uganda that produced a significant range of goods emerged in 1950s and 1960s. An internal market was created as investments expanded and employment opportunities arose. It is this institutional framework that was inherited at the time of independence.

7.4 Textile ISI from 1962 to the 1972 "Economic War"

The first decade of independence was characterised by the expansion of the textile industry based on the continuation of the ISI policies initiated in the 1950s. There were, however, two important deviations during the period. i) There was the attempted nationalisation of industry in May 1970 and ii) The expropriation of mainly Asian industries during the "economic war" in 1972. State policy towards the textile sector during these phases is examined at three levels: i) the unplanned expansion of the sector. ii) the financing of the sector and iii) the 1972 expropriations.

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[10] Mamdani, Mahmood, (1975), Op Cit. p.37.
[11] The Republic of Uganda (1987), *Report of the Ad Hoc Administrative Committee of Inquiry Into the Affairs of Textile Industries*, Kampala, February, p.21.

The textile industry expanded in the aftermath of independence within the state led ISI paradigm. The first major institutional support for the textile industry came in form the establishment of a commercial bank with the major objective of availing finances to the cotton industry. To support the financing of the textile industry, the 1963 Co-operative Act created the Co-operative Bank, (CB) as the first indigenous commercial bank. The Co-operative Bank was tasked with the allocation of resources to ginneries and coffee hurriries, through their co-operative unions for processing cotton and coffee mainly for export. Second, the establishment of Uganda Commercial Bank (UCB) in 1965, which as well provided crop finance, further helped the financing of the textile industry. In addition, there was the Uganda Development Bank (UDB) established in 1972 as develoment finance institution. This further augmented the state support for industry in general.

Several import substitution firms were formed in addition to NYTIL. Notable was the establishment of United Garments Industries (UGIL) Ltd and Lira Spinning Mill. Both of them were under the control of UDC. In addition, there were private sector initiatives which established African Textile Mills and MULCO. In a critique of the nature of these investments, Mahmood Mamdani observes that such investments were last-stage assembly plants. Raw materials and quite often, semi-manufactured components, were imported from the parent monopolies overseas.[12] Thus, the major shortcoming of such investments is that they were more of import reproduction rather than import substitution as they had little integral connection with the Ugandan economy.

The textile industry was dealt a further blow with the declaration of "economic war" in 1972 when the Asian owners of most of the textile industry were expelled resulting in the loss of entrepreneurial, technical and supervisory personnel in the industry. The nationalisation of the industries in general and the creation of the National Textiles Board, (NTB) in 1974, could not improve the textile industry. From the mid 1970s, the textile sector deteriorated, co-operative unions and hence ginneries under their control declined in terms of efficiency. The textile industry collapsed because the Asians had been the main buyers of raw cotton and owners of the ginneries as well as the managerial backbone of the textile industry.

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[12] Mamdani, Mahmood (1983), Op Cit., pp24-25.

The 1972 "economic war" had disastrous impact on the textile industry. First in line was the collapse of cotton ginneries, which were central to the textile industry. This was reflected in the obsolete machinery in the mills, irregular supply of spare parts and the raw material – cotton, as the farm production collapsed. Due to the destruction of the bureaucracy, extension services in agriculture as was in animal husbandry, collapsed. Second, at the textile manufacturing level, the quality of products deteriorated as firms failed to replace the equipment and the import of chemicals and dyes due to lack of working capital as foreign exchange was not readily available.

Regionally, one other major development that affected the textile industry in Uganda was the collapse of the regional model that had been part and parcel of colonial plan when establishing NYTIL. With the collapse of the East African Community (EAC) in 1977, Kenya and Tanzania embarked on consolidation of their own textile industries to cater for the local demand which had been supplied by NYTIL. While most of the raw materials needs for Ugandan factories were supplied from the home-grown cotton, NYTIL and certain firms were exporting both yarn and finished cloths to the East African market by the time of the collapse of the East African community in 1977. The collapse of EAC led to the loss of the regional market.

The result of the collapse of textile manufacturing was the rise of the phenomenon of second-hand clothing and smuggled cheap fabric leading to further destruction of the local textile industry. Being import-dependent, due to the lack of capacity to import the necessary machinery and intermediate goods that facilitated the textile manufacturing industry, the industry had virtually collapsed by the end of the military regime in 1979. Thus, the change in ownership, administration and management resulted in the decline of production and financial and material loses.[13] It was in this context that efforts at rehabilitation and adoption of SAPs took place in the early 1980s.

[13] Republic of Uganda (1987), *Report of the Ad Hoc Administrative Committee of Inquiry into the Affairs of Textile Industries*, Kampala, February, p.4.

7.5 The Textile Industry under SAPs

This constitutes the third part of the chapter. This part is based on primary data derived from in-depth interviews with the CEOs of the textile firms, other corporate officials and newspaper reports of the four major textile manufacturing and exporting firms in Uganda. The interviews were aimed at establishing the extent of state involvement in the firms' operations, the impact of liberalisation policy on the firms' operations, privatisation and its constraints on the textiles industry, the impact of second-hand clothing on the textile market, technological and managerial capabilities of the firms, the performance of the textile exporting firms and the overall question financing the textiles sub-sector. We examine the specific policy and support measures taken by government regarding the textile industry. For illustration, I outline the specific actions, particularly financing, that were taken at the firm level through examples from the four selected textiles firms: NYTIL, ATM, Phenix Logistics and Tri Star Apparels.

In general, with the growing influence of neo-liberal economics in economic policy and development thinking in the 1980s, the role of the state interventionist policies came under heavy attack. Thus, state involvement in the textile industry had to change as SAPs were adopted. Several policy measures were taken towards state interventionism as far as the textile industry in Uganda is concerned, particularly after 1987 economic policy reforms. Thus: i) liberalisation ii) privatisation, and iii) stress on export orientation.

First, despite the policy of liberalisation, given the importance of the textile industry in terms of employment and foreign exchange earnings, the state continued to support the textile sector and firms, particularly NYTIL Ltd, by guarantying loans. As the Assistant Commissioner of Industry noted:

> "Financing industrial firms is a cardinal responsibility of any state that intends to engineer industrial transformation in its economy. The Uganda government support of the textile firms is informed by the government policy in which the textile manufacturing sub-sector has been identified as one of the country's strategic sectors that can engineer growth"[14].

[14] Interview with Assistant Commissioner, Department of Industry and Technology, Mr. Okulo Cankwo 2. October, 2007.

Until its privatisation in mid 1990s, the textile sector in general and NYTIL in particular, received several loans as the sector was identified as a priority for rehabilitation.[15] In 1987/88 financial year, US $ 6.58 million was disbursed as projected in the rehabilitation plan of the textile industry. Out of this, US$ 6.34 million was to be utilised in NYTIL, Jinja made up of US $ 4.13 million out of the IDA Industrial Rehabilitation Credit, and US $ 2.1 million from an Islamic Development Bank Credit, both loans were disbursed through UDB.[16] The following year, 1989, the firm was granted a loan of US$4.0 million by UDB towards partial rehabilitation of the textile mill. In addition, there was a partial commitment by the ODA (UK) to disburse 1.058 million pounds for capital items and 0.172 million pounds for technical assistance through a grant from the British government to the Uganda government.[17]

In the financial year 1992/93, an IDA loan of US$ 5.1 million, was utilised to convert oil-fired boilers to electrical power driven. Two electric boilers were delivered, installed and commissioned in 1991. Another IDA loan was used to increase the capacity of the weaving and finishing sections so that they could handle wide cloth production. US $ 2.2 million was used to procure machines and US $ 2.5 for the importation of yarn, chemicals and dyestuff.[18]

Inspite of these subsidies, there was limited revival of the firm. This could be explained by two major factors: i) lack of demand in the local market for new textiles and ii) the ever increasing second-hand phenomenon, which could be afforded because they were cheaper and of better quality. This compelled the government to privatise it. But prior to the privatisation of public enterprises, there had occurred a generalised liberalisation of the economy.

The officials at MTTI did not see any problem with the government financial support for the industrial firms. To them the privatisation and liberalisation of the economy is a welcome measure. Inspite of privatisation and liberalisation of the economy, the private

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[15] Government of Uganda (1987), *Background to the Budget*, 1987-1988, p.40.
[16] Government of Uganda (1988), *Background to the Budget*, 1988-1989, p.55.
[17] Government of Uganda (1989), *Background to the Budget*, 1989-1990, p.70.
[18] Government of Uganda (1992), *Background to the Budget*, 1992-1993, Entebbe: Government Printers, p.68.

firms in the textile sector deserve financial support as they are in a sector that has been identified as strategic and shall contribute to employment and export earnings. [19]

First, in an interview with the Assistant Commissioner, Department of Industry and Technology, his major concern is that:

> "The intervention in the textile industry is done on ad hoc basis. The President (Museveni) has unduly encouraged distortions in the industrial sector. The CEOs of the firms that can lobby the President are offered subsidies in terms of loans from local banks and government guaranteed loans from international banks. Intervention should be done across the board".[20]

Due to the primacy of the politics of patronage in Uganda, state intervention "across the board" shall take long to be practiced. Given the need by the ruling elite to cultivate and build constituencies from which they can support their patronage networks that are critical to the current electoral politics, the preferential offer of loans to selected clients through the President's office is bound to continue. The beneficiaries of state subsidies are always called upon to "contribute" to the electoral efforts of the ruling class.[21]

Second, across the textile manufacturing sector, the overwhelming view is that the government should give financial support to the firms if they are to meet the current cut-throat competition from textile importers in the now liberalised Ugandan market. A representative view is that:

> "The main problem in the textile industry in Uganda is lack of cheap finance. In the absence of development banks and the commercial banks in Uganda are risk averse, substantial borrowing by firms is limited. The commercial banks are primarily speculative as they are more interested in accumulation of long-term government treasury bills".[22]

Third, the critical importance of state finance is reinforced by the import dependent nature of the textile industry which demands such support. Apart from cotton, the textile

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[19] Interview with Mr. Okulo Cankwo, 2nd October, 2007.
[20] Interview with Asst. Commissioner, Industry and Technology, Mr. Okulo Cankwo, 2 October, 2007.
[21] There are unconfirmed reports that the entrepreneurs are always expected, and they usually do contribute to the electoral efforts of the ruling class. The current efforts to give Madhvani Industries up to 40,000 hectares of land in Northern Uganda to establish a sugar plantation and Metha Industries up to 7000 hectares from part of Mabira Forest, near Kampala is said to be payback for the contribution they made to President Museveni's 2006 electoral bid.
[22] Interview with Managing Director, African Textiles Mill (Ltd), Mr. Praful Patel, 10 August, 2007

industry demands the importation of several items to be used by manufacturers as raw materials as indicated in the table below.

Table7.3: *Some Imported Raw Materials Used by the Textile Industry*

Raw Materials Imported	% tage Taxes and Exemptions
Calcium Carbide	0
TM Propam	0
Formaldehyde	0
Additives	0
Lutesit Albn Ester of Acylic acid	0
Tolouene Di Iscocyanate	0
Metacid-400	0
Abcol SC-5	0
Silicon oil	
Low Density Polyethene	0
PVA BP 17	10
Polyster spun sewing thread	25
Polyol	10
Blankent shoddy Yarn	10
Other yarn of polyester staple fibres	10
T G Grey Fabric	25
Nylon twine	
Bale strapping Metal	10
Clipping Clips for Garments	25
Eyelets	10
Buckles	10

SOURCE: UMA (2007), pp 32-3

Apart from the negative impact of second-hand clothing which is discussed later in the chapter, the textiles industry has been affected by lack of finance to import the above raw materials. The common demand by both the government officials and the private sector operators is that the government supports for industry must be equitable and the credit offered should be cheap enough to enable the firms compete fairly in the liberalised market.

Fourth, both the government officials and the private sector operators argue that the inequity in government support to industry and the paucity of cheap loans to the firms is due to the lack of a national textile policy. However, the institution of a national textiles policy in itself may not be a sufficient solution to the problem of industrial financing. The existence of a national textile policy, or even a general national industrial policy, shall not automatically lead to the birth of development banks that can provide cheap credit or to the death of patronage politics which is sustained on favouritism for those who "contribute" to electoral politics.

Government is still reluctant to institute a national textiles policy despite several recommendations from the textile industry. In an interview with Mr. Yuichi Kashiwada, the CEO of Phenix Logistics Uganda (Ltd) who is also the Chairman of Textile Manufacturers Association of Uganda (TEMAU), he noted that: "although government recognises the importance of textile manufacturing sub-sector, our presentation of the case for a national textile policy has not been responded to".[23]

The lethargy in the government bureaucracy has made it difficult for the bureaucrats who have been tasked to work on the formulation of such policy. Next I discuss the effect of liberalisation on the operations of textile manufacturing firms.

7.6 Market Reforms and the Textile Industry

This section is concerned with the impact of liberalisation on the cotton and textile industries. Like the previous section it is based on both primary and secondary data. The primary data was derived from interviews with bureaucrats and the CEOs of firms in the sample. The secondary data comes from several documents and newspaper reports. The interviews were focused on two major issues: i) The implications of state withdraw from the cotton and textile industries. ii) The liberalisation of textile imports and their impact on local textile production.

Liberalisation of the cotton and textile industries produced mixed impact on the local industry. Uganda's cotton sector on which the textile industry is based had come under

[23] In an interview with Mr. Yuichi Kashiwada, CEO, Phenix Logistics Ltd, 22 September, 2007

the monopoly of Lint Marketing Board (LMB), since the colonial period. Liberalisation meant that this monopoly had to be broken. With liberalisation, the state moved from being a producer and marketer to a regulator. In the context of liberalisation, new mechanisms for the promotion of the cotton sector, on which Uganda's textile manufacturing sector depended for raw materials, were created. This took the form of Cotton Development Organisation (CDO). Second, there was the removal of several protective measures for the textile sector. Here we examine the consequences of liberalisation on the local textile industry.

Before the liberalisation of the cotton sector in 1994, cotton was strictly regulated by the Cotton Act and LMB Act of 1964. The two Acts imposed strict regulation and control over cotton growing, marketing and the movement of cotton to specified ginnery zones, the fixing of prices for seed cotton and cotton lint. Under the LMB Act, LMB was required to purchase all the lint cotton and its export.[24] In 1994, these Acts were repealed and replaced with CDO and the cotton sector was liberalised.

In general, the policy of liberalisation has been given a wrong interpretation in government, that is, everything should be left to operate without prodding and guidance to the extent that government has abandoned the role of setting and monitoring production targets.[25] Even in a liberalised economy, there is need for regulation through particular institutional arrangement. This was a result of the realisation of the importance of institutional arrangements for development to occur. Market mechanisms operate well within particular institutional framework. This is provided by CDO. CDO was mandated to promote and oversee the cotton industry as a whole by developing research, controlling the quality of lint cotton and improving the marketing of cotton. The 2000 Cotton Act empowers CDO to register and regulate dealers and operators in the cotton sector from pre-planting stage up to cotton ginning and lint export stages. CDO has registered up to 44 ginneries 19 of which were exporters for 2005/2006 Season.[26] Thus, the state involvement is still critical to ensure increased production and effectiveness of the cotton policy along the value chain.

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[24] Kiganda, C, John (1993), *The Effects of Liberalisation of the Cotton Sector on the Performance of Cotton Ginneries: A Case Study of the Eastern Region*, A Dissertation Submitted in Partial Fulfilment for the Award of the Degree of Masters of Arts in Economic Policy and Planning of Makerere University, Kampala, p.42.
[25] Parliament of Uganda, (2000), *Report of the Sessional Committee on Tourism, Trade and Industry on Budget/Policy Statement for the Financial Year 2000/2001*, Kampala, August, p.6.
[26] Cotton Development Organisation (CDO), (2007), *Annual Report 2006*, Kampala.

There are other institutions with linkage to the textile industry. The research function is carried out by National Agricultural Research Organisation (NARO) in liaison with CDO in identifying gaps and providing finance support for various research activities in Serere and Bukalasa research stations on new strains of cotton have been developed and are being multiplied in segregated areas with assistance from CDO. There are as well 15 lint exporting companies licensed and registered by CDO.[27] Through parliament, in 1999, CDO sought the government to guarantee a loan to the Uganda Cotton Ginners and Exporters Association, (UCGEA) amounting to about $7 million for the production and purchase of cotton, which was granted.[28]

There remains substantial state support for the development of cotton, particularly for the improved cotton production, the raw material that the textile sector depends on. As indicated in the table below, though there are some fluctuations, the general trend has been increases in production and earnings in the cotton sector with the support from the state since liberalisation.

[27] UMA (1999), *The Textile Subsector Study*, prepared by UMA Consultancy and Information Services Ltd, Kampala, pp 12-20.

[28] Parliament of Uganda (1999), *Report of the Committee on National Economy to the House on Authority to Guarantee Shs. 7.1 billion, (about $ 7 million), to the Uganda Cotton Ginners and Exporters Association,* Kampala, December.

Table7.4: ***Production in (bales), Trends and Earnings since Liberalisation***

		Earnings from Exports		Earnings by farmers				
Year	**Cotton Lint Production (bales) @ 185 kg)**	**Ave. FOT price ($/kg of lint)**	**Value ($ million)**	**Indicative price announced by CDO (sh./kg of Seed cotton**	**Ave. farmgate price received by farmers (sh/kg**	**Value (Shs. Billion)**	**% World Market price received by farmers**	**Dollar Exchange Rate**
1994/95	33,000	2.1	12.82	270	400	7.39	57	1,000
1995/96	56,416	1.98	20.67	300	350	11.06	50	1,058
1996/97	110,700	1.86	38.09	300	320	19.84	48	1,070
1997/98	32,000	1.79	10.6	350	390	6.99	50	1,180
1998/99	82,000	1.68	25.49	300	400	18.37	39	1,370
1999/00	117,000	1.34	29	230	300	19.66	34	1,530
2000/01	100,000	1.5	27.75	330	420	23.09	36	1,850
2001/02	120,000	0.8	17.76	255	270	17.255	58	1,650
2002/03	110,000	1.2	24.42	350	500	28.99	48	1,810
2003/04	160,000	1.5	44.4	600	650	54.825	61	2,000
2004/05	254,000	0.8	37.59	350	350	46.321	64	1,730
2005/06	102,600	1.1	20.75	450	450	25.7	64	1,810
2006/07	134,000	1.1	27.269	450	450	33.76	64	1,788
2007/08*	150,000	1.2	33.3	450	550	46.2	65	1,690
TOTALS	**1,561,716**		**369.91**			**359.45**		

* Estimates.

Source: Cotton Development Organisation (CDO), 2007

The market reforms and the liberalisation of the cotton sector, particularly ginning, have had some positive outcomes. The ginneries which broke away from the monopoly of LMB, following liberalisation, improved their performance and efficiency of operations. The removal of controls and regulations regarding domestic marketing of cotton has led to better returns to cotton farmers as they could now dispose of their seed cotton to private buying agents who paid promptly unlike the co-operative union ginneries which had developed the practice of delayed payment, since the 1970s. Some ginneries

presently owned by the co-operative unions are allowed to sell lint directly to local users and export it overseas, with cotton exporters allowed to exchange their proceeds on the market exchange rate.[29] This led to a substantial revival of the cotton industry.

The neo-liberals may attribute this to the wisdom of "free" market reforms, but the evidence suggests that the revival of the cotton sector is underlined by two critical factors. First, the continued state financial support to the cotton sector. Second, the upgrading of the cotton value chain through CDO and NARO – its importance in Research & Development (R&D), in addition to the collaboration of the ginners association (UCGEA). The continued state involvement in the cotton sector is a bigger part of the explanations for the sustained revival which, would not have occurred in the context of total liberalisation and control by private sector usually driven by their narrow profit motives.

There, however, remain some challenges in the cotton sector. In an interview with, the CDO official[30] it was observed that:

> "The level of value addition to both cotton lint and other products is quite limited. There is only 5% domestic value addition to cotton lint due to limited utilisation capacity as most of the available technology is obsolete which makes their resultant yarns and garments uncompetitive on the international market. In addition, spinning and textile mills require heavy capital investment of between US$ 15 – US$ 60 million to set up."

The problems faced by ginners shall not be solved by the ginners operating through the "free" market. The official was of the view that given the colossal amount of funding involved, the government shall have to render support to the ginners. Therefore, while liberalisation is seen as a largely positive measure, its sustainability requires continued state involvement of a strategic type.

The second focus of the interview on the impact market reform was the implications of the rapid liberalisation of the textile manufacturing industry and imports to Uganda. In an interview with Mr. Yuichi Kashiwada, CEO of Phenix Logistics, Ltd, he argued that

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[29] Kiganda, C, John (1993),*The Effects of Liberalisation of the Cotton Sector on the Performance of the Cotton Ginneries*, P.21

[30] In an Interview with Mr. Hans Windsor Muzoora, Principal Market Information & Monitoring Officer, CDO, 15 September, 2007.

the liberalisation of textile imports has been too rapid and has resulted in unfair competition. As he put it :

> "While in principle liberalisation is necessary, it at the same time allows free-riders. Due to corruption in the bureaucracy, government fails to impose the law on taxation giving a free rein to smugglers and false declarations of imports. New imported textiles are often declared as second-hand"[31]

The textile industry owners and managers argue that the pace of trade liberalisation has been too fast. These views are supported by the findings of an earlier study conducted by UMA which found that not enough time had been given to the firms to allow them to increase their market shares and develop economies of scale and to adjust their costs, especially given the already high costs of business due to expensive infrastructure and high domestic taxes. Some of the textile fabrics are under-declared at the customs by importers with the intention of reducing their liability for import duty and value added tax.[32]

More serious is that there is no protection against dumping of textile imports from the Far East and Asian countries, which have charged prices for export products which are well below those prevailing in their home markets. It has further been argued that the import prices at which these textiles are imported are unrealistic and much lower than even the raw materials cost of the fabric. Even in developed countries where the economies are almost fully liberalised, the protection of the local textile industry has been prevailing in form of anti-dumping duties and import quota system.[33]

Both the bureaucrats and the private firms CEOs see these as the real threats brought about by uncontrolled liberalisation; although opinions differ as to whether these are the major causes of the Uganda textile manufacturing industries woes.

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[31] Interview with Mr Yuichi Kashiwada, 22 September, 2007.
[32] UMA (1999), *The Textile Sub-sector Study*, p.56.
[33] Parliament of Uganda (1996), *Report of Sessional Committee on Trade, Industry and Information on the 1996/97 Budget*, Kampala, p.30.

The officials at MTTI saw the problem in broader terms. It was noted that:

> "New cloths from East Asia are of a better quality and cheaper. Because the firms in East Asia have developed skills and capacity to take advantage of economies of scale (mass production), costs of production are lower. One of the factors for high costs of production is low skills. High skills and high wages can lead to low cost as the high skills enables one to work efficiently without repeating the tasks and as a result make products that are competitive in the market. Low wages are not the advantage anymore. What are needed are high skills." [34]

Therefore, so long as the Ugandan textile manufacturers continue to depend on low skills and low wages,[35] they shall always be out competed. High skills and high wages are complementary as they boost productivity. The solution to Ugandan textile manufactures is to develop capacity, particularly high skills in textile production.

To the private operators, while they acknowledge the ruinous nature of the competitiveness of imports from East Asia, their demand is not for protection. The problem is principally identified at the level of government policy. It was noted that:

> "The government tax regime is unfair. The formal manufacturers are charged all duties and taxes amounting to about 48% as other textile market participants smuggle, evade taxes and import new cloths disguised as second-hand cloths hence attracting lower taxes".[36]

The problem of competitiveness of Ugandan textile manufactures are seen at two levels: i) low skills and technological capacity and ii) government taxation policy. Developmental states elsewhere confronted these issues and assisted their national textile firms to be competitive. There is need for a national textile policy. But perhaps the factor that has undermined the textile industry most is the phenomenon of second-hand clothing.

7.7 Second-Hand Clothing and Textile Industry

With the collapse of the textile industry in the 1970s and 1980s, there arose the twin question of second-hand clothing and smuggling of textile fabrics into Uganda. Across

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[34] Interview with Assistant Commissioner, Okulo Cankwo, 2 October, 2007.
[35] Ugandan workers are very poorly paid which results in very low productivity since workers have to engage in other income generating activities. Uganda is perhaps the only country without a minimum wage policy.
[36] Interview with Mr. Yuichi Kashiwada, 22 September, 2007.

the textile industry second-hand clothing and smuggling are identified as some of the major obstacles to the development and competitiveness of local textile industry.

The CEOs interviewed attributed the continued dominance of second-hand cloth importation to the corruption within the bureaucracy.[37] But the officials at MTTI saw it differently. It was noted that the bureaucracy is often hoodwinked by crafty importers with false declaration of new clothes as second hand. Secondly, most of the second hand clothes that compete unfavourably with local production are donations from charities which the government cannot outlaw. Third, bureaucrats see it as a problem of low levels of production of textiles locally. In general, local textile manufacturers produce little quantity, poor quality and expensive fabrics, which even in the East African regional context Uganda's manufactures, cannot compete.[38]

The CEO of ATM (Ltd),[39] offers a differing view on second-hand clothing. He was of the opinion that:

> "Second-hand clothing is not the major contributor to the lack of competitiveness by the textile industry. There exists large enough market for quality textiles both in European and local markets. With good quality textile products there is a huge export market"

Similarly, the CEO of Phenix Logistics Uganda (Ltd) is not opposed to importation of second-hand cloths per se. As he puts it:

> "No objection to importing second hand clothing because there are many people in Uganda who need them. But what is manufactured in Uganda, has to be protected by government intervention to curb the imports of second-hand cloth, fake and smuggled goods. It would be up to the consumer to use new cloths other than second hand or smuggled goods". [40]

While this may be true, the question of second hand clothing remains serious to local textile industry competitiveness. Since the early 1970s, western countries have

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[37] Interviews with CEOs: Mr. Yuichi Kashiwada (Phenix Logistics), Praful R. Patel (African Textile Mills) and Mr. Mubiru Richard, Corporate Affairs Director, (Southern Range Nyanza Ltd).
[38] Interview with Assistant Commissioner, Industry and Technology, Mr. Okulo Cankwo, 2 October, 2007.
[39] Interview with Mr. Praful R.Patel, 10 August, 2007.
[40] Mr. Yuichi Kashiwada, Phenix Logistics, 22 September 2007.

increasingly recycled their second-hand clothes by exporting them to the Third World with dire consequences for their domestic textile industries.[41]

There has been a phenomenonal growth of second-hand cloth trade in Uganda. It has been both good for local people who cannot afford new ones and at the same time ruinous to the local textile industry. It is estimated that there are about Fifty (50) "big" importers of used cloth, locally known as *mivumba*, into Uganda. The employment generated by selling used clothes in just one market in Kampala, St. Balikudembe (Owino) market in Central Kampala, is about 6000 people, which is about double the employment in the entire formal textile manufacturing industry in Uganda. Throughout Uganda, employment related to the sale of used clothes is probably close to 100,000.[42] This has presented government with a serious policy dilemma. While it is true that used clothes do harm to the emergence of significant domestic producers of textile and clothes, it is also the case that the welfare benefits to the people, thus employment, cheaper and better quality clothes, out weigh the disadvantages. Hence the continued importation of used clothing.

The textile firms have as a result demanded protection from the state against this ruinous phenomenon. In response to demands by textile producers for protection of the textile industry from used clothes, the government imposed a 20% excise duty on second-hand cloths in 1998. First to protest this tax and calling for its scrapping were the traders under the Uganda Importers, Exporters and Traders Association (UGIETA), arguing that about 500,000 Ugandans would lose their livelihood if the government imposed the tariffs on used clothing.[43] In 1999, the government rejected the call by UMA to ban the importation of used cloths. The then Minister of Finance, Mr Gerald Sendawula, stated that the importation of used cloths and footwear would continue unhindered, pointing out that many in the population simply cannot afford new clothing.[44]

Since then, the used cloth trade has continued to expand. This is mainly for three reasons identified by those involved in the textile industry. First, without *mivumba*, most Ugandan

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41 Haggblade, Steven, (1990), "The Flip Side of Fashion: Used Clothing Exports and the Third World" *Journal of Development Studies*, Vol.26, p.505.
42, Mahler, Walter (2003), "Our Love Affair with Mivumba, *The New Vision* ,Monday, June 9.
43 Tom, Malaba (1998), "Excise Duty on Mivumba Worries Traders", *The Monitor*, August 21.
44 Mutumba-Lule, A (1999), *"Uganda Won't Ban Used Clothes", The East African*, September, 22 – 28.

would walk naked, especially in the countryside where the peasants have sunk into abject poverty to the extent that they would not afford new cloths. Second, the *mivumba* industry is controlled by people with "powerful" political connections who easily subvert any policy measures against used cloth trade.[45] Third, the used cloth trade has destroyed the local textile industry. As a result, the local market is dominated by second hand traders and imported second hand products, most likely disguised as new clothing.

The extent of the destruction of the textile industry is illustrated by the overwhelming demand for used cloth in Uganda. In 2000, according to Bank of Uganda and Uganda Revenue Authority (URA) records, the total demand for all types of fabrics in Uganda was about 210 million metres per year. Of this, 170 million metres or 81 per cent of the total demand was met by importation of *mivumba,* 12 per cent or 25 million square metres constituted imported new fabric and only a dismal 7 per cent of the total demand was met by locally produced textile. Uganda's export of cotton lint continues to grow as poverty pushes more Ugandans into wearing *mivumba.*[46] As the table below indicates, Uganda's textile market was satisfied by imports and not internally manufactured products most of which, were second hand clothing.

[45] Editorial (2002), "To Tax or not to Tax Mivumba", *The Monitor*, Thursday, June 06.
[46] *Weekly Observer* (2005), *Textile Firms Fight Mivumba to Survive* April 26 – May 2.

Table 7.5: *Uganda Textile and Garment Trade by Value (1995-1999) US$, 000.*

	1995	1996	1997	1998	1999
Imports					
Textiles fabrics not manufactured	23, 421	25,788	21,392	23,024	22,477
Textile Yarn, fabrics made up articles	37,599	28,378	25,692	23,121	23,539
Articles of apparel and clothing accessories	14,754	14,125	11,490	17,335	17,587
Total (a)	75,774	68,291	58,574	63,480	63,603
Exports					
Textiles fabrics not manufactured	11,478	14,963	29,197	8,447	18,965
Textile Yarn, fabrics made up articles	2,073	3,192	11,609	1,393	1,465
Articles of apparel and clothing accessories	290	92	76	-	81
Total (b)	13,841	18,247	40,882	9,840	20,511
(a-b)	16,933	50,044	17,692	53,640	43,092
B as % of a	18	27	70	15	32

Source: Statistical Abstract, June 2000

UMA, the manufacturers' peak association, through its Executive Director, insists that there should be encouragement of the consumption of new clothes by the local people.

> "We realise that our people are poor and may not be able to afford a $ 5 shirt. We should encourage the production of clothes by local industries and compare on a continuous basis as to whether production is picking up so that we can phase out second-hand clothes. Our people should be a proud people who can walk into a shop and buy a new dress. The question not only that they are poor, the critical problem is that there is little local production". [47]

The solution to the second-hand cloth dilemma, in this view, is increased production with support from the state. In the context of lack of a national textile policy to support the growth of the textile industry in the country, the increasing demand for used cloths, coupled with smuggling, has led to the destruction of the local textile industry. Several garment factories such as the Uganda Garment Industries, Breven, Betex industries, Pop-in Industries, Eladam, christex, Mulco, Rayon Textile mills and ATM are just ruins of the once elegant firms or waiting for the hammer. Tales of the government bailing out firms

[47] Mr. Hilary Obonyo (2003), in an interview with *The Monitor*, September 12..

are rampant but the textile sector believes the unexplained silence by the government over the death of local textile firms defines the position taken by the government. [48]

There are four underlying issues as far as the problem of second hand clothing is concerned. i) the incapacity of local textile manufacturer in terms of lack of high skill and technology. ii) the cost of second-hand cloths which are cheaper and of better quality, iii) the abuse of state power as bureaucrats protect smugglers who easily subvert government policy. iv) lack of a national textile policy which would prioritise the textile industry given its potential to contribute to the country's development. Selective bailouts of some industries cannot be a substitute to a prioritised national textile policy. These are some of the issues that would be addressed if Uganda's textile industry is to compete. Privatisation, which we discuss in the next section, has not corrected the situation.

7.8 Privatisation and Constraints on the Textile Industry

The data for this section was derived from three sources: Primary data through in-depth interviews with the CEOs of the selected firms, secondary data from documents and newspaper reports. Apart from liberalisation, the other policy under SAPs, which has had tremendous impact on the Uganda's textile industry, is privatisation.

Since the mid 1990s, the textile industry was privatised. While privatisation has created some dynamism and competition within the sector, the firms are still confronted with several constraints. Here, we look at the constraints faced by each of the major textile firms. Across the sector, the following constraints have been identified: i) availability and cost of finance, ii) the high cost of utilities, iii) low labour productivity, and iv) government procurement policy. We use the cases studies of NYTIL, (Picfare), now Southern Range Nyanza (Ltd), Phenix Logistics and ATM to illustrate the various dimensions of these constraints.

First is the constraint of the availability and the cost of finance. Finance is a critical element in the implementation of industrial policy. Since the liberalisation of the financial sector, the level of interest rates on commercial loans in Uganda has been about 24 per

[48] The most notable bailouts that have cost the government over $ 25 million include: trader Hassan Basajjabalaba receiving $ 11million, Apparel Tri Star, $7 million, GBK Dairy, $ 1.2 million and Sembule Steel Mills bailed out of $ 6.6 million debt, *Weekly Observer*, April 26 – May 2.

cent per year on average, which is far higher than the expected rates of return on investments in the textile sector. In addition, banks are unwilling to accept collateral outside Kampala and this makes it difficult for companies outside Kampala to borrow.

In an interview with the CEO of ATM (Ltd), which is located outside Kampala, the problem of finance was stressed. According to the official, the firm could not borrow nor could it use the option that most firms use: lobby President Museveni, who through presidential directive gives loans to private firms. The problem is that financial matters are considered business "secrets" by the firms and therefore difficult to get the exact picture. It was found that government had advanced loans and loan guarantees to all firms in the sample. The failure of ATM Ltd to access further loans is not due to its location nor inability to lobby. ATM failed to honour its loans obligations. According to officials in MTTI, the major reason for inability to access loans is that ATM failed to produce audited accounts of the firm which would prove whether the firm was operating or not.[49]

The CEO of ATM Ltd justifies this failure to account loan given to the firm on "Government taxation policy which makes business unprofitable hence inability to pay taxes and honour loan obligations"[50]

All the three firms in the sample defaulted on the loans that had been advanced to them with the support of government. The privatised firms defaulted on the loans for a period ranging from one to four years and demanded for partnership with government (NYTIL, Phenix and ATM).[51]

Let us begin with experience of ATM. First, at the time of privatisation, the buyers of ATM were supposed to pay 10 per cent of US$1.4 as down payment for the government's 51 per cent shares, in 1994. The rest was to be paid within twenty-four months after possession failure of which the assets would be sold on open tender system and the losses shared on a *proprata* basis but this has not been done to date. ATM

[49] Interview with Assistant Commissioner, Industry and Technology, Mr. Okulo Cankwo, 2 October 2007.
[50] Interview with Mr. Praful R. Patel, 10 August 2007.
[51] *The New Vision*, Tuesday, May 23, 2000.

acquired several loans aimed at boosting production after refurbishing the plant. [52] By 2005, ATM had failed to pay the loans given for the purchase of the machinery and to service the loans.[53] After the failure to pay the loans, the firm suggested that the government swaps the debt for equity in the company and then government divests itself later in case it gets disinterested in the business. Government rejected the offer. ATM is likely to collapse unless government supports it.

Second, NYTIL was privatised in 1996. With fanfare, it was announced that NYTIL Ltd, Uganda's and East Africa's biggest integrated textile mill had been sold to Picfare Industries Ltd for US $ 10 million. Picfare would pay US $ 10 million over a four-year period. It was also announced that a sum of US $7 million would go to the government, as payment for its assets while US $3 million would be paid for shareholders.[54] There was a brief appearance of a successful turn around of the firm. Picfare secured a long-term loan, guaranteed by government, from the Commonwealth Development Corporation (CDC) to the tune of US $7 million, for rehabilitation and modernisation of the mill.[55] The firm negotiated a number of contracts to produce textiles. Having started a garments department with 100 new industrial sewing machines imported from Japan, it had the capacity to supply the entire Uganda Army and police with uniforms.[56] This was seen as a government policy to promote local investment. Within three years of its privatisation in 1996, by 1999 the firm was limping as smuggled fabrics and second-hand clothing encroached on its local market.

According to a report by British Executives Services Overseas (BESO), the audit firm that Picfare commissioned in 1999 to evaluate the performance of the firm, estimated that about 3.7 million square metres of textiles were being smuggled into Uganda monthly. In this review of Picfare's three-year operation, BESO warned that if smuggling is not checked, Picfare would be forced to close.[57] By the following year, the firm had failed to repay the loan and as government refused to bail it out, it collapsed and was sold

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[52] Wamakesi, Adams (1997), "ATM in $10 million Face-Lift", *The Monitor* June 26.
[53] Biryabarema, Erias, (2005), "ATM Requests Government to Intervene in Woes"*, The Monitor*, March 28, p.19.
[54] Musoke, David (1996), NYTIL Sold to Picfare, *The New Vision*, March 21.
[55] *The Monitor* (1997), *NYTIL Lands $ 7 million Loan*, November 06.
[56] Olwor-Atiya, Tolit, (1997), *NYTIL* Picfare Cuts Army Uniform Deal, *The Monitor*
[57] *The Monitor,* (1999), *NYTIL Picfare Limps, Faced with Closure*, Thursday, July 15

to a new firm, Nyanza Southern Range Ltd, though it retains NYTIL as a longstanding brand name.

In an interview with the Corporate Affairs Director,[58] a contrary explanation was offered as to why the firm failed to honour its loan obligations. According to him:

> "Government accepted to write-off the debt of US$ 4.9 provided that the restructured company would show commitment to invest not less than US $10 million in a delay of 5 years from 1st November, 2000, to enable the company gain regional and international competitiveness. This was to get rid of lack of foreign exchange due to over-reliance on local markets. The firm's actual investment value is now US $ 30 million"

A rosy picture is painted of the operations of the firm but there is evidence that it defaulted on the CDC loan. Due to financial secrecy, it was hard to establish that the firm has actual investment of up to US $ 30 million.

Third, the United Garments Industries Ltd (UGIL) now renamed Phenix Logistics (U) Limited, was established as a Joint Venture limited company in October 1965, in partnership between UDC and two Japanese firms, Yamato shirts and Marubeni, Lida.[59] It was among those firms nationalised during the 1972 "economic war". In the era of privatisation, it was returned to its former partners with government divesting itself from ownership. Like ATM and NYTIL, it acquired loans, which it failed to pay. As in the case of ATM, Phenix Logistics has suggested that government re-acquires shares in the company on the basis of US$ 2.5 million it owes to UDB, which was guaranteed by the government, so that it becomes a public-private partnership. In addition, government would guarantee a US$5.5 million loan from Japan Bank for International Cooperation (JBIC) to UDB to finance Phenix Logistics. This has not happened because the Finance Act does not allow the government to buy shares in a private company.[60]

In a recent directive, it was reported that "President Yoweri Museveni has directed that US $5 million (Ug Shs 8 billion) of taxpayer's money be given to Phenix Logistics Ltd, a

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[58] Interview with Mr. Richard Mubiru, Corporate Director, Southern Range, 6 October 2007.
[59] The Republic of Uganda (1987,) *Report of the Ad Hoc Administrative Committee of Inquiry into the Affairs of Textile Industries*, Kampala, February, p.41
[60] *The Monitor*, (2005), *Phenix Asks to Swap UDB debt with Shares*, Friday, 9th September

private firm"[61] This is contrary to the law that under the Public Finance and Accountability Act (2003) and the Local Authorities Act (1997), the Auditor General (AG) cannot audit companies where the government has no majority shares such as Phenix Logistics Ltd.

While government guaranteed loans to these firms, in the context of low productivity and narrow markets, the firms failed to service the loans. This recent case is likely to follow the same trend. The productivity of skilled and semi-skilled labour in Uganda is much lower than that in established textile producing countries in the Far East and elsewhere, and yet average wages are higher than in those countries. For that reason, Uganda has not been able to use the cheap labour for competitive advantage.

Further, the cost of utilities has implications for the competitiveness of firms. Uganda's utility costs are above average, particularly with the privatisation of the Uganda Electricity Board (UEB) to ESKOM, South Africa.

Several textile-producing countries have used government procurement policy to promote local industry. In interviews with all the CEOs of the firms in the sample, it was reported that the partnership between government and the private sector is not sufficiently reflected in government procurement policy. As one of the CEOs commented: "There seems to be no systematic procurement government policy. All fabrics are imported from China while ignoring local producers who have the capacity to satisfy such procurement needs"[62]. Government departments and international agencies continue to buy imported products rather than support the local manufacturers. Without support from government, the textile firms have found it increasingly difficult to compete. In addition to the predominance of smuggled and used-cloths in the economy, privatisation has made little difference as government has continued to guarantee loans to all the above textile firms. As an indicator of failed privatisation, the firms have not honoured the payment of loans and defaulted. Instead the firms have demanded to enter into partnership with government on the basis of these loans as equity.

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[61] Mugerwa Yasiin (2007), "Phenix to get Shs 8 b from taxpayers", Saturday, September 29.
[62] Interview with Mr. Yuichi Kashiwada, Phenix Logistics, 22 September 2007.

It can be noted that privatisation of the textile firms has had contradictory outcomes. Uganda remains a very expensive business environment. Liberalisation and privatisation though necessary are not sufficient to enhance productivity and competitiveness in industry. Industry in its early stages of development needs to be propped up. The shortcomings in the privatised textile sector can be illustrated by it experience in export orientation drive. There are three major firms with aspirations to export textiles i) Apparel Tri Star (Uganda Ltd), ii) Phenix Logistics and iii) Nyanza Southern Range, (NYTIL).

7.9 The Textile Industry and Export Orientation

The data in this section is derived from interviews with CEOs, documents and newspaper reports. The data on Apparel Tri Star is mainly from newspaper reports and documents. This is because the firm closed in October 2006 and the former managers of the firm were not willing to be interviewed. Data on Phenix Logistics and Southern Range Nyanza is derived from interviews with CEOs, documents and Newspaper reports.

The period of the 1980s to the 1990s witnessed a move away from ISI, in terms of rhetoric, to export orientation as policy prescription for industrialisation under SAPs. Export orientation means more than exports of manufactured products. The issues of internal integration (backward linkages), innovation capacity, technological interactions and the financing of industry must have an internal basis if there have to occur sustained export development. This is because ISI and EOI are not mutually exclusive. Yet, what is taking place in Uganda does not seem to take the internal basis of EOI seriously.

The textile industry was identified as one of the strategic industries that would create multiplier effects in the economy, partly to address the unemployment problem and improve the country's earnings both local and foreign.[63] One particular firm that has been put at the forefront of the export of textile and clothing from Uganda, through the AGOA initiative, is Apparels Tri-Star (Uganda) Ltd.

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[63] Parliament of Uganda (2000), *Report of Sessional Committee on Tourism, Trade and Industry on the Budget/Policy Statement for the Financial Year 2000/2001*, (Kampala, August), p.15.

On the whole, to attract FDI, the government has had to offer generous incentives as indicated below. Apparel Tri-Star was one of the firms that benefited from this generous offer of incentives. As we note below, Tri-Star got over and above these incentives including government loans.

Table 7.6: *Incentives for Foreign Investment Capital allowances*

• Initial allowances on plant and machinery located in Kampala, Entebbe, Namanve, Jinja and Njeru……....	• 50%
• Initial allowances on plant and machinery located outside Kampala, Entebbe, Namanve, Jinja and Njeru……...	• 75%
• Start up costs spread over the first 4 years…….	• 25%
• Scientific research expenditure……...	• 100%
• Training expenditure……...	• 100%
• Mineral exploration expenditure…….	• 100%

Source: Uganda Investment Authority, 2001

Apparels Tri-Star (Uganda) Limited was incorporated on April 22, 2002, "to produce, operate and manage factories of quality textiles, garments and related accessories for export for the local market and to exploit concessions and benefits granted to Uganda by United States and Europe for export of Apparels". The firm entered a Memorandum of Understanding with Government of Uganda and "agreed to collaborate with each other and set up apparel and garment factories in Uganda for the export of ready-made apparels and garments". [64] An examination of the details of the memoranda brings out the predatory character of the so-called FDI. Tri-Star turns out to be a private venture totally financed by Uganda government resources and directed from State House, (President's office).

Under the memorandum of understanding, the firm was heavily subsidised. The government had to fulfil a whole range of obligations, which make the firm look more like a public enterprise rather than an FDI venture. Among the obligations, which the government fulfilled, included: i) refurbishing the building identified to house a training centre, (former coffee processing plant), ii) recruit labour for the firm, iii) arrange

[64] Government of Uganda (2002), *Memorandum of Understanding Between the Government of Uganda and Apparels Tri-Star (Uganda) Limited,* Kampala, pp 1-6.

conducive financial package and tax regime for the procurement of machinery, equipment, office and factory furniture, fabric, accessories and working capital by guaranteeing a loan on US $2.5 from Africa Development Bank (ADB), iv) government responsibility for payment of taxes and duties on machinery, equipment, furniture, vehicles v) secure work permits for Directors, Management staff and personnel, vi) avail Tri Star a full range of incentives, vii) secure local orders for government institutions, such as army, police and prisons, viii) government undertakes to pay 71.5 per cent of the railway transport charges of each container of raw materials and finished goods to and from Mombasa-Kampala during the first year of operation. On the other hand, Tri-Star would be obliged to run the factory.

In 2002 it was announced with pomp and ceremony that a Sri Linkan investor, Kumar Dewapura, was bringing US $1.5 million to set up a garment factory in which he would train, then employ 1,000 rural women under his firm Tri-star as it championed Uganda's export-led growth campaign.

First, due to lack of local supplies of raw materials, cotton, had to be imported from China and has tried to import from South Africa and Nigeria because Uganda's cotton was twice as expensive due to subsidised production elsewhere. Neither are imports from the above sources any cheaper given the transport costs involved. In general, the global apparel industry relies on cheap labour, cheap raw materials and cheap transportation costs to the market. Given Uganda's landlocked location, the importation and transportation of raw materials was bound to make Uganda's manufactures less competitive in export markets.[65]

Second, with the intention of depending on cheap labour, Tri-Star instituted an appalling labour regime at the plant. The firm came under spotlight after 298 of its female employees, locally known as "AGOA girls", were sacked because of going on strike. The parliamentary Committee on Finance was mandated by the parliament to look into the performance of the firm. The probe found out that the cause of the strike was poor working conditions such as poor remuneration, inadequate sanitation facilities, long working hours and other general working conditions.[66] In disregard of the poor working

[65] Milner, C, Morrissey O., and Rudaheranwa, Nicodemus (1998), "Protection, Trade Policy and Transport Costs: Effective Taxation of Uganda's Exporters", *Centre for Research in Economic Development and International Trade* (CREDIT), No.98/13.

[66] Parliament of Uganda (2004), *Report of the Committee on Finance, Planning and Economic Development on Apparels Tri Star (U) Ltd*, Kampala.

conditions as reason enough for strike, President Museveni justified the action saying that: " I sacked those girls because of indiscipline and their actions would have scared off investors who had plans of setting up businesses here. They would have thought that the labour in Uganda is undisciplined".[67] By 2005, the working conditions for the employees had not improved and the firm does not recognise the right of union organisation by employees. The International Labour Organisation (ILO) and the Confederation of Free Trade Unions (CFTU) have pointed out that the management of Apparels Tri-Star and other firms in the country that are beneficiaries of AGOA programme have refused to recognise trade unions. Despite the repeated criticism, the government of Uganda has refused to bring its labour laws into compliance with the international standards of freedom of association, the right to organise and bargain collectively.[68] Given the low-end factory jobs that are being created, the process is not going to enhance local labour productivity. More depressing is the performance of Tri-Star in its export mandate.

In the case of export drive, the firm's performance in exports has been dismal given the amount of resources that have been put at its disposal. Although, Uganda qualified for the apparel provision in October 2001, by the end of 2002, it had not exported any goods under this rule. It was not until 2003 that President Museveni flagged off the first consignment of cotton shorts made by the Tri Star Apparel to the US worth US $ 156, 000.[69] Tri-Star's exports by 2005 stood at about US $ 6 million a year. AGOA reports indicate that, Lesotho, a country of only 2 million people, in 2004 exported goods worth US $ 320 million in apparels production to the US, over 99 per cent of it under AGOA.[70]

The problem of exports is compounded by transport costs to the market. Delivery times are an issue in Tri-Star's competitiveness. It takes about 120 days to deliver goods to USA from Uganda. From Asia it is between 78-90 days. Yet, it takes 2-4 weeks to ship out of Mombasa.[71] Uganda as a land-locked country, confronts cost disadvantage as delays are incurred in having to ship overland. Rail and road transport are slow, whether via Mombasa or Dar es Salaam and consequently it is more difficult to ensure the on-

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[67] Kakaire A. Kirunda, (2004*), "*I Sacked AGOA Girls – President", *The Monitor*, March 22.
[68] *The Monitor* (2005), Discuss AGOA with US Leaders – ILO Boss, Tuesday, 13.
[69] Kasozi , Robert Adam (2003), "Tale of Rosy Figures and a Sick Economy", *The Monitor*, August 10.
[70] Lall, Sanjaya (2005),"FDI, AGOA and Manufactured Exports by a Landlocked, Least Developed African Economy: Lesotho", *The Journal of Development Studies*, Vol.41, No.6.
[71] *Uganda and AGOA: A Focus on Value Added Textile Exports*, Planning Trip Report to Uganda, April 17-23, 2005.

time delivery to buyer destinations.[72] The dismal performance of textile exports can partly be explained by these constraints.

As a result of the above memorandum of understanding, the firm was greatly subsidised by government, which provided capital in form of unsecured loans and all the above obligations. Far from being a source of finance, textile FDI has become a burden to government. During the start-up in mid-2002, the government provided a US $ 2.5 million subsidy to cover renovations of the former coffee-processing factory. By 2003, Tri-Star had received at least US $5.5 in financial support from government.[73]

After operating for two years, (2004), Tri Stars auditors, Pannell Kerr Forster, came out with a damming review of its performance. Tri-Star had made losses to the tune of about US $ 4 million and according to the auditors it was technically bankrupt. According to the Auditors, Tri-Star received a loan of US $ 3.06 million from the government through UDB, repayable in six years and, although the loans are without a fixed repayment period, Tri-Star could not pay.

The Senior Advisor on AGOA and Trade programme in Uganda, Mr. Onegi-Obel, argued for the government to have a greater role in the management of not only Tri-Star but also Phenix Logistics Industries, another AGOA-focused company. In a letter to the Minister of Finance, Obel asked the Minister to "expedite the conversion of the exposure in Tri-Star Apparel Company and Phenix Logistics (UDB and BOU of Apex Funds) into government held equity so that the resulting entity can better be able to attract more and better financing. "The Minister should proceed to reconstitute new boards as necessary in consultation with the subject companies (Tri-Star and Phenix Logistics), so that they become a public-private partnership, which in essence, they were already" Obel urged.[74] Tri Star Ltd collapsed in October 2006 due to the inability to produce profitably among other factors.

Southern Range Nyanza (former NYTIL Picfare) has plans to participate more actively in the textile export programme, but focused at the regional level. The firm has made substantial investments and have a modern, fully integrated plant with spinning, weaving,

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[72] FIAS (2003), *Uganda: Administrative Barriers to Investment: Update to the 1996 Road Map Study*, Foreign Investment Advisory Service: A Joint Service of the International Finance Corporation and World Bank, Commissioned by Government of Uganda, P.114.
[73] Kanyegirire, Andrew (2003), "Will Tri-Star Sparkle?", *The New Vision*, Thursday, July, 2003.
[74] *Weekly Observer* (2004), "AGOA Firm Tri-Star, in Shs. 7bn *(US $4m) Loss"*, June 10.

finishing and garment manufacturing. The firm's programme is more regional-focused. In 2002, the firm exported to Sportif in the US, but subsequently discovered that exports would not be profitable under the price structure subsequently offered by the company and stopped taking orders. The policy at the firm is to consolidate regional capacity in East Africa. In an interview with the Corporate Director,[75] Southern Range wishes to be a strong manufacturer and supplier of fabrics (particularly organic cotton) to the region after 2007 when AGOA rules stipulate that the fabric has to originate in the sub-Saharan countries in order for the apparel to carry a zero duty rate into the US. The firm has the capacity to participate in the regional market although it shall still confront the problem of transportation costs, which would impact on its competitiveness.[76]

Phenix Logistics Uganda (Ltd) is currently the leading textile exporting firm after Apparel Tri Star closed in October 2006. According to the CEO, the firm has positioned itself as an exporter of textiles based on organic cotton. Due to the limited internal market in Uganda, the firm policy exports up to 80% of its production. The exports have been mainly of T-shirts and pants to the United States market. Between February and September 2007, the firm exported T-shirts at the rate of 100,000 units per month earning on average US $ 135,000 monthly. The major challenge to the firm is the need for expanded capacity.[77]

This study comes to the conclusion that Uganda cannot fully reap the benefits from AGOA unless domestic textile production is part and parcel of its own textile supply. Domestic sales would guarantee continued market availability in the case the AGOA market expires. Local textile manufacturers believe Uganda should pitch its war at home against *mivumba* by supporting local production. One of the constraints to be confronted is the lack of skills capacity. Given that Uganda does not have a textile college nor technical institutes to train employs in the various dimensions of the textile industry, the textile and apparel firms must provide their own training for the employees. An investment in education would certainly help the sector improve its performance and enhance its competitiveness.

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[75] Interview with Mr.Richard Mubiru, Corporate Director, Southern Range, Ltd, 6 October 2007.
[76] Uganda and AGOA: A Focus on Value Added Textile Exports, p.7.
[77] Interview with Mr. Yuichi Kashiwada, 22 September, 2007.

Despite these shortcomings, the textile industry has witnessed the emergence of a number of intermediate institutions, which may be deployed constructively in the implementation of the industrial policy. Critical in this case are three business associations that impact on the textile industry: Uganda Manufacturers Association, (UMA), Textile Manufacturers Association of Uganda (TEMAU), Uganda Importers, Exporters and Traders Association (UGIETA) and The Uganda Ginners and Cotton Exporters Association, (UGCEA). Technical and market information is available to ginners from the UGCEA, buyers and international parent companies.[78] Under SAPs, in terms of industrial governance, in 1988 the leading Ugandan entrepreneurs revived the Uganda Manufacturers Association (UMA) to articulate their interests as discussed in chapter six, as well as to facilitate cooperation with the government. TEMU is currently the leading advocate for the national textile policy.

The experience of the development of the textile industry elsewhere, especially East Asia, points to a different logic from that applied in the Ugandan context. In South Korea and Taiwan, cotton textile industry started with domestic discrimination first, and proceeded to the export market, based mainly on domestic firms. Foreign firms were obliged to enter partnerships with local firms and facilitate learning. In Uganda the practice is the opposite.

To succeed in textiles exports there would be need for massive support of the textile sector by the state. This would include: duty-free access to imported materials (fabrics, dyes, machinery) at world prices, reliable power and telecommunication, efficient shipping line out of Uganda, access to cheap working and investment capital, modernisation and capacity expansion, incentives: tax holidays, reduced tax rates among other requirements.[79] This is attributed to the lack of a textile policy.

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[78] RATES, (Regional, Agricultural Trade Expansion Support Programme), (2003), *Cotton Textile Apparel Value Chain Report for Uganda,* The RATES Centre, April, http://www.cottonafrica.com/downloads/Uganda_Cotton_VCA.pdf

[79] USAID/Uganda (2001), *AGOA Textile and Garments – What Future for Uganda's Exports*, Technical Report: Uganda Private Sector Trade Policy Capacity Building Project, Submitted by Nathan-MSI Group, p.23.

Both the officials of MTTI and the CEOs of the textile firms interviewed see the textile industry as viable and not as a sunset industry.[80] The CEOs interviewed were optimistic about the future of the textile industry. The optimism is based on a number of perceived advantages that Uganda possesses in the manufacture of cotton based textile. According to the CEO of ATM Ltd, "Uganda's cotton is of good quality and competitive enough. With the concentration organic cotton, there is a very big future for textiles especially as there is a huge European market."[81]

The MTTI official was of a similar view arguing that:

> "In Ugandan situation, the textile industry should not be taken as a sun-set industry. Textiles are still strategic and have a very big potential. The problem is that there is little investment in the textile industry. … there still exist huge markets for textiles in Europe"[82]

Externally, there exists opportunities for the growth of the textile industry. First, the industry can draw on the experience of earlier industrialisers. If you look at the industrialised countries be they in Europe, East Asia or US, the textile industry was one of the initial industries to be developed. But more important, while there is evidence that the "old" and labour-intensive textile industry turned into a high-tech and capital intensive industry since the 1960s, this did not stop the decline of the industry in the old industrial countries.[83] The decline of the industry in developed countries offers opportunity for countries like Uganda based on cheap labour and cheap raw materials to fill the gap.

Second, the textile industry is one of the largest industries globally. For instance, in 2003 the European Union (EU) textile and fashion industry employed 2.5 million and generated a turnover of Euros 187 million, making it one of the largest industries in Europe. Textiles have also become increasingly important in technical applications in fields such as construction, automotive industry, soil protection, plant protection, filters and applications.[84] This in addition to the cultural expression by textiles, by the way

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[80] In a sunrise industry, output and demand are expanding while in a sunset industry; output, employment and demand are falling over time.
[81] Interview with Mr. Praful R. Patel. CEO, ATM Ltd, 10 August, 2007.
[82] Interview with Mr. Okulo Cankwo, Assistant Commssioner, MTTI, 2 October, 2007.
[83] Linder, H, Stephan, (2002), "Technology and Textiles Globalization", *History and Technology*, Vol.18 (1), p.1.
[84] "Textile as concept, material and industry", http://www.hb.se/ths/english/tic_english.pdf-

people dress, could extend Uganda's opportunities for export and internal market. Third, the industry could take advantage of the United States opening of its markets for African manufactures under the African Growth and Opportunity Act (AGOA).[85]

While, both internally and externally, there are opportunities for expanded participation in the textile industry there occur several threats to Third World participants. First, there is the problem of production capacity, where local textile firms lack up to date technology, breakdown in production infrastructure and overwhelming poverty. The inability to purchase locally produced textiles, induces the importation of second-hand textiles which undermine local production. Second, while countries like Uganda could overcome the obstacle of rules of origin by improving production in the home market, there still remains the question of who captures the tariff rent.[86] Third, there still remains the problem of the corporate control of the textile industry. In the context of lack of local capital, those who control the textile industry are not necessarily at the point of production.[87]

7.10 Conclusion

The purpose of this chapter is to illustrate the practices of industrial policies in the textile manufacturing industry. The experience of the industry from the late colonial period to the adoption SAPs since the early 1980s, reveals several findings. 1) The textile import substitution over this period underlines the importance of state intervention in the initiation of the industrialisation process in economies such as Uganda. Through various institutions, state intervention resulted in a relatively successful textile industry. First, through UDC, the premier industrial development agency, the state mobilised resources and interacted with the private capitalists as expressed in the acquisition of NYTIL and prodded the entrepreneurs, particularly Asians, to invest in the manufacturing sector. 2) The experience of the textile industry also underlines the importance of particular institutions that mediated the state policy towards the textile industry – among these were: cotton research institutes, the co-operative unions and the marketing boards. This

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[85] AGOA refers to the Act signed into US law as Title 1 of the US Trade and Development Act on 18 May, 2000. As a policy to induce Africa to embrace globalisation and policy changes, it offers increased preferential access for African exports to the United States.

[86] Olarreaga, Marcelo and Ozdenm Caglar, (2004), "AGOA and Apparel: Who Captures the Tariff Rent in the Presence of Preferential Market Access", at http://www.ycsg.yale.edu/focus/gta/agoa.pdf-

[87] Hale Angela, (2002), "Trade Liberalisation in the Garment Industry: who is really benefiting?" *Development and Practice,* Volume 12, No.1 (February).

experience contradicts the generalised hostility advanced by neo-liberal theory towards state intervention. The state can play a positive role in the development process, particularly in the absence of an entrepreneurial class. The importance of state intervention was stressed by both bureaucrats and CEOs of the textile firms interviewed for this study.

Third, the source and control over financial resources is a critical institutional mechanism for ensuring success of a given industrial policy. In this regard, the textile industry was relatively successful due to access to financial resources. The industry was supported, particularly in the first decade of the post-colonial period, by the creation of the first commercial bank in Uganda, the Co-operative Bank, (1963) and UCB, (1965), which financed the cotton sector on which the textile industry is based. The textile sector, like other sectors of the economy, was dealt a blow with the declaration of the "economic war" in 1972. The resulting collapse of ginneries and the deterioration of the quality of textiles, led to the shrinking of the textile industry. The political and economic turmoil during the 1970s and 1980s disrupted local processing and textile manufacturing capacities and led to a reduction of domestic cotton consumption, particularly ginning capacities.

Fourth, since the early 1980s under SAPs there have been efforts to rehabilitate the textile industry and make it productive again. Despite the privatisation and liberalisation under SAPs, the state has continued to be involved in the textile industry, both at the financing and institutional level, by the institutional arrangements expressed by the creation of Cotton Development Organisation (CDO) to facilitate the cotton industry. In addition, other sector-specific institutions like the Uganda Cotton Ginners and Exporters Association (UCGEA) have been formed by private investors and interact with CDO to promote the textile industry. On the whole, however, the reforms and the policy shift from ISI paradigm to EOI by stressing export orientation of textiles have not been very successful, both due to policy inadequancy and structural constraints. ISI and EOI are not mutually exclusive. Instititutions and particular sets of connections that link the state to producers, and not just markets, are critical in eliciting entrepreneurship for industrial expansion. It is such institutions that can produce and coordinate the necessary skills to enhance capacity and competitiveness of the firms.

Finally, it could be argued that the efforts expended in reviving the textile industry in Uganda may be misdirected, given the limited returns on investment. The time for textile industry's historical role as the initiator of the industrialisation process in LDCs may have passed. Clearly, the textile industry is now a sunset industry in the Ugandan context, contrary to the views of the CEOs of the textile firms and bureaucrats at MTTI interviewed. Given the incoherence of industrial policy which is exacerbated by the politics of patronage, there is need for a more focused industrial strategy which takes into account domestic and global factors. In the final analysis, the focus should shift to the identification of sunrise industries within particular sectors to promote which are commensurate with the country's resources.

The sectoral focus is important in that it brings out the particularity of given sectors whose activities is unified by related product groups and shared characteristics. Thus different sectors would require specific industrial policies. To illustrate the similarities and differences between sectors and why there must be a differentiated industrial policy, we examine the experience of the fish processing industry in the next chapter.

CHAPTER EIGHT

8. THE FISH PROCESSING INDUSTRY

8.0 Introduction

This is the fifth and last data chapter of the study. It is based on primary data derived from in-depth interviews[1] with officials at the Department of Fisheries Resources (DFR), and the Chief Executive Officers (CEOs) of the 3 selected fish processing firms as key informers and on secondary sources primarily documents and newspaper reports. The interviews were based on several issues: i) the natural resource base of the industry, ii) the problem of over-fishing, iii) export orientation of the industry, iv) the ownership of firms, v) financing of the firms, vi) creation of employment, vii) impact on local fisher people, viii) public-private interactions in the industry and ix) dependence on foreign markets and their implications for industrial policy practice.

The purpose of this chapter is to illustrate the nature of past industrial policies towards the fish processing industry and the limitations of the current industrialisation based on a fragile natural resource in the context of a liberalised market. In terms of industrial policy, this sector is selected because of its nature, ownership structure and dependence on external markets, which would need some form of state involvement and regulation to ensure its sustainability. The natural resource base, which is fragile, may result in unsustainable exploitation of the resource if not checked by some forms of state intervention through embeddedness with the major private firms in the fishing industry. In this case, industrial policy with regard to fish processing can draw lessons from other fisheries to avoid making similar mistakes which may result in unsustainable harvest of the fish resource. The need for some forms of state involvement is to prod the fish processors to move beyond the export of raw fish in form of fish fillet to fish canning factories which would bring in more earnings and provide expanded employment. The fish processors are unlikely to move into the canning niche unless prodded through some form of industrial policy.

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[1] See interview schedules on fisheries policy-makers outline and that for fish processing firms (See appendices 10 and 11).

The fish processing sector is now the second largest export earner to coffee. It has experienced a dramatic boom since the early 1990s in the context SAPs and export-oriented policy inducements. It stands out as an export oriented industrialisation (EOI) where market forces determine the type of production for export that takes place, producing within a country's comparative advantage.

The chapter is divided into five sections. The first section is based mainly on documents and newspaper reports. It outlines the evolution of the fish processing industry from 1950s when it was under state ownership and control to the present, when it is under the control of the private sector and FDI. The data for the rest of the sections is derived from primary data from in-depth interviews with selected firm owners and secondary sources mainly documents and newspaper reports. The second section examines the implications of relying on a natural resource and its sustainability for industrial drive. The third section discusses the export orientation, the strategies of securing the fish raw material and the control over markets by FDI. The fourth section discusses the implications of overwhelming dependence on export markets for the industry. Finally, we look at the notion of public-private partnership and its relevancy to the experience of the fish industry. The intention is to establish the institutional policy framework within which the industry has operated overtime and may be enhanced.

8.1 The Structure of the Fishing Industry

The fisheries sector is Uganda's second largest export sector. The total value of fish exported from Uganda was US $100 million in 2004 up from an export of US $90 million in 2004.[2] The 10 active fish plants in 2003 represented a total investment of US $ 38 million and employed about 2,650 people of which 34 per cent were women. Uganda's greatest resource of exportable fish is Lake Victoria. The lake is shared with Kenya and Tanzania: Uganda, 43 per cent, Kenya, 6 per cent and Tanzania 51 percent. In addition, other productive waters bodies include: lakes Kyoga, Albert, Edward and George, Albert Nile, some of the 160 minor lakes, rivers, dams, ponds and wetlands, all estimated to cover an area of about 44,000 square kilometres.[3] But for the purpose of this study, the focus shall be on Lake Victoria fisheries and its fish processing firms.

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[2] *The Monitor* (2005), "Huge Export Demand Depletes Fish Stocks", February 22.
[3] Uganda Government (1999), *Final Report: Uganda Fisheries Master Plan Study*, Entebbe, July, p.15-16

At 2003, the average production of fish from the main bodies in Uganda appears to have stabilised at around 220,000 to 230,000 tonnes, with the major species being Nile Perch, Tilapia and *Mukene*.[4] By February 2005, reports from the fisheries department indicated that earnings from fish export had reached US $105 million, up from US $ 89 million in 2003 being the highest rise in five years. This is attributed to the expanded processing capacity with the rise from 9 to 14 fish factories.[5] Below is a table indicating when the processors were registered and where they are located.

Table 8.1 *List of Established Fish Processing Plants in Uganda.*

Date approved	**Name of the Fish Processor**	**Location/City/Region**
U02/1994	Greenfields (U) Ltd	Kampala
U03/1994	Gomba Fishing Industries Ltd	Jinja
U04/1995	Ngege Limited	Kampala
U05/1996	Hwan Sung Ltd	Kampala
U05/96	Uganda Fish Parkers Ltd	Kampala
U07/96	M/S Marine &Agro Export Processing	Jinja
U08/96	Byansi Fisheries Co.Ltd	Kalisizo
U09/96	M/S Uganda Marine Products Ltd	Kampala
U10/2004	Intercontinental Fish and Foods	Entebbe
U12/2000	Entebbe Handling Services Ltd (ENHAS)	Entebbe
U14/2001	M/S Masese Fish Parkers Ltd	Jinja
U15/2003	Tropical Fish Industries Ltd	Kampala
U16/2004	Igloo Food Industries Ltd	Kampala
U17/2004	Roka Bonds Ltd	Kampala
U18/2004	Oakwood Investments Ltd	Kampala
U19/2004	Fresh Water Fish Exporters Ltd	Rakai
U20/2004	M/S Unifoods Ltd	Jinja
U21/2004	M/S Pearl Fish Processors (U) Ltd	Entebbe

Source: Fisheries Department, Entebbe.

[4] FIAS (2003), *Uganda: Administrative Barriers to Investment: Update to the 1996 Road Map Study,* Foreign Advisory Services, (FIAS) in Joint Service of International Finance Corporation and the World Bank commissioned by the Uganda Government, p.129.

[5] *The Monitor* (2005), "Fish Export Earnings Hit $105 million Mark", February 8.

The vast majority of Uganda's exports go to the European Union, (EU), with lesser amounts going to the USA and Japan. The Uganda government's role is mainly policy-making, regulatory and administrative and not production. Fish processing and export has evolved over a period of time.

Table 8.2: *Export of Fish and Fish Products from Uganda 1991-2006*

YEAR	QUANTITY (tonnes)	VALUE ('000 US$)
1991	4,751.00	5,308.70
1992	4,831.00	6,450.50
1993	6,037.00	8,806.90
1994	6,563.00	14,768.90
1995	12,970.00	25,902.80
1996	16,396.40	39,780.90
1997	9,839.00	28,800.00
1998	13,805.25	34,920.79
1999	13,379.98	36,608.30
2000	15,876.38	34,363.14
2001	28,672.17	80,398.47
2002	25,169.14	87,574.36
2003	25,110.60	86,343.28
2004	30,057.46	102,917.25
2005	36,614.80	143,618.24
2006	32,855.47	136,850.87

Source: Department of Fisheries Resources (DFR), 2006

As the table above shows, there were increased exports of fish and fish products from the mid 1990s as the fish processing plants that had been established became fully functional. In 2003 there was a slight decrease in the quantity in tonnes (25,080) and value in '000 USD to 86,088. In 2004 the tonnage increased to 30,000 and the value to 105,000 USD. By the end 2005, there was further expansion in quantity exported to 36,000 tonnes and value of USD 143,618,000. Thus despite complaints by fish processors about the reduction in fish raw material supply, tonnage of fish exported is on the increase.[6] The fish processing industry has evolved over time.

[6] Data from theUganda Fish Processors & Exporters Association, (UFPEA), 2006 and DFR, 2006.

8.1.1 The Evolution of the Fish Processing Industry

The earliest establishment of the modern fish processing industry in Uganda can be located in the late colonial period with the construction of a fish processing plant by the colonial state in 1950, The Uganda Fish Marketing Corporation (TUFMAC) located in Western Uganda at Lake George. The plant received supplies of fresh fish from Lake George, Kazinga Channel and lake Edward fisheries. Like most of the industrial sector, the firm was owned by the state and operated under UDC, the premier agency for industrialisation. The plant produced frozen fillets of tilapia and carried out substantial trade in whole frozen fish and salted, smoked products. These products were distributed throughout East Africa and beyond. Agents in Zaire, (Democratic Republic of Congo) (DRC), Zambia and Aden received consignments of TUFMAC fish.[7]

Several fish processing plants were established in the western region. These included: a) Ankole Fisheries, 1960, owned by Mr. Browser a former Manager of TUFMAC, at Katungura on the Bushenyi side of Kazinga channel and handled frozen whole fish and fillets. b) Uganda Fresh Fish, established in 1967, at Kabatoro near lake Katwe and dealt in frozen whole fish and fillets. Both firms marketed their products throughout East Africa, with Ankole fisheries exporting some of its products to USA, (Chicago).

The on set of "economic war" under the Amin regime, made it difficult for these firms to operate. By the end of 1972, both Ankole Fisheries and Uganda Fresh Fish had ceased to operate. TUFMAC, by 1974, following the removal of its long-term selling and managing agents, Baumanns, was near collapse. Attempts to revive TUFMAC through UDC failed. The plant closed for good in 1977. There were three private fish processing firms that emerged in the 1970s: i) Frozen Foods Ltd, (1973-74), fish processing plant, which operated with equipment transferred from the old Ankole Fisheries plant, with tilapia supplied from lake Victoria. Tilapia frozen fillets were produced for local supermarkets and hotels and to a limited extent, export to Nairobi. ii) Afro-Fish Ltd, which produced frozen fillets of tilapia for local supermarket trade but obtained tilapia

[7] Reynolds J.E and Ssali, W.M, (1990) "Lake Victoria Fisheries Industrialisation: Recent Developments in Uganda", http://www.fao.org/docrep/006/AD136E/AD136E00.htm. The history of the processing industry is drawn from this document.

from lake Wamala. iii) FishCo Ltd, which was also engaged in the frozen tilapia fillet trade on a small scale.

None of these Kampala-based concerns were able to continue in business for long given the worsening situation of misrule and economic disarray in the 1970s. All operations by these firms had ceased by 1976. The ensuring period of strife and insecurity, which lasted up until the mid-1980s, was characterised by a virtual collapse of the national economy and activity in terms of fisheries industrialisation (packaging) was almost nil. Attempt was made to revive the processing of fish in early 1980s by the construction of Kampala Ice Plant (1981) with the original plan being for the plant to function both as ice production facility and a central fish market for city residents.

This brief outline of the evolution of the fish processing industry in Uganda points out a number of things. First, apart from TUFMAC, a parastatal, the firms involved in the fish processing were privately owned. Second, the principal raw material for processing was tilapia. Third, like the current situation, most of the fillet and frozen fish products were for exports, though there was a substantial internal market. Thus, the difference between this early period and the present can be seen in volumes of exports and their dependence on European Union market, the principal raw material being the Nile perch instead of tilapia both being natural resources, minimal state involvement in the fish production, distribution or processing but being only a regulator and nearly all fish processing firms being foreign owned (FDI).

Yet the success of TUFMAC brings out the underlying factor of the centrality of the state in the initiation of the fish processing industry in Uganda. In the absence of local capital and the dominant influence of state-led development paradigm, the state became central in the formation and operation of the fish processing industry.

The fish processing industry being natural resource-based, and at present owned mainly by FDI and dependent almost totally on export markets, has consequences for industrial policy and the industrialisation process in the country. What follows is a detailed examination of the implications of natural resource-based exploitation as a basis of

industrialisation and the dependence on export trade for industrial policy. The interviews were focused on the issues outlined in the introduction of this chapter.

8.1.2 The Natural Resource Base of Fish Processing

The fish processing industry in Uganda is based on the exploitation of naturally grown fish, particularly Nile perch, for export. During the late 1950s and 1960s, the Nile perch was introduced into the lake Victoria from its natural habitant of lake Albert in Uganda. Until 1979, the perch constituted only an insignificant part of the total catch of about 100,000 tonnes to about 500,000 tonnes in 1989. Nile perch being a predator, feeds on most of the species of fish in the lake. From being multi-species fishery, the fisheries of lake Victoria is today basically a "three species fisheries": one third being a sardine-like fish, *R.argentea*, locally known as *mukene*, ten per cent tilapia and the rest Nile perch.[8]

Table 8:3 *: Fisheries Production Estimates for Uganda 1999-2003 in '000 tonnes*

Species English Name	**Local Name**	**1999**	**2000**	**2001**	**2002**	**2003**
African Lungfishes	Mamba	9,192	5,755	5,796	5,000	4,566
Characins nei	Sliver slides	13,165	10,331	10,331	7,100	9,491
Cyprinids nei	Mukene,	17,600	12,181	12,182	12,000	8,261
Freshwater nei		-	2	2	1,800	58
Freshwater Siluroids nei	Semutundu	1,000	-	-	-	1
Naked catfishes	Male	8,564	4,375	4,375	4,800	5,723
Nile Crocodile	Gonya	-	508	900	-	2
Nile Perch	Mputa	89,203	87,257	88,881	90,698	112,804
Tilapias nei	Tilapia	84,540	96,468	96,172	98,000	97,330
Torpedo-shaped catfishes nei		2,833	2,987	2,987	2,500	1,697
TOTAL		**226,097**	**219,356**	**220,726**	**221,898**	**239,931**

Source FAO Fish Stat (Name Source: www.fishbase.org)

(Source Uganda Exporters Promotion Board (UEPB), July 2006).

[8] Jansen, Eirik (1997), "Rich Fisheries – Poor Fisherfolk: Some Preliminary Observations about the Effects of Trade and Aid in the Lake Victoria Fisheries", *Socio-Economics of the Nile Perch Fishery on Lake Victoria*, Nairobi, pp 3-4.

As seen from the table, the major species harvested in 2003 were the Nile perch, local name Mputa, accounting for 42% of production, the tilapia, local name Ngege and Mukene.

The first major problem for the fish processing industry, the continued export and expansion of the Nile perch is the unsustainable regional over-exploitation of the fisheries.[9] Being a natural resource with open access, the effect of the fishers on lake Victoria fishery is akin to the notion of "tragedy of the commons".[10] Typically, with ease of entry by fisher folk, the fisheries of the lake are exploited by increasing numbers of fishermen with little regard to the sustainability of the fish resource. This free-for-all situation in the lake can only lead to the depletion of the fish stock. Though there have been the penetration of bigger capital in the fisheries and there are limits to participation by various fisher people, this has not decreased the threat of depletion of the fisheries.[11] Second, the increasing profits in the sector have attracted new entrants and most often with more efficient gears increasing the possibility of resource depletion.[12]

During the interviews with the CEOs of fish firms and Fisheries officials, several views were expressed on the problem of relying on the fisheries natural resource base. According to Dick Nyeko[13], the concern with the depletion of the fisheries is simply alarmist as the harvesting of fish is sustainable due to thousands of tonnes of fish that can be harvested and the possibility of fish farming. He argued that:

> "Uganda is blessed with sustainable fish raw materials averaging between 300-400 thousands of tonnes annually. The country has also the capacity to increase output through fish farming which the government is actively promoting at the

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9 Kaelin, J., Andrew and Cowx, G., Ian (2002), "Outline of the Path Forward in Uganda's Fisheries Sector", prepared for the Presidential Conference on Export Competitiveness, February.

10 The notion of the "Tragedy of the Commons" popularised by Garrett Hardin, (1968) article in Science, No.162, pp 1243-48, whereby as rational beings there is a tendency of individuals to maximise their gain, applies to the fisheries. The commons as seen as an open-access, essentially unregulated or anarchic fishing regime. In case of lake Victoria, over-fishing has taken place because there are too many people after a limited fishery resource, without adequate signals of trouble and incentives to stop. The idea that fishery problems in Lake Victoria might be "tragedy of the commons" has also been widely reflected in writing of critical observers, for example, Gibbons, Peter, (1997), " Of Saviours and Punks: the Political Economy of Nile Perch Marketing Chain in Tanzania", *CDR Working Paper*, 97. No.3, Copenhagen, Centre for Development Research, June.

11 Asowa-Okwe, Charles (1996), "Modern Fisheries and its Impact on Access to and Common Property Management: A Case Study of Lake Victoria Fisheries – Uganda, A paper at a symposium *on Common Property Mangement*, Uganda International Conference Centre, Kampala, 26-28 March, P.20.

12 Kabege, Juliet (2001) *Industrial Fish Processing and Sustainability of Uganda's Nile Perch Fishery*, MSC in International Fisheries Management, Norwegian College of Fishery Science, University of Tromso, p.5.

13 Interview with the Commissioner of Fisheries, Entebbe, Mr. Dick Nyeko, 4 October, 2007.

> moment. Fish is a renewable resource as it can be farmed and reproduced unlike gold or copper which are exhaustible resources. "

Given the increasing importance the fish processing industry in national income and employment, the Fisheries Department's major focus has been on increased regulation through the application of the Fish Act to make sure that the fish resource is sustainably harvested. As he observed: "in natural resource management, a resource that is undervalued shall be mismanaged" The Fisheries Department ensures that the beneficiaries of the resource such as fish firms avoid buying immature fish. This is done at three levels: i) collectively through the firms' association, the Uganda Fish Processors and Exporters Association (UFPEA). ii) through regulation/inspection at the factories, and iii) through community management by establishing Beach Management Units (BMUs) at the fish landing sites.

This optimistic official view on the sustainability fish harvesting is in contrast to the reality on the ground. The reality is that increasingly, some firms have failed to raise enough fish raw materials for sustainable processing. In an interview with the CEO[14] of two firms (Gomba Fish Industries and Unifoods (U) Ltd), it was observed that:

> "Liberalisation of the industry has resulted in very high competition for the fish raw material. The industry has been liberalised without being certain of fish stocks in the lake. The result has been almost total extinction of certain fish species like the tilapia. The problem is over-fishing. The whole fish industry is in a mess"

He pointed to the drop in the tonnage of collected from the fishermen. For instance, where a fish trader previously collected 300kgs of fish, the average had dropped to 80kgs.

Secondly, recent research points to the progressive extinction of the various fish species to the extent that there remains only the Nile perch providing perhaps 90 percent of the processed product. Paul Namisi observes that, "with over-fishing and increased economic activities threatening the depletion of the fish stock in the lake Victoria, there is increasing need than before for the attention to be focused onto the underlying forces

[14] Interview with the Managing Director, Mr. Yusuf Karmali, 3rd December, 2007.

behind the threat".[15] Among these forces is the intense competition for the supply of fish to the fish processing plants.

The introduction of Nile perch in the lake spawned a whole new industry related to capture, processing and subsequent export of the perch fillet. The urge to earn the scarce foreign exchange had led the government to licence about 20 factories with the capacity to process 20 tonnes each, on average of fresh fish per day, 14 of which are operational. Though each fish processing plant has been allocated an amount of fish, which they are permitted to process per day through the quota system, most of these factories have an installed capacity, which is twice the permitted quota.[16] Given the inability of the state bureaucrats to monitor the compliance to these quota restrictions, fish processing plants have strived to go beyond the quotas and satisfy their firms' over-capacities. This has led to intense competition for the raw material hence putting added pressure on the fisheries with consequences for both production and the traditional small-scale traders and artisanal processors.

The competition for the fish raw materials has been occasioned by the excess industrial capacity due to the demand by processors for the unprocessed resource. This has resulted in the rise of Nile perch prices, the dwindling of local demand with the local fish chain participants – fishmongers and traditional processors, squeezed out of the chain. Competition has provoked vertical integration as factories strive to establish greater control over chain resources. The factories by capturing over 90 per cent of the Nile perch landings have provoked the demise of many local fishmongers and traditional processors and hastened concentration at harvesting level via the propagation of tied contracts.[17]

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[15] Namisi, Paul (2001), *Socio-Economic Implications of the Fish Export Trade on the Fishers and the Fisheries of Lake Victoria in Uganda*, *Lake Victoria Fisheries Research Project Phase II*, Fisheries Resource Research Institute, (FRRI), p.11.

[16] Bahiigwa, Godfrey and Muramira, Eugene (eds) (1999), *Capacity-Building for Integrating Environmental Considerations in Development Planning and Decision-Making with Reference to the Fishing Industry in Uganda*, Economic Policy Research Centre (EPRC), Makerere University, Kampala, p.35.

[17] Thorpe, Andy and Bennett, Elizabeth (2004), "Market-Driven International Fish Supply Chains: The Case of Nile Perch from Africa's Lake Victoria", *International Food and Agri-busness Management Review*, Vol.7, Issue 4, pp 46-47. I deal with the issue of contracts in details in how they are applied in the competitive strategy of the fish firms., in chapter in the sub-section on competitive strategies.

The Commissioner of Fisheries[18] observed that the excessive demand for the Nile perch was positive for the fisher people. He argued that:

> "The existence of several fish processors is good for competition. The market rewards everyone. The efficient firms shall continue operating as others close. The liberalisation of the fish trade has led to prices rise 7 fold between 1999-2007. Rather that complain about increased fish prices, the solution is to increase farmed fish as opposed to caught fish. Why? Price for fish is now good. While liberalisation has pushed people, there has also occurred an adjustment. People can now eat fish frames[19] since most of the fillet is exported".

This view does not take into consideration the ruinous impact of over-fishing in the effort to earn the "good" prices in the context of incompetent regulatory regime.

The rise in prices for the Nile perch has enticed many people into fishing. But due to the inability to afford the relevant gear and take advantage of the rising fish prices, the poor fisher people have engaged in illegal, unrecorded and unreported fishing based on the widespread use of illegal fishing methods, which can only lead to over-fishing and possible depletion of fish stocks. Unregulated fishing has contributed almost entirely to the decline of the native fisheries of Lake Victoria.

The pressure on the natural resource has been compounded by the inadequate and incompetent regulatory authorities and management institutes contrary to the officials of the Fisheries Department. Sustainable fisheries trade is not possible if there is no sustainable fisheries management. With the urge to earn export revenue, the state has concentrated on ensuring that fish trade is not interrupted without realising that the basis for fish trade is a well-managed fishery. Through vessel licensing and issuing of permits, the state aims at controlling access to the fishery. To the bureaucrats and the enforcers, these have turned out to be a bonanza and the regulations are used for generating local revenues for fisheries management in local government.[20]

Contrary to the official view of the fish processing industry, the reliance on a natural resource such as fish to industrialise has several drawbacks. In the context where measures to ensure its sustainability are absent, intense competition for the resources is

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[18] Interview with Mr.Dick Nyeko, Commissioner of Fisheries, 4th October, 2007.
[19] Locally known as *mugongowasi* meaning bare bones (fish skeletons)
[20] Keizire, B, Blackie (2004), *Policy Research – Implications of Liberalisation of Fish Trade for Developing Countries: A Case Study for Uganda*, Report to Food and Agricultural Organisation, (FAO) of the UN, Rome, pp 15-16.

prevalent, incompetent regulation and management of the resources points to a dead-end of sustained industrialisation. The situation in Lake Victoria is not sustainable.

The over-exploitation of the fisheries resources in Lake Victoria is real and may lead to the depletion of the fish on which the processing industry mainly depends. There is strong evidence that the Nile perch that forms the main fishery (over 70%) is being over-fished. The average landed fish had declined from over 50 kg weight in 1980, to less than 10 kg weight in 1996. Catch rate has been in decline. In Ugandan part of Lake Victoria, between 1993 and 1998 the commercial fish catch fell by over 20 per cent.[21]

The optimistic Commissioner of Fisheries was of the view that this decline in the catch rate should not be seen as the end of the road. Basing on global projection, he argues that the demand for fish is ever on the increase. According to him:

> "Fish is one of the commodities whose demand is ever increasing given the health concerns against red meat in the developed countries. Fish trade is now in excess of US $50 billion. The global demand shall continue to increase"

According to the Commissioner, the solution to the depletion of fish stocks is three-fold: i) strict management of capture fish, ii) commercialisation of fish farming and iii) expansion of domestic demand. For the expansion of domestic demand, he pointed to the rapid expansion of fish farming by the Ugandan middle class which in the last 10 years has expanded at the average of 300 per cent per annum.[22]

In line with the commissioner's thinking, the CEO of Greenfield Ltd, who is also the current Chairman of the fish processors association, The Uganda Fish Processors and Exporters' Association (UFPEA), while concerned with depletion of fish raw material resource, made two suggestions in order to enhance the fish trade: one for increased production and the other technical. "To sustain fish export trade, what is needed is re-investment in improving processing set-up of machinery to minimise wastage and firm expansion into fish farming"[23] According to CEO of Gomba Fish Industries, the major

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[21] Namisi, Paul (2001), S*ocio-Economic Implications of Fish Export Trade*…. p.11.
[22] Interview with Mr. Dick Nyeko, Commissioner of Fisheries, 4 October, 2007.
[23] Interview with Mr. Philip Borel, the CEO of Greenfield Ltd, 24 September, 2007.

problem can be identified as that of over-licensing of fish processing plants. There has to be a way of reducing the number of firms in fish processing.[24]

While this may be the case, any country basing its industrialisation on the harvesting of a natural resource must take note of its fragility. Lessons could be drawn from the experience of Canadian fishing industry. The once abundant North Atlantic cod may be commercially extinct. Canada has closed its cod fishery to allow the fish to repopulate and practically putting 30,000 people out of work. Western Atlantic blue fin tuna are down to only 10 per cent of their former abundance. Now each blue fin commands US $270 per kilogram in Japan – a bounty that only adds to the desire to hunt it down.[25] The continued hunt and reliance on Nile perch can only lead to its depletion with attendant result that the fish processing industries shall have to close down. The uncontrolled exploitation of the natural resource has seriously reduced the fish stocks. The accurate stock assessment on size, structure, growth and mortality is hardly available.[26]

The export oriented nature of the fish processing industry raises another set of questions for industrial policy. The almost total lack of internal market for the filleted fish in the country implies absence of backward linkages. One sure market is the local market. One has very limited control over foreign markets. This is discussed in the next section.

8.2 Export Orientation of the Fish Processing Industry

The fish processing industry in Uganda is basically export-oriented and is driven by three factors: i) the health concerns against red meat in Europe, ii) the depletion of European fish stocks and iii) the rising prices which encourage fishermen to hunt-down the fish.[27]

Prior to the 1980s at the onset of SAPs, there was limited state involvement in the production, marketing or processing of fish. The limited participation was through TUFMAC, a parastatal organisation under UDC. Due to lack of direction, effective

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[24] Interview with Mr.Yusuf Karmali, the CEO of Gomba Fish Industries, 3 December 2007.
[25] Namisi, Paul (2001), *Socio-Economic Implications of Fish Export Trade*…p.11.
[26] Mitullah, Winnie, (no date), "Lake Victoria's Nile Perch Fish Cluster: Institutions, Politics and Joint Action", *IDS Working Paper*, p.18.
[27] Interview with Mr. Dick Nyeko, Commissioner of Fisheries, 4th October, 2007.

control and faced with stiff competition on the local and export markets, UDC had to underwrite the losses of the subsidiary. TUFMAC, however, was inspirational to local market participants through its efforts to improve the quality of its own salted fish, which forced its competitors to adopt the same methods, thus strengthening the Congo market. It pioneered the filleting, packaging and freezing process in Uganda and although its own sales efforts were ineffective, it paved way for the gradual shift to frozen fish in the local market.[28] Thus, the fishing industry was mainly internally market focused. The state was mainly involved in licensing of fishing units. Most of the processors collapsed following the "economic war" of 1972. While there existed a parastatal for manufacturing the fishing gear, the Uganda Fishnet Manufacturers Ltd, with its collapse in the 1970s, the supply of fish gear was licensed to the private importers.[29]

Two major factors account for the increased export orientation of the Uganda fish processing industry. First is the existence of massive market for fish in Europe, the Middle East, the Far East, USA and other developed countries as there has been a shift in consumer preference from red to white meat as argued by the Commissioner of Fisheries above. Second, fish trade liberalisation that has attracted investors in industrial fish processing firms to satisfy the expanding fish market.[30]

The boom in Nile perch fishery has sparked-off large-scale investments in industrial processing for exports since the early 1990s. The global trade driven by market forces is intensifying and shifting to small-scale fisheries of *Ngege* (tilapia) and *Mukene* (sardine-like fish), although the later are mainly for the internal market.[31] Apart from the virtually untapped supply of the large-sized Nile perch, the development and expansion of export-oriented production and marketing of the Nile perch has been driven by the demand for quality fish by consumers in industrialised countries which continued to grow as fish supplies in northern waters dwindled.[32] The optimism of the continued availability of the European market is that fishing is sent for even bigger expansion because of rising health

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[28] Government of Uganda (1969), *Report of the Committee on the Marketing of Livestock, Meat, Fish and their Products in Uganda*, Kampala, p.95.
[29] Biribonwoha, Alex (1991), "A Review of Fisheries Inputs in Kenya, Uganda and Tanzania", a paper presented at the UNDP/FAO workshop, Bujumbura, April, pp24-25.
[30] Keizire, Boaz, (2004), *Policy Research – Implications of Liberalisation of Fish Trade*… p.55.
[31] Namisi, Paul, (2002) "Socio-Economic Implications of Fish Trade and Exports in Uganda", a paper presented at Colline Hotel, Mukono – LVEMP and NARO, *National Scientific Conference*, p.1
[32] Kabege, Juliet (2001), Op Cit., pp10-11.

awareness with many consumers, especially in the West, now preferring white to red meat.[33]

The second factor in the expansion on fish exports markets is the SAPs policy of liberalisation aimed at encouraging private investment through tariff reduction and provision of tax incentives. The government also relaxed restrictions on profit repatriation for foreign investors and offered assurances of the security of their assets against any form of expropriation. The industrial fish processors were thus induced by profit maximisation which was secured and was further motivated by the enabling environment provided by government, including tax exemption on imported machinery and tax holidays and the availability of cheap human resources.[34] According to CEOs of the selected fish firms, the liberalisation of the fish industry and the over-licensing of fish firms vis-à-vis the limited fish stocks in Lake Victoria has resulted in the depletion of the fisheries.[35]

Internally, liberalisation resulted in increased supply of required gear; of types and sizes meeting regulations, on the market as import restrictions were lifted. Hitherto, gill net supply was a monopoly of the Uganda Fishnet Manufacturers Ltd, which could only meet 30% of the overall demand of nets. With liberalisation, the demand for fishing gear could easily be satisfied by the expanded importation by the private sector. This policy is one of the stimulants for the growth of the fish-processing sub-sector.[36] While there has been expanded importation of fishing gear, the implication is that Uganda Fishnet Manufacturers Ltd collapsed and closed shop resulting in loss of jobs and the possibility of locally produced fishing gear.

Perhaps it was the state policy on the export of unprocessed whole fish that prompted the establishment of several processing plants in Uganda. According to Nsibe-Bulega, et al in 1991, Uganda government announced a ban of exports of unprocessed whole fish

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33 Interview with Mr.Dick Nyeko, Commissioner of Fisheries, 4 October, 2007.
34 NARO (1997), *Fish Commodity Systems Economics (Uganda) Project*, *FIRI Socio-Economics Sub-Programme*, Fisheries Research Institute, Jinja, October, p.24.
35 Interviews with Mr.Philip Borel and Mr. Yusuf Karmali as above.
36 Odongkara, 0, Konstantine (2001), *Poverty in the Fisheries: A Framework for Analysis and Intervention for Lake Victoria, Uganda*, PhD Thesis submitted to the University of Hull, United Kingdom, p.315-316.

to Kenya aimed at curbing the sale of unprocessed fish to foreign markets. [37] This marked the beginning of the era of fish export ban in Uganda. The Uganda government pronouncement and the ban of sale of unprocessed whole fish to Kenya in early 1990s, prompted fish processing firms in Kenya to shift and start up industrial processing firms in Uganda.[38]

Internally, however, there remains lack of internal markets coupled with a rudimentary cold storage and marketing network which makes fresh and frozen fish distribution to the inland population in the country, with a very low effective demand, very difficult.[39] The local communities prefer whole fish as opposed to fillet that all fish processing fish are producing. The TUFMAC model which produced the whole salted fish would be preferred for local markets.

What follows is an examination of the implications of these factors for Uganda's industrial policy in the context of export orientation. The first concern is the question of ownership and thus by extension, the financing of the fish processing firms. The almost total dependence on FDI in the fish processing industry has implications for industrial policy towards the fisheries and the development of local industrial capacities and markets.

The ownership of the fish processing industry in Uganda is mainly by foreign entrepreneurs. These include: Asians from East Africa and Multinationals from Europe. According to Paul Namisi the fish factories are owned on partnership (75%) or sole (25%) basis by different nationalities, which include Ugandans, (38%), Kenyans, Koreans, Saudi Arabians, Indians and Dutch. [40] Most factory owners (56%) indicated that they had extensive professional experience in the fish processing business and only a few have only some relevant training (11%) in the fish business. On the other hand, 33% had no previous experience in the fishing industry prior to the establishment of the fish

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[37] Nsibe-Bulega, and Akankwasa, A (2002), "The Status of the Nile Perch Fishery and the Potential for Production and Marketing of Nile Perch Value Added Products in Uganda", A paper prepared for CFC/FAO/COMESA.

[38] Keizire, Boaz (2004), *Policy Research – Implications of Liberalisation of Fish Trade for Developing Countries*…. p.17.

[39] Namisi, Paul (2002), "Socio-Economic Implications of Fish and Exports in Uganda", A Paper presented at Colline Hotel, Mukono – LVEMP & NARO, *National Scientific Conference*, p11.

[40] Namisi, Paul (2001), Op Cit., p.50.

processing factory business. Common to almost all owners of the factories is that they have no past connection with the lake Victoria fisheries It seems to a rule that the factories have employed influential Africans as directors, who do not necessarily represent any effort to build Ugandan capacity in running the fish firms.[41]

Secondly, many of the factories have been financed by international development banks and received support from government development and agencies of the industrialised countries. This form FDI shall have limited contribution to building local industrial capabilities in fish processing. This is because FDI which is driven by profit motive and dependent on foreign capital, therefore, is least concerned about local capacity building.

The Commissioner of Fisheries does not see any problem with the fish industry being controlled by FDI for a number of reasons. First, the external markets for fish are insatiable yet it is FDI that can marshal substantial capital and technology to facilitate fish exports. Secondly, local firms do not have the capacity to handle international logistics. Thirdly, FDI is beneficial to all. He estimated that for every 1 kilogramme of fish, 40% of the income goes to the fishermen, 30% to the middlemen and 20-30% to the fish processors[42]. What he does not say is that with the contract system both the fishermen and middlemen are financed and therefore controlled by the fish processors.

One of the claims of FDI is that creates employment opportunities. But the quality of the jobs created by FDI in the fish industry raises several concerns. First, the working conditions are less than charitable. The first thing one notice when one walks into a fish processing plant other than the smell of the fish, is the temperature of the air inside cold rooms. Secondly, often the workers have no permanent working contracts. Thirdly the training for the job can at best be described as rudimentary. Finally, as indicated in the table below, the number of people employed in the factories is very small compared to the number of those who lost their jobs in the traditional processing industry.

[41] Jansen, Eirik (1997), Op Cit., p.12.
[42] Interview with Mr. Dick Nyeko, Commissioner of Fisheries, 4th October, 2007.

Table 8.4: *Levels of Employment in the Fish Processing Firms*

Name of Establishment	Estimated No. of Workers
I. Igloo Food Industries Ltd	200
2. Masese Fish Packers Ltd	100
3. Marine and Agro Ltd	150
4. Gomba Fishing Industries Ltd	100
5. Unifoods Ltd	80
6. Uganda Fish Packers Ltd	300
7. Hwan Sung Ltd	250
8. Uganda Marine Products Ltd	Closed (October 2007)
9. Tropical Fish Industries Ltd	230
10. Greenfield (U) Ltd	180
11. Tampa Fisheries Ltd	230
12. Fishways (U) Ltd	180
13. Oakwood Investments Ltd	150
14. Freshwater Fish Exporters Ltd	150
15. Wild Catch Fisheries Ltd	150
16. Superfish Ltd	50
17. Ngege Ltd	50
TOTAL	**2550**

Source: Department of Fisheries Resources (DFR), Entebbe, (2007).

In interviews with the CEOs of the selected firms, it was claimed that several jobs had been created. The CEO of Gomba Fish Industries estimated[43] that the firm had created between 400 – 500 jobs, which according to the above table are exaggerated. According to the CEO at establishment of the firm in 1982, there was nobody with experience in filleting. Due the civil war in the 1980s, the firm did not embark on exports until 1988-89. It is during this period that several workers were trained to fillet. The CEO also boasted of managerial and technological capabilities. There are 3 fish technologists, 3

[43] The CEOs of the firms were secretive on both matters relating to labour and finance. Requests to interview workers were flatly rejected.

refrigeration engineers and production managers. For the processing of fish skin the firm employs 10 technicians.[44]

The CEO of Greenfield Ltd made similar claims. According to him, they carried out in-house training and all staff have been trained in quality management system. This has included training in administration, understanding fish system, software packages and processing and quality assurance.[45] While this may be correct, the nature of jobs created and their impact on local fisher people remain of concern as noted by some researchers on the Lake Victoria fisheries.

Eirik Jansen observes that thousands of traditional, small-scale fishmongers have lost their jobs as the processing factories have expanded their operations.[46] The quality of jobs created is of lower skills. This contrasts with the top jobs of the processors. The top management of most of the processing plants are foreigners, which implies that a substantial amount of the total salaries paid leaves the country.[47]

These concerns by researchers are brushed aside by the Commissioner of Fisheries who argues that the establishment of fish processing firms around Lake Victoria has been a blessing. The firms have resulted in increase of fish price 7 fold since 1999. To ensure exports, the government has invested more than US $30 million in improving landing sites and rehabilitating fish markets. On the other hand, the private investors have injected in excess of US $180million in firms in terms of processing facilities, cold chains, refrigerated vehicles in addition to support for the laboratories which ensure the health and quality of fish exported.[48] While these improvements cannot be denied, the concern here is the impact they have had on the local fishermen and the re-organised fishing arrangements which exclude a substantial section of local fishermen.

Second, although FDI has had some advantages for many foreign and local entrepreneurs, it has become important new source of vulnerability. At the same time,

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[44] Interview with Mr.Yusuf Karmali, 3 December 2007.
[45] Interview with Mr. Philip Borel, 24 September 2007.
[46] Jansen E. (1997) Op Cit, p.9.
[47] Bokea, C and Ikiara, M., (2000), "The Macroeconomy of Export Fishing Industry in Lake Victoria (Kenya)", IUCN Eastern Africa Programme, Socio-Economics of Lake Victoria Fisheries, p.13.
[48] Interview with Mr. Dick Nyeko, 4 October 2007.

the international consumer demand, particularly in demanding improved quality standards, has had profound local organisational ramifications for the organisation of the post-harvest Nile Perch supply chain.[49]

The massive investment in the limited fish resource has led to the displacement of the local fishmongers and the traditional processors. The excess industrial capacity spawned competition between processors for the underlying unprocessed resource by the late 1980s. Competition provoked vertical integration as factories strove to establish greater control over chain resources. The emerging structure is extremely exclusionary – the factories by capturing 90% + of Nile perch landings, provoked the ruin of many local fishmongers and traditional processors and hastened the control over the chain at the harvesting level via the propagation of the tied contracts[50]

The vertical integration of the fishing industry has resulted in losers and winners at all the three levels of fish supply chain: production, processing and marketing. The expanded FDI investment in the fishing industry has resulted in increased financing and upgrading of the lake Victoria fisheries and improved the fish catches and the reduction of post-harvest losses. At the production level, expanded investment in fisheries has stimulated fishermen and canoe owners to emulate new techniques and acquired bigger boats and moving gear. Such investment has included: gill nets, outboard engines and refrigerated boats.[51] The high levels of investment in boat, gear and outboard engine required, while enhancing the technological capacity of fisher people, it has at the same time led to the exclusion of greater majority of fisher people from participating in fishing.[52]

With the entry of processing factories into the production chain, there has been a trend strengthening the transfer of the ownership of the canoes and vessels away from the

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[49] Thorpe A and Bennett Elizabeth (2004), "Market-Driven International Fish Supply Chains: The Case of Nile Perch from Africa's Lake Victoria", *International Food and Agribusiness Management Review,* Vol.7, Issue 4, p.40.

[50] Ibid, p.46-47. The centrality of contracts is discussed in more details below under competitive strategies, especially its impact on competition and the resulting concentration of income in fewer hands.

[51] Mayende, S. Nabangi, (1992), *Fish Production, Processing and Marketing at Masese and the Impact of Integrated Fisheries Development Project,* MA (Economic Policy and Management), Institute of Economics, Makerere University, Kampala p.20.

[52] Asowa-Okwe, Charles (1996), "Modern Fisheries and its Impact on Access to and Common Property Management: A Case Study of Lake Victoria Fisheries – Uganda, p.20.

local fishing communities to fish processing firms and its agents.[53] Together with total ownership of factories, the fish commodity chain has become exclusionary under the control of bigger capital. At the level of processing, local entrepreneurs have been relegated to the feeds processing sub-sector.

The locally owned processing plants are for chicken feeds processing based on the sardine-like small fish*, mukene*. The chicken feed sub-industry is organised internally with the essential infrastructure lacking and little government support for the sector. Most processors are small-scale entrepreneurs who produce quantities that are consumed locally in the country. There are a few large scale processing plants which are known throughout the country like NUVITA, Ugandachic Poultry Breeders and Bulemezi Farm Enterprises Ltd owned by local entreprenuers. *Mukene* is the only source of fish meal for all processors today in Uganda with the exception of Gomba Fishing Industries where they process Nile perch skeleton and carcasses into fish meal which they sell to other processors.[54]

The emerging fishmeal processing industry, threatens the sub-industry processing skeletons and other fish waste discarded by the factories that have evolved with a domestic market focus. Thorpe and Bennett note that a newly emergent secondary fish chains are now squeezing the skeleton sub-industry out as such discarded by-products are either being diverted into newly constructed fish meal plants, or disappearing altogether due to improved processing techniques which leave no meat on the skeletons.[55]

All factories generate by-products: the skin, swim bladders, fish frames and maws, which with the exception of maws are exported to the Far East (Asia) market while all other by-products are sold locally.[56] The major firm that is owned by local Ugandans, Tropical Fish Industries Ltd (see table above), operates in this niche of by-products. The firm exports fish maws, fish bladder and air sacks as fish by-products. While the firm considers itself successful having broken into overseas markets in China, Hong Kong,

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[53] Jansen, Eirik (1997), Op Cit. p.8.
[54] NARO (1997), Op Cit., p.82-83.
[55] Thorpe and Bennett, (2004), Op Cit., p.47.
[56] SEWADOG (1999), *Marketing Study*: Socio-Economic Data Working Group, Jinja, p 84.

Singapore, Taiwan, Malaysia and United Kingdom, it operates on the fringes of the fish processing industry.[57]

But even where efforts are made to manufactures products out of the by-products, the final product would only be done out of the country. For instance, when Gomba Fishing Industry Ltd embarked on producing of fish leather for export on a large scale, the finishing would be done in South Africa. The fleshed Nile perch skins from Gomba Industries would be semi-processed by Uganda Lather Tanning Industry (ULATI) before being taken to South Africa for specialised finishing, with very little effort to learn or carry it out in the country. [58] The processing of fish leather in South Africa should have been taken as learning process.

The industrial fishing-processing sub-sector has based its operations on the main objective of exporting the products. Thus, one of its contributions to the economy is the earning foreign exchange. It is the case that fish exports earnings have been on the rise. There are, however, a number of issues that arise in the context of the utility of these earnings to the national economy. Apart from its contribution to the tax base of the state and the provision of employment, however rudimentary, foreign exchange earned by fish exporters has limited utility to enhancing national industrial capacity. The inability to enhance capacity in the fish sector may be explained by number factors.

First, the fish processors are, at the same time, the highest users of foreign exchange through high imports demanded for their firms' operations. The fishing industry demands massive importation of a range of items to facilitates the fishing operations and the fish processing, for both industrial processors and fishers. The demand by fishers includes: nylon twines, hooks, boat construction materials, nails, outboard engines, spares and fuel among others. The industrial processors need machinery and other processing equipment, packaging materials, building materials, finishing touches, among others. With no local production, most of the above items have to be imported thus spending most of the foreign exchange earned from fish exports.

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[57] http://www.intracen.org/bsrt/casestudies/csugandafish.pdf
[58] *The New Vision* (1994), "UNIDO Aids Fish Farm", September, 15.

Second, since the plants are mostly foreign-owned, much of the foreign exchange earned is repatriated. Third, there is little evidence of the processing firms' re-investment either in the fishing or other sectors of the Ugandan economy. In general, very little of the profits are being re-invested around the lake or as incentives to fishers to fish sustainably.[59]

In addition, the industrial processing industry for export under the grip of FDI ownership has resulted in the loss of livelihood opportunities of traditional artisanal processors and traders with very limited creation of alternative incomes.[60] But perhaps the most destructive impact on fisheries is the threat to its sustainability as the fish firms pursue profits through the fish export trade. The urge to secure the fish raw material has led to rise of what could be referred to as "contract" markets.[61]

8.3 Competitive Strategies for Export Markets in the Fish Industry

The data for this section was derived from interviews with the CEOs of the selected fish firms, officials of Fisheries Department, secondary literature and newspaper reports. It is focused on a number of themes: i) the competition for the fish raw material, ii) the contract system, iii) the quota system and iv) limits on competitiveness of the fish resource.

Prior to exports, the fish processors must secure the supplies of raw fish. The competition for the raw material begins at this level. There has occurred increased competition amongst the processing plants to secure sufficient supplies of fish. Just as in neighbouring Kenya, the main constraint limiting maximum production by Uganda processors is the difficulty in obtaining enough fish to process.[62]

One of the critical strategies for securing supplies for their plants is the entering of contracts with the fishers. The processors enter contracts with agents to supply given

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[59] NARO (1997), Op Cit, p.36-40.
[60] Odongkara, Constatine (2001), Op Cit., p.320.
[61] Contract markets basically refer to agreements between firm owners and agents for the supply of fish. They involve firm owners providing capital for the purchase of fish, fuel for outboard engines and provision of ice 'refrigerate' the fish to secure its freshness. This is to guarantee the supply of fresh fish to the firms.
[62] Abila, Richard and Jansen, Eirik (1997), "From Local to Global Markets: The Fish Exporting and Fishmeal Industries of lake Victoria – Structure, Strategies and Socio-Economic Impacts in Kenya", *Socio-Economics of the Nile Perch Fishery on Lake Victoria,* Nairobi, p.10

quantities of fish per week and they facilitate those agents through credit, insulated trucks and refrigerated boats.[63] The result has been to upgrade the technological capacity of fisher-people. This gives the fish processors two critical elements of competitive advantage.

First, the contract system ensures a sustained supply of the raw fish. Second, it reduces the fish processors' losses that may occur as a result of the supply of poor quality (rotten) fish, as the cost of the rejected fish can be transferred to the agent. With insulated trucks and refrigerated boats, there is less rejected fish. Despite these arrangements, factories still encounter supply problems due to the dwindling catches and the intensified competition as more fish factories are licensed.[64]

The contract system contradicts the neo-classical fundamentalism and its idealised "free markets". Markets operate within particular institutional framework. While the contract system has ensured the supply of raw fish to the fish processors and upgraded the technology, the major outcome of the contract system is that it has resulted in the concentration of wealth amongst the agents, loss of livelihoods by the traditional fishmongers and traditional artisanal processors and the obliteration of "free markets" in the production and marketing of fish.

The contract system in Uganda is rather loose due to the complications associated with them. This is because the system implies a rent, which the traders/agents would pay in a tied contract. This rent would not be paid when a vessel is not tied through loan as a way of supplying particular firms. Thus, most Ugandan traders are aware of the benefit of not contracting and as a result they avoid tied contract sales with fish factories.[65] Nevertheless, the contract system is gradually being adopted by the fish operators. In an interview with one of the major operators,[66] the firms in Uganda have gradually adopted the contract system. Initially the contracts were unlimited. At present, contracts with this particular firm are entered for a period of up to 2 years. The CEO argued that the

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[63] NARO (1997), Op Cit., p.33
[64] SEWADOG (1999), *Marketing Study*: Socio-Economic Data Working Group, Jinja, p.82. and Jansen, Eirik (1997), Op Cit.,p.12
[65] Namisi, Paul (2001*) Socio-Economic Implications of the Fish Export Trade on the Fishers and Fisheries of Lake Victoria in Uganda*, Jinja, p.65.
[66] Interview with Mr. Philip Borel, 24 September, 2007.

limiting of the period of contracts is better as their continuation depends on re-evaluation and renewal depends on performance.

Fish processors should buy directly from the fisher people, which would result in more competitive and better prices for the fish raw material. While the contract system is strategic and ensures supplies to the factories, they distort the market, with market power being concentrated in a few agents and processors. Secondly, the contract system serves as a transfer of wealth from one group in general to certain favoured individuals, groups or firms.[67]

Third, to control the exploitation of the fish resource, government has instituted a quota system which limits the level of tonnage of fish a firm may process. The quota system has come to be applied as a competitive strategy. The quota system has a dual role in the fishing industry. While the central aim is to prevent the depletion of the fish resources through over-fishing, it also limits competition as the state sets the quantities of fish each firm is authorised to process per year.[68] The problem, however, remains that the quotas are not determined by any kind of scientific basis making as it is difficult to predict future changes or possibilities of expansion. This has been compounded by the reality that the state bureaucracy has very limited capacity to monitor compliance by the fish processors.

Fourth, the Nile perch remains a very competitive substitute in the European markets. It has all the nutritional characteristics found attractive by consumers and dieticians. A 3.5-ounce raw portion has just 93 calories and 1.8 grams of fat. Thus supermarkets operators who are interested in creating a niche with healthy orientation, the big news is Omega-3. The Nile perch, with 710 grams per serving, has one of the highest levels of omega-3 fatty acids of any fish. The fillets are white, succulent, and virtually boneless and offer full flavour. The fish is an excellent substitute for sea bass, cod and grouper fillets.[69] In Europe and Asian countries, the consumption of red meat has gone down because of the health problems attributed to it and this has paved the way for the rise of demand of white meat. This ensures expanded market for fish especially, Nile perch and Nile tilapia.

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[67] Kabege, Juliet (2001), Op Cit., p.38.
[68] Ibid, p.70.
[69] Barota, Michael (2003), "From Lake Victoria to Your Fish Counter", *Progressive Grocer*, Vol.82, Issue 2.

There are, however, several factors that put limits on competitiveness fish exports. These include the land- locked nature of Uganda and the extra costs it incurs on comparison to its East African neighbours, the failure to be innovative and differentiate their products and failure to move to a higher level of value addition to fish products by canning the fish.

First, the most expensive fillets comes from Uganda, where combined average comes to US$ 3.35 per kilogram of fillet, while Kenyan and Tanzania prices were for more similar at US$ 2.95 and $ 2.97 per kilogram of fillet respectively. In Uganda, all factories sold chilled (fresh) fillets, and about 6 sold frozen fillets.[70] Second there is a failure to differentiate products. There is evidence that there is a possibility of differentiation as was the case with pioneer fish-processor in Uganda, TUFMAC, before its collapse in 1977. Thus, prior to the Nile perch boom, the bulk of exports by TUFMAC were in the form of smoked fish, salt, dried and fillets.[71]

The attempt at product differentiation, however, has been undertaken at Gomba Fishing Industries Limited and Greenfield Ltd where the owners/managers take an innovative approach to processing seriously and several different techniques of processing fish and fish products have been put on trial or planned: Nile perch swim bladder are dried for export sale, fish meal is produced from offal and fish frames – skeletons. Their products are more differentiated and go beyond chilled and frozen fillet of tilapia and Nile perch. They include: cold and hot smoked fillets of Tilapia and Nile perch, smoked split whole tilapia, salted/dried split tilapia and fresh whole gutted fish.[72] But like the other processors, the firms are primarily oriented to the overseas export market and are actively seeking further supply contracts overseas.[73]

At Greenfield Ltd there are efforts at general value addition. The fillet is usually semi-finished and there are efforts at full transformation to products with high value. The CEO explained that value depends on the level of transformation and the market in

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70 SEWADOG (1999), *Marketing Study*, Socio-Economic Data Working Group, Jinja, p.83.
71 Uganda Government (1969), *Report of the Committee on Marketing of Livestock, Meat, Fish and their Products in Uganda*, p.92.
72 Interview with Mr. Yusuf Karmali. 24 September 2007.

terms of quality, health concerns and sophisticated target markets. Investment in technology takes these into account.[74]

Finally, there are no efforts by the fish processors to extend value-addition to fish canning which would bring high returns and export earnings. Little of the export proceeds are re-invested in the industries or used to enter production niche such as fish canning.

To enhance and to advance of their interests, the fish processors have constituted themselves into a business association, the Uganda Fish Processors and Exporters Association (UFPEA). It is through this association that the fish processors interact with the public power responsible for the formulation of policy towards the industry.

8.4 The Public-Private Interactions in the Fish Industry

The data for this section of the chapter is derived from the interviews with the CEO of the association, the CEOs of the selected firms, documents and newspaper reports. The focus of the interviews was on several themes: i) UFPEA interactions with government policy-makers, ii) collaboration to maintain fish quality, iii) the association as a lobby group.

One of the key conditions for the development of successful EOI strategy is a strong institutional state linked to the business community with a certain level of embeddedness and ability to adopt and fully implement the necessary policy reforms.[75] One major example of the public-private interaction in the fishing industry was in the case of fish quality concerns in European Union countries, which resulted in the ban on fish imports from Lake Victoria. This section examines the interaction between the state and the Uganda Fish Processors and Exporters Association (UFPEA) on one hand, and the interactions amongst members, on the other hand, in the promotion of the fish industry.

In light of the declaration by EU that no local company would be permitted to export to any European Union countries without government guarantee that its plants meet all the

[74] Interview with Mr. Philip Borel, 24 September, 2007.
[75] Stubbs, R ichard (1999), Op Cit., p.340.

required standards on hygiene and sanitation and its products are not contaminated, the processors had to comply with these health conditions.[76]

To operationise the public-private interactions, the processors collaborated with relevant health authorities and lobbied government, designed strategies of supporting and working with actors located within the beaches to ensure that sourcing of the fish was appropriate and that the quality was maintained once the fish was caught. Thus, following the fish ban by EU, the factories strove to meet the new requirements. Well equipped laboratories, expanded and updated their filleting plants and in some cases engaged foreign technical assistance or sent their personnel abroad for training and consultation.[77]

On the other hand, government responded to the EU and other international food safety and quality requirements by developing and construction of a number of modern fish landing sites in all strategic selected areas of major water bodies in Uganda. Uganda being dependent on "donor" funding, the government sought financial support from the African Development Bank (ADB) and Chinese and Japanese governments and a number of landing sites were earmarked for the development to boost the private fish processing industry.[78]

The government, following the EU fish ban, through the Uganda National Bureau of Standards, (UNBS) has been striving to upgrade Uganda's EU export status from "List 2" to "List 1", like Tanzania. "List 1" exports have total free access to the EU markets, and arrangement referred to as "Full Harmonisation". The fish enters the EU market free of further checks and counter-controls and trade with individual countries unlimited. Uganda is on "List 2" Most factories have been concentrating on upgrading quality and capacity to meet the EU quality regulations since 1997.[79]

The Ugandan processors obtain advice on the import regulations of export markets from UNBS. Because quality assurance mechanisms are imperative in fisheries given the latent

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[76] Merere, Ahmed and Joseph, Mwamunyange, (1997), "Governments to Vouch for Quality of Fish Exports", The *East African,* July 21-27.
[77] Mitullah, Winnie (1997), Op Cit.,, pp 21-22.
[78] Keizire, Boaz, (2004), Op Cit., p.33.
[79] Namisi, Paul (2001), Op Cit., p.64.

perishability of the product, the fish processors have had to collaborate through their organisation, the UFPEA, to instil confidence in the importers. Through UFPEA, the Uganda fishing industry attained the International Standards Award – the ISO 9001:2000 quality award. UFPEA firms were supported by USAID funded SPEED project and the consultative assistance from Total Quality Management Ltd, in the training for the award. In addition, SPEED supported the formation of an aggressive, internet-based marketing programme for UFPEA, for both the processors and their association by launching websites in June 2002. The Websites have been a resounding success, receiving more than 20,000 "hits" since launching. Website contacts bring in regular orders, including a recent US $ 300,000 per month order from a Middle East purchaser, alone.

Since the fish ban by the European Union in 1990s, Uganda fisheries industry has made considerable strides in its ability to comply with EU standards. The state has supported for the fish industry by deploying several institutions. The Department of Fisheries Resources, the Uganda National Bureau of Standards (UNBS) and partnership with the private sector together with the major "donors", have supported efforts that have resulted in, for example, the establishment of private, EU-recognised testing laboratory.[80] All of the Uganda fish processors have implemented HAC-CAP (Hazard Analysis and Critical Control Points) and Good Manufacturing Practices (GMP). [81] As part of the marketing and competitive strategy, the processors are sensitive to quality standards of their products. They contribute towards research and advertising their products through magazines, trade shows posters and stickers.[82]

Therefore, self-interest encouraged the emergence of endogenous policing/governance mechanisms, so as to ensure the product meets accepted strategic quality norms as it transits its way down the supply chain.[83] The actions by both the processor's association and the government are informed by the imperative of maintaining competitiveness in the export market. Despite the competition over the scarce supplies of fish, owners of the factories also have joint interests and co-operrate closely. The owners of the factories meet once a month to discuss matters of mutual concern to the fish industry

[80] Interview with Mr. Philip Borel, 24 September, 2007.
[81] *The New Vision* (2003), "UFPEA Positions the Fisheries Industry on the Course for Competitive Market Place", March 6.
[82] NARO (1997), Op Cit., p.33.
[83] Thorpe and Bennett (2004) Op Cit., p.48.

competitiveness. These include: the firms' relationship with government institutions, the conditions of imported equipment and the export of fish. Together the factories owners constitute a forceful and articulate lobby group vis-à-vis the government with substantial resources at their disposal to influence decisions, which affect them.[84]

Externally, the fish processors strengthened the links with international agents. In the case of Greenfield Ltd, although there were no elaborate contracts, contact was made with several distributors and different mainly European countries. These included: Annova Food in Netherlands, East Coast in Spain, Lobbel in Luxembourg and Pitman in Belgium[85].

Finally, one major limitation in this public-private linkage is that there is little indication that the processors interact with Uganda's scientific community in the national innovation system in their quest to improve quality of their fish processing. Perhaps another major problem confronting the fish processing industry is the dependence on exports markets.

8.5 Dependence on Exports Markets

The data for this section is derived from interview with the CEOs of the selected fish firms, the officials of the Fisheries Department, documents and news paper reports.

Export markets are perceived as more attractive because they tend to offer more favourable terms of payment. The lack of internal markets in Uganda or the East African region is the other factor that drives the dependence on external markets. In general, the export-oriented fishing industry of Lake Victoria shall continue to be very dependent on the international markets. Many of the processing factories have entered long-term agreements with supermarket – chains in Europe and USA.[86] There are several concerns of total dependence on export trade, where LDCs have no control.

Despite the high earnings associated with the export trade, it is highly risky because of the frequent fish ban on the EU market, due to the concern for food safety and other

[84] Jansen, Eirik (1997), Op Cit. p.12.
[85] Interview with Mr. Philip Borel, 24 September, 2007.
[86] Jansen, Eirik (1997), Op Cit.,p.13.

factors such as prejudice over which the countries in the region have little control.[87] The effect of the EU fish ban on imports from Lake Victoria in 1999 is instructive. The ban had repercussions that reverberated back down the chain to devastate the livelihoods of both fisherfolks and ancillary workers in the local lakeside communities.[88] The danger associated with dependence on external markets, especially European Markets came to the fore when the was a ban on fish exports to Europe over health concerns about fish originating from East Africa. Below are estimates of the economic losses suffered by the various participant and beneficiaries of the fishing industry in Uganda.

Table 8.5: *Estimates of the Economic Losses during the ban 1998-2000*

Areas of Loss	Estimated Loss
Export Earnings	US$ 36,900,000
Income of fishermen community (US$ 850,000 per month) due to the reduced prices and fishing activities	US$ 4,250,000
Factories that closed down	3 out of 11
Factories that reduced their labour force by (2/3)	8 out of 11
Jobs lost in fish factories (1/3)	2,000
Jobs lost in fishing activities (1/3)	32,000
Persons that lost 2/3 of their income	68,000
Affected family members and relatives living on the same income	300,000

Source: UNIDO (2003).

At the same time, there is prevalent negative perception about exports from LDCs. For instance, fishery product importers in EU have an unfavourable perception of ACP, including Uganda, fishery products with regard to quality of the product and consistency of supply. This general perception leads to lower prices than would be offered for products with a reputation of good quality. This may be due to the inability of the processors get a clear understanding of how to penetrate the direct markets and supermarkets chains.

[87] Odongkara, O, Kostatine (2002), "Commercialisation of the Fisheries of Lake Victoria and its Implications for Local Livelihoods", A Paper Presented at the *Meeting for the Network of Environmental Journalists for Lake Victoria*, Nairobi, February, 7-8, p.4. It should be noted that the concern for food security does not only come from Europe as it noted that the market for fish collapsed at the height of the Rwanda genocide in 1994 when bodies of victims floated down river Kagera into Lake Victoria and the consumers refused to eat fish. Secondly, in 1999 consumers again refused to eat fish due to the widespread use of poison fishing on the lake.

[88] Thorpe and Bennett (2004), Op Cit., p.51.

Aquaculture presents itself both as a solution and a problem to the question the depletion of fish stocks in Lake Victoria. As solution, it would relief pressure from the over-fished Lake Victoria natural resource. The problem is that aquaculture may face stiff competition from the low cost producers of East Asia, particularly Viet Nam, where there is massive production of genetically improved Nile tilapia[89]

Although there increasing practice of aquaculture practice in Uganda and it would act as a source of extra production of fish for export, it is unlikely to fill the gap in production.

Table 8.6: *Acquaculture Production between 2000 and 2003 in Uganda in kgs*

Species	2000	2001	2002	2003
Carps, barbells and other cyprinids	100	270	230	300
Miscellaneous freshwater fishes	120	540	2,728	3,000
Tilapias and other cichlids	600	1,550	1,957	2,200
Freshwater fishes.	820	2,360	4,915	5,500
Total Uganda	**820**	**2,360**	**4,915**	**5,500**
Grand Total	**820**	**2,360**	**4,915**	**5,500**

Source: FAO Fisheries Global Information System

Aquaculture production is relatively small, although rapidly growing, in comparison to the total capture fisheries as seen in table 8.1. Production technology typically employs extensive small-scale poly culture (mixed tilapia and catfish). This sub-sector is characterised by small farmers involved in pond culture. It would require extensive support from government to make them viable as significant sources of raw fish for processing.

Finally, the fish export trade has not escaped the possible threat of the Genetically Modified Organisms (GMOs).[90] According to a report titled: *Future Fish: Issues in Science and Regulation of Transgenic Fish*, new species have been genetically modified to grow as much as 11 times faster than the normal ones. Countries like Uganda, where fish is now

[89] See Dey, Madan (2000), "The Impact of Genetically Improved farmed Nile Tilapia in Asia" *Aquaculture Economics and Management*, 4(1/2) and Bimbao, Gasper et al (2000), "Socioeconomics and Production Efficiency of Tilapia Hatchery operations in the Philippines", same volume.
[90] Izama Angelo, "Bio-Tech Fish to Hit Market", *The Monitor*, June 12.

the leading foreign exchange earner, but are yet to develop adequate regulatory control – might fear marketing and environmental repercussions. There is therefore fear that these new species could disrupt the fish industry and contaminate other species.

While *future fish* may be a threat to Uganda's export trade, the Commissioner of Fisheries remained optimistic at the introduction of GMO fish in Uganda. He argued that:

> "If Uganda must increase production, the bio-manipulation of fish to create a faster yielding species is necessary. It is good to have a fish which can grow up to 4 kilogrammes in 4 months. The idea is the selection of better genes. Before selection, it has to go through a process of evaluation"[91]

The Commissioner of Fisheries does not seem to see the repercussions this would have on fish export particularly in Europe. In case of GMO contamination, fish exports to Europe could suffer because of the EU's reluctance to permit GMO products in their market.

Given the practices of the processors, their almost total control of the fishery supply chain, and the above threats to the viability of fish exports as a long-term foreign exchange earner, its is erroneous to claim that "while the Nile perch chain is undoubtedly international market-driven, industrial processing activities remain under national elite control and the rise of tied contracts and artisanal *matajiri*[92] who are strongly linked to these locally based elite".[93] Research on Uganda indicate that the fish processors are the main link between the artisanal fisher-folk and the overseas export markets, which have had the effect of changes in the distribution of wealth resulting from Nile perch fishery, different from that of the original artisanal fishery.[94] At the same time, processors remain the only substantially organised group amongst the participants in the fishing industry.

Despite the above challenges in the export market, both the state officials and private operators in the industry remain optimistic. First, competition has resulted in the building of an industry that can compete internationally. Second, the industry has been made to upgrade technologically throughout the value chain enhancing its competitiveness globally.

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[91] Interview with Commissioner of Fisheries, Mr. Dick Nyeko, 4th October, 2007.
[92] *Matajiri* Swahili word meaning the rich, in this case, boat /fishnet owners.
[93] Thorpe and Bennett, (2004), Op Cit., p.51.
[94] Namisi, (2002), Op Cit., p15-16

8.6 Conclusion

This is the second illustrative chapter that underlines the importance a differentiated sectoral focus in the practice of industrial policy. In this chapter, the fish processing industry is analysed in terms of the contention between state intervention and liberalised market operations. Our findings indicate that: 1) the initiation of the fish processing industry relied on state intervention as illustrated by the construction of the first fish processing plant, The Uganda Fish Marketing Corporation (TUFMAC), by the colonial state in 1950. This was informed by the state-led development ideology for industry which prevailed until the 1990s with the privatisation and encouragement of foreign direct investment in the industry. 2) The political disruption and the unplanned explusion of the Asian entrepreneur class who were the manufacturers of instruments of production like fish nets and hooks, suppliers of out-board engines and were also a major internal market through their chain of hotels, led to a virtual collapse of the fish industry in the 1970s.

Third, the adoption of Structural Adjustment Programmes (SAPs) in the 1980s and its emphasis on export orientation, led to the re-emergence of the fish processing industry. The findings of this study indicate that, while this has been positive in terms access to external markets and foreign exchange earnings, there are several drawbacks as far as enhancing fish processing capacity and the emergence of a sustained fish processing industry in the country. The question of the ownership and the financing of the industry have implications for the practice of industrial policy. The almost total dependence on FDI, may, in the long-run hinder the development of local industrial capacities and markets. Secondly, the competitive strategy of firms that rely on contracts with agents for procuring fish raw material tied to particular firms hinder the operation of free markets.

Fourth, in the face of adversity in the industry, the imperative of private-public partnership emerged. The importance of this partnership is illustrated by the case of the fish ban in the late 1990s on the exports to European Union markets over health concerns. The state collaborated with processing firms through their processors' association, UFPEA, in ensuring hygienic fish processing aimed at maintaining competitiveness in the export markets. This public-private interaction signified the rise of embryonic embedded autonomy, which may ensure effectiveness of industrial policy implementation.

Fifth, the study reveals several draw backs on the prospects of the fish processing industry in the country. 1) The reliance on a natural resource base such as fish harvesting to industrialise, may not be sustainable. In the context where measures to ensure its sustainability are absent, intense competition for the resource is prevalent coupled with incompetent regulation and management of the resource, points to a dead end of sustained industrialisation. 2) While the entry of modern fish processing firms has resulted in the introduction of technical capacities particularly refrigeration and improved handling at landing sites, their vertically integrated, exclusionary nature has led to the ruin of many local fish-mongers and traditional processors as they have lost their jobs. At the same time the jobs created by these firms are of low skill and low pay. 3) The dependence on external markets where exporters have no control and the lack of internal market in Uganda or the East African region is a major source of vulnerability of the fish processing industry.

This case study illustrates the impotance of instituting a differentiated industrial policy practice. Different sectors demand policies specific to their characteristics. State intervention in the fish processing industry should logically differ from that in the textile industry. This brings to the fore the importance of sector specific approaches in industrial policy practices.

One of the major challenges of the Ugandan state is to develop a framework of industrial policy that provides a coherent policy for both economic and political objectives. In case of the fish industry, the state should ensure that the fish resources are harvested in a sustainable manner and enforceable limits are set to the amount of fish which is exported. Fish marketing for both domestic and export markets requires guaranteed quality and safety standards especially if the exports markets are to be sustained. The more sustainable option is the development of fish farming - aquaculture. In the final analysis, industrialisation focused on foreign trade, controlled by foreign capital and dependent on foreign technology is not sustainable in the long-run.

CHAPTER NINE

9. CONCLUSION: SUMMARY, POLICY IMPLICATIONS AND FURTHER RESEARCH

9.0 Introduction

This study set out to examine the ideas and assumptions that have informed industrial policy practices in Uganda between 1950 and 2006. The aim was to explain the problematic of Uganda's industrial policy practices with the view of deepening our understanding of their contextual determinants and to suggest priority areas and explore the possibility of articulate practice of industrial policy as a guide to Uganda's industrialisation process. This is because the study recognises the point that industrial policy and industrialisation are often products of numerous historical, social, economic and political considerations. Industrialisation and indeed any form of social change never proceeds independently of the concrete institutional and historical context. An underlying assumption of this study is that the lack of a coherent industrial policy may be a major contributing factor in the explanation of Uganda's stunted industrialisation process.

In this concluding chapter, we summarise our findings and then we discuss the strengths – empirical and theoretical contributions, weakness of this study and potential areas for further research. First, it offers a summary of the central arguments of the thesis. Secondly, it sums-up the major findings on industrial policy practices, their limitations and policy implications. Finally, the study identifies potential areas of future research and possible innovative policy alternatives.

9.1 Summary and Central Arguments

This study is based on the conceptualisation of industrial policy as a form state intervention to promote the industrialisation process in the context of a liberalised economy. As briefly reviewed in the introductory chapter, existing studies do little to advance knowledge on industrial policy and its importance in the enhancement of the industrialisation process in Uganda.

In chapters two and three, the study reviewed the literature on industrialisation and elaborated on the debates on industrial policy with the purpose of delineanating the possible relevancy of its practice in the current global context. I conceptualised the notion of industrial policy – selective and targeted state intervention in the economy, both as a problem and as a solution. The theoretical foundation is primarily drawn from the experience of East Asian NICs. The conviction in this study is that the ideas and notions of industrial policy presented here, while drawn from East Asian experience, are deemed to be relevant and applicable in other Third World settings as long as one gets their social and political basis right. It stressed the primacy of underling institutional and political arrangements for its successful practice as advanced in institutional political economy. The study, therefore, has sought to bring forward the possibility of industrial policy practice "back-in".

Chapter two delineated the assumptions and practice of industrial policy in Post-World War II in the Third World literature. In particular, the notion of developmentalism and its policy practices were examined. The strategies of developmentalism, broadly, were centred on the idea of rapid industrialisation, "big push", to "catch-up" with the developed countries. The industrial practice followed was ISI that aimed at creating local industries in a two step process: first, by limiting imports through protectionism and second, by heavy subsidisation of local firms. The problem with ISI, we argue, was the form it took. It was more of import-reproduction type that took the "product" as their point of departure rather than purpose. It was as well unselective. The subsidisation of the public corporations and the loss-making, protected private sector firms led to expanded fiscal burden on the state. Faced with crises, most Third World states succumbed to the new policies backed by neo-classical economic theory which argued that to restore growth, there was need to remove state power from the economic realm and prescribed the policies of EOI, which have been dominant since the 1980s.

Chapter three presented the analytical framework. It entailed a reflection on the efficacy of institutions and whether they matter in the development process. It is considered important to move away from the traditional notion of institutions as constraints. Turning to institutions brings new considerations in development. Institutions are

constituted and ultimately instituted. There are no blue prints to be copied. We have suggested that to understand industrial policy as an institutional practice, there is need for a multi-dimensional perspective and multiple logic. The central objective on the analytical framework was to capture the relationships between the state and markets. This is because for industrial policy to be effective, it must take these relationships into serious consideration. As the contrast between the experience of the "late" colonial period and the immediate post-colonial phase indicate, particularly after the 1972 expropriations, successful industrial development requires markets to be underpinned by solid public institutions, in this case, UDC. Thus, the problem of industrialisation and its resolution necessitates the support of both private and public order institutions.

Chapter four provided an account of the building of institutional foundations in Uganda by the colonial state that enabled a modest industrialisation process. These institutions included: the bureaucracy, industrial co-ordination agency, (UDC), the control over financial resources, establishment of local banks, business associations, among others, which became the bedrock for consequent industrialisation. This institutional framework presented both possibilities and obstacles to the post-colonial state, were inherited, built-on but not transformed. Their attempted modification through the "Move to the Left" – a form of state building, during the late 1960s, was literally wiped out as policy-making was replaced by the rule by decree after the 1971 coup, and the consequent expropriation of the Asian industrialists. The result was de-industrialisation. These points to the importance of institutional capacity for development to occur. It is therefore the contention of this study that industrial policy requires a certain level of institutional capacity to back-up the policy apparatus. This may explain the modest success of industrial policy in the 1950s and 1960s. The institutional distortion that occurred in the 1970s had serious implications for industrial policy, particularly made more difficult with the introduction of SAPs in June 1981.

Chapter five examined Uganda's industrial policies under a liberalised policy framework of SAPs. As noted in chapter four, Uganda's previous industrialisation process was dominated by state intervention through ISI. The starting point of SAPs is that state intervention in markets is the central problem. Thus, SAPs presents difficulties for the practice of industrial policy. The findings of this chapter can be summarised as follows: under SAPs phase I, (1981-85), due to the distortion of the 1970s, the first priority was

the rehabilitation of the existing industries. This meant continued state and donor financial support of industry. It is observed that the attempted SAPs in this period, largely failed because of its inability to address the structural basis of the crisis. This can be accounted for by three factors: i) SAPs depended for its success on a continued flow of foreign finance and not much of it was available, ii) there were non-economic factors as the country was consumed by a civil war and iii) the effect of liberalisation and devaluation of the currency in the context where market incentives gave no preference to productive over speculation was bound to lead to failure. It is noted that SAPs Phase II, (1987-2006) has been more successful. Apart from liberalisation which gave easy access to foreign exchange for the importation of critical intermediate goods and raw materials for industry, there has been massive encouragement of FDI. It is observed that the privatisation of the public industrial sector, though with mixed results, led to the revival of the economy in general and industry in particular. The major concern, however, is that the economic reforms did not tackle adequately the critical problem of financing industry and the systematic transfer of technology. As a result, the industrial sector has no developed productive capabilities, particularly technology. Thus, we have argued that an incoherent industrial policy and the difficulty of financing industry, has resulted in little advance of the industrial sector.

Chapter six looked at the reform of the bureaucracy and the creation support agencies to support the implementation of SAPs. Given the over-extended, ineffective and little capacity to formulate and implement policy, it was imperative that the bureaucracy and associated institutions had to be reformed. The reform of the bureaucracy involved restructuring the civil service and ministries. Secondly, there was the creation of specialised agencies such as URA, UIA, UEPB, UNCST and PU among others. Thirdly, there was the revival of UMA to enhance public-private interactions. While the reforms were necessary, they suffered from a number of limitations. First, the reform of the bureaucracy was obsessed with reducing numbers. Yet the problem of bureaucratic capacity goes deeper than the problem of numbers. The bureaucracy suffered from low remuneration, legacy of political turbulence, evasion of controls and prevalence of the politics of patronage. Second, while it was necessary to create specialised agencies to facilitate and maintain market conditions, arrange licences, supply information to consumers and investors, their proliferation did not necessarily lead to efficient policy implementation. Thirdly, the specialised agencies were turned into arenas of patronage by

dispensing jobs to the clients of the political class. Fourthly, while technology policy is important, as the availability of technical and engineering skills are among the key requirements for industrial upgrading and development of competitive enterprises, this objective was hardly achieved. Several years after its establishment, UNCST, the premier agency for national science and technology system, has no explicit national science and technology policy and therefore no recognised guidelines on technology transfer, especially through FDI. Finally, the revival of public-private partnership through UMA is commendable. UMA has evolved into a key institution in representing the interests of the private sector. Over the years, it has developed a strong partnership with government in policy designing through dialogue. UMA has forged partnerships with government and the donor community in which key economic issues affecting the manufacturing sector and the whole economy are discussed and policy measures are agreed upon, though the real power and decisions remains in the hands the World Bank and IMF.

Chapter seven dealt with the textile industry. The chapter illustrated the practice of industrial policy to promote textile manufacturing. We discussed the colonial and the immediate post-colonial import substitution in the textile industry. It was noted that the success of the industry was underpinned by the institutional framework that was established. Principal amongst these institutions was the UDC through which the state mobilised resources and at the same time prodded the private sector to invest in industry. The experience of the textile industry underlines importance institutions that mediated the state policy towards the textile industry – among these were: cotton research institutes, the co-operative unions, the marketing boards and banks created to finance them. Most important were the Co-operative Bank and UCB. We observe that the above institutions were destroyed by the unplanned declaration of of "economic war" in 1972, expropriation of Asian entrepreneurs, and deterioration of bureaucratic capacity resulting in the virtual collapse of the textile industry. Since the adoption of SAPs in the early 1980s there have been attempts at the rehabilitation of the industry, but has never recovered to the levels it was in the early 1970s. The SAPs period has seen the creation of several institutions, the prominent one being the CDO to support the industry. It is noted that there has been efforts to turn it into an export oriented industry. It was observed that the reforms and policy shift from ISI to EOI in textiles has not been successful. We argue that the efforts being expended to reviving the textile industry may

be misdirected as the historical role of the textile industry as initiator of industrialisation process may have passed.

Chapter eight is the second sectoral study which is aimed at illustrating the importance of underlining the similarities and differences of sectoral approaches in the practice of industrial policy. First, we argued that the reliance on a natural resource such as fish to industrialise may not be sustainable, particularly in the context of over-exploitation and incompetent regulatory authorities. Secondly, it was observed that the industry is too dependent on FDI. This, we argue, may not be sustainable and it has the implication of hindering the development of local industrial capacities and markets. Thirdly, the rise of collaboration between the public and private sector is appreciated as it symbolises a form of embryonic embedded autonomy that could ensure effective implementation of industrial policy. In conclusion, we observed that in the fish processing industry, there is a case for more state involvement to ensure that fish resources are harvested in a sustainable manner and enforceable limits be set to the amount of fish to be exported. Finally, the policy-makers should prod the fish processors to extend value addition to fish canning which would bring higher returns and spill-overs to the economy.

The two illustrative sectoral case studies point to the importance of a differentiated industrial policy towards various sectors. Given the variant sectoral characteristics and features of sectors, the understanding of the specific sectoral needs is critical to avoid a generalised industrial policy practice. The next section outlines the theoretical contributions of the study.

9.2 Theoretical Contribution

As can be noted from the above summary, perhaps the most important result of the study is the evidence that the state and nature of the political arrangements have been the main determinants of the industrial policies practiced. The holders of state power, be it in the colonial, post-colonial or under SAPs, have had influence on which policy was implemented. Our findings on Uganda's industrialisation process – summarised as stunted and incoherent, contribute to a reconsideration of their attribution to state intervention per se. The broader political economy and instutitional arrangements are critical in the success or failure of the industrialisation process. In certain circumstances,

and more particularly in developing like Uganda, there remains an important role of state intervention, first to creat markets since markets are largely absent and second, to enhance the competitiveness of particular industries through state support.

Secondly, our findings do not fit in with the neo-liberal view of development in developing countries like Uganda. While state intervention has been problematic due to rent-seeking and incompetent bureaucratic machinery, among other shortcomings, the unbridled market reforms cannot in themselves result in sustained industrial development. The thesis looked at the relationship between privatisation and liberalisation and their impact on industrial policy practices. The empirical data and evidence in chapters 7 and 8 supports the view that the processes of libealisation and privatisation may not be optimal if not implemented in sequence and selectively. There is need for a mix of the state and markets with a critical regard to the complex institutional, historical and current global context.

Third, our findings do not fit in with those of the opponents of industrial policy. The problem is not the practices of industrial policy per se, several shortcomings not withstanding, but incoherence of policy and the underlying socio-political factors. In practice, industrial policy must be selective and focused to specific sectors. What works in the textile industry, for instance, may not necessarily work in the fish processing industry. Theoretically, this suggests the need to re-think the question of industrial policy practice in countries like Uganda as well as have a differentiated sectoral approach to its formulation and implementation.

Fourth, the thesis constitutes a pioneer effort to systematically document industrial policy practices, their possibilities and limitations in the developing context of Uganda.

Finally, the major weakness of this thesis is that it does make the analysis of the involvement and the reaction of the subordinate classes, particularly the working class, to industrial policy practices. Next we examine the policy implications of the study.

9.3 Policy Implications

Since June 1981, Uganda has been implementing neo-liberal reforms premised on non-state interventionism. Therefore, the practice of industrial policy which means the initiation and coordination of governmental activities to enhance productivity and

competitiveness of the economy has been problematic. Yet it has been observed that no country, historically, has entered into modern economic growth without the state's intervention or collaboration with large scale private sector entities. This thesis has shown that the various industrial policies practiced in Uganda since 1945 points to the critical importance of the state and institutions to advance the industrialisation process. The findings in this study point to the need to understand these factors in order to successfully formulate a viable industrial policy. What are the policy implications?

First, the most critical function of the state is to facilitate economic development and enhance social welfare. Therefore to bring about development, it requires the institution of special, selective policy practices of which industrial policy is but one. While most Third World countries have selected successful firms for support, thus, pick winners, new policy direction should be for the state to create winners as there are no ready-made entrepreneurs to bring about industrial transformation.

Second, there is need for coordination. Industrial policy can and should play an important role in resolving the coordination problems that cannot be easily dealt with by the market mechanisms. The evidence in the thesis indicates that liberalisation and privatisation do not necessarily lead to better performance. The optimal interaction between the state and private sector is necessary to realise development. The point is to carry out the coordination function competently.

Third, to enhance competitiveness in industry, a certain level of technological mastery is necessary. This cannot be left to the market forces. In developing countries like Uganda, local industry cannot start from scratch without access to foreign technology. There must be state policy to leverage the local firms for acquiring foreign technology cheaply and pressurising foreign companies to make joint ventures with local entrepreneurs for them to learn. This is due to the fact that the requirements for the acquisition of technology are usually beyond individual firms or sectors. It is the state, in the Ugandan context that can raise colossal amounts of capital for investment.

Fourth, opponents of industrial policy raise the problem of rent-seeking in case of selective industrial policies. It is true that industrial policies can be captured by special interest groups as evidence in the privatisation process in this thesis indicates where it

turned out to be a boon for state insiders or government cronies. But the problem of rent seeking should not be seen in zero-sum terms. Many problems and costs associated with state-created rents may be reduced through appropriate institutional arrangements. Rent-seeking should not be regarded as endemic to state intervention per se, but rather resulting from specific political conditions. The solution, therefore, lies in more fundamental reforms of the socio-political formations.

Fifth, the "new interventionism" as reflected in the practice of industrial policy would seek to guide the market not to replace the market. State involvement in economic governance is a given. The appropriate question is not "how much" but "what kind" of state involvement. The stress, in this case, is to institute public-private interactions. The interaction between the private sector and public power is critical.

Sixth, the success of industrial policy depends on the availability of finance targeted to the industrial sector. The sources of finances should be under relative control of the national state as the source of finance determines the priority and non-priority of industries to be financed.

9.4 Potential Areas for Further Research

By way of conclusion, I would like to point out three potential directions and areas for further research: i) changed role of the state, ii) sectoral focus, iii) the notion of embedded autonomy. One institution which is critical to creating conditions of industrial transformation and yet has been treated ambiguously in the literature and policy practices is the state. What this thesis suggests is that we must have another look at the state, particularly in its relationship with all social actors in the economy, not just private domestic and international capitalists. The state relationship with labour, not in terms of living and working conditions but most important in the imparting of skill, is critical for competitiveness in the current global context. The acquisition of knowledge and development of the state's bureaucratic capacity are critical in industrial transformation. Second, is the issue of sectoral focus at national level in the research on industrial policy. A sector as a set of activities unified by some related product groups, share some basic knowledge and characteristics. Thus, policy research would be guided by the specific conditions, resources and capabilities within particular economic sectors. This could enable the drawing of more useful and practical policy alternatives. Third, is the notion of embedded autonomy – concrete set of connections that link the state intimately and

aggressively to particular social groups with whom the state shares a joint project of transformation, is the other important area for further research. Research would look at the local context of a given country, examine the expression of the interactive process of strategic cooperation between private and public sectors and how policy-makers could elicit concrete information on business opportunities and constraints and generate innovative policy initiatives.

Finally, inspite of data deficiencies, we appropriately underlined the multi-dimensional nature of industrial policy practices, particularly its analytical elaboration. The findings of this thesis contribute to understanding the uniqueness and complexity of industrial policy practice in countries like Uganda. While we have argued that industrial policy and the industrialisation processes are often products of numerous historical, social, economic and political considerations, we contend that it has been the predominance of the political regime (whether colonial or post-colonial) which, have shaped the character of industrial policies over the past 50 or so years of Uganda's development.

APPENDIX 1: Definitions of Key Concepts

The key concepts applied in the study were defined as a perquisite for crafting an analytical framework.

The study of industrial policy and industrialisation in developing countries raises multiple theoretical and conceptual issues that have to be defined at the outset as a prerequisite to engaging in an analytical framework. The critical concepts include: institutions, industrialisation, development, developmentalism, state, developmental state, bureaucracy, embedded autonomy, market, late industrialisation, technological learning, value chains and upgrading, and industrial policy.

Institutions

Institutions are defined as systematic patterns of shared expectations, taken-for-granted assumptions, accepted norms and routines of interactions that have robust effects of shaping the motivations and behaviour of sets of interconnected social ties. In modern societies, institutions are usually embodied in authoritatively coordinated organisations with formal rules and the capacity to impose coercive sanctions, such as the government or the firms.[1]

Development

Development is a process of qualitative change or improvement from conditions of deprivation, poverty, hunger, illiteracy, unemployment, inequality and powerlessness to a position of autonomous existence and dignity. It implies sustainable increases in per capita incomes such that there is generalised social and economic restructuring and upgrading.[2] In the context of this study, development is purposeful intervention, and that is why we are approaching the analysis of industrialisation from a policy perspective, especially state policy.

Developmentalism

Developmentalism connotes an economic system where a government intervenes in markets from the long-run viewpoint in order to promote industrialisation when

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[1] Chang H-J and Evans P., (2000), "The Role of Institutions in Economic Change" paper prepared for the meeting of the "*Other Canon" Group*, Venice Italy, January 13-14, p.1

[2] Seers, Dudley, (1984), "What are we Trying to Measure?" In Nancy Baster, (ed.), *Measuring Development: The Role and Adequacy of Development Indicators*, London: Frank Cass.

necessary, in contrast with the classical system of *laissez-faire* capitalism where government interventions are generally avoided. Industrial policy to prevent excess competition in cost-decreasing situation plays the key role in the developmentalist regime. It is the existence of a dominant developmental discourse on the priority and necessity of industrialisation and of state intervention to promote it.[3]

The State

The practice of industrial policy connotes state intervention. In state-centric literature, the state is defined as "the continuous administrative, legal, bureaucratic and coercive system that is capable of restructuring its relation to social groups as well as relations among groups".[4] The strength of the state depends on how effectively the state alters these structures. To the neo-Weberians, the state is seen as an arena, condensation and the crystallisation of social relations within its territories.[5] To the neo-Marxists, "the state is the entire complex of practical and theoretical activities which the ruling class not only justifies and maintains its dominance but manages to win the active consent of those over whom it rules".[6]

Developmental State

A developmental state is defined in political, ideological and institutional terms as "a state, which can create and regulate the economic and political relationships that can support sustained industrialization" and which "takes the goals of long-term growth and structural change seriously, 'politically' manages the economy to ease the conflicts inevitable during the process of such change (but with a firm eye on the long-term goals), and engages in institutional adaptation and innovation to achieve those goals".[7]

Bureaucracy

Bureaucracy is a hierarchically organised authority with a specialised administrative staff. It is based on a legal-rationality in which legitimacy rests on "a belief in the 'legality' of

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[3] Schneider, Ben., (1999), "The *Desarrollista* State in Brazil and Mexico, in Woo-Cummings (ed.), *The Developmental State*, Ithaca and London: Cornell University Press.
[4] The varying definitions of the state: Stepan, Alfred, (1988), *Rethinking Military Politics: Brazil and the Southern Cone,* Princeton: Princeton University Press, p.4, Mann, M 1989:132 and Gramsci, A 1971:244).
[5] Mann, Michael, (1989), "The Autonomous Power of the State: Its Origins, Mechanisms and Results" in Hall, John, (ed.) *States in History*, Oxford: Blackwell, p.132.
[6] Gramsci, Antonio, (1971), *Selections from the Prison Notebooks*, London: Lawrence and Wishart (translated by Q.Hoare), p. 244.
[7] Chang H-J (1999), "The Economic Theory of the Developmental State" in Woo-Cummings, M., (ed.), *The Developmental State*, Ithaca and London: Cornell University Press, p.183

patterns of normative rules and the right of those elevated to authority under such rules to issue commands… obedience is owed to the legally established impersonal order over a given territory".[8] For Weber, these public structures are not of extraneous interest but instead, are the key to all of the institutional structures of rational capitalism.[9]

Embedded Autonomy

Embedded autonomy refers to "a concrete set of connections that link the state intimately and aggressively to particular social groups with whom the state shares a joint project of transformation".[10] These social ties bind the state to society and provide institutionalised channels for continued negotiation and re-negotiation of goals.

The Market

A market "is a mechanism which allows people to trade, normally governed by the theory of supply and demand, so allocating resources through a price mechanism".[11]

Market failure

Market failure occurs when free markets, operating without any government intervention, fail to deliver an efficient allocation of resources. Thus "market failure" refers to a situation when the market does not work as is expected of the ideal market.[12]

Late Industrialisation

Late industrialisation is a process of industrial change whose central tendency among leading firms is learning rather than invention or innovation of significantly novel technology. The general properties of an industrialisation based purely on learning appear to be distinct from those of an industrialisation based on pioneering technology.[13] In late industrialisation, the state plays a strategic role in taming domestic and international market forces and harnessing them to national ends.

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[8] Weber, Max, (1968), *Economy and Society: An Outline of Interpretive Sociology*, Guenter Roth and Claus Wittich, (eds.), New York: Bedminister Press, p 328.
[9] Evans, P., (1995), *Embedded Autonomy: States and Industrial Transformation*, (New Jersey: Princeton University Press), p.29.
[10] Ibid, p.59.
[11] http://www.en.wikipedia.org/wiki/market
[12] Chang, Ha-Joon, (2002), "Breaking the Mould: An Institutionalist Political Economy Alternative to the Neo-liberal Theory of the Market and State", *Cambridge Journal of Economics*, No.26, p.544.
[13] Amsden Alice, (1989), *Asia's Next Giant: South Korea and Late Industrialisation*, New York, Oxford: Oxford University Press, p.4.

Technological Learning

Technological learning is "a process by which firms acquire technology. Learning refers to mechanisms and processes by which technological progress is brought about. In contrast to economic ideas of learning-by-doing, technological learning is dynamic, costly process".[14] It means developing industries, which are dynamic, yet do not accord with given comparative advantage.

Value Chains and upgrading

Value chain refers to "the productive activities that lead to and support the end use of a set of related products or services, including lead firms".[15] A firm's upgrading involves insertion into local and global value chains in such a way as to maximise value creation and learning.[16]

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[14] Hobday, Michael, (1995), *Innovation in East Asia: The Challenge to Japan*, (Aldershot: Edward Elger Publishing Limited, p.33

[15] Sturgeon, J. Timothy, (2001), "How do we define value chains and production networks", *IDS Bulletin, Vol.32, No.3, p.9*.

[16] Gereffi, Gray et al (2001), "Introduction: Globalisation, Value Chains and Development" *IDS Bulletin*, Vol.32 No.3, p.5.

APPENDIX 2: LIST OF KEY INFORMANTS

1. Mr. Peter Uchanda, former permanent Secretary, Ministry of Public Service, March 2004.
2. Mr. Hilary Obonyo, Executive Director, UMA, October 2007
3. Mr. Mukasa Issa, Director of Investment Promotion Division (U.I.A), October, 2007.
4. Mr. Kyoratungye Karemente, Director Strategic & Management Information System Division, (U.I.A), October, 2007.
5. Mr. Michael Opagi, Executive Director, Privatisation Unit, March, 2004.
6. Mr. Okulo Cankwo, Assistant Commissioner, Department of Industry and Technology, MTTI, October, 2007.
7. Mr. Baragehara, I.N, Assistant Executive Secretary, UNCST, August, 2007
8. Dr. Charles Kwesiga, Executive Director, UIRI, August, 2007
9. Mr. Praful Patel, Managing Director, African Textiles Mill (Ltd), August, 2007
10. Mr. Yuichi Kashiwada, CEO, Phenix Logistics Ltd, September, 2007.
11. Mr. Hans Windsor Muzoora, Principal Market Information & Monitoring Officer, Cotton Development Organisation (CDO), September, 2007.
12. Mr. Richard Mubiru, Corporate Director, Southern Range (NYTIL) Ltd, October, 2007
13. Mr. Yusuf Karmali, Managing Director, Gomba Fish Industries and Unifoods (U) Ltd, December, 2007.
14. Mr. Dick Nyeko, Commissioner of Fisheries, Department of Fisheries Resources, Entebbe, October, 2007.
15. Mr. Philip Borel, CEO, Greenfield Ltd and Chairman of UFPEA, September, 2007.

APPENDIX 3: TECHNOLOGY POLICY

UGANDA COUNCIL OF SCIENCE AND TECHNOLOGY (UNCST/UIRI)

1) Major objectives (advise and coordinate the formulation of an explicit national technology policy

2) What trade and industrial research that has been carried out by UNCST/UIRI?

3) Which of these was initiated by UNCST/UIRI?

4) What formalized interaction between UNCST/UIRI and the Ministry of Trade and Industry exist? (Policy network)

5) How autonomous is UNCST/UIRI?

6) What activist technology policy (promotion of local capacity) has the organization engaged in?

7) Does the bureaucracy consult UNCST/UIRI before making decisions on technology policy?

8) Technology policy is more than handing out R&D subsidies and tariff protection. Does UNCST/UIRI provide an "entrepreneurial vision" which identifies the "focal points" around which private sector investment decisions can be coordinated?

9) How is UNCST/UIRI expertise channeled to enterprises/firms?

10) What is the relationship between UNCST/UIRI and Business Associations?

11) What is your view of technology policy in the context of liberalization?

12) What can you say about:
    a) design of technology policy in Uganda
    b) government disciplining of non-performers
    c) changed international context

13) Basic issues: current UNCST/UIRI targets, role and relations with local firms particularly as far as R&D is concerned?

APPENDIX 4: PERD – PRIVATISATION INTERVIEW OUTLINE

1) Overview of the privatization process

2) Sales of PE: Who bought and Why?

3) Enterprises returned to former Asian owners

4) Privatization and the promotion of local entrepreneurs

5) Application of the proceeds of privatized enterprises

6) Performance of industries before and after privatization

7) What do you consider to have been successes and failures of the privatization process?

8) Specific cases of political interference in the privatization process.

APPENDIX 5: UGANDA INVESTMENT AUTHORITY (UIA) POLICY

1) General investment strategy
2) Processing investment (bureaucratic capacity)
3) Efficacy/effectiveness of the legal system
4) Investment incentives
5) Land law and arbitration
6) Labour/employment conditions (Job Creation)
7) Transfer of technology.
8) Corruption (Costs of doing business in Uganda).
9) Export processing zones (EPZs).
10) Policy on FDI re-investments in Uganda economy

APPENDIX 6: INDUSTRIALISTS IN UGANDA – INTERVIEW OUTLINE

1) Overview of Uganda's Industrial Sector/ Industrial policy environment.

a) Liberalization policy
b) Privatization policy

2) Organization of industrialists – Politics in UMA. Relations among firms (members) and between UMA and Government. (Issues of trust and collaboration). Was UMA industrialists' initiative or government inspired?

3) Comment on government investment policy with regard to industrialization (restrictions on entry and control)

a) Local industrialists
b) Foreign investors
c) Semi-public enterprises

4) Comment government policy towards small and medium firms.

5) Policies that affect industrialization in Uganda: Taxation, Tariffs, Interest rates, Import/export restrictions and utilities (power, water and telegraph)

6) Industrial financing

a) Government policy to finance industry
b) Firms financial mobilization
c) Finance for Research and Development (R&D)
d) Finance for Skills training in firms

7) Sources of Finance

a) Original source of finance for the firms
b) Retained earnings
c) Borrowed from local banks
d) International borrowing
e) Government guaranteed loans
f) Government Loan Programmes (Bank of Uganda)

8) Problem of industrial competitiveness in both local and foreign markets.

9) Comment on Technology policies of industrial firms in Uganda

10) Comment on government categorization of MTTI as non-core ministry

11) What do you consider to be the major successes and challenges to Uganda's industrialization at present?

12) Comment on the relations between local and big Asian and foreign industrialists.

13) What could be the way forward for Uganda's industrialization?

APPENDIX 7: UGANDA MANUFACURERS ASSOCIATION (UMA)

A) Background.

i) When and why was UMA formed?
ii) When did you become involved in UMA?
iii) Total investment manufacturing sector in Uganda.

B) Policy Environment

i) What is your view of the general liberalized market environment and its impact on the manufacturing sector?
ii) What is your view of government policy towards industry?
iii) How is UMA involved in policy making?
iv) Which other organizations to you collaborate with in your work?
v) Give an overview of Uganda's manufacturing industry

C) Operations of the UMA

i) What do you consider to be the contribution UMA to manufacturing?
ii) What services does UMA offer to members?
iii) What do you consider to be the major obstacles to UMA operations/opportunities and challenges?
iv) Outline your success and failures as an association.

D) Private-Public Interactions

i) What forms does your interaction with the state, other private associations and the general public take?
ii) Do you have any relations with research institutions such as Uganda Industrial Research Institute (UIRI) and in fisheries?
iii) What is the nature of your interaction with Uganda National Bureau od Standards (UNBS) or Uganda National Council of Science and Technology (UNCST)?
iv) UMA's interaction with other associations.

E) Current Issues

i) What are the current pressing issues for UMA and the manufacturing industry?
ii) What plans does the UMA have to enhance manufacturing, expoerts and expanded investment in industry?
iii) Have you carried out any evaluations of UMA Operations? Any evaluation reports, any relevant association documents.

F) General Issues

i) Organizational resources
ii) Autonomy from government
iii) Financial autonomy
iv) Participation in policy formulation and Implementation
v) Influence on state policy
vi) Assistance to member firms in terms of Upgrading (competitiveness, technology, marketing and management enhancement)
vii) Comment on government economic policy – tax, tariffs, interest rates, exports, local production, concessions (power, water and telegraph)
viii) Overall relation between your association and government.
ix) What are your plans to strengthen your participation in policy making?

APPENDIX 8: TEXTILE INDUSTRY POLICY

1) Government policy towards the textile industry

2) Institutions for textile industry policy-making and implementation

3) Institutions that the MITI collaborates with in the implementation of policy

4) Technology (government/Ministry) support for technology upgrading in textile industry

5) What do you consider to be the major impact of the liberalization on the textile industry

6) The MITI capacity to implement textile policy

7) Financial mobilization from the textile manufacturers and traders

8) Levels of investment in the textile industry

9) Wage policy towards Textile industry.

GENERAL ISSUES

a) Textile industry as a sunset industry

b) Politics and the textile industry

c) Liberalization of co-operatives and Lint Marketing Board

d) Technological Dependence

e) Export Orientation (subsidies, local suppliers, labour regime, and performance vs support from government).

APPENDIX 9: COTTON DEVELOPMENT ORGANISATION

1) What is CDO?

2) CDO and re-organization of the cotton industry (membership)

3) Implications of liberalization of textile industry (LMB and Co-operatives)

4) Organization of cotton production

5) Impact of government policy on taxation on the cotton industry

6) CDO view of Government guarantee of loans (UCGEA 1999) and government financial support to the textile industry

7) Views on dumping, smuggling and Second-Hand textiles

8) Views on textile/cotton export policy

9) Textiles and sun-set industry.

APPENDIX 10: FISHERIES POLICY IN UGANDA INTERVIEW OUTLINE

1) Institutions for fisheries policy-making and implementation

2) Institutions that fisheries department collaborates with in policy implementation and the form of that collaboration

3) Technology: Technical support for fish processing firms from fisheries department: institutions and technological upgrading.

4) Government investment in technology capability

5) Impact of liberalization on fishing industry

6) Policy instruments for implementation of fisheries policy

7) Fisheries Department capacity to implement policy

8) Fisheries Department interactions with business associations

9) Policies on sustainability of fisheries production

10) Fisheries Department's industrial research and development

11) Fisheries quality and standards policy

12) Training and motivation of the management of extension fisheries workers

13) Levels of the investment in fisheries development

14) Fisheries Department interactions with Fish Exporters.

APPENDIX 11: Interview schedule for the fish firms

1) Ownership of the firms
2) Financing of the firms
3) Creation Employment
4) Technological and managerial capabilities
5) Liberalisation of the fish industry
6) Natural resource base
7) The problem of over-fishing
8) Impact on local fisher people/ processors
9) Public – private interactions
10) The export orientation of the industry
11) Dependence on foreign markets
12) Major successes and problems
13) The future of the fish processing industry
14) Views on national fisheries policy

APPENDIX 12: Newspapers and Magazines

Progressive Groccer

The Daily Monitor

The East African

The New Vision

The Sunday Monitor

The Sunday Vision

The Uganda Herald

The Weekly Topic

Uganda Argus

Uganda Confidential

The Weekly Observer

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