INDUSTRIALISATION: RETRACING THE PATH TO ECONOMIC FAILURE?

F F Tusubira[1]

Abstract. It is argued that the current strategies being followed by Uganda in trying to develop an independent, integrated and self-sustaining national economy cannot succeed. An import-export scenario plane is presented as the basis for developing a conceptual framework for strategies that are more likely to succeed. Some of the important factors in any such strategy are discussed.

1. INTRODUCTION

"Building an independent, integrated and self-sustaining national economy: *This is probably the most important point of the whole programme.."*[2]. This is the dream, and no efforts have been spared in making it come true. The economy has been growing at rates above 5% for several years. Only one thing still eludes Uganda: success in building the independent, integrated, self-sustaining national economy.

It is the submission of the author that this success will not be achieved unless Uganda rethinks its development strategy.

We have focused a lot on industrialization, on diversification, on modernization of agriculture. We have talked about building a middle class. We are bravely trying to retrace the development models of other economies, without giving sufficient consideration to the fact that the conditions in which the strategies of those countries succeeded (or appeared to succeed) were different.

Uganda must go back to the drawing board, rethink its strategies. In following the path of industrialization and agricultural modernization, we are simply retracing a path that, in the current environment, can only lead to perpetual economic servitude. Uganda is just a hawker in the international market place: living on credit, making enough to survive on a daily basis, and retiring to a hovel in Katanga every evening: certainly not becoming a self-sustaining economy. ***We are retracing the path that used to lead to success but now leads to economic failure***.

Yes, we need local industry and a modernized agricultural sector to support a vibrant economy, ***but these two will never create the vibrant economy in the current environment***.

2. MEASURING SUCCESS

We need to establish the measure of success. The best, in the view of the author, is the Human Development index. How is Uganda performing in this respect? The selected human development indices in Table 1[3] give some indication. The author believes this to be a fair indicator of national progress.

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[1] Dr F F Tusubira is Associate Professor (Telecommunications) and Director, Directorate for ICT Support, Makerere University. See also http://www.makerere.ac.ug/dicts/team/tusubira.htm

[2] Yoweri Museveni, "The NRM Ten-Point Programme", NRM Publications, 1985.

[3] Human Development Report 2002, published by the United Nations Development Programme.

Clearly, we are not yet well off as a country, falling solidly in the range for LDCs (less than 0.5). The good news for Uganda is that the trend has been positive over the last three years: 0.386, 0.388, 0.404, and 0.444 for 2002. We however still have a long way to go.

TABLE 1
HUMAN DEVELOPMENT INDEX FOR SELECTED COUNTRIES

Position (out of 173)	Country	Human Development Index, 2000
1	Norway	0.942
9	Japan	0.933
25	Singapore	0.885
41	Bahamas	0.826
89	Sri Lanka	0.741
107	South Africa	0.695
117	Gabon	0.637
134	Kenya	0.513
150	Uganda	0.444
162	Rwanda	0.403

3. GROWING RICH: COMMON WISDOM

Successful business people know some simple home truths:

- To grow rich, you must earn more than you spend. If the avenue of earning is not sustainable, you must quickly invest your net earnings in a more sustainable (and most likely lower return) venture.
- To earn more than you spend, you must offer a product or service more cost-effectively, and with a consistently commensurate higher quality, than your competitor. You must have a niche. It is almost impossible to have a sustainable niche, as any trader in Uganda will tell you: to continue earning more than you spend, you must find other niches on a continuing basis
- Living like a hawker, depending on perpetual debt for your operations, is not sustainable. Sooner or later, debt catches up with you. One just has to look around the world at collapsing economies to see this.

How is Uganda performing against these simple home truths?

- We are trying to spend less through import substitution: soap, oil, steel, cement, and other goods are locally produced. The basic strategy in import substitution is to reduce outflows so we do not get poorer: *we maintain the status quo of current poverty.* Import substitution does not create wealth and will not make Uganda rich. We must also note that in many cases, we simply extend a packaging service to foreign industry. The production of corrugated roofing sheets and related materials is a very good example of this.

- We still have to really focus on avenues that are market niches for Uganda. The Uganda Investment Authority has made a start on this in some aspects[4], *but there is no national strategic focus on them yet.*
- Uganda remains an international hawker, offering a whole range of bits and pieces in the hope that someone will buy. Most times, the quality is not commensurate to accepted international standards (more of this later) and we are shut out. We are at the mercy of our creditors.

What are we doing wrong? Before discussing this, we need to consider the import/export scenario plane.

4. THE IMPORT AND EXPORT SCENARIO PLANE

The economies of different countries can be grouped into four categories, based on the scenario illustration in Figure 1.

Quadrant A contains the typical highly developed country: There is a high level of imports and exports, a consumer economy, with largely quality based import barriers. The human development index in such countries will generally be high.

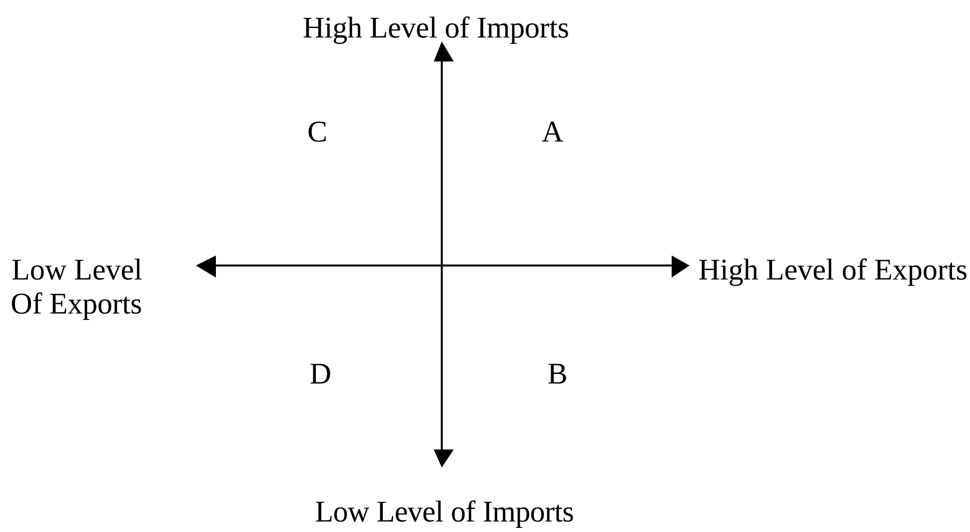

Figure 1: The import-export scenario plane (levels relate to monetary value)

Quadrant B contains both developed and developing countries that have a lot of trade barriers. The number is diminishing rapidly. Internal industry thrives and meets most of the needs, with a very high trade surplus. The human development index will be very high for the developed countries, and reasonable for the developing countries. The low level of imports tends to lead to some artificially high prices, giving a very high cost of living, because there is hardly any competition from external goods.

[4] See some of the proposals in the Big Push Strategy produced by the Uganda Investment Authority

Quadrant C contains many of the developing countries. Conditionalities imposed by various multilateral bodies have opened up these countries for imports. A lot of their industry depends on import-substitution. The balance of trade equation is permanently not in their favour. The human development index is generally medium to low.

Quadrant D captures the underdeveloped economies, covering all the LDCs. Internal production is at a rudimentary level, and the volume of imports is low simply because there are insufficient resources to pay for them. This is the *mivumba* economy. Some of these economies are, paradoxically, characterized by expensive tastes that try to emulate the styles in Quadrant A (sometimes outdoing it) without the corresponding resources: The hawker enjoys a beer and walks around in a cheap imitation suit, albeit with a designer label. A consumer economy, without the means to sustain it, develops.

The aspiration, for most countries, is to move to Quadrant A. This can be either clockwise or anti-clockwise. Where is our development path leading us?

Most of the current developed countries moved *anti-clockwise*. This was in the times when import barriers without any major justification were acceptable. After achieving a high level of internal industrial production, with big external markets, they started reducing trade barriers, not unilaterally, but through bilateral or multilateral negotiations. Such countries, to a large measure, controlled the timing and progress of opening up.

Our countries can no longer move anti-clockwise. Multi-lateral agencies (IMF, World Bank, WTO, etc) have a major say in what kind of barriers we can create. In many cases, we have become signatories to legal obligations that require us to open our trade borders. In theory, we can control the extent and the timing. In practice we have almost no control: our dependence on loans and grants to balance our budget means that we must accede to external requirements about import restrictions.

Here then lies the trap of developing countries, especially LDCs. We tend to move clockwise, through Quadrant C. We create an affluent middle class through stimulation of the internal economy. This class controls a major part of the economy and develops tastes satisfied by imports that they can individually sustain, but which the nation, globally, cannot afford. Unfortunately, even those not truly in the middle class develop delusions of similar lifestyles, and they are willing to cover the costs if necessary through corruptly acquired resources. *The problem then develops a moral dimension*. One just has to look at the impossibly expensive tastes of people at all levels of public service as well as statutory organizations set up to run the various activities on behalf of government, to literally see corruption.

As a country, *we can try to sustain the general level of poverty through import substitution*, but we do not have many products that generate real wealth by transferring resources from the developed economies to ours. The level of trade instead increases between our poor countries: you can never grow rich by trading with someone who is equally poor.

This is the crisis we must urgently address before we are overtaken, sooner than later, by the total collapse of our economy. And it is a crisis that will be recognized by all who would sit back and reflect on the matter.

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5. ADDRESSING THE CRISIS

5.1 We must develop a sustainable strategy for moving to Quadrant A, change the way we currently think

The challenge: noting that we are currently not able to move to quadrant A through quadrant B, how do we get there without going through the destructive quadrant C?

Or, how can we increase the level of our exports without trying to retrace a path that is no longer available (anti-clockwise) or no longer tenable (clockwise)? This question in a way accepts that we are too small to challenge the current world economic order. How do we move up on the diagonal?

To date, we have tried to move mostly through import substitution, and by improving the efficiencies of our agricultural and industrial operations so that we can export more. We have tried to attract investment in an increasing range of industries. In most of these areas, we cannot, by any stretch of imagination, out-compete the developed countries that have high economies of scale as well as massive direct and indirect government subsidies. This approach will never work.

It is the author's belief that as a first step, we must address the crisis by looking at the industry and markets in the developed countries, and identifying our niches therein: what is it that they produce or provide that we can produce or provide more cost-effectively? We must identify and exploit these opportunities ourselves, rather than waiting for *opportunity handouts* from the developed countries. *We want to make money off them, not only to take what they think they can spare.*

It is not simply a question of increasing the efficiency and productivity of our industry, but doing so in those areas where we can have a competitive edge. While the Big Push Strategy initiated by the Uganda Investment Authority threw some light in this direction of thinking, there, unfortunately, appears to be no coordinated national strategy to exploit some of the potential of Uganda so identified.

5.2 We must address the Mivumba mentality

In order to exploit identified niches on a sustainable basis, Ugandans must adopt quality as a second nature. Unfortunately, and through no fault of their own, our current twenties to thirties generations have grown up in an environment where *availability* is more important than *quality*. These are the people now manning many of the critical legislative, policy, management, operations, and production sectors of our economy.

No body really complains very seriously when power is off, or when there is no water: we are resigned to it as a normal state of affairs. Critical roads are closed for months on end, and hardly anyone raises a sound. Corruption is no longer a thing of shame. We take the bad roads, the bad schools, the second hand cars, the second hand clothes, for granted. This is the *mivumba* mentality, in a *mivumba* economy: an economy where citizens, often because they have not had a chance to see better, are willing and happy to live with the sub-standard, and consequently produce the sub-standard. The *mivumba* way of thinking will quickly destroy any niche we find unless steps are taken to address it.

We must create an environment that is intolerant of the sub-standard, both through legislation and sensitization. We must breed a new attitude among Ugandans.

5.3 We must focus on sectors that add high value to the economy

We encourage investment. We put in place enabling policies. We give tax breaks. The question: are these a coordinated strategy to enabling investors in areas that will add high global value to our economy?

To illustrate, let us take the example of power consumption. Table 2 shows the 10 biggest industrial consumers of power last year:

TABLE 2

TOP CONSUMERS OF POWER FROM UEDCL, 2001/2[5]

		GW hours
1	Hima Cement	2.8
2	Jinja Steel Rolling Mills	2.3
3	SCOUL	1.4
4	Gaba Water Works 1	1.4
5	Gaba Water Works 2	1.2
6	Tororo Cement	1.2
7	Nytil	0.8
8	Sheraton Kampala	0.6
9	Uganda Breweries	0.6
10	Entebbe Airport	0.6

If we were to carry out a per unit computation, what are the comparative levels of value added to our economy for each unit of power consumed by the different industries above? The author has not carried out the analysis, but the levels will certainly different.

All government policies lead to the commitment of national endeavor and resources, in one way or another, in some sector. It is only those sectors where there is high addition of value to the economy that should be considered a priority. Such sectors will have an impact on the value chains in many economic sectors, especially if we achieve the objective of an integrated economy.

Another example can be drawn from an analysis of import and export earnings. Current figures[6] show that while coffee is still the biggest foreign exchange earner, its value has declined to 20 – 25% of the total. Fish and products on the other have risen to almost 18%. The question: to what extent have integrated national policies been developed to address the need for increasing and sustainable exploitation of this niche? Any such strategy would literally cut across all the ministries: eg, roads to major landing sites; easy availability of power and communications; targeted tax holidays on inputs and incomes; training in schools; marine eco-tourism; research grants; marine safety; addressing marginalized island communities; etc. Cross cutting strategies of this nature need to be developed for each identified niche to make it an area of multi-sector focus.

[5] Source: Uganda Electricity Distribution Company (informal communication)

[6] Source: Bank of Uganda Import and Export Figure by sector from1998 to Sept 2002 (informal communication)

We must learn to invest where most of our income comes from.

5.4 We must reign in tastes that do not match national economic performance

This is certainly a touchy one. One of the incentives of investment is the ability to freely spend one's income (presumably after honest payment of taxes) as one wants. And yet we cannot permit the country to continue in its spendthrift ways. A careful balance between legislated and economic disincentives to this culture must be put in place.

By addressing the issue of corruption alone, a major part of this expenditure would actually be eliminated. While the author has no figures to fall back on, the major part of such spendthrift expenditure is not by the true middle class that has truly made it. They are mostly public servants, crooked private practitioners in different disciplines, and business people headed to failure through reckless spending of often borrowed capital.

What about those who have truly made their money? This new middle class must also sit back and think. To quote a famous philanthropist:

"The problem of our age is the proper administration of wealth, that the ties of brotherhood may still bind together the rich and poor in harmonious relationship….. This, then, is held to be the duty of the man of wealth: To set an example of modest, unostentious living, shunning display or extravagance; to provide moderately for the legitimate wants of those dependent upon him; and after doing so to consider all surplus revenues that come to him simply as trust funds…"[7]

Unfortunately, the public image created by many of our business people, fueled along by the popular press, is far different from the thinking of Andrew Carnegie. The impact to really worry about are our impressionable young generation.

The business community is showing increasing examples of corporate social responsibility. This must be encouraged to develop further.

5.5 We must address Human Development

Success will not be success unless there are social and economic policies that ensure no one is marginalized in the development process. Human development is measured across the population. No one can enjoy wealth when surrounded by poverty. The processes of human development must be integrated into the growth strategies of identified niche markets.

6. CONCLUSION

This paper has proposed a conceptual strategy for sustainable development different from the path that we are currently following. The proposals put forward are not necessarily entirely new: the focus is the conceptual framework within which they are developed, combined with pointing out the need for multi-sector approaches in exploiting identified market niches for Uganda. Within this conceptual framework, government, the business community, and researchers are encouraged to develop new strategies for Uganda's sustainable development.

[7] Andrew Carnegie, "The Gospel of Wealth"