Governor's Lecture: Press Release 18.02.20

On 18th February 2020, the Bank of Uganda held their 5th Governor's Public Lecture Series on 'Uganda's Industrialisation Strategy: Challenges, Opportunities, and Lessons of Experience' in collaboration with the International Growth Centre (IGC). The event focused on Uganda's industrial strategy as a vehicle for structural transformation and growth.

The Governor opened the event by noting that the topic of the event is well aligned to the theme of the Budget Speech 2019/20; 'Industrialisation for Job Creation and Shared Prosperity'. Industrialisation is the key vehicle that has been chosen by the Government of Uganda to encourage transformation away from dependence on natural resources and agricultural production, to allow for sustained economic growth above 7%. The Governor noted the key challenge currently Uganda faces whereby growth is currently not being driven by export-led manufacturing, and manufacturing is increasingly becoming less labour intensive. As such, it is harder to see Ugandan manufacturing firms creating the much-needed jobs for employment of a growing population. Given these challenges, the Governor highlighted the importance of learning from different industrialization strategies implemented successfully and less successfully and the lessons they offer for Uganda. This was the topic of this year's Governor's lecture.

The keynote speaker, Professor Danny Leipziger from George Washington University and the Growth Dialogue began his lecture by considering the changing global climate in which Uganda is designing its industrial strategy. Despite many of the same challenges that have plagued developing countries attempting to implement industrial policy (including poor access to vital infrastructure, weak human capital, and limited participation of women in the labour force), in many respects, Uganda is facing a different global climate than earlier East Asian industrialisers. These changes include slower trade growth, growing uncertainty, rising overall indebtedness and the growing importance of China as a driver of global capital investment. Alongside these developments, we see rising inequality and subsequent push back against globalization that has not yielded uniformly beneficial outcomes for citizens.

Given these differences and the forces of 'deglobalisation', the question facing policymakers is whether policy attention should be focused not on export orientated growth, but on production for domestic markets. Professor Leipziger noted that while the returns to export production may be lower than they once were, there is no better yardstick or mechanism to ensure competitive domestic production than to allow or incentivize these firms to compete globally. He noted the need for a certain amount of "tough love" for firms to make them competitive and not too comfortable with uncontested access to domestic markets.

Professor Leipziger then turned his attention to examples of successful industrial strategies implemented in South Korea and Malaysia. He noted that these examples share a few key success factors, including exceptional policy coordination and management, market orientation, and macroeconomic stability. In South Korea, for example, industrial policy was coordinated and managed by a strong Economic Planning Board which was able to coordinate and monitor other Ministries. Strong economic management and a dedicated set of research institutions focused on identifying specific products/markets for production were key enabling conditions for the success of industrial policies aimed at 'picking winners' – and *where support was provided to firms, this was conditional on delivering export production. It is not clear that a similar strategy would be as easy to implement and as successful elsewhere without clear attention to issues of implementation and accountability. The varied experiences of numerous countries highlight that industrial policy holds some promise – but there is a need to be cautious and careful in its design—and that there are many ways in which it can fail. Learning from past mistakes is therefore a valuable exercise for policymakers.*

Professor Leipziger concluded his lecture by noting some key barriers to an effective strategy that may be particularly pertinent for Uganda. He noted that in successful cases of industrial policy, "policy formulation, coordination and implementation are all key, despite the fact that the latter two often get insufficient attention". Implementation of public investment in particular is likely to be a key determinant of the success or failure of industrialization in Uganda. When considering which sectors to support, Professor Leipziger noted that while agro-processing is a relatively safe bet, the oil and gas sector is a "risky horse" to ride to structural transformation, given high levels of price volatility and significant initial sunk costs of investment. At the same time, iron and steel production may require initial significant government spending to be able to compete with existing production in China, India and Brazil. Crucially, the role of government will need to change – Professor Leipziger stressed that "the state cannot be the producer, but [instead] the facilitator and regulator", and that more thinking would be needed on the relationship between the private sector and government as part of implementing any industrial strategy.

In order to effectively implement an ambitious industrial strategy in Uganda, the government will need to focus on implementation, coordination, and be flexible in adjusting policies over time. Government will need to help promote competitive areas of economic activity that can be part of a regional and global export strategy, to be pursued in conjunction with any new sources of domestic growth.

Discussions following the lecture were wide ranging and explored issues of promoting competition in a context of infant industry protection, which industries are 'strategic' industries for protection, and to what extent Uganda should focus on self sufficiency as compared to export promotion. Professor Leipziger noted that many countries had tried the go-it-alone strategy with costly results and he noted Brazil's experience as one to avoid.

Richard Newfarmer, Country Director of the IGC Uganda, closed the event with a vote of thanks, where he highlighted a number of key issues for future investigation and analysis. In particular, he highlighted the importance of further work on the impact and implementation of the 'Buy Uganda Build Uganda' programme, government procurement and its impact on SMEs, policies for enhancing savings for investment, and policy implementation and coordination – particularly in the area of public investment.