

# UGANDA'S INDUSTRIALIZATION STRATEGY: CHALLENGES, OPPORTUNITIES, AND LESSONS OF EXPERIENCE

Professor Danny Leipziger

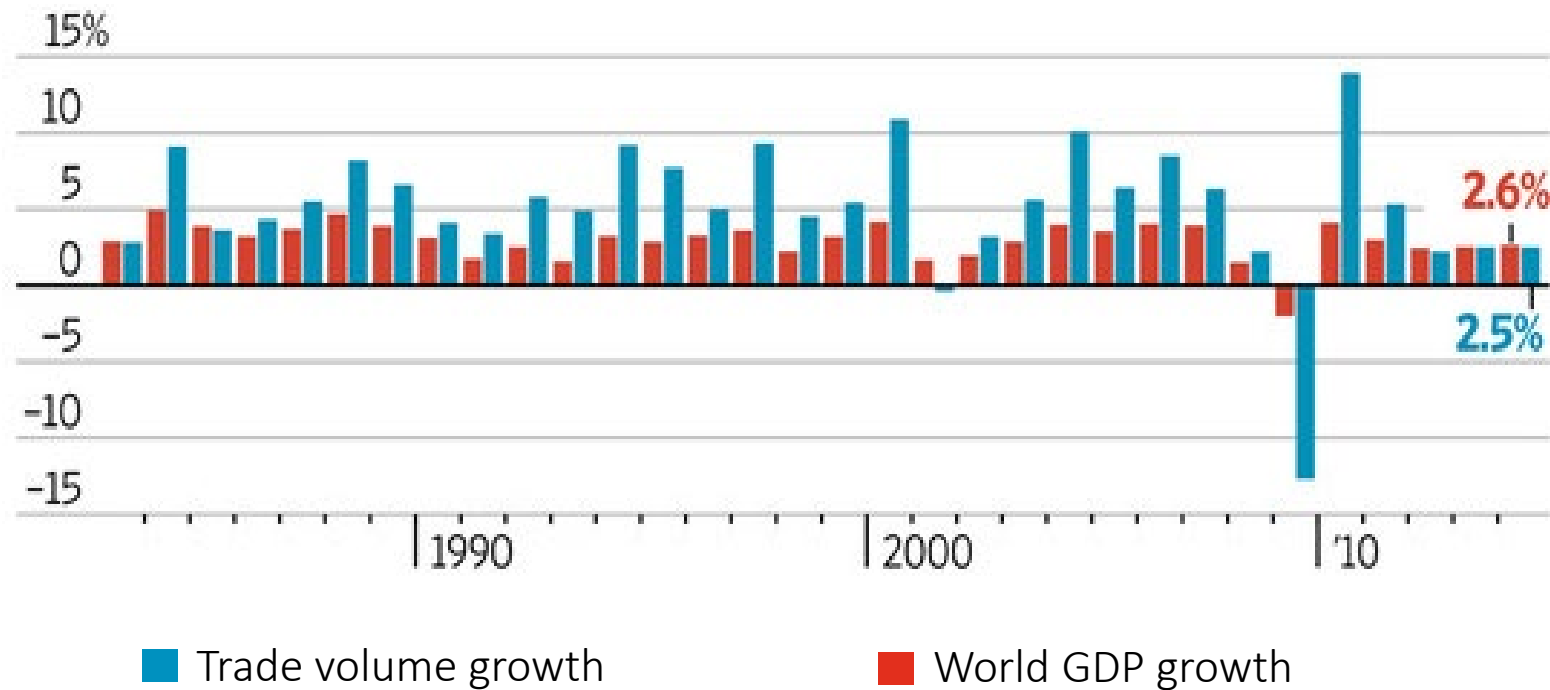
Professor of International Business at The George Washington University

Managing Director of The Growth Dialogue

February 2020

# GROWTH: GLOBAL TRADE VS GDP

## Slowdown Effects



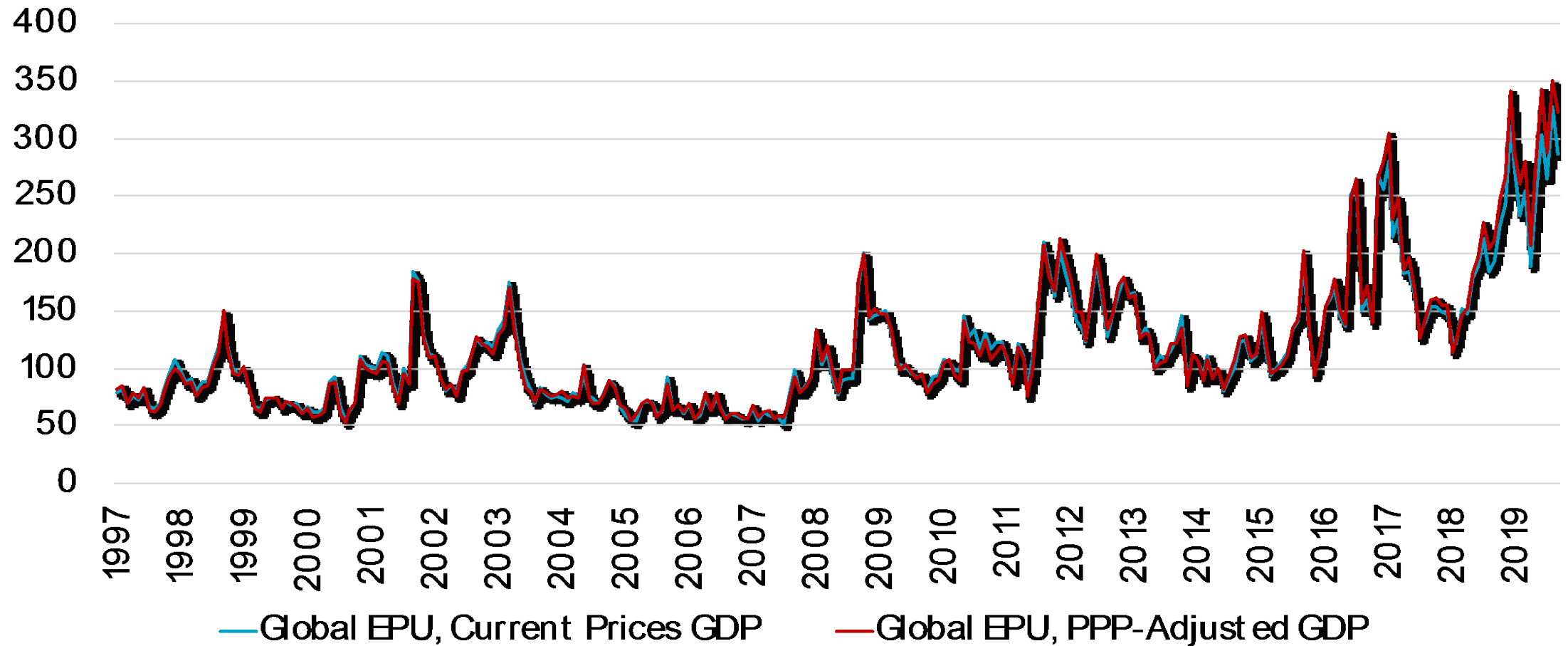
Total imports and exports used to grow at twice the rate of global gross domestic product

Source: WTO



THE  
GROWTH  
DIALOGUE

# GLOBAL ECONOMIC POLICY UNCERTAINTY INDEX

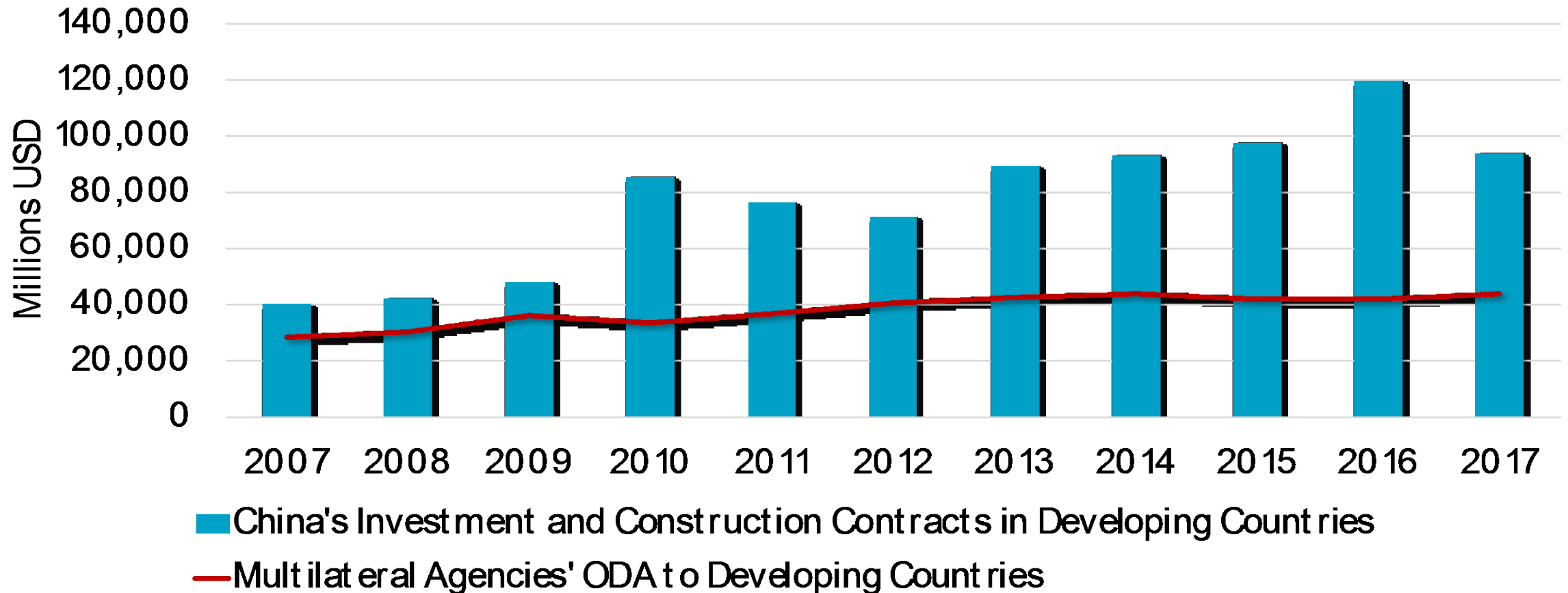


Source: Global Economic Policy Uncertainty



THE  
GROWTH  
DIALOGUE

# MULTILATERAL AGENCIES' ODA VS CHINA'S INVESTMENTS AND CONSTRUCTION CONTRACTS IN DEVELOPING COUNTRIES



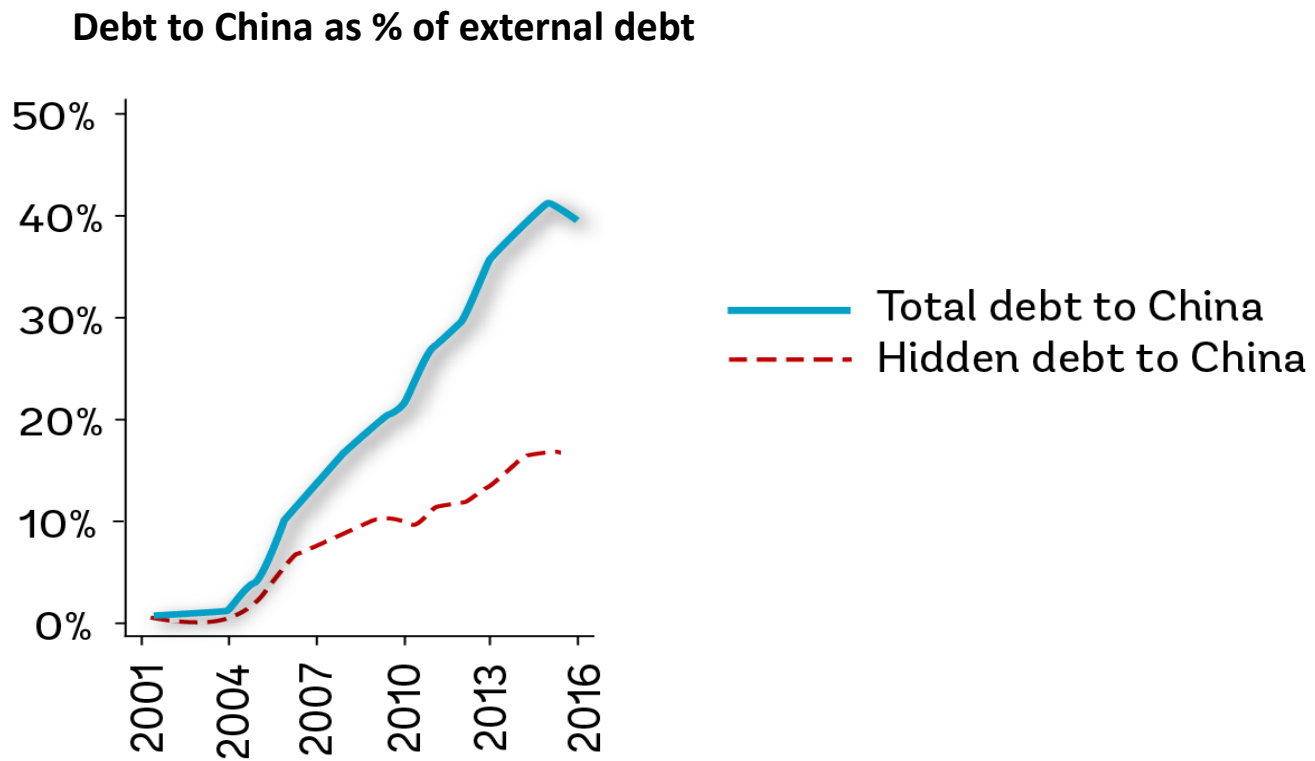
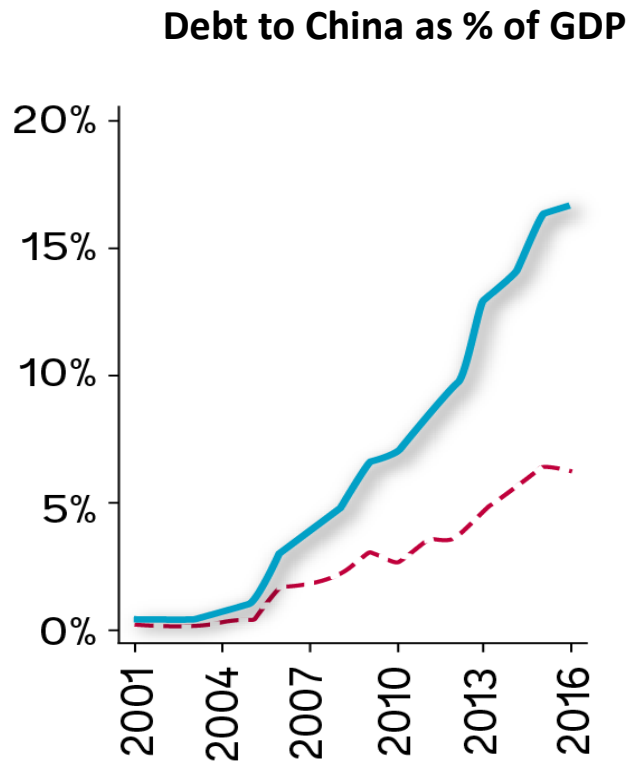
Source: China Global Investment Tracker (The American Enterprise Institute and The Heritage Foundation) and Query Wizard for International Development Statistics (OECD)



THE  
GROWTH  
DIALOGUE



# CHINA'S RISING SHARE OF TOTAL EME DEBT OF \$ 55TR. HITTING 164% OF GDP ACCORDING TO THE WORLD BANK (2019)

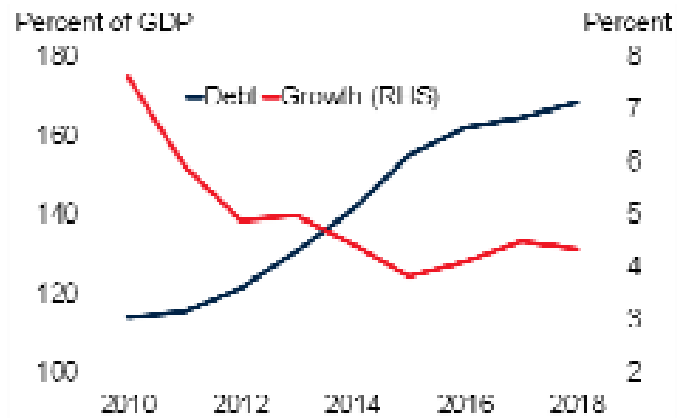


Note: Total debt includes data from the World Bank's Debtor Reporting System as well as authors' calculations on hidden debt based on commitments to 50 developing and emerging economies.  
Source: Horn, Reinhart, and Trebesch

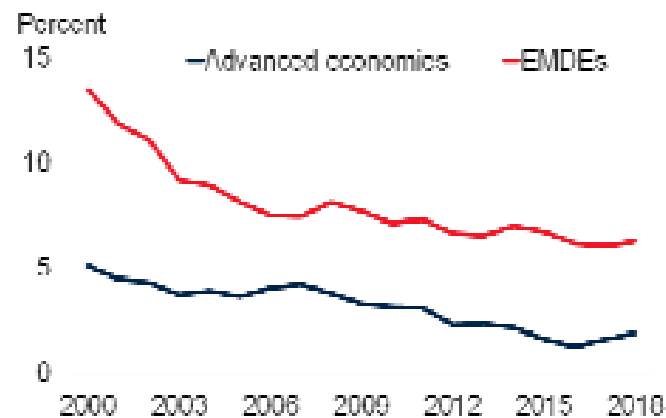


# POST-CRISIS DEBT ACCUMULATION, GROWTH AND INTEREST RATES

## A. Growth and debt in EMDEs



## B. Long-term interest rates



◆ Despite a very fast build up since 2010, EMDE growth has slowed. The current environment of low interest rates mitigate immediate concerns about debt accumulation

A. Total debt ( in percent GDP) and real GDP growth (GDP-weighted at 2010 prices and exchanges rates

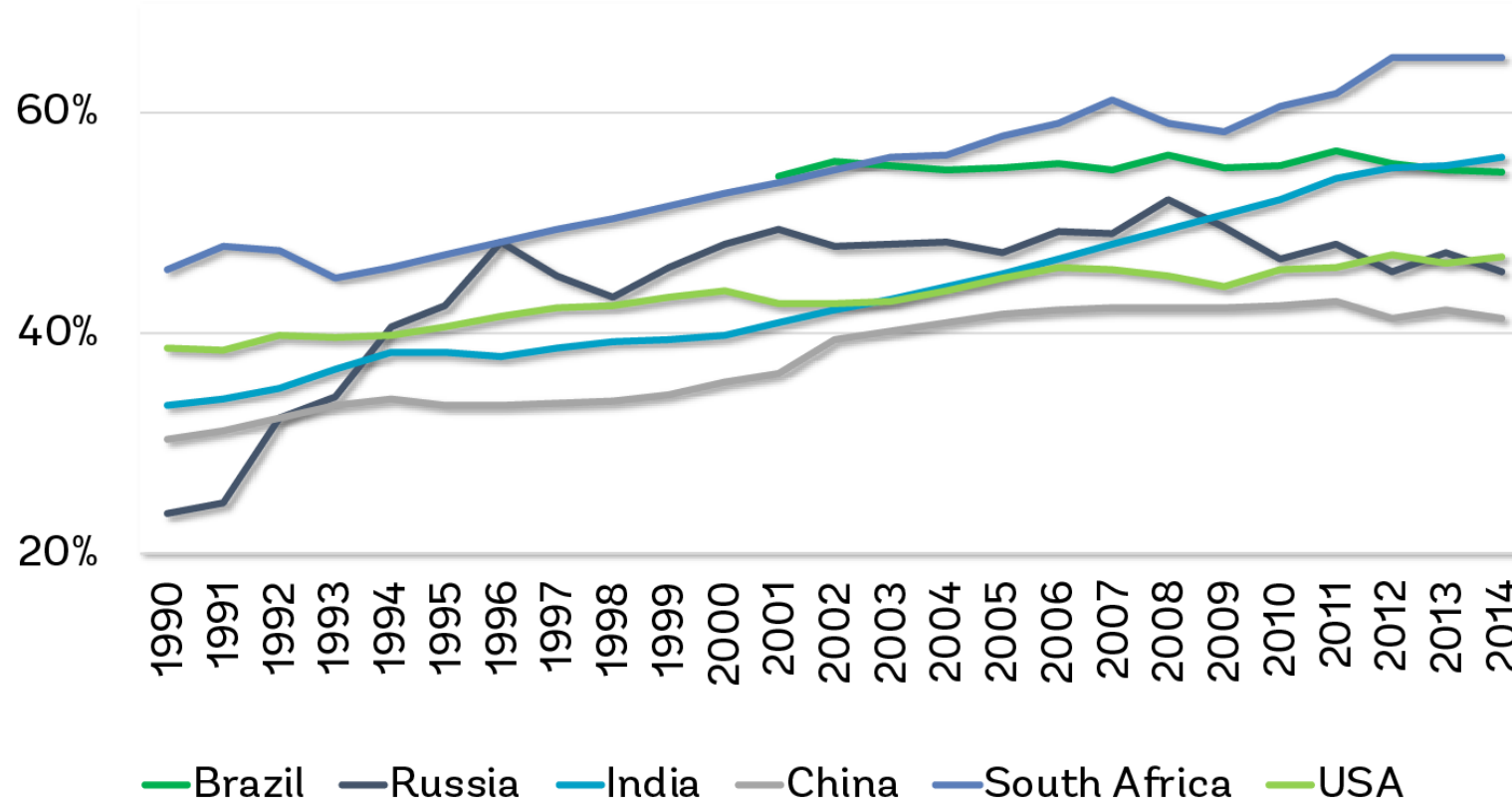
B. Average long-term nominal government bond yields (with 10-year maturities) computed with current U.S dollar GDP weights, based on 36 advanced economies and 84 EMDEs

Source: International Institute of Finance; World Bank



THE  
GROWTH  
DIALOGUE

# GENERALLY RISING INEQUALITY AS SEEN IN THE GROWING INCOME SHARES GOING TO THE TOP DECILES



Source: World Inequality Database

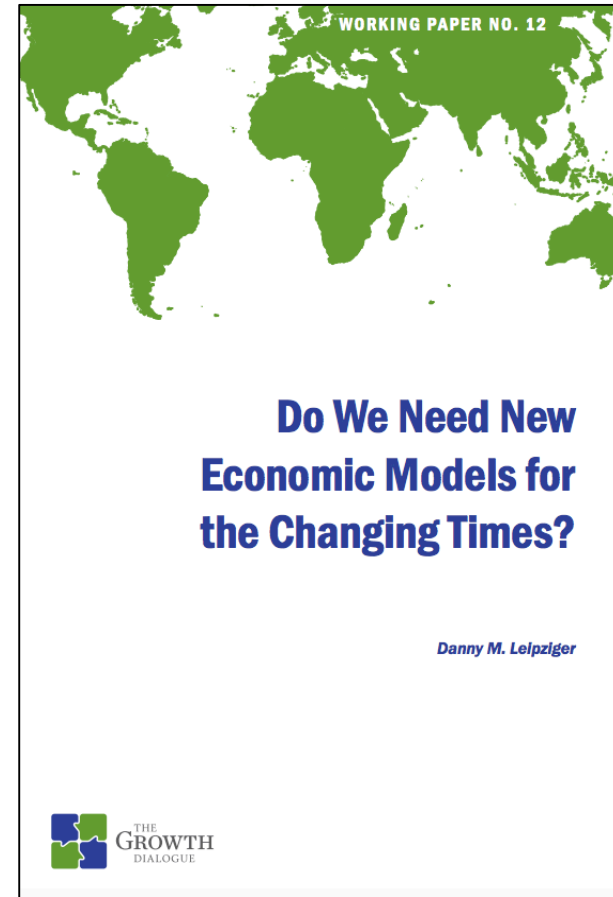


THE  
GROWTH  
DIALOGUE

# PUSHBACK TO GLOBALIZATION IS A REAL PHENOMENON

---

- ◆ Prof. Stiglitz was the first to recognize this in GLOBALIZATION AND ITS DISCONTENTS (2003)
- ◆ Prof. Rodrik highlighted his trilemma in THE GLOBALIZATION PARADOX (2011)
- ◆ Now the issue turns on the implications of this pushback for development strategies.





**Access to electricity  
(% of population, 2017)**



**Access to improved water source  
(% of population, 2015)**



Note: Access to an improved water source refers to the percentage of the population using an improved drinking water source. The improved drinking water source includes piped water on premises (piped household water connection located inside the user's dwelling, plot or yard), and other improved drinking water sources (public taps or standpipes, tube wells or boreholes, protected dug wells, protected springs, and rainwater collection).

Source: WDI

# AFRICAN PLANS FOR TRANS-CONTINENTAL ROAD NETWORK

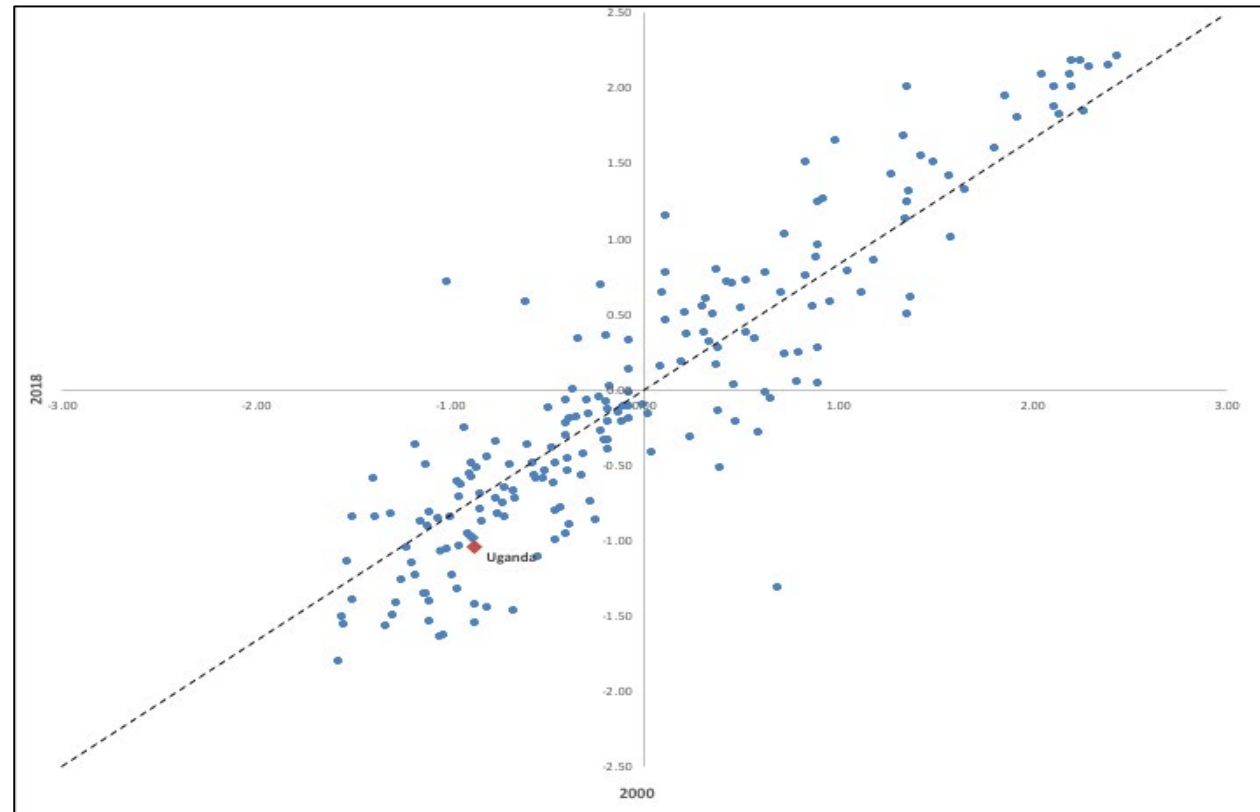


Source: OECD (2019) "Accessability and Infrastructure in Border Cities" West African papers No 23 OECD publishing, Paris. 2019. Sabel and West Africa Club Secretariat



# PROGRESS IN THE CONTROL OF CORRUPTION (WGI) HASN'T CHANGED MUCH BETWEEN 2000 AND TODAY

Changes over time in Control of corruption 2000-2018



Source: The World Bank's Worldwide Governance Indicators (WGI) project & Kaufmann, Daniel and Kraay, Aart and Mastruzzi, Massimo, The Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No. 5430.

# COMMON CHARACTERISTICS OF SUSTAINED HIGH GROWTH CASES

1. Openness
2. Macroeconomic Stability
3. Future orientation
4. Market orientation
5. Strong leadership and governance



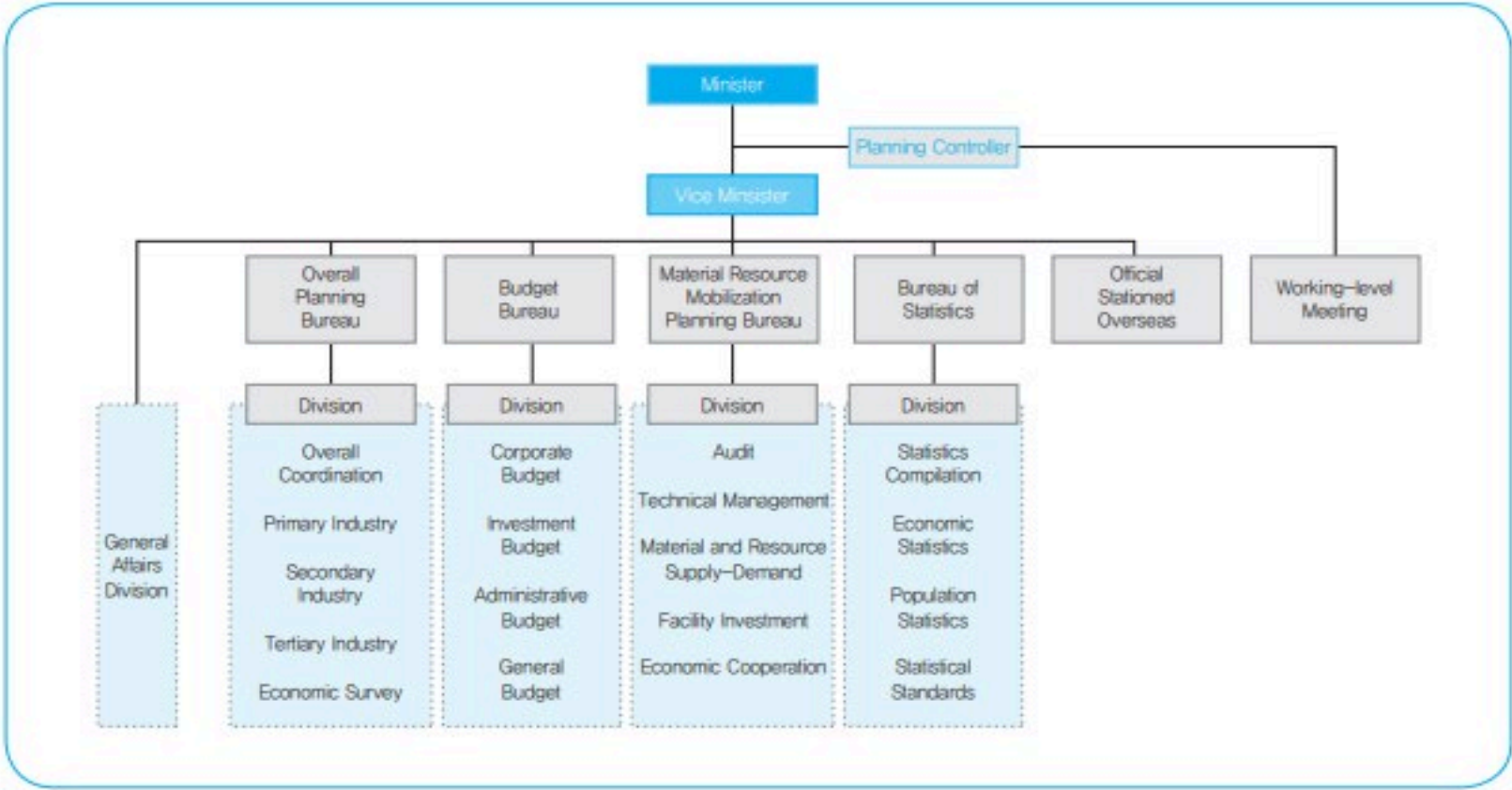
6

Source: Comission on Growth and Development



THE  
GROWTH  
DIALOGUE

# MODELS OF STRONG POLICY COORDINATION: ORGANIGRAM FOR KOREA'S ECONOMIC PLANNING BOARD



Source: Economic Planning Board (1982), Economic Policies of the Development Era: the Twenty Year History of the Economic Planning Board

# CLASSIFICATION OF INDUSTRIES FOR INCENTIVE TARGETING IN MALAYSIA INDUSTRIALIZATION PROGRAM

Classification of Industries for Incentive Targeting		
Cluster-type	Industry Group	Industry Cluster
Internationally-linked	Electrical & electronics	• Electrical & electronics
	Textiles & garments	• Textiles & garments
	Chemicals	• Pharmaceuticals • Petrochemicals
Policy-driven	Transportation	• Automobiles • Motorcycles • Marine transportation • Aerospace
	Material & advance materials	• Polymers • Metals • Composites • Ceramics
	Machinery & equipment	• Machinery & equipment
Resource-based	Resource-based	• Wood-based products • Rubber-based products • Palm oil-based products (food sector) • Palm oil-based products (non-food sector) • Cocoa & cocoa products
	Agro-based & food products	• Fish & fish products • Livestock & livestock products • Fruits & vegetables • Floriculture

Source: V. Kanapathy (2001), Industrial Restructuring in Malaysia: Policy Shifts and the Promotion of New Sources of Growth





# SHIFTS IN POLICY DIRECTIONS IN MALAYSIA'S INDUSTRIALIZATION PLAN, 1960 TO THE 1990'S

Major Policy Initiatives	
<b>Phase I (1958-1968)</b> Import -substituting industrialisation	Pioneer Industries Ordinance, 1958 <ul style="list-style-type: none"> <li>• Granting of pioneer status</li> </ul> Tariff Advisory Board <ul style="list-style-type: none"> <li>• Infant industry promotion through tariff protection</li> </ul>
<b>Phase II (1968-1980)</b> Export -led Industrialisation via EPZs/LMWs  Promotion of public enterprises and <i>bumiputera</i> SMEs	Investment Incentives Act, 1968 <ul style="list-style-type: none"> <li>• Development of EPZs/LMWs</li> <li>• Export incentives</li> </ul> New Economic Policy <ul style="list-style-type: none"> <li>• State interventions through subsidies, quotas, and licensing</li> <li>• Industrial Co-ordination Act, 1975</li> <li>• Establishment of public enterprises and promotion of <i>bumiputera</i> SMEs</li> </ul>
<b>Phase III (1981-1999)</b> Second round of import -substituting Industrialisation through heavy industries – 1981  Second round of export -push through liberalisation and deregulation – 1987  Focus on productivity-driven growth through emphasis on S&T and R&D as well as human resource development (HRD)  Promotion of new sources of growth	Formation of HICOM in 1981  Promotion of Investments Act, 1986 <ul style="list-style-type: none"> <li>• Foreign investment and export push through liberalisation of foreign equity and incentives tied to exports</li> </ul> Tax reforms Review of heavy industries Privatisation of public enterprises Amendments to labour legislation to improve labour market flexibility  Industrial Master Plan, 1986-1995 Action Plan for Industrial Technology Development, 1990 Emphasis on HRD to improve quality of labour <ul style="list-style-type: none"> <li>• Mandatory training through the Human Resource Development Fund established in 1993.</li> <li>• Fiscal and financial incentives for expansion of education and training</li> <li>• Liberalisation of the education and training industry</li> </ul> Second Industrial Master Plan, 1996-2005 <ul style="list-style-type: none"> <li>• Shift from industry-based to cluster-based industrial development approach</li> </ul> Establishment of Multimedia Super Corridor, 1996

Source: V. Kanapathy (2001), Industrial Restructuring in Malaysia: Policy Shifts and the Promotion of New Sources of Growth

# BAD IDEAS TAKEN FROM THE SPENCE COMMISSION'S GROWTH REPORT

---

1. Subsidizing energy except for those well-targeted at vulnerable populations.
2. Using the civil service as “employer of last resort.”
3. Cutting fiscal deficits by relying unduly on reducing needed infrastructure investments.
4. Providing open-ended protection of specific sectors from competition.
5. Imposing price controls to stem inflation.
6. Banning exports to keep domestic prices low for consumers.
7. Resisting urbanization and hence under-investing in urban infrastructure.
8. Ignoring environmental issues at early stages of development on the grounds that they are “unaffordable luxuries.”
9. Measuring educational progress by construction of schools or enrollment rates instead of learning and quality of education.
10. Underpaying civil servants and not recognizing differences in performance.
11. Poor regulation of banking and/or direct interference in credit allocation.
12. Allowing the exchange rate to appreciate in advance of productivity improvements

Source: The Commission on Growth and Development, THE GROWTH REPORT: STRATEGIES FOR SUSTAINED AND INCLUSIVE GROWTH, 2008, pp. 68-69.





# RECENT VIEWS ON EAST AFRICA COUNTRY X's INDUSTRIAL POLICY

---

- ◆ Absolute necessity to involve the private sector in expanding non-traditional exports.
- ◆ Avoid “recapturing domestic markets” and focus on expanding external ones and downplay “buy home-grown” products
- ◆ Provide incentives for most efficient small firms to grow since productivity of small firms lags and dispersion is wide (Hsieh and Klenow, 2009).
- ◆ Focus on HRV Binding Constraints, such as logistics costs.
- ◆ Allocate more credit (working capital) to manufacturing, but with strings attached > expand export markets.
- ◆ Be more strategic in the attraction of FDI and avoid picking winners for the private sector rather than enabling the private sector to be competitive.



# RECENT OBSERVATIONS FOR A W. AFR. COUNTRY'S TEN YEAR NATIONAL DEVELOPMENT PLAN

---

- ◆ In addition to a viable strategy, what is needed is:
  - a) coherence among various national objectives
  - b) effective coordination among ministries
  - c) strong implementation and monitoring of performance
  - d) effective and clean oversight. A strategy without improved implementation is likely to fail.
- ◆ Think of Hausmann's admonition that countries are most likely to establish competitiveness in areas close to existing competencies.
- ◆ Key goal is to improve productivity and to raise effectiveness of public spending.
- ◆ The proposition that without strong domestic levels of competition it will difficult to establish international competitiveness.
- ◆ Technological gains are vital and leap-frogging difficult without help > twinning arrangements for universities, strategic FDI, and improved learning outcomes.



---

# THANKS FROM THE GROWTH DIALOGUE

[www.growthdialogue.org](http://www.growthdialogue.org)



THE  
GROWTH  
DIALOGUE