The Politics of Trade and Industrial Policy in Africa

Forced Consensus?

Edited by

CHARLES SOLUDO
OSITA OGBU
HA-JOON CHANG
THE POLITICS OF TRADE AND INDUSTRIAL POLICY IN AFRICA

FORCED CONCENSUS?

Edited by
Charles C. Soludo,
Osita Ogbu &
Ha-Joon Chang

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE
Ottawa * Cairo * Dakar * Johannesburg * Montevideo * Nairobi * New Delhi * Singapore

Africa World Press, Inc.
CONTENTS

Preface .......................................................................................................................................................... v

1. A Synthesis of Major Themes in the Political Economy of Trade and Industrialization in Africa ................................................................. 1
   Charles C. Soludo and Osita Ogbu

2. Democratisation, Globalisation and Effective Policy Making in Africa .......... 43
   Adebayo O. Olukoshi

3. Selective Industrial and Trade Policies in Developing Countries:
   Theoretical and Empirical Issues ........................................................................................................... 75
   Sanjaya Lall

4. The Politics of Trade Policy in Africa .................................................................................................... 111
   Charles C. Soludo and Osita Ogbu

5. Institutional Foundations for Effective Design and Implementation of
   Trade and Industrial Policies in Least Developed Economies ...................... 135
   Ha-Joon Chang

   A Study of Strategic Trade and Selective Industrial Policies ......................... 151
   David Lewis, Kabelo Reed and Ethel Telfeur

   Veepin Bhowon, Narainduth Boodhoo and Pynee A. Chellapermal

8. Kenya: Formulation and Implementation of Strategic Trade and
   Industrial Policies ................................................................................................................................. 205
   Gerrishon K. Ikiara, Joshua Olewe-Nyunya, and Walter Odhiambo

   A Study of Strategic Trade and Selective Industrial Policies ......................... 225
   Benson Zwizwai, Admore Kambudzi and Bonface Mauwa

    Tenkir Bonger

    Gaye Daffé and Momar Coumba Diop

12. Côte D'Ivoire: Policy Making and Implementation:
    Examples of Selective Trade and Strategic Industrial Policies .................. 315
    Kouassry Oussou, Pegatienan Jacques and Bamba Ngadjo

13. Nigeria: The Political Economy of the Policy Process,
    Policy Choice and Implementation ......................................................................................... 341
    N. I. Ikpeze, C. C. Soludo and N.N. Elekwa
PREFACE

Everyone concerned with Africa’s development would be interested in understanding and characterizing the policy process in Africa. But very little investment has gone into this area of inquiry in spite of the immense benefits such exercises could potentially yield. The risks and complexity associated with this exercise and the murky intellectual terrain may have been some of the factors that kept inquisitive minds at bay. From studies conducted elsewhere, mostly in the developed countries, an understanding of the policy process is useful in constructing the form and content of policy advice, and in sharply focusing such advice on appropriate centers.

This book was motivated by the observation that despite the fact that African countries have swung with the pendulum of fads and fashions in the development literature regarding the thrust of trade and industrial policies, both the aggregate and individual country performance in each case has been varied and generally disappointing. Explanations of the lackluster performance have not been convincing. Mainstream analysis and reform programs foisted upon these countries have ruled out any prospect for strategic or selective trade and industrial policies. The reasons for such a stance are not always internally consistent. On one hand, it is argued that these strategic policies (which were believed by many to have propelled the success of East Asian economies) are ineffective, or irrelevant in the context of African conditions and globalization. On the other hand, it is argued that because of past failures and the “peculiar” African institutional deficiencies, such policies cannot be expected to succeed in the region. Paradoxically, despite nearly two decades of laissez-faire reforms (guided by no active industrial policies and “neutral” trade policies), aggregate performance has not been any better. More African countries continue to join the league of least developed countries, and the concentration of exports on primary commodities is worsening with the consequences of the highly volatile terms of trade. Again, failure is blamed on institutional weaknesses and implementation failure. There must then, in effect, be some “peculiar African conditions” that make trade and industrial policies of all vintages not to succeed as designed.

The searchlight, in our view, has to shift to a proper understanding of the “policy environment”—the political economy of policy choice and implementation, together with all the domestic and external factors that circumscribe such an environment. In this regard, several questions beg for answers: Why, for example, have past policies (selective or laissez-faire) failed in most countries? Who designed the policies and what were the motivations and constituency for such policies? What bargaining process (and the actors) led to the policies, and how did this affect the implementation process? How could one characterize the “policy environment,” its dynamic evolution over time, and what impact, if any, has this dynamic evolution had on the effectiveness of policy design and implementation? What is the relevance of mainstream (neoclassical) political economy models in explaining policy choices and implementation in Africa? What is the nature of institutional capacity and its evolution over time? What role if any has the current democratization process had on the effectiveness of implementation? Why and how could the least-developed countries of Africa design and implement selective industrial or strategic trade policies in today’s world? What are the current policy challenges?
especially in the context of WTO and globalization? How are policies and institutions being adapted to respond? This book was motivated by the need to provide answers to these and a host of other questions.

As this book illustrates, Africa’s policy process cannot be generalized: there are as many similarities as there are differences in individual country experiences — especially in the area of implementation. There is a broad set of factors which have shaped policy implementation, but the extent of each factor has differed from country to country. A key feature of the policy process is the loss of policy autonomy in almost all the countries to the extent that while domestic politics and institutional capacity can affect the implementation process and some specific policy choices at the margin, the broad policy thrust is either dictated (as under the policy-conditionality of the structural adjustment program) or have to be approved (as under the process-conditionality of the current Poverty reduction strategy papers — PRSPs) by the Boards of the Bretton Woods Institutions. In either case, policies have to be made in the image of Washington. Given that most African countries are heavily indebted and aid dependent, as well as members of the WTO, the broad and specific choices of trade and industrial policies have increasingly been tailored to meet the demands of the Bretton Woods Institutions and the WTO. What has therefore emerged as the broad consensus on the nature of trade and industrial policies is rather a forced consensus. In spite of this, the case studies are rich, and provide powerful insights and explanations to the underlying motives for the various trade and industrial policy processes and regimes. The nuances brought out by these studies, the identification of actors in new policy roles and the mapping of new influence centres with respect to trade and industrial policy changes point to the inadequacy of the existing literature in explaining the African case.

However, this book is more than just the case studies. The thematic papers which provide the theoretical guide to the case studies make this book wholesome. The specific areas of coverage were chosen to exploit the gaps in the theoretical literature on trade and industrial policies in explaining Africa’s drive for industrialization. The assumptions underlying these theoretical constructs were challenged and exposed as weak and often inadequate in predicting Africa’s trade and industrial policy process. More importantly, some of the papers make very compelling arguments for the case for selective trade and industrial policies in Africa, pointing very strongly to the lessons of experience from the industrializing East Asian countries. As “selective industrial policy” or “strategic trade policy” have become old fashioned in the mainstream literature, much of the literature calling for such strategic interventions argue for a “domestic investment strategy” or a “business plan.” Whatever the tag, the thematic papers suggest a strong, supportive role by the state to address many of the pervasive market and institutional failures in Africa.

This book is a result of several conversations between Charles Soludo and Osita Ogbu, then senior program specialist at the International Development Research Centre (IDRC) in 1998, on the urgent need to map and characterize the policy process in Africa. As the ideas crystallized, it became necessary to have a sectoral focus for analytical rigour and empirical validation. Trade and industrial policy was an obvious choice because of its importance, the frequency of change, and lack of consensus among economists on the use of such policy for Africa’s reconstruction. The studies were conducted between 1998 and 2000. Professor Charles Soludo coordinated the project and was assisted by a steering committee comprised of Prof. Adebayo Olukoshi (CODESRIA), Dr Ha-Joon Chang (Cambridge University, UK), Prof. Sanjaya Lall (Oxford University, UK) and Dr Osita Ogbu. The committee was responsible for quality oversight of the project.
We acknowledge the generous financial support of IDRC to this project. We are also grateful to Professor Ndungu Njuguna and Ms Joanne Mwenda-Muhaitia of IDRC who continued to provide administrative support to this project as a matter of both institutional and personal commitment. The researchers, without whom this project would have remained in the pipeline, worked tirelessly to revise and respond to queries from the editors. They attended two workshops which helped greatly in improving our collective understanding of the research problematique, the difficulties of conducting such research in Africa and some of the innovative ways of overcoming the difficulties. We acknowledge their resilience and patience, and for agreeing to be part of this experiment. Mr. Magayu K. Magayu provided invaluable editorial services that further strengthened the manuscript.

Charles Soludo
Osita Ogbru
Ha-Joon Chang
1. A SYNTHESIS OF MAJOR THEMES IN THE POLITICAL ECONOMY OF TRADE AND INDUSTRIALIZATION IN AFRICA

Charles C. Soludo and Osita Ogbu

Introduction

This chapter presents a synthesis of the thematic papers and country case studies as well as the author’s thoughts and interpretations of the evidence in the literature. This book combines four thematic papers by Africans and their international counterparts and eight country case studies (South Africa, Nigeria, Kenya, Zimbabwe, Mauritius, Senegal, Uganda and Cote d'Ivoire). The thematic chapters address cross-cutting issues and challenges in designing and implementing trade and industrial policies in today’s globalizing world. These thematic papers largely challenge “orthodoxy” on the kind of policies needed, and present alternative models. Two of the papers also discuss the politics and challenges of trade and industrial policy-making in an increasingly globalized world. The country case studies illuminate individual country experiences — a departure from the cottage industry of cross-country regressions. The emerging messages are illuminating. While the case studies adumbrate some of the recurring themes and debates regarding African trade and industrialization, they also raise more issues, and questions. The synthesis is organized around three central thematic questions: How much do policies — especially those relating to trade and industrialization — matter in explaining performance? What kinds of policies matter more for trade and industrialization (between free trade-neutral industrial policy and strategic trade-selective industrial policy)? How are the policies chosen — what determines trade and industrial policy choices in Africa?

Context and Background

Nowhere else is Sub-Saharan Africa’s (here referred to as Africa) has growth tragedy been more dramatic than in the areas of trade and industrialization. For two decades in the 1960s and early 1980s, Africa tried the import substitution industrialization (ISI) strategy, and the liberal regime trade liberalization since mid-1980s with “no industrial policy,” making no discernible difference. For the average African country, income per capita was much lower in 1999 than in 1979, and Africa’s share of world trade in 2000 (about two percent) was about half its share in 1960. Rather than diversify, Africa has witnessed increased concentration on a few primary commodities with highly volatile terms of trade, and annual income loss due to the terms of trade estimated at an average of $68 billion per annum for SSA for the period 1972-97 (World Bank et al, 2000). Manufactured goods’ export, as a share of global trade was almost zero. This is despite four decades of quantum development assistance, preferential trade arrangements such as the EU-ACP Lome and Cotonou agreements, and experiments with various brands of trade-industrial policies.

Both policies have apparently failed to deliver in Africa. On the one hand, its critics see the “failure” of the earlier ISI strategy as inevitable given its “wrong” nature. Its proponents insist that the ISI period remained the golden era of industrialization and trade
in Africa as the peak performance was achieved then, only that it was in many instances marred by ineffective implementation and the vagaries of the international environment. On the other hand, the failure of the liberal regime is blamed largely on lack of ownership and commitment. A common denominator for both schools is "implementation failure."

Policy conditionality as embodied in the Structural Adjustment Programmes (SAPs) is shown by many World Bank studies to be ineffective. The current re-thinking focuses on ex-post selectivity, and country ownership of the development agenda orchestrated through a participatory, consultative process in the countries. In principle, the countries are free to choose whatever policies that serve their interests best. In practice, both WTO rules and the globalization process are rapidly altering the rules. Together with the economies of agglomeration in the context of the new economics of geography, the new rules may be circumscribing the policy choices open to the policy-makers. Also, rhetoric about country ownership aside, there is actually a sense of "standard," "best practice," "credible" trade and industrial policies that are "acceptable" to the international financial institutions (IFIs). Talk about ownership is sometimes window-dressing as the true goal is how to get greater "understanding and internalization" of the same model, and commitment to fully implement it (UNCTAD 2002). But the growing voices in continued opposition to the current orthodoxy refuse to shut up.  

The debate on the way forward pertains to both normative and positive questions. At the normative level, the debate is about the kind of policies that should be adopted to best promote growth-oriented trade and industrialization. This normative question is predicated on the assumption that policy, rather than other factors such as geography and shocks, is the decisive determinant of the outcomes. The positive question is about what factors influence the trade and industrial policy choices policy-makers make. This is the key question especially given that even in the same broad spectrum of policy (e.g. the ISI or liberal regime) there are huge differences in specific policy instruments and implementation record. Little surprise that in the literature, no matter the vintage of explanations proffered for Africa's industrialization and trade tragedy, there is almost a consensus that Africa's "politics" or "governance" which determines policy choice is the binding constraint (see Wood, 2002, and Collier 2002). Implicitly, once Africa gets its politics right and chooses the right policies and institutions, Africa's industrialization will be on autopilot.

While the veracity of the above premise needs scrutiny, a better characterization and understanding of the policy process in Africa is critical for the way forward. Consequently, a number of questions beg for answers. Who and what determined the past trade and industrial policies in Africa or why have policy-makers failed to effectively implement policies which they designed? Under the prevailing international rules of the game and the aid relationships, what room do African policy-makers have to manoeuvre in terms of true country ownership of their policies? In other words, what are the relative contributions of mainstream ideas about development and role of donors in propagating the ideas or policies? To what extent does the interest group public choice model explain policy choice in Africa? Does the model of state institutional-bureaucratic capacity explain much? What about the effects of history-geography-production structure such as economies dominated by mineral rents, and are ethnically divided, or the impact of ethnic versus economic power balance on policy choice? Given that Africa might be one of the few regions of the world that would industrialize without the selective industrial and strategic trade policies used by earlier late-comer industrializers, how are African policy-making and institutions adapting to, or coping with, the challenging and changing
environment for trade and industrial policies? Are there generalizable lessons from the policy-making and implementation experiences across the region that are important for understanding and for changing the African policy landscape? What are the challenges and possible responses towards a more sustainable, development-oriented trade and industrialization strategy in Africa? This book is primarily motivated by the positive questions raised above.

**How Much Does Policy Matter?**

The focus of the study on political economy is predicated on the assumption that trade and industrialization outcomes in Africa are predominantly the result of policy choices. In other words, we assume that once we understand the "why" and "how" of the supposedly "bad" policy choices in Africa, we can explain the poor performance, and hence provide a framework for the way forward. To say the least, this assumption is highly debatable. Tangential to the appropriate weight to policy is another equally important issue of the endogeneity of policy to other factors. Do the environment and other factors circumscribe policy? And this is not a trivial debate. This is because the appropriate weight given to policy (is it 10 percent or 90 percent for example?) could have far-reaching implications for responses to Africa's development problems, including the kinds of interventions that would more likely work and the division of responsibilities between domestic and international actors. Most of the cross-country growth regressions in the last decade have been devoted to debate on the relative explanatory power of various clusters of variables, with unresolved issues pertaining to the robustness and fragility of the parameter estimates as well as fundamental issues of methodology.

In the growth literature, over five dozen variables have been experimented with, but they could be grouped into a few clusters as follows: growth fundamentals — savings investment, human capital; policy — with dozens of variables including the degree of openness or trade policy and industrial policy; destiny variables — geography, ethno-linguistic fractionalization, demography, and natural resource endowments; quality of institutions; and external shocks — mostly proxied by terms of trade variables. For trade and industrialization particularly, there are two levels of the debate. The first is whether there is a definite causal relationship going from trade volumes to growth or from growth to trade volumes. On this, while much of the literature argues for a trade-cause-growth thesis, others (such as Rodrik) see either a correlation and not causation, or reverse causation in that trade volumes depend on a number of factors including growth and trade policy. The second level of the debate, which is important for this study, is the relative importance of trade or industrial policy *per se* in determining either trade volumes or growth. The precise weight to be attached to each of these clusters of explanations still remain an unresolved empirical question. Collier and Gunning (1999b) concur and argue that: "the dichotomy between policy and destiny is of course an oversimplification: some apparently exogenous features of Africa have often been induced by policy, and conversely, African policies may reflect exogenous factors... sorting out the policy effects from the destiny effects is a difficult econometric problem... depending upon the specification, either policy or destiny can appear important." A look at the interactions of the various determinants of outcome, underlining both the place and possible endogeneity of policy is important.

The first of these factors, and perhaps one with the longest history is geography (see Acemoglu *et al*, 2001a for a listing of the long bibliography including Nicolo Machiavelli, Charles de Montesquieu, Anorld Toynbee, Alfred Marshall, Ellsworth
Huntington and Gunnar Myrdal). These authors saw climate as a major determinant of work effort, productivity and therefore the prosperity of nations. More recently, Bloom and Sachs (1998) Rodrik, Adrian Wood and Jorg Mayer, and especially Wood (2002) have kept this debate alive. A seminal statement of the role of destiny and geography as determinants of trade and industrialization was given by Adam Smith in Book 1, the *Wealth of Nations* (1776: 25) as follows:

As by means of water-carriage a more extensive market is opened to every sort of industry than what land-carriage alone can afford it, so it is upon sea-coast, and along the banks of navigable rivers, that industry of every kind naturally begins to subdivide and improve itself, and it is frequently not till a long time after that those improvements extend themselves to the inland part of the country... All the inland part of Africa, and that part of Asia which lies any considerable way north of the Euxine (Black) and Caspian seas, the ancient Sycitia, the modern Tartary and Siberia, seem in all ages of the world to have been in the same barbarous and uncivilized state in which we find them at present... There are in Africa none of those great inlets, such as the Baltic and Adriatic seas in Europe, the Mediterranean and Euxine seas in both Europe and Asia, and the gulps of Arabia, Persia, India, Bengal, and Siam, in Asia to carry maritime commerce into the interior parts of that great continent.

Although written more than 226 years ago, it seems Adam Smith was describing much of contemporary Africa. The resilience of this idea was reinforced by Diamond (1997:405) who elaborated the importance of the geographic determinants of the Neolithic revolution, showing that modern prosperity was related to the timing of the emergence of settled agriculture in more conducive environments. Specifically, he argues that “the striking differences between the long-term histories of peoples of the different continents have been... [due to] ... differences in their environments.”

Could Africa's atypical experience as the only region that has failed to diversify production and expand trade in the past 30 years be attributed to its unique geography? Many analysts would answer in the affirmative (see particularly Bloom and Sachs, 1998; Wood and Jordan, 2000; Wood and Mayer, 2000, Wood, 2002; Easterly and Levine, 1997). Bloom and Sachs stress that the emphasis on policy and institutions as the determinants of Africa’s growth is being exaggerated. They suggest instead that 60 to 90 percent of Africa’s slow growth is attributable to geography and demography –tropical climate and a tropical disease burden, hostile and unfertile soil quality, a high youth dependency ratio, a semi-arid climate with rainfall subject to long cycles and unpredictable failure, among others. Other aspects of geography and exogenous factors emphasized include a low population density, which exacerbates the high transport costs, a colonial heritage that artificially subdivides Africa into many unviable states with the median country’s GDP averaging $2 billion, land locking of many countries, and a higher ethno-linguistic diversity than in any other region.

The other, and perhaps major aspect of the nature and geography thesis is the consequence of natural resource endowment. An important statement of this thesis was provided by Wood and Mayer, (2000), based on an extended Heckscher-Ohlin model of differing paths of development (see Kruger 1977 and Learner 1984). A key aspect of the Kruger-Leamer extended H-O model is that it shows that the sectoral structures of production and trade will evolve differently in the course of development in different countries, depending on their initial land-labour ratios. Countries specialize in the sectors in which their mix of factor endowments give them a comparative advantage. Therefore,
the differing evolution of sectoral structures in land-abundant and land-scarce countries depends on the assumed number and factor intensities of the goods in the model. With this framework, Wood and Mayer show that because Africa is better endowed than Asia with natural resources (especially land) but less endowed with human skills, it has an endowment-based advantage in primary commodities.

Besides the skill-land ratios and possibility of the Dutch disease, there are other channels through which dependence on natural resources could hinder growth and industrialization (see Collier 2002, and Collier and Dehn, 2001). Since African countries are dependent on a narrow range of primary commodity exports, they are also susceptible to large and volatile price shocks. As Collier (2002, p.4) argues, “The sort of shocks that are hitting those developing countries which are dependent upon a narrow range of primary commodities are analogous only to the great depression of the 1930s. In the case of the typical large negative export shock, directly costing 7 percent of GDP, the shock then triggers a cumulative contraction in the economy over the next two or three years, leading to an additional loss of output of around 14 percent of initial GDP. Hence, there appears to be a Keynesian-type multiplier by which each dollar of direct loss from large terms of trade shocks ends up costing the economy $3.” World Bank, et al (2000) estimates that for Sub-Saharan Africa, the average annual income loss due to terms of trade losses for the period 1972-1997 was about $68 billion — many times the size of annual ODA to the region. Furthermore, natural resource dependence leads to bad governance due mainly to the generation of rents which are either inefficiently spent causing the Dutch disease, as well as creating an incentive system favouring illegal asset stripping relative to investment and support for persistence of weak rule of law. Finally, natural resource dependence increases the risk of civil war, especially in very poor societies where the opportunity cost of being involved in rebellion is almost zero. As Africa’s concentration in primary commodity exports intensified over the past 30 years relative to other regions, the incidence of civil war also intensified. Indeed, Collier and Hoeffler (2001) estimate that “a country without primary commodity exports would have a risk of civil war of only around one percent over a five-year period, whereas with primary commodity exports at 30 percent of GDP the risk rises to around 20 percent.” It is little surprising therefore that almost all the countries with civil conflicts in Africa are primary commodity dependent.

Related to the endowment thesis is the impact of location on transport costs. Wood adds that because much of Africa’s land is far from the sea, which raises internal transport costs, a prosperous Africa will be like America in having a relatively unpopulated interior, based on agriculture and mining, with urban industrial concentrations on its coasts. Redding and Venebles (2001) had drawn attention to this model where a key comparative advantage is proximity to market and to suppliers. The need for this proximity consequently exerts a powerful force of agglomeration thus giving a huge comparative advantage to those countries that industrialize first. Agglomeration economies imply that manufacturing industries will always be concentrated in a few locations, and locations such as Africa that have not yet industrialized may have permanently missed out. For Africa, therefore, industrialization is viable only to the extent that it serves the local market and benefits from the natural protection of high transport costs.

From the analysis presented so far, it is not only that policy matters less, it is to some extent endogenous to geography and natural resource endowments. For example, Gallup and Sachs (1999) suggest that countries isolated by location will also have weaker lobbies in favour of trade, hence geographic isolation will be compounded by policy-
induced isolation. Collier and Gunning (1999: 16) suggest that natural resources may bring forth a variety of other policy errors. For example, it may worsen policy by turning politics into a contest for rents or, through crowding out manufactured exports, prevent the emergence of potentially the most potent lobby for openness. Easterly and Levine suggest that ethno-linguistic fractionalization makes co-operation among the ethnic groups more difficult, which worsens policies. Primary commodity dependence leads to poor governance, and probably also to politics of “loot-seeking” or rent-seeking rather than to production-seeking activities. Many analysts attribute much of Nigeria's inability to industrialize and trade to the politics of a rentier economic system and loot-seeking (see Chapter 13).

But performance is not explained only by geography, natural resource endowments and exogenous factors. On the contrary, some analysts fly the institutions-matter flag and sometimes present it as an alternative explanation for performance (see North and Weingast, 1989; Olson 2000; Acemoglu et al 2001a, etc). The analysts largely attribute differences in economic performance to differences in the organization of society and the incentive structure. As with the role of geography, the role of institutions in economic performance also has a long history, dating back to John Locke who argued for the necessity of property rights for productive activity, and to Adam Smith who emphasized the role of “peace, easy taxes, and a tolerable administration of justice” as pre-requisites for prosperity.

Acemoglu et al not only make the case for institutions as the decisive factor in performance but also challenge the geography hypothesis. The authors argue that if geography is the key determinant of differences in economic performance across countries, then such performance should be highly persistent, since geographic factors have not changed much in recent history. To the extent that other factors also matter for income, persistence will not be perfect, but we should expect relatively rich countries today to have been, on average, richer several hundred years ago. However, since institutions and the way societies are organized are persistent, the institutions hypothesis predicts persistence in income levels. Consequently, if there is a major change in institutions, then we should expect a significant change in the distribution of income across countries. The case of the European colonialism and the consequences of the different institutional changes introduced in the different societies are presented by Acemoglu et al as the “natural experiment” to disprove the geographic determinism inherent in the geography thesis. The authors show that European colonialism made fundamental differences in the development trajectory of their colonies depending on whether productive institutions or extractive institutions were established by the colonizers. The evidence is that major “institutional reversals” took place in the colonies and these caused significant reversals in the growth and development paths — with some relatively poorer societies getting the positive shock of good institutions and thus prospering, and some relatively richer societies getting the negative shocks of extractive institutions or “the wrong type of capitalism” and thus stagnating. Thus institutional reversals have coincided with reversals in development.

The major impetus for the wrong or right type of institutions was determined by European settlement. Relatively poorer regions were often sparsely populated and if they also had a relatively lower tropical disease environment (such as malaria), then Europeans settled in large numbers and developed institutions encouraging investment. This was certainly the case in many East and Southern African countries — South Africa, Mauritius, Kenya, Zimbabwe, etc. On the contrary, a large population and relative
prosperity made extractive institutions more profitable for the colonizers, for example to force the native population to work in mines or plantations, or tax them by taking over existing tax and tribute systems. In other parts where settlement was not conducive because of the disease environment such as in West and Central Africa, the systems of economic structure and institutions established were geared towards extraction and servicing of European industries rather than development of the colonies. Acemoglu et al argue that for these societies, the extractive institutions "stacked the cards against industrialization." The authors also challenge the view by several analysts that Africa, Central America, and the Caribbean are poor because of "too much capitalism." They suggest instead that they are poor because of "the wrong type of capitalism" inherent in the different types of institutions they received.

Implicit in Acemoglu et al is the notion of path dependence — institutional persistence and the corresponding performance persistence. There is therefore a suggestion of path dependence and the hysteresis effects of long and enduring "bad institutions" and "good institutions." Once institutions are established — good or bad — they assume a life of their own, with major constituencies that profit from the current order organizing to perpetuate it.

The Acemoglu et al thesis about institution-performance persistence is interesting because it sheds some light on one of the emerging puzzles in the country case studies. In all the countries that seemed to have achieved industrialization and diversification beyond the "African average" such as South Africa, Mauritius and Kenya, there is always a significant European and other foreigner settlement factor. It may not also be an accident that the development of property rights is far more advanced in these countries than in most others. The European settlers also gave the colonies a headstart in productive business relationships with more advanced firms and their technology and finance in metropolitan Europe. The social capital fostered information flows. It is also little wonder that these settlers largely own the industrial complexes in the former colonies. In Kenya, for instance, the 175,000 Indian population owns 75 percent of the industrial complex, while the five percent of Mauritian population which is French owns about 60 percent of industrial firms.

If the foregoing accounts exhaust the explanations for performance, then almost all of Africa would have identical outcomes. Yet, there is some striking difference in Africa. The first decade after independence (1960s) experienced very rapid growth and development in the region — proving that Africa is not condemned by nature and inherited institutions to a life of misery. Botswana, for instance, has the world record as a country with the fastest rate of growth in the past 35 years despite being landlocked, small, and dependent upon abundant natural resources. Most of the explanations for the Botswana case point to a combination of policies and institutions. Thus, at least in the single spectacular case, policy is seen as the differentiating variable.

With respect to trade and industrialization, Africa's dismal performance is often blamed on "bad" policies — import-substituting industrialization, statist command and control policy regimes, overvalued exchange rates, restrictive trade policies or lack of openness, investment climate and poor public service delivery and infrastructure (see the World Bank's 1981 Berg Report; World Bank 1994; Sachs and Warner 1995; Collier and Gunning 1999a, 1999b; Collier 1998; 2002; Bates 1981). Besides the various publications of the World Bank, perhaps the most vigorous protagonist of policy as the key explanatory variable for Africa's development failures is Paul Collier. In his comments on Bloom and Sachs (1998), Collier (1998, p.276-7) argues that "Africa has
suffered a growth failure, but this has not been due to fixed effects. It has been determined by policy, which has changed considerably over the past forty years... All five of the worst policy environments on the World Bank’s ratings are coastal, but among the 26 percent of the low-income population living in adequate policy environments, two-thirds are land-locked.” Collier (2002, p.1) further suggests that “Africa’s current comparative advantage in primary commodities is often due, not to its intrinsic endowments or location, but to a poor investment climate that is policy-related.” Further proof of the dominant role of policy is tendered by the differentiated policy stance ratings of the World Bank and their high correlation with growth performance in Africa, indicating better performance for countries with “better” policies. Although there is still raging debate about the definition of “good” policies and the robustness of the methodologies employed (see various papers by Dani Rodrik), there is a broad consensus in literature that policy matters. Policy can mitigate or worsen the effects of nature, shocks and institutions. What is still unknown is the precise weight to be attached to policy relative to other variables.

But even the most ardent protagonists of the policy explanation are beginning to underscore the “limits of policy.” For example, Collier (1998: 280–1) concludes his treatise on the role of policy with a sober reflection on the possibility that the hysteresis effects of long periods of poor policies may be difficult (or impossible?) to reverse:

Trade barriers, transport costs, power costs, transaction costs, information costs, and high risk, all largely the result of policy, have long-lasting effects. While I share the agenda of trying to make manufacturing work, I think one should acknowledge that hysteresis effects of a prolonged period of poor policies may have made this infeasible. First, there has been a loss of capital that may be irrecoverable... Second, as the rest of the world has developed manufactured exports, it has developed constituencies to defend the interests of the sector. In most African countries there is not yet a political constituency for the deep changes needed to make manufactured exports competitive... Finally, I worry more about an implication of the other new economic geography, which emphasises economies of agglomeration. It is possible that the prolonged phase of poor policies has caused Africa to miss its window of opportunity to develop manufacturing: the time when the cheap labor of Asia offset the agglomeration economies of the developed world. By the time Africa reforms its policies, the world may have enough manufacturing sites for the long-term share of manufactures in the world demand, and given the advantages of an existing agglomeration, new entrants will not be able to out-compete them. I hope not. I hope that agglomeration economies are sufficiently specific to market niches that Africa could quickly reach agglomeration thresholds. But this is another unresolved empirical question.

Four years later, Collier (2002) continues to state the “limits of policy” thesis with greater authority and conviction. In his summary, Collier (p.3) states that: “My overall argument is that Africa should adopt differentiated strategies. For many countries diversification is in principle feasible, but has not occurred because dependence (on primary commodities) has certain trap-like features that make it persistent. For some countries, diversification cannot be a credible strategy, and for these countries it is vital that the international community takes the actions that would improve their chances of successful poverty reduction.” Later (p.28), Collier restates this position even more strongly by arguing that “for the present Africa must live with dependence upon primary commodities, and for parts of Africa this is the only likely future.” In other words, no matter what these countries do in terms of policy, their future seems sealed in primary commodity
dependence probably because of the environment or constraints that are almost impossible to surmount. For these trapped countries, Collier suggests that their option is to learn to live with the problem, and recommends that the international community helps with a contingent aid regime to assist them live better with their fate.

A similar pessimistic message on the slim prospects for late-comer industrializers is also stressed by UNIDO (1996). See Box 1.1.

Coincidentally in a separate study using a different methodology and framework, Wood (2002) reaches a conclusion similar to Collier’s. Wood argues that: “Because it is land-abundant, as is America, Africa will always have a larger primary sector and a smaller manufacturing sector than the land-scarce regions of Asia and Europe…. Africa could surpass the current income level of South America, although it may never quite catch up with North America because of its tropical climate and its division into many countries, which obstructs internal movement of goods, ideas and people.” Wood’s is both a message of doom and hope. Doom in the sense that, like Collier, he sees a “limit” to African industrialization and trade because of its atypical geography and natural endowment. Hope because he projects that Africa can attain income levels higher than that of South America — which would be a significant improvement. A similar optimistic scenario is shown in a major study of African economy (see World Bank et al, 2000, chapter 7). The study shows that for labour-intensive manufacture exports, the catch-up effects of the coastal African countries benchmarking their policies and institutions to those of Asian developing countries could be significant. For example, such benchmarking could increase the current production and exports by several hundred percent. In a sense, the limits of policy thesis could be likened to the analysis in mainstream literature in the early part of the 20th century that gave no chance of development to Japan, Korea or many of the current Asian Tigers, ostensibly because given the orthodox development models of those days, these countries did not fit into the model and so were written-off. History has proved those predictions wrong. Can Africa also turn the predictions of doom on their head? For example, many reforming African

Box 1.1: Nine Challenges of Competitive Industrialization in Low-Income Africa

The comparative advantage of African countries lies chiefly in low labour costs (sometimes also in low raw materials and energy costs). These "lower order" comparative advantages are less important in global competition today.

Their main competitive strengths are in precisely those industries where demand growth is slowest and where international competition, especially from low-cost Asian suppliers, is intense.

They are not part of a cluster — there is no Japan, Hong Kong or Singapore to undertake FDI on the scale witnessed in East or Southeast Asia.

They are at a serious disadvantage in infrastructure costs, especially transport.

They are at the bottom of the global league in industrial sophistication and technology.

The private sector is very weak, dominated by a few major multinationals at one extreme and a mass of small enterprises at the other. The middle of medium-sized indigenous firms is missing.

The "technological terms of trade" have moved against late-starters. The "admission fee" for the acquisition of new technology has risen both in money and, more important, in the skills of operators, technicians and managers.

The importance of labour quality in attracting FDI counts against Africa.

The region has become excessively and unsustainably dependent on external support, including that for foreign technology and expatriate skills.

Source: UNIDO (1996)
economies have been shown to increase their non-traditional exports, including manufacture exports from barely nothing to a sustained annual growth rate of above 30 percent. So, despite the lingering questions, policy and institutions can still make important differences.

What Kind of Policy Matters More — Free Trade-Neutral Industrial Policy or Strategic Trade-Selective Industrial Policy?

If policy matters, the key question is: What kind of policy matters more for industrialization and trade? It is remarkable that despite the claim that bargaining among different interests in society determine policy, the debate about policy options has been dominated by highly structured theoretical models — powerful ideas — that in practice have divided the policy menu into two broad categories. The first is the orthodox liberal trade theory which underlies the strategies of free trade, together with the “general” or “neutral” industrial policy that aims to provide a conducive business climate to all industries without preference or selectivity. The second is the assortment of ideas and models associated with mercantilist thought and import-substitution industrialization which underlie the strategies of managed (strategic) trade and selective industrial policy. The experiences of the US on the one hand, and Japan and South Korea, on the other, seem to have provided some live examples that both models can work with remarkable success.

Selective industrial policy here refers to “an economic policy that is designed to improve the long-run welfare performance of a national economy by intervening in the allocation of resources between industrial sectors, or in the industrial organization of a specific sector, if the competitive market equilibrium fails to function efficiently” (Suzumura 2000, p.175). Suzumura further argues that “because market failures often arise from imperfect information; the cost of information acquisition, transmission and coordination; factors generating Marshallian externalities; and imperfections in risk and capital markets, the relevance of industrial policy as a strategy for developing market economies and economies in transition seems to be beyond dispute.” The examples of Japan, South Korea, and other East Asian economies illustrate the potency of government’s role in actively complementing the market mechanism. The idea, as Stiglitz puts it, is that although the government cannot simply replace the market or any significant part of it, it can play a critical role through the markets in promoting economic growth. More broadly, industrial policy can be classified into four categories (see Suzumura, pp.177-8). The first category consists of policies affecting the nation’s industrial structure. Policies in this category either nurture and promote industries that are of strategic importance or regulate and facilitate the shift of resources away from declining industries towards more promising ones — either by restricting trade and FDI, or by providing pecuniary incentives such as subsidies and favourable tax treatments, with the purpose of improving the nation’s long-run welfare performance. The second category consists of policies designed to correct market failures associated with technology development and imperfect information. Policies in this category encourage and promote the shift towards more appropriate use of research and development resources and knowledge by providing a public information exchange, and transmission and dissemination mechanisms, or through the use of favourable tax and subsidy measures. The third consists of policies seeking to raise economic welfare by means of administrative intervention in the industrial organization of specific industries. Specific policies here exemplified by entry and exit regulations, are used to intervene either in the competitive structure of industries
or in the allocation of resources among industries through the use of administrative
authority or guidance. The fourth category refers to those industrial strategies based on
political rather than economic considerations. In its classical form, mercantilism gave
great priority to policies promoting the power and autonomy of the state, often expressed
in terms of maintaining self-sufficiency in industries relating to defence or food security.
Interestingly, it was Adam Smith who provided the strongest defence of such policy
when he justified the Navigation Acts by stating that “defence is of more importance than
opulence.”

The efficacy of both models, the relevance for or replicability in Africa, or their relative
contributions to the success of the earlier industrializers are subjects of continuing debate
and the literature is too long to cite (but see for example: Chang, 2002; numerous papers
by Dani Rodrik; Berg and Krueger 2002; Dollar and Kraay, 2001). See also Chapters 2,
3, 4, and 5 of this book. As Moon (1999: 44) notes, “the single most discordant element
between liberalism and mercantilism concerns the goals meant to be satisfied by trade
policy. While liberalism focuses almost exclusively on allocative efficiency in order to
maximize aggregate consumption, mercantilism seeks a number of goals that compete
with and sometimes outweigh that value” (see Chapter Four for elaboration of other goals
of trade policy).

The liberal model of trade liberalization and “neutral” industrial policy has dominated the
mainstream policy choice since the 1980s. The history of this swing in policy from the
import-substitution industrialization of the earlier two decades is rooted in the Structural
Adjustment Programme adopted by most African countries. The peak of the African
economic crisis in the late 1970s coincided with the neoclassical ascendancy as the
dominant intellectual framework of analysis and “development model.” With an agency-
theoretic model of the state, and a neo-Walrasian view of the market, the neoclassical
model assumes that government failure was more pervasive and dominated market failure
(if ever one existed). Under this framework, the African crisis was blamed squarely on an
intrusive state that has intervened extensively in the economy and therefore caused
despicable distortions, which prevented markets from functioning efficiently.
Liberalization of markets, especially trade liberalization and outward-orientation,
constituted the fulcrum of the reform packages.

Trade policy under this model has entailed a gamut of measures to “remove all trade
restrictions” — deep and unilateral import liberalization; exchange rate reforms; removal
of all “domestic policy distortions” that constrain exports; elimination, or tariffification of
all non-tariff barriers (NTBs). The reforms aim to bring trade regimes in several
developing countries as near as possible to the classic free trade model, or at least to
similar regimes in the industrial countries. In summary, the policy calls for African
governments to commit themselves irreversibly to opening their economies to
international competition, and in the process, ensure a more neutral incentive structure
which does not discriminate between exportables and importables or between production
for the domestic market and for exports. Thus, the reform generally involves both
liberalization, and movement towards a neutral incentive structure, even though the two
terms are often used interchangeably (see Box 1.2).

Trade liberalization is assumed to confer several productivity-enhancing and growth-
inducing benefits to the economy: (i) it reduces static inefficiencies arising from
resource misallocation and waste; (ii) it raises learning effects from the development of
new products, technologies and information sources; (iii) it increases ability to cope with
adverse external shocks; (iv) it reduces wasteful rent-seeking activities; (v) it creates
Box 1.2: Ramifications of Trade and Competition Policy

Trade policy now encompasses a wide array of policies, with the distinction between them and what are usually considered "industrial and competition" policies blurred. Traditionally, trade policies are those, which are aimed at altering the relative price of goods traded through tariffs, subsidies, quotas, safeguards, and anti-dumping and countervailing duties. The essential feature of all these measures when used as instruments of trade policy is that they drive wedges between the foreign and domestic price of a good or service at a given exchange rate. Trade policy encompasses not only the traditional tariff and non-tariff instruments, but also exchange rate regime, and a gamut of other policies that could be ascribed to competition policy. The non-tariff barriers (NTBs) take at least three forms, and within each group UNCTAD distinguishes between Group A measures — which operate primarily through quantitative restrictions on trade, and Group B measures — which operate through prices and costs, and these classes are as follows:

Type I: commercial policies designed primarily to protect import-competing sectors or to promote exporting sectors; e.g. Group A: (quantitative measures): import quotas, restrictions of public purchases to domestic goods, export restraints. Group B: (price-cost measures): variable levies, production subsidies, income tax concessions on export profits, advanced deposit schemes for imports, different exchange rates for different transactions (multiple exchange rates).

Type II: measures not primarily associated with commercial policy, but have sometimes been used for protective purposes; e.g. Group A: Excess trade documentation, delays in customs procedures, advertising restrictions. Group B: customs valuation procedures, health requirements, labeling requirements, sales and excise taxes, selective employment taxes.

Type III: measures applied with no intent of protection, but which may have spill-over effects on trade e.g. Group A: government spending plans, restrictions on toxic materials. On the other hand, competition policy encompasses the area commonly referred to as anti-trust or anti-monopoly law and practice as well as various micro-industrial policies affecting markets. These policies seek to deter and prevent abuse of market power, dominance, exclusionary practices and the reaching of agreements among competitors. They aim to promote and protect competition and economic efficiency, rather than competitors. Evidently there is a natural convergence between trade and competition policy measures, and the distinction between them has become blurred. For example, during the Tokyo and Uruguay Rounds of trade negotiations, among the issues that came up for negotiations were: specification of technical standards, government procurement, domestic subsidies, intellectual property rights, trade related investment measures, and services. Furthermore, Thomas, et al (1991: 11-12) distinguish between liberalization and neutral incentive structure. According to the authors, liberalization means a reduction in trade restrictions and an increase in the use of prices instead of discretionary intervention by bureaucrats and politicians. It implies a reduction in the welfare cost of government interventions — that is, a reduction in the direct costs or at least in some of the indirect costs. On the other hand, a shift toward neutrality is a change that makes the policy-induced effect on price incentives more nearly uniform—broadly speaking, among exportables, importables, and nontradables as well as between sales of a given product in the domestic and foreign markets. Because most economies have a substantial bias against exportables relative to importables and nontradables, moving toward neutrality means a reduction in anti-export bias. This reduction can be achieved by reducing import protection, by raising export incentives, or by doing both.


opportunities to achieve scale economies that could not be achieved in many developing countries with relatively small domestic markets; (vi) it generates benefits from linkages between export industries and other sectors; (vii) it weakens monopoly elements that may affect foreign trade which, in turn, would result in more favourable import and export prices; or (viii) it is less reliant on (relatively unstable) exports of primary commodities whose price fluctuations may make development planning difficult (see Amjadi and Yeats, 1995; Rodrik, 1993: 7-20).

It is assumed that developing countries that have faced the greatest balance of payments problems are those that have followed the “inward-looking” ISI regime — those that
have involved severe import controls and the building of all kinds of industries under such protective regime. A large amount of literature claims that such policy regime has had deleterious consequences for the countries for a number of reasons. First, the domestic markets of many developing countries are too small to realize the economies of scale obtainable in many industries, so that industries geared primarily towards the domestic market tend to be inefficient. Second, import restriction is a tax on exports because it inhibits industries that would have developed high export potentials if they had access to production inputs at world prices. By making import substitutes relatively more profitable, import controls increase the costs and reduce the availability of imported inputs used in the production of exportables, thereby forcing exporters to use relatively expensive and low quality locally produced inputs. Also, import restrictions, through the substitution effects, lead to a more appreciated real exchange rate, which hurts exports. Trade reforms (liberalization) are expected to redress these negative consequences of restrictive trade policy. Often, literature on this line of thought rests its case by pointing to the success of the east Asian newly industrialized economies as the empirical proof of the recommended outward-orientation.

A number of other direct and indirect benefits are expected from the reforms. The first — the static, resource misallocation effects — derive from the presumed misallocation of resources in production and the reduction in consumer welfare caused by the misalignment of domestic and international prices. An aspect of the costs is that "excessive protection of industry in developing countries stifled productivity growth, encouraged industrialization at the expense of agriculture and exports, reduced savings, increased unemployment and led to very low rates of capacity utilization" (Ndulu, et al, 1995: 2). The indirect costs of restrictive trade regime include waste of resources in income-generating but unproductive activities associated with protection such as smuggling, lobbying, evading tariffs, and building plants with excess capacity to get import licenses (Thomas, et al, 1991: 7-9).

Besides the costs of restrictive trade policy, another justification for liberalization is the dynamic (growth) effects of such orientation. Such dynamic effects derive from the growth-inducing impact of more efficient resource allocation and production, as well as the technological change and learning that would result from the elimination of the anti-export and anti-competition bias that discouraged innovation, cost-cutting, the acquisition of technological capabilities and thus growth. Thomas, et al, (1991) argue, however, that such "dynamic effects, though of great practical importance, are very difficult to demonstrate."

Tangential to this model of trade reform is also the assumption of "neutral" industrial policy. Under the neoclassical assumption of competitive markets with no economies of scale, perfect information, no risk and uncertainty, no defective or missing markets, and that all firms operate with full knowledge of all possible technologies, equal access to them and have the ability to use them efficiently without risk, cost, or further effort, deliberate efforts at promoting industrialization would be "distorting." Under these assumptions, comparative advantage in industry as given by resource endowments will be realized.

The mainstream model of unfettered liberalization and no industrial policy has been vigorously challenged in the literature (see Chapters 2, 3, 4, and 5 of this book; over a dozen papers posted in Dani Rodrik's website; Helleiner 1988, 1995; various publications of UNCTAD; and the global NGO community, especially Oxfam). The objections which at every turn contradict the neoclassical model have been spurred by the theoretical insights of the "new trade theories" — imperfect competition and economies of scale; asymmetric information and missing or defective markets; the endogenous growth theory
and importance of education and learning; the nature of technological innovation and upgrading, as well as the experiences of the East Asian economies (see Soludo 1998a for summary of the debate). The debate can be summarized in terms of whether and how market failures dominate government failures, and whether and how government's strategic intervention in trade and industry can produce outcomes superior to than those obtainable under the Walrasian market mechanism. These alternative models have the policy prescriptions that favour gradualism in import liberalization, sequencing of import liberalization to export expansion, emphasis on technological capability and learning, and the strong role of the state in complementing the market rather than seeking to supplant it (see particularly Chapters 3 and 5 of this book).

Most of the objections do not necessarily question the principle of trade liberalization but note that it requires specific conditions to work well, and could in fact cause more damage if the specific conditions of the liberalizing economies are not taken into account. For example, it is suggested that most of the benefits from the free trade model derive from assumptions of well functioning competitive capital, product and labour markets. As Ghani (1995), observes "countries with well-functioning markets and a diversified production structure benefit more than other countries from the productivity gains through trade reform." Furthermore, as Helleiner (1988) shows, the dynamic benefits derive more from trade in manufactures rather than primary commodities. It is not surprising therefore that most of the objections to the model also derive from the conditions of market and coordination failures as well as the limited dynamic benefits accruing to primary commodity producers. In other words, several of the structural deficiencies of these economies persist and it cannot be seen how "getting prices right" alone could eliminate them or quickly transform these economies into industrial giants. Furthermore, a large body of literature has emerged which attributes the miraculous transformation of the East Asian economies to the pervasive government interventions to promote industry and trade. This theoretical and empirical evidence underscores the need for state interventions either to resolve the co-ordination problems or to design and implement "strategic" trade policies.

Furthermore, there have also been legitimate challenges to the robustness of the orthodox neoclassical framework. For example, Rodrik (1993:9) argues that:

The analytical foundations of such arguments regarding the dynamic benefits of liberalization have never been too clear. Too often, the preferred method of proof is a casual appeal to common sense. In particular, no distinctions are typically made between policies for which received theory is silent as regards learning (or has ambiguous implications), and those for which a definite theoretical presumption exists. Relative price distortions, such as trade taxes and investment subsidies, are of the first kind. Such distortions affect relative profitabilities across industries and sectors. If some sectors are adversely affected by intervention, others must be left in better shape. Consequently, even if changes in a sector's profitability could be presumed to have unambiguous consequences for innovative activity (which they do not) the net change in economy-wide innovation would still be unpredictable. Innovative activity would be reduced in some sector, but enhanced in others.

Another benefit of outward-oriented trade regime pertains to the presumed robustness in responding to negative external shocks. Implicit in this argument is that the absence of microeconomic distortions that bias incentives away from exports help facilitate adjustments to negative shocks. Rodrik (1993) argues however that "it is difficult to see how such distortions could be causally related to the balance-of-payments crisis that have typically followed external shocks." First, no empirical study has been able to make a
convincing case that micro-economic distortions were at the root of the economic crisis that befell most developing countries in the early 1980s — not even the studies reported in Thomas, et al, 1991. Second, basic economics predicts that trade restrictions would lower both imports and exports, and thus have no obvious implications for the balance between the two. Furthermore, the logic of rent-seeking as a case against trade restrictions seems somewhat tautological. As Rodrik (1993:20) points out: “While the costs of rent-seeking may be genuinely immense, it does not follow that a correction of price distortions and a move to outward orientation necessarily eliminates them. As long as governments exist and they implement policy, individuals and groups will exercise political power to obtain particularistic benefits for themselves.” In effect, the rent-seeking argument is an issue about government policies in general and not a specific case against trade and industrial policies.

Helleiner (1995:11-12) has seriously challenged the anti-export bias argument. In a general equilibrium context, and given the Lerner symmetry, it is assumed that taxes or barriers on imports are equivalent to taxes on exports. First, anti-export bias can be reduced, and frequently has been, via the provision of export subsidies as well as by lowering import barriers. It follows then that by deploying the symmetry argument, one must begin by measuring the degree of protection (or anti-export bias) net of the effect of export subsidies; this may significantly reduce the required degree of import liberalization or the effects of removing all trade policy interventions — both on imports and exports. Second, it is possible that movements in the real exchange rate — and hence in the price of tradables (exports and import substitutes) relative to non-tradables — can, and frequently do, swamp those in the anti-export bias in the tradables sector. In that sense, therefore, export expansion can be motivated by the high price of exportables relative to non-tradables, rather than a high price of exportables relative to importables. By the same argument, real currency appreciation can discourage exports even when imports have been fully liberalized. Also, and more fundamentally, the effects of the degree of dispersion of governmental “wedges” between world and domestic prices for both importables and exportables need to be analyzed, not just the average size of such wedges. It is expected that trade liberalization will have substantially different effects on the pattern of manufacturing, including that for export, depending upon whether previous governmental interventions had been relatively uniform or diverse from industry to industry. Helleiner concludes that “for all of these reasons, it is easy to contemplate, on theoretical grounds, the possibility of significant expansion of manufactured exports without prior or simultaneous overall import liberalization.”

The summary message of much of the criticism is that faith in the magic wand of liberal trade regime and no active industrial policy can be excessive, and that given the pervasive market failures and institutional weaknesses in these African countries, the state needs to take a more activist role. Rodrik (1999:18-9) summarizes the scepticism and concerns:

Development policy is susceptible to fashions. During the 1950s and 1960s, when import substitution was in vogue, there was excessive optimism about what government interventions could achieve. Now that outward orientation is the norm, there is excessive faith in what openness can accomplish. Early on, planning models emphasized capital accumulation at the expense of price incentives and the role of markets. Today, the importance of investment is consistently downplayed. The swing of the pendulum from one extreme to another creates blind spots, causing the risk of yet another unproductive change in fashion.... Policy-makers have to understand that integration into the world economy is unlikely to bring long-term
growth on its own. They have to complement openness with other policies, including an explicit and coherent domestic investment strategy.

In practice, Rodrik’s reference to an “explicit and coherent domestic investment strategy” is a veiled reference to the need for active industrial policy. Despite the objections to industrial policy of the Asian type in the mainstream literature, Chapters 3 and 5 show that there is strong theoretical and empirical basis for active industrial policy. Both chapters as well as Chapter 2 also highlight (as in a lot of other literature) that the fundamental challenge is whether these kinds of policies can still be put in practice especially in Africa. There are two key issues in the “impossibility” thesis, namely the failures of past industrial policies and the capacity of the African states to replicate the East Asian model, and the constraints imposed by WTO rules to which most African countries are signatory.

On the workability of industrial policy, Chang (1996: 89-90) cautions that:

Industrial policy, needless to say, is no panacea. Like any other policy, or any other form of economic co-ordination, it has its own costs and benefits. Its benefits seem to have more than offset its costs in success stories like those of Japan and Korea, but we have plenty of other examples that show that its costs may overwhelm its benefits. The real question is not whether industrial policy can work or not (because it does), but how it can be made to work.

In Chapter 3, Lall argues that a considerable part of Africa’s failed industrialization is, indeed, due to its poor industrial policy: mistakes in trade, domestic competition and ownership policies, wrong interventions in technology transfer and development, weak human capital creation and neglect of institutional support. In addition to what Lall describes as the structural impediments to competitive industrialization in Africa (small size and fragmentation of local and regional markets, poor infrastructure, low entrepreneurial base and weak human, particularly technical, capital), he lists in Chapter 3 the major poor policy errors of the past to include:

- poor information and capabilities on the part of policy-makers, neglect of lessons from other regions, insufficient data, inability to withstand analytical pressure from outside agencies and experts, weak negotiation in and preparation for WTO membership and so on;
- lack of clear industrial policy objectives, and conflicts with other objectives;
- excessive and prolonged protection not offset by export promotion measures or pressures that would provide incentives for learning and upgrading;
- inadequate domestic competition policies to stimulate technological upgrading, permit the entry of dynamic new enterprises and enforce competitive behaviour;
- lack of coherence between product and factor market policies, such as education and training, technology support, capital markets and export promotion;
- inability to target and attract FDI into efficient manufacturing and facilitate the upgrading;
- weak, often non-existent, institutional structures that are unable to support capability development: training institutions, effective quality and standards bodies, R&D support and SME extension services; practically no linkages between institutions and the industrial sector;
- lack of involvement of industrialists in policy design and implementation;
- lack of monitoring of industrial policy and its effects, and lack of flexibility in adapting policies to changing world market and technological conditions;
• weak legal structures that do not facilitate property rights and contract, and dispute resolution; and
• widespread and constant political intervention, corruption at all levels, lack of commitment and infighting by bureaucrats and leaders.

The question therefore is what has changed to warrant continued faith in the industrial policies to deliver or whether indeed, African states are capable of making selective industrial policies of the Asian type happen. As Olukoshi argues in Chapter 2, the impossibility of the replication of the East Asian experience in Africa was hinged primarily on such arguments as the "softness" of the African state, its "capture" by special interests, its lack of "embeddedness," its technical and analytic deficiencies, its weak administrative capacities, and the suggestions that the countries of the continent are hemmed in by "weak states" and "weak markets" (Callaghy, 1993; World Bank, 1993; Lewis, 1996). Without question, capacity is a key problem in Africa especially institutional capacity (see also Lall, Chapter 3). Chang, however, argues in Chapter 5 that the other policies (liberal regimes) do not require any less state capacity or institutional sophistication to implement than the selective industrial policies. So, the issue of developing the institutional capacity of the African states to implement policies — of all kinds — is a general problem not necessarily restricted to selective industrial policies.

The other argument is that the new global rules governing trade and industrial policy make it impossible for governments, including those of Africa, to pursue the kinds of policies that the East Asian countries were able to get away with during their late industrial catch-up (World Bank, 1993). Such policy measures as industrial protection, trade discrimination, the use of subsidies in trade and industrial promotion, the denial of national treatment to foreign investors, provisions for the local value-added, and outright or concealed disregard for intellectual property rights in the quest for technological development are now ruled out by the existing WTO regime to which African countries are signatory. Some of the "new issues" — investment, labour standards, etc slated for negotiation in the new development round also promise to further restrict the ability to deploy the plethora of selective industrial policies. As Lall recognizes in Chapter 3, "measures such as export subsidies, local content rules, new quantitative restrictions on trade, discrimination against investors by origin are very difficult or impossible to launch now: the only flexibility remains on how quickly and uniformly they are phased out."

But Chapters 2, 3 and 5 make it clear that African countries still have room to manoeuvre as the new WTO rules do not necessarily rule out all industrial policies. A lot may depend on the skills of the government concerned in designing measures that are permitted or in camouflaging those that are not. It is also necessary to build strong government capabilities to deal with trade disputes in WTO; all major exporting countries are now engaged (voluntarily or otherwise) in constant battles with importers or competitors on detailed, technical matters that can have important repercussions on their export and import performance. Countries that fail to develop the legal and economic expertise to cope with these disputes risk losing competitive advantage. Many countries have a grace period before they have to fully liberalize trade and investment. Depending on the WTO terms agreed upon, they might be able to further prolong the period or seek exceptions for particular industries or in particular periods.

Furthermore, as Chapter 2 argues, WTO's transitional clause on special and differential treatment does offer a small window of opportunity that different categories of developing countries like those of Africa which are mostly categorised as LDCs can use for the promotion of policy objectives tailored to their stage of development. This is in addition to the generalised security and other special exceptions, including those that
pertain to health and moral concerns as well as national emergencies, that are recognised and accommodated by the agreement. There is also some scope in the agreement for the promotion of regional co-operation schemes by the members of the organisation. Indeed, the overwhelming reality that cannot be denied is that in spite of the evolution of WTO's rules-based multilateral trade regime and the disciplines it is designed to enforce, countries, both developed and underdeveloped, still employ a host of direct and indirect measures, including trade, industrial and agricultural subsidies, for the achievement of desired policy objectives even while lowering tariffs in compliance with the demands of the new global order. Furthermore, there is no reason to believe that the existing rules of WTO or any future ones that may be agreed upon are not subject to review, renegotiation and reinterpretation in the light of experience. Indeed, there is a lively political contestation presently going on around the WTO regime both in and outside the organisation. Politics remains a strong conditioning element of the evolving international trade regime. The message here is that Africa, in collaboration with other countries and regions can in principle demand, negotiate and shape WTO rules to its advantage.

In summary, it is fair to say that the debate on the policies required for Africa to industrialize and trade has narrowed considerably and some broad consensus is emerging. Advocates of strategic trade and selective industrial policy also admit that the scope for these policies has narrowed substantially and that they have to acquire a "new form." There is a broad acceptance of the market economy framework, and that policy interventions should be geared towards complementing rather than supplanting the markets. This ideological shift has been ratcheted under the aegis of SAP, but the region is currently undergoing a process of ideological consolidation centred around the market economy, a private sector driven framework.

Under the rubric of the market economy, there is a growing consensus that rapid industrialization and trade can now be achieved on a sustainable basis by achieving systemic competitiveness — in the sense of a framework for the interaction of the state and societal factors in creating the conditions for successful industrial development and thus national competitiveness. This framework is predicated on the assumption that competitive advantages only partially emerge due to the invisible hand of the market, and are to a significant extent being created by deliberate, collective actions. Such competitiveness also goes beyond firm-level productivity (see Box 1.3).

To create the environment for systemic competitiveness, there is also a growing consensus that despite the debate about content and sequencing of liberalization, a certain dose of trade liberalization is required. Lall summarizes this consensus in Chapter 3 by stating that "I fully accept that the removal of many existing policies (including "classic" import-substitution strategies and interventions that give rise to rent seeking) is necessary for development, and that a substantial dose of liberalisation is a precondition for industrial success. I also accept that the progress of technology and globalisation over the past three decades limits the exercise of industrial policy today." Rodrik (1997: 2) reinforces the consensus by noting that:

There is actually a fair bit of consensus on what constitutes a reasonable trade strategy for countries of Africa. The consensus can be crudely expressed in terms of a number of do's and don'ts: de-monopolize trade; streamline the import regime, reduce red tape and implement transparent customs procedures; replace quantitative restrictions with tariffs; avoid extreme variation in tariff rates and excessively high rates of effective protection; allow exporters duty-free access to imported inputs; refrain from large doses of anti-export bias; do not tax exports too highly.
Box 1.3: Elements of Systemic Competitiveness

The major elements of the market-state balance involve analysis and actions at four key levels: meta-, macro-, meso, and micro levels.

**Meta-level:** This refers to the nature of the control and governance capacity of government and collective problem-solving arrangements. Systemic competitiveness cannot happen without social transformation and social integration. This is more so in the context of weak markets, weak firms and weak states that characterize many developing countries. In some countries this has further deteriorated due to the structural adjustment programmes (SAPs), and failure to establish regulatory and governance capacities (government reform, formation of complex linkages between strategic actors) and the requisite social structures. The governance structure should produce a basic consensus on the necessity of industrial development and integration into the global system. If fundamental differences exist on these issues, macro- and meso-policies designed to support industry will be erratic, and firms will develop a defensive posture in order to be able to react quickly to changes in the rules of the game. Thus, some of the major elements of this level include: the development-oriented pattern of politico-economic organisation, ability to formulate strategies and policies, learning- and change-friendly value attitudes, and social cohesion.

**Macro-level:** This requires an enabling and well-functioning macroeconomic environment: developed and well-functioning factor, goods and capital markets, as well as a stable and predictable macroeconomic framework. This should include a competitive exchange rate policy and general trade policy regime that stimulates local industry. Generally, it is almost impossible for firms to become globally competitive when national macroeconomic environment facing them is not competitive.

**Meso-level:** This refers to specific policies and institutions targeted to shape industries and their environment. In the current world order, it is no longer only individual firms that compete with each other but industrial clusters, groups of firms organised in networks, whose dynamic development depends on the potential of the particular location, in other words continuous and close contact with R&D facilities, technology formation and dissemination institutions, universities, training institutions, finance institutions, export information and other institutions. There are increasing demands on the local, regional and national level to create and support business environment, and this applies to demands on business associations and other non-governmental actors as well as to demands on the state at all these levels. The key point here is that in the highly competitive world trading system, national and regional governments are under pressure to devise institutions to nurture and promote the competitiveness of the industrial clusters and groups of firms.

Thus, a major aim of meso policies is to create specific locational advantages. This, among other things, requires actions on the following: (i) technology- contract research, technology extension, consultancy, business associations, universities, selectivity and networking; (ii) education and training- public and private institutions, technical orientation and specialisation; (iii) finance- investment credit, working capital, equity, insurance, export finance, patience and risk-friendly disposition; (iv) infrastructure- rail, road, water, air transport, harbours, telecommunication, energy, etc; (v) exports- foreign market information, design, trade insurance, trading companies- specialisation and close links to private business, and; (vi) environment- supervision, pressure and support, etc. Furthermore, two key aspects of the mesolevel task with the central government pertain to large-scale technology initiatives and the formulation of an overall long-term strategy. Competitive advantage is increasingly less a function of cost or price and more one of quality, style, design, timely and after-sales service. For many developing countries, acquiring the necessary competence and sustaining technological upgrading in these areas require interactions between the various actors.

**Micro-level:** Industrial development requires capable and competitive firms, and networks of firms with strong externalities. To be competitive, firms have to optimize on cost-efficiency, quality, variety, and responsiveness to changes in demand and new opportunities.

Source: Soludo (1998b).

While many African countries, including the eight country case studies, have made much progress along these lines, Lall notes in Chapter 3 that the problem is that these countries are rapidly liberalizing “without a strategy,” and World Bank, *et al* (2000: 222) agrees
that “liberalization is not yet anchored in an ideology, such as export promotion” and also emphasizes the need for a “business plan.”

Part of the emerging consensus as summarized in the World Bank et al (2000: 209) include five most pressing policy actions:

- anchor export orientation on competitive and stable real currencies (sustained real exchange rate competitiveness);
- make trade reforms credible and effective — by administering effective compensating mechanisms to exporters, cutting red tape, and ensuring best practice customs clearance;
- integrate further trade policy reform with national “business plan” for economic diversification, and the elements of the business plan should cover infrastructure, public service delivery, human capital development, stable and competitive exchange rates, and investment strategies — especially for small and medium enterprises; and
- mainstream regionalism in a new way — open regionalism to enlarge the economic space and lock in trade and other reforms to boost their credibility — and regional convergence criteria for macroeconomic, regulatory, and infrastructure reforms; base all this on a consultative process — between government and the private sector.

There is also a broad consensus that for policy purposes, the broad generalizations about the benefits or otherwise of “openness” are unhelpful. There is a need to unpack the openness principle into the component elements. Having a more liberal policy towards exports, FDI, imports of inputs and capital goods and being more restrictive on imports of finished consumer goods is certainly a different brand of “openness” from setting tariffs on all goods at zero rates. Furthermore, World Bank et al (2000) basically agrees with Rodrik (1999) that liberalization is not enough, and should be accompanied by a number of complementary measures.

Tangential to the issue of unbundling the openness concept is the unresolved empirical question of what the optimal tariff rate should be. As Mussa (1998) argues, the theory suggests that the optimal tariff rate for a small open economy should be zero. But he recognises that for revenue, industrial protection and balance of payments, the tariff rate cannot be zero. The question therefore is how high it should be. Much of the empirical literature seems to be settling with a suggestion of tariff bands in multiples of five such as 5, 10, 15, 20. How these magic numbers are derived remains an open empirical question.  

Finally, there is also a growing consensus that policy reforms are needed not only in African countries, but that the industrial countries need also to reform their policies for Africa’s trade and industrialization policies to be effective. In addition is the recognition that Africa needs preferential and differential treatment to enable it to succeed. For example, the various bilateral (preferential) trade concessions to Africa under the Africa Growth Opportunity Act (AGOA) of the US, the various EU-ACP Lome and now Cotonou agreements; EU’s proposal to have the least developed countries export “everything but arms” to the European Union free of duties — are indications of the realization. On the agenda of the Millennium Round (WTO) trade negotiation is a key issue of the industrial country subsidies to agriculture which amount to the size of Africa’s GDP. These subsidies impede Africa’s ability to compete in agriculture.
If there is such a broad consensus on a menu of policies that can jump-start African industrialization and trade, why is there so much variation in the details of policies chosen and implemented in African countries? What determines these policy choices?

What Determines Choice of Policies and their Implementation Outcomes?

The literature on economic policy process is large, and has evolved significantly over the past three decades. It has evolved from the traditional (normative) theory where economic policy analysis, policy-making and implementation are viewed as purely technical processes in which the political process is increasingly integrated into the theories. Under the traditional analysis, policy analysts (disinterested economists) start with a model of the workings of the economy and some instruments of policy intervention, assume an evaluation criterion, then calculate the values of the instruments that will maximize the criterion, and finally present the policy choices and reforms as the correct ones. Viewed as a technical problem, the model assumes a single-social welfare-maximizing principal. Implicit in this model is the assumption that once the correct policies that maximize social welfare have been identified and recommended, such policies are necessarily implemented as designed and the expected outcomes follow. Policy failures under this model must therefore be traced either to “inability” of the economists to identify the “correct” policies and advise the government accordingly, or to the “stupidity” of policy-makers and implementers in not adopting the “best policies” or “lack of commitment” in implementing them correctly. Although still the dominant conception of the policy process among economists, this model largely leaves out a crucial aspect of economic policy process, namely the political process. According to Dixit (1996: 9-10):

In reality, a policy proposal is merely the beginning of a process that is political at every stage- not merely the process of legislation, but also the implementation, including the choice or formation of an administrative agency and the subsequent operation of this agency...The political process of economic policy-making is constantly influenced by the legislature, the executive and its agencies, the courts, various special-interest lobbies, the media, and so on. The legislature may fail to enact the economist’s desired policies; the administrative process may fail to implement the legislated policies in the intended manner. The outcomes may fail to correct market failures and may instead introduce new costs of their own.

Spurred by the writing of political scientists and more so the public choice literature, there is increasing interest in the political process of economic policy. Broadly, three stages of a policy process can be distinguished: (i) agenda setting i.e., how do issues get on to the policy agenda? (ii) the criteria and influences which determine the formulation or content of policy and (iii) the implementation of policy. Summarizing the critical insights by Tony Killick, Healey and Robinson (1992:47) note that “formulation and decision should be governed by simplicity; by responsibility and awareness of interests; and by the motives of those involved in implementation. Sustainability probably depends most on correctly anticipating the likely public and political support.” The critical importance of political variables is therefore strongly underscored.

For Africa, research efforts that focus on the linkages between the nature of the state, political process and economic policy performance are recent, and five major categories of such studies can be distinguished: First, general political studies which analyze the nature of the state, the character of political institutions and political culture in Africa, seeking to explain the state’s influence on policy-making, administration and socio-
economic outcomes (see, for example, Bates, 1981; Hyden, 1983; Sandbrook, 1985; Gulhati, 1991; etc); second, studies on the political economy of particular countries or regions (e.g. Chazan, 1986; Holm, 1986; Rimmer, 1986; Pryor, 1991); third, case studies and comparative work on adjustment policy experiences especially since the 1980s (eg. Callaghy 1990; Grindle and Thomas, 1988, 1990; Mosley et al., 1991; Gulhati, 1988, 1990; Picard and Garrity, 1994); fourth, studies of specific aspects of public sector management and public administration (eg. Leonard, 1987); and fifth, recent studies on institutions and growth (e.g. Aron, 1996, 1997; Collier 1996a, 1996b). These studies contain important, but disparate threads about the motives, organization, and influence of the different actors in economic policy, and the implications of these for performance. Recent literature on the analytical framework for explaining the politics and constraints of the policy process is dominated by theories of the new political economy and new institutionalism which derives from the work of Ronald Coase, Mancur Olson, James Buchanan, Gordon Tullock, Douglass North, Anthony Downs, and Oliver Williamson.

From the thematic papers and case studies, four key factors emerge as central to shaping and understanding the choices and implementation of trade and industrial policies in Africa. These include: the power of mainstream theories and ideas of development and role of donors; the state institutional-bureaucratic capacity approach; the interest group-public choice model; the impact of history, and the structure of the state and production-ownership structure on policy choices — including the role of geography (see Figure 1.1).

**Power of ideas and role of donor agencies**

Lord Keynes had recognised that nothing else influences economic policies more than the power of economic ideas. The two simple models that have defined the policy spectrum are the liberal-free trade theory on the one hand, and the mercantilist thoughts expressed

![Figure 1.1: Determinants of trade and industrialization](image-url)
in the ISI-infant industry model together with strategic trade theory, on the other. In this respect, Africa is unique. In broad terms, no region has been more susceptible to swings in the pendulum of ideas of economic development than Africa — from the ISI-planning models of the 1950s to the 1970s, to the swing into massive liberalization and structural adjustment programmes from the 1980s to date. Any account of the policy process in Africa that ignores the power of mainstream ideas, as well as the role of donor agencies in propagating or mainstreaming such ideas misses the central point. Most of the now discredited ISI strategies and national development plans of the earlier decades were designed and implemented largely with the financial and technical assistance of donors.

Inherent in the role of donors in the policy process is the question of policy autonomy enjoyed by the African policy-makers. This is because much of the discourse on policymaking implicitly assumes that policy-makers have the “independence” or “flexibility” to choose whatever policy they fancy, and are perhaps only constrained by the “domestic politics.” Nothing can be further from reality. Most African countries (especially the 34 least developed countries out of the 49 in the world) depend heavily on external aid. Donor agencies, especially the Bretton Woods institutions, have especially since the 1980s become dominant in the policy choices of African countries — through policy-lending under SAPs and the increased donor coordination under the Paris and London clubs of creditors. Joseph (1989: 116) summarizes the phenomenon very well by noting that:

The African post-colonial state which has sought to determine the utilization of its people’s economic resources, has in many instances become a “rubber stamp” for decisions made by others, usually non-African in nationality...The decision-making powers of aid agencies in Africa have expanded as a result of the default of those who man the “political kingdoms”... There is taking place an implicit loss of sovereignty desirable in some instances, in view of the misuse of it by those in power.

It is not in doubt that the World Bank and the International Monetary Fund (IMF) have come to wield unprecedented control over the economic policies and institutions in most of Africa since the 1980s. The implications of this are not only in loss of policy autonomy, but increasingly also, the undermining of existing capacity in the policy institutions. With over 100,000 technical assistants and advisers all over Africa, costing over US$4 billion, it is little surprise that these foreign experts overwhelm the policy-making process in Africa. As Jaycox (1993: 1-2) — former World Bank Vice-President for Africa — correctly notes:

... most of this technical assistance is imposed, it is not welcome and there is no demand for it really except on the donor side... This is in fact an endemic problem in the donor community — expatriate management substituting for domestic management...What is left in that demoralized ministry is being attracted away by donors and salary supplements.

From the foregoing, it is evident that because most African states depend on bilateral and multilateral aid for basic financing, and because of the conditionalities attached to the rescheduling of existing (unsustainable) debt stock, it is impossible for the states to have an autonomous policy process. He who pays the piper, it is said, calls the tune. Thus, to the extent that aid money can be regarded as a form of rent, the policy process is essentially beholden to the interests of donors more than the demands of the civil society (sometimes even in countries with highly developed civil societies). The organized groups might scream, sometimes violently protest, but in most cases, the states have little
choice but to muster all their instruments of coercion to ram through the policies as dictated by the donors.

The more recent reflections by donors, especially by the World Bank and the OECD-DAC on the ineffectiveness of conditionality-driven aid, as well as the new emphasis on "policy ownership" by recipients makes the point. Olukoshi shows in Chapter 3 that despite the hype about democratization and policy ownership, the highly indebted countries still operate largely what Mkandawire calls "choiceless democracies." Democracy is about interest group politics, but it seems that in much of Africa, it is democracy in which a greater part of the policy agenda derives, not from their party manifesto or electioneering promises, but WTO rules, PRSPs whose strategic thrust and content are largely dictated by the Washington consensus, the country assistance strategy papers, etc. In these countries, parliament rubber stamps what a technocratic elite submits to them as the non-negotiable policy agenda. Most of their policies, including the PRSPs, still have to be approved by boards of the IMF and the World Bank — at least for purposes of HIPC debt relief, and so the countries indirectly try to censor themselves and fill in the Washington matrices in order to produce PRSPs "acceptable" to Washington.

Furthermore, trade and industrial policies are being locked-in under various regional and preferential arrangements. EU's "Everything But Arms" (EBA) initiative which proposes to grant least developed countries duty-free export into the EU market is exceptional in that it is non-reciprocal. For America's AGOA, it is tied to dozens of conditions designed to ensure that benefiting countries use American raw materials or inputs in the production of those products. The US model could significantly re-direct the production and trade structure as it stacks incentives in certain sectors but not in others. The EU-ACP agreement, and the waves of FTA negotiations with the EU have the additional pressures of locking-in certain kinds of liberalization and industrial policies. Thus, once these agreements are signed today, the policy-makers of tomorrow have little room to "choose" their own trade and industrial policies. Thus, ideas, donors and external obligations matter more in determining policy choices.

But despite the broad characterization of policy regimes, countries have differed significantly in details. Even under the ISI-planning regime, details of trade and industrial policies adopted by Botswana and Mauritius on the one hand, and many other countries on the other, are remarkably different — and with different outcomes. Why? Other factors could explain the differences.

State-Institutional-Bureaucratic Capacity Approach to Policy-Making

Historically, especially in the 1960s, economists typically studied and perceived policy-making in models where a "rational, benevolent social planner" optimally chooses economic policy instruments in order to maximize the welfare of a representative individual, given certain resource constraints. "The economy was treated like a piece of putty that could be moulded and shaped by the model builders or policy-makers, as required, to fulfil their vision of the public interest or social welfare. Policy-makers were counted upon to recommend or adopt whichever mix of policies was "in the public interest" (Brunner and Meltzer, 1983: vii). This model focuses on the analysis of decision-making in the organizational context of the state, and assumes that the policy-maker has significant autonomy (not constrained by societal pressure groups, historical context, or the legacies of prior policies) in an attempt to choose and implement the "optimal" policies. In these state-centred models of policy choice — popularly couched as rational actor, bureaucratic politics, and state interests models — the policy-maker is
considered a rational actor who accumulates information, assesses alternative courses of action, and chooses among them on the basis of potential to maximize the social welfare function (see Robinson and Majak, 1967; March 1978; Killick 1976; and Allison 1971). The activities of the policy-maker correspond to rational choices or to bureaucratic games in which the stakes are personal, organizational, and positional.

The perfectly rational actor model has been modified greatly to introduce such concepts as "bounded rationality," "satisficing," and "incrementalism" (Kinder and Weiss 1978; March 1978). "These revisionist perspectives generally argue that because of the complexity of perfectly rational choice and its costs in terms of time and attention, decision-makers (whether individuals or organizations) do not usually attempt to achieve optimal solutions to problems but to find ones that satisfy their basic criteria for an acceptable alternative or ones that meet satisfactory standards" (Grindle and Thomas, 1991: 28). Furthermore, while rational actor models tend to focus on the individual in the decision-making process or on organizations acting as rational individuals, they are also useful in exploring how organizational contexts simplify the decision process, minimize the amount of conflict engendered through policy change, and constrain the choices available (Frohock, 1979: 59). The rational actor model certainly has some attractive features. In the first instance, it would be difficult to deny rationality of some sort in the policy-making process. Also, the concepts of "incrementalism" and "satisficing" are useful in explaining why revolutionary policies are rarely adopted or why "optimality" may not always be achieved. A shortcoming of the models is that they restrict the rationality of policy-makers to their organizational contexts and suggest that politics and policies take place within the confines of bureaucratic organizations. These models ignore the role of societal interests, values, alliances, and historical issues in shaping or determining the policy process.

Another variant of the state-centred models is the bureaucratic politics approach. In this approach, state policy is the result of competing activities among bureaucratic entities and actors constrained by their organizational roles and capacities. For instance, the executive and bureaucratic actors compete over preferred solutions to particular policy problems and use the resources available to them through their positions — hierarchy, control over information, access to key political actors and decision-makers — to achieve their objectives. The model argues that the views of the bureaucrats on what policy should prevail are shaped by their positions in government; that is, the position of each player is defined by the bureaucratic position he or she occupies, so that "where you stand depends on where you sit" (Allison, 1971: 176). Thus, the autonomy of the policy-makers in shaping and pursuing policy is potentially very great in the bureaucratic politics approach, for it is constrained only by the power and bargaining skills of other bureaucrats and by their own hierarchical position of power, their political skill, and the bureaucratic and personal resources available to them.

This model provides some insights that are useful for understanding conflict and negotiation in the state and that indicate the extent to which policy is the result of intense political processes and power relationships in government. The bureaucratic politics model provides important insights into how the personal attributes of the policy-makers — educational and professional competence, technical skills and ability to "intimidate" colleagues through superior information and analytical rigour during policy debates in the cabinet, and their relationships with the power centres and proximity to the presidency — could make significant differences in their ability to strike "policy deals" and actually implement them. In a word, the "clout" wielded by individual bureaucrats
and policy-makers in government is an important variable in determining their influence on the policy process. The model could also shed light into the dynamics of negotiations and conflicts among bureaucrats that, in many cases, result in deliberate attempts by some well-connected and powerful bureaucrats to frustrate or sabotage policies they do not support.

An aspect of the state-centred model of policy-making refers to the institutional arrangements and governance structure of the state. Social scientists have generally turned to Max Weber’s typology of authority — under the rubrics of “patrimonial,” “charismatic,” and “rational-legal” — to characterise many African states. An illuminating application of Weber’s categories is Clapham’s (1985) concept of “neo-patrimonialism,” by which he means the use of modern rational-legal forms, that is, impersonal “universalistic” systems and rules, for private “particularistic” purposes. As Findlay (1989: 9) observes, “A patrimonial ruler of the pure type would give gifts to his followers and kinsmen to cement their loyalty to him in his struggle with his opponents, these gifts coming out of his personal resources, since such a system would lack any distinction between private and public purse. A modern Third World leader, however, who wanted to perform essentially the same activity of rewarding followers and kinsmen would do so typically by assigning them jobs or import licenses or contracts that ostensibly ought to go only to those satisfying certain impersonal objective criteria of functional qualification.”

It should be expected that the more successful the neo-patrimonial state is in its predatory exactions on the civil society, the less the “legitimacy” of the regime in the eyes of the people, since the more blatant will be the violations of the publicly proclaimed rational-legal norms. The state would normally respond through political repression of varying kinds depending on the perceived threat. Moreso, the more lucrative the control of the state, the more intense will be the pressure of rival claimants, and so the regime will have to face the problem of how wide or narrow to make the coalition that enjoys the benefits of state power. It is believed that much of the politics and public policy of Third World countries are concerned with the dynamics of these concessions and retractions to various segments of the society.

For many scholars, the state-centred approach, especially its special variant of personal and patrimonial rule, represents an important characteristic of the policy process. This rule is a political regime characterised by the absence of effective institutionalized rules and political competition, where the rulers relate to the citizens by patron-client relations — financial rewards and access to power and privileged positions. In such authoritarian regimes (often pejoratively referred to as “one-man-state”), the ruler effectively monopolises power and can eliminate or circumvent constitutional checks and balances. Thus, the personal characteristics (competence, vision, ideology, idiosyncracies, etc) of the leader can have dominant impacts in determining policy-making and implementation. When expressed in the positive sense, such concentration of power can be used for developmental goals as in South Korea under General Park, or in Chile under General Pinochet, or as the recent successes in Uganda under Yoweri Museveni and in Ghana under Jerry Rawlings. On the other hand, such rule may adversely impact on the policy process because of the extreme uncertainty about policy change and its durability, unpredictability and abruptness of policy, lack of accountability, leading to little consideration for the wider societal environment. Given its autocratic nature, sometimes the regime is more preoccupied with the requirements for personal and regime survival than considerations for policies required for industrial
growth and capital accumulation. The extent to which this represents a correct characterisation of individual countries in Africa at particular periods in their history remains an empirical question.

From some studies and survey of literature on African policy process (see for example: Healey and Robinson, 1992; Mosley, et al, 1991; Grindle and Thomas, 1988), the major conclusion is that the policy process (especially the formulation stage) is dominated by state elite, sometimes a single autocrat and in others a small oligarchy. Policy debates and formulation seem, in the majority of cases, confined to small exclusive political circles. The dexterity with which the state exercises this policy-making role and the nature of the final outcome depend not only on the competence of the bureaucracy, but also on the degree of the elite’s autonomy from numerous pressures and influences.

The weakness of the bureaucracy in most African countries is widely recognised and the case studies confirm this. Many of the bureaucrats are said to lack independence, and to provide limited technical analysis of policy options. This could be attributed to a combination of two factors. One is the low technical competence of the bureaucrats since the reward system is too poor to attract and retain highly qualified and experienced people. From the case studies, it is evident that bureaucratic capacity is a real problem. Also problematic is the extent of development and organization of the entrepreneurial class. Only when the state is capable and developmental, and has a vibrant capitalist class can industrial policies be effective. Nafziger (1990: 148) raises an important dilemma in the case of Africa by noting that:

The irony is that while the weakness of the African bourgeoisie indicates the need for state intervention and skilled planning to induce investment and entrepreneurship, few African bureaucrats can either facilitate the emergence of profitable enterprises in the private sector or manage those in the public sector.

In many ministries of trade and industry, there are no PhD economists; sometimes, one finds one to four junior economists. In several of the case studies, the institutions charged with responsibilities pertaining to trade and industrialization are fragmented and lack coordination. It is also evident from the case studies that countries with settler European populations generally have better institutions for policy design and implementation than others, thereby confirming the Acemoglu et al thesis on institutional quality. The second reason is the nature of the political system. In the largely personal, authoritarian, patrimonial regimes, loyalty of bureaucrats is often better appreciated and rewarded by the rulers than technical competence. It is however believed that the more technically competent the bureaucrats and advisers who interact with the elite political class in policy-making, the better are the chances of better informed policies. A technocratic elite in the Ministry of Finance and Economic Development, and the Central Bank has dominated Uganda’s economic policy-making since the 1990s. This is similar to the Pinochet’s core elite intellectuals from America’s best graduate schools. In other words, visionary, benevolent dictatorships, which have surrounded themselves with competent technocrats, have been known to choose and implement pro-growth policies.

**Politics: Interest Group-Public Choice Models**

There is a growing recognition that politics matters a lot in policy choices, and it is difficult to understand the process by which trade and industrial policies are made without characterizing the political terrain — preferences (given by trade models) to demands (via the logic of collective action) and thence to policy outcomes (depending
upon the group's access to policy making, see Bates and Devarajan, 2000). Interest group-public choice models have become the workhorse of the new political economy literature. These theories purport that the causes of decisions made to adopt, pursue, and change public policies lie in understanding relationships of power and competition among individuals, groups, or classes in society or in international extensions of class-based or interest-based societies. In these theories, the activities of the state and policy elite are taken as dependent variables.

A variant of the political and policy analysis — the pluralist theory — proposes that public policy results from conflict, bargaining, and coalition formation among a potentially large number of societal groups organized to protect or advance particular interests common to their members. Such interests are usually economic, but groups could also form around some shared concerns for neighbourhood, ethnicity, religion, values, region, and other issues. According to this theory, the society is composed of large numbers of such groups that compete and coalesce around the promotion of common policy goals. The state then forms only a part of the political arena in which such groups conflict, negotiate, bargain, form coalitions, and generally do battle over policy output, but the initiative for policy is generated by society and is structured by the ways in which groups are organized around particular interests and the resources available to them for achieving their goals. State institutions and procedural rules do little more than channel the conflicting and competing interests into appropriate conflict resolution systems. In this model, not only is the initiative for policy linked to the mobilization of interests in society, but the source of policy change must also be sought in changes in the coalitions of interest groups or in their relative power in bargaining, negotiating, marshalling votes, and otherwise influencing the policy-makers. As Grindle and Thomas (1991:24) argue, however, “this perspective may be particularly difficult to apply in the case of many developing countries, where votes and lobby activities may not be useful “currencies” for interpreting societal preferences, and where much policy may never be discussed outside the halls of government. In such countries, a model of policy change that takes the activities of organized interest in society as unique independent variables may be misleading.” This observation might seem plausible especially for dictatorial regimes.

The political economy literature has been recently dominated by the public choice theory, which has extended and altered the pluralist theory. Much like the pluralist theory, the public choice theory assumes that the society is composed of self-interested individuals who coalesce into organized interest groups. Once formed into groups, they use money, expertise, political connections, votes, and other resources to extract benefits, or rents, from government through lobbying activities, elections, and other direct forms of involvement, or through the imposition of rewards and sanctions on public officials. The elected (or unelected) public officials who are fundamentally concerned with remaining in power also complement the interest groups in capturing favoured status in the distribution of resources in the society. To accomplish this, the officials consciously seek to provide benefits to a range of interests they believe will help them retain office — they systematically favour certain interests over others; and they maximize their returns from the allocations of public expenditures, goods, services, and state regulation as a way of attracting and rewarding supporters. Politics, in this setting, becomes the sum total of individuals seeking special advantage through public policy and individual officials seeking to benefit from public office through re-election and rents.
This theory has been widely adopted by neoclassical economists because it offers a coherent and relatively parsimonious explanation for seemingly irrational policies by governments. The society, like the classical market place, is composed of self-interested individuals who form coalitions and compete to acquire benefits from government. Unlike the market place where the competition generates efficiency in resource allocation, in the political arena, self-interested behaviour generates negative outcomes for the society — a state that is captured by narrow interests, policies that are distorted in economically irrational ways by self-seeking groups, and public officials whose actions are always suspect. Thus, in contrast to the pluralist perspective which assumes that "rational" policies emerge from the resolution of conflicting interests in society, the public choice theory extends the analysis by contending that the emergent policies need not necessarily be "rational" or maximize public interest. It also shows the incentives which public officials have in responding to the pressures and imprecations of lobby and special interest groups. The theory thus provides some coherent explanations for policy choices that are obviously "inferior" to available alternatives and whose consequences are known to be harmful to the society in both the short and long-runs. At best, it explains why "things are the way they are" and why the "public interest" is not often achieved. It is, however, less able to illuminate the policy process itself, and explain how the motivations of policy-makers are developed or altered over time.

Traditional analysis (especially the new political economy) would locate issues about trade protection and industrial policy within the confines of interest-group politics. A political market for these "particularistic" policies would be assumed to exist where the demand side is made up of particular groups of voters, firms and associated interest groups, while the supply side is constituted by politicians and government bureaucrats. The existence of self-serving economic interest groups and self-interested bureaucrats and politicians eager to maintain power or benefit from rents define the dynamics of this market. In the specific case of Africa, Bates (1981) postulates that the governing elite maintains power by seeking a coalition of groups who will support them in return for benefits or "economic rents" and privileges. Bates model is at best clientelism at work, whereby the ruling elite seek support from the most powerful organized interest groups such as large estate farmers and large business organizations (rather than the small, often dispersed, farmers and small businesses). Applied to industrial policies, this framework implies that the nature of the rents and particularistic policies designed must be those that benefit the identified powerful groups whose coalitions the government seeks. While this model can shed interesting light on the ex-post dynamic events that have shaped some aspects of industrial policies at certain times, it is certainly limited in understanding the motives for, and evolution of, the policies.

By analogy to the small farmers in the Bates model, it would then appear that industrial policies either ignored or harmed small-scale businesses in most of Africa since they were the least powerful of business groups. This requires empirical verification on country basis because the plethora of programmes and incentives designed to promote the small and medium scale enterprises (SMEs) in many national development plans and annual budgets do not bear out such a position. Furthermore, if the African states are indeed as "autocratic" as they are often portrayed to be, it is not certain why they would explicitly court the coalition of these groups rather than simply "repress" them. We shall return to this point below. Again, there is a certain circularity about the logic of such interest group politics explanation. It is understandably difficult, especially in developing countries, to know ex-ante, which interest groups have lobbied for particular policies. One has then to identify the beneficiaries (ex-post) and, according to the neoclassicals,
such beneficiaries must be the groups that lobbied for the policies in the first instance. If, for example, an industry is sited in my district, and after some years there is a threat to its existence and I oppose such a move, then the public choice school would conclude that I must have lobbied for its siting in the first instance. Thus, outcomes must logically be related to the initial conditions. It is difficult to see how the industrial policies and experience in most of Africa especially up to the 1970s fit into this mould. The discussion of the historical background of industrialization above indicates the need to distinguish certain epochal phases of policy especially the nationalist drive after independence. Such drive defined the purpose of industrialization, the character, ownership, and protectionist measures required for it. To assume that these initial nationalistic reactions were driven by narrow interests to create or extract rents might be overly simplistic. There is little doubt that, over time, some of these industries provided avenues for rents and the states became rentier in some cases. The extent to which the industrial policies were designed to benefit some identified interest groups and regulators is an empirical question, which requires country-specific evidence. In other words, distinguishing between the initial impetus and the "dynamics" of the actions is important, otherwise we fall into the trap of ascribing every outcome to pre-conceived interest groups.

Bates and Devarajan (2000: 11) indeed corroborate this weakness of the interest group explanation. According to them, "in conclusion, it has suggested that interest group explanations may be most useful in explaining not the change in policies, but rather their persistence." Earlier, the authors had argued that, "rather than interests defining policies, the choice of policies may define the structure of interests. In Africa, and elsewhere, for example, vested interests grew up around the policies of import-substituting industrialization" (p.11). In an earlier study, Bates and Krueger (1993: 455) categorically state that "the intervention of interest groups fails to account for the initiation, or lack of initiation, of policy reform." The authors, and indeed the interest group model, fail to explain how such policies could emerge in the first instance independent of interest groups. Reference to ISI reaffirms the point in the previous section that policies can just be chosen simply because such ideas and policies are fashionable or because of the mainstream orthodoxy or simply because they were imposed by donors.

Another limitation of the interest group approach is the observation by many analysts that the indigenous business class in Africa is, with the exception of a few countries, generally "weak, embryonic and lacking in independence because it has usually grown up under the protection and privileged support of the state elite". Organized business groups have not participated actively in the shaping of general economic policies, and rather concentrate on seeking exceptions, modifications, or other concessions in the application of policies that affect them. Businesses use all kinds of means to have direct access to the relevant bureaucrats, and attempt more to influence policy implementation than policy formulation (that is, through evasion, bending rules, bribes, etc). In many countries,

<table>
<thead>
<tr>
<th>Majority tribe control of economy</th>
<th>Pro-Growth and industrialization policies: (Kenyatta era in Kenya)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minority tribe control of economy</td>
<td>Pro-Growth and industrialization policies:</td>
</tr>
<tr>
<td></td>
<td>Mauritius, Botswana, Cote d'Ivoire, Zimbabwe (1980–mid 1990s), Uganda before Idi Amin expelled Indians</td>
</tr>
<tr>
<td></td>
<td>Anti-Growth and industrialization policies:</td>
</tr>
<tr>
<td></td>
<td>Moi regime in Kenya</td>
</tr>
<tr>
<td></td>
<td>Anti-Growth and industrialization policies:</td>
</tr>
<tr>
<td></td>
<td>Apartheid regime in SA, Tutsi regime in Rwanda</td>
</tr>
</tbody>
</table>
interest groups lack the resources to command leverage and interact with government. In several instances also, the interests of businesses are heterogeneous and sometimes conflicting between small and large firms, exporters and manufacturers for the home market; etc. It is shown that “outside South Africa, industrialists rarely constitute a unified pressure group on trade policy except in so far as they all want to operate at lower cost” (Healey et al., p.75). Indeed, a study by Mosley et al (1991) finds very little evidence of urban coalitions between industrialists and labour or among industrialists in response to trade policy reforms. Trade unions play little role because in many cases, they are either suppressed or their leadership co-opted by the government. While the above discussion might be representative of the average cases in Africa, country evidence could provide further illumination especially for countries such as Nigeria, Kenya and South Africa with large and highly developed civil society. However, besides anecdotal references to their influences, empirical proof of their impacts on the policy process is difficult. For example, as Dunn (1986: 165) observes:

> No one understands interest group representation in any African country particularly well since it needs an accurate understanding of the political motivations of specific interest groups and the process of lobbying which for elite organizations is not very public, rather informal and can involve rather delicate ethnic issues.

It is indeed difficult to generalize about the nature of influence exercised by interest groups in many African countries. However, some broad generalizations can be made regarding the nature of interests and policy choices in countries with certain characteristics — such as ethnic balance, reliance on mineral rents, etc.

**History, State Structure and Production Structure**

The central message of the previous section is that policies are made by people — and these people have interests. Their ethnicity, religion, ownership of productive assets, etc could also shape such interests. These factors and the history of their emergence could be very critical in shaping both the arena for policy choices and the actual policy choices. Here we distinguish two key factors: ethnic versus economic power balance and policy choice; and natural resource endowment, fragmented society and policy choice.

**Ethnic Versus Economic Power Balance and Policy Choice**

As Acemoglu (2001b: 4-6) documents, modern African states were carved arbitrarily at the Berlin Conference of 1885 by colonial powers. The consequence is that with very few exceptions the newly independent countries are simply colonial artifacts. The challenge faced by the independent leaders therefore was how to create nations out of heterogenous cultural materials in a situation where traditional political identities such as class, and strong ideological orientations were absent. With many of the strange bedfellows (diverse ethnic nationalities forced into countries) actively interacting under a single political control for the first time, the competition for power was ostensibly fought along ethnic lines, and politicians had to do whatever it took to stay in power. Creating viable institutions was necessary for effective governance — a social order, fiscal system, a bureaucracy — a viable state. But the nature of politics and demands of staying in power mitigated against the construction of such institutions — as emphasis was on strategies that consolidated their power base. Under such circumstances, sound economic policies were bad politics, as they did not contribute to the immediate task of consolidating power.
In most African countries, government remains the dominant player in the economy and most of the private sector depends on it for patronage — construction contracts, supplies, source of credit through state owned banks, a plethora of rents through exchange rate and trade controls, subsidies, licensing requirements and business permits, policies directed towards industrial structure, location and ownership, infrastructure development, nationalization and privatization, granting of import licenses, etc. With the consolidation of power as the dominant issue in many countries, these instruments are used with intent to rewarding political loyalty, and punishing political enemies. Politics is the issue and the individual or group position within the ladder is critical in determining whether they get the carrot or the stick. From the case studies, an interesting taxonomy of political-economic structures and impacts on policy choices can be illustrated as shown in Figure 1.1.

In countries where political power was in the hands of the majority (ethnic) group, there was little threat to the power base. Such governments are often content to allow policies that favour accumulation by the majority (Kenya under Kenyatta regime; Cote d'Ivoire under Houphouet Boigny). Also, even where the economic power is in the hands of the minority but political power resides with the majority groups (such as in Mauritius with the Indian population controlling government while the five percent Mauritian population of French origin dominates the economy), the ruling majority (under no political threat from the economically powerful) pursues policies to promote development. Because the minority does not threaten the power base, economics and efficiency are allowed to flourish. In Botswana, the majority group is happy to allow the minority white population to dominate the extractive industry and also the upper echelons of the civil service.

Traditionally, the interests of policy-makers, businesses and industrialists synchronize in two important ways. Government needs to create jobs. It also needs to collect revenue. A prosperous or booming industrial sector provides both. So, it should be expected that government would always be interested in nurturing industry. In our model here, that is true but only to the extent that those who control the industrial base do not threaten the political power base.

Once the economically powerful group threatens the power base, the response is often to "contain," weaken, and possibly "exclude" the "traitors" from major economic activities. This is followed by a deliberate policy of "empowering" the weaker groups. Some analysts note that this was the case in Kenya under the Moi regime. The dominant ethnic group — the Kikuyu — also dominated the economy prior to the death of Kenyatta. The threat posed by the Kikuyus to the power base led by Moi from a minority tribe put the government under pressure to adopt policies and strategies to survive in office. These policies entailed using the instruments described above to "contain" the economic dominance of the Kikuyus and at the same time broaden the coalition by deliberately seeking to prop up and empower other minority groups. For instance, the Moi regime deliberately courted and promoted the "outsiders" — the Indian population to dominate the productive sector so that the 175,000 Indian population owned about 75 percent of the manufacturing sector. Such policies aimed at suppressing or containing the majority necessarily are distortionary and anti-growth. The Nigerian case study also points to a similar policy towards the Igbos after the civil war in the early 1970s. The Igbos believe that the implementation of the indigenization of foreign firms barely two years after the civil war and official policy to pauperize all Igbos was aimed at curtailing their economic-political dominance. Unfortunately, in both the Kenyan and Nigerian cases, the
groups targeted for suppression or exclusion are believed to be the most enterprising in these countries.

The Zimbabwean experience was similar to the Mauritian case until the mid 1990s. After independence in 1980, the majority black rule under Mugabe had no problem with the less than 100,000 white farmers owning more than 80 percent of the fertile land in the country, and the bulk of the industrial structure. Insofar as they posed no threat to the political power base, policies were not “discriminatory.” But once the whites were perceived to be using their financial-economic muscle to seek to tilt the political landscape by supporting the opposition, the hammer fell on them. The Mugabe government suddenly began to appeal to the sentiments of the population regarding the injustice of white domination of their land. Even if the policy of land acquisition and distribution would have disastrous economic consequences, the prime objective function to be maximized was the stay in office of the political elite. In this instance, what constituted sound economics was obviously bad politics, and what was seen as good politics was bad economics. A similar argument could be made for the wave of nationalization and indigenization programmes in many African countries in the 1960s and 1970s, especially in countries where the foreign domination of the industrial sector was perceived as a threat to the power balance in the country. The wholesale expulsion of the Indians by the Idi Amin government in Uganda in the 1970s is an example of such policy taken to the extreme.

South Africa is a different kettle of fish but the same logic obtains. Under apartheid, the minority with the economic power also had the political power — and it was a highly unstable equilibrium. To maintain the equilibrium, the minority had to excessively repress both the economic and political rights of the majority to the extent that the choice of policies was heavily determined by that equilibrium. Deliberate policies were chosen to exclude blacks both from the land and major economic activities except those who were not in a position to threaten the power base. Similar politics of suppression and exclusion obtains in Rwanda with the minority Tutsi population dominating both the economic and political structures against the majority Hutu group. The post-apartheid regime in South Africa mimics the Mauritian model where political power is in the hands of the majority (Indian population) while economic power resides in the hands of the minority Europeans (mostly French). For the moment, the whites do not seem to constitute a threat to the power base. It still remains to be seen how the equilibrium in South Africa will be maintained in the long run especially if the majority group continues to be excluded and suppressed.

Policy Choice in Economies Dominated by Mineral Rents and Divided Society

Earlier in this chapter, we discussed the possible endogeneity of the policy choices to the production structure — especially dependence on primary commodities (Collier, 2002), as well as the impact of ethnic fractionalization which makes it difficult for society to agree on pro-industrialization and diversification policies (Easterly and Levine). Dependence on primary commodities raises the probability of conflict especially in ethnically diverse societies, as the competition for the rents becomes intense.

The first point to be made is that the more the government depends on rents — from natural resources or from aid — the less the pressure to adopt and implement policies towards building an industrial base. In other words, the pressures to adjust (adopt certain policies) depend on the source of revenue for the state as well as the nature of the civil society. Mkandawire (1995: 24) forcefully articulates this point arguing that the extent of
policy autonomy exercised by the state, whether it is a pro-industry sector or not, is determined by "the fiscal capacity of the state, or more specifically, the revenue base of the state and, the constitution of civil society, the thrust of its political and economic demands and its organizational and combative strength." 

One point underscored by this model is that the extent of state’s fiscal independence will be critical in determining its policy autonomy. Generally, the more the state is independent with regard to revenue rents, the more policies are geared to “distribution” rather than “production,” and also the less responsive the state elite to the societal interests in policies. A corollary of this argument is that the state is more likely to be more responsive to the interests represented by its dominant sources of revenue—mining companies, donor agencies, etc—than the social groups whenever there is a conflict between those interests. On the other hand, where the government derives the bulk of its revenue from company profit taxes and personal income taxes, it is most likely to be highly responsive to policies that promote the prosperity of the sector.

In ethnically diverse societies with rents from mineral resource as the dominant source of revenue, the outcome is often politics centred around the distribution of rents to keep the fragmented society together. Policy is therefore essentially geared towards sharing of rents rather than production. The pressure to compete is removed as there is no immediate necessity. In effect, there is no pressure to adjust—to adopt policies for systemic competitiveness. Nigeria provides a classic case among the case studies. In Nigeria, every government is almost always a minority government given the multiplicity of ethnic groups—with three dominant ones. Building coalition and widening the support base for government especially in the context of huge oil rents to share has given rise to the politics of distribution rather than that of production. With huge oil rents accruing to government, the umbilical cord between government and industry was broken—the government did not depend on revenues from company or personal income taxes nor depended on industry for employment. Insofar as oil money flowed, government could expand public sector employment significantly. Thus, there was not much pressure to adopt policies to promote rapid industrialization—never mind the rhetoric about industrialization in the various national development plans and official policy documents.

Conclusion

The analysis in this chapter has so far demonstrated the emerging consensus that policy matters but there seems also a consensus regarding the limits of economic policy in ensuring rapid diversification and industrialization in Africa given the constraints of geography and natural resource endowments. Despite the lingering debate in broad terms about the efficacy of strategic trade and selective industrial policies vis-à-vis free trade-neutral industrial policy, there is a fair bit of consensus on the menu of policy options for Africa's economic diversification and trade. Much of the mercantilist policies used by earlier late-industrializers are not available anymore even though some creativity could still be deployed to work around the boundaries defined by WTO and globalization. Africa would indeed be the only region of the world that would diversify, industrialize and trade without much of the preferential and differential treatment enjoyed by earlier late industrializers. The forces of agglomeration may in fact rule out many of the options enjoyed by earlier industrializers. But new opportunities and preferences emerge—the new EU's Everything But Arms initiative, the US' AGOA, regionalism, NEPAD, EU-ACP Cotonou Agreement, etc and are waiting to be exploited.
The policy landscape is as diverse and as similar as the countries of the region. A few major themes have emerged as major explanatory variables of the policy choices — power of mainstream ideas and role of donors in mainstreaming such ideas (in no region of the world has the pendulum of policies swung in tandem with gyrations in development orthodoxies than in Africa); the state institutional bureaucratic capacity; the role of interest group politics; and the role of the history-geography-production structure. In particular, it is shown that policy choices are influenced by natural resource endowments (rentier states) especially in contexts of ethnically divided societies. Also, policy choices are circumscribed by the balance between politics of controlling government and the economic ownership structure. In these circumstances, it is difficult for the pro-growth policies to be chosen without seriously addressing the balance of power — between economics and politics. Given the mutual endogeneity of the politics and economics, the central question is: Who will bell the cat?

In other words, the issue is how and where the exogenous shock to the system to elicit a virtuous rather than a vicious circle would come from. The new buzzword in development discourse is “national ownership” of policies and “commitment” of political leaders to reforms. What remains an empirical question is how “good” and “committed” leadership emerges or how “good” policies emerge (spontaneously or gradually) in societies. Conditionality induced “good” policies by donors have been shown by a number of studies not to work, ie, conditionality does not “buy” reform. Rather, emphasis is on ex-post selectivity. Fair enough, where there is no ownership, it is difficult for policies to be firmly rooted or credible. A central question for the political economy of policy-making relates to how, in a poor society with a weak leadership and poor institutions, good leadership that is committed to good policies emerges, especially given that both good leadership and policies are endogenous to other fundamental characteristics of the society.

Furthermore, the new liberal policy environment and challenges of WTO, regional arrangements and globalization make tremendous demands on the capacity of state institutions to respond in a systematic way. As recognized in Chapter 5, the liberal market framework does not require any less institutional sophistication than the active industrial policy framework. According to Polanyi (1944: 140–1):

The road to the free market 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. Thus, even those who wished most ardently to free the state from all unnecessary duties, and whose whole philosophy demanded the restriction of state activities, could not but entrust the self-same state with new powers, organs, and instruments required for the establishment of laissez-faire.

In most of Africa, the bureaucratic capacity to respond to the challenges of the new environment lags far behind the demands. How to create and sustain such capacity, and nurture the requisite institutions — competition and anti-trust tribunal, anti-dumping board, agencies to make trade facilitation and incentives work, etc remains a daunting challenge.

In the end, while efforts continue to reform the state governance institutions, a key message of this book is that policy-making cannot be divorced from politics — domestic and international. At the domestic level, sustainable policy change must have credible
and informed constituencies. A major task in most countries is how to create, nurture, and deploy the contributions of the civil society in policy-making. It is only civil society in an open governance system that can hold policy-makers accountable, and their demands and pressures for change constitute an important mechanism to make the policy choices credible and sustainable. In other words, while this book illuminates several issues in the design and implementation of policies, it also raises other issues and questions for thinking about the way forward.

Notes

1 Various scholars (e.g. Dani Rodrik, Martin Khor, Sanjaya Lall, Joseph Stiglitz, Ha-Joon Chang and Thandika Mkandawire, and a coalition of international NGOs such as the OXFAM) in their studies have continued to challenge the orthodox trade liberalization model.

2 Most of the following discussion on the role of institutions draws from Acemoglu et al 2001.

3 It needs to be stressed that the debate on the relative role of the state has a long history. The birth of development economics since the 1940s and 1950s can be said to be a reaction to the free market model literally imposed on the developing countries through colonisation and unequal treaties.

4 Although there are lingering debate and tensions on how “free” the market economy framework should be, or the nature and extent of non-market interventions required, hardly anyone makes a credible case for socialism as an alternative.


6 The origin of these magical numbers may be traced to the unequal treaties of the 19th and the early 20th centuries. These treaties (in which the weaker countries had little tariff autonomy) almost always imposed five percent uniform tariff rates on the weaker countries. Once five percent became the focal point, people began to think in multiples of that. As yet, no one has been able to demonstrate the theoretical or empirical basis for such numbers. Furthermore, Sachs-Warner index of openness had the benchmark of 40 percent — above which is distorting and below which is relatively non-distorting. By that logic, it is not clear what the net benefits of further lowering of tariffs below the 40 percent would be vis-à-vis the possible costs. In other words, there is no basis yet to propound an iron law of tariffs that everywhere and always an average tariff of five percent should be preferred to six percent.

7 See Healey and Robinson (1992: 49–50) for a complete listing on the works in these areas and for full referencing.

8 This is not to argue that having PhD economists in the ministries is a sufficient condition for solving the institutional weakness problems. One could argue that having a bureaucracy filled with PhD economists but with the “wrong” development model could even be more disastrous. Indeed, the experience of Japan and South Korea where the leading economic bureaucrats were mostly lawyers by training, or the case of Taiwan where they were mostly engineers, underscore the point that institutional strength goes beyond academic certificates held by individual bureaucrats.

References


This page intentionally left blank
2. DEMOCRATISATION, GLOBALISATION AND EFFECTIVE POLICY MAKING IN AFRICA

Adebayo O. Olukoshi

Introduction

Since the early 1980s when African countries began to slide into economic crisis from which most of them are still to recover, a considerable amount of scholarly and policy attention has been devoted to attempting to improve what has been broadly described as the "policy environment" on the continent. The aim has been to overcome perceived shortcomings in the policy formulation and implementation with a view to making it more "effective" from a managerial and delivery point of view. The dominant assumption underlying the mainstream focus on the African policy environment is simple: Africa's economic crisis was, in origin, primarily the product of accumulated policy distortions built up since independence in the 1960s (World Bank, 1981; Bates, 1981). Overcoming the crisis required a wholesale revisiting of the policy environment to eliminate the distortions that hampered economic growth and discouraged private initiative. This perception of the root of the African economic crisis, first popularised by the Berg Report (World Bank, 1981), was soon to be codified into the ubiquitous structural adjustment programmes which the International Monetary Fund (IMF) and the World Bank encouraged African countries to adopt throughout the 1980s and 1990s. Indeed, under the banner of "getting prices right," structural adjustment became the main, overarching framework within which different efforts have been made to improve the African policy environment.

Yet, some two decades after structural adjustment policies first made their entry into the African economic crisis management process, questions have persisted regarding their appropriateness and efficacy, with many observers and commentators, among them most recently the Chief Economist of the World Bank itself, suggesting that the key assumptions of the market reform programme are as flawed and internally inconsistent as they are inappropriate and destabilising (Mkandawire and Soludo, 1999; Stiglitz, 1998a, 1998b; Gibbon and Olukoshi, 1996; Engberg-Pedersen et al, 1996; Mkandawire and Olukoshi, 1995; Cornia and Helleiner, 1994; Gibbon et al, 1993; Jamal and Weeks, 1993; Tarp, 1993;Cornia et al, 1992; Ghai, 1991; Sobahn, 1991; Commander, 1989; Onimode, 1988, 1989; Havnevik, 1987). The point has also been made that the Berg Report on the basis of which the policy interventions of the Bank and the Fund were built was based on a fundamental misreading of Africa's post-colonial economic history1 (Mkandawire and Soludo, 1999; Mkandawire, 1998a).

Since a considerable amount of literature already exists on the adverse consequences and inadequacies of the structural adjustment programmes, it will not be necessary to focus specifically on them here in detail, except insofar as they bear on the policy-making and implementation capacity of the African state. In this connection, it is important to note from the point of view of our objective in this chapter that, in addition to its adverse macro-economic and social effects, structural adjustment also tended to undermine and complicate both the political and managerial prerequisites for effective policy-making.
and implementation in Africa. This is so in spite of the avowed commitment of the authors of the programme to the goal of overhauling the African policy-making machinery as part of the structural adjustment process.

It is ironic that in spite of the widespread recognition of the limitations of IMF-World Bank structural adjustment programmes, the quest for African economic reform still continues essentially to be defined in strictly neo-liberal market terms. Indeed, conditionality and cross-conditionality clauses designed to compel adherence to neo-liberal macro-economic policies remain an important feature of the donor relationship with African countries both at the bilateral and multilateral levels. These policies have come to constitute the new and dominant international conventional wisdom on the basis of which "rationality" in the public policy process is defined. However, whereas in the early 1980s structural adjustment was pursued within a political-institutional framework that was dominated by single party or military authoritarianism, by the end of the 1980s this context had changed dramatically in two inter-related directions which both have far-reaching consequences for policy-making generally and for economic reform policy design and implementation in particular. The first of these changes is the accelerated process of globalisation which has been witnessed over the last decade and which, like the structural adjustment policies promoted by the international financial institutions in Africa, is underpinned by a strong emphasis on the liberalisation of markets, trade and investments. The second context is the wave of political reforms, mainly taking the form of multi-party elections, that swept through Africa from the end of the 1980s, resulting in the onset of a transition from authoritarian to more liberalised forms of governance.

It is a central argument of this chapter that both democratisation and globalisation have profound implications for the realisation of the goal of effective policy-making in Africa but that the path to improving the policy environment on the continent lies less in the approaches and prescriptions which have flowed from the neo-liberal paradigm and more in the establishment of an appropriate political and institutional framework to guide state intervention, market reform and social (re)distribution. For the purposes of our argument here, effective policy-making is understood as one which, because it is properly anchored in a prevailing social bargain that is democratically arrived at and in which the leading players in society are involved, is able to deliver the stable and internally coherent political-administrative framework that would enable elected officials and the managerial cadres of the state to pursue the broad objectives that it is designed to tackle. This formulation immediately takes us back to the terrain of politics and the kinds of alliance-building, pacts and coalitions that are required for the attainment of long-term policy sustainability and effectiveness. It also broaches on the all-important question of the general role of the state in the policy process and the particular type of state that is best suited for tackling the problems that confront Africa at the present conjuncture. Central to all of these is the legitimacy of institutionalised political authority and the capacity of the state to generate and renew citizen support for the public policy process.

To be sure, it is perfectly possible, in the short-term at least, for committed governments to articulate and implement major reform policies without bothering to establish a political-institutional framework for securing the (prior) consent or understanding of the populace. This has been amply demonstrated by the early stages of the economic reform experiences of countries as diverse and as far apart as Ghana under Jerry Rawlings, Chile under Augusto Pinochet, Britain under Margaret Thatcher, Peru under Alberto Fujimori, and post-Socialist Poland, among others. Indeed, the "shock therapy"—"radical surgery" approach which these political leaders came to exemplify appeared, on the face of things
at least, to suggest that it is possible to achieve radical social and economic change even in contexts where reform-minded politicians and technocrats do not have the necessary support for the measures they have embraced. This demonstration of what has been described in the literature as the "persistent political will" (March and Olsen, 1989) to stick to painful but unpopular reform policies was to be commended to the majority of African countries that found it difficult to consistently apply the structural adjustment measures prescribed to them by the IMF and the World Bank. It required a capacity and determination to ignore public opinion and carry out radical policy measures, which are thought to be essential to the long-term competitiveness and well-being of the economy, even if citizens are unable to immediately see its benefits. It also offers a quick path to policy-making and implementation than would otherwise be possible if public opinion was to be courted in the first instance.

And yet, as has been demonstrated by various scholars drawing on the available empirical evidence, reform policy articulation and implementation in the absence of popular consent has, more often than not, proved to be unsustainable. March and Olsen (1989), marshalling extensive survey evidence on institutional reforms, suggest that the administration of the "shock therapy" itself is, in fact, the easiest part of such an approach to reform policy implementation; dealing with the fall-out from the "therapy" as well as sustaining and institutionalising the reforms are, however, much more complicated and have proved far more elusive. Bangura (1999), echoing their position, notes that reformers who opt for the "shock therapy" approach "...always have difficulties controlling or influencing the complex institutions and practices that will emerge from the reforms." These findings are reinforced by the evidence provided by O'Donnell (1994), Stephan and Skach (1994), and Linz and Valenzuela (1994) on the poor record of achievement associated with the quest for economic reform in parts of Latin America and eastern Europe through the use of presidential decrees. We might add too that the high incidence of the personalisation of policy under the "shock therapy" approach is also often accompanied by an equally high propensity towards political authoritarianism, repression, and exclusion which, by itself, is problematic and, in the specific multi-ethnic African context, could easily carry the additional cost of undermining the basis for the nation-state itself. Clearly, if policy is to be effective in the sense of being sustainable and institutionalised over the long-term without being dependent on repression and exclusion, the construction of a political support base would have to be taken much more seriously. And although this might be slow and time consuming, it is difficult to avoid; there are no easy short-cuts to policy effectiveness.

It is further suggested in this chapter that one bane of the structural adjustment years was the initial assumption that policy effectiveness was essentially, even solely, an economic matter and that once the economic policy framework was right, all else would fall into place: rational economics would not only beget economic growth but also beget rational politics and rational societies. Out of this flowed a very narrow conception of policy effectiveness, which, on the one hand, was tied to an idealised notion of the market and its workings and, on the other hand, placed a disproportionate amount of emphasis on technical issues while neglecting non-technical concerns that are equally crucial for the attainment of policy effectiveness. Another bane of the structural adjustment experience is the persistent attempt to subordinate politics to economics, the former being seen as having only a nuisance value that produces distortions and stands in the way of (rapid) reform implementation, while the latter is seen as the arena of rationality. Both shortcomings of the structural adjustment approach fed into the one-sided anti-statism that has been characteristic of the structural adjustment years, an anti-statism which did
even more damage to the prospects for effective policy-making in Africa. It is argued that these three shortcomings — economism, anti-politics, and anti-statism — of the adjustment years would have to be redressed and politics brought back in more centrally in order for effective, democratic policy-making and implementation to have a chance of being enthroned in Africa.

The Roots of Policy Ineffectiveness in Africa: Revisiting a Debate

The Neo-Liberal Case Against State Interventionism and the African State

As noted earlier, the onset of the African economic crisis in the early 1980s gave rise to a major debate on the causes of the problems confronting the countries of the continent. One strand of the debate, which was later to become dominant in donor circles and in the efforts at overcoming the economic problems centred on the view that the crisis was the product of post-independence policy distortions which, in their workings, penalised Africa’s farmers, predominantly located in the rural areas, to the benefit of a minority but powerful and vocal urban constituency of state officials, industrialists, and workers (World Bank, 1981, 1989a, 1989b, 1994; Bates, 1981). Central to these distortions was an agricultural pricing regime under which industry and urban consumers were subsidised to the detriment of the rural farming population. This wrong pricing policy was complemented and reinforced by a set of other policy measures which added up to discourage increased agricultural output and accelerate the flow of population out of the rural areas and the agricultural sector into the cities and an increasingly over-burdened and inefficient industrial sector that proved unable to absorb many of the new rural migrants into the industrial labour force. Among the other policy measures that reinforced the discriminatory pricing policy suffered by farmers were the artificially high exchange rates which most African countries operated, the array of subsidies which were developed for the benefit of urban consumers, the monopolistic-oligopolistic agricultural parastatals which were created, the price controls which were enforced, and the excessively high tariff wall that was erected to support inefficient import substitution industries established in the post-colonial period (Bates, 1981; Lensink, 1996).

By the early 1980s, these distortions in the policy environment had become unsustainable, leading most African countries into a balance of payments crisis that was soon generalised into an economic crisis which took its toll on all sectors of the economy. Thus, not only did African countries experience a generalised decline in agricultural productivity and exports, the shortfall in foreign exchange earnings which they experienced also took a toll on their import-dependent manufacturing firms. Furthermore, consumer goods shortages, inflationary pressures, and unemployment gradually built up in most countries, a situation which was not assuaged by the resort to deficit-financing and external borrowing. With their balance of payments positions in disarray, their budget deficits ballooning, and foreign investment flows drying up, it became clear that drastic measures would have to be taken to overcome the economic crisis confronting the countries of the continent. This task, if it was to be successful, would entail a frontal attack on the distortions in the post-independence policy regime with a view to shifting the structure of incentives in the economy away from non-tradeables to tradeables. Central to this was the goal of getting prices right by withdrawing subsidies, liberalising the domestic and external trade regime, and pursuing a more “appropriate” exchange rate policy — i.e. currency devaluation (Bates, 1981; World Bank, 1981, 1989b, 1994). These
measures became the main defining points for the structural adjustment programme of the IMF and the World Bank for the reform of African economies since the early 1980s.

Underpinning the structural adjustment framework for economic policy reform in Africa was the assumption that the state and state interventionism were the sources of the economic distortions to which African economies were exposed after independence. During the first stage of market reform implementation, the wholesale abandonment of the state-led model of development and the rolling back of the state, therefore, became the flip side of getting prices right. Across Africa, as structural adjustment was foisted on one country after the other, efforts were made to dismantle agricultural marketing boards, privatisate, commercialise, liquidate state-owned enterprises, deregulate various aspects of the economy, reduce the size of the state bureaucracy through civil service retrenchments, encourage the private sector, and promote the embrace of the market and its logic in the formulation of public policy (Colclough and Manor, 1991; Lensink, 1996). During this phase of the adjustment agenda, the African state became, as noted by Mkandawire (1998a), one of the most vilified and demonised institutions on the continent. Conceptually and ideologically, the state was presented as the millstone that hampered the quest for development in Africa, obstructing the free functioning of markets, consuming a disproportionate share of investible resources, extending its reach beyond what was desirable or necessary, over-centralising the development process, and stifling private initiative (Olukoshi, 1996). Thus it was that the liberalisation of the market and the promotion of private enterprise that were central to structural adjustment came to be seen as being fundamentally incompatible with state interventionism.

The broad intellectual context for the one-sided anti-statism that was built into the structural adjustment model was set by the so-called new political economy-public choice school which drew most of its initial inspiration from Ann Krueger’s writings on rent-seeking and various (neo-)Weberian theories of (neo-)patrimonialism (Krueger, 1974; Nelson, 1990; Grindle and Thomas, 1991). According to this school, the post-colonial African state and its interventions in the economy were the fulcrum around which various rent-generating niches were created and tapped by the state-based or state-dependent elite to the detriment of rational policy-making and efficient resource allocation. State officials, as they dipped their snout long and deep into the public trough, also wove a web of neo-patrimonial-patron-clientelist relations which linked different layers of officials and other elites to one another and to the rest of society (Sandbrook, 1985, 1986, 1991; Barkan, 1992; Widner, 1992). This way, rent-seeking pressures emanated both from within the state and society and neo-patrimonial-patron-clientelist relations pervaded the entire political economy. The pressures for the regular re-constitution of these neo-patrimonial-patron-clientelist relations fuelled the process of resource misallocation in the economy, with adverse implications for national development. Across Africa, the personal became increasingly conflated with the public, autonomous private initiative was discouraged and where it existed survived only through illicit and economically costly links with state officials, directly unproductive profit-seeking activities proliferated (Bhagwati, 1982), and public policy was reduced to the pursuit of the personal interests of officials and the buying-off of opposition, mostly through politically-motivated consumer subsidies for the urban working poor. According to Bayart (1993), the complex of neo-patrimonial-patron-clientelist relations embedded in society produced a “politics of the belly” whose paralysing effects have been such as to “... crush most of the strategies and institutions, in particular the Christian churches, the nationalist parties and the civil services, which have worked for the advent of modern Africa” (p. 268).
Under the regime of state interventionism, the civil service became over-bloated, populated as it was with clients and cronies of the dominant state-dependent elite. The resultant inefficiency and over-extension of the state and its bureaucratic apparatus became a source of some of the inefficiencies that ground African economies to a halt. Rapacious rent-extraction by state officials was matched by an urge to control all facets of the post-independence economy and society. Thus, under the guise of indigenisation or Africanisation, the post-independence nationalist elite brought most of the key national assets under direct state control, thereby reinforcing their power of patronage. New state-owned enterprises covering all sectors of the economy from production to marketing and banking were also set up with monopolistic or oligopolistic advantages; the huge financing requirements of these mostly inefficiently-managed enterprises accounted for most of the credits issued by the banking sector, to the detriment of private operatives who found themselves crowded out. With time, the maintenance of the post-colonial state interventionist system of accumulation increasingly required adherence to and the pursuit of policies which, over the long-term, were detrimental to national economic well-being but, in the short-term, enabled the legitimacy-hungry elite to maintain political order and buy the silence of the opposition. These policies eventually led to the collapse that was witnessed in the late 1970s and early 1980s, a collapse which, in turn, was symptomatic of the crisis in the system of neo-patrimonialism that underpinned public policy (Bates, 1981; Joseph, 1989; World Bank, 1989b; Herbst, 1990a, 1990b; Barkan, 1992; Hyden and Bratton, 1992; Widner, 1992; Jeffries, 1993).

During much of the 1980s into the early 1990s, the literature on the state in Africa was dominated by the deployment of a dizzying array of epithets as scholars competed among one another to find the best notion for capturing what was thought to be its essential defining features. Depending on the particular angle from which they entered into the debate, the state was variously described by different scholars as "neo-patrimonial," "unsteady," "omnipresent but hardly omnipotent," a "lame leviathan," "soft," "sultanist," "prebendal," "hemmed in," "over-extended," "kleptocratic," "predatory," "parasitic," "crony," "inverted," and "humpy-dumpy" (Jackson and Roseberg, 1982; Callaghy, 1987; Ergas, 1987; Rothchild and Chazan, 1988; Médard, 1991; Barkan, 1992; Fatten, 1992; Widner, 1992; Bayart, 1993; Callaghy and Ravenhill, 1993; Bratton and van de Walle 1994; Harbeson et al, 1994). Taming this state by cutting it down to size and preventing it from further intervening in the smooth functioning of the market was defined as the key intellectual and policy challenge facing Africa (Bates, 1981; World Bank, 1981, 1993, 1994; 1995). As can be expected, this prognosis translated into the endorsement of the structural adjustment framework by the new political economy-public choice school as it developed an organic relationship with the Bank and the Fund. The retrenchment of the state through the structural adjustment measures prescribed by the Bretton Woods twins would not only allow markets to function freely but also rescue the policy terrain from neo-patrimonial pressures emanating from within the state and society.

Contestation of the Neo-Liberal/Public-Choice Critique

As can be expected, the neo-liberal-public choice account of the origins of the African economic crisis and its critique of the post-colonial African state, as well as the model of accumulation which it sought to promote, have been extensively contested by other scholars. In summary, some of the criticisms which have been raised against the neo-liberals include their complete neglect of the role of external factors in the onset of the
African crisis, including some, such as the continent’s adverse terms of trade, that are beyond the control of any individual state; their elevation of rent-seeking and neo-patrimonialism to the status of a conceptual *deus ex machina* which explains everything that went wrong and thus, misses the nuances of the policy choices that were made and the considerations, including nation-building, that informed them; the simplistic conflation of policy benefits that accrue to particular groups in society with rent-seeking and neo-patrimonialist relations in the policy process using a mode of argumentation that involves a *non sequitur*; their failure to recognise that rents are integral to the development of capitalism and, thus, make a clear and helpful distinction between productive rents that could be fed into a strategy of capital accumulation and unproductive rents that simply support elite consumption; the tethering of rent-seeking to the anti-statist ideology of the neo-liberals and its evocation on this basis against all proactive public policy making; the blurring of the distinction between micro-economic inefficiencies and macro-economic imbalances and the faulty assumption that the latter is an automatic outcome of the former; the conflation of rent-seeking with corruption, patron-clientelism, and even the African extended family system; their excessive economism which assumes that economics is the most important determinant of public policy; their mystification of the market through the promotion of an idyllic notion of its workings that does not correspond to any known or existing experience; their failure, initially at least, to recognise that efficient and functioning markets can only be established where efficient and functioning states exist; their over-generalised assumption that the active role of the state in the economy was reflective of an instinctive hostility to the private sector or a visceral anti-capitalism induced by a negative colonial experience; and a tendentious reading of post-colonial African economic history designed to achieve the pre-determined end of discrediting the state as a credible player in the development process (ECA, 1989a, 1989b; Gibbon et al, 1993; Bellin, 1994; Boone, 1994; UNRISD, 1995; Rodrik, 1995; Jomo, 1996, 1994; Akyuz, 1996; Gibbon and Olukoshi, 1996; Mkandawire, 1998a, 1998b; Olukoshi, 1998).

But perhaps, more important than the foregoing, the most critical indictment of the neo-liberal prognosis and of its structural adjustment model was the fact that across Africa, as it was adopted by various governments, it fed into the existing dynamics of crisis and decline across the continent, compounding many of the problems which it was designed to solve. From a policy-making point of view, the fact that structural adjustment made its entry into the continent primarily as an external imposition that was backed by an array of donor conditionality and cross-conditionality clauses immediately posed a number of questions which bear directly on the role of the local bureaucracy in the economic reform process. Was this bureaucracy expected merely to serve as a vessel for the implementation of policies favoured by external donors or was it to take a frontline role in the search for solutions which were both relevant and politically sustainable? To say the least, this was a real dilemma that was central to the adjustment process from the outset and although it might have been easy at one point to simply attempt to dismiss the domestic policy elite as the quintessential rent-seeking, neo-patrimonial oligarchy against whom structural adjustment was designed, the unavoidability of reliance on the local bureaucracy in order to implement the reform agenda of the Bank and the Fund made such an argument difficult to sustain beyond the short-term. We shall return to this issue later in the chapter; suffice it to note for now that, in addition to its own limitations and internal contradictions, some of the obvious policy and political lapses of the orthodox adjustment model also owed a great deal to the absence of a proper domestic anchor for the programme in the policy and intellectual communities. There could be no question of
successfully reforming the state and economy without the local bureaucracy and the various policy publics playing a fulsome part in the process.

The Search for Pro-Adjustment Constituencies

Faced with the limited achievement of the structural adjustment programme, the World Bank and, to a lesser extent, the IMF, began to search for explanations as to why their market reform agenda was not making much headway. This search marked a second stage in the Bank’s structural adjustment implementation experience and it was characterised by an effort at formulating a specific “political economy” of policy-making in general and structural adjustment reforms in particular. As part of this endeavour, several of the leading lights of the new political economy-public choice school were recruited to supplement the Bank’s own policy research team. Initially, the focus was on the commitment of African governments to the IMF-World Bank reform agenda and their consistency in applying the policies prescribed to them. African governments were generally blamed for failing to show the requisite political will required to push through harsh but necessary austerity in a consistent manner. Instead, many adopted a stop-go approach that entailed pandering to public opinion or succumbing to interest group pressure that translated into frequent policy reversals and backsliding. As a result, there was a repeated postponement of the tough decisions that needed to be taken and the task at hand became that more complicated, with many economies sliding deeper into crisis (Hussain and Rauquee, 1994; MacCleary, 1989; Thomas and Chhibber, 1989; World Bank, 1989b, 1992a, 1994).

While many explanations were proffered by the Bank for the alleged lack of commitment and consistency on the part of African governments in the implementation of structural adjustment, none seriously addressed the fact that in all countries where the market reform programme had been pushed through by the Bretton Woods institutions, prior effort had not been made to build domestic consensus around it. Neither was there a politically viable domestic constituency for the programme. Instead, in the eagerness to secure quick adoption of the programme, the Bank and the Fund relied on the extensive use of conditionality and cross-conditionality in a manner which practically precluded all alternatives and narrowed the room for manoeuvre for the adjusting countries. The co-ordinated deployment of donor leverage was the order of the day. Bank and Fund officials were also content to cut deals with well-placed government officials who were thought to be sufficiently powerful or strategically positioned to (single-handedly) push through the market reform agenda. Internal governmental processes and procedures for policy adoption were also short-circuited. That the content of the programme was, initially at least, shrouded in secrecy hardly helped matters. The net result of all this was that the Bank and the Fund found themselves having to try to play the domestic political terrain of African countries, a role for which they were not equipped.3 Thus, in summary, structural adjustment was negotiated in a framework conditioned by a diplomacy of conditionality and implemented in the absence of domestic consensus about its goals. From a policy effectiveness point of view, this was to have profound implications.

In seeking to overcome the problems of policy implementation which it identified, the Bank did not opt for a revision of its orthodox adjustment programme but instead embarked on a strategy that, in essence, was aimed at saving its core prescriptions or, to paraphrase Wade (1996), maintaining its paradigm. At one level, this entailed the launching of a programme aimed at mitigating the “unintended” social costs of adjustment.4 At another level, an attempt was made to pinpoint the coalitions of vested
interests either in the state or society that were thought to be in the vanguard of opposition to the reform agenda; displacing these coalitions was later to become a central pre-occupation of the Bank’s political economy. As part of this endeavour, attention was devoted to issues of timing, phasing and sequencing of the reform agenda, the construction of pro-adjustment constituencies in the state and society, and the options available for wrong-footing and side-stepping local opposition to adjustment, including a number of Machiavellian schemes for riding roughshod over critics (Beckman, 1992).

Models of potential winners and losers from the adjustment process were developed primarily on the basis of the dichotomisation of the economy between tradeables and non-tradeables. The assumption was that the actors involved in tradeable economic activities would be winners from the adjustment process and, therefore, a potential constituency for the programme, while those involved in non-tradeables would be losers and, therefore, opponents of the reform agenda (Nelson, 1989, 1990; Bienen, 1990; Grindle and Thomas, 1991; Haggard and Kaufman, 1992; Bates and Krueger, 1993; Haggard and Webb, 1994). The hope for greater policy effectiveness came to be anchored on this stylised model which, however, bore little resemblance to reality in Africa namely, that most economic actors cannot be neatly fitted into tradeable and non-tradeable compartments because their activities and livelihood strategies straddle both sectors (Gibbon et al, 1992).

Extending the Bank’s Political Economy: “Good” Governance, Capacity Building, Technocracy and Local Ownership

The early involvement of the World Bank in the politics of adjustment implementation was later to blossom into a full-scale pre-occupation with the promotion of “good” governance in Africa. According to the Bank, the unwitting neglect of the governance question was probably one of the most important omissions in the effort to promote structural adjustment on the continent — indeed, it was like having Hamlet without the Prince of Denmark. This is because of the intimate relationship between the quality of governance in an adjusting country and the prospects for successful adjustment. The Bank proposed to remedy this omission by integrating questions of governmental transparency, civil service reform, the rule of law, judicial independence, security of private property rights, predictability in the governmental process, the free flow of information, and accountability into its adjustment framework for Africa. It was suggested that countries with a record of “good” governance stood a better chance of successfully implementing structural adjustment and attracting foreign investment than those without such a record (World Bank, 1989b, 1992b; Carter Centre, 1989; Dia, 1993, 1996; Wai, 1994; Landell-Mills and Serageldin, 1991; Landell-Mills, 1992; Hyden and Bratton, 1992; Jeffries, 1993). Examples were drawn from East Asia to attempt to prove that such a correlation existed. While the Bank’s interpretation of the East Asian experience has been vigorously contested for its inaccuracies (see, for example, Jomo, 1996; Wade, 1996; Evans, 1997; Chan et al, 1998), what is really important to note for our purposes in this chapter is the fact that for this institution, governance became little more than another instrument in its armoury to be deployed for the goal of perpetuating an adjustment framework which was increasingly being questioned but whose key underlying assumptions and principles the Bank was still not prepared to alter.

Attention was also paid by the Bank to the mobilisation of community and home town associations, non-governmental organisations, and the private sector as structural resources that could serve as local constituencies for the promotion of market economic
reforms and simultaneously pressure the state to embrace “good” governance (Landell-Mills, 1992). In a certain sense, however, this preoccupation with “associational life” in Africa simply fed into the deep-seated distrust of the state that inheres in the structural adjustment model and the Bank’s political economy of reform implementation. Thus, even as resources were expended on the promotion of “good” governance and renewed attention appeared to be paid to the question of how to make the state a better functioning institution, non-state actors were also being mobilised and “empowered” to serve as alternatives to the state in the provision of basic social services and the implementation of development projects. Yet, quite apart from their own internal organisational weaknesses and shortcomings (Beckman, 1992; Gibbon and Olukoshi, 1996), the persistent question of the extent to which it is possible to promote long-term development through primary reliance on non-governmental organisations and with an incapacitated state is one which was not explicitly addressed. It is also a question which was not resolved by the emphasis which came to be placed in the period from the early 1990s on capacity-building as a central element of the project of governance reform on the continent (World Bank, 1991; Jaycox, 1993).

Indeed, coming as it did after an earlier campaign, backed with donor conditionality clauses, for (sometimes massive and ill-planned) staff retrenchment in the civil service, the further depletion of the public sector through the exodus of qualified personnel on account, partly, of the declining real wages and salaries associated with adjustment implementation, the demoralisation of the bureaucracy by a succession of external donor policy and personnel impositions, and the generalised brain drain from Africa, capacity building simply reflected a self-fulfilling predicament that has been integral to the entire adjustment experience. For, as Mkandawire (1998a) notes, the very adjustment framework which, at an earlier stage of the reform process, squeezed the state fiscally, ideologically and politically, leading to the severe erosion of its capacity and the observed inability to carry out basic functions, was, at a later stage, to become the same context within which measures were defined for supposedly overcoming this incapacitation. This, in turn, is tied to an anti-statist ideological and diagnostic predisposition that initially defined the African state as being completely incapable of promoting any development policies but which, at the same time, insists on overloading that very same state with a plethora of tasks, including the demonstration of “good” governance, the provision of an “enabling environment,” the “stabilization” of the economy, etc. Out of this self-fulfilling and circular logic has emerged the case for capacity building. But what this drive at capacity building has meant in practice is an intensification of “technical assistance” which, in its workings, has translated into the continued erosion of “… the economic and political capacity of the state even as considerable noise is made about “good governance” …” (Mkandawire, 1998a).

Beyond the search for private structural resources for adjustment and the attention paid to capacity building, the promotion of the Bank’s governance agenda was also undertaken side by side with a commitment to the identification, isolation and nurturing of a technocratic core within the bureaucratic apparatus of African states which could be relied upon to push through the market reform agenda. Both the Bank and its organic intellectuals devoted a considerable amount of resources to this question, including the ways in which the pro-adjustment technocracy that is identified or established could be insulated from anti-adjustment pressures within the state and society that could derail the economic reform process (Haggard and Webb, 1994). Although this seemed to run in the face of the Bank’s own avowed commitment to “good” governance as defined in its own terms, attempts were, nevertheless, made to encourage the emergence and functioning of
teams of technocratic reformers in the finance ministries and central banks of African countries which could be backed, as necessary, with the muscle of the donor community in the drive to secure greater governmental commitment to the market reform agenda. Vigorous efforts were also made to promote the virtues of the independence of the central bank as a key reform objective that would serve the goal of rational, independent and effective economic policy formulation. In most African countries, a small elite of highly internationally-connected officials emerged as part of this effort.

The political effectiveness of the technocratic elite which the Bank tried to nurture was, however, compromised by the fact that its leading lights were seen locally as being too closely tied to external interests at the same time as they were increasingly cut-off from the rest of the local policy community either by commission or default. They were also ill-equipped to navigate the domestic political terrain, making it easy for them to be outmanoeuvred. When the crunch came, they were mostly unable to cope with or surmount the nationalist instinct in the bureaucracy and polity and were, therefore, readily sacrificed by the political leaders who appointed them or whose support they ultimately needed to remain effective. Thus, although the technocrats apparently enjoyed the confidence of the Bretton Woods institutions, they were unable to carry the mainstream administrative apparatus of government and the local intellectual community along in their quest for reform implementation. Matters were not helped in this regard by the limited achievements of the adjustment effort, a fact which weakened the case of the technocrats for adherence to the letter and spirit of agreements reached with the Bretton Woods institutions. Moreover, from a policy effectiveness perspective, it was not at all given that the creation of authoritarian technocratic enclaves removed from public scrutiny and monitoring within the governmental apparatus was capable of delivering sustainable reforms (Bangura, 1999; Olukoshi, 1998; Mkandawire, 1998a, 1998b).

The governance discourse of the Bank was also pursued alongside another discourse on the local ownership of the adjustment programme. As with the discovery that “good” governance was an essential prerequisite to successful adjustment implementation, the Bank was to argue during the early 1990s that no matter how well-intentioned a reform programme might be, its success was also dependent on the degree of local ownership. For, if nothing else, local ownership of a reform programme not only signals embrace of the objectives of the reform agenda but also guarantees commitment to its full implementation. Yet, in spite of the acknowledgement of the importance of local ownership, the Bank and the Fund were unable to extricate themselves from their self-assigned role as external agents of restraint obliged to save African governments and states from themselves. Throughout the 1990s, they demanded and often succeeded in getting African governments to accept the installation of their own “experts,” “monitors” and “auditors” in the key segments of the economic bureaucracy, especially the central banks and the finance ministries. Indeed, on the Bank’s own admission, the structural adjustment years have witnessed the presence of more foreign experts on the continent than at any other time in the entire post-colonial period (Jaycox, 1993). Furthermore, local ownership of policy was only recognised where the policy choice made fitted with or replicated the prescriptions of the Bank and the Fund. In some of the worst cases that have been reported, officials of the Bretton Woods institutions drafted policy documents and then sought the cover of local ownership by getting high-ranking local officials to append their signatures and claim authorship (UNDP, 1993; Botchway et al, 1998; Bangura, 1999; Olukoshi, 1998).
In addition to the concerns which we have noted in the preceding paragraphs, a lot more has been written in criticism of the Bank's programme for promoting "good" governance, capacity building, an insulated technocracy and local ownership of policy in Africa. Among some of the other points that have been raised against the Bank's various initiatives in these areas is the suggestion that they were designed, in theory and practice, primarily to save the adjustment framework itself rather than open it up to amendment in line with the requirements of "good" governance and local ownership; they resulted in the devotion by local officials of a disproportionate amount of scarce time and resources to meeting with and accounting to a variety of bilateral and multilateral donors and this was done to the detriment of accountability to the peoples of the adjusting countries by their rulers and policy makers; they tended to reinforce the authoritarianism that inheres in economic policy-making and, in so doing, are in danger of creating a disjuncture between the political liberalisation process that is taking place in Africa and the economic policy making process; and, finally, that in order for it to be meaningful, an agenda for governance should not only be democratic by definition but also developmental in orientation with a clearly-articulated role for the state (Beckman, 1992; Havnevik and van Arkadie, 1996; Mkandawire, 1998a, 1998b; Olukoshi, 1998). These criticisms were emboldened by the fact that well over a decade and half after structural adjustment began, African countries still continued, for the most part, to wallow in crisis and decline.

Selectivity and the "Effective" State

The Bank responded to criticism of its adjustment and governance programmes by, at one level, promoting a principle of selectivity and, at another level, attempting to revise the single-minded anti-statism of the early adjustment years. With regard to selectivity, the Bank suggested that its long experience of reform implementation in Africa indicated the necessity for increasingly scarce donor resources to go only to those countries where a sustained record of commitment had resulted in the creation of an appropriate policy environment for market reforms to succeed and development assistance to make a difference. Donor assistance stands a better chance of succeeding where the policy environment is right. Those countries that have consistently failed to show commitment and whose basic macro-economic policies continue to be faulty would have to be left out as resources expended on them would most likely fail to yield desired results (World Bank, 1998a). But critics were quick to point out that selectivity was little more than a continuation of the existing policy of conditionality and, in that sense, is not really new. From a policy point of view, it also amounts to saying that interventions should only be undertaken where success is more or less guaranteed. But as the Bank's own experience has shown even in those countries which it has itself certified as having sound macro-economic balances, expected outcomes have often been derailed by unanticipated or sudden exogenous factors, including world market panics and manias. In plain terms, selectivity merely reinforces the tendency during the adjustment years to fetishise policy in a manner which has no bearing to the real world of decision-making and which ends up denying policy-makers the flexibility which they must have in order to achieve desired ends (Gibbon and Olukoshi, 1996; Mkandawire, 1998a; Olukoshi, 1998).

As to the state, the Bank claimed in a highly publicised 1997 publication entitled The State in a Changing World that, contrary to all suggestions, it had never in fact (completely) discounted its role in the economic process. Whatever the case may have been, that publication appeared, on the face of things, to signal an attempt at seriously revisiting the persistent question of the role of the state in the policy-making and
developmental processes. While in earlier publications, the Bank had variously called for a minimalist state which was later gradually tasked with the sole responsibility of creating the requisite "enabling environment" for the free functioning of the market, the flowering of the private sector, and the attraction of (foreign) investments, the 1997 report carried subsequent suggestions that the state might play a more pro-active role to their logical conclusion by proclaiming the need for an "effective state." Central to this notion of the "effective state" is the Bank's traditional concern with "good governance" and the role it plays in promoting faster rates of development. According to the Bank, once more drawing on its peculiar and tendentious interpretation of the East Asian experience, the evidence available indicates that the reliability and effectiveness of public institutions which uphold the rule of law, protect private property rights, and set impartial rules to allow markets to function while encouraging predictability and discouraging corruption are indispensable to the successful promotion of sustainable development. To further buttress its point, the Bank cites the results from its survey of 133 countries, which indicate the central importance of state capability (i.e. "...the ability to undertake and promote collective actions efficiently") and state credibility (i.e. the application of predictable rules and policies) to the attainment of development. This outcome is reinforced by the findings from its survey of 3,600 entrepreneurs in 69 countries, which showed that private investors consciously avoid countries where the state fails to fulfil its core functions. Sixty percent of the companies surveyed in Sub-Saharan Africa, Central and Eastern Europe, and Latin America also stated that that policy unpredictability was a serious disincentive for business and investment.

Furthermore, in what seems like a dramatic though not explicitly acknowledged reversal of its earlier view, the 1997 World Bank report pays homage to the important role of the size of the state, noting that although a minimalist state does no harm, it does not do much good either and those countries looking to be convinced about the benefits of a more prominent role for the state only need to examine the example of East Asia and its spectacular growth record. The report also attempted, in the usual World Bank methodological tradition, to establish a correlation between state capability and economic well-being. In countries such as those of Sub-Saharan Africa where state capability is weak, per capita income was only increased by half a percent over the three decades to 1997 while in the parts of the world, such as East Asia, where state capability is strong, per capita income grew by three per cent over the same period. To reverse this situation and overcome what the report describes as their "crisis of statehood," African countries need to do what their Asian counterparts did much earlier, namely embrace openness to (external) trade and investment, avoid price distortions in the context of the broader goal of getting key macro-economic fundamentals right, reduce or eliminate parallel market foreign exchange premiums, and increase the levels of investment in higher education and infrastructure. This task is all the more urgent for African countries in part because the majority of them "... now have lower capability (including state capability) than they did at independence" and the accelerated process of globalisation that is currently being experienced represents a serious "... threat to weak or capriciously governed states."

On how to handle the relationship between the state and the market, the 1997 World Bank report argues that markets and governments are complementary, with the latter having the task of putting in place the appropriate institutional foundations required for the former to function properly. In this formulation, governments are called upon to serve as partner, catalyst, and facilitator for the markets. Drawing on the experience of the East Asian and Latin American countries, it notes that while governments cannot provide growth, they must provide the framework to underpin the markets that do. This requires
governments to match their role to their capabilities by concentrating on getting the basics right and avoiding trying to do too much. In essence, adherence to the principles of "good governance" is indispensable to the capacity of the state to effectively complement the market and implement policy reform. With regard to economic policy reform implementation, state effectiveness would, inevitably, call for "far-sighted political leaders" who are able to "... spell out a longer-term vision for their society, allowing people to see beyond the immediate pain of adjustment. Effective leaders give their people a sense of owning the reforms — a sense that reform is not something imposed from without" (p. 14) and "... the presence of someone who can convince the public that the leap is worth making is a potent reform weapon indeed" (p. 156).

While on the face of things, the Bank's 1997 report would seem, finally, to represent an acceptance by the Bretton Woods institution that the state is a key player in the development process, a more careful reading of the publication would, in fact, suggest that this is not entirely the case. For, in spite of all the homage, embellished with the appropriate terms, that was paid to the necessity for an "effective" state, the report was essentially a manifesto on how to gain wider acceptance of the market as the sole effective institutional framework for and site of development. From this point of view, the central thing that changed in the Bank's message was the language in which this ideologically-driven attachment to the market was couched. Stripped of all the jargon, however, the effective state emerges as little more than the kind of state which is thought to be best suited for the market and which, in addition, is able to (selectively) bring the market mechanism into its inner workings as broadly advocated by the new public management school. Throughout the report, state effectiveness is reduced to a dependent variable of properly functioning markets. Thus, a great deal of the report is devoted to a stylised discussion of state and regime failures and how they might be checked through "good governance" so that the smooth functioning of markets is not hampered. At the same time, the report is substantially silent on market imperfections or failures, the costs which they exact, and the measures that are needed to overcome them. The consequence of this is that all references to the complementarity between the state and the market appear to be merely rhetorical and formalistic as they are not operationalised in the analysis. It is little wonder that earlier notions of "good governance" and "local ownership" were resurrected and repackaged to constitute the kernel of state credibility and capacity, together with an advocacy of the infusion of a market-driven managerial ethos that would entail greater emphasis on sub-contracting, competitive bidding, and decentralisation within the state system.

Integral to the picture of the "effective state" which the Bank attempts to paint is the deployment of self-fulfilling and selectively collected empirical evidence designed to portray a semblance of scientific objectivity and historical accuracy but which, in reality, is tightly tied to a pre-determined ideological end. This ex post facto mode of discourse purports to explain success only in its own terms, ignoring the prevailing historical context within which policy actions were defined and pursued and the relevant conjunctural factors that may have been at play. It ends up being tautological since evidence of state effectiveness is deduced from the performance of the economy. Thus, the state is effective and credible only if the economy is successful and performing well and, conversely, if the economy is not doing well, even if only for temporary conjunctural reasons, then the state is not effective and is lacking in credibility. As it relates to Africa, there were two distinct but inter-related levels at which this approach was operationalised in the report. At the first level, the report continued the trend, started by the Berg Report which the Bank had commissioned in 1981, whereby Africa's post-
The failure to differentiate among post-independence African and to periodize their economic history so as to be better able to understand the patterns of growth that were initially recorded and the complex roots of the difficulties that were later to follow paves the way for the creation of a straw man that is then held up against an idealised notion of the state and the market which the East Asian experience is presented as typifying. That the policies that were followed by African countries in the 1960s and 1970s were the prevailing orthodoxy of the day, much like the market is today’s orthodoxy, is ignored.

At the second level, therefore, a tendentious and one-sided interpretation of the East Asian experience, supplemented with examples from Latin America, is presented as a contrast to the African case. Yet, the attempt, for example, to downplay the role of rent seeking in the East Asian experience runs in the face of the evidence that has been marshalled by other authors and, as we observed earlier, detracts attention from what is really the interesting policy challenge for Africa, namely the distinction between productive and unproductive rents and how the former can be linked to the correct development strategy. Besides, it is remarkable that following the outbreak in 1997 of the East Asian financial crisis and the fear of contagion which it triggered in the West, Bank and Fund officials instinctively forgot their idealisation of the region’s experience and condemned the state and society in the region for crony capitalism which they blamed for the problems and which, up until then, was presented as a disease that was uniquely African. All of a sudden, East Asian states which were painted in the report as having established the quintessential “effective state” with an appropriately insulated economic technocracy were excoriated for their illicit links with private business cronies, links which ultimately became dysfunctional and led to the financial collapse. The mainstream prescription that emanated from Washington included a strong attack on the state (World Bank, 1998b; Wade, 1998a, 1998b; Wade and Veneroso, 1998).

Throughout the report, it is hard to find an independent vision that underpins the state and the factors, including ideology, which both motivate policy makers to follow particular paths and serve as the platform for the mobilisation of the populace. The conclusion is difficult to avoid that the Bank persists with a fundamentally flawed understanding of the state as an institution. For, if we proceed from the question “What is the purpose of the state?” few will agree that it is solely to serve a narrowly defined and idealised market. Depending on their history and circumstances, states pursue a multiplicity of non-economic and economic objectives and, at best, the promotion of the market is only one of them. In the particular case of Africa, other important objectives that loom large in the definition of the objectives and role of the state include nation-building and equity, for example. These are important objectives in their own right and the intellectual and policy question that is posed is not so much how they can be fitted within the logic of the free market as how the market could be adapted to help with the realisation of these ends. And, as Bangura (1999) notes, although costly mistakes may have been made in the pursuit of some of these objectives, “... the goals themselves remain impeccable” and “... are at the heart of the aspirations of broad masses of people to create developmental, humanistic and harmonious societies.” The implication of all this is that state effectiveness cannot and should not be assessed solely on the basis of free market criteria and greater attention needs to be paid to the goals that are defined by the state at any given point in time and the vision of society that underpins. In this regard, the exclusive reliance by the Bank on the responses of the entrepreneurs and enterprises, which it
interviewed for empirical backing for its views merely reinforces its misconception of the
state and feeds into the narrow managerialism that underpins the report.

An uneasy tension also pervades the report between the apparent abandonment by the
Bank of its earlier project of the minimalist state and the strong admonitions against an
over-extended state. While the Bank stresses that countries seeking rapid economic
growth need to go beyond the minimalist state, the meat of its analysis on the effective
state consists precisely of such minimalism. For, as reiterated time and again in the
report, the effective state is the state, which is able to create the conditions for markets to
function and, as a bonus, whose internal mechanisms are also subject to the logic of the
market. Furthermore, great emphasis is placed on the “disastrous” consequences that
always attend “over-regulation” and the expansion of government. But, as Herbert Stein,
a former chairman of the US Council of Economic Advisers and senior fellow at the
American Enterprise Institute asked in a 1995 contribution to the debate that was raging
in Washington at the time on the size of the federal government: “When is government
too big, and who can know?” (Stein, 1995). Stein’s answer was direct: “I don’t know, and
I don’t think anyone else does either” and this a viewpoint which will be endorsed by
many others, even if not for the same reasons. Bangura is right when he suggests in
criticism of the Bank, that its preoccupation with searching for the right size of the state
is both diversionary and fruitless. This is because countries “... differ so much in history,
social preferences and developmental goals that there can never be a right state size”
(Bangura, 1999).

There is also throughout the report, a tension between the imperatives and mechanics of
the effective state as defined by the Bank and democratic politics. Notions such as
“participation,” “consultation,” and “involvement” which are crucial to democratic
decision-making are directly or implicitly deployed in the report but only in terms of
winning the acquiescence and submission of classes and groups that are thought to be in
the frontline of opposition to free market policies. But what happens where acquiescence
is not forthcoming? No provision is made in the Bank’s formulation for the state to meet
the citizenry half-way as part of the exigencies of “participation,” “consultation,” and
“involvement.” Thus, successful privatisation is linked to the ability of officials and
managers to win “… the acquiescence of employees” (p.6). The involvement of non-
governmental organisations (NGOs) in the work of the state is also seen as a substitute
for democracy while mass organisations and social movements are excluded from
reckoning. The Bank’s suspicion of (democratic) politics and its likely distortionary
consequences for the economy and the market emerges when it is noted, plaintively, in
the report that important and necessary reforms “… might take a vote in parliament,
implying delays and political compromise” (p.5).

Even as the views of business are reported extensively and integrated into the analysis, no
effort was made to capture the concerns and aspirations of other groups in society,
reinforcing the impression that the effective state is a state at the service of business.
Thus, although references are made to the need for governments to “… use
communication and consensus-building” in their dealings with “citizens” and “firms,” it
is hard to find a basis for that other than the desire to secure consent for the market
reform project and “… enhance its chances of success.” In sum, therefore, the report was
a manifesto for the efficacy of its version of free market, spiced with political and
managerial lessons on how state officials might try to secure full acceptance of its role as
the only viable site for the organisation of development. From the point of view of
effective policy making as earlier conceptualised in this chapter, it hardly offers us an
illuminating path forward and reinforces our conclusion that IMF-World Bank structural adjustment in Africa is, in every sense, a case-study in how not to pursue sustainable, non-repressive policy reform.

**Globalisation and Policy-Making**

What is clear from the experience of the Bank and the Fund after two decades of structural adjustment implementation in Africa is the fact that effective and successful policy-making cannot be undertaken in the absence of a social contract, a developmental state with a clear socio-political and economic vision, and a willingness to address politics as an independent variable in the administrative and decision-making processes. This is by no means a simple task and it is one, which is made even more difficult by the terms on the basis of which the accelerated processes of globalisation have been taking place. There is a lively debate going on in the literature on the implications of globalisation for the state as an actor in the international system and for its sovereignty. This debate is also linked to the scope, which exists for local, national-level policy-making in a rapidly changing world. An important strand of the on-going discussion is underpinned by the expectation, promoted by the new public management component of the public choice school, that globalisation will compel states to undertake managerial and administrative reforms as they struggle to enhance their chances of being active players in the world economy. These managerial and administrative reforms, rooted as they are in the promotion of the market logic and market competition, will result in the emergence of a standardised state and public administration system across the world (Osborne and Gaebler, 1992). In sum, a strong message which comes across in much of the on-going debate on globalisation is that both the “old” type state, if not the state as an institution itself, and state interventionism are no longer feasible or permissible in the emerging new world order.

As it affects the countries of Africa and their policy-making capacity, several points from the on-going debate about the consequences of globalisation for the state and policy-making deserve to be highlighted. The first of these is the fact that at a certain level, globalisation, underpinned as it is by a strong neo-liberal *laissez-faireism*, represents a continuation of the continent’s experience with market-driven structural adjustment and all of its implications for the local policy-making environment. In this sense, globalisation would seem to reinforce the structural adjustment policies that have been followed over the last two decades, especially in the area of trade, financial, and investment liberalisation. Secondly, the establishment of the World Trade Organisation (WTO) as a successor to GATT following the conclusion of the Uruguay rounds of agreements launched and accelerated a process whereby an ever-widening sphere of local policy and decision-making spaces are being further eroded in favour of agreements negotiated at the multilateral level and which are binding on all signatories. Already, African countries are being exposed to a new additional conditionality, that of prior membership of WTO and adherence to its rules on trade liberalisation, in exchange for development co-operation assistance, debt relief, and market access. Thirdly, it poses serious questions about the renewal of state capacity to cope with the demands, pressures and opportunities associated with globalisation at a time when the structural adjustment experience has resulted in the near-total erosion of state capacity and the decimation of the morale and coherence of the bureaucracy. The fact that WTO rules on issues as diverse and technical as trade, industrial, agricultural and competition policies as well as trade-related intellectual property rights (TRIPS) and trade-related investment measures
The Politics of Trade and Industrial Policy in Africa

(TRAIMS) are being negotiated and implemented at a time when state capacity is at its lowest on account of prolonged economic crisis and the maladjustments occasioned by IMF and World Bank policies is clearly a serious cause for concern.

While the consequences of globalisation for the state and policy-making in Africa clearly need to be addressed frontally, there is, however, an unhelpful, and at times ideologically driven tendency to foreclose all possibilities for creative action by African policy-makers. This "impossibility" thesis, which originated in earlier debates about the role of the state in East Asian industrialisation and the prospects for its replication in Africa has been repackaged and fed into the discussion on the challenges posed for the continent by globalisation. While during the earlier debate, the impossibility of the replication of the East Asian experience in Africa was hinged primarily on such arguments as the "softness" of the African state, its "capture" by special interests, its lack of "embeddedness," its technical and analytic deficiencies, its weak administrative capacities, and the suggestions that the countries of the continent are hemmed in by "weak states" and "weak markets" (Callaghy, 1993; World Bank, 1993; Lewis, 1996), in the current discussion on the challenges of globalisation one or more of these arguments is combined with the position that the new global rules governing trade and industrial policy make it impossible for governments, including those of Africa, to pursue the kinds of policies that the East Asian countries were able to get away with as they struggled to industrialise (World Bank, 1993). Such policy measures as industrial protection, trade discrimination, the use of subsidies in trade and industrial promotion, the denial of national treatment to foreign investors, provisions for the local value-added, financial repression, and outright or concealed disregard for intellectual property rights in the quest for technological development are now ruled out by the WTO regime to which African countries are signatory.

Although there can be no doubt that the current global order poses serious policy constraints for African countries, and while it is true that effective policy making cannot take place without a full recognition of the conjuncture within which the state must operate, there is a sense in which in the hands of the World Bank and its organic intellectuals, the new impossibility thesis which they are pushing merely seeks to carry forward the goals that underpinned the earlier impossibility argument, namely to convince African countries and policy-makers that there is no longer an alternative to the version of the free market which they have been promoting across the continent since the early 1980s. Put another way, the new impossibility thesis, like the earlier one, seems primarily designed to serve a pre-determined ideological end that is closely tied to the neo-liberal agenda of economic liberalisation that first made its entry into Africa through structural adjustment and is now integral to the rules of WTO. If the old impossibility thesis was constructed primarily around issues of the capability of the African state, the new impossibility argument is hinged mainly on the existence of a legally-binding international trade regime. Yet, in reality, the room for policy manoeuvre is not as completely closed off as the proponents of impossibility claim.

For one, WTO's transitional clause on special and differential treatment does offer a small window of opportunity, which different categories of developing countries like those of Africa which are mostly categorised as LDCs can use for the promotion of policy objectives that are tailored to their stage of development. This is in addition to the generalised security and other special exceptions, including those that pertain to health and moral concerns as well as national emergencies that are recognised and accommodated by the agreement. There is also some scope in the agreement for the
promotion of regional co-operation schemes by the members of the organisation. For another, the overwhelming reality that cannot be denied is that, in spite of the evolution of the WTO’s rules-based multilateral trade regime and the disciplines it is designed to enforce, countries, both developed and underdeveloped, still employ a host of direct and indirect measures, including trade, industrial and agricultural subsidies, for the achievement of desired policy objectives even while lowering tariff levels in compliance with the demands of the new global order. In any case, the orientation of trade and industrial policy in a direction which gives advantage to local investors over foreign competitors is not solely a function of measurable policy instruments such as tariffs and subsidies. Furthermore, there is no reason to believe that the existing rules of WTO or any future ones that may be agreed upon are not subject to review, renegotiation and reinterpretation in the light of experience. Indeed, there is a lively political contestation presently going on around the WTO regime both within and outside the organisation. Politics remains a strong conditioning element of the evolving international trade regime. As to the state itself and the challenges which globalisation poses for it, it would seem that the expectation that it would either atrophy or be no longer relevant in the formulation of policy as global regimes are evolved and become the ruling norm is an overstated one which derives from a fundamental misunderstanding of the processes of globalisation. To be sure, there are important elements of the process, especially in the areas of communications and financial flows, which undermine aspects of state sovereignty or which are developing at a pace that is far ahead of the policy response capacity of even the most advanced states. But at the same time, the rule-making that is taking place at the global level continues to be an eminently inter-state and inter-governmental affair even if the power and influence of private global capital is detected behind the process. Moreover, in more senses than one, territoriality, and, therefore, boundaries still remain important considerations in the identity formation of peoples across the world even as citizens take advantage of the new resources offered by globalisation to act on the world stage both globally and for the attainment of local-level objectives. Similarly, the suggestion that globalisation will lead to a convergence of systems of management and administration around the world — and the attempt to push this through the imposition of public sector reforms along the lines proffered by the new managerial approach — runs in the face of the reality that “… countries still differ in terms of how they practice capitalism and the benefits and costs they derive from it” (Bangura, 1999). If the practice of the Weberian ideal that underpinned the “old form of public administration” was marked by a great deal of significant variation across countries and regions, it is difficult to see how the push by the proponents of the new public management approach for a standardised international system of public administration can be sustained (Bangura, 1999).

**Democratisation and Policy-Making**

The erosion of the national space for policy-making under the regime of globalisation and at a time of continuing structural adjustment also has implications for democratisation in those African countries, the overwhelming majority, which have embraced one variant or the other of electoral pluralism and are engaged in a search for ways of achieving and entrenching democratic forms of government. Of particular importance here is the need to give concrete meaning to the new pluralistic framework of politics by deepening popular participation in the political system and strengthening the structures of accountability. The fact that globalisation is being increasingly equated with the
liberalisation of trade, capital flows and investments which also form the kernel of the structural adjustment agenda, suggests that African countries experiencing processes of democratisation run the risk of being reduced to what Mkandawire (1998b) has described as “choiceless democracies.” This risk is made ever more real by the fact that conditionality and cross-conditionality clauses tied intimately to the embrace of the market-reform agenda of IMF, the World Bank, and now WTO continue to be applied, thereby attempting to deny elected governments, some of which rode to power on the crest of popular anti-adjustment sentiments, the necessary autonomy and room for manoeuvre which they require to formulate and implement economic reform policies that are politically sustainable and directly relevant to local development needs. And as was noted earlier, matters are also not helped by the persistence of the culture in the donor community of attempting to subordinate democratic politics to what are thought to be the exigencies of “rational” economic policy. Repeatedly, evidence has amassed that many donors find the quest for democracy in Africa acceptable only if it results in strict compliance with IMF-World Bank structural adjustment. In this sense, the value of democracy and elected governments is seen only in very narrow instrumentalist terms tied to the objectives of orthodox structural adjustment.

In addition to the dangers of choicelessness, there is also the risk of the subversion of the emerging framework of democratisation through the reinforcement of authoritarian policy-making structures and processes. During the pre-democratisation adjustment years in Africa, Bank and Fund officials did not need to take account of the existence and role of national parliaments, or even relatively more unfettered media, for example, in seeking to push through their reform agenda. Indeed, in the very early days of the adjustment experience, it was even suggested by the Bank’s chief economist responsible for the Africa Department that effective, ruthless governments that are able to ride roughshod over public opinion may be indispensable to successful market reform implementation (see Gibbon et al, 1994). Although this line of thinking was later amended with copious references to the possible benefits of, even positive correlation between democratisation and the prospects for successful reform or economic growth, it was hardly refracted into the practice of the Bretton Woods institutions in Africa. Both on the side of the Bank and the Fund on the one hand, and the executive arm of African governments with which they relate on the other, the movement towards political reforms posed challenges to the modus operandi of policy-making and implementation which it is not totally clear that they have fully grasped.

The need to subject structural adjustment policies to public debate and scrutiny, take public opinion on board in the formulation of policy choices and instruments, and evolve non-violent, non-Machiavellian ways of relating to the opposition to adjustment continues to prove to be difficult terrain and yet it is one which has to be mastered in order for policy-making to be effective. The 1997 report of the Bank suggested that “charismatic” leadership might be a useful strategy for successful reform implementation but just how this is different from “strongman” politics or could be made compatible with democratic politics is not explored as is the problem which could be posed for policy sustainability by over-dependence on an individual personality. In any case, the experience since the early 1990s when the transition to more liberal and plural forms of politics began in Africa has been the evolution or intensification of attempts in some countries to take the entire adjustment framework out of the purview of parliament, or release limited information selectively, and, in the case of Uganda, bully the legislative arm of government to embrace a donor-driven land reform act which most parliamentarians initially opposed. These experiences point to a continuing determination
on the path of the Bank and the Fund to subordinate politics to their version of market economics; it also underlines a deep-seated distrust of democracy which, from the narrow managerialism of the Bretton Woods institutions, is seen as a source of delays in reform implementation and compromises that distort policy.

Yet, what the Bank and the Fund refer to as the "delays" caused by democratic politics in the economic decision-making and implementation processes, and the so-called distortions associated with policy compromises, have been shown, on the basis of longitudinal, empirical evidence, to be one crucial secret of the relative success with economic reform that sets parliamentary democracies apart from presidential systems (O'Donnell, 1994; Stepan and Skatch, 1994; Linz and Valenzuela, 1994). For, while parliamentary politics, often involving coalitions of parties, necessitates compromises around policies which once agreed upon, become easier to implement and sustain, presidentialism, based on the promotion of reform by presidential decrees, has proved to be much less able to deliver and sustain reforms. Such massive and compelling evidence as has been amassed by O'Donnell (1994), Stepan and Skach (1994), and Linz and Valenzuela (1994) have, however, not influenced intellectual and policy approaches to the African situation. Instead, the dominant path, which much of the prescriptive and analytic literature has followed, and which is reflected in the practice of multilateral and bilateral donors, continues to be premised on an intense suspicion of the state even in the era of political pluralism. Thus, at one level, and as already noted by Ogbu and Soludo in this volume, scholars like Collier (1996) insist on the need for an external agency of restraint to keep the state in line for the sake of the integrity of the IMF-World Bank market reform agenda. At another level, scholars like Callaghy (1993) bemoan the near impossibility of successful reform in the framework of "open political structures" and a state system that is hemmed in by neo-patrimonialism and weak markets. The implication, even if not explicitly stated, is that democracy is not compatible with successful and broad-ranging economic reform implementation.

Both in the formulation by Collier and Callaghy, the policy options which are derivable smack of a profound disregard both for the African state and of democratic politics on the continent. Questions such as the interest which an external agency of restraint serves and how it can be held accountable both to the citizens of specific countries and the global commons in order to avoid or limit the potential for a moral hazard are side-tracked in the eagerness to employ all means available to push a dogmatic market reform agenda. It is little wonder then that in the practice of the Bank and the Fund across Africa, no clear distinction is made between authoritarian and democratic states with the consequence that the very same kinds of measures and methods that were applied to the pre-political reform African state of the 1980s continue to be applied to the African state of the 1990s that is experiencing a renewed effort at democratisation. Thus, conditionality and cross-conditionality efforts at the creation of technocratic enclaves removed from the purview of local political structures, and civil service retrenchment have remained features of the African adjustment experience in the 1980s as much as in the 1990s. These measures which define the basic donor approach to economic reform on the continent are not only authoritarian by definition but are also promoted within the framework of an essentially authoritarian donor-recipient relationship. Yet, for effective policy-making, it would seem that a key challenge for Africa, after the hard and only partially won struggle against naked political authoritarianism in its single party and military forms, is how to ensure that economic policy reinforces the still fragile processes and institutions of democratisation rather than freeze or undermine them.
Towards Effective Policy-Making in Africa

Demystifying the Policy Process

The first step in the effort at achieving effective policy-making in Africa in the context of democratisation and globalisation is to begin by demystifying the policy process itself essentially by rescuing it from many of the stated and unstated assumptions about it that have dominated the discourse in Africa throughout the adjustment years. In this regard, it is important to place policy in its proper context and recognise that in Africa, as elsewhere, outcomes are not always directly correlated with the policy pursued. There are very many other factors and forces other than policy as such which bear directly on the performance of an economy, including the weather and other natural factors as well as a bout of good or bad luck, sudden shifts in the external economic environment, and even outright miscalculation (Gibbon, 1996; Olukoshi, 1996; Rodrick, 1997; Mkandawire, 1998a). Thus, although policy could help to shape outcomes, it is not and cannot be the sole determinant of performance. This point bears underlining in view of the excessive fetish that is being made of “correct” macro-economic policy by the World Bank and the rigid correlations that it attempts to establish between it and performance. While patently reckless policy-making cannot be justified under any circumstances, it is necessary to avoid an excessively rigid and deterministic view of policy that denies the fact that it involves a high degree of experimentation and is the subject of constant revisions and amendments as it elicits responses from the various social groups that feel its impact.

Indeed, because policy has implications for living social actors, its integrity cannot always be rigidly guaranteed to the letter as contestations develop around it in the bid by different social players to maximise their gains and minimise their losses. Denying the African policy environment of the reality of this contestation with all the implications which it carries, or suggesting that the remoulding of policy in the light of interest group pressures amounts to a lack of commitment to reform or evidence of neo-patrimonialism-rent-seeking has been one of the greatest disservices to the continent by the mainstream structural adjustment discourse. For, in addition to its trial and error nature, policy is an essentially political affair, whether or not it is targeted at such supposedly “non-political” spheres as the economy. It is, therefore, important for effective policy making to recognise that policy is not solely a product of economic considerations but also of a host of other considerations, including national unity and stability, conflict management, and cultural values. This being the case, the efficacy of policy cannot be assessed solely on the basis of economic criteria, and certainly not on the kinds of narrow market-based criteria that are central to the structural adjustment agenda of the IMF and the World Bank. Similarly, the tendentious interpretation of experiences such as those pre-crisis East Asia which, as noted by Mkandawire (1998a), fed into a methodological approach that involved “... a myopic concentration of analysis around success to the neglect of the “trial and error” nature of policy-making” promoted a superhuman image of the successful policy maker who always got it right. The myth-making which this entailed led Bank officials to resurrect Confucianism and pay homage to the Asian values that allegedly provided cultural and political context for the policy maker. It took the financial crisis of 1997 for this myth-making enterprise to be exploded.

Infusing Policy with a Democratic Content: The Inevitability of a Social Contract

Given the various limitations of policy-making over the last two decades of structural adjustment in Africa, it would seem clear that beyond a more realistic understanding of
policy, a starting point for effective policy-making will entail the establishment in
countries of the continent of a social contract that can serve as the minimum, overarching
framework for governance. Such a social contract once existed in Africa and revolved
around the twin goals of national unity and development on the basis of which the
nationalist elite mobilised the populace against colonial rule and hinged the promise of
independence. The crisis of that contract has been discussed in greater detail elsewhere
and need not detain us here (Olukoshi and Laakso, 1995). Suffice it to note that it was a
central ingredient in the construction of the legitimacy of the post-colonial African state;
its collapse in the course of the 1970s and the inability to construct a viable alternative
basis for state-society relations on account of the prolonged economic crisis and the
donorisation of the search for solutions was also integral to the challenges to the nation-
state that became evident in the course of the 1980s and 1990s. Yet, such a bargain is
absolutely indispensable for the establishment of political legitimacy and policy
sustainability without which reform efforts are bound to founder. To be relevant to the
aspirations of the majority and acceptable to the populace, the bargain must, by
definition, involve all the key interest groups in the society. In this sense, it offers the
prospect of being democratic from the outset not just in terms of the vision of society that
it projects but also the popular participation that goes into its construction. It also serves
as a framework within which policy-making can be disciplined to the needs of society
and policy-makers held accountable to the citizenry.

Crucial to the structure of governance and accountability that should underpin the
construction of a new social contract in Africa is the strengthening of the evolving
processes and structures of democratisation on the continent. In this regard, and as noted
by Bangura (1999), such thorny areas of the on-going quest for democratic governance as
the credibility of elections, the integrity and autonomy of the judiciary, adherence to
constitutionally-established mechanisms for sharing power and changing governments,
respect for human rights and civil liberties, self-organisation by the citizenry, and the
creation of public channels through which policy-makers and politicians can be held
accountable by the populace will need to be addressed in order that the political system
that is built on the negotiated social bargain can enjoy credibility in the eyes of the
citizenry and participation from the populace. This way, it would be possible to ensure
that the broad subscription by all key players in society to the social bargain that is
negotiated is complemented and reinforced by the representativeness and responsiveness
of the political system. Being the minimum vision of society that is shared by all classes
and interest groups, it offers a framework within which leaders can mobilise the energies
of the populace behind a national project and, as necessary, demand sacrifices from the
citizenry within limits that are consistent with the social-welfare and equity components
of the contract.

To make the case for a new social contract as a basis for effective policy-making is not to
suggest that political struggles should or can have no place in the system. On the
contrary, on account of the various class and non-class cleavages in society, including
especially gender, generational and ethno-regional disparities, differences of
interpretation of the terms of the contract and the ways in which its objectives can be best
achieved or its benefits more equitably distributed will be present and, handled within a
non-violent, constitutional framework, will give life to the contract. No social bargain is
ever static and, indeed, a measure of its health is the dynamism, which it evokes not only
within society but also over its own boundaries. Contestations over the interpretation of
the content, health, and direction of the contract should not only help to sharpen the
policy focus among the political groups in society but also give an ideological edge to
politics and a concrete, programmatic basis for the alternation of power among the bearers of competing perspectives. In other words, struggles over the contract are indispensable both for its robustness and the prospects for effective policy-making.

Policy for a Globalised Era: The Unavoidability of a Developmental State

The establishment of a new social contract to underpin policy-making in Africa presumes the existence of a properly functioning state system. Considering the reckless manner in which state capacity has been eroded during the structural adjustment years and the challenges posed for the modern state system by the processes and structures of globalisation, it clear that the quest for effective policy-making in Africa cannot sidetrack the question of the re-legitimisation of the state as an actor in the developmental process and the restoration and enhancement of its capacity. This is especially so if the authoritarian state form is to be jettisoned and decision-making more fully anchored in the democratic aspirations of the peoples of Africa. Nowhere in the world has a stable democratic system of governance and a sustained process of economic development been achieved without a properly functioning state system that is able to take a central role in mobilising national resources and directing the market through a well-articulated structure of rewards and penalties tailored to the prevailing developmental needs. This being the case, the restoration of the state as a legitimate actor in the economy and society is both a democratic and developmental imperative, which, if it is achieved, will also enhance the capacity for effective policy-making and implementation.

There are at least two levels at which the necessity for the rehabilitation of the state will have to be simultaneously pursued. Firstly, the one-sided anti-statism of the structural adjustment years will need to be jettisoned and a systematic programme of re-tooling embarked upon to redress the worst legacies of the structural adjustment years. In this regard, such issues as the morale and remuneration of the civil service, the exodus of qualified personnel from the public sector, the brain drain from African countries, the neglect of state-owned training and staff development institutions, the hijacking of the key policy formulation and decision-making functions of the civil service by international financial institutions, the systematic pillage of the public sector through hasty and ill-conceived privatisation schemes, and the delegitimisation of a developmental vision and ideology in public policy process will have to be seriously addressed as part of the effort both to re-launch the state as a functioning institution and restore ownership of policy-making to its cadres. Clearly, the re-building of the infrastructure of local decision-making is inseparable from the renewal of the state itself as a legitimate and coherent factor in the developmental process. And, as observed by Mkandawire (1998a), the issues involved here go well beyond sloganeering about “capacity building” which is but a euphemism for externally-driven “technical assistance”; they entail a concerted effort at the valorisation and utilisation of existing capacity. For, to reiterate the point, the primary issue in many African countries is not so much the lack of technical competence as the debilitating consequences of structural adjustment as manifested in low public sector pay, the erosion of the decision-making role of the bureaucracy by foreign “experts” imposed by donors, and the systematic stripping of the state of its assets.

Secondly, and closely related to the argument in the preceding paragraph, is the reaffirmation of the continuing relevance to Africa of the developmental state. Throughout the structural adjustment years, efforts have been made to systematically deny the African state of the kinds of roles in the economy and relations with economic actors which, in spite of a spirited effort at historical revisionism, are, in fact, routine in all other
countries and regions that have successfully industrialised and built a strong international economic presence in the form of foreign trade and investment. The creative use of subsidies to promote production and export activities, the pursuit of a long-term development vision underpinned by planning, the pioneering of investments in new growth areas and strategic infrastructure, the employment of policy to redress the worst consequences of uneven development, the promotion of a mutually reinforcing synergy between the state and the local business community, deliberate measures aimed at creating a national bourgeoisie, the encouragement of labour-business-governmental pacts, the management of the labour market to serve the anticipated needs of the economy, and the advancement of the welfare of the citizenry in part through an active role in the distribution of the gains from economic growth and the costs associated with crisis and adjustment — all of these roles which have been denied the African state on a variety of spurious, ideologically-driven and historically unfounded grounds need to restored as part of the goal of re-inventing the developmental state in Africa. Integral to this objective is the need to re-affirm the crucial importance of the nation-building role of the state in the development process.

To be coherent, the developmental state project will also need to be anchored on a clear national ideology that is tied to the prevailing social bargain. One of the criticisms launched against African countries in early 1980s by the proponents of structural adjustment was that they were too pre-occupied with ideology. Today, however, after two-decades of an adjustment effort that is itself driven by ideology, African countries are beginning to be berated for lacking an ideological focus. While this shift in favour of the place of ideology in policy-making is welcome, it is important to emphasise that in the African context, for ideology to be relevant, it would have to be integral to the developmental aspirations of the populace and the challenges of promoting national integration in multi-ethnic societies. In other words, it would have to be an ideology that is anchored on a national drive to “catch up” with the rest of the world and promote nation-building. Such an ideology will provide motivation for policy-making while focusing national energies. To avoid some of the costly mistakes of the 1960s and 1970s — mistakes which were employed to delegitimise and dismantle it in the 1980s and 1990s but which do not detract from its continuing relevance — the renewed developmental state will have, by definition, to be democratic, encouraging citizen participation in the political and policy processes and subjecting rulers to locally-rooted structures of accountability. It will also have to evolve a better-focused system of reciprocity between government and business in order to curb abuses and maximise the benefits of the collaboration between state and capital that is necessary for development.

Furthermore, the regulatory capacity of the revamped developmental state, including the capacity to discipline the market to the requirements of long-term development will need to be sharpened. Of particular relevance here is the capacity not only to generate and manage growth but also to distribute its benefits in a manner that is consistent with the goals of nation-building, a stable foundation for continued accumulation and the aspirations of the populace for improved social livelihood standards. Such capacity will similarly need to be extended to the management of periods of economic crisis and decline. Attention will also need to paid more closely to the revitalisation of education both at the primary and tertiary levels in order to raise the levels of literacy and renew the corps of technically competent personnel required for managing the state and the economy. Finally, a new dynamism will have to be infused into the interventions of the state in the economy, with officials taking more seriously the questions of if, when, where, how, for how long and at what level they should intervene in the markets and the
reciprocal rules that should govern relations between government and business. This latter point is an extremely important one which is broadly relevant for all states but given the differences in the levels of development and needs of African countries, it would be fool-hardy to attempt to devise and impose a one-size-fits-all model of state intervention in the economy.

Conclusion

Clearly, if Africa is to be able to rise to the challenges posed for its development by the accelerated processes of globalisation that are presently underway, it would have to undo many of the damaging consequences of its structural adjustment experience for its policy-making and implementation capacity. It would also entail a recognition that the path to effective policy-making does not lie in the denial or narrow, self-serving instrumentalisation of politics but in its integration into the mainstream of the policy process. Similarly, the mystification of policy will need to be tempered with a high dose of realism both with regard to its nature and its determinants. This is a task which has been made more urgent by the framework of democratisation which is emerging across Africa and which the policy process ought to reinforce rather than seek to undermine. For policy to be effective, it should not only be democratic but also be anchored on a broad social bargain; in the specific African context, it also calls for the restoration of a developmentalist vision and ideology to the state. Such a state would need to operate a dynamic system of selective intervention and withdrawal in the economy in line with the specific, local requirements of long-term development in the different countries of the continent. The restoration of state’s political and technical capacity, together with its legitimisation as an actor in the development process would serve as an important step in the effort to equip government, business and society in Africa to respond to the challenges of globalisation and democratisation. For, like effective policy-making, both the task of development and the quest for democracy cannot be fully realised in the absence of a functioning state system.

Notes

1 Mkandawire (1998a) notes, for example, that in portraying post-colonial African economic policies and performance as unmitigated and undifferentiated disasters, the Berg report ignored the enormous importance of the internal conjuncture to the performance of African economies at any point in time; the role of foreign experts, including the Bretton Woods institutions, in the policy design process; the reality that the main thrust of economic policy across the continent was in line with the ruling conventional economic wisdom of the day and as such was not necessarily reflective of the “capture” of the state by vested interests or a reflexive hostility to external trade; and the fact that up until the second “oil shock,” many African economies continued to perform relatively well, with this performance largely underpinned by domestic savings and an important role for the state.

2 As part of this argument, Michael Lipton’s thesis on “urban bias” in the development process was adopted and applied to the critique of the post-colonial state-interventionist model of accumulation. See M. Lipton (1979).

3 In some of the worst cases, officials of the Bretton Woods institutions even attempted to dictate the choice of finance ministers and other high-level economic officials to some African governments, making their preferences almost another conditionality that had to be fulfilled.
4 After years of vehemently denying that its policy prescriptions carried any social costs, the World Bank finally admitted that some "unintended" consequences affecting the social livelihood of Africans may, indeed, have occurred. This admission came only after the publication of the UNICEF-supported study edited by Cornia et al (1989). The Bank's commitment to mitigating the social effects of adjustment have been seriously questioned but at the conceptual and empirical levels. For a useful critique, see Vivian (1994), UNRISD (1995), and Olukoshi (1998).

5 According to the World Bank itself, some 100,000 resident foreign advisers were employed in the African public sector during the 1980s and at an annual cost of more that US$4 billion or about 35 percent of the Official Development Assistance (ODA) to the continent. See, UNDP (1993), Jaycox (1993), and Bangura (1999).

6 An independent review of the IMF's ESAF which was undertaken by Kwesi Botchwey, the former long-serving finance minister of Ghana under Rawlings, Paul Collier, currently Chief Economist of the Africa Department of the World Bank, Jan Willem Gunning, the Dutch economist who is also associated with the Centre for the Study of African Economies in Oxford, and Koichi Hamada from Japan, singled out the question of the absence of local ownership and the failure to take it more seriously as one of the most important impediments to the effectiveness of the Fund’s programmes in low-income developing countries. Fund officials were quoted as telling the authors of the report that ownership for them was the "acceptance by the recipient country of what donors want" and that it exists only "when they do what we want them to do voluntarily." See Botchwey et al, 1998.

References


This page intentionally left blank
3. SELECTIVE INDUSTRIAL AND TRADE POLICIES IN DEVELOPING COUNTRIES:
THEORETICAL AND EMPIRICAL ISSUES

Sanjaya Lall

Introduction

The present climate for industrial policy is hostile. The “rules of the game” set by the Bretton Woods institutions, WTO and major donors are set against most forms of government intervention to promote industry. In the near future, governments will have almost none of the instruments of policy used in history to promote industrial development. Yet, interventions in trade, industry and support institutions have played a critical role in industrialisation through history. All major industrialised countries used extended protection and other selective measures to promote industry, and to develop the institutions needed to support industrial and technological activity. The benefits of protection have been long debated (Reinert, 1995, and Vernon, 1989) but debate on interventions has been relatively neglected. This neglect continues today to the detriment of the analysis of industrial policy.

The new consensus seems to be that all selective industrial policy is economically undesirable and harmful. While there has been some swing back from the extreme neo-liberal position of the early 1990s which denied any role for the government beyond providing essential public goods and security, mainstream economics strictly confines the role of governments. In the terminology developed by the World Bank (1993), this role is “market friendly,” one of improving deficient factor markets. There is no legitimate government role in “selectivity,” altering the market-driven allocation of resources between productive activities (Lall, 1996, Soludo, 1998, Westphal, 1998). However, economic theory justifies selectivity where market failures affect some activities more than others, and restoring equilibrium calls for more intervention in specific activities. There is such a case in promoting industries and technologies once we relax certain simplifying assumptions on how information (and industrial technology) is created, exchanged, absorbed and used. In practice, the experience of the most successful developing countries today — the East Asian Tigers — shows that selective industrial policy can work, economically and politically.

The purpose here is to clarify the case for industrial policy in economic terms, to show that industrial policy was actually implemented by developing country governments, and to consider their relevance for Africa. I fully accept that the removal of many existing policies (including “classic” import-substitution strategies and interventions that give rise to rent seeking) is necessary for development, and that a substantial dose of liberalisation is a precondition for industrial success. I also accept that the progress of technology and globalisation over the past three decades limits the exercise of industrial policy today. However, I argue that there is still considerable scope for legitimate industrial policy, much greater than the new rule of the game allows. In fact, the very pace of technical change today, and the intensification of competitive pressures in liberalised trade regimes, make it more important than before to mount industrial policy. Africa, suffering
massive and widespread de-industrialisation, needs supportive policies that go well beyond the neo-liberal consensus. To mount such policies, it is necessary to raise government capabilities: this becomes a critical part of the new industrial policy.

**Basic Concepts**

The economic argument for intervention rests on the presence of *market failure*. If markets worked perfectly, they would (by assumption) achieve "optimal" resource allocation and there would be no economic ground for intervention. If, on the other hand, markets were missing or functioned badly, intervention to restore optimality would be justified. This argument derives from *static* models of perfect competition, in which "failures" are defined by departures from Pareto optimality with its host of simplifying and rigorous conditions. Textbook versions of market failure are imperfect competition, public goods and externalities. These are relatively restricted cases of failure that can, at least in theory, be corrected by governments — they do not seriously affect the theoretical case for perfect markets. However, as economists like Stiglitz (1994, 1996) point out, failures in information markets are much more widespread and diffuse and do threaten the theoretical case. When such "diffuse" and pervasive market failures are present, it does not even make sense to think of conventional market failures, where it is possible to return to an equilibrium state with perfect information, certainty, lack of externalities and scale economies and full property rights. How then can the concept of market failure be used to analyse the need for policy?

The industrial policy literature draws a distinction between "functional" interventions, that are not directed as specific activities, and "selective" interventions, that are (Pack and Westphal, 1986, Lall, 1996). The mainstream position today, as noted, is that functional interventions may be justified but selective ones never are. It defines the former as market friendly and the latter as undesirable industrial policy. The case rests on two, mutually reinforcing, arguments. The first is economic, that governments cannot improve on the information processing capabilities of even imperfect markets to mount functional policies, though they can mount functional ones. The second is political, that governments are inherently corruptible and can never be trusted with selectivity. The argument is tendentious and biased. *Both functional and selective interventions are "industrial policy,"* since both try to improve upon free market outcomes. Whether or not governments can improve upon free markets depends on the circumstances and stage of development: *a priori* generalisations are impossible. Similarly, whether or not governments can handle selectively efficiently is a context specific issue: political preconceptions should not be introduced to pass sweeping judgements.

While the distinction between functional and selective interventions appears to be useful at first sight, it is impossible to apply in practice. First, there are many possible levels of selectivity, ranging from supporting the whole of manufacturing, to supporting a wide range of related activities (e.g. metal working), to supporting particular activities (machine tools) and particular technologies (computer numerically controlled tools) and specific vintages of technology or firms. Second, the line between selective and functional interventions is very difficult to draw. The same policy can be functional or selective, depending on its intention, specificity and context. For instance, strengthening vocational training may be functional in one case, and selective in another (if training for, say, ship-building or CNC machine-tool operations were being targeted).
Establishing that markets can fail is not difficult. However, this does not automatically establish the case for intervention. Since most interventions have their own costs and risks, it has to be established that the benefits outweigh these costs. The outcome depends upon the extent and cost of the market failures in question, the ability of markets to develop solutions, and the ability of governments to design and implement the necessary interventions. The design of certain interventions calls for information and monitoring, while their efficient implementation requires autonomy, skills and impartiality. Many of these conditions are not met in developing countries. Thus, the cost of “government failures” has to be weighed against the cost of market failures.

The Need for Industrial Policy

The Micro Foundations

The neoclassical case against government interventions rests on strong assumptions about market efficiency, in turn based upon a particular conceptualisation of technology at the enterprise level. It assumes that technology is freely available from a known “shelf” on which there is full information. Firms optimise by choosing from this shelf according to their factor and product prices. Any intervention is necessarily distorting to resource allocation. The selected technology is absorbed costlessly and risklessly by the enterprise and used at efficient (“best practice”) levels. There is no need for intervention to support the process: the underlying assumptions ensure that any observed industrial inefficiency is due to government interventions. The removal of such interventions then becomes the necessary and sufficient condition for restoring efficiency.

If there is any lag in efficiency it can, at most, only be for a brief period in which scale economies are fully realised or costs fall in an automatic “learning by doing” process. However, these lags are predictable (scale economies are given by technical design parameters, while the learning curve is known) and a simple function of the quantity of output. Again, there is no need for intervention because firms can anticipate the process and raise money in efficient capital markets to finance the learning process. If capital markets fail, the correct solution would be to improve their functioning rather than to intervene selectively to support particular activities. Thus, capital market failures and scale economies do not provide grounds for selective intervention in resource allocation. A second-best case for selectivity exists only when these failures cannot be readily remedied, and protection or subsidies are used as intermediate solutions.

An alternative to the neoclassical approach is the “technological capability” approach.1 This draws upon the evolutionary approach of Nelson and Winter (1982), and locates learning in markets prone to imperfections and widespread failures. Its policy conclusions are based in deficient markets; it is explicitly behavioural and institutional, opening up the “black box” of firms and markets (for an application to technology policy making, see Lall and Teubal, 1998). It inserts a layer of behavioural analysis between investment and performance. A distinction is made between capacity (physical installed capacity) and capability (the ability to use that capacity efficiently).

Technological capabilities are then the skills — technical, managerial or organisational — firms need to utilise efficiently the hardware (equipment) and software (information) of technology. Capabilities are firm-specific, institutional knowledge made up of individual skills and experience accumulated over time. Moreover, capabilities are not linearly added, but contain a synergistic element arising from the interaction between
individuals and firms. Technological effort is not the same as "innovation," the normal connotation of technological change in economics. In fact, most technological effort does not take place at the frontier of technology at all. It covers a much broader range of effort that every enterprise must undertake to access, implement, absorb and build upon the knowledge required in production. This is true as long as the technology is new to the enterprise or country buying it, whether or not it is new or mature elsewhere. *Technology cannot simply be transferred to a developing country like a physical product:* its effective implantation has to include important elements of capability building: simply providing equipment and operating instructions, patents, designs or blueprints does not ensure that the technology will be effectively utilised. There are strong tacit elements in the technology that require effort and entail uncertainty.

In the evolutionary approach, as a result, there is no predictable learning curve down which all firms travel. Much depends on the efficacy with which markets or institutions function, uncertainty is coped with, externalities tapped, and coordination achieved. If the learning period, costs, uncertainties and leakages are very high, coordination with other firms in the supply chain exceptionally difficult, or information, labour and capital markets particularly unresponsive, "difficult" knowledge may not be absorbed — even where it would be efficient to do so. The capability approach does not suggest that no industry will take root in free markets. Where there is a modicum of skills, infrastructure and cheap labour, simple labour-intensive activities will start. However, upgrading into more complex and demanding technologies may be limited in the absence of interventions to overcome learning costs. Such interventions cannot be functional — since technologies differ in their learning needs, they have to be selective.

The protection of infant industries is one, and historically the most popular and effective, means of selective intervention. However, protection can be a dangerous tool. Apart from the cost it imposes on consumers, it dilutes the incentive to invest in capability development, the very process it is meant to foster. Firms are very sensitive to competitive pressures in deciding to invest in capabilities, and the protection offered in typical import-substituting regimes tended to detract from costly and lengthy investments in competitive skills and knowledge. There may be many solutions: offer limited protection; impose performance requirements; or enforce early entry into export markets while maintaining domestic protection. The last has the added advantage that it taps the information externalities of export activity, and was the one used by the larger Asian NIEs.

It is important to distinguish the *ownership* of enterprises. Market failures are particularly binding for local enterprises, particularly smaller ones. Foreign investors tend to face fewer failures. Their *raison d'être* is the internalisation of intermediate markets (for capital, skills and technology). This is why MNCs may be an effective means of launching industrialisation (as long as complementary factors exist). Their significance is greatest where technologies are changing rapidly, production is tightly linked across nations, and market access is difficult for new entrants. However, the advantages offered by FDI does not mean that the best way to develop is to adopt passive "open door" policies that leave matters entirely to free markets. There can be two important types of market failures in the foreign investment process.
Lessons from East Asia

Background

Let us start with a brief historical sketch of the growth of competitive industry in East Asia, focusing on the leading Tiger economies. These were first countries to launch export-oriented manufacturing. The Asian Tigers adopted outward looking policies in the early 1960s (Hong Kong was always free trade) and led the first wave of LT assembly exports: garments, textiles, toys, footwear and the like. Over the 1970s and 80s, they upgraded their export structures in different ways and moved into more complex products. In Hong Kong, once the leader in the developing world in manufactured exports, there was quality improvement in the same products, but its laissez-faire policies led to relatively little structural deepening. As a result, with rising wages, most manufacturing shifted to lower wage countries, and industrial and export growth stagnated or turned negative. The export structure remained at low technology levels, the lowest among the Tigers.

In Singapore, by contrast, there was considerable deepening, allowing it to combine rising wages (nearly 20 percent higher than in Hong Kong) with continued output and export growth. Singapore moved rapidly from LT to petrochemicals and then producer electronics and equipment, simultaneously raising its technological levels from simple assembly to high-end manufacturing, design and development. The process was dominated by MNCs, which provided state-of-the-art technologies and access to their global networks. This gave Singapore the most hi-tech export structure in the developing world, though its research base remained relatively small and the sources of innovation remained overseas. The deepening was driven by strong industrial policy, using FDI targeting along with selective investments in skills, technology and infrastructure, all directed to meeting the specific needs of the sponsored activities (Lall, 1996).

In Korea and Taiwan, MNCs played a much smaller role: domestic firms led the deepening and upgrading. Their governments used infant industry protection (offsetting its harmful effects by strong export incentives), credit allocation and subsidies, FDI restrictions, and skills and technology support, to induce them launch into difficult activities, raise local content and take on advanced technological functions. Korea's interventions were pervasive and detailed, and involved fostering the chaebol, the conglomerates that spearheaded its heavy industry and high technology drive. It learned the most advanced technologies, and became major multinationals in their own right. Taiwan intervened less directly in the industrial structure, though it used public enterprises to launch into several heavy industries. It supported its small and medium enterprise dominated structure with an array of technology, training, finance and export marketing policies and institutions (Wade, 1990, Lall, 1996).

As a result, Korea and Taiwan have the greatest technological depth in the developing world, and their exports embody the most intense learning. This has been supported by the massive investments in research and development and technical skills, described at greater length below.
Learning among the Leaders

Introduction

The mature Asian Tigers had many common elements in their industrial development. According to the World Bank (1993), they had sound macroeconomic management, a good initial base of human capital and strong export-orientation. They provided stable and predictable incentive frameworks for investment. They had high rates of saving and investment — some of the highest in recent history — which financed investments in the hardware and software of learning. They invested in administrative and institutional capital, both necessary in making markets work better and in mounting effective policies. Their governments had close and continuous dialogue with the private sector, and the granting of privileges was closely monitored and made to depend on export performance. They used “contests” to monitor performance and to ensure that favours were returned, unlike in other countries where privileges were generally granted to industry with no monitoring or performance requirement. Finally, they benefited from their location, being near Japan and what became the world’s most dynamic region. They interacted with, and learned from, each other. They gained from the spill-overs of a favourable investment image.

What was ignored by neoclassical analysts was that these common elements went together with striking differences in development “visions,” which shaped crucial elements of their strategies, each involving different kinds and levels of intervention. It is difficult, in fact, to describe their policies as “remedying market failures” in the conventional sense. The Tigers were not trying to make markets work better to achieve some static equilibrium. They were choosing between countless potential equilibria, and bending their resources to obtain the ones they had (more or less clearly) selected. Though there were generic problems they addressed in similar ways (improving the technology infrastructure or providing basic education and training), they used various tools of policy differently to pursue their different visions (Lall, 1996). Since they were all successful (to a greater or lesser extent), because of the coherence of their policies and good administrative capabilities, it was clear there are not only “many roads to heaven” but also many heavens. The tools were not that different from those used in less successful economies — the secret lay in the combination of policies and the efficacy of their implementation.

Different Incentive Regimes

Korea had the strongest ambitions to develop a diverse, technologically advanced, nationally-owned industrial structure, and had to mount the most comprehensive set of interventions to achieve this. These included quantitative and tariff restrictions on imports, strong export subsidies and targeting, subsidised and guided credit and the promotion of giant conglomerates (Westphal, 1990). FDI was kept to the minimum, with foreign technology sought aggressively in all non-equity forms. Korea was at the time the largest importer of capital goods in the developing world. The government, to ensure better terms and deeper knowledge transfer, vetted other forms of technology import, such as licensing, consultancy and turnkey contracts. It shaped industrial development at a very detailed level, and with it the technological effort that was needed to compete in world markets, export orientation disciplining both firms and bureaucrats. Entire sets of heavy industries were promoted together to exploit linkages and externalities, with changes being made as events unfolded and some activities proved unviable. As its conglomerates grew in strength and spread, they were encouraged to establish affiliates overseas, to increase market presence and seek new technologies.
Taiwan lacked the political economy to mount such detailed interventions. Nevertheless, it used trade and credit policies to guide the technological upgrading of an economy dominated by small and medium-sized enterprises. Public enterprises were used to launch into areas where the private sector was reluctant. Enterprises were encouraged into skill and technology-intensive activities, with inputs from selectively used FDI and a superlative extension and technology support system (Dahlman and Sananikone, 1990). The government guided and co-ordinated the import and absorption of exceptionally difficult new technologies. Taiwan did not achieve the extent of heavy industrialization like Korea, but retained a more flexible, less concentrated structure. The government encouraged outward investment to relocate labour-intensive activities that had become uncompetitive over time. As with Korea, it had a series of comprehensive technology plans that guided the allocation of resources in this area; and, similarly, it encouraged outward investment to seek cheaper locations and new markets and technology.

Singapore, the smallest of the Tigers, started with a weak entrepreneurial base and decided to rely heavily on FDI, which it targeted and guided to enter more complex activities and functions within a free trade setting. As with Taiwan, public enterprises were used to spearhead particularly difficult activities. It developed the perhaps most efficient and honest system of administration in the region. Its FDI targeting worked not only because of this, but also because the government could build up a base of technical and managerial skills geared specifically to the industrial targets it set (Singapore reputedly has one of the most skilled and efficient workforces in the world). The result was that it built up the most high-tech export structure in the region.

Hong Kong was closest to laissez faire among the Tigers. Its industrial development started with a unique base: developed financial and trading services, excellent infrastructure, and a supply of entrepreneurs, engineers and technicians. It provided cheap land to manufacturers, extension and information services to producers and exporters, and then let firms follow the dictates of the world market with little interference. However, its neglect of technological deepening left it with a light industrial structure and low research and development capabilities, leading to massive de-industrialization and the relocation of much of its manufacturing base to cheaper wage areas. This process did not reverse its overall growth, since its unique location and its developed services structure allowed it to move into other activities (heavily dependent on the mainland). However, Hong Kong has been the only Tiger to suffer a consistent decline in manufacturing output; the share of manufacturing in GDP has fallen from 27 percent at its peak to under 7 percent today.

**Accessing Technology**

Foreign knowledge is the primary input into the development of local capabilities, and it is available in many forms. Facilitating access to knowledge in all its forms is vital to development policy; as noted, however, not all forms of transfer have equal effects on domestic learning. FDI inflows are perhaps the most important form of access, but developing countries used this channel to very different extents (Table 3.1). Others include a variety of links with technology suppliers, from the purchase of equipment to lengthy licensing and other arrangements. The Tigers were open to international information flows and sought foreign knowledge, embodied and disembodied, avidly. Nevertheless, each adopted a different approach on how it tapped this knowledge, and how it combined it with differing strategies for promoting local learning. Let us recount the main strategies used.
Table 3.1: Inward FDI flows as Percentage of Gross Domestic Investment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>5.4</td>
<td>3.1</td>
<td>3.3</td>
<td>4.4</td>
<td>4.5</td>
<td>5.2</td>
</tr>
<tr>
<td><strong>Regions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developed</td>
<td>5.5</td>
<td>3.2</td>
<td>3.2</td>
<td>3.7</td>
<td>3.5</td>
<td>4.4</td>
</tr>
<tr>
<td>W. Europe</td>
<td>8.9</td>
<td>5.3</td>
<td>5.3</td>
<td>5.8</td>
<td>5.1</td>
<td>6.7</td>
</tr>
<tr>
<td>N. America</td>
<td>5.5</td>
<td>3.4</td>
<td>2.5</td>
<td>3.8</td>
<td>5.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Developing</td>
<td>8.0</td>
<td>4.4</td>
<td>5.1</td>
<td>6.6</td>
<td>8.0</td>
<td>8.2</td>
</tr>
<tr>
<td>N. Africa</td>
<td>2.7</td>
<td>2.2</td>
<td>3.8</td>
<td>4.1</td>
<td>5.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Other Africa</td>
<td>9.2</td>
<td>7.3</td>
<td>6.4</td>
<td>8.2</td>
<td>12.5</td>
<td>13.2</td>
</tr>
<tr>
<td>L. America</td>
<td>11.3</td>
<td>7.8</td>
<td>8.1</td>
<td>7.2</td>
<td>10.3</td>
<td>11.0</td>
</tr>
<tr>
<td>W. Asia</td>
<td>1.2</td>
<td>1.7</td>
<td>1.5</td>
<td>2.2</td>
<td>1.0</td>
<td>-0.6</td>
</tr>
<tr>
<td>S. &amp; E. Asia</td>
<td>9.7</td>
<td>3.8</td>
<td>4.7</td>
<td>7.5</td>
<td>8.3</td>
<td>9.0</td>
</tr>
<tr>
<td>C&amp;E Europe</td>
<td>1.0</td>
<td>0.4</td>
<td>0.8</td>
<td>7.9</td>
<td>5.0</td>
<td>5.2</td>
</tr>
<tr>
<td><strong>Selected Developing Countries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>12.2</td>
<td>2.3</td>
<td>7.7</td>
<td>7.1</td>
<td>8.2</td>
<td>8.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>59.3</td>
<td>33.6</td>
<td>12.4</td>
<td>23.0</td>
<td>23.0</td>
<td>24.6</td>
</tr>
<tr>
<td>Korean Rep.</td>
<td>1.9</td>
<td>1.0</td>
<td>0.6</td>
<td>0.5</td>
<td>0.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Taiwan</td>
<td>5.1</td>
<td>3.1</td>
<td>1.8</td>
<td>1.8</td>
<td>2.5</td>
<td>2.7</td>
</tr>
<tr>
<td>China</td>
<td>14.5</td>
<td>3.3</td>
<td>7.8</td>
<td>7.1</td>
<td>8.2</td>
<td>8.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>7.6</td>
<td>3.6</td>
<td>3.9</td>
<td>3.8</td>
<td>3.7</td>
<td>6.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>43.7</td>
<td>23.8</td>
<td>26.0</td>
<td>22.5</td>
<td>16.1</td>
<td>17.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>10.2</td>
<td>4.9</td>
<td>4.8</td>
<td>3.4</td>
<td>2.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>13.6</td>
<td>6.0</td>
<td>2.1</td>
<td>9.6</td>
<td>10.5</td>
<td>9.0</td>
</tr>
<tr>
<td>India</td>
<td>1.2</td>
<td>0.3</td>
<td>0.4</td>
<td>1.0</td>
<td>2.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Pakistan</td>
<td>5.1</td>
<td>3.3</td>
<td>3.5</td>
<td>3.5</td>
<td>4.6</td>
<td>6.7</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>0.3</td>
<td>0.1</td>
<td>0.1</td>
<td>0.4</td>
<td>0.3</td>
<td>—</td>
</tr>
<tr>
<td>S. Laka</td>
<td>6.9</td>
<td>2.4</td>
<td>5.4</td>
<td>7.5</td>
<td>5.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Argentina</td>
<td>13.0</td>
<td>15.1</td>
<td>25.5</td>
<td>31.0</td>
<td>4.8</td>
<td>11.7</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.1</td>
<td>1.4</td>
<td>3.0</td>
<td>1.3</td>
<td>3.0</td>
<td>4.7</td>
</tr>
<tr>
<td>Chile</td>
<td>21.5</td>
<td>7.3</td>
<td>7.2</td>
<td>6.9</td>
<td>14.0</td>
<td>10.8</td>
</tr>
<tr>
<td>Mexico</td>
<td>16.9</td>
<td>8.5</td>
<td>6.4</td>
<td>6.0</td>
<td>14.3</td>
<td>17.1</td>
</tr>
<tr>
<td>Egypt</td>
<td>3.1</td>
<td>2.8</td>
<td>5.3</td>
<td>6.4</td>
<td>14.8</td>
<td>7.2</td>
</tr>
<tr>
<td>Morocco</td>
<td>8.5</td>
<td>5.1</td>
<td>6.6</td>
<td>8.0</td>
<td>8.8</td>
<td>4.1</td>
</tr>
<tr>
<td>Tunisia</td>
<td>14.7</td>
<td>4.0</td>
<td>12.5</td>
<td>13.7</td>
<td>10.2</td>
<td>6.1</td>
</tr>
<tr>
<td>Turkey</td>
<td>3.5</td>
<td>2.3</td>
<td>2.3</td>
<td>1.4</td>
<td>1.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>-0.6</td>
<td>2.1</td>
<td>-29.1</td>
<td>10.7</td>
<td>3.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Ghana</td>
<td>17.8</td>
<td>2.3</td>
<td>2.5</td>
<td>9.4</td>
<td>22.6</td>
<td>22.2</td>
</tr>
<tr>
<td>Kenya</td>
<td>1.3</td>
<td>1.2</td>
<td>0.5</td>
<td>0.2</td>
<td>0.3</td>
<td>1.7</td>
</tr>
<tr>
<td>Mauritius</td>
<td>4.5</td>
<td>2.4</td>
<td>1.7</td>
<td>1.6</td>
<td>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Nigeria</td>
<td>34.9</td>
<td>19.8</td>
<td>26.3</td>
<td>36.5</td>
<td>50.5</td>
<td>50.0</td>
</tr>
<tr>
<td>Uganda</td>
<td>8.4</td>
<td>0.2</td>
<td>0.6</td>
<td>10.1</td>
<td>12.6</td>
<td>21.1</td>
</tr>
<tr>
<td>Tanzania</td>
<td>3.3</td>
<td>0.3</td>
<td>1.1</td>
<td>2.0</td>
<td>-0.4</td>
<td>—</td>
</tr>
</tbody>
</table>

Hong Kong: In line with its *laissez faire* approach, the Hong Kong government did not influence the extent or form of technology imports. Its industrial and manufactured export growth was sparked off by an influx of seasoned textile and other entrepreneurs and technicians from Mainland China. This led to the growth of dynamic small and medium-sized exporters specialised in labour-intensive activities such as textiles, garments, toys and simple consumer electronics, mainly aimed at world markets. Given the initial endowment of skills and learning, they obtained the information and technologies they needed in mainly externalised forms, primarily capital goods.

The economy’s colonial administration, its long experience of *entrepôt* trade, and the strong presence of expatriate-run trading, finance, property and other enterprises (the “Hongs”), strengthened the initial base of skills with an advanced physical, administrative, trading and financial infrastructure for export activity.

Despite open door policies to FDI, Hong Kong’s manufacturing was dominated by indigenous firms. MNCs went mainly into service activities, while those that entered manufacturing specialised in more advanced technologies within the same broad labour-intensive set of activities as local firms. The government made no effort, at least until recently, to target high technology FDI or to induce industrial deepening and technological upgrading. Technological information needs were relatively simple, and were fulfilled by scouting around for international suppliers of equipment (greatly helped by the liberal trading environment and the Hongs), growing contacts with export markets, and some government technology support institutions. The presence of foreign buyers was a vital source of technological information and assistance. Over time, there was significant upgrading of equipment and products within the low-technology activities that the colony started off with, but there was relatively little entry into complex and research intensive technologies that the other NIEs were targeting.

Singapore: Singapore has a much smaller economy than Hong Kong’s, but has deepened its industrial structure much more by deliberate knowledge strategies. It started, like Hong Kong, with a strategic location and established *entrepôt* facilities but with a smaller base of trading and financial activity. Despite a tradition of shipbuilding, Singapore had a weak entrepreneurial base and did not have an influx of experienced businessmen and technologists from mainland China. Nor did it have access to a large, poorer but culturally similar hinterland to which it could sell its services. After a spell of import substitution, it switched to free trade and pursued growth through seeking and targeting foreign direct investment, while raising domestic resources through various measures. Moreover, it deepened its industrial and export structure by using incentives to persuade MNCs to move from labour to capital, skill and technology-intensive activities. Its knowledge policy was directed at consciously acquiring, and subsequently upgrading, the most modern technologies in highly internalised forms.

To attract foreign investment and induce upgrading, Singapore invested heavily in education and training and physical infrastructure. It developed an efficient, industrially oriented, higher education structure, along with one of the best systems in the world for specialised worker training. Its policies for attracting FDI were based on liberal entry and ownership conditions, easy access to expatriate skills, very efficient and honest administration, and generous incentives for the activities that it sought to promote. It set up the Economic Development Board (EDB) to co-ordinate policy, offer incentives to guide foreign investors into targeted activities, acquire and create industrial estates to attract multinational corporation, and generally to mastermind industrial policy. The public sector played an important role in launching and promoting some activities chosen
by the government, acting as a catalyst to private investment or entering areas that were too risky for it to enter. In recent years, the government has sought to increase linkages with local enterprises by promoting subcontracting and improving extension services.

**Taiwan:** Taiwan started on import-substitution in the 1950s with a strong base of human capital and a large population of SMEs. As with Korea, it switched to export orientation in the 1960s, but retained protection and targeting to promote and guide industrial growth. It combined these with interventions in technology transfer to support technology development by local enterprises. It drew upon the whole gamut of technology imports, but changed the balance and the policy regime over time. In the 1950s, it sought to attract FDI, with no discrimination by origin, destination (only services were restricted for foreign entry) or degree of ownership. In the 1960s, FDI was sought in labour-intensive industries like textiles, garments and electronics assembly. In the 1970s, with rising wages and a need to upgrade industry, the government targeted higher technology, discouraging labour-intensive FDI and favouring it in automation, informatics and precision instruments. Targeting was strengthened in the 1980s.

Thus, as the industrial sector developed and technologies deepened over time, FDI policy in Taiwan became more discriminatory. The government exercised more detailed surveillance (often on a case-by-case basis) to ensure that the technology was in line with changing national priorities. It targeted emerging technologies, and placed strict conditions on investors to benefit the technology development of domestic firms. Where domestic firms were strong, FDI was actively discouraged; where they were weak, foreign firms were made to diffuse technology and contribute to local capabilities. With yet more development of local capabilities, controls on FDI were relaxed but support of technology development continued. In the meantime, Taiwanese firms themselves became major investors overseas, spurred by the need to relocate labour-intensive activities and an enormous balance of payments surplus.

The government sought to maximise benefits from FDI for local firms by promoting local sourcing and subcontracting — an exceptionally successful strategy for enhancing technological and skill linkages with foreign firms (Dahlman and Sananikone, 1990). This involved local content rules, backed by provisions that foreign firms transfer skills and technology to subcontractors and raise the technological capabilities of local firms. The Taiwanese government also played a direct role in developing technologies, where it found the private sector unable to develop the necessary capabilities. It often set up strategic research alliances on behalf of local firms and coordinated their efforts to build upon these to build competitive new capabilities.

Foreign firms accounted for a relatively small part of Taiwan's industrial and export success. Local enterprises, led by SMEs, led the export drive, first by using the “Chinese connection” in Asia and then, as their horizons widened, by tapping Japanese trading companies and American mass-market buyers. In the 1960s, about 60 percent of textile exports were sold through Japanese trading houses (the *sogo shosha*), and even today these handle a third to half of Taiwanese exports. Such are the economies of scale and information collection in world markets that small firms find it difficult and costly to export alone even after years of experience (this is in contrast to Korea, where the government internalised these functions within local trading houses, part of the *chaebol*). US buyers grew more important over time, with the government facilitating contacts with small suppliers, with aggressive assistance from industry associations and other private organisations. In addition, there also emerged many (relatively small) local trading houses, which proved to be valuable sources of technical, design and marketing
information to exporters. Large multinational producers, that sourced complex electronic and related products under OEM (original equipment manufacture) arrangements in Taiwan, were even more significant sources of technology transfer.

Korea: Korea preferred externalised technology imports even more strongly. It relied primarily on capital goods imports, licensing and other technology transfer agreements to acquire technology (Westphal, 1990). FDI was permitted when it was the only way of obtaining the technology or gaining access to world markets. Even then the government-encouraged majority Korean-owned or equal joint ventures; in some cases foreign investors were forced to sell out after the technology had been absorbed locally. As a result, Korea had the lowest level of reliance on FDI of almost any developing countries with a non-communist economy. The government also intervened often in technology imports to lower prices and strengthen the position of local buyers, but in a flexible way that did not constrain access to expensive know-how. The regime encouraged reverse engineering and R&D by technology importing firms to develop indigenous technological capabilities; many of the larger firms were later able to enter into collaborative ventures with world technology leaders on a more equal basis. In the field of plant and process engineering, the government stipulated that foreign contractors transfer their design knowledge to local firms, which quickly absorbed design technologies in some process industries.

Building Human Resources

Using knowledge more effectively requires higher levels of human resources in enterprises and elsewhere. Building human resources involves two distinct processes — skill development and capability formation. “Skill development” means formal education and training (including that in firms). “Capability formation” means the development of skills and knowledge derived from technological and managerial effort (both formal, in the form of R&D, and informal).

As the industrial sector grows more complex and sophisticated, the challenge of providing better and more appropriate human capital becomes more important. In the process, relevant institutions develop and firms become more conscious of the need for skill development and training. However, given the complexity of the information involved, the long-term nature of skill investment and the inherent externalities, purely market-driven sources may fail to keep up with skill needs. At low levels of industrial development, the way forward is relatively straightforward: raising the quantity and quality of primary schooling and basic technical education, and encouraging all firm training. At higher levels, there has to be greater emphasis of high-level, specialized training, with close interaction between education and production. This is a more difficult process, and many developed economies worry about the quality and content of their educational structures.

Table 3.2 shows educational patterns in the Tigers and other countries. Formal education is not the ideal way to measure skill creation; on-the-job learning and training are often more important. Enrolment data may not be a sound indicator even of formal education: dropout rates differ across countries. Moreover, the quality and relevance of the education system for modern needs differ greatly by country. Nevertheless, enrolment data are available on a comparable basis, and the rates say something about the base for skill acquisition.
Table 3.2: Recent Gross Enrolment Ratios

<table>
<thead>
<tr>
<th>Country</th>
<th>Primary</th>
<th>Secondary</th>
<th>Tertiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>108</td>
<td>68</td>
<td>21</td>
</tr>
<tr>
<td>Singapore (c)</td>
<td>107</td>
<td>99</td>
<td>19 (c)</td>
</tr>
<tr>
<td>Korea</td>
<td>95</td>
<td>88</td>
<td>55</td>
</tr>
<tr>
<td>Taiwan</td>
<td>100</td>
<td></td>
<td>38</td>
</tr>
<tr>
<td>China</td>
<td>118</td>
<td>55</td>
<td>4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>115</td>
<td>45</td>
<td>10</td>
</tr>
<tr>
<td>Malaysia</td>
<td>93</td>
<td>61</td>
<td>10</td>
</tr>
<tr>
<td>Thailand</td>
<td>87</td>
<td>49</td>
<td>21</td>
</tr>
<tr>
<td>Philippines</td>
<td>111</td>
<td>80</td>
<td>27</td>
</tr>
<tr>
<td>India</td>
<td>103</td>
<td>49</td>
<td>6</td>
</tr>
<tr>
<td>Pakistan</td>
<td>69</td>
<td>25</td>
<td>3</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>79</td>
<td>19</td>
<td>4</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>105</td>
<td>75</td>
<td>6</td>
</tr>
<tr>
<td>Turkey</td>
<td>97</td>
<td>64</td>
<td>20</td>
</tr>
<tr>
<td>Latin America</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>111</td>
<td>67</td>
<td>36</td>
</tr>
<tr>
<td>Brazil</td>
<td>114</td>
<td>46</td>
<td>11</td>
</tr>
<tr>
<td>Chile</td>
<td>99</td>
<td>68</td>
<td>27</td>
</tr>
<tr>
<td>Colombia</td>
<td>117</td>
<td>55</td>
<td>10</td>
</tr>
<tr>
<td>Mexico</td>
<td>112</td>
<td>58</td>
<td>14</td>
</tr>
<tr>
<td>Africa</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>100</td>
<td>80</td>
<td>17</td>
</tr>
<tr>
<td>Ghana</td>
<td>76</td>
<td>37</td>
<td>1</td>
</tr>
<tr>
<td>Kenya</td>
<td>91</td>
<td>25</td>
<td>2</td>
</tr>
<tr>
<td>Mauritius</td>
<td>106</td>
<td>54</td>
<td>4</td>
</tr>
<tr>
<td>Morocco</td>
<td>69</td>
<td>28</td>
<td>10</td>
</tr>
<tr>
<td>Nigeria</td>
<td>76</td>
<td>20</td>
<td>4</td>
</tr>
<tr>
<td>South Africa</td>
<td>117</td>
<td>82</td>
<td>16</td>
</tr>
<tr>
<td>Tanzania</td>
<td>68</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Tunisia</td>
<td>117</td>
<td>43</td>
<td>11</td>
</tr>
<tr>
<td>Uganda</td>
<td>71</td>
<td>13</td>
<td>1</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>115</td>
<td>44</td>
<td>6</td>
</tr>
<tr>
<td>East Europe</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>99</td>
<td>86</td>
<td>16</td>
</tr>
<tr>
<td>Hungary</td>
<td>95</td>
<td>81</td>
<td>17</td>
</tr>
<tr>
<td>Poland</td>
<td>98</td>
<td>84</td>
<td>22</td>
</tr>
<tr>
<td>OECD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>102</td>
<td>98</td>
<td>29</td>
</tr>
<tr>
<td>France</td>
<td>105</td>
<td>106</td>
<td>50</td>
</tr>
<tr>
<td>Germany</td>
<td>97</td>
<td>101</td>
<td>36</td>
</tr>
<tr>
<td>UK</td>
<td>114</td>
<td>94</td>
<td>41</td>
</tr>
<tr>
<td>USA</td>
<td>107</td>
<td>97</td>
<td>81</td>
</tr>
</tbody>
</table>

Primary education is almost universal in all the Tigers and new Tigers, and there is relatively little to differentiate between countries at least according to official enrolment figures. Secondary enrolment rates are very high in the Tigers, with Korea and Taiwan at developed country levels. Hong Kong and Singapore are slightly behind, followed by Malaysia, Indonesia and Thailand. However, there are reasons to differentiate between school education in terms of quality. Educational quality is always very difficult to judge, and the best one can do is look at indirect proxies. In terms of dropout-completion rates, the Tigers perform far better than other countries; Sub-Saharan Africa is particularly weak in these terms, as are parts of South Asia. In terms of facilities and relevance of curricula to technical needs, the East Asians also do much better.

Korea and Taiwan have tertiary enrolments at developed country levels, followed by Hong Kong and Singapore. Singapore has very large enrolments in polytechnics, reflecting its strategy of concentrating on production-related skills for technologically advanced activities. If we include these with universities, Singapore’s total tertiary enrolments reach 46 percent, near Korean levels.

The breakdown of tertiary enrolments in technical subjects is probably more relevant than general enrolment for assessing capabilities to absorb technological knowledge. The data (Table 3.3) show much higher differences between countries than general enrolments (note that the figures are now expressed as percentages of the total population rather than of the relevant age group). The most relevant indicator of skills related to industrial technology is enrolments in "core" technical subjects (natural science, mathematics, computing and engineering).

In Asia, Korea and Taiwan are now ahead of the technological leaders in the OECD, taking first and second places in the ranking. Singapore comes just after France, with Hong Kong coming two places later, after Argentina. The ranking of the Tigers matches the general intensity of their policy interventions to develop their technological capabilities. At the other extreme, Sub-Saharan Africa (except for South Africa) hovers below 0.02 percent, with Zimbabwe standing out at 0.06 percent.

**Stimulating Technological Activity**

All developing countries are highly dependent on imported technologies. However, they undertake a lot of technological activity themselves, to absorb, adapt and improve upon imported knowledge. Such activity is difficult to measure — it takes place at all levels of the firm and cannot be separated from production, engineering, quality control, procurement, design and so on — and so cannot be compared across countries. What can be compared is formal R&D (Table 3.4).

While R&D does not capture the full extent of technological activity, it is still a useful indicator of technological effort. Its relevance rises as countries mature industrially: basic technological capabilities are then more standardised, and formal R&D is a more accurate measure of differences in technological effort. Note that R&D does not mean that countries are on technological frontiers: R&D can be used for absorbing and monitoring technologies as much as for "innovating," and being a follower in innovation is a very respectable way of keeping up with new technologies.

R&D financed by industry is generally regarded a better indicator of directly productive technological effort. Korea leads the world with 2.27 percent of GDP, a direct consequence of its strategy of creating chaebol and pushing them into export markets. This R&D is highly concentrated: the 20 top spenders account for some 65 percent of the total.
88

The Politics of Trade and Industrial Policy in Africa

Table 3.3: Tertiary Enrolments in Technical Fields (most recent years)
Country

Nat. Science
No. % Pop.

Math/Computing
No. % Pop.

Engineering
No. % Pop.

"Core" Tech. (a)
No. % Pop.

All Tech. (b)
No. % Pop.

Africa

Egypt

Ghana
Kenya
Mauritius
Morocco
Nigeria
S. Africa
Tanzania
Tunisia
Uganda
Zimbabwe
Asia
Bangladesh
China
Hong Kong
India
Indonesia
Korea
Malaysia
Pakistan
Philippines
Singapore (c)
Sri Lanka
Taiwan
Thailand
Turkey
Latin America
Argentina
Brazil
Chile
Colombia
Mexico
East Europe
Czech Rep.
Hungary
Poland
Industrialised
Japan
France
Germany
Israel
Italy
Spain
Sweden
Switzerland
UK
USA

26,602

0.04

2,333

0.00

44,545

0.07

73,480

0.12

158,111

0.26

1,179

0.01

0.00

712

0.00

2,118

0.01

3,317

0.02

0.00

1,046

0.00

4,644

0.02

7,168

0.03

0.01

269

0.02

485

0.04

737

0.07

—
—

1,051

0.00

72,194

0.28

81,037

0.31

15,085

0.01

44,611

0.04

63,978

0.06

3,598

0.02

86

0.01

71,143

0.27

29,526

0.03

227
0
130
—
—

21,693

0.07

30,498

0.10

19,958

0.06

72,149

0.23

97,729

0.32

180

0.00

13

0.00

664

0.00

31,441

0.00

1,096

0.00

11,520

0.13

2,213

0.03

7,233

0.08

20,966

0.24

31,441

940

0.00

0.00

1,474

0.01

2,682

0.01

3,621

0.37
0.02

1,799

0.02

268
399

0.00

4,718

0.04

6,916

0.06

9,271

0.08

75,503

0.07

7,523

0.01

5,830

0.01

88,856

0.08

96,793

0.09

95,492

0.01

174,862

0.02

1,156,735

0.10

1,427,089

0.13

1,831,966

0.16

5,503

0.09

6,441

0.11

14,788

0.25

26,732

0.46

35,068

0.60

869,119

0.10

—

—

216,837

0.02

1,085,956

0.12

1,236,414

0.14

22,394

0.01

13,117

0.01

205,086

0.11

240,597

0.13

315,325

81,222

0.18

171,147

0.38

437,537

0.98

689,906

1.55

730,346

0.17
1.64

8,776

0.05

4,557

0.02

12,693

0.07

26,026

0.14

32,222

0.17

29,433

0.03

—

—

41,244

0.04

70,677

0.06

75,168

0.06

17,444

0.03

5,609

0.01

201,701

224,754

0.33

510,525

0.74

1,281

0.05

1,420

0.05

13,029

0.29
0.47

15,730

0.56

16,767

0.60

8,198

0.05

148

0.00

3,865

0.02

12,211

0.07

18,722

0.10

16,823

0.08

32,757

0.16

179,094

0.86

228,674

1.09

303,964

1.45

77,098

0.14

1,292

0.00

105,149

0.19

183,539

0.32

249,952

0.44

39,327

0.07

25,276

0.04

134,408

0.24

199,011

0.35

339,004

0.60

69,727

0.21

—

-

96,205

0.29

165,932

0.49

295,936

0.88

46,322

0.03

92,701

0.06

149,660

0.10

288,683

0.19

487,967

0.33

8,577

0.06

—

—

85,483

0.61

94,060

0.67

134,263

0.96

261

0.00

9,520

0.03

117,941

0.35

127,722

0.38

185,407

0.55

42,457

0.05

97,575

0.01

221,867

0.27

361,899

0.45

518,396

0.64

2,600

0.03

3,299

0.03

42,746

0.42

56,342

0.55

0.02

1,588

0.02

36,847
10,614

0.36

1,766

0.10

13,968

0.14

41,718

0.41

19,047

0.05

12,819

0.03

119,912

0.31

151,778

0.40

213,761

0.56
0.59
1.07

59,030

0.05

20,891

0.02

488,699

0.39

568,620

0.46

730,637

304,093

0.53

0.09

354,938

0.62

614,159

0.39

—
—

50,845

310,435

—
—

389,182

0.49

699,617

0.88

805,801

1.01

7,972

0.16

6,144

0.12

23,207

0.46

37,323

0.74

45,780

0.91

93,761

0.16

64,099

0.11

200,749

0.35

358,609

0.63

610,642

1.07

82,751

0.21

65,807

0.17

176,702

0.45

325,260

0.82

473,159

1.20

9,076
11,396

0.10

13,452
2,950

0.16
0.04

37,324

0.43

0.69

22,217

0.31

59,852
36,563

141,258
57,041

0.81

105,983

0.18

76,430

0.13

219,078

0.38

596,404

1.03

0.19

525,067

0.20

801,126

0.31

401,491
1,822,608

0.69

496,415

0.70

3,676,985

1.41

0.16

0.52

1.63

Notes: (a) "Core" technical subjects are natural science, maths, computing, and engineering, (b) "All technical" subjects include core
technical plus medicine, architecture, trade and crafts, and transport and communications, (c) Singapore's tertian/ enrolment figures exclude
polytechnics, which enrol 27percent of the age group. If these are counted as tertiary institutions, this would greatly increase all its tertiary
enrolment figures.


### Table 3.4: Research and Development Expenditures (by region)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>As % GNP</th>
<th>Ent. Fin. R&amp;D as % GNP/GDP (a)</th>
<th>R&amp;D p.c. 1995 ($)</th>
<th>Country</th>
<th>Year</th>
<th>As % GNP</th>
<th>Ent. Fin. R&amp;D as % GNP/GDP (a)</th>
<th>R&amp;D p.c. 1995 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Developing Countries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Industrial and East European Countries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1995</td>
<td>0.1</td>
<td>N/A</td>
<td>23.0</td>
<td>USA</td>
<td>1996</td>
<td>2.5</td>
<td>1.50</td>
<td>674.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>1994</td>
<td>1.1</td>
<td>0.69</td>
<td>294.0</td>
<td>Canada</td>
<td>1996</td>
<td>1.6</td>
<td>0.77</td>
<td>310.1</td>
</tr>
<tr>
<td>Korea</td>
<td>1995</td>
<td>2.7</td>
<td>2.27</td>
<td>261.9</td>
<td>Japan</td>
<td>1995</td>
<td>3.0</td>
<td>2.01</td>
<td>1189.2</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1994</td>
<td>1.8</td>
<td>1.00</td>
<td>198.0</td>
<td>Austria</td>
<td>1996</td>
<td>1.5</td>
<td>0.66</td>
<td>404.7</td>
</tr>
<tr>
<td>China</td>
<td>1993</td>
<td>0.6</td>
<td>0.11</td>
<td>3.7</td>
<td>Belgium</td>
<td>1993</td>
<td>1.6</td>
<td>1.01</td>
<td>395.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1993</td>
<td>0.2</td>
<td>0.04</td>
<td>2.0</td>
<td>Denmark</td>
<td>1995</td>
<td>1.8</td>
<td>0.90</td>
<td>538.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1992</td>
<td>0.4</td>
<td>0.17</td>
<td>15.6</td>
<td>Finland</td>
<td>1995</td>
<td>2.3</td>
<td>1.31</td>
<td>473.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>1984</td>
<td>0.1</td>
<td>0.02</td>
<td>1.1</td>
<td>France</td>
<td>1995</td>
<td>2.3</td>
<td>1.13</td>
<td>574.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>1991</td>
<td>0.2</td>
<td>0.02</td>
<td>5.5</td>
<td>Germany</td>
<td>1996</td>
<td>2.3</td>
<td>1.40</td>
<td>632.7</td>
</tr>
<tr>
<td>India</td>
<td>1995</td>
<td>1.1</td>
<td>0.14</td>
<td>3.7</td>
<td>Greece</td>
<td>1993</td>
<td>0.5</td>
<td>0.10</td>
<td>41.1</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1990</td>
<td>0.3</td>
<td>0.00</td>
<td>0.8</td>
<td>Iceland</td>
<td>1996</td>
<td>1.5</td>
<td>0.48</td>
<td>374.3</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1994</td>
<td>0.2</td>
<td>0.02</td>
<td>1.4</td>
<td>Ireland</td>
<td>1995</td>
<td>1.4</td>
<td>0.94</td>
<td>205.9</td>
</tr>
<tr>
<td>Argentina</td>
<td>1996</td>
<td>0.3</td>
<td>0.05</td>
<td>24.1</td>
<td>Italy</td>
<td>1996</td>
<td>1.1</td>
<td>0.54</td>
<td>209.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>1985</td>
<td>0.4</td>
<td>0.08</td>
<td>14.6</td>
<td>Netherlands</td>
<td>1994</td>
<td>2.0</td>
<td>0.90</td>
<td>480.0</td>
</tr>
<tr>
<td>Chile</td>
<td>1994</td>
<td>0.8</td>
<td>0.16</td>
<td>38.6</td>
<td>Norway</td>
<td>1995</td>
<td>1.6</td>
<td>0.71</td>
<td>500.0</td>
</tr>
<tr>
<td>Colombia</td>
<td>1982</td>
<td>0.1</td>
<td>N/A</td>
<td>1.9</td>
<td>Portugal</td>
<td>1995</td>
<td>0.6</td>
<td>0.11</td>
<td>58.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>1995</td>
<td>0.4</td>
<td>0.09</td>
<td>13.3</td>
<td>Spain</td>
<td>1996</td>
<td>0.8</td>
<td>0.32</td>
<td>108.6</td>
</tr>
<tr>
<td>Peru</td>
<td>1984</td>
<td>0.2</td>
<td>0.05</td>
<td>4.6</td>
<td>Sweden</td>
<td>1995</td>
<td>3.0</td>
<td>1.89</td>
<td>712.5</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1992</td>
<td>0.5</td>
<td>0.00</td>
<td>15.1</td>
<td>Switzerland</td>
<td>1992</td>
<td>2.7</td>
<td>1.82</td>
<td>1097.0</td>
</tr>
<tr>
<td>Egypt</td>
<td>1991</td>
<td>1.0</td>
<td>N/A</td>
<td>6.0</td>
<td>UK</td>
<td>1995</td>
<td>2.1</td>
<td>1.01</td>
<td>392.7</td>
</tr>
<tr>
<td>Turkey</td>
<td>1995</td>
<td>0.4</td>
<td>0.12</td>
<td>11.1</td>
<td>Australia</td>
<td>1994</td>
<td>1.6</td>
<td>0.73</td>
<td>239.5</td>
</tr>
<tr>
<td>Tunisia</td>
<td>1992</td>
<td>0.3</td>
<td>N/A</td>
<td>5.5</td>
<td>New Zealand</td>
<td>1993</td>
<td>1.0</td>
<td>0.34</td>
<td>143.4</td>
</tr>
<tr>
<td>Israel</td>
<td>1990</td>
<td>2.1</td>
<td>0.82</td>
<td>334.3</td>
<td>Total OECD</td>
<td>1995</td>
<td>2.2</td>
<td>1.30</td>
<td>–</td>
</tr>
<tr>
<td>Jordan</td>
<td>1986</td>
<td>0.3</td>
<td>N/A</td>
<td>4.5</td>
<td>N. America</td>
<td>1995</td>
<td>2.3</td>
<td>1.35</td>
<td>–</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1987</td>
<td>0.1</td>
<td>0.00</td>
<td>0.3</td>
<td>Czech Rep.</td>
<td>1995</td>
<td>1.2</td>
<td>0.76</td>
<td>29.4</td>
</tr>
<tr>
<td>South Africa</td>
<td>1991</td>
<td>1.0</td>
<td>0.50</td>
<td>31.6</td>
<td>Hungary</td>
<td>1995</td>
<td>0.8</td>
<td>0.34</td>
<td>33.0</td>
</tr>
<tr>
<td>Mauritius</td>
<td>1992</td>
<td>0.4</td>
<td>0.01</td>
<td>13.5</td>
<td>Poland</td>
<td>1995</td>
<td>0.7</td>
<td>0.22</td>
<td>19.5</td>
</tr>
</tbody>
</table>


(a) R&D financed by productive enterprises (UNESCO), or by industry (OECD) as percent of GNP.

(b) Last available total R&D as percent of 1995 income ($) using income figures from World Development Report 1997.

Korea is followed by Japan and the OECD technological leaders, with Taiwan as the next developing country in 11th place; unlike Korea, more than half of Taiwanese R&D is financed by the government because of the large presence of SMEs. Singapore, at 20th place, is the next developing country on the list.
R&D propensities diverge widely in the developing world, and the ranking (at least at the top) is very similar to that yielded by the skill figures. Korea and Taiwan lead the developing world, the former by a large margin, followed by Singapore and then other countries. Hong Kong does not figure in R&D, with the total only coming to 0.1 percent of GDP (the industry-financed figure is not available but is likely to be very low as well). At the very bottom are some large African and Asian countries (the smaller African countries do not even have R&D data). So, surprisingly, are most of the new Tigers, highlighting the very low technological content of their industrial activity. This has not held back their past export growth, but is likely to become a constraint in the future as their main competitive advantage, in low cost assembly, is challenged by newer entrants.

The most interesting lessons for technological development thus come from the three mature Tigers. How did they stimulate technological activity? Take them in turn.

**Korea:** The Korean government supported technological effort directly in several ways. Private R&D was directly promoted by incentives and other forms of assistance. There were a number of direct incentives. These included tax-exempt TDR (Technology Development Reserve) funds, which were subject to punitive taxes if not used within a specified period. The TDR funds could, however, be used for investment in the first venture capital fund (Korea Technology Development Corporation, launched with World Bank assistance) and in collaborative R&D with public research institutes. The government also gave tax credits for 125 percent of R&D expenditures as well as for upgrading human capital related to research and setting up industry research institutes, accelerated depreciation for investments in R&D facilities and a tax exemption for 10 percent of cost of relevant equipment. It reduced import duties for imported research equipment, and cut excise tax on technology-intensive products. The KTAC (Korea Technology Advancement Corporation) was set up to help firms to commercialise research results; a six percent tax credit or special accelerated depreciation provided further incentives.

The import of technology was promoted by further tax incentives: transfer costs of patent rights and technology import fees were tax deductible; income from technology consulting was tax-exempt; and foreign engineers were exempt from income tax. In addition, the government gave grants and long term low interest loans to participants in "national projects," which gave tax privileges and official funds to private and government R&D institutes to carry out these projects. The Korea Technology Development Corporation provided technology finance. However, the main stimulus to industrial R&D in Korea came less from specific incentives than from the overall strategy that created large firms, gave them finance and protected markets, minimised their reliance on FDI, and forced them into export markets. This is why, for instance, Korea now has 25 times higher R&D by industry as a proportion of GDP than Mexico which has roughly the same size of manufacturing value added but has remained highly dependent on technology imports.

**Taiwan:** While the growth of Taiwanese R&D has some similarities to Korea’s, there are important structural differences. The Taiwanese government has a more arm’s length relationship with industry and did not promote the growth of large private conglomerates. It started to promote the development of local R&D capabilities in the late 1950s, when its growing trade dependence reinforced the need to enhance local innovative effort to upgrade and diversify its exports. A science and technology programme was started in 1979, targeting energy, production automation, information science and material science technologies for development. In 1982, biotechnology, electro-optics, hepatitis control
and food technology were added to this list. The S&T Development Plan (1986–95) continued strategic technology targeting, aiming at a total R&D of two percent of GDP for 1995; it did not quite achieve this — it reached 1.8 percent by that year.

Around half of R&D in Taiwan is financed by the government, though the contribution has come down over time. Private sector R&D has been weak relative to Korea’s because of the preponderance of small and medium enterprises (SMEs) which cannot afford the large minimum investments involved in much of industrial research. However, enterprise R&D has risen over time as some local firms have grown and (like Acer and Tatung) become significant multinationals. Such R&D has been encouraged over the years by a variety of incentives: provision of funds for venture capital; financing for enterprises that developed “strategic” industrial products (of which 151 were selected in 1982 and 214 in 1987); measures to encourage product development by private firms by providing matching interest-free loans and up to 25 percent of grants for approved projects; full tax deductibility for R&D expenses, with accelerated depreciation for research equipment; special incentives for enterprises based in the Hsinchu Science Park (with government financial institutions able to invest up to 49 percent of the capital); and requiring larger firms to invest (0.5–1.5 percent of sales, depending on the activity) in R&D. The government also launched large-scale research consortia, funded jointly with industry, to develop critical products such as a new generation automobile engine, 16M DRAM and 4M SRAM chips.

**Singapore:** The Singapore government launched a S$2 billion five-year technology plan in 1991. A number of sectors (information technology, microelectronics, electronic systems, materials technology, advanced manufacturing technology, energy and water resources, environment, biotechnology, food-agrotechnology and medical sciences) were selected for development. An R&D target of two percent of GDP by 1995 was set; as with Taiwan, however, the target was not met (in Singapore’s case by a larger margin). The new science and technology plan, launched in 1997, doubled S&T expenditures, to S$4 billion over five years, of which 30 percent is directed to strategic industries picked by the government.

There are several schemes to promote R&D by the private sector. The Research Incentive Scheme for Companies (RISC) gives grants to set up “centres of excellence” in strategic technologies, and is open to all companies. The R&D Assistance Scheme (RDAS) gives grants for specific product and process research that promotes enterprise competitiveness, and is also open to all companies. The Cooperative Research Program gives grants to local enterprises (at least 30 percent local equity) to develop their technological capabilities by working together with universities and research institutions. The National Science and Technology Board initiates research consortia to allow companies and research institutes to pool their resources for R&D, and five consortia are already in existence (on marine technology, aerospace, enterprise security architecture, digital media and advanced packaging). The Innovation Development Scheme (IDS) provides a 50 percent grant to all promising innovation projects; the latest round provided S$130 million to 90 companies, local and foreign, in April, 1997. According to the government, these schemes have succeeded in raising the share of private R&D to 65 percent of the total. The Singapore government also plays a catalytic role in promoting selected technologies.
Financing Technological Investments

This section is not concerned with financial interventions in general but with the ability to finance investments in technology development. Such ability becomes increasingly important at higher levels of economic development. At low levels of industrialization, when firms are small and using “easy” technologies, with low capital requirements and limited possibilities of improvements, specialised technology finance is not an important consideration. Working capital covers most technology development activities (production engineering, quality improvement and productivity improvement); though even here there is a risk that sufficient financing will not be available to small firms without proper collateral. As development proceeds, the financing gap may be more serious. Enterprises need to undertake long-term and risky investments in new technologies, and new technology-based start-ups, without a track record, need to raise initial risk capital. The normal financial system is generally unable to finance such investments; large firms can cross-subsidise their R&D activity while smaller ones have to depend on internal or family sources. All the well-known capital market failures in developing countries apply with even more force to technological investments, since the capacity to assess risk and the willingness to undertake it add to the usual problems of asymmetric information and moral hazard.

Korea: Korea’s policies to encourage activities and firms via credit allocation and subsidisation were inherent in its industrial policy from the start (World Bank, 1993). As the industrial sector matured and entered more demanding areas of technology and the government reduced the direct allocation of credit, its role in technology financing increased rather than decreased. This was also aided by the fact that the emerging “rules of the game” made other forms of subsidies and grants to industry unacceptable, while technology financing remained a permissible form of intervention. The government provided technology financing in the form of both grants and loans (often directed and subsidised). A variety of institutions, like venture capital companies, banks, credit guarantee companies and others were used to channel funds to a variety of users in a variety of forms.

The scale of technology financing in Korea was truly impressive, though the government feels that it is still inadequate for its needs. This accounts for the constant setting up of new schemes, targeted at smaller firms and the fostering of collaboration with research institutes. The figures also indicate that there is tremendous technological dynamism in the SME sector, though the chaebol continue to account for the bulk of R&D expenditures. The extent of selectivity in technological activity remains very high, with no remission in the strategy of identifying and targeting specific areas for research activity. It is not possible to evaluate how effective the various schemes have been in stimulating new research or how well the targeting has worked. Some of the financing may well have been wasteful, and university and research institute linkages with industry remain weak and could be further strengthened (Kim, 1996). However, it is likely that the schemes have generated several commercially useful technologies and led to valuable spillovers and linkages among the actors. The research institutions may also have created a lot of useful learning on research techniques that fed into private sector R&D.

Taiwan: Taiwan has also developed a comprehensive system for financing technology activity. In the early 1980s, the government felt the financial system was failing to meet the need of technology-based enterprises. It set up a capital investment fund of NT$ 800 million in 1983, which it augmented in 1991 by a second fund of NT$ 1.6 billion. By mid-1993 it had 23 venture capital companies, which had invested some NT$ 9 billion
(US$ 340 million) in nearly 400 companies in high technology industries (nearly half the funds went into two activities, information and electronics).

**Technology Infrastructure and SME Support**

The technology infrastructure consists of four sets of institutions. The MSTQ structure (consisting of metrology, standards, testing and quality institutions) provides the basic "language" and measures of all technological activity. Public, private and collaborative R&D institutions conduct basic, applied and contract research. The university and technical college system does basic research as well as applied work for industry. Technical extension services help small and medium enterprises. Some countries also have institutions to provide information on foreign sources of technology, help firms to match-make with potential technology suppliers, commercialise technologies developed in public research bodies, stimulate innovation networks and promote new entrepreneurs.

This is in addition to the physical infrastructure that supports R&D — science parks, technology cities and the like — and the institutions that provide the human capital for technology. A significant part of the knowledge infrastructure is intended to provide the "public goods" of technological activity, such as standards, information, extension or basic research. Some fill in for the private sector until sufficient capabilities have developed to undertake the activity. And some substitute for private services. In general, these institutions are a country's "antenna" on knowledge creation in the world, monitoring trends, translating them to practical local use, training people in their use, creating new technologies and diffusing information to enterprises and researchers.

Unfortunately, the reality of public technology institutions in developing countries tends to be very different. Many institutions do not support productive technological activity. Research bodies are generally delinked from the sectors they are to serve, doing basic research of poor quality and no practical use. Many are out of touch with international trends, have outdated equipment and libraries and employ underpaid, badly managed and unmotivated personnel. Even service providers like extension or quality bodies tend to be badly staffed and managed, and do little to help their prospective clients. Universities do little research, and cannot link what they do to what enterprises need. As a consequence, in most developing countries enterprises have little regard, and even less time, for public sector technology institutions or universities. Nevertheless, the need for good knowledge infrastructure is undeniable. The technological leaders in Asia have invested heavily in improving their infrastructure institutions, as the following examples illustrate.

**Korea:** The Korean government set up a large array of technology infrastructure institutions. In 1966 it launched KIST (Korea Institute of Science and Technology) to conduct applied research for industry. In the early years, KIST focused on solving problems of technology transfer and absorption. In the 1970s, the government set up other specialised research institutes related to machinery, metals, electronics, nuclear energy, resources, chemicals, telecommunications, standards, shipbuilding, marine sciences, and so on. These were largely spun off from KIST, and by the end of the decade there were 16 public R&D institutions. In 1981 the government decided to reduce their number and rationalise their operations. The existing institutes were merged into nine under the supervision of the Ministry of Science and Technology. KIST was merged with KAIS (Korea Advanced Institute of Science) to become KAIST, but was separated again — as KIST — in 1989.
The government's strategic thrust in this sphere was mainly a series of national R&D projects launched in 1982. These were large-scale projects regarded as too risky for industry to tackle alone but considered in the country's industrial interest. National projects were conducted jointly by industry, public research institutes and the government, and covered activities like semiconductors, computers, fine chemicals, machinery, materials science and plant system engineering. “Centres of excellence” were set up to boost long-term competitiveness in these fields. National projects were a continuation of policies to identify and develop Korea's dynamic comparative advantage, orchestrating the different actors involved, underwriting a part of the risks, providing large financial grants, and filling in gaps that the market could not remedy.

Since the early 1980s a number of laws were passed to promote SMEs, leading to a perceptible rise in their share of economic activity (over 1975–86 the share of SMEs in employment, sales and value added rose by at least 25 percent). This policy support was crucial to the reversal in their performance: it covered SME start-up, productivity improvement, technology development and export promotion. A host of tax incentives was provided to firms participating in these programmes, as well as finance at subsidised rates for using support services, credit guarantees, government procurement and the setting up of a specialised bank to finance SMEs. A number of other institutions were set up to help SMEs (such as the Small and Medium Industry Promotion Corporation to provide financial, technical and training assistance and the Industrial Development Bank to provide finance). The government greatly increased its own budget contribution to the programme, though SMEs had to pay a part of the costs of most services provided to them.

To promote subcontracting to SMEs, the government enacted a law designating parts and components that had to be procured through them and not made in-house by large firms. By 1987 about 1200 items were so designated, involving 337 principal firms and some 2200 subcontractors, mainly in the machinery, electrical, electronic and shipbuilding fields. By this time, subcontracting accounted for about 43 percent of manufacturing output and 65-77 percent of the output values of the electrical, transport equipment and other machinery industries. Generous financial and fiscal support was provided to subcontracting SMEs to support their operations and technology. Subcontracting SMEs were exempted from stamp tax and were granted tax deductions for a certain percentage of their investments in laboratory and inspection equipment and for all their expenses on technical consultancy. Subcontracting promotion councils were set up by industry and within the Korea Federation of Small Business to help SME contracting, arbitrate disputes and monitor contract implementation.

Taiwan: Taiwan’s technology infrastructure for supporting its SMEs is comprehensive and well funded. In 1981, the government set up the Medium and Small Business Administration to support SME development and co-ordinate the several agencies that provided financial, management, accounting, technological and marketing assistance to SMEs. Financial assistance was provided by the Taiwan Medium Business Bank, the Bank of Taiwan, the Small and Medium Business Credit Guarantee Fund, and the Small Business Integrated Assistance Center. Management and technology assistance was provided by the China Productivity Center, the Industrial Technology Research Institute (ITRI) and a number of industrial technology centres (for metal industry, textiles, biotechnology, food, and information). The government covered up to 50-70 percent of consultation fees for management and technical consultancy services for SMEs. The Medium and Small Business Administration established a fund for SME promotion of
NT$ 10 billion. The Center-Satellite Factory Promotion Programme integrated smaller factories around a principal one, supported by vendor assistance and productivity raising efforts. By 1989 there were 60 networks with 1,186 satellite factories in operation, mainly in the electronics industry.

Several technology research institutes support R&D in the private sector. The China Textile Research Center, set up in 1959 to inspect exports, was expanded to include training, quality systems, technology development and to directly acquire foreign technology. The Metal Industries Development Center was set up in 1963 to work on practical development, testing and quality control work in metal-working industries. It later established a CAD/CAM center to provide training and software to firms in this industry. The Precision Instrument Development Center fabricated instruments and promoted the instrument manufacturing industry, and later moved into advanced areas like vacuum and electro-optics technology.

The most important center was the Industrial Technology Research Institute (ITRI). ITRI conducted R&D for technology projects considered too risky by the private sector. It had seven laboratories, dealing with chemicals, mechanical industries, electronics, energy and mining, materials research, measurement standards and electro-optics, but electronics was the institute’s principal focus, with its Electronics Research & Service (ERSO) division accounting for two-thirds of the Institute’s $450 million budget. ERSO has spun off laboratories as private companies including United Microelectronics Corporation (UMC) in 1979 and in 1986 the Taiwan Semiconductor Manufacturing Company (TSMC), Taiwan’s most successful integrated circuit makers. The Institute for the Information Industry (III) was set up to complement ITRI’s work on hardware by developing and introducing software technology.

The government also occasionally played a lead role in importing very advanced technologies. It entered into a joint venture with Philips to set up the Taiwan Semiconductor Manufacturing Company, the first wafer fabrication plant in the country (today one of the leaders in the world). The government strongly encouraged industry to contract research to universities, and half of the National Science Council’s research grants (about $200 million per year) provided matching funds to industry for such contracts. The Program for the Promotion of Technology Transfer maintained close contact with foreign firms with leading-edge technologies in order to facilitate the transfer of those technologies to Taiwan.

The China Productivity Centre (CPC) promoted automation in industry to cope with rising wages and increasing needs for precision and quality. The CPC sent out teams of engineers to visit plants throughout the country to demonstrate the best means of automation and solve relevant technical problems, at the rate of approximately 500 visits making some 2000 suggestions per year. CPC also carried out more than 500 research projects on improving production efficiency and linked enterprises to research centres to solve more complex technical problems. The government set up a science town in Hsinchu, with 13,000 researchers in two universities, six national laboratories (including ITRI) and a huge technology institute, as well as some 150 companies specializing in electronics. The science town makes special effort to attract start-ups and provides them with prefabricated factory space, five-year tax holidays and generous grants.

Singapore: Singapore is renowned for its infrastructure in technology as well as in other fields. Here we consider only its support for SMEs. In 1962 the Economic Development Board (EDB) launched a programme to help SMEs modernise their equipment with funds
provided by UNDP. In the mid-1970s several other schemes for financial assistance were added; of these, the most significant was the Small Industries Finance Scheme to encourage technological upgrading. The 1985 recession induced the government to launch stronger measures, and the Venture Capital Fund was set up to help SMEs acquire capital through low interest loans and equity. A Small Enterprises Bureau was established in 1986 to act as a one-stop consultancy agency; this helped SMEs with management and training, finance and grants, and co-ordinating assistance from other agencies. In 1987, a US$ 519 million scheme was launched to cover eight programmes to help SMEs, including product development assistance, technical assistance to import foreign consultancy, venture capital to help technology start-ups, robot leasing, training, and technology tie-ups with foreign companies.

In addition, the Singapore Institute of Standards and Industrial Research (SISIR) disseminated technology to SMEs, and helped their exports by providing information on foreign technical requirements and how to meet them. The National Productivity Board provided management advice and consultancy to SMEs. The Technology Development Centre helped local firms to identify their technology requirements and purchase technologies; it also designed technology-upgrading strategies. Since its foundation in 1989, the TDC provided over 130 firms with various forms of technical assistance. It also administered the Small Industry Technical Assistance Scheme (SITAS) and Product Development Assistance Scheme to help firms develop their design and development capabilities. It gave grants of over $1 million for 29 SITAS in the past five years, mainly to local enterprises. Its earnings have risen to a level where its cost-recoverable activities are self financing.

The EDB encouraged subcontracting to local firms through its Local Industries Upgrading Program (LIUP), under which MNCs were encouraged to source components locally by "adopting" particular SMEs as subcontractors. In return for a commitment by the MNCs to provide on-the-job training and technical assistance to subcontractors, the government provided a package of assistance to the latter, including cost sharing grants and loans for the purchase of equipment or consultancy and the provision of training. By the end of 1990, 27 MNCs and 116 SMEs had joined this programme. Over the period 1976–1988, the total value of financial assistance by the Singapore government to SMEs amounted to S$1.5 billion, of which 88 percent was in the Small Industries Financing Scheme. Grants of various kinds amounted to S$23.4 million and the Skills Development Fund for S$48.6 million.

Export Promotion

New exporters, especially smaller ones, invariably face high costs in obtaining information on export markets: a major barrier to the development of competitive capabilities. The Tigers have invested heavily in overcoming this deficiency.

In Korea, in particular, the promotion system became a compelling means of forcing firms into export activity. Export targets were set at the industry, product and firm levels (Rhee et al., 1984) by firms and industry associations in concert with the government. There were monthly meetings between top government officials (chaired by the President) and leading exporters. Targets were also enforced by denying access to subsidised credit and import licences to poor performers, and subjecting them to severe tax audits. Successful exporters were given continued access to credit and licenses, and rewarded with perfunctory audits, publicity and prizes. Bureaucrats were also held responsible for meeting export targets in their respective industries, and had to keep in
close touch with enterprises and markets. There were regular studies of each major export industry, with information on world market conditions, competitors, technological trends, and so on. The selectivity of these promotion measures mirrored those used to promote infant industries.

Korea set up trading houses (owned by the chaebol) on the Japanese model, with preferential loans from the government for stocking products and preferential ceilings on foreign exchange holdings overseas. By 1976 there were 11 general trading houses that met the criteria set in terms of export volumes, paid-up capital and number of overseas branches. By 1982 they accounted for about half of Korean exports, with an average of 23 offices overseas (Rhee et al., 1984, p. 53). The initial heavy reliance on foreign buyers was reduced as local marketing capabilities were built up. Today, the chaebol have a massive international presence in practically all foreign markets and are investing enormous sums in building up an “image.”

Taiwanese exporters were given preferential tax treatment and access to credit on favourable terms. According to Wade (1990), they were encouraged to form cartels and were provided with quality assistance, marketing information and prizes. Local enterprises, predominantly SMEs, led the export drive, first by using the “Chinese connection” in Asia and then, as their horizons widened, by tapping Japanese trading companies and American mass-market buyers. In the 1960s, about 60 percent of textile exports were sold through Japanese sogo shosha, and even today these companies handle a third to half of Taiwanese exports. US buyers grew more important over time, with the government facilitating contacts with small suppliers, with aggressive assistance from industry associations and other private organisations. In addition, there also emerged large numbers of relatively small local trading houses, which proved valuable sources of technical, design and marketing information to Taiwanese exporters. In general, however, there was considerably less selectivity in promoting exports in Taiwan than in Korea; in particular, there was no targeting of specific products, industries or firms. While the Taiwanese government gave strong general incentives for its firms to go multinational and relocate uncompetitive facilities overseas, these were more functional than selective in nature.

An important institutional tool in all the Tigers was the establishment of trade promotion centres. The Hong Kong Trade Development Council is highly regarded for its “matchmaking” between foreign buyers and exporters. Taiwan’s China External Trade Development Council (CETDC) is, however, perhaps the most effective. The Singapore Trade Development Board (SRDB) was started later and was doing extremely well within five years; again, its scope is fairly limited because over 80 percent of manufactured exports are from MNC affiliates that do not need such assistance. The Korean Trade Promotion Council (KOTRA) was modelled upon the Japan External Trade Research Organisation; it is regarded as less effective than its Hong Kong and Taiwanese counterparts. Most Korean exports are handled by its giant trading companies that buy from smaller enterprises, or else emanate directly from the chaebol.

The main contribution of these organisations has been to help SMEs establish contacts with foreign buyers and break directly into new markets. They are highly skilled and professional. For instance, in the first three organisations “most of the officials... come from overseas-Chinese communities that are business-oriented in the extreme and highly sophisticated in international trade. Many of their higher officials have MBAs, postgraduate degrees in practical fields such as engineering or design, or substantial previous business experience. Most have degrees from first-rate universities. Each gives
its staff excellent training. All four have large computerised information bases, and actively help enterprises in establishing contact, participating in trade fairs and missions, conducting research and often providing industrial and packaging assistance.

**Limitations to Selective Industrial and Trade Policies**

**Limitations to Selective Interventions**

While it is easy to establish a theoretical case for interventions to promote industry, and to show that it was effective in some countries, this does not prove that it will work in practice in all countries. It is vital to bear in mind the risk of government failure. The history of development is replete with failed policies; the current liberalisation is partly a reflection of such failure. By the same token, the failure of some interventions does not mean that all interventions are undesirable. As long as market failures exist, wholesale reliance on free markets has costs, and it may be desirable to see how government failures can be overcome. Any industrial policy must include a consideration of which interventions suit its government capabilities and how such capabilities can be improved. The main constraints to selective policies are as follows.

**Lack of Clarity of Objectives:** Governments often have unclear or conflicting objectives in their economic and trade policies, making it difficult to implement interventions that call for a strong, unambiguous pursuit of efficiency. "Leaving it to the market" has the advantage that it imposes a clear set of priorities on policy makers and is easily understood by the actors. Clarity of objectives is a matter of political leadership rather than economic analysis, and its nature varies with the country's political system and over time.

**Information problems:** A government using industrial policy needs information on technologies, markets, local capabilities and institutions. The failures that afflict markets in optimising resource allocation also affect governments. The government may not have access to better information than firms; in fact, at the detailed level of products, markets and technologies it is very unlikely to do so. However, the government is better placed than individual agents to tackle co-ordination problems and externalities (Stiglitz, 1994). Moreover, it is possible to over-stress information problems involved in "picking winners" at the industry level. Neoclassical economists, in their quest for unique equilibrium solutions, cannot conceive how governments can ever optimise (overlooking the problems that private agents face in this respect). The issue facing governments is not, however, how to solve a gigantic optimisation problem. Given the possibilities of multiple equilibria, they have to decide upon which path they set the economy upon, not to calculate in detail the costs and benefits of different outcomes. Stiglitz (1966) notes "Good decision-making by the government necessarily involves making mistakes: a policy that supported only sure winners would have taken no risks. The relatively few mistakes speak well of the government's ability to pick winners" (p.162).

Developing countries choose technologies that are established elsewhere and, with some effort, they can obtain full information on the parameters involved. This is much easier than picking winners at the frontiers of innovation, the problem in advanced industrial countries. It does not matter very much which particular activity countries choose to promote between a reasonable range of technological choices. A coherent and integrated series of interventions can create winners, just what the interventionist Tigers did. Each defined a set of favoured activities (within a strategic framework), then mobilised factor
and product markets with appropriate interventions to guide enterprises and industries. To offset some dangers of intervention, they imposed export discipline. Mistakes were made, as with private investments, but flexible and rapid response ensured that the costs were kept down.

This does not mean that any set of activities would have worked equally well. The choices have, as noted, to be "reasonable," but what does this mean? Given the incremental and cumulative nature of technological learning, the activities had to rely on the existing base of skills and capabilities and the rate at which these could be increased. The technologies developed had to have commercial applications, and the private sector that was to use them had to have the financial wherewithal to mount the necessary investments. The main demands were organisational rather than informational. The mistake of import substituting governments was to ignore efficiency and international markets, and to assume away capability problems. In effect, they believed that the necessary capabilities existed within the country, or would be created automatically and without extra cost.

The best guide to the design of economic strategies is the experience of countries further along the road of industrial development that pursued successful policies. Of course, the particular model chosen has to suit the political and social conditions of the country: many governments firmly believe in market-oriented policies and may not wish to emulate the Korean strategy. Many may wish to do so but lack the political economy to direct and control enterprises: Taiwan is a more useful model for them. For those that believe in liberal trade policies and openness to FDI, the best model is Singapore.

Skills: Industrial policy is very demanding of the technical and administrative skills in short supply in most developing countries. Of course, the need for skills is not uniform, and depends on the level of industrial development and the degree of selectivity aimed for. The more advanced the industrial base and the more adventurous the strategy, the higher the levels of skills involved. In countries with small and simple industrial activities, the strategies can be devised far more easily and their implementation may need a smaller range of technical skills. The degree of selectivity must be geared to the capabilities of the bureaucracy and the pace at which it can be improved. Note that strong administrative capabilities are not required only for selective strategies; they are just as important for market friendly policies to provide education, manage competition policy, collect and allocate revenues and so on. Government skills are not given in perpetuity. Improved training, selection, salaries, promotion and incentives can improve them. The social status of the civil service is a determinant of its confidence and ability to liaise with the private sector.

Agency Problems: Policy makers have to devise suitable incentives and monitoring mechanisms to ensure that the "contract" between them and agents (mainly in the private sector) is enforced. The Tigers did this in different ways: the most important and common one was export performance as a monitoring and allocation device ("creating contests"), but there were others. Banks acted as agents of monitoring export policy. Regular meetings between industry and government permitted the inter-flow of information, backed by detailed industry and strategy studies. Close contact between the bureaucracy and industry was promoted, with personnel moving between the two. Korea’s promotion of the chaebol allowed the government to limit the number of agents, and to use them as interlocutors with the rest of the industrial sector. Industry associations also acted as interlocutors. They also ensured close co-ordination with the private sector (World Bank, 1993).
Inflexibility: Many interventions turn out to be costly not so much because they are poorly designed (private business makes huge mistakes all the time) but because changing course is difficult for governments and there is little accountability for the outcome. Clearly, all interventions have to be designed flexibly and monitored constantly so that mistakes can be rectified as they appear. There are precedents in the corporate sector on how this can be done, but the use of export performance is perhaps the best way to monitor export policies.

Sectional interests: While the "hijacking" of policies by sectional interests is a danger in most countries, regardless of the nature of policies, the danger is greater where the government has selective as opposed to functional interventions. Strong leadership and institutions, and internal checks on the allocation of favours, can offset this. That national interests can indeed dominate sectional interests is illustrated by the Asian experience.

Corruption: There may be several levels of official corruption: the higher the level the more difficult it is to solve. At lower levels, changes in monitoring, employment conditions, salaries and incentives may help reduce rampant corruption. At the top levels, however, if there is no one able to impose sanctions on wrong-doers and there is no genuine commitment to economic development, there is really no way of mounting selective, or indeed any useful development, policies. Venality at the top will also tend to breed and condone that lower down the scale, and it follows that the greater the risk of corruption the less selectivity should be exercised.

In general, the lower the capabilities, accountability and commitment of the government, the lower the degree of selectivity that it can safely be entrusted with. The lower the level of selectivity, the lower also the risks involved as well as the payoff in transforming the competitive structure. If a rational choice of strategy differentiated by country were possible, the optimal one would take into account present and future government capabilities. Unfortunately, governments do not choose strategies on a realistic assessment of their capabilities and limitations. External advisors or analysts may be able to provide such an assessment, but there is little guarantee that a government will base its strategy on such advice.

Changing Environment for Policy

Developing countries are faced with a world in which industrial policy faces more limitations than at the time the Asian Tigers mounted their interventions. Four factors affect this, two to do with the changing economic reality and two with the policy framework adopted by national governments or imposed upon them by the international "rules of the game." They are taken in turn.

Accelerating Technical Change: So rapid and sweeping is technical change that analysts see the emergence of a new "technological paradigm" (Freeman and Perez, 1988). New technologies are highly intensive in the use of information: new IT skills and the ability to network are among the most important determinants of success. Innovation is changing the nature of knowledge and product flows across countries (flows of people remain more limited and controlled), with rapid and often striking changes in national comparative advantages. Transport and communications costs are falling, and a growing portion of knowledge is available via the Internet at negligible cost. Part of the flow of information is in the private domain, within companies or closed networks; a great deal is publicly available, at least to those with equipment and skills to tap it.
Thus, today's world is different from that when the strategies described above were formulated. Rapid technical change reduces the scope for, and raises the risks of, some forms of industrial policy: isolation from rapidly moving technologies may hold back the development of competitive capabilities and make targeting more difficult. At the same time, however, there is greater need to build the (more advanced) capabilities to absorb new technologies. Free market forces are not conducive to costly and prolonged learning processes, and simply exposing a developing economy to trade and investment may not take it much beyond the exploitation of static skills and low wages.

**Globalization of Production:** Technical change and globalization are reflections of the same phenomenon. The pace and rising costs of innovation make it necessary to sell to world markets and to set up global production and distribution structures, while falling transport and communication costs and new organisational techniques make this more feasible. MNCs are increasingly integrated production structures across countries (within their own networks as well as between themselves and independent firms) and rationalising supply and distribution structures. This is leading in many countries to export specialisation in narrow industrial activities geared to MNC needs. MNCs themselves increasingly dominate trade, so that their participation becomes essential for certain kinds of export dynamism.

However, as noted, globalization is a highly uneven process. Market driven trade and investment are not leading to an equitable distribution of the benefits of new technology. The spread of underlying comparative advantages is even less equitable. Innovation continues to be the preserve of a handful of countries; within them the process is concentrated in a relatively few large enterprises. While the main innovators are the large multinationals, the engines of globalization, their foreign investment activity does not lead the knowledge base to be more widely diffused. The technology that MNCs deploy in any location depends on the ability of that location to absorb that knowledge — to provide the “immobile elements” (UNCTAD, 1999). Those with low capabilities receive the simplest operational know-how, with the danger that their competitive base remains static. Those with high capabilities receive more advanced forms (in some cases the R&D process itself) and the base advances over time in interaction with MNC activity. There is new entry from developing countries, but from a small number led by the Tigers analysed here. The majority of developing countries remain on the periphery, facing the risk of increasing marginalisation.

As with technical change, globalisation renders some past industrial policy instruments less useful or most risky and costly. For instance, the exclusion of FDI is less feasible as a means of boosting domestic technologies: few countries have the ability to match international innovation on their own. The same applies to exporting scale-intensive products like automobiles or high technology ones like electronics: few developing countries have domestic enterprises with the ability to mount export drives to match MNC integrated production networks. The ability to impose conditions on MNCs is also more limited, as more countries seek FDI. Even the independence of MNC affiliates from parent companies is circumscribed by tighter organisational and information controls.

However, this does not imply the need for a *laissez faire* policy in investment or capability building. As rational profit-making enterprises, MNCs exploit existing rather than potential competitive advantages in host countries — it is up to the countries to improve their advantages by raising skills and capabilities. Many simple manufacturing activities are not undertaken by MNCs, and their affiliates also need a strong base of local suppliers to boost local content: both need policies to promote domestic enterprises. In
fact, the stronger the domestic enterprise base, the higher the “quality” of inward FDI and its spillover benefits. Then, as the Singapore example shows, attracting FDI into high value activities needs targeting and intervention. Thus, a strong role of government remains in a globalising world, in some respects stronger than before.

Policy Liberalization: The most direct influence on industrial policy is the widespread move to liberalisation. Practically developing countries are reducing trade and investment barriers, willingly or under pressure from the Bretton Woods institutions, aid donors and, increasingly, WTO. The forces driving liberalization are partly ideological in nature, but they also reflect disillusionment with import substituting, state-ownership strategies. Many effects of liberalization have been beneficial. Existing comparative advantages that were held back by inefficient controls are now better exploited. Increased competition has forced enterprises to raise efficiency or die out. Improved resource allocation between enterprises and activities has sometimes promoted growth and investment. The more open access to information has not only raised the flow of productive knowledge but also raised awareness of the need for policy reform.

At the same time, liberalization is damaging industry in many countries. The case of SSA is the most striking (Lall, ed., 1999), but there are examples elsewhere, particularly in Latin America. Even where enterprises survive and upgrade production technology, there are instances of lower technological effort as they become more dependent on imported know-how. This holds back their technological deepening and affects their longer-term competitiveness in complex activities. Most important, the renunciation of trade interventions takes away the most powerful tool for promoting new activities and developing infant industries. The theoretical basis for liberalization is weak (Lall and Latsch, 1998), unable to support the massive superstructure of neoliberal policy built upon it.

New Rules of the Game: Policy liberalisation in developing countries is shaped, forced and reinforced, by the “rules of the game.” These are the rules, procedures and norms embodied in international trade and investment agreements; the arbiters are the donors, along with international institutions like the IMF, WTO and World Bank. These rules narrow further the role of government in economic life, and subject economies to competition and globalization more strongly (though advanced countries are able to manipulate the rules better than others). Under WTO, they acquire greater force, since the rules now have sanctions to back them up. The rules are spreading to FDI, local content, government procurement, intellectual property rights, and services: under present trends, they will impose a “level playing field” on all participating countries. If the level playing field restrains the development of national capabilities, the new rules will increase the dominance of the strong and hold back the weak. This seems to accord with current trends.

To sum up, liberalisation, technical change and globalization mean that countries are faced with much stronger technological and competitive challenge than before. In theory, the new forces encourage and facilitate learning. They increase the efficiency with which knowledge is transmitted across countries, and remove many of the policies that cut countries off from information flows and distorted the incentives to utilise them. The exploitation of new technologies is undertaken with increasing rapidity in different locations by MNCs or by local firms. Level playing fields remove information barriers and lower transaction costs to enterprises. The same trends make it more difficult to mount industrial policy, partly for economic reasons and partly for political ones. They raise the speed of technical change, the quantity of information available and the breadth
Selective Industrial and Trade Policies in Developing Countries: Theoretical and Empirical Issues

and depth of skills and institutions needed to cope. If countries are thrust into this without the ability to cope, and without the tools to build that ability, they will remain beggars at the technological feast. In fact, they will be more marginal than before, since rapid exposure to competition would devastate their fledgling industrial sectors and destroy the small base of capabilities.

Industrial Policy in Africa

The poor performance of African manufacturing industry is well documented (see, for instance, Lall and Wangwe, 1998). The structure of manufacturing is backward, dominated by the (minimal) processing of natural resources and by simple consumer goods industries. Import liberalization (with competition largely from other developing countries) is devastating exposed industries, including the simple ones that led export growth in Asia. Despite low wages and welcoming policies on FDI, there is little sign of resources flowing into new, export-oriented manufacturing activities. Apart from primary resources, linkages of large firms with local suppliers remain minimal and superficial. Technological efficiency and dynamism remain low. In many cases manufacturing has been a drag on, rather than engine for, economic growth and structural transformation. Governments have intervened to promote industry, but with these abysmal results. A lot has been written about the failure of government in Africa (for comprehensive surveys see Soludo, 1997, 1998), and on drawing lessons from the Asian Tigers (Stein, 1995).

Part of the explanation for poor industrial performance in SSA lies in exogenous shocks: droughts, wars, internal conflict, political instability, adverse terms of trade and so on. Bad macroeconomic management, debt, inflation and uncertainty also played important roles. So did policies affecting industry: enforced public ownership, nationalisation, price controls, infrastructure lags and so on. All these taken into account, there is still a considerable part that is due to poor industrial policy: mistakes in trade, domestic competition and ownership policies, wrong interventions in technology transfer and development, weak human capital creation and neglect of institutional support. But why did industrial policies have such poor effects? Part of the reason lies in structural features and part in the design and implementation of policies.

Structural Factors: The structural factors that deterred industrial development include the small size and fragmentation of local and regional markets, poor infrastructure, low entrepreneurial base and weak human, particularly technical, capital (with gaps with other regions rising over time).

Policy Factors: These include:

- poor information and capabilities on the part of policy-makers, neglect of lessons from other regions, insufficient data, inability to withstand analytical pressure from outside agencies and experts, weak negotiation in and preparation for WTO membership and so on;
- lack of clear industrial policy objectives, conflicts with other objectives;
- excessive and prolonged protection not offset by export promotion measures or pressures that would provide incentives for learning and upgrading;
- inadequate domestic competition policies to stimulate technological upgrading, permit the entry of dynamic new enterprises and enforce competitive behaviour;
- lack of coherence between product and factor market policies, such as education and training, technology support, capital markets and export promotion;
• inability to target and attract FDI into efficient manufacturing and facilitate the upgrading;
• weak, often non-existent, institutional structure for supporting capability development: training institutions, effective quality and standards bodies, R&D support and SME extension services; practically no linkages between institutions that do exist and the industrial sector;
• lack of involvement of industrialists in policy design and implementation;
• lack of monitoring of industrial policy and its effects, a lack of flexibility in adapting policies to changing world market and technological conditions;
• weak legal structures to facilitate property rights and contract, dispute resolution and so on; and
• widespread and constant political intervention, corruption at all levels, lack of commitment and infighting by bureaucrats and leaders.

The Way Forward

What is the way forward for industrial policy in Africa? Most countries are already committed to liberalization and options have to be considered in this context. The base of technological capabilities in Africa (what remains of it) is weak. The liberalisation process is rapid and not guided by a strategy. There is little attempt to gear the opening up to the learning needs of different activities. Support policies are virtually non-existent; on the contrary, the institutions that can assist the adjustment process are weak and isolated from industry. This places the entire burden of adjustment on firms that lack the knowledge, resources and skills to upgrade to international levels. Clearly, industrial policy is necessary but in a new form.

The scope for industrial policy left under the new rules remains a grey area. Much may depend on the skills of the government concerned in designing measures that are permitted or camouflage those that are not. It also necessary to build strong government capabilities to deal with trade disputes in WTO; all major exporting countries are now engaged (voluntarily or otherwise) in constant battles with importers or competitors on detailed, technical matters that can have important repercussions on their export and import performance. Countries that fail to develop the legal and economic expertise to cope with these disputes risk losing competitive advantage.

In any case, the new rules do not completely rule out industrial policies. The opening up is more complete in some countries than in others, and there is still scope to alter the pace and content of the opening up. Most countries have a grace period before they have to fully liberalise trade and investment. Depending on the WTO terms agreed upon, they might be able to further prolong the period or seek exceptions for particular industries or in particular periods. Measures such as export subsidies, local content rules, new quantitative restrictions on trade, discrimination against investors by origin are very difficult or impossible to launch now: the only flexibility remains on how quickly and uniformly they are phased out. For Sub-Saharan Africa, therefore, the management of the liberalisation process that offers one potential avenue for the exercise of industrial policy over the medium term. The others, considered below, are supply-side policies of the type being increasingly used in industrial countries as part of competitiveness strategy.

The TC approach suggests the need for gradualism in the liberalisation process. It proposes the removal of high, sustained and indiscriminate protection and other barriers
to competition. These distort the incentive structure and curtail or distort the process of capability building. However, the introduction of competition has to be subject to the time and resource needs of learning. Firms brought up in a protected environment have to relearn competitive capabilities, and this calls for clear signals on liberalization along with supporting measures in factor markets. The provision of these measures is a complex task, involving active government policies and guidance. It has to be undertaken with a strategy, within a time-bound programme and with the final objective of becoming fully competitive.

Asia offers lessons in liberalization as well as intervention. Korea, for instance, started to liberalize in the 1980s in a gradual manner, retaining considerable control over resource allocation during the process. It accompanied opening up with a strategy of restructuring and upgrading, rather than a rapid, indiscriminate and sweeping exposure to international market forces. The speed of liberalisation was based on a realistic, detailed and differentiated assessment of which activities were viable in the medium term, with the process geared to the learning and "relearning" needs of various activities. At the same time, there were strong pressures on industries to invest in building up new capabilities to face import competition within a limited period. It was designed to overcome market failures, not to ignore them. It involved close monitoring of the progress of liberalisation, and it requires that the government is able to address the supply-side needs of industries along with allowing a phased process of liberalisation. The strategy was developed in collaboration with the industrial sector, and pre-announced so that enterprises had time to adjust. Once announced, however, governments were able to stick to the programme to minimise backsliding and "hijacking" by inefficient performers.

This is clearly a better strategy of adjustment for African countries than the adjustment they are now undertaking. Note that to recommend a gradual and nuanced strategy of liberalisation is not to suggest that the sample countries simply abort the adjustment process. What is needed is not to delay the adjustment and then do little else, but to actively prepare for it in the grace period provided. Even with well-designed adjustment policies, the outcome cannot be expected to be the same as that of East Asia, since the initial conditions, capabilities, market size, location and infrastructures are very different. Government capabilities have to be greatly improved (with information, training, better incentives and greater insulation from the political process) to make gradual liberalisation work effectively. In contrast to the neoclassical position that the removal of governments restores economic efficiency, it is the strengthening of governments that is needed to make markets work properly. The most difficult part of an effective industrial policy is perhaps to design a coherent strategy. Most governments are not geared to this. Decisions affecting industrial development and competitiveness are scattered over an array of ministries and institutions: finance, trade, industry, labour, education, science and technology. These often have different objectives and communicate poorly, if at all, with each other. The first step is to set up an agency that can mount a strategy cutting across competing interests and using the resources of each ministry to further national aims. Something like a high-powered industrial development council, headed by a Cabinet minister and reporting directly to the head of government (who must be genuinely committed to industrial development), is an essential prerequisite.

Then comes the issue of which activities need to be specially promoted as engines of dynamic comparative advantage. This is ultimately a matter of informed judgement. Existing export activities have to be divided between those that need special efforts to be promoted and those doing well as they are. Among the former, a distinction has be made
between those which do not have a viable future ("sunset" industries) and those that do; the former should be treated with benign neglect. Labour-intensive activities like garments are not necessarily sunset industries, even though many East Asian countries are treating them as such. The Italian example shows how well exports can be expanded in a low technology, labour-intensive activity, as long as quality, design and flexibility can be raised sufficiently. This type of upgrading has to be a vital part of export strategy, not just picking new winners in high-tech activities. The selection has to be based on the current base of capabilities, the example of other countries, feasible rates of improvement in domestic factor markets and the expected evolution of demand.

In the absence of trade interventions and subsidies, how are these activities to be promoted? Governments have to rely mainly on supply-side support to selected activities. This can involve attracting FDI to targeted activities, with incentives for higher value added technologies, and building the skill, technology support and supplier base needed for foreign investors. It must also involve similar measures to strengthen domestic enterprises. Artificial constraints to competition have to be removed, and the usual biases in policy against SMEs removed. State owned enterprises must be reformed or privatised as necessary to make them efficient, and they must be subjected to the same market discipline as private enterprises. A range of support institutions must be built or improved. In addition, governments must support "horizontal" activities like training and technological effort by enterprises by giving non-specific incentives (Lall and Teubal, 1998). Exports must be supported by agencies that can help all firms to access information and markets.

Competitiveness policy as it has evolved in advanced industrial countries provides useful guides to acceptable strategies. Apart from the supply-side measures noted, these countries use tools like benchmarking to help enterprises understand their weaknesses and reach best practice levels. There is an increasing use of benchmarking for support institutions as well. Governments invest heavily in education and training, and provide incentives to enterprises to strengthen their training systems. They promote R&D and high-tech clusters, and pay particular attention to the creation of technology-oriented financial instruments. The upgrading of infrastructure, particularly that related to IT, is regarded as high priority. Technology policy is set by conducting "technology foresight" exercises to develop a consensus on future needs between industry, research bodies, academics and governments.

The private sector (generally through associations) plays a closely collaborative, often lead, role in all these efforts. Support institutions and universities are given incentives to be more responsive to industry needs. Many public services and agencies are privatised or thrown open to private sector provision. This can be very effective in such areas as training, testing, consultancy and marketing. Some countries target support policies to industry clusters rather than individual activities.

Beyond these generalisations, the specific forms industrial policy takes must depend on a host of context-specific factors. It is to be hoped that this study will illuminate these factors.
Notes


2 At the same time, the chaebol used their technological strengths to sell OEM products (mainly in the electronics industry) to the world’s leading innovative MNCs. OEM contracts proved a valuable means of accessing new technology, in particular the tacit knowledge that was difficult and costly to replicate locally.

3 Keesing (1988), pp. 9-10. Most institutions have substantial government financial support. The Singapore agency is fully funded by the government. The Korean one gets 70 percent of its funds from the government, the remainder from a levy on imports. That in Hong Kong is financed by an ad valorem levy on domestic exports and imports. The Taiwanese agency is funded by a fixed donation by exporters based on the value of exports. KOTRA had a staff of 933 in 1988, STDB of 350, HKTDC of 650 and CETDC of over 600.

4 The Tigers had different degrees and types of government commitment. For instance, Korea, with its tight government-chaebol nexus, was very different from Taiwan, where relations between government and business were much more arm’s length. Over time, tensions developed between the Korean government and the chaebol, especially in the 1980s as the government started to reduce its direct interventions and the chaebol felt they could do better without such interventions. However, what was common to all successful industrial policy was the commitment to achieving dynamic competitiveness: it was the realisation of this commitment that varied.

5 Interestingly, the case for infant industry protection is accepted by the World Bank study by Biggs et al. (1995), while the World Bank’s 1994 report on adjustment does not mention this critical need.

References


Economic ideas can matter; they can shape reality. But ideas are like seeds that must fall on fertile ground to germinate. Attention to the political economy of policy reform can help discover the fertile ground. If development economists are to exercise more influence, they will have to achieve greater understanding of pressing problems that are less amenable to technical analysis, more politicised, involve issues of constitutive rationality, and require institutional change. They will then better understand the causes of differences in development performance and how to institute policy reform.

In the neoclassical Hecksher-Ohlin-Samuelson (HOS) model, firms are supposed to compete based on static comparative advantages, and free trade maximizes both national and international welfare. Perfect competition is assumed, market failures do not exist, and trade serves no other purpose other than that of efficient exchange of goods and services to maximize individual and collective welfare. In this world, the pattern of trade would be determined entirely by comparative costs whereby the most efficient producers would supply the world’s requirements and the market mechanism would be the sole determinant of prices. If free trade economists ruled the world, there would be no trade policy. This is because autonomous trade liberalization is unequivocally good for the liberalizing country leading ultimately to global free trade. In this world there would be no trade treaties, not trade negotiations and no World Trade Organization. In addition, government intervention through trade policy must therefore be distortionary and harmful to distributional and allocative efficiency.

In the real world, things are dramatically different. Trade is negotiated and domestic trade policy is the norm rather than the exception. And within the political economy framework, intellectual legitimacy has been lent to other factors other than comparative costs. Governments and citizens know that dynamic comparative advantages can be deliberately created and that trade serves other purposes — especially in the conduct of foreign policy and in promoting national prosperity. All over the world, heavy but varying doses of interventions by governments are common features. Frey et al, (1996: 154) observe that “tariffs (and other trade restrictions) are prevalent in all periods and countries, and that there is a continual danger of ever-increasing protectionism in the world.” According to Dell (1988: 602) “there is not a single industrial country that did not employ vigorous protection at some stage in its history.” Economic history shows that governments everywhere generally create and maintain distortions in the pattern of trade for reasons they consider more valid than the economists’ sole criterion of efficiency. Since the Second World War, trade policy has increasingly been dispersed at four major levels — by national governments, commodity-based cartels, regional blocks, and multilateral institutions. Often the politics of policy designs pulls in opposite directions. For example, while the multilateral arrangements (various General Agreements on Trade and Tariffs, GATT; and the recent World Trade Organization, WTO, rules) as well as the prescriptions under the Structural Adjustment Programmes (SAP) by the World Bank and
the IMF push hard towards free trade regimes, national politics often opts for protectionism. While multilateral rules via WTO encourage "negotiated but complete liberalization," regional and national pressures are towards preferential and selective liberalization. What often emerges as the trade policies for individual countries are often the result of a balance (contestation) of power among the competing power blocks — domestic politics due to interest group pressure versus external demands tied to external obligations to regional arrangements and international institutions. The policy content, in recognition of the tension, tries to marry both the economic and political arguments.

Trade policy in Africa has been no exception to these tensions between economics and politics. Though with differences in scope and intensity, trade policies in most African countries have generally followed a discernible pattern marked by the prevalence of restrictions on trade. Despite the unilateral trade liberalizations leveraged by the Bretton Woods institutions under SAP, reforming Africa’s trade regimes towards freer trade has been extremely difficult. As a World Bank review of the African experience concludes:

Reversal of reform has been frequent. In seven of the countries examined, either restrictions which were removed were reinstated, or some existing barriers were strengthened to offset reductions in others. Nigeria, though it eliminated most quantitative restrictions (quotas and licensing) increased dramatically the number of import bans. Ghana, which was the only country to make great strides in cutting formal tariffs, reversed this with the implementation of large special taxes on imports. Cote d’Ivoire raised tariffs significantly, after having reduced QRs. In some cases the motive for reversal appears to be pressure from import-competing industries as they begin to experience competition from abroad (e.g., Cote d’Ivoire, Ghana). In others, resurgence of foreign exchange shortages have slowed the liberalization of tariffs (Madagascar), or reversed the foreign exchange market reform itself (Kenya) (Dean, et al., 1994:50).

The reasons for, or the determinants of, the policy behaviour have been subject of intense speculation. While most analysts would agree on the need for a simplified, strictly tariff-based, and competitive trade regime, explanations as to why governments seem reluctant or simply unable to implement these reforms beg for serious scrutiny. The gap in our understanding of the politics of trade policy reforms must be filled if progress can be made in trade policy reforms. The African case is further complicated because of lack of policy autonomy. This chapter attempts to expand the domain of analysis and improve trade policy literature by providing a more relevant framework for characterizing the trade policy process. By putting politics before policy it hopes to provide a new treatment that is not naïvely tied to any of the extremist characterizations that adorn the literature.

The chapter presents a critical overview of the dominant modes of explanations and broadens the range of explanations. It also examines the costs and benefits of trade policy choices and the constraints to effective design and implementation of trade policy reforms.

**Mainstream Explanations for Trade Policy Choices in Africa**

The mainstream explanation for trade policy choices is rooted in the new political economy model of the public choice vintage. Public choice model is an attempt to infuse the economist’s utility maximization concepts into policy-making behaviour. It is presumed that policy-makers tend to maximize their own utility by selecting policies that maximize their chances of staying in office. Distributional politics should therefore be at the heart of decision making since policy-makers are assumed to pander to the interests of
those critical to their re-election or maintenance of power. However, the political market is often fraught with deficiencies to the extent that the electorate is not able to correctly express its preferences through the ballot box. There might be the case of rational ignorance or rational abstention on the part of some voters, and in many cases the vast majority of the population with the dominant preferences are not organized enough to exert influences on the policy-makers.

For trade policy, the model points to the asymmetric political influence of competing interests. If, for instance, consumers are not happy with certain protectionist intention of the government, they are not able to use their large number to lobby the government because the costs of protection are widely distributed among millions of households. Sometimes it is the case that even potential beneficiaries from particular policies may be ignorant. For example, export oriented firms may not understand that their ability to export can be inhibited by their country's import barriers (WTO, 1995). On the other hand, import competing firms and workers employed in those firms understand clearly the costs of liberalization to them, and they are more likely to exert pressure and to lobby extensively for protection. In general, therefore, pro-protection forces are often better organized and equipped to force trade policy in their favour. For the organized groups, the lobbying expenses incurred are often more than compensated by the rents, which they capture from such activities.

Rent-seeking is thus an integral component of the public choice model. When government, for instance, creates monopoly rent out of a competitive industry, this automatically transfers consumer surplus to the producers and a deadweight loss to the consumers. If we assume that this is not a mere transfer as it is often the case, interested groups must compete for this surplus. It is not surprising therefore that huge sums of money are spent in the form of legal services, advertising, the services of ex-politicians, among others, in lobbying governments and their agents for the monopoly rents. Such expenditures represent an additional social cost to monopoly (Rowley et al, 1986). These activities use real resources but their direct output is simply zero. Thus tariff evasion, tariff-seeking lobbying and premium seeking import licenses are privately profitable activities, but they do not produce goods and services that enter a conventional utility function (Bhagwati, 1982). The justification for these huge up-front lobbying expenses is derived from the perception that government created rents are often durable. But not all government-generated rents are durable. Political market equations change for a variety of reasons including shifts in preferences of the key players, government employees change, and certain changes are technological or due to supply adjustments.

Returning to the question of trade policy reform, this theory becomes relevant because tariffs, quotas and other forms of trade protection create monopoly rents. To the extent that additional resources are employed by lobbyists to create or maintain trade protection, one must count these as additional social costs to the society. Because of the implied wastage in the system, it pays to liberalize a trade regime when the perception and the expectation of the lobbyists indicate that rent-seeking activities will be on-going and that government intervention is durable. This perceived durability condition is one that still signals to new rentiers the profitability of deploying resources (increase wastage) even when the initial rent has been distributed. Society can now escape the present value of future on-going rent-seeking by introducing a durable de-regulatory reform. It is the vulnerability of the monopoly rent, in this case the trade protection measures, that makes it attract deregulating attention, and become a justifiable target of reform. But because of the sometimes entrenched interest groups, the status quo bias is likely to allow
The Politics of Trade and Industrial Policy in Africa

Protectionist policies to persist in spite of its potentially welfare-reducing effects. Current beneficiaries of protection are unsure of the dynamic benefits of liberalization and are thus likely to organize to oppose it. Thus, purely rational politics could lead to irrational economic policies.

This model has been used by the new political economists to characterize Africa's policy making generally and trade policy in particular. For example, Bates (1981) argues that the reason why African governments tax agricultural exporters so exorbitantly is to transfer wealth from the politically unorganized rural groups to vocal urban groups. With regard to trade policy, Bienen (1991: 76-7) suggests that:

Trade liberalization policies are often extremely hard to formulate and implement in Africa precisely because it is powerful officials (civilian and military) who benefit from the controls that have been established over imports and exports. It is government officials who ration and distribute scarce imports, including foreign exchange. They realize the rents which accrue from the systems they construct and control. Of course, officials have allies — import-substituting manufacturers and urban workers employed by state enterprises who are interested in subsidized urban consumer goods.

In essence, Bienen's argument is that it is public officials themselves, not necessarily the organized interest groups, that are the major beneficiaries of protection and therefore the most potent force against reforms. Whether society-based interest groups or state-centred interests, the central prediction of the model is that policies are beholden to special interests. It is based on a model of a pluralist society in which policy is the result of the pressures exerted upon policy-makers by large numbers of competing groups in society. The state merely provides a more or less neutral institutional and procedural framework in which conflicting groups form coalitions, and policy change occurs because different coalitions of interests manage to gain power and impose their preferred solution on society (Meier, 1991).

The Limits of the Mainstream Explanations

While the rent-seeking-public choice model provides some powerful insights about the policy environment, especially in sensitizing policy analysts and policymakers about the need to be sensitive to the politics of winners and losers from any policy, the model is too restrictive to shed light on a number of policy questions. First, this distributional or interest group politics is too static and deterministic. The model of rational choice political economist endogenizes the policy maker, allowing for no outside or exogenous influence on policy choice. In this instance, it is difficult to understand how an economist, as an adviser, can influence policy decisions, or more generally, the model makes it difficult to understand why policy-makers sometimes change policies since the relative powers of interest groups rarely change very quickly. We have seen some dramatic changes in policies, reversals and counter-reversals. The public choice would assume that these changes result from the changing preferences, relative powers of the interest groups and their perceived durability or otherwise of the policy intervention. Alternatively, the model would assume that such policy changes result from changes in the composition of the dominant social coalition that forms the government.

Second, there is often an element of circularity in the distributional policy argument. The argument is often in an ex-post fashion. Once an industry is located in a village with certain facilities, the model cannot see how it could have been sited there without some
organized groups lobbying for it. No doubt, once the industry is sited, the villagers might organize to protect it, but it does not at all follow that they must have lobbied for the industry in the first instance. Also, an important question is whether alternative policies could not have benefitted the special interest groups more than existing ones. In other words, it is possible that interest groups can change their preferences and back policies that were previously thought to hurt them.

Also, there are some policy outcomes that evidently do not benefit any group. For example, the fiscal crisis into which many African countries fell, and the attendant macroeconomic instability — high inflation, widespread shortages, reduced real incomes, etc, — do not create any obvious winners. So, which group must have lobbied for policies that induced such outcomes? Even if a particular interest group did not fully understand the macroeconomic implications of their support for a particular policy stance, is the policy space devoid of counter-intelligence and pressure?

Another limitation of the interest group approach is the observation by many analysts that the indigenous business class (organization) in Africa is, with the exception of a few countries, generally “weak, embryonic and lacking in independence because it has usually grown up under the protection and privileged support of the state elite”2. Organized business groups have not participated actively in the shaping of general economic policies, and rather concentrate on seeking exceptions, modifications, or other concessions in the application of policies that affect them. Businesses use all kinds of means to have direct access to the relevant bureaucrats, and attempt more to influence policy implementation than policy formulation (that is, through evasion, bending rules and bribes, among others). In many countries, interest groups lack the resources to command leverage and interact with government. In several instances also, the interests of businesses are heterogeneous and sometimes conflicting between small and large firms, exporters and manufacturers for home market. It is shown that “outside South Africa, industrialists rarely constitute a unified pressure group on trade policy except in so far as they all want to operate at lower cost” (Healey et al, p.75). Indeed, a study by Mosley et al (1991) finds very little evidence of urban coalitions between industrialists and labour or among industrialists in response to trade policy reforms. Trade unions play little role because in many cases, they are either suppressed or their leadership co-opted by the government.

While the above discussions might be representative of the average cases in Africa, country evidence could provide further illumination especially for countries such as Nigeria, Kenya and South Africa with large and highly developed civil society. However, aside from anecdotal references to their influences, providing empirical proof of their impacts on the policy process is rather difficult. For example, as Dunn (1986: 165) observes:

No one understands interest group representation in any African country particularly well since it needs an accurate understanding of the political motivations of specific interest groups and the process of lobbying which for elite organizations is not very public, is rather informal and can involve rather delicate ethnic issues.

References to ethnic issues touch upon a key component of power bases of most African states. The state’s own predisposition to survival induces it to “bribe” or “patronize” its own primary constituency (which might be the ethnic group of the president or the military elite in case of dictatorships) and allied interests for maintenance of power. Depending on the extent of the organization of civil society, of threat to the power base
by contending factions or members of the ruling elite, policy choices must be sensitive to the interests of these power players. But the particular configurations in any particular country would depend on its history, initial conditions, national cohesion, extent of organization of civil society, and the visions and capacity of the ruling elite.

From the foregoing it is evident that the ability to introduce and sustain policies might also be related to the degree of "insulation" of the state from the pressures and demands of the civil society. Such insulation is said to have worked wonders in the case of the East Asian tigers where the states were "developmental" and essentially "governed the markets." The degree of insulation, together with the competence of its bureaucracy largely determined, in the case of Asia, the extent to which the state officials acted in ways designed to maximize "society's welfare" rather than pander to sectional interests. Their industrial policy, in particular, was said to have succeeded on the account of this insulation.

This model of state insulation can also shed some light on the "speed" of policy reforms in Africa. Whether or not such insulation has necessarily led to the choice of policies that maximize society’s welfare is a different thing. Some analysts argue that some of the more successful liberalizing economies in Africa are those that have been insulated from political pressures. Contrasting the structural adjustment experience of Ghana and Zambia, Callaghy (1989) points out that the large-scale adjustment programme in Ghana and the failure to institute one in Zambia relates to the degree of insulation, which the military dictatorship of Rawlings achieved. There was no organised opposition in Ghana and the officials were more insulated from political pressures during this period. In contrast, Zambia had strong trade unions and organized opposition, which made the leadership vulnerable. The ability of the military-type leadership in Africa to force down the liberalization measures is not in doubt as can be illustrated by both the Ghanaian and Nigerian cases. Once reforms have been introduced though, the ability to sustain them was a different matter. Military regimes very easily become captives of the military class and the ever increasing number of "classless politicians" and traditional authorities whom the military needs in order to perpetuate its rule.

Besides, the absence of an organized opposition in a military regime is not an indication of the degree of insulation of the state, but can point to the dependence of the state on a few powerful cabals who create and enjoy enormous monopoly rents through state policies. The dissipation of public resources in addition to the misdirection of economic policies for the benefit of a few must lead inevitably to huge social costs. This is the classical syndrome of the privatization of the state which is pervasive in most authoritarian governments in Africa from the former Zaire under Mobutu to Kenya under Moi and Nigeria under Babangida and Abacha.

The foot-dragging steps towards trade liberalization in Kenya in the 1980s under the Structural Adjustment Loan Program (SAL 2) may have had very little to do with mass protests against reform policies. Rather, analysts believe they came as a result of strong opposition within the government itself (Bienen, 1990). In Nigeria, the Abacha regime in 1993 reversed the gains made under a deregulated exchange rate market of the Babangida era (1986–1993) on the basis of reckless nationalistic sentiments espoused by some of his ministers and members of his "kitchen cabinet." It didn’t matter that there was a huge outcry from the manufacturing sector, serious minded economists, the Central Bank and others who opposed this policy reversal. The regime went ahead and pegged the exchange rate of the Naira to the dollar at a ridiculously low rate of N22 to $1 when the parallel market rate was well over N80 to US$1. The military class and the few military
apologists who stood to benefit applauded the decision. When it became clear that this
decision was stunting economic performance, the policy was partially reversed. Again the
military retained the fixed exchange rate under a dual exchange rate system basically for
their own purposes and for patronage. This became a sticking point in Nigeria's
negotiation for debt relief under the IMF programme. In spite of the importance of this
relief, the government of Abacha was recalcitrant.

In several African countries, therefore, evidence abounds to show that the strongest
opposition to trade liberalization or the deregulation of the exchange market is not the
organized private sector or the workers in the private sector who actually stand to benefit
from tariff protection. Strong pressures and opposition reside in civil and military
bureaucracies. The point here is that while in theory it is easier for a dictatorship to
introduce or change policies, the reality is that they are not completely insulated from
"interest group pressures." They might respond to different pressures emanating from
factions within the same elite.

Thus, the concepts of state autonomy, insulation, "strong state" as understood in the
literature describing the Newly Industrializing Countries (NICs) must be contextualized
with respect to much of Africa. These concepts as initially understood and conventionally
presented have been seriously undermined as useful conceptual devices because they do
not provide unambiguous attributes of state strength and weakness. They are static and
based on outcomes thereby denying them serious predictive quality (Charlton, 1993). In
Africa, the issues are much more complicated and vary over time, and there are no simple
explanations.

Broadening the Model of Trade Policy Choices

Trade policy is uniquely complex: the winners and losers go beyond national boundaries,
and domestic politics is not the sole determinant of outcomes. One simple model such as
the public choice is, therefore, understandably inadequate to explain the determinants of
policy choice and outcomes. There are a number of factors, including the theoretical
ambiguities relating to trade, and the constellation of socio-economic, political and
nationalistic pressures that make governments react in ways that might appear
"irrational" according to the neoclassical analysis. To illuminate the African landscape,
we turn the searchlight to other vintages of explanation. In particular, we explore models
based on state-centred approach; donor agencies and external restraints, and institutional
arrangements.

As an alternative to the public choice model, and in some ways a supplement to it, one
might argue that the state-centred approach to policymaking and implementation provides
a better conceptualization of the trade policy process in Africa. The state is not, however,
homogenous across countries and over time. Thus, we need to explain why when faced
with similar problems, different states arrive at different policy designs and
implementation outcomes. Under the state-centred model, we hypothesise that such
differences can be explained by three key variables: the state's political capacity, the
motivations for policy change (legitimation and accumulation), and the objective
conditions of the economy.

The objective conditions of the economy impose certain constraints and delineate the
boundaries for action. If a country is running unsustainable balance of payments deficits,
high inflation and unemployment, the state would have little choice but to attempt to
tackle them. The specific choice of instruments and manner of implementation might
depend on the political economy of the policy process, but the policy agenda is forced
upon the elite by the objective conditions of the economy. Furthermore, whether
particular policies are designed to achieve growth (accumulation) or regime survival and
maintenance (legitimation) would largely depend on the political economy of the state,
the nature of the competition or rival claimants for power, the state of health of the
economy, and the long-term vision of the political leadership.

From recent studies and survey of the literature on African policy process (see for
example: Healey and Robinson, 1992; Grindle and Thomas, 1991), the major conclusion
is that the policy process (especially the formulation stage) is dominated by state elite,
sometimes a single autocrat and in others a small oligarchy. Policy debates and
formulation seem, in majority of cases, confined to small exclusive political circles. The
dexterity with which the state exercises this policy-making role and the nature of the final
outcome depend not only on the competence of the bureaucracy, but also the degree of
the elite’s autonomy from numerous pressures and influences.

The weakness of the bureaucracy in most African countries is widely recognised. Many
of the bureaucrats are said to lack independence, and provide limited technical analysis of
policy options. This could be attributed to either or to a combination of two factors. One
is the low technical competence of the bureaucrats since the reward system is too poor to
attract and retain highly qualified and experienced people. The second reason is the
nature of the political system. In the largely personal, authoritarian, patrimonial regimes,
loyalty of bureaucrats is often better appreciated and rewarded by the rulers than
technical competence. It is however believed that the more technically competent the
bureaucrats and advisers who interact with the elite political class are in policy-making,
the better are the chances of better informed policies. We see some evidence of this when
trade policies are formulated through inputs made by quasi-independent government
agencies such as EXIM banks, export processing authorities and export promotion
boards, among others. These agencies, often removed from the civil service control, are
in a position to attract and retain technically competent staff. Yet their leadership is
sufficiently politically connected to earn the trust of those who control the decision-
making centres. Acting as “policy processing chambers,” their effectiveness is derived in
part from their ability to analyse and process the interests articulated by the private sector
while acting as the agents of the government. By setting them up as semi-autonomous
institutions, the government acknowledges that the civil service cannot overcome certain
inertia and tardiness associated with its bureaucratic nature. The existence of these
institutions raises two additional questions: to what extent are they liable to capture by
the private sector? How “independent” and “insulated” in the classical sense should
policy-making organs be? These two questions are related and have been dealt with more
comprehensively by other contributor to this volume. If these quasi-independent
institutions are able to articulate the views of the private sector and package them in such
a way that they positively influence policy, this might be one instance of “beneficial
capture.” The point is that policies need to be built around a coalition of interests
provided that policy outcomes are not unduly held hostage by a particular interest group.
Suffice it to say that to effect changes in policy, both the adviser and the advisee should
have mutual trust. Since policy making is not value-free, policy makers will be more
receptive of policy advice that emanates from institutions whose values are similar to
those in government. In the United States, the Democratic Party will often turn to the
Brookings Institute while the Republican Party will turn for advice to the American
Enterprise Institute both in Washington.
A second major determinant of policy outcomes is the extent of pressures and leverages exercised by other interests — domestic and external — which we refer to as the degree of autonomy of the policy process. The extent of such autonomy is in turn determined by "the fiscal capacity of the state, or more specifically, the revenue base of the state and, on the other hand, the constitution of civil society, the thrust of its political and economic demands and its organizational and combative strength" (Mkandawire, 1995: 24). One point underscored by this model is that the extent of state's fiscal independence will be critical in determining its policy autonomy. Generally, the more the state is independent with regard to its revenue-rents, the more policies are geared more to "distribution" rather than "production," and also the less responsive the state elite can be to the societal interests in policies. A corollary of this argument is that the state is more likely to be more responsive to the interests represented by its dominant sources of revenues — mining companies, donor agencies, than to the social groups whenever there is a conflict. This raises the issue of a correct characterisation of government’s fiscal capacity in Africa.

One factor not emphasised in the characterization by Mkandawire, but which could largely obscure some of the implications of the rentier-merchant state dichotomy is the role of external finance in government operations in Africa. That many African countries depend on aid money to finance a significant proportion of their regular budgets is not a new discovery. What is not often appreciated in the discussions of policy-making and implementation is the pervasive (indeed, dominant) role played by the donors in the process. This has become heightened since the 1980s with the heavy external debt burden, the co-ordination among donors, and the dominance of policy-lending by the multi-lateral institutions. As summarized by Joseph (1989: 116):

The African post-colonial state which has sought to determine the utilization of its people’s economic resources, has in many instances become a “rubber stamp” for decisions made by others, usually non-African in nationality... The decision-making powers of aid agencies in Africa have expanded as a result of the default of those who man the “political kingdoms”... There is taking place an implicit loss of sovereignty desirable in some instances, in view of the misuse of it by those in power.

It is not in doubt that the World Bank and the International Monetary Fund (IMF) have come to wield unprecedented control over the economic policies and institutions in most of Africa since the 1980s. The implications of this are not only in terms of loss of policy autonomy, but increasingly also, the undermining of existing capacity in the policy institutions. With over 100,000 technical assistants and advisers all over Africa costing over US$4 billion annually, it is little surprise that the policy-making process in Africa is overwhelmed by these foreign experts. As Jaycox (1993: 1-2) correctly notes:

... most of this technical assistance is imposed, it is not welcome and there is no demand for it really except on the donor side... This is in fact an endemic problem in the donor community — expatriate management substituting for domestic management...What is left in that demoralized ministry is being attracted away by donors and salary supplements.

From the foregoing, it is evident that because most African states depend on bilateral and multilateral aid for basic financing, and because of the conditionalities attached to the rescheduling of existing (unsustainable) debt stock, it is impossible for the states to have an autonomous policy process. He who pays the piper, it is said, calls the tune. Thus, to the extent that the aid money can be regarded as a form of rent, the policy process is
essentially beholden to the interests of donors more than the demands of the civil society (sometimes even in countries with highly developed civil societies). The organized groups might scream, sometimes protest violently, but in most cases, the states have had little choice but to muster all their instruments of coercion to ram through the policies as dictated by the donors. Under these circumstances, African countries aptly described by Mkandawire (1999) as "choiceless democracies" bypass essential institutions of democratic governance including elected parliaments in pushing through important policy changes in order to satisfy donor conditionalities. This is in spite of the fact that the same donors acknowledge that democratic ideals and good governance are necessary for improved policy outcomes. This "short-arm" approach to or support for democratic ideals and the ambiguity surrounding donors' acceptance of the utility of democratizing economic policy making has been dealt with extensively in this volume by Adebayo Olukoshi.

It is evident, therefore, that each of the three explanatory variables identified as determining political capacity and policy design, is itself endogenous to certain other determinants, and this makes an understanding of the trade policy process not easily understandable within a partial equilibrium framework. Disentangling the cause and effect relationships in the policy process is an arduous task and one which requires more than casual anecdotal evidence.

Another major consideration in understanding the determinants of trade policy choices is the fact that because of its very nature, trade policy involves the maximization of several objective functions. Governments can be seen as highly centralized rational decision makers concerned with maximizing some combination of national power, security, and economic well being in an interdependent world. The real cost of any policy is how much of the other objectives of policy have to be sacrificed to attain a bit of it. Rangarajan (1984) identifies several conflicts and pressures to which governments respond in the conduct of trade policy, and they include: conflicts of sovereignty, conflicts of ideology and perception and the use of trade as a tool of international diplomacy, and conflicts involving domestic economic-political pressure and power groups. Most of these considerations have little to do with economic efficiency. We consider them in turn.

The first pertains to considerations of sovereignty. These arise because of nationalistic feeling, fear of threats to national security and desire to preserve national survival. Conflicts arise between nationalistic feelings (as in the campaigns to patronize national products) and the desire for wider choice. Given Africa's peculiar colonial legacies, the sometimes extra sensitivity to notions of sovereignty is understandable. The principle of "self-reliance" underpinned much of the post-independence development thinking in Africa, and in many cases this was expressed in the nationalization of foreign firms, hostility to foreign participation in domestic production and the influx of foreign goods. The irony of trade policy reforms is that in many countries, it is the same bureaucrats and political elite that erected the pillars of protection partly on nationalistic principles that are being asked to dismantle them. If they resist the change or adopt a lukewarm attitude to it, their sentiments need to be understood rather than offer a simplistic recourse to "rent-seeking" explanation.

For sure, this emotional attachment is not restricted to Africa. In the OECD countries, the fear of threat to national security is at the root of all agricultural protectionism. In response to the pressures on Japanese government to liberalize the import of rice, the government was reported to have responded that "in Japan, rice is 90 percent politics and 10 percent economics." Most countries do not want to depend on others for food and
energy supplies for fear that during wars or strained relations, national survival could be in danger. Food self-sufficiency is still a fashionable and desirable goal. If African governments impose higher than average tariffs on food imports, the rationale goes beyond the farm lobby.

It is for the same reason that most countries want to maintain adequate steel, armament, transport and shipbuilding capabilities. This might explain why despite the several studies by “international experts” pointing to the inefficiency and high cost of Nigerian steel, most Nigerian analysts and policy-makers still insist that it is a worthy project. In other words, Nigerians recognise that in real life, there is more to trade and industrial policy than static (if in fact, short-run) efficiency considerations. This consideration for “national interest” and sovereignty perhaps also explains the conflicts and tensions between the developing countries and the major transnational corporations whose greater economic power is feared to threaten sovereignty and independence of these countries.

Another important consideration is that trade has increasingly become a major, if not the most important, tool in international power and diplomacy, and no country wants to lose his tool or be extremely vulnerable to it. When, for example, the United States banned the sale of wheat to the Soviet Union after its intervention in Afghanistan, or the US cut off all trade links with Cuba or the world imposed economic sanctions on South Africa (to bring down apartheid), market forces were certainly not at work. It is essentially because trade is used in furtherance of wider national objectives that most governments see trade policy as a critical component of their foreign and domestic policies. During the 1997 summit between American and Russian presidents, Bill Clinton pledged to “mobilize” American private investment for Russia. If the government sets up mechanisms to “guarantee” such investments — all in the bid to win Russia’s cooperation with respect to NATO expansion — analysts note that such “mobilized investments” are responding to the “visible” hands of government, and not the “invisible” hand of market forces.

Little surprise then that conflicts continue to arise between the industrialized countries and the developing countries on whether the international trading system is equitable, and also between nations on how much to regulate their trade, or to what use trade policies or domestic policies that have trade implications can be deployed. Under the American Marine Mammal Protection Act 1972, the US government introduced regulation to protect the over-fishing of dolphins. What looked like an animal protection Act was equally a trade policy bill. As soon as the American fishermen started suffering under this Act, they sought relief from Congress to force the US government to ban the importation of Mexican tuna. The National Marine Fisheries Service was slow in developing regulation to force foreign compliance with the Act, which was intended to ban the use of fishing technology that increased the incidental mortality for marine animals. In 1990, a California environmental group brought suits that led to the ban of Mexican tuna. Mexico went to GATT and won. GATT ruled that it is allowable to regulate a product but not the method of its production (Haggard, 1995). Thus regulatory harmonization and the forced adherence to universal labour and environmental standards will remain contentious issues between developed and developing countries and will continue to be viewed as trade policy by other means by the developing countries. There are various international negotiations and agreements on the rules of trade among nations. However, whenever there is a conflict between the agreed “rules” and “national interests,” the latter prevails. Historically, experience has shown that countries have done whatever they could to circumvent the rules and agreements under GATT. Through the various GATT
negotiations and agreements, tariffs on imports have generally been harmonized and cut in most countries. Import duties (tariffs) are generally low or even zero for industrial raw materials, and rise steadily depending on the degree of processing. Also, there are agreements covering technical barriers to trade (non-tariff barriers)—quotas, government procurement, subsidies and countervailing duties, customs valuation, dumping and import-licensing procedures. Quotas are theoretically considered the worst form of protection, and are prohibited under GATT except when they are agreed upon multilaterally under a commodity agreement to stabilize the market, or as a non-discriminatory, temporary measure for balance of payments purposes.

In spite of this, Rangarajan (1984: 144) observes that “in practice, however, GATT rules are regularly and increasingly circumvented by “voluntary export restraints” and so-called safeguard mechanisms. There is a range of non-tariff barriers which are more opaque than quantitative restrictions but also have distorting effects.” Some of these mechanisms include: (1) Use of technical standards and health regulations as a means of preventing imports; (2) use of cumbersome licensing procedures; (3) using peculiar methods of valuation of goods for calculating the customs duty payable so as to make imports more expensive; and (4) giving a special preference to domestic suppliers in purchase by government irrespective of the availability of cheaper goods from foreign sources. All these measures, especially the stringent hygiene standards and the rather clandestine negotiations of the “voluntary” export restraints (VERs), are in large measure substitutes for the more easily monitorable tariff reductions. These indirect forms of protection are employed by the same countries that press African countries to liberalize trade completely. In this game where nations compete to outdo each other, African countries are likely to respond with whatever form of “restrictions” they can afford.

Furthermore, the international regime itself is one in which the interests of the powerful nations become the “international standards.” A clear example is devising of the VERs. This is designed to circumvent the GATT rule prohibiting any kind of quota limitation on discriminatory basis. The United States uses this mechanism pervasively and pressures its trading partners, especially Japan, to “voluntarily” reduce its exports of cars, steel and television sets, among other goods. The “voluntary” nature of such restraints is an open question. Quota restrictions and safeguard clauses still characterise exports of industrial goods from developing countries despite all agreements to the contrary. Reflecting the interests of the industrial countries, some of these “objections” to free trade are institutionalized and multilateralised as in the case of the GATT Multi-fibre Agreement (MFA) on exports of textiles from developing countries. In theory, MFA was intended to promote the orderly growth of such trade, but in practice, it provides an amour for protectionist walls by the industrial countries. Bilateral agreements on VERs, which is a euphemism for quotas, have become the rule, and they are most pervasive in those sectors where the developing countries are most efficient—textiles, clothing and leather goods. Also, when OPEC formed a cartel and oil prices rose, cartels were presented as a bad thing. However, while the industrial countries prohibit cartels domestically, they make use of them externally. For example, while OPEC was being vilified as a cartel, the producers of uranium in Britain, Australia and Canada, formed an international cartel with the full backing of their governments.

In addition to the prevalence of various forms of non-tariff barriers (NTBs) as rising substitutes for tariffs, there are several schemes for differential and preferential treatment, even in the dismantling of tariff and non-tariff barriers. Besides the generalized system of preferences (GSP), various countries and regions use other forms of preferential
treatment according to their political priorities — the US has the pervasive use of the most favoured national criteria. All the measures discussed above — tariffs and NTBs, as well as preferential treatment — are designed to protect domestic producers and further the political interests of individual countries.

Another, perhaps most important form of government intervention in international trade is the growing phenomenon where governments double as salesmen for their firms — all in the name of export promotion. Five critical elements of the export promotion strategies of governments (especially the industrial countries) can be distinguished. The first is the old fashioned direct subsidies to exporters, which has been prohibited under the GATT-WTO rules. However, besides offering huge subsidies for industrial research and development, industrial countries still find their way around this and provide all kinds of indirect subsidies. Export credit guarantees are other mechanisms designed by governments to insure exporters against the risk of default by their customers, and this scheme is often used to provide “soft” credit to exporters. The third is the information gathering assistance whereby trade and commerce ministries as well as embassies spend lots of time gathering business information of every sort about foreign markets, showing national flags at trade fairs and arranging business meetings between foreigners and local businessmen.

The information gathering combines with other trade boosting techniques such as “tied aid,” and high-profile trade missions. Bilateral aid, by and large, is not free lunch. Directly or indirectly, it is often given in the expectation of some benefits to the donor. The British shadow Minister for Overseas Development, Michael Meacher, is quoted as articulating this point succinctly:

Western aid is now being increasingly used as lever to obtain trade. In 1991, no less than 74 percent of Britain’s bilateral aid commitments (amounting to nearly one billion pounds) were tied to British goods and services. Moreover, of the further one billion pounds of British aid committed to multilateral agencies, such as the EC or World Bank, every one pound is expected to yield 1.40 pounds spent on British goods... (see West Africa Magazine, 2-8 August, 1993: 1344).

Besides the use of bilateral aid to open markets for exports and contracts for local firms, governments are increasingly also directly involved in the marketing of products themselves. The Economist (February 1, 1997) devotes some four pages to the analysis of this phenomenon and how it goes contrary to the tenets of “free trade.” As The Economist puts it, “in the past few years of free-market liberalism, politicians’ enthusiasm for promoting national exports has been growing.” European politicians and diplomats, as well as the Asian Tigers have long been known for this aggressive government involvement in export promotion. What has for sure intensified the phenomenon is America’s conversion to this export activism. This conversion is rooted in the Clintonite theory that the cold-war geopolitics has been replaced by “geo-economics.” Under it, trade security matters as much as military security.

The American Commerce Department (under Brown–Clinton’s first Commerce Secretary) set up a “war room” to track the 100 biggest contracts overseas and plan government support for American competitors. Brown also co-ordinated the efforts of other 19 government agencies involved in export promotion. The Export-Import Bank (Ex-Im) is used to provide the “soft” financing for American businesses in the “targeted” countries. Roughly two-thirds of the cash for export promotion goes to food exports. For example, in one year, “California’s raisin growers secured $4 million to advertise their
raisins in Japan — a sum which exceeded the Commerce Department’s entire Japan budget.” In other words, treasury resources are used to advertise private firms’ products.

In the *Newsweek* magazine (March 31, 1997: 39), a former under secretary for trade under Brown at the Commerce Department, Garten, provides a more succinct explanation of their modes of operations. It is insightful to cite him at length. According to Garten:

Brown called it “commercial diplomacy,” the intersection of foreign policy, government power and business deals. We used Washington’s official muscle to help firms crack overseas markets. The culture was eclectic: we set up an economic “war room” and built a “trading floor” that tracked the world’s largest commercial projects... In our single-minded drive to help American companies, we dramatically expanded our commercial involvement in big emerging markets like China, India and Brazil... Here’s how our basic policy worked. In 1994, for example, Raytheon was in heated competition with a French firm for a Brazilian contract to build an environmental-surveillance system for the Amazon. Our French foe was heavily subsidized by its government, so we swung into action. Brown made two trips to Brazil, and I made two. The head of NASA called his Brazilian counterpart and said our co-operation with them in outer space would be lost if the French got the deal; the EPA chief did the same. The Export-Import Bank extended the most far-reaching financing available, and Clinton called the president of Brazil. Raytheon won — and Massachusetts got 20,000 new jobs. We still face brutal competition from companies abroad that enjoy increasing support from their governments... And I believe the long-term future of foreign policy will be driven by how best to expand America’s commercial reach.

Such is the terrain of international trade and international competition. Two major reasons are given for this growing mode of interventionist stance. The first, even by the Commerce Department’s own admission, is that most effort (90 percent) goes into helping small firms which cannot afford to set up offices overseas and compete effectively. The second reason is that in areas of big infrastructure contracts in developing countries, the American government is afraid to abandon its firms to “market forces” when other governments are backing their national champions. There is thus tension between what is promoted as desirable (free trade) and what is practical (interventions). *The Economist* (1997) quotes Garten as saying that: “in the best of worlds, governments ought to get out of this business altogether. But the market place is corrupted by the presence of government. So do you sit on the side and pontificate about Adam Smith, or do you enter the fray?”

This dilemma, and the question which it raises, also confront the developing African countries: should they be different and abide by the theoretically elegant models of free trade, or should they enter the fray and by implication subscribe to other models? What emerges from the foregoing is that trade policy choices elsewhere are hardly dictated by the precepts of the neoclassical model. Policymakers in Africa and many other developing countries often point to these “distortions” in the industrial countries as a bold testimony to their own convictions that the government needs to maintain an activist stance with regards to trade policies.

The new trade theory and the literature on strategic trade policy have provided additional impetus for questioning the neo-classical economists’ attempt to treat trade policy as a distortion by itself, and have added to the scepticism of analysis in Africa on unilateral free trade. Evidence has clearly shown that comparative advantage as previously understood does not explain all trade. In fact, trade and gains from trade can arise in an
imperfectly competitive environment, independent of the pattern of comparative advantage, as firms exploit economies of scale and pursue product differentiation strategies. Furthermore, unilateral free trade is not often accompanied by the flaunted promise of direct foreign investment. The following facts are illustrative of the current situation:

in 1985, developed countries were the source of 97 percent of direct foreign investment flows and the recipient of 75 percent; the share of all direct investment outflows generated by G-5 countries absorbed by other G-5 countries has been rising and amounted to 70 percent by 1988 (the growth in the two-way flows has been observed even at industry level); there is mixed evidence as to whether or not the level of direct foreign investment is positively related to trade barriers or transport cost; new evidence suggests that trade barriers and transport cost do cause a substitution effect towards foreign direct investment even though they may reduce the levels of both trade and investment (Markusen, J. R., 1995).

At the same time, the promotion of “national champions” through strategic trade policy becomes somewhat problematic in view of the fact that there is now substantial foreign ownership of domestic firms. But is the latter not withstanding, governments may still have an incentive to support domestically located firms which are exploiting their abundant natural resources or through which they are meeting their employment and other economic objectives.

The last form of conflict pertains to the degree of protection to be given to domestic producers at any given time vis-à-vis the need to let consumers have access to cheaper goods from abroad. For the rich industrialized countries, this is the conflict between cheaper imports (mainly from developing countries) and employment protection. “In practice, the rich countries have taken decisions in favour of protection, sacrificing the principles of free trade and the development of poor countries” (Rangarajan, p. 158). Tangential to this is the conflict in the decision of countries to subsidize certain domestic industries in order to preserve them at all costs. The huge subsidies granted by most industrial countries to their steel, chemical, shipbuilding and other industries are classic examples.

In the light of the foregoing, it is evident that trade and industrial policies are not just a matter of economics. They are also integrally related to national survival, to international diplomacy and domestic politics. Indeed, “there is no such thing as deciding to leave things to markets and leaving them — governments will continue to have the power to intervene in the economy and will continue to use it” (Dixit, 1996: 12). Thus, the choice of trade policies in Africa (especially the interventionist orientation) cannot be understood purely through the narrow prism of public choice theory. There are multiple objectives that are served by trade policies and the trade-offs are often steep.

Cost-Benefit Analysis: Why Trade Policy Reform is Particularly Difficult in Africa

Several conjectures in response to the question exist in the literature, and derive mostly from the kinds of models and explanations for policy choices reviewed earlier in this chapter. The mainstream response would logically point to distributional politics and tangentially also to the institutional weaknesses and rent-seeking behaviour of the state. To change trade policies to desired ones, the literature is replete with suggestions that either naively assume away the associated costs of trade reforms or make
recommendations whose variants argue that: (i) the African state should try to compensate or “buy over” the losers from trade policy reforms; (ii) African states should be “strengthened” to quell or circumvent opposition to reforms (literally a preference for autocratic regimes which are believed to be capable of “forcing” down reforms); (iii) reforms can come about by increasing the state’s capacity to design and implement “good” trade policies (a euphemism for saying that the reason for poor policy design is due to lack of sound knowledge about the economics of trade); and (iv) as a way to circumvent or suppress domestic politics, African states should “tie their hands” by locking-on to external “agencies of restraint.”

These suggestions derive basically from the nature of the analysis that inform them, and provide some, albeit limited, insights. As the review in broadening the model of trade policy choices shows, several of the issues and difficulties pertaining to trade policy designs are swept under the rug. In addition to the issues raised in the preceding section, we articulate some of the major constraints that tie the policy-makers’ hands in moving fast with trade policy reforms. Among others, these include the economists’ incomplete knowledge about the world of trade, the uncertainty surrounding the identity of gainers or losers or even the magnitude of aggregate or distributional consequences of trade reforms, the predator-prey relationship that characterizes international system of exchange.

As shown in the earlier analysis, the economists’ narrow fixation with efficiency and comparative costs does not fit the broad and complex terrain of trade issues. Even among economists, there are still huge disagreements (on theoretical and empirical grounds) regarding the nature of the world of trade, its benefits and losses, and thus the kinds of policies required to deal with it. Many economists question the neoclassical model of international trade. They argue that economies are subject to imperfect competition and economies of scale, which distort relative prices, and there are costs of information, transactions and bargaining. Under this alternative model, free trade may not necessarily be optimal for all economies. Indeed, depending on the structure of a particular economy and its level of under-development, zero trade restrictions might be harmful rather than beneficial.

For example, while many economists might agree that openness is positively correlated with growth, they differ on theoretical and empirical grounds about how much openness is good enough at any point in time. Even some neoclassical trade theorists recognise that the optimality of zero tariff as prescribed by theory may not always hold. According to Winters (1991: 137):

> The fact that tariffs are not a good policy for ensuring long-run employment does not mean that, in the short run, tariffs should be abolished. The success of trade liberalization depends on resources being able to move between industries according to comparative advantage, and this requires both (labour) mobility and wage flexibility. If these are missing in the short run, the resources released by the contraction of formerly protected industries will not all be re-absorbed elsewhere, and unemployment will result. There is therefore a reasonable case to be made for not exacerbating short-run cyclical unemployment by cutting tariffs or subsidies during a slump.

Mussa (1998:27-28) agrees with him by noting that:

> Although theory suggests that a small economy cannot influence world prices, and that the optimal tariff is zero, practical and political considerations make this level
impractical. We can, therefore, assume that tariff rates will be positive for purposes of domestic protection and to generate fiscal revenues. There is no magic formula to determine the appropriate level of tariffs pertinent to the implementation of a medium-term growth strategy in sub-Saharan Africa, and ultimately the particular circumstances of each country will determine the extent and pace of reform.

In other words, tariff levels, for instance, should be a function of development and should also be sensitive to government fiscal position, balance of payments and infant industry consideration. Blanket notions of “reasonable” tariffs are less helpful, and the key empirical question pertains to the level of tariffs and trade restrictions that are consistent with a country’s specific conditions. The puzzle however is that after these kinds of recognitions accorded to “particular circumstances” in determining the level of tariffs, analysts mechanically jump to prescribing “magical numbers” which have typically ranged from 15 percent to 40 percent as the “desired” level of tariffs for Africa. How they arrive at such numbers is any one’s guess. Could it not, in fact, be that several African countries have liberalized beyond the level that is optimal given their objective conditions as Mussa and Winters tend to suggest? This is not an academic question. A liberalization beyond the optimal level could be a major source of instability such as persistent balance of payments and fiscal crisis. This is a serious empirical question especially when the African experience indicates that many of the recent attempts at further and deeper liberalization have been matched by frequent reversals.

Thus, a major source of difficulty in designing and implementing trade policy reforms, is the economists’ incomplete knowledge about the world. If a country is landlocked, suffers from serious infrastructural and institutional deficiencies, and thus has a very sluggish supply response to trade reforms, how high or low should the tariff rate(s) be to be compatible with such level of under-development? Economists simply have not found the answer. If policy-makers know that economists themselves are uncertain about the cause-effect relationships beyond a certain point, they would then recognise that reforms beyond the bare essentials are a gamble. Rational decision-makers would recognise this uncertainty and decide to exercise a waiting option. They would, for instance, want to see how such reforms would work out in economies with similar characteristics before risking the experiment in their own economies.

Another element of uncertainty is one surrounding the costs and benefits of reforms. Does the benefit outweigh the cost, and who are the gainers and losers? The analysis in the previous sections provides a basis for some intelligent guesses. Interest group politics or rent-seeking model would point (generally) to potential groups that “might” benefit and those that “might” lose. Such guesses are very different from concrete estimates of gains and losses to both society and specific groups within it. All the empirical models that try to quantify policy impacts (especially trade liberalization) literally set up a strawman: the results you get depend essentially on what you want to get. Such is in the nature of empirical models, especially of the CGE vintage.

Rodrik (1998) develops one such simplified CGE model and simulates the potential aggregate and distributional consequences of trade policy reforms in an archetypical African economy. The results of the exercise are illuminating (see Table 4.1). Reducing tariffs from 40 percent to zero increases national income by 2.8 percent (which Rodrik, p.191 admits is “a bit on the high side”). Ignoring the size for the moment, the results illustrate one key ambiguity about tariff reforms, that is, the location of the optimal level. Observe that a reduction from 40 percent to 20 percent yields an income gain of about 2.0 percent, but reducing further from 20 percent to zero yields only an additional 0.8
Table 4.1: Distributional Implications of Trade Reform in an Archetypical African Economy

<table>
<thead>
<tr>
<th>% Change From Baseline Solution</th>
<th>Baseline Solution</th>
<th>% of Income</th>
<th>t= 40%</th>
<th>t= 30%</th>
<th>t= 20%</th>
<th>t=10%</th>
<th>t=0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real national income</td>
<td>1.574</td>
<td></td>
<td>10</td>
<td>1.08%</td>
<td>1.97%</td>
<td>2.54%</td>
<td>2.80%</td>
</tr>
<tr>
<td>Real income by group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farmers</td>
<td>0.431</td>
<td>27</td>
<td>6.26%</td>
<td>12.76%</td>
<td>19.95%</td>
<td>27.61%</td>
<td></td>
</tr>
<tr>
<td>Urban Employers</td>
<td>0.133</td>
<td>8</td>
<td>-12.03%</td>
<td>-23.31%</td>
<td>-34.59%</td>
<td>-45.11%</td>
<td></td>
</tr>
<tr>
<td>Informal-sector workers</td>
<td>0.647</td>
<td>41</td>
<td>6.18%</td>
<td>12.67%</td>
<td>19.78%</td>
<td>27.51%</td>
<td></td>
</tr>
<tr>
<td>Urban workers</td>
<td>0.309</td>
<td>20</td>
<td>-11.65%</td>
<td>-23.30%</td>
<td>-34.30%</td>
<td>-44.98%</td>
<td></td>
</tr>
<tr>
<td>Govt rents/govt. revenue</td>
<td>0.054</td>
<td>3</td>
<td>5.56%</td>
<td>-5.56%</td>
<td>-40.74%</td>
<td>-100.00%</td>
<td></td>
</tr>
<tr>
<td>Informal wages</td>
<td>1.043</td>
<td></td>
<td>-1.92%</td>
<td>-3.84%</td>
<td>-5.47%</td>
<td>-6.90%</td>
<td></td>
</tr>
<tr>
<td>Urban wages</td>
<td>1.217</td>
<td></td>
<td>-1.97%</td>
<td>-3.78%</td>
<td>-5.51%</td>
<td>-6.98%</td>
<td></td>
</tr>
<tr>
<td>Output of rural sector</td>
<td>1.233</td>
<td></td>
<td>3.08%</td>
<td>6.08%</td>
<td>8.84%</td>
<td>11.52%</td>
<td></td>
</tr>
<tr>
<td>Output of urban sector</td>
<td>0.361</td>
<td></td>
<td>-7.76%</td>
<td>-15.79%</td>
<td>-24.10%</td>
<td>-32.69%</td>
<td></td>
</tr>
<tr>
<td>Employment in rural sector</td>
<td>0.709</td>
<td></td>
<td>5.22%</td>
<td>10.30%</td>
<td>15.23%</td>
<td>19.69%</td>
<td></td>
</tr>
<tr>
<td>Employment in urban sector</td>
<td>0.281</td>
<td></td>
<td>-12.71%</td>
<td>-25.09%</td>
<td>-37.11%</td>
<td>-48.45%</td>
<td></td>
</tr>
<tr>
<td>Consumption of urban good</td>
<td>0.514</td>
<td></td>
<td>5.84%</td>
<td>12.06%</td>
<td>18.68%</td>
<td>25.88%</td>
<td></td>
</tr>
<tr>
<td>Volume of imports</td>
<td>0.153</td>
<td></td>
<td>37.91%</td>
<td>77.78%</td>
<td>119.61%</td>
<td>164.05%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Rodrik (1998:190)

percent. Weighed against the cost of further liberalization, it is perhaps more beneficial to keep the tariff level at 20 percent. For the African policy-maker, how does she know that tariff reduction so far has not gone below the income maximizing level?

The distributional consequences of the reforms are even more dramatic. Except the farmers, rural dwellers and informal-sector workers, all other groups — urban employers, urban workers, government revenues, among others — lose. In terms of the net gains and losses to the economy, Rodrik (p.191) argues that:

The net gain to the economy of 2.5 percent is an order of magnitude smaller than these (negative) distributional impacts. Put differently, the efficiency consequences of trade reform pale in comparison to its redistributive effects. This is the sense in which price reforms, and trade reforms in particular, tend to have high political cost-benefit ratios... It is not only that such reforms entail redistribution, which is well recognized. Most significant is that they entail so much redistribution relative to their efficiency benefits — a point that is surely not lost on those groups whose incomes are at stake. This makes it easier to understand why trade reforms are so vigorously resisted, and why it has generally proved difficult to convince African policy-makers to embark on ambitious reform efforts.

Given the magnitude of losses to different groups and the aggregate gain to the economy, any suggestion of mechanisms to compensate the losers does not work. First, the magnitude of the tax revenues required to make the transfers is just beyond several African governments. Second, such taxes also have high distortionary consequences.
Furthermore, there are two key aspects of the results, which are critical in the African situation. The first is the impact of tariff reduction on balance of payments (see the result for the astronomical growth of imports). Unfortunately, Rodrik does not report the impact on exports. Given the expected miniscular supply response, exports would be minimal and the trade balance would be expected to deteriorate badly. Add to this result the fact that most of these economies are heavily indebted (with unsustainable debt service burden), one gets a picture of serious balance of payments crisis.

The second issue is the impact on government revenues. Most African governments depend on trade related taxes for more than 30 percent of government revenue. Reducing tariffs considerably wipes out this secure source of revenue, thereby triggering off a fiscal crisis. This point can better be appreciated in the context of the requirement under SAP for these countries to balance their budgets, and increase spending on the social sectors and on infrastructure. The IMF Research Director, Mussa (1998: 29) aptly summarizes the dilemma by noting that:

The relationship between tariff reforms and fiscal revenues is problematic. Sub-Saharan Africa depends on trade taxes for fiscal revenues to a greater extent than most other regions. Finding domestic sources of revenue to reduce reliance on trade taxes has been an important cause of delays in initiating, following through, or completing major trade reforms.

Another source of uncertainty about the benefits of trade reforms is the weak supply response in Africa. This point is widely acknowledged, but we find it pertinent to continue to quote Mussa on this issue simply to illustrate the increasing convergence views on the problem. That the IMF economists are also beginning to recognise these problems is significant. According to Mussa (p.29), "Supply responses in Sub-Saharan Africa may be more sluggish than in other regions because of the existence of more bottlenecks in complementary areas, such as poor infrastructure, power and telecommunication facilities, and lack of marketing information. This, again, points the need to integrate reforms into comprehensive structural adjustment packages that include measures to ease supply bottlenecks."

Most analysts would agree that without adequate supply response, the expected gains from trade policy reforms cannot materialize. Faced with the uncertainty of the gains (and in fact the demonstrated net losses to groups within society), the fiscal and balance of payments crisis that could accompany some deep reforms, and the supply bottlenecks in the economy, it is fair to surmise that the resistance to some reforms is a rather objective response to the fundamentals of the economy. Distributional politics could be part of the picture but squared against the objective issues raised above, such distributional considerations might take a second order of importance. Economists have not made much progress in decomposing given trade restrictions into those due to macroeconomic and structural considerations (balance of payments, fiscal revenue, and supply constraints), and those due to protectionist reasons.

Another key point is the asymmetrical power relations and unfairness of certain trade, and also the fact that dynamic comparative advantages can be created and not inherited. The issue to be stressed here is that some of the trade policies African countries are being asked to adopt are simply unreasonable. Most economists agree that export-promotion and allowing exporters access to imported inputs at world prices are promotive of growth. What is controversial is asking countries to eliminate barriers to all manner of imports, including those that completely wipe out domestic production thereby preventing them from ever acquiring or deepening comparative advantages in anything.
In the international trade relations, the more powerful nations often use a number of mechanisms, including the multilateral agencies, to create export markets for their firms by literally forcing the weaker countries to open their markets (such as the example illustrated earlier in the case of the US Commerce Department). Economic arguments of welfare gains for the consumers in Africa are often employed to bolster such ostensibly mercantilist bent. But there is not a single study that has shown potential welfare benefits of trade liberalization of more than one percent of GNP. Contrast this with the potential loss of jobs, and destruction of the future capacity to acquire comparative advantage, or, as shown by the estimates by Rodrik (1998), the losses to several groups in society.

Thus, when policy-makers in Africa resist some kinds of import liberalization, their reaction may not be altogether naive. A perceptive African policy-maker knows, for example, that she is being asked to “specialize” in agricultural production because of "endowed" comparative advantages. At the same time, she knows that the OECD economies heavily subsidize farming in their economies and subsequently “dump” the output on Africa. Such a policy-maker is hamstrung by the heavy debt burden and adjustment to have any resources to subsidize production, and she is being asked to eliminate all barriers to all imports including agricultural produce. With Africa’s poor soil, tropical climate and disease, lack of irrigation, high transport and communication costs, and primitive technology, the policy-maker can understand the difficulty of promoting greater productivity and export of agricultural produce without some selective and probably incentive-compatible “protection” for the local farmers. Irrespective of what the urban consumer lobby might want in terms of zero tariffs on food imports, the policy-maker might still act “wisely” in “national” interest by slamming high tariff barriers on food and agricultural imports.

Such considerations based on asymmetrical power and economic relations are prevalent. For example, OECD economies have almost zero tariff on raw material imports but increase tariffs as the goods undergo further processing. In other words, they impose higher tariffs on goods that compete with their domestic production. The African policy-maker may therefore not understand why she cannot use preferential and differential tariffs to promote national firms and to fully exploit its comparative advantages in certain sectors.

A case that clearly illustrates the international politics of trade and specialization is the Nigeria-US standoff between 1987 and 1991 when Nigeria banned the importation of rice, among other goods. The Nigerian action was based on studies that the country has potential to supply rice, wheat, sorghum and millet needs of Africa and had decided to encourage domestic production and export of these goods. Banning the import of these goods in 1987 elicited two major reactions. First, most major corporations in Nigeria went into large-scale farming to produce these commodities. Second, such ban closed the market to more than $600 million worth of imports especially from the US, and the American government did not take kindly to the policy. It did whatever it could to directly and indirectly (through the World Bank) pressure the Nigerian government to rescind the policy. By 1990, the production of these goods had, in some cases gone up by more than 1000 percent, and the prices were continuously falling. In 1990/91 Nigeria desperately needed a debt relief. The World Bank insisted that there would be no deal until the ban on certain imports were lifted. Hemmed in, the government capitulated, and the imports flooded in. Of course, the thousands of acres that were farmed are now monuments of what should have happened and part of the national history of failed policies. The “failure” here came, not as a result of internal politics but because of the conflicts of the Nigerian trade policy with the interest of a powerful trading partner.
This case illustrates two key points. First, it shows that the international system of exchange embodies two sets of rules: one for the powerful and the other for the poor (especially indebted ones). Where the firms of the powerful countries can compete effectively, free trade is advocated. Where they are out-competed, the US, for example, invokes the voluntary export restraint mechanism to force its trading partners (e.g. Japan) to reduce its exports to the US. Second, the example underscores the overriding dose of external influence and the lack of independence of indebted African countries in choosing policies that maximize the welfare of their citizens. When policy-makers realize this choking influence of external forces and that they are, in some cases, being asked to implement policies that serve external rather than their domestic interests, their attitude to the implementation of such policies would be of aloofness or plain sabotage. In the literature, there is often talk about the policy-makers’ lack of commitment. But such lack of commitment is endogenous to a set of variables, including the lack of ownership and conviction about the potential gains of the policies they are being asked to implement. Thus, unless policy-makers perceive a policy as being beneficial to their societies, even if they sign policy documents (at least to reach agreements with the donor agencies) effective implementation is likely to suffer.

More than any other kind of policy, it is one that not only touches upon the domestic politics and economics, but more so impinges upon the power and economic relations among nations.

Notes

1 The basic elements of a more open trade regime are not far fetched, and there seems to be a broad agreement about them. Rodrik (1998) summarizes these in terms of simple do’s and don’ts: de-monopolize trade; streamline the import regime; reduce red tape, and implement transparent customs procedures; replace quantitative restrictions with tariffs; avoid extreme variation in tariff rates and excessively high rates of effective protection; allow exporters duty-free access to imported inputs; refrain from large doses of anti-export bias; do not tax export crops too highly. Sachs and Warner (1997) have gone further to assign numbers to the performance criteria, and for them an economy is classified open and liberalized if the following were satisfied: an average tariff rate below 40 percent; average quota and licensing coverage of imports of less than 40 percent; black market exchange rate premium of less than 20 percent; no controls on exports in the form of taxes, quotas and state monopolies and, not considered a socialist country. Africa, especially Sub-Saharan Africa is characterized by considerable variation in terms of their achievements along these criteria despite nearly two decades of SAP-induced liberalization efforts.


3 Note however that it was the same military and civilian bureaucrats who were behind the expansion of the public sector in Africa. Such an expansion and the dirigiste regime that characterised the post-independence era were in some sense rational responses to the objective conditions of the time, their history, and even the dominant intellectual mould of the time. We shall return to this point later. However, having set up the heavy infrastructure of controls, enormous rents accrued from them, and it is not surprising that dismantling them would meet with stringent opposition.

4 For instance, the NEXIM Bank of Nigeria in the early 90s was instrumental in the achievement of many positive trade policy changes. It influenced the abolition of the contentious stamp duties on export loans which constituted double taxation for exporters
and the abolition of export of raw cocoa in order to increase the value added from cocoa and improve the capacity utilization of cocoa processing firms in the country. It successfully convinced the government to abolish the duty-drawback concession given to exporters because it had serious negative effects on their working capital. It was replaced with a manufacturing bond placed with the customs authorities, which ensured that the duty-exempt imports were indeed inputs for exports. The critical elements of success for these institutions are the technical and political quality of its leadership the technical skills of the professional staff and the incentive system geared towards their retention, and the extent of their shared value with the government in power.

5 See Mkandawire (1995) for a detailed and insightful taxonomy of the fiscal regime-civil society types in Africa, and how different sets of the taxonomy impact on the policy process. For African countries, the revenue base is largely exogenously determined by the resource endowments of the country, terms of trade, composition of domestic output, aid receipts, global sourcing policies of the transnational corporations and the inherited fiscal and administrative structures. Depending on the dominant source of revenue, he classifies African states into two: rentier states — which depend on mineral rents and foreign aid, and merchant states — which depend on extraction of surplus through such mercantile activities as marketing boards, and rely heavily on domestic taxes and on export and import taxes. The civil society is then seen as the arena within which the state must gain legitimacy and, in order to "procure" such legitimacy, the state must defer to civil society, the extent of deference being dependent on the nature and strength of civil society as crucial determinants of the political limits on state policies. Combinations of fiscal regimes and civil society nexus provide interesting insights into the policy process. For example, in rentier — weak civil society countries (eg. Botswana, Zaire, Gabon), the state is shown to use its vast resources to block the emergence of autonomous institutions within civil society though corporatist tactics coopt certain groups that may not always be positively disposed towards the state. There is the bureaucratization or personalization of policy-making in the absence of any effective incursion into the state apparatus by organized groups in civil society. Faced with such weak civil society and awash with revenue, the rentier state will tend to be an "allocation" as opposed to a "production," and will largely tend to be "welfarist," paternalist or patronial and much less preoccupied with the impact of its expenditures on the economy's overall productivity or generation of surplus from other sectors of the economy than the rent-generating one. On the other hand, in rentier economies with strong civil societies (eg. Nigeria, Zambia) the state expenditure on social consumption is not just the reflection of a benevolent state discretionarily doling out some of the rent in the form of subsidies but the result of organized efforts by autonomous social groups to stake claims on the national wealth. In this setting, therefore, the corpus of commitments to different social classes and fractions impose severe limitations on the state's capacity to change policy, except at the threat of its own legitimation. Though the taxonomy may not neatly fit many states, it provides a useful heuristic device, and sheds important light in the understanding of important relationships and any attempt at reforms. For example, it provides a powerful organizing device for understanding why certain states are more patronial, "welfarist" and repressive than others; why merchant states are more extractionist and productionist in policies than rentier ones; why and under which circumstances states pander to special interest groups; etc. It also sheds light on which kinds of states are likely to be driven more by the motives of accumulation (growth) rather than preoccupation with social expenditures and concessions required for legitimation with the organized civil society.

6 This article by the Economist is highly insightful. We summarize a few salient aspects of the information in that write-up, just to underscore the seriousness of the promotional activities.
For sure, significant progress has been made in a majority of African countries to reform trade policies from the dirigisme of the past to a more outward-oriented regime. In most countries, progress has been made in the elimination and tariffication of non-tariff barriers, reduction of the mean tariff rate and shrinking of the mean tariff variance. Complementary policies have also been implemented and they include massive devaluation and elimination or reduction of parallel market premium, reduction in fiscal deficits, deregulation of domestic markets, elimination of marketing boards and privatization of public enterprises. Progress is understandably uneven across countries and over time. But the process of reforms has been bumpy, with frequent reversals, and in many countries, it has been difficult to proceed further with deeper liberalization. Why is this so? Some of the analysis in this section and other parts of the paper, draw from Soludo (1998).

The idea of “external agencies of restraint” is due to Paul Collier, who argues that African states can sign on reciprocal free trade agreements with the European Union. This, by itself, locks the domestic trade policy regime, and potential opposition to trade liberalization would understand that the hands of current and future governments are “tied” and would, therefore, make lobbying for policy changes fruitless. In other words, the costs of reneging on such agreements once in force is too great for any future government to contemplate.

A theoretical caveat exists in international trade theory that recognizes that large countries have an incentive to limit imports and sometimes exports in order to improve their terms of trade (see Krugman, P., 1997). But this point is often lost in the one-minded pursuit of trade liberalization in Africa.

Michael Mussa is the Director of Research, International Monetary Fund, Washington, DC.

References


5. INSTITUTIONAL FOUNDATIONS FOR EFFECTIVE DESIGN AND IMPLEMENTATION OF TRADE AND INDUSTRIAL POLICIES IN LEAST DEVELOPED ECONOMIES

Ha-Joon Chang

Introduction: The Lineage of the Debate

The central issue in the debate on selective industrial and trade policies, namely the idea that some economic activities are socially more desirable than others and therefore deserve government (or some other form of collective) encouragement, has a long intellectual lineage. It is in fact much longer than what most people realise (Reinert, 1995, provides a fascinating summary of this intellectual tradition; Chang, 2001b, provides evidence on the history of policy practice).

Many people believe that the origin of this idea lies in the work of the 19th century German economist Friedrich List, the supposed father of infant industry protection. However, List was only developing the ideas that he learned while he was in the United States as a political exile in the early 19th century — ideas developed by now-forgotten American economists like Alexander Hamilton (now only remembered as a politician) and Daniel Raymond, and actively practised up until the early 20th century by successive American governments (Freeman, 1989; Reinert, 1995; Chang, 2001b). The idea, however, goes back even further.

Edward III in 14th century Britain ran what can be described in modern terms as an infant industry promotion programme for the woollen manufacturing industry of his country (Chang, 2001b). The early Tudor monarchs, Henry VII (15th century) and Elizabeth I (16th century) in particular, put the idea in practice by promoting the woollen industry by an array of means — imposing import duties for textiles, first imposing export duties for and later banning the export of raw materials, buying up skilled foreign workers (whose migration was often prohibited by their own countries — Reinert, 1995; Chang, 2001b).

During the last century or so, with the dominance of Neoclassical economics, which denies the very idea that some economic activities can be more socially desirable than others, selective industrial and trade policies have received increasingly less support among the academic economists. However, this does not mean that such policies were not practised in reality. Selective industrial and trade policies have been extensively practised in most of the now-developed countries in their early days of development in the late 19th and the early 20th centuries (Chang, 2001b). And they persisted in many of these countries well into the latter part of the 20th century — Japan, France, Austria, Finland, and Norway being the most prominent examples (see Cohen, 1997, and Hall, 1986 for France; see Vartiainen, 1995, for Finland and Austria; see Fagerberg et al., 1990 for Norway).

Right after the Second World War, the idea that some activities are more desirable than others and therefore deserve government support had become popular in developing countries. There emerged various ideas arguing that the developing countries should now use their newly-acquired policy autonomy in order to discourage primary commodity
production and promote manufacturing (for a review, see Chang & Rowthorn, 1995a). These ideas were implemented under the (somewhat misleading) banner of "import substitution industrialisation" (ISI) that used tariffs, quantitative restrictions, regulations, and subsidies in order to promote manufacturing industries (Hirschman, 1967 is a classic analysis of this experience; Bruton, 1998 is a recent review of it).

The ISI and the ideas associated with it came under severe attack in the 1970s and the early 1980s from the newly resurgent Neoclassical development economics, which had fundamental trust in the market mechanism and deep distrust in any government action. However, the tide had turned once again by the late 1980s, when a number of publications on the development of East Asian NICs such as Korea and Taiwan pointed out that these countries did not succeed on the basis of free trade, free market policies as they were supposed to have. Partly drawing on the slightly earlier controversy surrounding the Japanese selective industrial policy of the 1980s, these criticisms finally prompted a partial capitulation by the mainstream in the form of the publication of the controversial East Asian Miracle Report by the World Bank (World Bank, 1993).

One thing that distinguishes the debate on selective industrial and trade policies generated by the success of the East Asian countries (Japan, Korea, and Taiwan, especially) is that its focus has shifted to the institutional prerequisites of policy implementation.

With the debates of the last two decades behind us, their opponents are more willing, and perhaps more obliged, to recognise the theoretical benefits and the (allegedly limited) success in East Asia of selective industrial and trade policies. However, they tend to argue that success of such policies depends critically on the existence of certain types of institutions which make such interventions feasible and, therefore, that these policies cannot be easily transferred to other countries which do not have such institutional prerequisites.

For example, in the earlier phase of the East Asian industrial policy debate, the absence of an elite bureaucracy was singled out as the reason why the Japanese-style industrial policy could not be implemented in the US (e.g., Badarraco & Yofie, 1983; Schultze, 1983), while the absence of institutions ensuring the close cooperation between the state and the industrialists made some British commentators sceptical regarding the implementation of selective industrial and trade policies in the modern British context (e.g., Hare, 1985).

Likewise, in the more recent phase of East Asian industrial policy debate, the absence of a functioning (never mind its being elite or not) bureaucracy and of the institutions of productive public-private cooperation have again been identified as the obstacles to the adoption of selective industrial and trade policies by other developing countries. The World Bank was most explicit about this in its controversial East Asian Miracle Report (World Bank, 1993).

In the report, the Bank argued that the selective trade and industrial policies of the kinds used in Northeast Asia (the report's term for Japan and the four first-tier NICs of Korea, Taiwan, Singapore and Hong Kong), whose benefits it regards as doubtful anyway, require a range of highly developed institutions and, therefore, cannot be successfully replicated in other developing economies with poor institutional infrastructure. In contrast, the Miracle Report argued, some Southeast Asian economies, namely Thailand, Indonesia, and Malaysia, achieved high growth without using very much selective industrial and trade policies and, therefore, provide a better role model for other developing economies.
This chapter aims to examine whether there are indeed certain institutional prerequisites that a country should have before it can implement selective industrial and trade policies and, if so, what they are, by drawing mainly on the experiences of the East Asian countries but also on the historical experiences of the now advanced economies of Europe and North America.

Markets, Policies, and Institutions: Some Theoretical Clarifications

As we have pointed out, it has now become commonplace to argue that, whatever the merits of selective industrial and trade policies, they need certain institutional conditions to be successful. At one level, this is a perfectly valid point. Policies do not operate in an institutional vacuum and, therefore, it is only natural that the success or otherwise of a particular policy depends on the institutions that enable or constrain it. For example, it will be hardly surprising if an income policy is easier to implement in a country with a strong, centralised union (that is, as far as the union accepts the spirit of such policy). Thus, it is more than reasonable to say that certain institutions, for example a strong centralised union, may be necessary for the success of a particular type of policy, such as an income policy.

However, many of those who talk about institutional prerequisites for the success of selective industrial and trade policies (henceforth SIT policies for short) tend to mean more than this. In making this argument, they implicitly assume that other types of policies do not need such prerequisites, or that whatever institutional prerequisites that other policies need can be relatively easily provided. More specifically, they believe that the more a policy allows the market mechanism to work, the less “props” that it needs in terms of institutions. Hence, the assertion that a _laissez faire_ policy regime does not need much institutional prerequisites and therefore can be implemented by any country, whereas the highly interventionist SIT policies of the East Asian economies require an array of sophisticated institutions to be effective. However, it is not clear this is in fact the case.

First of all, well-functioning markets require certain institutional prerequisites as much as well-functioning policies. It is well known that well-functioning markets require many institutions, including, among others, stable property rights rules, contract law, product liability rules, bankruptcy rules, and well-functioning bureaucratic and court systems to administer. Thus seen, it is not that a successful free market system can operate without institutional “props.” It may require a set of institutions which are different from those required for a successful implementation of SIT policies, but it still needs a lot of them.

Moreover, there can be no presumption that the institutions that support more market-oriented policies are simpler than those needed for more “difficult,” selective, policies. For example, a free trade policy may not be as successful as it could be if the country lacks institutions such as contract laws, trade credit facilities, and effective dispute settlement mechanisms. This is because, without these institutions, international trade becomes costly, as it involves long-distance transactions with significant time lags between parties from different social and cultural backgrounds. For another example, a _laissez faire_ industrial policy may produce a lot of “wastes” in the form of excess capacity and unnecessary bankruptcies (and the scrapping of “specific” assets), if there are no institutions such as industry associations or cartels that can “regulate” or “manage” competition in the industry.
Lastly, it is not clear at all whether establishing the more market-oriented institutions such as good contract law or a functioning court system is easier than setting up the institutions more geared towards selective interventions such as state-funded export credit facilities for some selected industries. Telling from the experiences of various countries, probably the reverse is true. More broadly, the fact that many developing countries have tried during the last half a century to build the institutions that are needed to have a well-functioning market economy often with little success is the testimony to the difficulties involved in constructing the institutions required for a well-functioning market economy. In short, in order to have a more informed debate on the institutional prerequisite of SIT policies, we need to break away from the unwarranted assumption prevailing in the debate that the less “market-oriented” a policy is, the more sophisticated institutional “props” it needs.

Institutions for Selective Industrial and Trade Policies: Learning from Past Experiences

In this section, we will examine the experiences of the now-advanced countries in their conduct of SIT policies during the earlier days of their developments. We will try to identify those institutions which may have been critical in the success of SIT policies in these countries and see exactly which role they played and, when possible, how they were constructed through conscious government and private sector efforts (if they were).

The focus of the discussion will be on the East Asian countries, although we will draw on the experiences of the European or the North American countries wherever relevant. The concentration on East Asia is at one level motivated by the fact that it was the success of SIT policies in the East Asian countries that generated the recent interest in the role of institutional factors in determining the success of such policies. However, the experiences of the East Asian countries deserve even more attention because many of them were in fact not much more advanced than today’s least developed countries until a few decades ago (Chang, 1998b).

The Bureaucracy

As already mentioned, many people have pointed out high quality bureaucracy as a factor crucial in explaining the success of SIT policies in East Asia. The same argument has been raised in relation to other countries which have had successes in SIT policies, such as France, whose elite bureaucracy is simultaneously praised and detested for its prominent role in directing the economy through selective intervention. Then is the policy implication, except for those who believe that SIT policies have nothing to contribute, that we should improve the quality of the bureaucracy if we are to conduct SIT policies successfully.

Many commentators, however, will say that this only shows that SIT policies are not relevant for most developing countries. They argue that high quality bureaucracy is usually a product of political and cultural tradition and, therefore, countries without such tradition cannot just conjure up a high quality bureaucracy. They point out that, the high quality bureaucracies in the East Asian countries owe their existence to a long Confucian cultural tradition, where the meritocratically-selected elite bureaucracy has dominated the society. Given that very few of the least developed countries can claim a strong bureaucratic tradition (Confucian or not), the case against SIT policies seems sealed. However, a closer look at the past experiences suggests that the story is not so simple.
The Definition of High Quality Bureaucracy

While not disputing the usefulness for a high quality economic bureaucracy for the successful design and implementation of SIT policies, we wish to emphasise that what "high quality" means needs to be defined clearly. The popular perception is that a "high quality" economic bureaucracy needs to be staffed with people with advanced training in economics or management. However, the experiences of the successful East Asian countries suggest that this may be a wrong way of looking at the problem.

Most of the elite economic bureaucrats in Japan have been lawyers by training. Korea also has had high proportion of lawyers running the economic bureaucracy (more so in the earlier days), and in Taiwan the elite economic bureaucrats have been mostly engineers. These lawyers and engineers did have some training in economics, but the kind of economics training that they had was often of the "wrong" kind — for example, Japanese economics faculties have until recently been dominated by Marxists; Schumpeter and List were widely taught. Above all, economics training in these countries has until recently not been of such high quality by international standards. The fact that the bureaucracy in India, a country with arguably one of the best economics training in the world, has not been equally successful in guiding its economy also suggests that specialised training in economics may not be so crucial in making a "high quality" economic bureaucracy.

In the end, the competence that is needed for the conduct of a successful SIT policy seems somewhat counter-intuitively, that of a generalist, rather than that of an economist in the conventional sense, as Johnson (1982) pointed out in his classic work on Japan. This may be because what is most needed for a successful policy, even of the "selective" kind, is the ability of the policy-makers to make good judgments on main issues, and not specialist knowledge, which can be acquired by consulting experts and also by "learning-by-doing" on the job. This suggests that the least developed countries intent on developing a good economic bureaucracy should put more emphasis in recruiting people of generally high calibre, rather than looking for specialists in economics and other related subjects.

Political Insulation of the Bureaucracy

It has been frequently pointed out that the bureaucracy conducting SIT policies should not only be highly competent but should also be insulated from political pressures. This is a natural conclusion, given the nature of SIT policies.

The policies, by definition, attempt to change the economic structure over and beyond what the market is able to do by inducing the private sector agents into new activities that they have no interest to go into under a free-market situation. This means that SIT policies by definition have no natural supporter groups — a non-existent electronics industry does not have anyone to advance its interests. Therefore, unless the bureaucracy does not have the political autonomy to go beyond merely responding to private sector demands, the new activities will never get promoted.

Moreover, SIT policies often, although not necessarily, involve the temporary suspension of market incentives. This means that there has to be some force that can discipline the firms receiving protection and subsidies (or more generally other forms of state-created rents). Otherwise, these policies can easily result in "infant" industries that never grow up or in permanently "sick" industries — as has often happened in many developing countries. And if the bureaucracy is to discipline the recipients of state-created rents according to some "rational" plan, it has to have political independence.
The existence until recently of a highly authoritarian political regime in some of the countries that successfully used SIT policies, such as Korea and Taiwan has created a widespread belief that bureaucratic insulation is only possible under authoritarianism. However, other countries which successfully practiced SIT policies did not have to rely on authoritarianism to ensure the necessary degree of bureaucratic insulation. For example, Japan and France may have had a political system where the executive is dominant (and therefore the bureaucracy not very sensitive to parliamentary demands), but these can by any stretch of imagination be described as authoritarian states. Moreover, Finland, Austria and Norway, the other successful practitioners of SIT policies during the postwar period had strong parliamentary systems.

These examples suggest that there is no necessary correlation between a country’s bureaucratic insulation and its political system. What seems to be more important than the political system 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 (on the importance of Weberian bureaucracy in the developmental process, see Rauch & Evans, 2000).

The Role of “Pilot Agencies”

Many of the past experiences with SIT policies demonstrate the importance of “pilot agencies” staffed by elite bureaucrats in increasing the effectiveness of the policies.

SIT policies often involve issues that cut across the responsibilities of many different government ministries and agencies and, therefore, it is useful to have a pilot agency that has the power and the legitimacy to coordinate activities across different agencies and resolve potential conflicts between them. In some countries, the pilot agency took the form of powerful planning ministries with formal power to over-rule other ministries and agencies (the Economic Planning Board of Korea and the Commissariat Général du Plan of France). In others, it assumed the form of a coordinating committee (the Industrial Development Bureau of Taiwan) or even a single ministry (the Ministry of International Trade and Industry of Japan, where the Economic Planning Agency was powerless) with more informal power over other government agencies. However, the underlying principle is the same — you need an agency that has some power to coordinate different interests within and outside the government.

Having a pilot agency also seems to bring the added benefit of increasing the political insulation of the economic bureaucracy that we talked about. This is because the pilot agencies in many countries that practiced SIT policies were not “line” ministries and therefore did not have to worry about their “client” interests — this was the case in France, Korea, and Taiwan. However, in Japan, MITI played the role of the pilot agency very well despite being a line ministry. This shows that having a line ministry as a pilot agency is not necessarily bad for political insulation of the elite bureaucracy. Indeed, some may even argue that the tendency of such pilot agencies becoming all too powerful, which can sometimes lead to unchecked pursuit of mistaken policy, can be usefully restrained by the presence of other powerful ministries, such as the Ministry of Finance in the Japanese case.

The Role of Bureaucratic Tradition

Many those who are sceptical about the viability of SIT policies in the least developed countries point out that good bureaucracy is something that cannot be built overnight.
Therefore, they argue, countries without a strong bureaucratic tradition such as in Confucian countries in East Asia or France should not attempt SIT policies.

On the surface, this argument seems perfectly sensible. The East Asian countries all have the Confucian cultural heritage dating back many centuries, where meritocratically-recruited bureaucrats have played the leading role. Some European countries which actively used SIT policies, such as France and Austria, can boast some of the oldest and strongest bureaucratic traditions in Europe. It cannot simply be a coincidence that these were the countries which were most willing and able to conduct SIT policies. However, on a closer look, this interpretation becomes less convincing (also see Evans, 1995, and 1998).

First, it is not clear whether it is really the Confucian tradition that made all the East Asian bureaucracies what they are. For example, in the case of Singapore, it may well be argued that it was really the transplanted British bureaucratic tradition, rather than the Confucian one, that formed the backbone of its current administrative structure. De-emphasising the "cultural" dimension implies that constructing a new bureaucratic tradition may not be as difficult as some people argue.

Secondly, bureaucratic traditions are quite fragile and can easily decay and even disappear, and indeed many of the East Asian and the European countries that had successful SIT policies were once good examples of this. For example, the Taiwanese bureaucracy in the 1950s was regarded as lacking in meritocracy and effectiveness — not a very surprising state of affairs considering the infamous corruption and incompetence of the same machinery in mainland China before 1949 (Cheng et al., 1998). And all this with two-and-a-half millennia of Confucian bureaucratic tradition. Korea, despite a thousand years of Confucian bureaucratic tradition, was regarded in the 1950s as having an incompetent and non-meritocratic bureaucracy (Cheng et al., 1998). The French bureaucracy was regarded as extremely conservative and ineffective for nearly a century before the Second World War despite its previous tradition of centralised bureaucratic rule (Kuisel, 1981). The same may be said about the Austrian bureaucracy during the first half of the 20th century despite hundreds years of bureaucratic tradition of the Austro-Hungarian empire.

Thirdly, our examples suggest that, while it is easy to squander even millennia-old bureaucratic traditions and end up with a poor bureaucracy, a good bureaucracy is not as hard to construct as it is often believed to be. For example, it was after all only after the extensive civil service reform of the 1960s and the 1970s that Korea was regarded as having a high-quality bureaucracy — in any case, it was sending its bureaucrats to Pakistan and the Philippines for bureaucratic training until the late 1960s. The transformation of the French bureaucracy from one of the most conservative to one of the most dynamic in the world after the Second World War also shows how good bureaucracies can be relatively quickly built, if there is political will and appropriate institutional reforms.

**Institutions that Provide Control over Resource Flows**

One common misperception about SIT policies has been that it is all about subsidies and tariff protections. For example, in the early days of recent industrial policy debate, many commentators doubted the very existence of SIT policies in Japan on the ground that the Japanese government did not spend more money on subsidies (as a proportion of GDP) than the majority of the OECD countries. However, SIT policies are about much more than subsidies and tariff protections, although these are obviously important instruments.
Many studies have emphasised that one important function of SIT policies is the provision of an “entrepreneurial vision,” which provides “focal points” around which private sector investment decisions can be (formally and informally) coordinated (e.g., Renshaw, 1986; Chang & Rowthorn, 1995b). Provision of such vision can, and to an extent should, involve subsidies and tariff protection, but it also can be done through less costly measures. These include indicative planning at national and sectoral levels, encouragement of the formation of private sector cartels and consortia for productivity-enhancement purposes which may or may not involve price collusion, and the continuation of “dialogue” with the private sector that will help the relevant actors to forge out a common vision. The Japanese state, especially in its encouragement of the information technology industries, has been particularly successful in this regard (Renshaw, 1986; Okimoto, 1989; Fransman, 1990), but this applies to the other countries that practiced SIT policies actively.

Having emphasised that SIT policies are not all about handing out money to those who are running business in favoured industries, it should also be emphasised that the implementation of SIT policies need to be supported by substantial degrees of control over financial and real resources, if the government “announcements” are to have a significant impact. Two of these stand out — state-owned enterprises and the control over the financial sector.

**State-Owned Enterprises**

Many of the countries which actively practiced SIT policies have used state-owned enterprises (henceforth SOEs) extensively. The popular conception is that the larger the SOE sector the less efficient and dynamic the economy. However, evidence from East Asian and European examples flies directly in the face of such argument.

For example, France, Austria, and Norway all had large SOE sectors. Moreover, it is not simply that their SOE sectors are big, they have been most dynamic, and have led the modernisation of their industries. Taiwan has one of the largest public enterprise sectors in the non-oil-producing world, especially if one includes the “party enterprises” — enterprises owned by the Kuomintang party which are often classified as “private” enterprises (Fields, 1998). The Taiwanese SOEs were mostly in the upstream sectors producing intermediate inputs, and their efficiency has contributed a lot to the competitiveness of the country’s downstream industries which use their products as inputs (Amsden, 1985; Wade, 1990). The Taiwanese government also started off some risky, high-technology SOEs and spun off private sector firms from it — some of the leading semi-conductor firms in the country were created in this way. Korea’s SOE sector, while not as large as that of Taiwan, has been as large as that of India, which is often touted as the example of excessively large state sector, but has been technologically much more dynamic than the latter. Some of the Korean SOEs are world-renowned firms such as POSCO, the steel producer.

Of course, this is not to suggest that an effective SIT policy regime requires a large SOE sector. Japan is an important exception to this pattern that proves this point. While its SOE sector is not exceptionally small, it is not very large either, and in manufacturing industries, the role of SOEs in Japan has been minimal. However, it is true that SOEs can provide, and have provided, an important channel through which SIT policies can be implemented. Of course, the problem in many developing countries is that the SOE sector has been a drain on state resources rather than an effective channel for state control of resources. Therefore ways need to be found in order to improve their performance,
including (but by no means exclusively) privatisation — a subject that we do not have the space to go into).

Control of the Financial Sector

Control of the financial sector has been a more important institutional measure than the control of SOEs for effective SIT policies. Needless to say, the mechanism in which such control is instituted and maintained has been different across countries, but the government in all countries with successful SIT policy experience has had strong control over the financial sector in one way or another.

In many countries, this took the form of state ownership of banks and other financial institutions. In Korea and Taiwan, all the banks were owned by the government at some point. The bulk of the banking sector is still state-owned in France and Taiwan. The Korean state pulled out of banking ownership in a major way since the 1980s, but still owns a number of key banks. In Norway, state banks at one point controlled over 50 percent of the bank loans (Fegerberg et al., 1990). Japan is an exception once again, as its government owned only a relatively limited part of the financial sector, although its famous post office savings scheme allowed it to control a substantial amount of financial flows in the economy.

Direct ownership, however, is only one of the measures the governments in these countries used to maintain control over the financial sector. The East Asian and the European countries that we are talking about all had bank-led financial systems, where banks are highly exposed to highly-geared corporations (with the exception of Taiwan, where the gearing ratio is low). This gave the government enormous leverage over the banks, as they had to rely heavily on the state-controlled central banks for their continued survival. Partly because of this, the governments of many of these countries exercised substantial influence on the appointment of top managers in the banks. In Korea, until the radical financial liberalisation (1993 onward), the government decided top management appointments in all banks, including those privatised in the 1980s.

With the outbreak of the Asian crisis in 1997 and the prolonged recession in Japan, state control over the financial sector in the East Asian countries has come under fierce attack. The argument is that, by rationing credits, even guaranteeing repayments according to non-market criteria (dictated by SIT policies), these governments encouraged inefficient investments. It is also pointed out that, in the absence of effective take-over mechanisms through the stock market and the continued government support for its "cronies," it was almost impossible to punish bad investment decisions (for criticisms of the "crony capitalism" story, see Chang, 2000). So the implicit argument is that state control of the financial sector that we argue to be central to the institutional foundation of SIT policies actually is what bankrupted these countries.

One myth that needs debunking is that the bank-based financial system that has dominated the East Asian and European countries with active SIT policies is somehow a "deviation" from the "norm" of the Anglo-American-style capital-market-based financial system. The reality is the reverse. As it is well known, bank dominance of the financial system is the norm in developing countries, and not just in East Asia, but this is also the case among the developed countries. Only the US, UK, and a few other Anglo-Saxon countries have capital-market-based financial systems, and all the other developed countries have bank-based systems of one type or another (see Zysman, 1983, Cox (ed.), 1986, and Dertouzos et al., 1989).
It is often argued that the low profitability of their banks and other financial firms in countries with bank-dominated financial systems proves the inefficiency of their financial systems. However, this assumes that private profitability correctly reflects a firm’s social contribution and, therefore, that high profitability of the financial institutions means they are channelling money into the most efficient firms. However, this is an assumption that is unacceptable to everyone except to doctrinaire free-marketeers. In our view, the best indicator of a country’s financial institutions’ ability to mobilise and allocate resources is the country’s overall growth performance in the long run, rather than the profitability of its banks and other financial institutions, which do not necessarily reflect their social contribution. And from this point of view, given their superior growth records of the countries concerned during their periods of active SIT policies, we may be able to say that the financial institutions in these countries have performed very well.

The “cronyism” story is also implausible, even for the economies in crisis like Korea and Japan. In these countries, state favouritism was mostly linked to “objective” plans, rather than to political connections, as far as it concerned the manufacturing sector (areas like urban planning and defence contracts were another story). Moreover, as the earlier studies repeatedly emphasised, the success of SIT policies in these countries owed a great deal to the willingness and the ability of their governments to discipline the recipients of state-created rents.

It was in fact the weakening of such disciplinary power following financial liberalisation and other de-regulatory measures that politically-motivated lending and subsidies increased (Chang, 1998a, and 2000; Chang et al., 1998). Indeed, many observers agree that the recent crisis is largely a product of ill-thought-out financial liberalisation that occurred since the late 1980s, and especially the early 1990s, which encouraged the accumulation of short-term loans and weakened further the already weak prudential regulations that existed in these countries. It is also no coincidence that the countries in the region that did not extensively liberalise their state-directed bank-based financial system, namely, China and Taiwan, have survived the crisis.

Thus, state control of the financial sector has been critical in ensuring the success of SIT policies by providing the state with the power to influence private sector investment decisions and, more importantly, by giving it the power to discipline the non-performers. Despite the currently popular attack on state-controlled financial systems, especially of the East Asian variety, there is no evidence that state control over finance caused the crisis in some of these countries. If anything, the evidence points to the other way — in other words, it was the weakening of state control over the financial sector that allowed the rapid and unsustainable build-up of short-term loans that eventually brought these economies down.

**Intermediate Institutions**

Many studies of SIT policies, especially in the East Asian context, have brought out the importance of “intermediate” institutions that link the state apparatus with individual firms in ensuring the success of SIT policies. The most frequently discussed intermediate institutions are those that provide the interface between the bureaucracy executing SIT policies and the firms that are at the receiving end of those policies — such as deliberation councils.

As already emphasised, political insulation of the bureaucracy is important for the success of SIT policies, but whatever its benefits, it is not something that is unambiguously
desirable. Above all, a bureaucracy that is overly insulated from external pressures can pursue its aims without external checks. In other words, while some degree of political insulation is needed for the bureaucracy to pursue a long-term, socially “rational” strategy, feedback from those affected by its policies is necessary if it is not to become a power unto itself and pursue its own objectives, rather than serve as an institution through which society can coordinate potentially conflicting interests.

The experiences of countries with successful SIT policies show indeed that their bureaucracies engaged in dialogue with the private sector and, therefore, were able to get detailed feedback on their policies, albeit through different mechanisms depending on the country, and thereby received constant feedback on policies from those affected.

For this purpose, Japan used the now-famous deliberation councils, which had representations from both public and private sectors, as well as “third parties” such as academics, the press, and occasionally other social actors such as consumer groups (World Bank, 1993, ch. 4). Korea used similar institutions, including its own unique monthly export promotion meetings during the 1960s and the 1970s presided over by the president and attended by top bureaucrats and top business leaders (Sakong & Jones, 1980). However, the decision-making process in the Korean institutions were much more government-dominated than in their Japanese counterparts. Taiwan had to use more informal networks. Its political parameters (such as the ethnic division between the political elite from the mainland and the “Taiwanese” business elite) dictated that the government discouraged the emergence of large-scale private sector firms, which were the main counterparts to the deliberation councils in Japan and Korea (Fields, 1995). In France, the continued flows back and forth of the top managerial personnel between the public sector and the private sector seems to have ensured a good working relationship between the two, although this has attracted criticisms of “revolving door” and “clubbiness” at the top echelons of the French elite.

Once broad policy principles were decided at the national level through deliberation councils or their equivalent, the principles would be translated into concrete action plans and enforced by the industry associations. These associations contributed to the resolution of the “collective action” problems required for the policy objective (e.g., restraint on competition, contribution to a common marketing scheme) in two ways. First, they would share out the overall burden in a manner that is seen as “fair” (but not necessarily “equal” in the strict sense) among its members. Secondly, they would devise ways to monitor compliance by its members to the agreed “collective action” schemes. This was sometimes done by organising officially-sanctioned formal cartels (most notably in the case of many Japanese industries until the 1980s; see Hout & Magaziner, 1980, and Dore, 1986, for more details) but sometimes through informal cartels implicitly backed by the state.

This relationship between the state and the private sector has been captured in the notion of “embedded autonomy” (the term is due to Evans, 1995). Without its embedding in a dense network of public-private interface, it is argued, an autonomous state can easily degenerate into a 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. And from this point of view, institutions like deliberation councils and industry associations facilitated the information flows between the bureaucracy and the private sector, on the one hand, and strengthened policy enforcement mechanisms, on the other hand, thus helping the success of SIT policies.
Changing International Conditions for the Use of SIT Policies

During the last decade or so, there has been a marked strengthening of the "global governance" regime in the direction of greater liberalisation. The conclusion of WTO agreement is the most important example, but there have also been other moves such as the attempt to introduce Multilateral Investment Agreement (MIA), which aims to restrict industrial and technology policies that discriminate against foreign companies, and bilateral negotiations that are aimed to strengthen the protection of intellectual property rights especially by developing countries.

These attempts have not always been successful. The attempt to push further with WTO talks in Seattle in late 1999 failed due to strong resistance from developing countries as well as from various pressure groups from developed countries. The talks regarding the MIA initiated by the OECD were also aborted in 1998 by the resistance of many developing countries and some advanced countries. Indeed, surprisingly, by late 1999, even the OECD acknowledged the need to introduce the "code of conduct" for transnational corporations (TNCs), something that had not been heard of since the 1970s. Bilateral talks to strengthen intellectual property rights in developing countries have been only partially successful.

Despite these setbacks and slowdowns, considerable changes have happened on the international environment for the use of SIT policies, and it is important to correctly assess the implications of these changes. Below, we focus on the implications of the WTO regime, as it is central to the new "global governance" regime.

The launch of WTO has prompted many people to argue that, whatever their merits in the past, SIT policies are "out" now. Is this true? (For further details, see Akyuz et al. 1998, Chang 1999, and Amsden, 2000).

To begin with, it is still not clear how the WTO regime will evolve. There are on-going disputes on what is "free and fair trade" among members of WTO, as best seen in the debates on whether "lax" labour and environmental standards in developing countries constitute "unfair competition." And as far as these disputes reflect the genuine differences in values and goals, rather than simple foot-dragging, this dispute is not going to go away easily (on the difficulty of defining the free market, see Chang, 1997 and 2002). Moreover, it is not exactly clear how these disputes will be resolved, given the formally "democratic" decision-making structure of WTO unlike those of the World Bank and IMF, where the principle of "one dollar one vote" reigns or that of the UN, where some countries have formal veto power, and the developing countries seem increasingly more willing to exploit this in their interests (for further details, see Evans, 2000).

Second, while it is true that under WTO, rules on the use of tariffs, subsidies, etc. have become tighter, it is not as if everything was allowed under the old regime. Even under the old GATT regime, there were a lot of restrictions on what countries could do, and countries like Korea often exploited grey areas in implementing its policies. Therefore, it is important not to overestimate the relative impact of WTO.

Third, it must be noted that, even on paper, the WTO agreement by no means obliges countries to abolish all tariffs and other trade protections, and many developing countries have decided on tariff ceilings that are still considerable (Amsden, 2000). Moreover, the least developed countries have until 2006 to reduce tariffs.
Fourth, infant industry protection is still allowed (up to eight years), although it must be pointed out that infant industry protection was not the clause invoked by countries like Korea when using protection under the old GATT regime — they usually used the balance of payments (BOP) clause that we discuss below.

Fifth, there are still provisions for “emergency” tariff increases (import surcharge). This can be done on two grounds. The first is a sudden surge in sectoral imports, which a number of countries have already used (e.g., Argentine tariff on Brazilian cars). The second is the overall BOP problem, for which almost all developing countries have also used. Since countries have discretion on how much emergency tariffs can be imposed on which commodities, as far as these are on the whole commensurate with the scale of the BOP problem, there is still a lot of room to deliberately create rents in areas where learning opportunity may be maximized.

Sixth, not all subsidies are “illegal” for everyone. For example, the least developed countries (roughly below $1,000 income per capita) are allowed to use export subsidies, which other countries cannot. Subsidies for agriculture, regional development, basic R&D, environment-related technology upgrading are still allowed. Moreover, the subsidy restrictions only cover “trade-related” policies, which means that there are many “domestic” policies that can be used for the creation of learning rent and other technology policy purposes — examples will include subsidies on equipment investments, support for start-up enterprises, subsidies for investment in particular skills, etc.

Seventh, although the exact future shape of the trade-related intellectual property rights (TRIPS) agreement is still not entirely certain, given the way in which the developed countries — especially the US — are behaving, it is likely to have some important adverse effects on technology transfer to, and absorption by, developing countries (see Chang, 2001a, for further details). However, it must be said that the technologies that the least developed countries need to absorb are often those that are too old to have patents — an overly pessimistic conclusion should not be drawn. Also, they have a longer transition period for the introduction of product patent (until 2006 against 2000 for other developing countries).

Lastly, as for trade-related investment measures (TRIMs), it should be noted they are not as stringent as it is sometimes thought to be. Amsden (2000) points out that developing countries can maintain or even strengthen local content requirement, which is an important tool for technology upgrading.

Thus seen, the changing international environment has certainly imposed considerable extra constraints on the conduct of SIT policies by developing countries, but these constraints are by no means overwhelming. The least developed countries also have some extra room for manoeuvre in the form of exemptions (e.g., ban on export subsides) and longer transition arrangements (e.g., on tariff reduction and product patents). And many countries have actively sought, and succeeded in using activist policies without breaching WTO requirements. And with the increasing demands by the developing countries to forge an international trading and investment order that is less one-sided, backed up for by the “democratic” structure of WTO, the scope for SIT policies may even increase in the future.
Notes

1 From about the mid-19th century to the Second World War, the US was the most protectionist economy in the world. See World Bank (1991), p.97, Box 5.2

2 Britain was a high tariff economy until the early 19th century. See the same source above.

3 Representative works include Balassa et al (1982), Little (1982), and Lal (1983).


5 See Johnson (ed. 1984), and Chang (1994, ch.3).


7 Indeed, if we compare the early Korean five-year plan documents of the 1960s (which employ little more than simple macro-economic accounting and projection) with the early Indian five-year plan documents of the 1950s and the 1960s (which were based on sophisticated economic models such as Mahalanobis model), we realise how poor the quality of the Korean bureaucracy’s “economics” was, at least in the early days.

8 The earlier orthodox position on the role of state-owned enterprises in developing countries is well summarized in World Bank (1983). Subsequent criticisms (reviewed in Cook & Kirkpatrick (eds) 1988, and Chang & Singh, 1993) forced the World bank and its associates to revise its position (World Bank, 1995), but even this revised position has a lot of problems (for a critical review, see Chang & Singh, 1997). In the case of developed countries, the orthodox arguments are well-summarized in Vickers & Yarrow (1988) and Yarrow (1989). Chang & Singh (1993) also provide some theoretical criticisms of this position.

9 As of the mid-1970s, the share of public enterprise sector in GDP was 14.5 percent in Austria and 11.9 percent in France, when the industrial country average was 9.6 percent. During the same period, Austria (19.2 percent) had the highest share of the public enterprise sector in gross fixed capital formation in the industrialized world, and Norway (17.7 percent) was behind only Australia (18.7 percent) and the UK (18.6 percent). See Chang & Singh (1993) for further details.

10 Of course, in comparing the share of SOEs in two economies (Korea and India, for example), it should be noted that as a rule, we have more public ownership in the more industrialized economies (here, Korea) due to the ease of nationalizing industrial, as opposed to agricultural, assets.

11 Between 1980–91, the average debt equity ratio in these SIT countries ranged between 270 percent (Austria) and 555 percent (Sweden). In between were France (361 percent), Korea (366 percent), Japan (369 percent), Finland (492 percent), and Norway (538 percent). Contrast this with the Anglo-Saxon economies, where the ratio ranged between 112 percent (South Africa) and 179 percent (USA), with Australia (125 percent), UK (148 percent), New Zealand (153 percent), and Canada (160 percent) in between. It is interesting to note that the European countries with less active use of SIT policies had debt-equity ratios that were between these two groups of countries — with Switzerland (175 percent), Belgium (202 percent), and the Netherlands (216 percent), having ratios similar to the top-end of the Anglo-Saxon countries (179 percent for the USA), while Germany (273 percent), Spain (275 percent), and Italy (307 percent), had ratios similar to those of the lower range of the SIT countries (Austria 270 percent). All data are from Demigruc-Kunt & Maksimovic (1996, p. 354)).

12 It is no big surprise that economists and other social scientists who have been sceptical of the orthodox view see things this way — see the essays in the special section in World

13 For a fascinating example of how burdens of capacity cuts in the Japanese ship-building industry in the late 1970s were shared in what was accepted as “fair” manner among different types of firms, see Dore (1986, p.145).

14 However, in some countries, with the growing power of the private sector during the last decade or so, the delicate balance between autonomy and embeddedness seems to have been broken in favour of the latter. This shift was most visible in Korea, where the traditional “generalistic” relationship between state and big business, where the big business was favoured over other sections of the society but only as a group, to a more “particularistic” relationship, where certain firms were favoured over others — although this is not to suggest that “cronyism” thus generated was the main, or even an important, cause behind the country’s recent crisis (see Chang 1998a, Chang 2000, and Chang et al 1998)

15 Some countries reduced such ceilings substantially — for example, India cut its trade-weighted average tariff from 71 percent to 32 percent. However, many countries, including India, have fixed them at relatively high levels — for example, Brazil cut its trade-weighted average tariff from 41 percent to 27 percent, Chile from 35 percent to 25 percent, Turkey from 25 percent to 2 percent (see Amsden, 2000, Table 1).
This page intentionally left blank
6. SOUTH AFRICA: ECONOMIC POLICY-MAKING AND IMPLEMENTATION IN AFRICA: A STUDY OF STRATEGIC TRADE AND SELECTIVE INDUSTRIAL POLICIES

David Lewis, Kabelo Reed and Ethel Telfeir

Introduction

This chapter examines selected policies, programmes and institutions central to industrial and trade policy in South Africa. Attention is principally focused on policy measures designed to strengthen the operation of market-based incentives, in particular through trade reform and competition policy. However, it also examines a number of measures designed to underpin the ability of firms to respond to these incentives, the so-called “supply-side measures.”

The policy measures and programmes to be examined are part of the armoury of the Department of Trade and Industry.

Industrial Performance and Policy: The Past

An understanding of South Africa’s industrial development proceeds from a number of stylised facts. In summary, the country is a well-endowed mining economy. Gold is at the centre of this mineral bounty although other resources — diamonds, coal, platinum and others — are also of major significance. However, the share of the mining sector, measured by output and unemployment, has declined over time. On the other hand, manufacturing sectors share of total GNP grew steadily, declining slowly in recent decades as the services sector share grew. This shift in the relative weight of mining and manufacturing underpins the conventional wisdom that represents South Africa as an economy that has successfully made the transition from its root in resource extraction to one resting on secondary industry — manufacturing.

But this success, it is widely recognized, has been severely attenuated. In particular, mining is still disproportionately represented in South Africa’s exports. And — generally thought to be closely tied to the manufacturing sector’s difficulties in penetrating international markets — employment in manufacturing began to stagnate and, in some years, actually decline from the late 1970s.

The explanation for this stunted transition from a mining to a manufacturing economy (often dubbed “jobless growth” as the growth in manufacturing output and exports particularly after 1994 did not translate into greater employment in the manufacturing sector) is generally sought in the policies widely believed to have underpinned the growth of the manufacturing sector, namely a typical attempt at import substituting industrialization (ISI) largely through the instrumentality of tariff protection and capital subsidies. While it is widely held that ISI secured the development of a large and relatively diversified consumer goods producing sector, a range of other policy-induced as well as structural shortcomings conspired to ensure import substitution remained extremely shallow. That is, while ISI underpinned highly diversified consumer goods
production, it never generated a capital goods producing sector of any significance and this accounts for the persistent negative trade balance in manufacturing (and for many of the emerging inefficiencies in the consumer goods sectors). Moreover, tariff protection — in combination with other subsidies and forms of support — underpinned a powerful anti-export bias, and the consequent lack of engagement with world markets intensified South Africa’s perennial balance of payments difficulties and also accounted for the emergence of dynamic inefficiencies in the manufacturing sector.

These shortcomings were, the story goes, belatedly recognized by the previous regime. It began to tinker around with tariff liberalization and with export promotion and it introduced measures designed to incentivise innovation and technology development, but it possessed neither the imagination nor the political will or legitimacy to reform its industrial policy. The democratic government hence inherited a manufacturing sector foundering on the rocks of an ISI policy regime and a global environment far less tolerant of this policy orientation and less forgiving of the inefficiencies that it engendered.

This is not an entirely unfamiliar tale although the extreme shallowness and lack of dynamism associated with South Africa’s experiment with ISI has to be accounted for. The particularities of apartheid enter here: extreme income inequalities distorted and limited the domestic market; labour market and education policies massively restricted productivity growth and contributed to high levels of industrial unrest; a range of other apartheid-type restrictions fatally inhibited the development of dynamic SMEs; and finally, international isolation, itself a direct consequence of apartheid, not only buried any prospects for export growth but also accounted for government support for “strategic” sectors and enterprises that severely distorted investment decisions that supported increasing capital intensity, and that shackled South African industry with highly priced but poor quality intermediate inputs.

Arguably, however, the conventional wisdom and the industrial policy response that it suggests represent a partial, incomplete picture of South Africa’s industrial history. It represents a viewpoint that has been questioned in recent research casts strong doubt on the widely held notion that import substitution has constituted the central dynamic underpinning the growth — and malaise — of South African manufacturing.¹

This attempted revision of South Africa’s industrial history proceeds from the strength and centrality of “...what is termed a Minerals-Energy Complex (MEC). This includes the mining and energy sectors and a number of associated sub-sectors of manufacturing, which have constituted and continue to constitute the core site of accumulation in the South African economy. .... Contrary to the popular view that there has been a declining role for mining, the economy’s dependence on this MEC core has in fact increased” (Fine and Rustomjee, p.71).

For the authors of this view, the expanded role accorded to the MEC vis-à-vis manufacturing represents more than an empirical revision with shares of output, employment and other indicators, more accurately distributed between the minerals sector and other intimately related sectors, on the one hand, and manufacturing, on the other. Rather, it is argued, the MEC, and measures directed at strengthening it represents the South African “system of accumulation” and, as such, “...addresses the process by which the core set of industries ...have developed historically and have influenced how other sectors have developed” (Fine and Rustomjee, p.91).

While the “MEC core” is constructed through the very strong material linkages between mining, electricity generation, minerals processing, iron and steel basic industries and
large swathes of the chemical sector, the key relationships that establish MEC as a “system of accumulation” are to be found, argue Fine and Rustomjee, firstly, in the extensive conglomeration that characterizes the corporate sector including the place of the financial sector in these corporate arrangements and, secondly, in the relationship between private capital and the state, both qua policy formulator as well as investor in key sectors of industry — iron and steel, electricity generation and chemicals, to name the most important.

This revision impacts on interpretations of South African industrial policy as it unfolded in the inter-war years. As already intimated, this interpretation is dominated by notions of “imperial” or “international” or, more colloquially, “English-speaking” mining capital counterposed by “national” or “Afrikaner” manufacturing capital. Where the former possessed considerable economic power this, the argument runs, was countervailed by the rising political power of the latter. In the inter-War period, this balance of political power was manifest in the development of an industrial policy which — acting principally through trade policy, public investment in basic industry and taxation of gold mining — effectively underpinned the rise of the manufacturing sector.

For Fine and Rustomjee, however, the division between the two “fractions” of capital is less clear-cut and the disjuncture between economic and political power, far from generating an industrial policy that unequivocally favoured the national manufacturing fraction over its imperial counterpart in mining, produced a messier, more compromised, more piecemeal approach. They argue that in key aspects — for example important instances of public investment in key sectors — measures adopted during the inter-War period ultimately reinforced the dominance and reach of the mining sector though consolidating its links with the state. In short, the crucial inter-War period is, in this view, noteworthy not for the introduction of a comprehensive set of ISI policies but rather for its failure to produce a coherent industrial policy.

The tension between support for manufacturing and the economic power of MEC, the argument continues, resolved itself in the post-War period essentially through the interpenetration of English and Afrikaans capital, an interpenetration powerfully facilitated by the key state-owned enterprises central to MEC (for example, ISCOR in steel, ESCOM in electricity, SASOL in chemicals and petroleum and, in finance, the Industrial Development Corporation). This interpenetration effectively consolidated the dominance of MEC and further marginalized the tariff — which was deployed increasingly reactively and incoherently — as a strategic instrument of industrial policy. Writing in 1994, Fine and Rustomjee’s complete their account of post-War industrial policy with the following observation: “…the IDC administers the only significant proactive industrial policy in the 1990s: the promotion of an industrial trajectory around the MEC, supporting large-scale mega-projects including SASOL’s expansions, aluminium smelting, stainless steel and potash. The only difference is that the process is driven by private sector interests, especially following the privatization programme.”

These two realities — a powerful minerals base with its associated cluster of industries and a large secondary industrial capacity that grew up largely behind tariff walls — are powerfully prevalent features of South Africa’s industrial structure and policy. They continue to inform robust policy debate, with, crudely speaking, one school focused on transforming the interaction between the MEC core and the rest of the economy, the other on enhancing the competitiveness of secondary industry.
Post-Apartheid Industrial Performance and Policy

There are four powerful sets of factors that structure the environment confronting South Africa's new policy-makers. These are themes that constantly recur and influence the direction and outcomes of current policies and programmes and that will, consequently, run through our case studies. These are, firstly, the historical legacies of South African industrialization and industrial policy; secondly, the new and fluid international environment for trade and industrial policy-making; thirdly, the newly empowered constituencies (and the continued weight of old interest groups) whose potentially contradictory requirements claim the attention of the new government. Finally, the current direction of industrial policy is, of course, also powerfully influenced by the performance of the economy and, more particularly, of the manufacturing sector and this will briefly overviewed here.

The Past in the Present

We have attempted to outline the historical evolution of South Africa's manufacturing and the industrial policy underpinning it. The story that emerges defies easy characterization and is perceived by current policy-makers to drive South Africa's industrial policy in one of two directions.

For those who understand the development of South Africa's manufacturing as a pale and largely unintended sideshow to the longstanding centrality of the "mineral-energy complex," the industrial policy problem is manifest in the persistent inability to translate the raw material rent that accrues to MEC into downstream manufacturing capacity. For those wedded to the more traditional view of South Africa's industrial history, those who hold that import substituting industrial policies (including tariff protection and capital subsidies) successfully spawned significant capacity in secondary industry, the industrial policy problem translates into the inability of this segment of industry to compete on international markets, how, in other words, to counter the productivity-sapping consequences of ISI typically run aground.

While we have already cautioned against polarizing these divergent views of South Africa's industrial history too sharply, they are associated with distinct policy emphases and programmes. Hence, the former view is pre-occupied with the apparent inability to successfully utilize our mineral output in downstream value-added production. Concern with "import-parity pricing" looms large. The Spatial Development Initiative programme, which is reviewed below and which was designed to catalyse downstream manufacturing activity processes through public-private partnerships in large upstream infrastructure or mineral processing projects, derives directly from efforts to strengthen the interaction between the MEC core and the rest of the economy.

The policy prescriptions associated with the alternative view tend to focus more directly on factors thought to limit productivity growth in secondary industry, on programmes directed at enabling South Africa's established manufacturing base to move into higher value added, export-oriented segments of industry. This view is associated with a range of programmes — *inter alia*, market access agreements, programmes designed to spur innovation and technological capacities, the development of small business, improving inter-actions between firms, at workplace relations and practices, and at human resource development.
These divergent views also translate into a particular view of the role of the state in industrial development. Hence, the MEC view tends to a more dirigiste approach to industrial policy, one inclined to a close interaction between the state and those relatively few firms that dominate the MEC core, interactions designed to strengthen their material linkages with the rest of the economy. The alternative view, one whose policy objectives must, perforce, be realized through the activities of a large number of relatively small firms, is principally concerned to ensure that the state establishes an environment that will encourage productivity enhancement on the part of the myriad of firms whose positive responses this approach relies upon. It is concerned to ensure investment in the basic underlying capabilities generically required for successful industrial development.

It is difficult to identify which of these approaches has dominated industrial policy in the post-apartheid period. There is certainly a powerful view at the Department of Trade and Industry that holds that the state's principal industrial strategy must derive from our natural resource bounty and that our policies must be designed to utilize this base as a springboard for attracting further manufacturing investment. But, equally, significant policy resources have been devoted to programmes associated with the alternative approach — with securing trade access agreements and other export support programmes, with supporting SME development, with facilitating information flows to firms, with constructing a new regulatory environment. As will be further elaborated, it is our view that this latter approach will prevail.

**South Africa in the World**

The development of South Africa's current industrial policy coincides with a dramatic change in the interface between this country and the rest of the world. This has had a major impact on industrial policy with influence exercised at two inter-connected levels — the first and most direct is through the opening up of greater opportunities for trade; and the second through intensified interaction between South African policymakers, advisors and academics, on the one hand, and their counterparts in the rest of the world and, most particularly, in Washington DC.

It is surprisingly difficult to identify a global orthodoxy around industrial policy in the early 1990s, South Africa's crucial and formative transitional period. The "line" emanating from the multilateral development institutions, the international consultancies and the centres of academic influence was beginning to blur, largely in consequence of the positive Asian experience of industrial policy. Certainly, as the South African transition accelerated from the early 1990s the positive contribution made by industrial policy to the "Asia miracle" was widely acknowledged. But there was, for example, little consensus around the particular policies that secured rapid industrial growth. It often appeared possible to make the Asia miracle accord exactly with the prejudices of the observer, although it was well nigh impossible to deny the association between the sterling performance of the Asian Tigers and their export performance. An ability to successfully penetrate international markets became a hallmark of a successful industrial policy even if the precise mechanisms for achieving this remained at the centre of robust debate.

South Africa's relationship with the World Bank, a major representative of global policy orthodoxy, was almost entirely comprised of policy advice. Indeed, South Africa has, in fact, not solicited loans from the World Bank. In the realm of trade and industrial policy, World Bank advice to South Africa's policy-makers is identified with three overall, mutually reinforcing, approaches. These are firstly tariff liberalization, secondly, the
elimination of subsidies supporting capital intensive mineral processing, and thirdly, more surprisingly, a focus on micro industrial policy programmes directed at informing and building capacity in manufacturing firms. This latter orientation — unquestionably fostered by Brian Levy, a World Bank staffer active in South Africa who had cut his teeth on small business development programmes in Korea and Indonesia — was actually supported by a grant from the Japanese Government via the World Bank. This grant — the Japanese Grant Fund — enabled government, union and business representatives to develop collaborative investigations that ultimately underpinned key industrial support programmes later introduced by government.

The global orthodoxy in trade policy was easier to identify. Indeed, there is little doubt that the developing consensus around trade policy sets the framework for industrial policy, that is, certain new insights notwithstanding, global perceptions of industrial policy were more determined by new agreements and institutional arrangements governing trade, than by the existence of a powerful global orthodoxy surrounding industrial policy itself. In particular, as liberalization proceeded (in the context of both multi- and bi-lateral arrangements) so did those industrial policy measures perceived to provide an “unfair” advantage in trade come under the spotlight.

South Africa’s experience strongly reflects this argument. The first major economic policy reform in which the new policy-makers engaged (they were then not even in government yet) was South Africa’s offer to the Uruguay Round of the GATT. This was immediately followed by scrutiny of some key industrial policy instruments that were re-examined for their GATT compatibility and were found wanting — the General Export Incentive Scheme (GEIS), a major cash grant to exporters, quickly fell by the wayside. The GATT negotiations are discussed below. Suffice for the moment to note that any notion that South Africa’s rulers mindlessly embraced a new global orthodoxy at significant variance with the policy positions associated with the ANC and its union allies, is way too simplistic. As will be elaborated below, for a complex mix of reasons, powerful domestic constituencies supported trade liberalization. However, it remains true that, beginning with GATT and extending through a number of bilateral trade agreements and then the attempts to reach agreement with SADC and the EU, South Africa’s trade policy quickly became the instrument that conditioned its industrial policy.

New Voices and New Government

The demise of apartheid has brought previously unrepresented interests to centre-stage. Moreover, the insertion of these newly empowered interests into the policy-making realm also underpins significant changes in the mode of governance, in the mode of policy formulation and implementation. These factors — the newly empowered constituencies and the transformation of the mode of governance — have naturally impacted powerfully on the substance of industrial policy.

In the sphere of trade and industrial policy, the principal interests whose voice democratization has brought to the fore are unionized workers. The powerful South African union movement has devoted considerable attention to industrial policy. At the early stages of the transition the unions initiated an independent wide-ranging study — the Industrial Strategy Project (ISP) — which, through a strongly interactive research process, produced a series of sectoral reports as well as reports on trade policy, technology policy, competition policy and human resource development. The study produced a synthesis report elaborating an overall industrial strategy for South Africa. An extraordinary proportion of the twenty-plus researchers engaged in this project have
moved into senior civil servant and policy advisory positions in the Department of Trade and Industry and other related government departments and programmes. The union official responsible for interfacing with the ISP was Alec Erwin, initially Deputy Minister of Finance in the first post-apartheid cabinet and, for the past four years, Minister of Trade and Industry. The unions have also participated extensively in a number of important sectoral initiatives that drew government, business and labour into discussions around competitiveness issues.

Union participation in industrial policy formulation has — despite initial resistance — placed productivity-related questions high on their agenda. Productivity enhancement has come to be accepted by the unions as part of industrial strategy that eschews wage repression as the basis for developing competitive advantage and that de-emphasises popular cost cutting industrial strategies such as the development of export processing zones. A key issue central to questions of policy formulation is the extent to which union influence over industrial policy has contributed to the poor association between industrial growth, on the one hand, and employment creation, on the other.

Union experience of job loss associated with productivity enhancement has predictably softened their commitment to this industrial strategy but it has also — again despite particularly strong initial resistance — helped persuade the unions of the importance of increasing the size of the market for their output and, hence, of penetrating international markets. While not wanting to overstate the extent of union acceptance of this approach, where "productivity enhancement" and "international competitiveness" were unmentionable in union circles at the beginning of the decade, they are now an established element of their discourse, key objectives of an industrial strategy that identifies training and participatory forms of work organisation as core elements.

In addition to their substantive impact on the character of industrial policy, the unions have powerfully influenced the process of policy formation. In particular, they are largely responsible for initiating a participative mode of governance unusual in its scope and depth. The National Economic Development and Labour Council (NEDLAC), a statutory body on which government and organized labour, business and community interests are represented, is a key site for the formulation of trade and industrial policy. An important aspect of NEDLAC's activities is the extent to which it has institutionalized and rendered transparent the lobbying process so powerfully associated with industrial policy.

Democratization has also brought other interest groups to the industrial policy table, although none as well organized, or with views as well developed, as the unions. Promotion of Black ownership and entrepreneurship is, for obvious reasons, a particularly important policy objective of the new government. It is represented in various instruments and institutions of industrial policy, although its strongest manifestation in this arena is in the priority accorded to SME development. However, in the arena of trade and industrial policy, the influence of Black owned business interests, while significant in the context of selected programmes, is overshadowed by that of the unions. Certainly, at the level of NEDLAC, business representation remains overwhelmingly dominated by relatively unreconstructed white dominated business interests.

The sectoral business associations remain powerful. Their background is strongly in the arena of lobbying for protection and subsidization rather than in the provision of real services to their members. The latter orientation is a potentially important, even necessary, dimension of a successful supply-side driven industrial strategy and they are
clearly experiencing some difficulty in discarding their historical baggage. Certainly the requirement for a participative, transparent approach to policy-making has changed the nature of decision-making and limited the possibilities of successful lobbying.

**Economic Performance Post-1994**

Attempts to evaluate the post-1994 performance of the manufacturing sector against the government’s industrial policy must be heavily qualified. But, however tendentious the association, it impacts significantly upon public perception and, from there, on the actual content of the policies and the degree of support for programmes, many of which rely for their success upon high levels of “buy-in.”

Manufacturing has significantly out-performed the overall economy in the post-1994 period. Although volatile, output has grown consistently over this period. Of particular interest is the significant growth in manufactured exports. Moreover, research-in-progress indicates that the period has posted a small, but marked, increase in “non-traditional” exports, essentially a relatively rapid growth in exports from the non-MEC segment. Decomposition of our sources of growth — growth which only resumed in 1993 after a long period of stagnation and decline — would certainly reveal that the manufacturing sector has been the major source of growth and that export growth has underpinned overall manufacturing sector growth. In summary:

The secondary sector responded positively to the lifting of sanctions in the 1993–94 period. Manufacturing production grew strongly in 1994 and 1995 as both domestic and export demand was strong. In addition as the Reconstruction and Development Programme (RDP) gathered momentum, the electricity and water supply sectors also grew strongly. However, the manufacturing sector’s growth rate slowed considerably in 1996 partly due to tariff liberalization as well as weak domestic demand factors. The tariff liberalization led to increased competition on the domestic market and manufacturers were forced to restructure their production processes in order to increase their competitiveness. Moreover, with the domestic market increasingly contested by international producers, local manufacturers were forced to target export markets in order to maintain sales/turnover. Many South African producers have done so successfully and manufactured exports have increased significantly since 1995.

On the face of it then, this does represent a considerable vindication of the new government’s industrial policy and, predictably, DTI has gone to considerable lengths to correlate post-1994 performance with its policies and programmes.

However, there are grounds for concern. While export performance has clearly improved over the recent past (notwithstanding a strengthening, until very recently, of the exchange rate), with imports increasing more slowly during this period, the manufacturing trade balance is still heavily in deficit, with key sub-sectors still net users of foreign exchange.

Moreover evidence suggesting that the up-take of the supply side programmes has been limited, casts some doubt on the claim that export success is policy-driven. In the context of a stagnant domestic market, this suggests that South Africa’s export successes may simply be reproducing an established pattern of “distress” exporting that will fade away as soon as the domestic market picks up again. Of course, if more rapid growth then sucks in more manufactured imports, the combined impact on imports and exports will see a familiar balance of payments constraint coming into play and choking off further growth.
This fear is borne out by the persistently low levels of new investment in manufacturing. Although considerably more robust than the 1980s, current investment levels still do not reflect the injection of considerable new capacity. Moreover, much of the export success and new market penetration is in Sub-Saharan Africa whose markets are less demanding and considerably more limited than those of South Africa’s traditional trading partners where exports have not grown significantly.

However, it is at the perceived inability of the manufacturing sector to generate employment that much of the criticism is directed. And, just as the spectacle of mass unemployment has called into question core aspects of South Africa’s macroeconomic and labour market policies, so too has it undermined support for key elements of the trade and industrial policies. Indeed, as the strength of the unions and the strength of orthodoxy (and, of course, of the interests that support it) serve to hold the line on, respectively, labour market and macroeconomic policies, the burden for employment creation is, by default, passing to industrial policy. Growing criticism has focused on the wisdom of continued commitment to tariff liberalisation, on perceived support for highly capital-intensive mega-projects, and on an apparent reluctance to target labour intensive sectors for support.

DTI has robustly — and persuasively — defended its record on employment. While it readily acknowledges that tariff liberalization (exacerbated by massive illegal imports) has resulted in some employment loss, it also suggests that certain job gains consequent upon rapid restructuring are not being recorded: “... employment statistics in South Africa are notoriously unreliable and the Department is of the opinion that under-reporting of informal sector activities, increased sub-contracting and the creation of unrecorded new jobs results in employment statistics under-reporting the true employment level in the manufacturing sector.”

Where tariff liberalization is concerned, DTI argues that a realistic assessment, would give them higher marks: “The restructuring of tariff protection, which started in 1995, has not had the disastrous consequences many commentators were predicting earlier. The de-industrialization which has accompanied tariff liberalization in a number of developing countries has been avoided mainly because of the careful segmentation and sequencing of the tariff reform.”

In summary then, the new policies are correlated with satisfactory performance on output and exports, although there are powerful reasons for doubting the implied causality. On the other hand, the new industrial policies correlate poorly with employment performance. Again, the grounds for attributing causality to industrial policy are weak but the perception is nevertheless widespread. The upshot is that South Africa’s industrial policy-makers are going to be under increasing pressure to pull labour absorbing industrial policies out of their hats.

**Trade and Industrial Policies and Programmes: A Selective Overview**

To elaborate on the process and substance of industrial policy-making and implementation, we will examine a number of key industrial policies, programmes and institutions.

Below, we examine policy-induced changes to the general incentive structure reflected in reformed trade and competition policies and the programmes aimed at strengthening the capacity of South African firms to respond to the new incentives emanating from the international and domestic markets.
The Incentive Structure

Two broad policy instruments shape the strength and character of market-based incentives and are increasingly inter-related. These are, firstly, trade policy, encapsulating that range of measures that mediate the interplay between the international market and the domestic economy; and, secondly, competition policy, the policy intervention that establishes the core rules governing participation within the boundaries of the national economy.

The interplay between these two policy fields — international trade liberalisation and competition policy — is increasingly evident. Industrialised nations are increasingly demanding the inclusion of competition policy commitments in bilateral trading agreements, the primary objective being to ensure exporters and foreign investors a level playing field in the economies of their trading partners. These demands have begun to surface in South African trade agreements, notably the South Africa-EU agreement. Conversely, the link between international trade and competition law has also been underlined by the willingness of powerful international trading nations to permit, even encourage, their national firms to adopt practices in the conduct of international trade flagrantly at odds with the competition rules applicable in their domestic markets. The US’s willingness to sanction international cartels, its support for certain mechanisms designed to protect intellectual property, and, in particular, its cynical resort to anti-dumping actions to protect domestic producers (though penalising domestic consumers, of course) against international competition, are better known examples of competition-reducing measures freely utilised in international trade.

There is a certain common irony in the ANC’s support for trade reform and competition policy. Both derive strongly from the ANC’s anti-capitalist roots, or, at least, from its distance from domestic business interests. The relatively easy passage through the ANC and, particularly, its union allies, of trade reform has much to do with the exclusion of the ANC from the ranks of national capital, combined with the strongly held view that tariff protection amounted to little more than a feeding trough for White owned business. Competition policy has, for its part, consistently been viewed as an instrument for disciplining business although it has not always been appreciated that the mechanism of competition policy is one that subjects capital, as well as public policies aimed at privileging selected elements of capital, to the discipline of market forces rather than the discipline of the state. The point is that in the early 1990s the ANC was only beginning to engage with business on a significant scale and there was no business lobby capable of restraining the ANC’s desire to discipline White capital. At the end of the 20th Century, the only permissible discipline was that of the market.

Trade Policy

Key elements of what was to become the first democratically elected government of South Africa assumed leadership of the country’s trade policy even before it was installed in office. The principal impetus for this was the preparation of South Africa’s offer to the Uruguay Round of GATT.

South Africa’s GATT offer was effectively the outcome of negotiations in the National Economic Forum (NEF). In brief, NEF’s origins go back to an attempt in 1990 by the previous government to introduce a tax on consumption and to reform labour relations legislation. This generated massive opposition from the unions in what was already a volatile political and industrial relations climate. The upshot was an agreement by the
previous government to submit changes in industrial relations and economic policies to negotiating bodies on which labour and business were represented. The National Manpower Commission, a hitherto powerless and largely ignored advisory body, was accordingly upgraded and empowered to negotiate the content of labour market and industrial relations policy. The National Economic Forum was constituted and mandated to achieve consensus over economic policies. Although consideration of macroeconomic policy was within NEF's competence, the unions focused attention on trade and industrial policy from the outset.

In 1994, in one of the first legislative Acts following the democratic election, the National Manpower Commission and the National Economic Forum were effectively amalgamated to form the National Economic Development and Labour Council (NEDLAC).

The three industrial policy measures upon which the NEF focused were, firstly, the preparation of the GATT offer. Secondly, the General Export Incentive Scheme, a large cash grant tied to export performance, was reviewed by the NEF committee responsible for industrial policy. Thirdly, as complement to the work of the ISP, an international consultancy was commissioned to prepare a series of reports examining the competitiveness of selected manufacturing sectors.

The bundling of these three issues is not entirely at random. The most obvious connection is GATT adherence — trade liberalisation and the dismantling of export schemes of the GEIS variety were clear GATT requirements leaving supply side programmes as the key GATT-legal mechanisms to support export growth. The Japanese Grant Fund studies were conducted under the direction of union, employer and IDC representatives. They were designed to identify and initiate supply side programmes. Adherence to the GATT requirements themselves were underpinned by powerful domestic forces — strange to tell, although they were viewed with considerable trepidation and reluctance by a business community long used to tariff support, they were enthusiastically grasped by the unions and ANC representatives. As already suggested, the unions — who powerfully influenced, indeed determined ANC policy in these matters — viewed the tariffs and GEIS as little more than state largesse directed at a small strata of business, the usual suspects producing lightly processed mineral or agricultural products. This viewpoint accounted in significant part for the willingness of the unions to forego programmes that defended, at least in the short term, the jobs of their members. Moreover, the unions were confident, naively as it turned out, in the state's ability to compensate for tariff protection with productivity enhancing supply side measures.

In a familiar sequencing, the preparation of the GATT offer took centre stage, with the union representatives assuming effective leadership of the tri-partite committee. Business' role was largely reactive, while the lame-duck DTI assumed an administrative function. The research department of the Industrial Development Corporation (IDC) took responsibility for much of the influential background technical input into the process. Remarkably, given their divergent starting points — IDC was the most vocal proponent of trade liberalization in the final decade of the old order — the unions and IDC dominated the preparation of the GATT offer. Members of the ANC's Department of Economic Policy were drawn into the later stages of the negotiations.

South Africa's involvement in the Uruguay Round of the trade negotiations achieved an unexpected degree of internal consensus. On one reading this was achieved because, as a result of some clever technical manipulations, the degree of liberalization was actually
quite slight. Moreover, the offers in respect of two of the most highly protected and sensitive sectors — auto assembly and clothing — were effectively prepared in sectoral tri-partite arrangements which developed a position around tariffs in the context of overall sectoral industrial strategies. For these sectors the phase-down of the tariff was considerably slower than that applicable to the rest of manufacturing — indeed Nelson Mandela, though not yet in government, was obliged to draw on his standing with the US President to seal acceptance of South Africa’s clothing offer. Considerable progress was made in rationalizing an extremely complex, lobby-driven system of trade barriers (itself symptomatic of the lack of a coherent, systematic ISI strategy) and this, rather than a major reduction in actual trade barriers, may be the most significant substantive aspect of this round of trade reform.

However, even while recognizing that the highly unusual environmental features that dominated this period of trade reform were bound to produce some surprises, few would have anticipated the prospect of the unions, in close collaboration with IDC, leading a trade reform process acceptable to GATT. Moreover, such powerful symbolism resonated in other areas. It certainly shifted the relationship between the unions and IDC, and, less easy to demonstrate concretely, it established a capacity, the self-confidence, necessary to engage with the international economic institutions, a lesson that served to remove some of the heat from the interactions between the unions and ANC, on the one hand, and the World Bank, on the other.

There is undoubtedly a certain degree of validity in the argument that attributes the internal consensus surrounding the GATT negotiations to the limited actual degree of liberalization conceded by South Africa. But, this argument notwithstanding, the internal negotiations underpinning the submission of South Africa’s offer remains a remarkable exemplar of the dynamic character of policy-making, of how particular environmental factors influence the calculations of the participants, enabling them to adopt “formative” rather than narrowly defensive policy stances.

However, by the same token, changes in the environment over the succeeding four years have placed severe strain on the consensus surrounding trade reform.

Despite their putative commitment to “free markets” the business community has always been sceptical of the trade reforms. Prominent industrialists have complained loudly about what they deem to be an overzealous approach to trade liberalization, pointing to occasions where government has reduced tariffs below the level required by their GATT (now WTO) obligations — “holier than GATT” is how a leading industrialist characterized government’s approach. Business has been particularly offended by the simultaneous elimination of GEIS, the key export incentive.

The unions are also increasingly wary of further trade reforms. There are two reasons for this: firstly, their faith in the power of compensating supply-side measures has been eroded by the difficulties of synchronizing their introduction with the tariff reduction; secondly, the bi-lateral and regional trade negotiations have thrown into relatively sharp relief the prospect of significant short-term employment losses.

For a variety of reasons, the new government moved quickly to eliminate a key demand-side support for manufacturers, namely GEIS. The introduction of supply-side programmes was intended to compensate for the elimination of GEIS and for the tariff reductions. The results have not lived up to expectations and account for a considerable decline in support for further tariff reduction.
However, the major doubts surrounding tariff reform have emerged through the experience of the regional and bi-lateral trade negotiations. Largely because of their promise of market access, these agreements have featured prominently on the new government's trade agenda. But market access is proving costly, invariably requiring reciprocal commitments with accompanying tariff reductions. The difficulties experienced by South Africa's trade negotiators have brought many of South Africa's peculiar features into sharp focus.

Hence, in negotiations with developing countries, South African unions have attempted to secure the inclusion of a "social clause" in the trade agreements but the negotiating partners have rebuffed this. In short, in these agreements the potential "losers" have emerged more clearly and along lines more predictable than in the Uruguay Round. And these losers are employed low-skill workers in the labour intensive end of the manufacturing sector. They are also usually union members. In the context of widespread concern regarding unemployment and job loss and a still powerful union movement, this may successfully limit the trade reform programme.

Nor has the experience of negotiating trade agreements with the industrialized world been particularly encouraging. The tortuous negotiation with the European Union is the most notorious of these. In a nutshell, South Africa's willingness to open its manufacturing markets was not matched by a reciprocal willingness to open up European agricultural markets. The US, for its part, has utilized anti-dumping and a variety of other new protectionist measures as the foundation stones of its new strategic trade policy. This new protectionism has developed in the context of widespread popular opposition to further trade liberalization, opposition that brings together a range of developed country constituencies cutting across unionists, industrialists, farmers, environmentalists as well as human rights activists.

However, through these difficulties, the South African government has managed to hold the line on, to retain the acquiescence, if not enthusiastic support, of domestic constituencies for trade liberalization. This it has done through a combination of approaches.

Firstly, the government has assiduously involved both unions and business in the preparation of its various trade negotiations at both a bi-lateral and multi-lateral level. Indeed it appears that the South African government has been unique in the space that it has given to civil society, notably business and labour, in the preparation and conduct of trade negotiations. This effective extension of tri-partism to the international arena has undoubtedly contributed to the consistency of South Africa's trade policy and is a ringing endorsement of the benefits of participatory governance of trade policy formulation.

Secondly, South Africa has aggressively sought to protect its interests within the rules of the international game. Hence, on the domestic front it has moved to shore up the institutions responsible for policing international trade. This includes a palpable improvement — albeit from a very low base — in the performance of customs and excise. High profile smugglers — including some highly respectable retailers — have been aggressively pursued, and smuggled goods have been publicly burnt as ministers and senior officials look on. South Africa has also thrown considerable resources into anti-dumping regulation.

This rules-based approach is also evident on the international front. The highly publicized spat between South Africa and the EU over the latter's assertion of ownership of certain "national ascriptions" — Port and Sherry for example — is the clearest, but by no means
only example of South Africa’s insistence on using international rules to confront the rise of developed country protectionism. Indeed in the notorious EU Port and Sherry confrontation, Erwin was occasionally criticized from within his own ranks for refusing to concede a point that was of little relevance to South Africa in substantive trade terms. However, another take on Erwin’s position is that he was prepared, by holding up the conclusion of a very important trade agreement, to sacrifice a short term interest in favour of enforcing the agreed rules of international trade, in favour of global governance of trade. This must be read in combination with South Africa’s vigorous chairmanship — again in the shape of Erwin — of UNCTAD and with the high profile assumed by South Africa during the abortive Seattle WTO meeting.

South Africa is by no means the only developing nation aggressively confronting developed country protectionism. Certainly Brazil and its MERCOSUR partners have encountered similar obstacles in their efforts to penetrate European agricultural markets and have responded in like fashion. This approach appears to represent the beginnings of a globalist assertion by developing countries in trade, of an assertion that by developing countries that “free” international trade must be complemented by global governance systems in which developing countries have a voice and whose rules are honoured.

Few, if any, of those who participated in the initial discussions around South Africa’s GATT offer, could have foreseen the way in which the new government’s approach to trade has unfolded. In summary, the new South African government, despite its strong union base and national developmental objectives, quickly accepted trade liberalization as one of the pillars of its industrial strategy. While this approach has suffered some reverses — largely manifest in growing union hostility — it has formed the basis for an increasingly internationalist perspective on the part of South Africa’s economic policymakers. This is reflected in variety of ways — in its approach to trade agreements, in its support for multilateral institutions and rules, in its efforts to develop a southern voice in global economic affairs. The industrialized countries, the initial protagonists of trade liberalization, have achieved their narrow objectives through a partial reform. Developing countries, on the other hand, often with South Africa in a leading role, appear to be saying that, having initially been reluctant participants in the business of trade liberalization, they now recognize that their interests are best served by a full blown internationalism in the conduct of economic affairs. South Africa’s contribution to this development may well turn out to be its government’s most enduring contribution to trade and industrial policy.

**Competition Policy**

Vigorous anti-trust has long occupied a central place in the rhetoric associated with opposition to apartheid. Highly centralised and overwhelmingly white-dominated corporate ownership and control structures, highly concentrated product markets, and poorly developed small and medium scale enterprises, particularly in the manufacturing sector, are generally considered key economic analogues to the racially based discrimination and exploitation that defined apartheid.

Until the late 1980s, nationalisation was the favoured solution to the problem of ownership and market concentration. As this option receded, it was replaced by support for vigorous application of anti-trust policy. As suggested above, the common denominator was the perceived need to discipline capital although there was precious little appreciation that nationalisation and anti-trust represented widely divergent policy approaches, indeed policy approaches at opposite ends of the “state vs market” spectrum.
At the risk of stating the obvious, whereas state ownership represents the strongest form of state direction of the economy, anti-trust represents a policy choice to support market processes against abuse or potential abuse by powerful actors, private and public.

However, despite the high profile accorded anti-trust prior to the 1994 elections, it was placed on the backburner by the new government. Although the two leading members of ANC's Department of Economic Policy, Trevor Manuel, the Minister of Finance, and Tito Mboweni, the first Labour Minister in the new government and later Reserve Bank governor, were vocal and provocative proponents of robust anti-trust, they had to contend with extremely resolute opposition from their counterparts in business. Several memorable public clashes between Mboweni and Manuel and the public affairs director of the Anglo American Corporation bear testament to this. There is no question that the intensity of business opposition slowed up the process of reforming competition law. This was precisely the period when the ANC was building links to the business community, whose views understandably resonated more loudly with the ANC in government than they had with the ANC in opposition. Interest group pressure aside, the new government was increasingly sensitive to economic performance and to the need to penetrate international markets, concerns that, on the face of it, appeared to dictate an increased reliance on established big business and support for the few "national champions" in evidence.

It should also be borne in mind that a competition statute and an enforcement agency had been in place since 1980. Although the inadequacies of the statute and the institution were widely appreciated, both were, in effect, significantly strengthened by the more sympathetic context provided by a government with a stated commitment to anti-trust. A number of decisions of the Competition Board in this period bear this out. This too reduced some of the urgency previously associated with the reform of competition law.

But the major reasons for delay were more prosaic. Other priorities ranging from the need to reconstruct the Department of Trade and Industry to dire need to reform international trading relations took precedence over competition law reform. And then the unexpected complexity in reforming competition policy and its legal instruments gave government further pause for thought. The complexities were, in a period where competition policies were coming under the spotlight internationally, partly technical — both the law and the economics of anti-trust are unusually technically demanding.

But, in addition, reform was also politically complex. We have noted business opposition. But this was not entirely surprising. The less predictable difficulties were, firstly, dealing with the dawning recognition that many of the diverse expectations associated with anti-trust enforcement were not going to be met, indeed that the conventional wisdom in anti-trust enforcement argues against the pursuit through anti-trust of multiple social and economic objectives. And then secondly it began to dawn that the traditional supporters in South Africa of anti-trust — that competition law would constrain not only private actors but that public policies and public enterprises would, in key respects, also be constrained by the operation of effective competition law.

The public sector was given some taste of this in the last days of the previous competition regime. The proposed merger between SASOL and AECI, South Africa's two largest chemical companies was, on familiar "national champion" grounds, explicitly supported by the Department of Trade and Industry but nevertheless prohibited by the Competition Board. And the SABC, the state-owned broadcaster, was prevented from engaging in blatantly anti-competitive practices when it attempted to use its statutory broadcasting monopoly to achieve dominance in the market for TV film production.
However, these difficulties notwithstanding, there was sufficient impetus behind competition law reform to bring a new Bill to parliament in 1998 and to have the authority up and functioning in September 1999. The obstacles in the way of competition policy reform were partly overcome by impetus from new and unexpected sources. Firstly, competition policy issues were gradually being put on the international trade agenda, both in multilateral arrangements like the WTO and in bilateral trade engagements. Second, as South Africa proceeded to restructure state owned enterprises, it became clear that a framework capable of regulating increasing competition between the public and private sectors as well as constraining the power of newly privatised monopolies had to be created.

In short “free trade” had triumphed globally and “deregulation” and “privatisation” were *de rigeur* in domestic markets. However, whether under the guise of anti-dumping, or new international treaties governing intellectual property, or mergers and acquisitions or, in thoroughly lawless markets like Russia, simply by creation of new, absolutely unconstrained, monopolies, powerful interests everywhere were busy devising new barriers to trade, domestic and international. New rules of the game were required and competition law shot to the top of the policy agenda in both industrialised and developing countries and in the multilateral forums in which they met.

South Africa has had anti-monopoly legislation in place these past two decades. This legislation — the Maintenance and Promotion of Competition Act — created the Competition Board, the institution responsible for administration of the Act. The limitations of the legislation were widely recognised. The enforcement mechanisms were particularly weak. For the most part the Competition Board functioned in an advisory role to its responsible minister. Hence, the decision to prohibit or impose conditions upon a merger had to be taken by the minister. Where, after investigation, the Competition Board found that an anti-competitive practice has been perpetrated its only remedy was to report the transgressor to the police. Needless to add that in the twenty year lifespan of the Competition Board there was no instance of a successful prosecution of an anti-competitive restrictive practice.

In short, the Competition Board occupied a Cinderella status in the industrial policy of the previous regime. This is not entirely surprising. It was a government wedded to protectionism and for whom interaction with the business community took the shape of close, mutually beneficial, ties with a privileged group of firms and entrepreneurs. These were characteristics antithetical to the vigorous pursuit of competition policy. The lowly status of competition policy was also partly a product of the absence of significant consumer support. The Black majority exercised their consumer power through the utilisation of boycotts of offending products or services. Their problems could not, to put it mildly, be resolved through the enforcement of competition law. The white consumer institutions were a polite grouping of “housewives leagues.” The competition authority was, in summary, isolated from both nodes of political power — the white establishment and the black majority. It is little wonder that their activities and their recommendations were largely ignored by successive apartheid governments.

The review process took the form of a discussion in NEDLAC where business, labour and government reached agreement on the broad principles governing competition policy. The outcome of these discussions informed the drafting of the new Competition Act (1998). We will not attempt to summarize the provisions of the new Competition Act. Suffice it to note the following features of the new competition regime:
First, the Act specifies multiple objectives. These include the predictable consumer related objectives ("competitive prices and product choices") and efficiency objectives ("the efficiency, adaptability and development of the economy"). However, the list of objectives include several less traditional objectives, including employment promotion, penetration of world markets, the promotion of SMEs, and to increase "the ownership stakes of historically disadvantaged persons." Certain of these — notably international competitiveness, employment, SMEs and the extension of ownership stakes are explicitly restated as public interest criteria to be incorporated into merger evaluation.

This feature of the Act is a manifestation of the historical basis of the ANC’s support for anti-trust, of the pressing social and economic problems that confront South Africa, and of the powerful influence of interest groups in policy formation. Arguably, few of these objectives belong in a competition statute. Indeed, the only objectives that would pass muster with a competition purist are the efficiency objectives while many, considerably less pure, would be prepared to incorporate the consumer related objectives. Certainly, the ownership diversity, employment creation and even export growth are rarely found in the list of objectives that a competition authority is required to promote. Moreover, the competition authorities adjudicate these strong “public interest” objectives, which is the competition authorities decide how to balance competition objectives with the other objectives of the Act. The Act is silent on the balance sought.

While this represents a tremendous challenge for the competition authorities it is, a challenge that emerges directly from the context within which it is located. In the current environment, it is all but unthinkable for a major piece of South African social and economic legislation to foreswear, even by mere omission let alone active commission, a commitment through its implementation to employment creation and Black economic empowerment. In other words, their inclusion in this statute does not simply represent the political power of the unions and the Black business class — it rather represents a major national goal. Clearly, however, there are narrow specific interests that cluster around these broader goals and they must be prevented from shifting the balance of policy implementation in a direction that promotes narrow interest group goals over the broader national goal. In order to limit the ability of powerful political interests to impose narrow objectives on public sector decisions, the public authority and legislature should, as in this instance, preemptively include broad social objectives that leave the decision-making or implementing authority considerable room for interpretation.

The nettle has now to be grasped by the competition authorities. If they want the traditional competition objectives — efficiency and consumer welfare — to come to the fore they will have to demonstrate the connection between these objectives and the promotion of broader social objectives also enshrined in the Act. This will inevitably entail explaining why, for example, in a particular merger, employment considerations have given way in the face of efficiency gains. But to stand aloof from the core values, objectives and concerns of the society is to jeopardize the entire project.

This goes directly to our second point, namely the vexed question of institutional independence. The new Act accords the competition authorities an unusual degree of independence. The Act creates three autonomous institutions. These are the Competition Commission, which is the investigative and prosecutorial agency, and the two adjudicative agencies, the Competition Tribunal and the Competition Appeal Court. The adjudicative bodies — the Tribunal and the Appeal Court — are particularly interesting indicators of the extent of independence accorded the competition authorities. The Tribunal, effectively the court of first instance, is composed of 10 lay persons (that is non-judges — lawyers,
The Politics of Trade and Industrial Policy in Africa

economists, accountants) appointed by the President for a five-year, renewable term. As with judges of the High Court, the members of the Tribunal can only be dismissed under the most exceptional of circumstances. The Tribunal adjudicates all matters — mergers and restrictive practices — regulated by the Competition Act. It has the power to issue compliance orders or interdicts, to prohibit mergers, to levy large fines and order divestiture. Its decisions can only be appealed to the Competition Appeal Court, a specialist division of the High Court staffed by judges with a special interest in competition law. In other words, the investigation and adjudication of all matters under the Competition Act is the province of independent, specialist agencies. No decisions of the Commission, the Tribunal or the Appeal Court are subject to ministerial veto. Not even the Supreme Court of Appeals, the highest court in the land, has jurisdiction over competition matters. This model has, with variation, been extended to a number of other agencies — the telecommunications and broadcasting regulator, for example, is similarly independent.

This model is open to criticism. A non-elected group of technocrats, has, by any measure, been extended considerable autonomy, including responsibility for interpreting and protecting the public interest. However, there are considerable checks built into the system. The executive and legislature naturally hold sway over the legislation that governs the competition authority, over, in other words, the mandate of the independent authority. The executive is, through its policy statements, capable of refining this mandate and offering its own interpretations. The legislature receives an annual report from the agencies and its committees are entitled to demand that the Competition Commission account to it. Moreover, the competition authorities' budget is a line item within the Department of Trade and Industry's budget and the head of the Commission and the members of the Tribunal are appointed by the executive.

This arrangement does attempt to steer a path between accountability and autonomy: the legislation, a detailed statute and set of rules, provides the framework and is in the hands of the executive and legislature; decision-making within that framework is the protected terrain of the competition authorities. As delicate as the balance inevitably is, it appears appropriate in the case of a body that is taking decisions on both competition and public interest grounds.

This brings us to our third point, namely the absence of clear popular or interest group support for competition enforcement, and, on the other hand, potentially powerful opposition. For all that, South Africa has inherited a relatively well-organized civil society from the anti-apartheid struggle and consumer power was frequently deployed in the struggle but there is limited current experience of active independent consumer organization. Even within government, consumer interests are barely catered for. This represents a major and possibly fatal lacuna in the competition enforcement framework. Despite its commitment to defending a specific public interest, the competition authorities are, if they perform their task with integrity, bound to make powerful enemies. And these opponents will not only come from organized business and labour; they are more likely to come from the public sector. In particular, they will come from the powerful state-owned enterprises or from the recently privatized state corporations, and they will come from policy-makers whose proclivity to use government policy and resources to favour, for whatever reason, a particular enterprise or interest group will be circumscribed by the competition authorities.

This fear is, to a certain extent, already borne out. The first nine months of the life of the Competition Act have been marked by a struggle, yet unresolved, over the jurisdiction of the Act. In particular, the state owned corporations, backed, for the most part, by the
sector regulators, have attempted to assert immunity from the Competition Act. Their public rallying call centres around universal service, the argument being that regulation by a body focused on promoting competition will compromise the universal provision of services like telecommunications and electricity. In truth, if the competition authorities are unable to demonstrate the compatibility between competition enforcement and the extension of service then they will lose the battle.

It should be underlined that, as with the steadfast commitment to liberalization of international trade, the government has been unwavering in its support for independent and robust competition enforcement. In the last period of the life of the Competition Board, at a time when government had already stated its commitment to independence on the part of the competition authorities, it allowed the Board's prohibition of a major merger in the chemical sector to stand despite the Department of Trade and Industry's strong support for the merger and despite the right, in the previous regime, to use a ministerial veto. In a major merger in the pharmaceutical sector, despite strong lobbying from a well-connected Black empowerment grouping that stood to profit from the merger, government was persuaded by the consumer-related concerns of the Competition Board and supported prohibition of the merger. In a jurisdictional dispute with the state-owned enterprises, the government proposed that parliament amend the Competition Act in order to ensure that these enterprises are subject to competition regulation.

But this commitment cannot be taken for granted. It will inevitably waver if it is not seen to be supported by a strong social interest. Consumers are the only secure source of support. But this poses the classic dilemma faced by trade reform — the losers are powerful and well-organized; the potential winners, though numerous, are notoriously poorly organized. In part, the competition authorities are going to have to create their support base. It will be difficult to achieve this in the context of its role in merger evaluation where an attempt to gain public support invariably presupposes compromising competition considerations. The opportunity lies rather in the careful selection of winnable, significant restrictive practices cases that serve to demonstrate the link between competition enforcement and consumer and small business interest.

Finally, there is little doubt that in the first months of its life, the competition authorities are confronted by a threat far more intractable than those mentioned above. Regulation is a skills-intensive activity and, on current evidence, there are simply insufficient skills to staff the agency. The shortage is exacerbated by the gap between public and private sector salaries. The only way that this skills deficit will be overcome will be by approaches to staffing rare in the constrained public sector employment environment. Targeted bursary programmes, sponsored university courses, secondments from the private sector, staff exchanges with more experienced anti-trust agencies are some possible approaches. They involve a change in the mindset governing public sector employment — in particular approaching staff not as prospective lifelong employees, but rather focusing on making the agency sufficiently career-enhancing to attract the best graduates and young professionals in law and economics.

The labour market may prove to be the greatest obstacle to developing an industrial policy rooted in a "small smart" state rather than the large, interventionist states of previous eras. The trade and competition policies pursued by the South African government presuppose the former type of state, the "small, smart" state. Resources, principally human resources have to be generated and have to be conserved, if this approach is to bear fruit. As will be outlined below, this has implications for the range and character of supply-side programmes, also skills intensive, which are selected.
The Incentive Structure: Conclusions

South Africa’s industrial policy-makers have staked much on their trade and competition policies. This has been done despite skepticism, at times overt hostility, from both business and labour to the trade reforms. Nevertheless, government has, despite the marked lack of enthusiasm for their approaches in these fields, held together the coalitions supporting its industrial policy. This has been achieved partly because of the consensus-building, participatory process followed by government. In part, it has sustained its coalitions because it has successfully managed to portray a principled approach to its reforms — there is little sense, in contrast with the structural adjustment programmes in many other developing countries, that “restructuring” has been foisted upon South Africa. On the contrary, it has been presented as a positive approach to the reality of globalization, as an aggressive attempt to win space for South Africa in the global market. This has, by no means, immunized South Africa’s policy-makers from criticism but it has prevented the intense polarization between government and powerful interest groups that has characterized other trade reform of this genus.

Competition policy has not yet had the opportunity to generate either the hostility or the grudging respect accorded trade policy. However, if successfully implemented it will undoubtedly encounter the same reaction.

Trade liberalization and competition policy are designed to promote market access. With respect to the domestic market, trade liberalization is a powerful complement to competition policy. By the same token, with respect to the international market competition policy, it may become a powerful complement to trade liberalization or globalization. This is clearly appreciated, hence the attempts, generally at the behest of the industrialized nations, to include commitments to national competition policy enforcement in bilateral trade agreements. The avowed intention of these commitments is to ensure that liberalization of international trade is not effectively thwarted by domestic markets rendered inaccessible in consequence of anti-competitive practices, that is, to ensure that foreign investors and exporters are not denied access to domestic markets unconstrained by acceptable competition rules. In other words, in this conception competition law remains, despite its inclusion in international trade agreements, a mechanism for regulating national or domestic trade.

However, if competition policy is to serve the developing nations in meeting their international trade objectives then it must be applied to trade between nations. Deployed in this way, it would complement the efforts of South Africa and other developing nations to challenge new protectionist measures also usually pioneered by industrialized countries. Domestic laws that permit the operation of international cartels, anti-dumping, and the constraints on parallel importing and compulsory licensing are all measures that would fall foul of the domestic competition laws of most nations. They should equally be proscribed in international trade by rules developed and enforced multilaterally. South African industrial policy should pursue the internationalization of competition law with as much energy as it has pursued multilateralism in other areas of international trade. As noted earlier, this may come to constitute the most enduring, the most visionary, element of South Africa’s new industrial policy.
Building Underlying Capabilities:
The South African Experience of Supply-Side Industrial Policy Programmes

It has been argued that although anti-dumping measures are fundamentally anti-competitive and often cynically abused, their acceptance in international trade law is a precondition for achieving and maintaining consensus on a significant reduction in trade barriers. In the total scheme of things, the scale of the tariff reduction far outweighs the impact of anti-dumping and so, although everyone recognizes that anti-dumping measures represent little more than the re-instatement of a degree of protection, the net effect remains a significant reduction in international trade barriers.

With hindsight, a similar argument may be applied to the role of supply-side programmes in South African industrial policy. In order to win support for trade liberalization it was necessary for key constituencies to believe that its negative effects would be ameliorated by the introduction of supply-side measures which would enable South African firms to respond positively to the intensification of international competition. It also gave the new government comfort insofar as it re-affirmed a central and positive role for government in supporting industrialization even as it was agreeing to limit its ability to use a major defensive weapon, the tariff.

However, although this view may accurately capture the impetus behind the deployment of anti-dumping, it would be an unduly cynical view of government’s efforts to strengthen the supply-side. Certainly, programmes to strengthen generic capabilities — for example, the provision of general industrial skills and technological capabilities — are generally well-founded. Our concern is however with the rather narrower set of supply-side programmes arising out of industrial policy, with the gamut of programmes aimed at providing South African firms with access to the finance, best-practice technology and knowledge that is necessary to support one or other agreed national policy objective in the field of industrial policy, for example to promote manufactured exports or small business.

Our general conclusion is that these programmes are costly; in particular they require significant inputs of skilled personnel. They also diffuse poorly, that is, the returns that accrue to this expenditure of scarce resources are low. We hasten to add, however, that this is not to say that there are no examples of successful industrial policy programmes of this type. South Africa has experience of successful technology support programmes. Moreover, major projects and other investments have been financed or otherwise supported in active partnerships between IDC and the private sector. If there is an identifiable pattern in these exceptions, it appears that supply side programmes work best when their implementation is taken up by a highly committed, focused institution with a considerable direct stake in a successful outcome. This may be a dedicated technology laboratory, an industrial development bank, or a local government. High levels of dedicated expertise, proximity to the issue and to the various stakeholders and the capacity to focus the broad mandate handed down by government appear to be the key ingredients of success. Interestingly, although the structures outlined above apply less forcefully to the industrial support traditionally provided by the state, namely the provision of basic infrastructure, we will see how, even in this area, a positive impact is dependent upon the institutional framework within which it is introduced.

Our conclusion then is that central government’s primary task is in setting the stage for industrial development. In particular, the state department responsible for industrial development — DTI — must establish the framework of rules within which international
trade (trade policy) and domestic trade (competition policy) occur. This, effectively the establishment of the incentive structure, is overwhelmingly central government's baseline task, one that cannot be assumed by any other authority. Independent institutions may be required (we believe that they are) to give day-to-day content to the framework — that is to regulate mergers or enforce international trade rules, etc — but the establishment of the framework and the periodic review that this requires is \textit{par excellence} the province of central government. It may elect to do this in consultation or in negotiation with key interest groups — this may well be the prudent approach to adopt — but it remains responsible for ensuring that the framework is in place.

Where the provision of targeted capabilities is concerned, government too has an important role in setting the rules of the game. In the case of the Industrial Development Corporation, the rules take the form of a governing statute and a mandate from the shareholder, the state. It extends to the state appointing the board of IDC, and to regular contact between senior executives of the corporation and DTI. However, the board is responsible for translating the statute and the shareholders' mandate into the policy of the corporation and the executive management is responsible for carrying out the decisions of the board, for implementing the policy. There are several variant forms of the relationships described here — however the broad approach implicit in this structure encapsulates the appropriate relationship between the government and those charged with the responsibility for delivering the support in question.

Further research is needed to interrogate this conclusion more carefully. However, a division of labour that essentially has the state establishing the broad rules of the game for autonomous delivery mechanisms appears to characterize successful supply-side programmes. The reasons for this are many and varied. For present purposes, one key factor is the range of interests that the state is obliged to serve and the consequent accumulation of a range of conflicting objectives in so many programmes. As outlined in the analysis of the Competition Act, the fact that the state establishes independent agencies does not and should not prevent it from passing on its socially complex agenda to these institutions through the mandating or legislative process. However, these institutions are better placed than the state to distinguish between core objectives and subsidiary objectives, in the process retaining the focus necessary for effective delivery, and the sensitivity to the broader environment that is required of an effective social actor.

\textbf{Supply-Side Measures: Some Preliminary Lessons}

DTI has identified six key areas of policy intervention directed at accelerating manufacturing development and in which the range of supply-side programmes are located. It categorizes its areas of policy intervention as:

- investment support;
- export promotion or “trade facilitation”;
- technology promotion and innovation support;
- small business promotion;
- strategic and informational leadership; and
- support for human resource development.

This is a significant, although not unusual, range of support. There are numerous programmes within each category. We will briefly review two programmes, namely the Spatial Development Initiative (SDI) and the Workplace Challenge (WC). These
programmes are chosen because, although vastly different in scale and objective, their shortcomings evidence the difficulty in implementing micro-industrial support programmes from the centre. Conversely, they bear out the importance of focused institutional support in realizing the objectives of supply-side industrial policy. They address, in other words, a key aspect of this project namely “questions of legal and institutional designs required for a more conducive policy environment.”

The Spatial Development Initiatives or SDIs offer particularly important lessons in these areas. The SDI programme was, arguably, the flagship programme of post-apartheid industrial policy. It attained this stature for a number of reasons: first, it constituted an attempt to find the longstanding national holy grail, namely the instrument to catalyze widespread development from large projects, infrastructural as well as minerals related projects; secondly, responsibility for implementation of the SDI programme was held firmly within central government, the better, or so it was thought, to ensure, its effectiveness; and, thirdly, the SDI programme represents a wide-ranging amalgam of redistributive and growth goals. It embodies, in other words, government’s requirement to address the multitude of social and economic objectives in each major programme.

The SDI programme was intended to promote private sector investment in particular areas of South and southern Africa. The public-private interface was a crucial feature of the SDI programme — it was essentially a programme for “crowding-in” private investment, with public investment as the key instrument. The SDI areas were chosen because of a particular disadvantage each had inherited from the apartheid past (for example, areas adjacent to the Bantustans, the nominally independent territories within South Africa that were at the heart of apartheid). The proponents of the SDIs argued that they were to be distinguished from typical regional industrialization programmes, frequently attempted and usually unsuccessful, because the regions were selected, not simply by reference to redistributive criteria, but because they each evidenced “development potential.” The programme envisaged that investment would be catalyzed in these areas through the insertion of infrastructure, usually transport infrastructure, funded through public and private partnerships, and through “anchor projects.” The latter were usually large mineral processing plants that would be attracted by the port or other transport facilities that comprised the infrastructure component of SDI. SDI best represents that leg of industrial policy that is rooted in the notion that the regeneration of South African manufacturing resided in the possibility of building productive links between the MEC core, on the one hand, and supplier and downstream producers, on the other.

A small team of Pretoria-based DTI officials and consultants were assigned to each SDI. Their task was essentially to market their SDI area to prospective investors. Their efforts would culminate in a high profile investors’ conference in SDI at which high level government officials and actual or prospective investors would showcase their various projects and other offerings.

By way of example, the first, and most successful SDI, is the Maputo Development Corridor. Both Mozambique and the adjacent South African province of Mpumulanga were acutely “disadvantaged” by apartheid South Africa’s systematic military and economic destabilization of Mozambique. Furthermore, strong development potential was identified for both the Mozambique economy and Mpumulanga producers in strengthening the physical links between South Africa’s industrial heartland and the Maputo Harbour. Accordingly, the development of road linkages and the restoration of the Maputo Harbour constituted the infrastructure end of SDI. A large aluminium
smelter — owned by a large South African mining company with significant IDC participation — was the anchor project identified. SDI was managed by a small project team based in Pretoria and Maputo whose work culminated in the convening of a high profile investors’ conference.

The impact of the SDI programme has, by most measures, been disappointing. Significant new investment has not materialized as a result of the programme. Certainly, there is little evidence that the relationship between the anchor projects and their economic environment has been materially transformed — they remain proverbial “cathedrals in the desert,” little inserted, either by way of upstream or downstream linkages, into the local economies in which they are physically located.

A detailed critique of the SDI programme has identified one principal factor underlying SDI’s disappointing impact. In essence, the SDI programme confirms that the linkages that the anchor projects were expected to catalyze did not materialize because insufficient attention was devoted to developing institutional capacity in the local economies in question. In other words, in order to realize Hirschman’s celebrated backward and forward linkages, the growth process had to be “endogenised” in the location in which the investment project was located. Endogenisation occurred when the project implanted more than physical assets in the area in question. It had to implant an institutional capacity in local government or civil society to attract and retain further investment. Not only had this local institutional development not occurred, it had been explicitly underplayed in favour of an approach that located institutional capacity in central government. This approach was well intended. In fact, the SDI programme specifically sought to inure itself from the effects of poor local and provincial government capacity and conflicting local interest groups, by locating responsibility for implementation in central government. This may have been precisely the converse of what was required for a successful SDI programme. A review of the SDI programme concluded:

If the SDI process is essentially one that involves changing the “rules of the game” that govern interaction between the public sector and private sector — a shift that appears to have occurred at national level — then it is vital that this be reflected at the provincial and local levels. In the absence of a developmental provincial or local state, central government initiatives must prioritise engaging and strengthening local, relatively well-organised and long-standing, non-governmental interests.

This then was the principal drawback of the SDI approach — far from engaging with local capacity, it attempted, ironically in the name of effective implementation, to substitute central government capacity for the complex, but essential, task of catalyzing the development of focused local capacity.

On the other hand, the precise modality of the Workplace Challenge (WC) — and a recognized precondition for its successful implementation — was local participation and buy-in. The Workplace Challenge was designed at NEDLAC, the quadripartite statutory institution comprising representatives of government, business, labour and other organizations of civil society representing “community” interests. The avowed purpose of the programme was to facilitate interaction between workers and managers. This interaction was aimed at enhancing firm level productivity through improved industrial relations and workplace organization. The mere fact that this programme was initiated at all represented something of a triumph for post-apartheid’s conciliatory, corporatist approach to governance. It represented an acknowledgement by organized business and labour that increased workplace productivity was the key to achieving international
competitiveness and that this in turn was rooted in participatory work organization. It was a far cry from an approach that viewed productivity as a synonym for wage repression.

The WCP’s implementation relies upon a three tier collaborative process between labour, management and government. The first tier of collaboration is located at NEDLAC. NEDLAC’s Workplace Challenge Committee is co-chaired by both DTI and NEDLAC representatives. Labour and business interests are represented by their respective associations. The second tier of collaboration is located at the sector level. Every Workplace Challenge project forms a sector level committee that has representation from industry associations, management and labour (DTI representation is also encouraged). The third tier of the collaborative process is located in the firm itself. At this level, a Workplace Challenge committee representing key stakeholders in the firm is established.

The participating firms receive assistance from private consultants who facilitate the analysis of those impediments to productivity improvement that are rooted in poor industrial relations and workplace organisation. The government subsidises 75 percent of the cost incurred by the firms that participate in this process. As a result, R24 million has been allocated to the WCP. However, between 1997 (when the implementation phase began) and 2000, only five initiatives had been funded at the sectoral level with an average cost of about one million Rand. The upshot is that the benefits arising from the programme have accrued to a small number of firms with minimum diffusion through the economy or even the economic sectors directly concerned. This is, in large part, a direct consequence of low levels of capacity and institutional readiness on the part of each of the parties responsible for the implementation of the project.

Take DTI. The Department is the primary source of industrial policy formulation. In this instance, DTI took the unusual step of providing funds for a programme effectively controlled by a tri-partite committee comprising business, labour and representatives from it. A private sector consultancy firm appointed by the committee was responsible for the day-to-day management of the programme and its budget. However, it proved inordinately difficult to align the state’s spending regulations with the project’s unusual governance structure that essentially allowed a body outside the control of DTI to spend monies from the DTI budget. This deceptively simple obstacle caused inordinate and frustrating delays in the implementation of the project. It necessitated drawing IDC into the funding process simply because its autonomy from central government’s funding and procurement regulations allowed it the flexibility necessary to manage this project.

Ideally DTI, rather than the private management consultancy, should have assumed responsibility for the overall management of the project. However, it was recognised from the outset that DTI’s engagement with the substance of the project was significantly determined by the highly variable quality of its sectoral directorates. In a number of sectors — footwear, for example — where the DTI’s directorate was led by committed, experienced individuals who enjoyed the respect of business and labour the project proceeded relatively smoothly. Contact with the industry associations and unions was uncomplicated and key issues were quickly identified. But this proved to be an exception. As a rule, the sectoral directorates were weak and under-resourced and were not able to play a positive role in the project — recall that these divisions had for years done little other than manage managed trade protection and engagement in supply-side measures of this type was a wholly new experience.

For this reason, a private sector management consultancy was contracted to run the project. While this helped overcome some of the constraints associated with DTI, it
meant that government's ability to internalise and, crucially, to diffuse the lessons learnt from the project was compromised. In order to overcome this, the management of the project was eventually handed over to a statutory body, the National Productivity Institute. However, for a variety of reasons, this body is not highly regarded by either business or labour and, in consequence, has not proved an effective project leader.

Business and labour also brought some difficult baggage into the project. Labour approached WCP with some measure of suspicion. The unions are intensely suspicious of the establishment of new workplace structures lest they undermine the authority of the union structures and collective bargaining arrangements. Furthermore the unions suffer crippling capacity constraints — although their national leadership is generally sophisticated and easily capable of participating in the leadership of a programme such as the Workplace Challenge, this capacity is not easily replicated in local and workplace union leadership. This of course exacerbates the leadership concerns with structures that appear to replicate the functions of union committees at the workplace level. In a programme like the Workplace Challenge these leadership weaknesses are particularly constraining because a strong measure of resistance from workers has to be overcome — changes in workplace organisation, and programmes to enhance productivity in general are associated with job loss and insecurity and are greeted with understandable scepticism.

Business, for its part, is represented by Business South Africa. Business South Africa is a relatively recently formed, high level business lobby with poorly developed links with its often more powerful sectoral affiliates. The latter, not unlike their counterparts in the DTI’s directorates, are also more familiar with lobbying for and managing trade protection, than with providing supply-side services to their members. In consequence, Business South Africa has not successfully promoted the Workplace Challenge among its affiliates. Furthermore, the BSA’s leadership is drawn from the larger industrial concerns, with little voice for smaller enterprises. As far as these larger firms are concerned, the subsidies that the Workplace Challenge offers are too small to have a significant impact on their operations.

The SDI and Workplace Challenge programmes are, by most measures, at opposite ends of the spectrum of industrial policy programmes. The former is a large, high profile programme spanning the country, indeed the region. Its objectives are massive and its instruments encapsulate an impressive array of private and public sector institutions. Workplace Challenge, on the other hand, is a small, modest programme, little heard of beyond the ranks of its immediate beneficiaries. And yet both are bedevilled by aspects of institutional failure.

The well-placed and powerful civil servants responsible for running the SDI programme may have won support at the highest level of government but they ignored, in fact specifically eschewed, the requirement to deliver the capabilities associated with the programme in a manner that built local institutional capacity. The upshot is that the infrastructure and large projects associated with SDIs were as poorly articulated with the economies into which they were inserted, as were the elements of MEC of old.

The Workplace Challenge was not stifled by an overweening central government. It suffered rather from the absence of strategic leadership from government coupled with weak, or, at least, inappropriately focused, institutions representing business and labour at the point of implementation. The upshot was a programme that has had little, if any, impact beyond the firms directly involved in the process.
The programmes examined here were but two of a myriad of supply-side programmes initiated by government. Indeed a criticism frequently levelled at DTI is that it adopted a shotgun approach to the introduction of supply-side programmes. Our own small survey supports the contention that for all the resources devoted to introducing these programmes they were little understood, in fact one is hard pressed to find industrialists who had even heard of many of these programmes, let alone who understood how to access and take advantage of them. Those that were actively championed and pursued by government were insufficiently attentive to the need to build institutional capacity at lower levels of government or in civil society. The need for this arises not simply from some abstract, albeit laudable, notion in favour of maximising citizen participation but rather because central government's direct capabilities are limited to producing large lumpy infrastructure and, at best, to directly supporting and incentivising large capital intensive projects. The “market” on its “own” is unlikely to catalyse activity beyond this — DTI has to ensure that its interventions establish new institutional arrangements, new “rules of the game” capable of attracting further investment. On the other hand, simply leaving this task to ill-equipped organs of civil society or lower levels of government will achieve little in the absence of a strong framework of rules and incentives provided by government, indeed rules and incentives designed precisely to strengthen focused institutional capacity. At best their efforts will have little impact beyond their limited reach. In reality they will probably achieve little even in their localised areas of influence.

Notes
6 Ibid.
7 Ibid p.10.

References


The economic success experienced by Mauritius can be attributed to a combination of internal and external factors that have transformed an agro-based industry into an export-oriented manufacturing economy with a strong tourism sector. In fact during the early 1990s, a mix of industrial drive with such other factors as the implementation of structural adjustment programmes, liberal trade policies, trade preferences and a pro-business government contributed to boost the Mauritian economy. The export orientation was further reinforced with the development of the Export Processing Zone and the tourism sector. Another determinant is the free access of Mauritian goods to the European market. This made the Mauritian economy more competitive.

The domestic social and political conditions were also economically encouraging. Also the existence of a “welfare state” providing free education since 1977, free health care and other social benefits has contributed to the economic development of the country. The government also played a fundamental role by giving incentives for the development of various economic sectors. This attracted investment from foreign and local investors and gave dynamism to the industrial economy.

Nevertheless, there are contradicting views as to whether this economic situation was created by a conducive environment or the difficult economic milieu. Mauritius adopted structural adjustment programmes and pushed for an export-oriented economy. A look at the policy decisions taken over the past two decades and the growth of the economy indicates that despite the positive role played by the government, the macro-economic management has not been the most efficient.

It would seem there was only an adjustment to the changing economic environment, and a management-by-crisis approach was adopted. One of the reasons to explain this is that there has been no long-term policy for sustaining the industrial and trade development. The globalization of the world economy and the implementation of the World Trade Organisation (WTO) provisions are now beginning to have a strong impact on the Mauritian economy. The latter has been mainly dependent on the preferential access to its major market, and it is now facing competition from other emerging exporters.

It is true that Mauritius is making efforts to have the manufacturing export-oriented industry cater for the up market. However, there are a number of obstacles such as increasing wages and low productivity, which are major constraints to the future of the export manufacturing industry. Moreover, the conditions under which Mauritius exports sugar to the European Union do not indicate that they will be maintained for long.

Thus, no long-term strategy has been developed for the EPZ sector. Discussions between the public and the private sectors are going on to come up with a long-term plan. However, it is difficult to tell when it will be implemented.
The Past and Current Policy Environment

The Economic Structure

The Mauritian economy is today based on four pillars, namely sugar, textile, tourism and the services sectors. The sugar sector has always occupied central place in Mauritian economy and it has been a determining parameter in the country's development strategy. The major concern has always been to get access to foreign markets for the Mauritian sugar. The economy has been determined by the conditions for sugar production and international trade regimes. The initial stage of development was based primarily on the proceeds of sugar exports and the import of consumer goods. The sugar sector still dominates the agricultural sector and depends heavily on the European market. Over 90 percent of the sugar is exported at a guaranteed price to the European Union under the provision of the Sugar Protocol under the Lome Convention. Its weight as the main generator of foreign exchange in the economy is constantly decreasing to the benefit of the Export Processing Zone. Apart from the EPZ sector, tourism is the third pillar of the Mauritian economy. The number of tourists visiting Mauritius is constantly on the increase and the up-market segment remains the priority. This is followed by the financial services sector through the recent development of the offshore and free port services.

However, during the 1970s, Mauritius was suffering from a chronic unemployment and trade deficit and the country had to have recourse to the IMF Structural Adjustment Programme to stabilize the economy. Consequently the country went through two currency devaluations in the 1970s, but in the long run the Structural Adjustment Programme contributed in putting the country on a sound economic footing.

The Ownership Structure

The ownership pattern has not changed much in Mauritius except for the fact that there is now a new generation of owners as a result of the development of entrepreneurship in the country. Economic power is still in the hands of a minority group who controls the sugar, tourism and EPZ sectors. Despite attempts to democratize the economy and business, a major shift in the economic ownership structure is not expected. Land reform has never been a political concern. Land, concentrated in the hands of Franco-Mauritians, has not been a threat to the economic development of country. In Mauritius, the use of redistributive fiscal instruments such as the sugar levy have in the past been more effective than land redistribution for welfare promotion. Mauritius had never had a government advocating confiscation or nationalization of business and industry. Mauritian leaders' commitment to international treaties and agreements have contributed to the development of an enabling environment and to political stability. This situation has maintained the status quo on land ownership and contributed to a sharp dichotomy between political and economic power. Mauritius still concentrates land on a small minority of landowners at the expense of social stability. This stability is vital for social cohesion in a multicultural society.

Political Determinants and its Impact on Economic Policy

Industrial and trade policies are designed to improve or maintain the rate of economic growth of the country. But they are influenced to a certain extent by the national historical heritage and by the political environment at the time they are adopted. These two factors have influenced the adoption of industrial and trade policies in Mauritius.
Emergence of the State

Mauritius was first a French colony before it came under British rule in 1810. The island remained a British colony until March 1968 when it obtained its independence. The slow process of the transfer of power from the British monarch to the people of Mauritius started in 1957 with the introduction of the ministerial system of government. In March 1968, Mauritius became a sovereign country within the Commonwealth but the Queen of England was still the Head of State through a Governor-General. In 1992, Mauritius became a Republic and the Head of State is now the President.

The transition period that prepared Mauritians to take control of the country and the aftermath of independence were characterised by a division of the Mauritian society about the future of the country. However, a conducive environment for policy-making was slowly evolving as Mauritians took their destiny in their own hands. All through these years, Mauritius has followed the Westminster model of democracy.

The Nature of the State

The Mauritian State is modelled on the British system of government. The Council of Government at the time of independence became the Cabinet headed by a Prime Minister, with the Legislative Assembly as the law making body. As in Britain, the Mauritian system of government is based on the principle of the separation of powers between the legislature, the executive and the judiciary. The Prime Minister is normally the leader of the party with a majority in the National Assembly. In 1992, Mauritius became a Republic with a President with constitutional powers similar to those previously held by the Governor-General. The President is a figurehead and is nominated for a period of five years by a simple majority of the National Assembly on the proposition of the Prime Minister. He is a constitutional head and exerts his powers and prerogatives on the advice of the Prime Minister and the Cabinet.

The executive power of the Government of Mauritius lies with the Prime Minister who is the head of the Cabinet. In the Mauritian context, the Cabinet is responsible for policy formulation. Mauritius is a classical case of Cabinet Government although the Prime Minister and certain senior ministers such as the Minister of Finance and the Minister of External Affairs play an important role in the Cabinet. However, there have been cases where the Prime Minister has had an upper hand in certain policy decisions, and this has led certain observers to argue that Mauritius has more of a Prime Ministerial form of government. There is, however, no such example in the field of trade and industrial policies where the Ministry of Industry and the Ministry of Foreign Affairs and International Trade usually play a determining role in policy formulation and implementation. On very sensitive and important issues, the economic committee of the Cabinet is put to contribution. A practice has evolved recently at the level of the Cabinet to refer certain economic issues to that committee. This has been the case with the last three national budgets. It must be pointed out that ministers have a fair amount of discretionary powers and that these powers must be reduced because they promote individual interests against national interests.

Partnership and Consensus Building

In Mauritius, the State plays a major role in the development process and is also a major employer. The sugar sector has also been a major employer but has to-day left this role to the EPZ sector. Work in the sugar sector is relatively slow except at the time of harvesting. The rhythm of other economic activities is influenced by that of the sugar
industry. However, the modern sector like the Export Processing Zone operates at a quicker pace compared to that of the traditional sector. A typical example is the work done in the EPZ sector where the worker puts in 10 to 11 hours per day. This has certain consequences:

- Workers tend to prefer low-paid jobs in the traditional sector because of the harder conditions of work in the modern sector. Their preference is often for the public and parastatal sectors where there is security of employment.
- The traditional sector tends to remain hypertrophied whereas the modern sector continues to suffer a shortage of labour.
- It is becoming a necessity to modernize the traditional sector so that it can operate like the modern sector.

The Civil Service

The Mauritius civil service is a classical copy of the British one, and has, despite various constraints, played a vital role in policy implementation. Parastatals also form part of this broad structure of government. Presently, the public sector employs about 60,000 people. However, there is a serious problem of coordination between various ministries concerned with policy-making and implementation. The interference of politicians and ministers in the day to day management of the service affects the motivation of civil servants and has a negative impact on efficiency. The solution would be an independent civil service and a clearly defined policy that will enable the civil servant to cope with new challenges.

The Private Sector

The private sector also faces similar challenges but is more flexible and efficient. Nevertheless it is much easier to stick the label of inefficiency on the public sector. For the latter is as efficient as the private sector at the level of certain departments, ministries and parastals. Today it is the most efficient public sector organizations that are being privatised, such as the Mauritius Telecom. Yet, there is room for improvement in the traditional activities of the private sector. The latter has a long history associated the sugar industry and it was realised in the colonial days that it must be structured in order to promote its interests. In an effort to do so, it has over the years set up professional bodies in key sectors and ensured that it is recognised as a dialogue partner by the government. The necessity of engaging in dialogue was accepted by both government and the private sector although such dialogue has not always been smooth. In fact, the private sector-government dialogue improved and got consolidated in the 1980s, with lobbying activities and regular consultations being the main instruments used by the private sector. Today, the main dialogue partner of the government for the private sector is the apex body — the Joint Economic Council. Consultations, formal and non-formal, have become a regular feature of government-private sector relationship.

The government maintains a balance on the market and creates a competitive environment through specialised institutions that compete with the private sector in fields such as banking and insurance. It can be argued that the private sector has been a captive waiting for the government to play the leading role in the development of support policies as is the case in tourism promotion and delocalisation in Mozambique. Nevertheless, the government-private sector dialogue is instrumental in reaching a consensus on policy-making, and has helped in creating an environment in which the private sector can operate.
The Trade Union Movement

The civil society (trade unions, the press and NGOs) has flourished since independence and certain members of the civil society played a major role in the struggle for better labour laws and extended political rights prior to independence.

Consensus building is a characteristic of policy-making in Mauritius, and trade unions are engaged in the process to promote the welfare of workers. This, together with the close relationship between trade unions and politics, constitutes the basis for the incorporation of trade unions in policy making. In 1948, general elections were held following a new Constitution that granted all those who could write in any of the languages in Mauritius the right to vote. The enlargement of the electoral base for workers coincided with the debut of trade unionists in elective politics. This impacted on the role played by trade unions within the policy-making process. At the same time it cost them their independence from politicians who appropriated the programmes of the trade unions to themselves. The open democratic system has been conducive to the active involvement of trade unions in influencing policy. It must be argued that at the initial development of the EPZ in Mauritius, the trade union movement, especially left wing trade unions, were not in favour of industrialisation through the EPZ model. In fact the trade union movement shared the views of left wing political parties and intellectuals on the issue, and it was difficult for the country to have a consensus on the EPZ strategy in the context of policy formulation. In fact the EPZ sector imposed itself as an industrialisation process on the Mauritian stakeholders through its success. This explains in part, the absence today of any clear strategy for an industrialisation policy in the country. Although it must be recognised that the trade unions played and still play a fundamental role in the industrial sector, life was not easy for the trade unionists and they had to resort to strikes and other means of solving industrial disputes to be recognised as representatives of trade unions of the EPZ sector. Certain industrialists went as far as setting up management committees in their factories to divide their workers and weaken the trade union movement. The struggle by the trade union movement paid off in the end in terms of better conditions of work and introduction of labour laws for the EPZ sector. Trade unions in the EPZ sector have the opportunity to participate with trade unions in the other sectors in the tripartite committee where the Minister of Finance and other ministers, with the representatives from the private sector, determine the annual salary compensation of the Mauritian workers. However, workers through their trade union representatives are not in a position to influence policy formulation in the context of industrial strategies, the sole domain of government and the private sector.

With globalisation and liberalisation, the Mauritian trade union movement is faced with new challenges. Trade unions can no longer confine themselves to such traditional issues as better conditions of work, but must deal with issues such as globalisation, sustainable industrialisation and the linkage between trade and environment, and related WTO issues. It is not an easy task especially when it comes to the mobilisation of specialist advice on certain technical economic and trade issues. The cohesion of the trade union movement is weak because of the different ideological and political sensitivities. Nevertheless, there is hope for the trade union movement to influence policy. There is need for more coordinated and common advocacy activities in civil society for members to be more effective in addressing policy issues like trade and industrialisation. In this context, there is need for additional intellectual and research input and a proper understanding of the stakes.
EPZ has been at the centre of the development of the modern sector operating competitively nearer to the international level and able to push the traditional sector towards a modern era in the context of human resource management that creates conditions for global productivity. This should not be the concern of the government solely but should become a national issue. The setting up of the National Productivity Council should be viewed in this context.

Ethnicity and Meritocracy in both Government and the Private Sector

Productivity alone cannot push the Mauritian economy to an international competitive level. Ethnicity and meritocracy are part and parcel of the problem. Ethnicity in contemporary Mauritius is a direct product of colonisation during which the ownership and socio-economic structures were closely linked. The Mauritian ethnic pattern is strongly linked to the various phases of transformation (slavery, the coolie trade and later the political struggle for independence) of the politico-economic structure that brought people from various parts of the world. The various phases and waves of migrants (whether forced or voluntary) have led to the creation of a plural society on an originally uninhabited island.

Ethnic Specialisation and Ethno-Professional Structure

The plantation economy of the colonial days impacted on the nascent Mauritian society and led to ethnic specialisation in economic activity and the use of labour force. Consequently, the issue of ethnicity cannot be isolated from the struggles of the slaves, the Indians and later the political struggle of the Hindus (the descendents of Indians) and the Creole (descendents of slaves) including the gens de couleur (the coloured) and other ethnic minorities. After 200 years of slavery, the slaves, about 66,000, abandoned the plantations with the abolition of slavery and settled in the towns or coastal villages where they occupied precarious jobs as fishermen, masons and carpenters, among others, while a small minority worked as artisans on the sugar estates. Indentured labour was brought in from 1834 to replace the slaves, and both groups of workers have greatly contributed in the development of modern Mauritius. It is important to point out that in the 1880s and the 1930s Franco-Mauritians controlled everything. In the then public sector of the time, the posts of magistrates and senior police officers were reserved for Franco-Mauritians. Lower-level police officials, district magistrates, medical officers, clerks and teachers were predominantly members of the Creole middle-class. The Hindus were initially left out and they were only later gradually allowed into government employment.

Despite the fears and hopes raised by independence, the coming to power of the Labour Party, strongly supported by the vast Hindu community (51 percent), did not bring about any changes in economic ownership. Implicitly, a new distribution of roles was accepted whereby the political power (and government) would be in the hands of the majority community while economic power (private sector) would remain in the hands of a small minority. This created a clear dichotomy between the holders of economic and political power. According to one Mauritian economist, this resulted in a “dual and segmented labour market” characteristic of the country’s economic structure. He also argues that, given the historical context, this dichotomy has been necessary.
Concept of Meritocracy and Related Issues

The debate about meritocracy has arisen in this context. The main concern has been public sector employment because people consider that government has to be accountable to citizens on the distribution of government jobs, which are financed by taxpayers. Private sector methods of recruitment have also been under scrutiny and it is argued that the private sector has to shoulder a certain amount of social responsibility as it does not operate in a vacuum. In any case it uses the labour force and human resources whose education and training have been financed by government and the public. It also benefits from adequate economic policies and infrastructural facilities implemented by the government. It is therefore felt that the meritocracy issue should become more and more the concern of both sectors.

The concept of meritocracy, defined as attributing employment or promotion to objective personal merits of competence, qualification, performance and aptitude without any subjective consideration such as race, colour, ethnic or religious belonging or political affiliation, is not easy to implement. A few approaches aiming at embodying the spirit of meritocracy include the an Equal Opportunity Act, a quota system or a positive discrimination approach. The issue is the difficulty in identifying a set of objective criteria and their applicability in the Mauritian society.

The Way Forward

However, the debate must be situated in a political perspective whereby the days of full employment and of massive recruitment of labour irrespective of ethnicity are over. It is only when the Mauritian economic system stabilised that there was resistance against meritocracy, and this has led to a crisis. In this regard, it is not in the interest of the Mauritian society to adopt a quota system while affirmative action requires further study. But the Equal Opportunity Act alone is not sufficient to ensure equal opportunities to all. Over and above legislative provisions, there must be an adequate institutional framework to guarantee the principle of equal opportunities for all. Otherwise, there is the danger that only the middle class will benefit from this legislative provision while the disadvantaged groups become more marginalised.

We would therefore argue for a new social pact between government and the private sector whereby meritocracy can occur through the emergence of a single unified labour market. Only then can personal merit and qualifications become the criteria for recruitment and promotion. As long as the labour market remains dual and segmented, the minority controlling the private sector will fear losing its economic power and will not be favourable to the majority community and other minorities attaining key positions in their businesses. On the other hand, the majority community would not want to lose political control of the state, which they consider as their only chance of getting employment and promotion. A single unified labour market should have a separation of ownership and management in the private sector to create space for any Mauritian, irrespective of ethnic belonging, to become top managers even if the ownership of such businesses still remains in the hands of a minority.

The increasing need for competition in the global market would pressure the dual system to create links between the private and government sectors. The fact that more competent and qualified candidates are each year joining the labour market is also thought to be a factor pushing for a unification of the two segments. The role of the State is bound to retrench, and the private sector is faced with the challenge of taking new responsibilities
as employer. Otherwise new contradictions will emerge within the Mauritian society and these will put at risk the sustainable development of the country.

Politics of Strategic Trade and Industrial Policies

Trade Policies

Since its independence in 1968, Mauritius adopted, like most developing countries, a restrictive and protectionist trade policy until the 1980s when it embarked on an irreversible liberalisation process. Given the specificity of Mauritius as a small and isolated island economy, free trade and non-interference in the domestic market would have been the best policy for the government to follow. The need to raise revenue left few options other than the imposition of high tariffs, and the taxing of imports was viewed as the easiest means of raising government revenue. However, other reasons such as the establishment and protection of the domestic industry also largely contributed to the adoption of the protectionist trade policy. Side by side imports and exports were subjected to a licensing system, while other forms of non-tariff barriers (NTBs), namely import quotas and foreign exchange rationing, were also introduced.

The Trade Liberalisation Process

Since the beginning of the 1980s the trade regime in Mauritius has been substantially liberalised. In the beginning of the 1980s quantitative restrictions and price controls affected a large majority of imports. Tariffs were as high as 600 percent. In 1984 and 1985 quantitative restrictions were completely dismantled. Price controls were lifted on the majority of products. In 1991 import licensing was eliminated on all but a limited list of items subject to health, sanitary or strategic controls. In 1994 export licensing was abolished on all but a limited number of products, in particular on products of strategic importance such as cement, and exports restricted by quotas in the importing markets.

Tariff Reforms

During the whole of the 1980s, tariffs have been constantly decreasing. However, major changes in the tariff structure were instituted in 1994 when a three-column tariff consisting of the fixed duty, the general customs duty and the preferential duty was consolidated into one-column and the number of tariff bands streamlined from 60 to eight.

While the reform eased administration and made it more transparent, it not only failed to address many of the drawbacks of the existing system but also distorted the system by bringing in changes that were contrary to the stated objectives of the reform.

With a rising budget deficit, it was crucial that reform of the domestic sales taxation goes hand in hand with the reform of customs tariffs. Specifically, to protect revenue, the pace of tariff reform and the ensuing reduction in the average tariff had to be carefully matched with the reform of domestic sales taxation. However, the lowering of the customs tariff was not accompanied by remedial steps required on other fiscal front, in particular on sales tax, that would have improved the overall efficiency of the indirect taxation system or made up for the loss of revenue.
Exchange Control Liberalisation

Due to its historic ties with Britain, the local currency of Mauritius was linked to the sterling pound until 1976. Moreover the Bank of Mauritius was the only market maker in foreign exchange. It established control on the movement of foreign currency. The first step to liberalising the foreign exchange regime was made in 1986 when commercial banks were authorised to transfer up to Rs 200,000 for payment of imports without the approval of the Central Bank. Already in 1988 commercial banks were authorised to effect all payments without the approval of the central bank. Final liberalisation came in 1993 when Mauritius accepted the obligations of Article VIII of the IMF agreement. Since 1994, the function of market maker in foreign exchange of the central bank was repealed. Now the bank only intervenes on the market by buying and selling dollars. The sugar proceeds in foreign currency, which were bought entirely by the Central Bank from the Mauritius Sugar Syndicate, have been managed by the latter since 1997. An automated foreign exchange market in US dollars operates in the capital, and commercial banks are encouraged to conduct foreign exchange operations among themselves. In fact a Foreign Exchange Dealers Act was passed in 1995 to regulate all foreign exchange deals and money changes. The objective of the Act was to promote greater competition among dealers in foreign currency.

Monetary and Credit Policy

The principal instruments of monetary policy were till the end of the 1980s the reserve requirements, quantitative control of bank credit expansion, selective credit controls and interest rate guidelines. The interest rate policy favoured the EPZ sector and remained biased against smaller and new firms. The Bank of Mauritius directly managed the credit policy through a system of credit ceilings. Monetary policy was therefore used as a micro-economic rather than a macro-economic instrument.

Reform in the banking sector started in 1988 when interest rates were liberalised by abolishing the minimum savings deposit rate and the maximum loan rate. More major reforms were undertaken in 1991 to increase competition in the banking system. There was a shift in policy towards the use of open market operations and the establishment of a price mechanism to allocate credit apart from the expansion of the supply of money market instruments. The bank rate was reduced from 12 to 11 percent and the Bank of Mauritius began to auction bills weekly. The bank rate was further lowered to eight percent in 1992 and the credit ceilings to priority sectors were removed. The ceilings on non-priority sectors were also removed in 1993. Other important developments related to the linking of the bank rate initially to a 12-week average weighted on three months, six months, and one year treasury bills plus a margin of one percent.

In December 1994 the margin was reduced to 0.25 percent and in 1995 the 12-week average was replaced by a one-week average plus a margin of 0.25 percentage point. The 0.25 percent point margin was abolished in December 1996. The bank rate is equal to the overall weighted average yield for accepted bills.

Value-Added Tax

A value-added tax was introduced in September 1998 at the rate of 10 percent ad valorem. It is applicable on an extended tax base, which also covers the services sector. However, the tax also contains 50 exemptions which should be streamlined in future.
It is generally believed that the VAT would generate greater revenue, facilitate the flows of investment into Mauritius and increase the country’s competitive edge on the export markets. The tax avoids cascading since VAT collected on purchases of capital and intermediate imports are refunded. The cost of capital is therefore reduced, impacting positively on the competitiveness of exports. Tax evasion is also less likely since it is collected at different stages of the distribution chain. For the first nine months since its introduction the tax has generated 3.5 billion rupees.

Reform of the Excise Tax System

Notwithstanding the 1994 tax system reform, excise taxation remained seriously flawed. The Excise Act of 1994 contained such positive elements as the extension of excise taxation to imports. This taxation was formerly applicable only on domestically produced goods. However, many of the features of the reformed excise tax remained inconsistent with modern excise taxation system.

The 1998/99 budget went a long way in ensuring that the excise taxation system conformed to established international norms and practices and at the same time corrected a number of existing anomalies that arose from the differential treatment between imported and locally produced goods. Accordingly, the 47 percent excise duty levied solely on imported furniture was abolished.

Industrial policies

Mauritius has known two major phases of development in industrialization. Industrialisation has gradually transformed the structure of the Mauritian economy from an agricultural one to one based to a large extent on the export-oriented manufacturing sector. The first industrial development phase started with the implementation of an import substitution industry in the early 1970s, but this was soon found to be limited due to the constraints of the local market. This led to the setting up of the second phase with the Export Processing Zone manufacturing and service sector. During the past 25 years, both the import substitution and the export-oriented regimes have been part of the industrial development of the Mauritian economy with nevertheless a dominant export sector.

Import-Substitution Policy (1960–1970)

In the early 1960s the drive behind the setting-up of an import-substitution policy was led by the recommendations of the Meade Report. The main aim of this report was to study the economic and social structures of the Mauritian economy and make recommendations geared towards maintaining the improvement of the standard of living given the demographic growth.

Problems encountered by the import-substitution policy

The attempt to diversify the economy and to create new jobs, however, did not last long. The main reason was the small size of the Mauritian market. The level of employment in the manufacturing sector stood at 9,000 in the late 1960s and there was still a significant number unemployed. The situation was further worsened by an increasing number of school leavers. The annual economic growth rate was also not encouraging at 1.75 percent. Both savings and investment rates remained virtually constant at 16 percent of GDP during this period. With the shortages of foreign exchange prevailing, a change in industrial policy was imperative.
Export-Oriented Strategy

The Meade Report of 1961 had advocated export-led industrialisation, but the government did not act on this recommendation until it discovered the limits of the import-substitution policy. Mauritius gradually turned to an export-led strategy which began with the setting up of the export processing zone in 1970, but without giving up on import-substitution. However, it was only in the early 1980s that the economy showed promising results and acknowledged success, the peak year being 1988. The economic development was not only due to the industrial drive but also to a mix of other factors like the implementation of structural adjustment programmes, liberal trade policies, trade preferences and a pro-business government. Tourism also played a vital role in the success story.


From 1970 the government endeavoured to stimulate both the export-oriented policies, through the Export Processing Zone, and the import-substituting industries with additional facilities to the existing ones. This “mixed strategy” which characterised the industrial sector was however not profitable enough for the economy. The application of high tariff rates to stimulate local production and discourage imports was therefore not successful. The DC enterprises continued to enjoy high protection, and their competitiveness and productivity remained low. The import protection also failed to provide the desired linkages or diffusion effects of industrialisation to stimulate the economy.

Taking into account the various constraints related to the import-substitution industry, it was obvious that export-oriented firms would emerge as the new economic challenge. A sustainable development in the EPZ sector was likely to have a greater impact on production, exports and employment.

Mauritius entered the 1980s with severe economic setbacks: a balance of payments disequilibrium, soaring unemployment, rapid inflation, acute foreign exchange shortages, low reserves, a public finance in a shambles, high and rising debt services, low savings, and low investments. It must be noted that as a consequence of the reversal in trade and payments balances, the government had to borrow from foreign markets between 1976 and 1979 with the result that the Mauritian debt increased threefold.

Export-Led Strategy

In 1983, Mauritius began to take measures towards an export-led policy in its structural adjustment phase. These measures concerned trade liberalisation, exchange rate management as well as export incentives, and export-oriented manufacturing thus began to emerge as the most dynamic sector. Mauritius was thus condemned to turn to an aggressive export strategy, given the small size of its domestic market which further reinforced the rationality of this approach. The latter also required intensive promotional efforts from the government through investment promotion institutions.

Although the strategy of Mauritius has not changed, it nevertheless brought about changes in its policies in order to accommodate the constraints that arose from the exogenous factors that influenced industrial development. Thus Mauritius carried out major changes in policies during the 1984–88 period and subsequently in 1993.
Industrial Policy Between 1983 and 1993

Incentives that encouraged the development of the 1983–93 industrial policy

The existing incentives for export via the EPZ were maintained. Moreover, the flexible exchange rate and the wage restraint introduced early in the 1980s helped EPZ to strengthen its international competitiveness and transform Mauritius’s overall economic and financial situation. Supporting these new policies were a number of other measures that elicited a strong supply-side response.

Measures included the revision of tax structures in order to stimulate production and the reduction of tax evasion, and harmonise the incentives offered to export and import substitution enterprises.

Evolution of the Industry

Between 1983 and 1988, the new set of incentives coupled with the depreciation in the real effective exchange rate resulted in significant increases in production, exports, and employment. This economic performance also benefited from better world economic conditions with favourable terms of trade through falling oil and commodity prices, a depreciation of the dollar and a fall in interest rates. Economic recovery in the US and Europe further contributed to boost exports of manufactured articles.

Moreover, employment increased sharply in the EPZ sector. In 1988, near full employment was reached, with the share of employees in the EPZ sector being higher than in the agricultural sector.

Industrial Policy since 1993

The idea behind this new phase of industrial policy was to integrate export-orientation in the EPZ and the import-substitution sector and pursue industrial diversification. As a result opportunities were given to enterprises in pioneering sectors. Consequently, from 1993, industrial policy in Mauritius was reinforced with the enactment of the Industrial Expansion Act, the Small and Medium Industries Development Organisation Act, and the amendment of the Export Processing Zones Development Authority Act of 1990.

Problems Related to the Development of Industry since 1993

The three main constraints facing the manufacturing industry are:

- the rapid growth of real wages thus reducing the competitiveness of Mauritian exports;
- a heavy concentration of exports on sugar and textiles and on particular markets; and
- the erosion of the comparative advantage of Mauritius in terms of labour-intensive activities, especially compared to its Asian competitors.

According to Lall and Wignaraja (1998) enterprises consider that they face the following constraints:

- high interest rates;
- heavy bureaucratic procedures resulting in delays to obtain foreign investment approvals, DBM loan approvals, refunds on import duties, and work permits for foreign technical staff;
- lack of access to finance (the need for collateral is still predominant for small enterprises);
• an appreciating exchange rate;
• policy uncertainty;
• infrequent sailing and high sea freight costs;
• shortages of skilled labour and technical manpower;
• lack of reliable suppliers of raw materials, parts, and components; and
• inadequate technology institutions.

What Caused the Mauritian Success Story?

The discussion above shows that Mauritius has been able to achieve economic success with the equal opportunities for other ACP countries. However, what is the reason behind this success?

Mauritius’ recipe was not dependent on a single formula that could be replicated; it consisted of a package and favourable circumstances. It would be difficult to pinpoint the parameters for the Mauritian success story as it would be totally unrealistic to carry out the same model in another environment. These could however be grouped into internal and external factors.

External factors

The external factors Mauritius took advantage of were twofold. In the first instance there was uncertainty about the future of Hong Kong. This situation encouraged investors from Hong Kong to look for investment bases elsewhere and Mauritius seemed the appropriate choice especially for the textile sector. Apart from this, the duty and quota free access to the EU market was also instrumental in attracting investors to Mauritius as business operators could not satisfy orders due to quota restrictions. Furthermore, it must be emphasised that investments from Hong Kong did not bring only capital but also technology and know-how.

The second factor was related to the duty free access on EU for goods originating from the ACP countries. The Lomé Convention was, therefore, instrumental in the economic development of Mauritius. Indeed Mauritius is among the very rare countries in the ACP to have availed itself of the Lomé Preferences which are in the form of duty and quota free access to the EU market. The Lomé trade programme covers the totality of industrial goods including textiles and approximately 80 percent of agricultural products besides access under tariff rate quotas of certain specific agricultural products. In the case of Mauritius, the protocol on sugar has provided tariff free access to the EU market of some 510,000 tons of Mauritian sugar annually at a guaranteed price, which is well above the world market price. Since the coming into force of the Convention, total domestic exports to the EU in absolute terms constantly increased, although relative to total domestic exports, the EU’s share has been on the decline since the beginning of the 1990s. This is due in part to increased exports to the US and to the regional markets. The trend of exports to the EU is shown in Table 7.1.

It is evident from the figures above that EU still represents the main export market for Mauritius and will most probably remain so for quite sometime.

Internal factors

A number of internal factors should be analysed individually; considered as a whole, however, they represent a package that made the success happen.
Table 7.1: Total Exports to the EU (Rs million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total domestic exports</th>
<th>Exports to EEC countries</th>
<th>Percent exports to EEC to total domestic exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>3,216</td>
<td>3,050</td>
<td>95</td>
</tr>
<tr>
<td>1986</td>
<td>8,918</td>
<td>8,892</td>
<td>997</td>
</tr>
<tr>
<td>1990</td>
<td>17,255</td>
<td>14,103</td>
<td>82</td>
</tr>
<tr>
<td>1994</td>
<td>23,196</td>
<td>17,183</td>
<td>74</td>
</tr>
<tr>
<td>1996</td>
<td>31,691</td>
<td>24,276</td>
<td>77</td>
</tr>
<tr>
<td>1999</td>
<td>39,368</td>
<td>27,851</td>
<td>71</td>
</tr>
</tbody>
</table>

Source: CSO

Political Stability

Political stability is an important consideration by a potential foreign investor especially in a developing country. Despite the nature of internal politics, Mauritius has rarely been considered as a high risk country politically. Despite a previous threat, there has been almost no social unrest and the country attained independence peacefully. The political dispensation has been socialist and even those who claimed to be left-wing during the EPZ boom were in fact socialist. In addition, the rule law has always observed.

Despite the existence of the EPZ legislation in the early 1970s, the export-oriented policy was not a success. This is attributed to a number of factors, including the political situation, the absence of adequate institutions or a well-defined policy strategy. This was remedied in the early 1980s following the emergence of a stable government in 1983, the elaboration of a well-defined investment promotion and marketing strategy based on the Lomé benefits, the setting up of institutional support mechanisms, in particular through an investment and export promotion authority.

Business Environment

The business climate in Mauritius has always been a relatively open one. The country being small, there has been a tradition of dialogue between the different partners as well as a certain degree of lobbying on policy-making. Chambers of commerce and agriculture are the oldest private sector institutions in the country and they have been interacting with the government since their initiation. One of the most striking examples is the decision to allow the private sector to negotiate the sugar protocol, on behalf of the government. This is testimony to the good working relations between the private sector and the government even in the 1970s. Before the economic boom, the private sector was also part of the mission carried out abroad for promotion of investment in the country. Today, communication and negotiation between the public and private sectors is better organised through the Joint Economic Council which is the apex body of the private sector. Another example of the tradition of participation of the private sector is its presence in the tripartite pre-budget consultation process. This arrangement with the government certainly sends positive signals to any foreign investor and creates the required confidence.

Cultural Identity in Business Relations

This aspect is also related to the two discussed above in the sense that they are linked to the political and business environment. Mauritians are from various ethnic groups and each group has a different role in the business life of the country. Those of French as well as those of Chinese origin dominate the economy while those of Indian origin wield
political power. In the past two decades, those of Indian origin have been going more and more into business, with a new generation of entrepreneurs. The communities seem to work in harmony as there are no visible rivalries among them. All are represented in their respective institutions such as the Chinese Business Chamber or the Indian Chamber of Commerce.

Economic Environment

The economic environment in Mauritius in the early 1980s forced the government and the private sector into ventures that could take the country out of that gloomy situation. High unemployment, soaring inflation, unfavourable world economic conditions called for drastic economic measures. The textile sector was the immediate solution to create employment as it did not require high level training. The duty free access to the EU market was another opportunity. Since Mauritius already had the EPZ legislation in place, implementation time was reduced.

Role of the State

The state has been instrumental in contributing to the economic success of the country. During the mid-1970s the government announced on the eve of the election that education would be free. This raised the level of education but also resulted in too many graduates on the market. However, even without prior strategy, this measure proved beneficial as a literate manpower was readily available when the second phase of the EPZ development started. The tourism sector also benefited from trained labour. The welfare state system also helped in ensuring improved quality of life. Education, health and environment were the priorities of the government. Low salaries and free education seemed to have been an acceptable compromise. Contrary to a major trend observed in many countries where military expenses have been on the increase, such expenses have been on the decline in Mauritius in favour of education and health.

In addition, the government has been pro-business. Throughout the liberalisation process, the government maintained discussions with the private sector in policy formulation. Obviously this did not happen immediately but the process was smooth. The government also gave incentives as well as facilities such as access to finance through the Development Bank of Mauritius, and the setting up of the Investment Promotion Authority (MEDIA). It has also helped in setting up the required infrastructure to boost the EPZ sector. Similarly, incentives and appropriate legislation have been drawn up for the development of the tourism sector.

The investment climate was also important, making investors feel secure. Mauritius had never had a government advocating confiscation and nationalisation policies. Mauritius has thus maintained a competitive edge over many other ACP countries and had been able to attract substantial foreign investment in the EPZ sector. Political, social and psychological factors, therefore, played a vital role in making the EPZ and, consequently, the Lomé Convention, a success for Mauritius.

Prospects for Effective Industrial Policy: The Way Forward

Industrial and trade policies were set up according to the situation that prevailed, and the impact of the WTO implications on the economy had not been taken into consideration. The possible removal of subsidies on imports had not been considered and this may affect the competitiveness of certain export industries. The global reduction of tariffs and the
removal of the Multi-Fibre Arrangement will obviously affect Mauritius in its export markets. The levels of preference are being eroded in the context of WTO and the benefits obtained from the exemption of quotas in the major textile markets, especially in Europe due to the Lome Convention, are disappearing, and Mauritian exporters will therefore have to face greater competition. Mauritius will be at par with new producers from countries like China and Bangladesh who will compete more significantly because of their much lower wage costs.

This will also have major implications for the agricultural sector. The majority of Mauritian sugar is exported to the EU at guaranteed prices. Mauritius exports at the ACP guaranteed price, which is equivalent to the raw sugar intervention price. These prices are affected by domestic prices in the EU, which are likely to come down as a result of the changes brought in by WTO agreements, as a result of a reduction in protectionism. The future of the Sugar Protocol is also uncertain.

In the light of this, it is clear that the Mauritian industrial sector is facing major threats. In the meantime, there is no clear-cut industrial policy designed by the Mauritian government. Given that there are indications of threats, some corrective measures are being undertaken but not in a coherent and integrated manner.

At present, a joint public-private sector committee has been set up to devise a long-term plan for the Mauritian industry. Discussions are still going on and it is expected that it will come up with some industrial strategy. The fact that the Mauritian industry has almost stagnated is of great concern. There is obviously the diversification of the economy into the services sector with an expanding tourism industry and other up-coming sectors such as the freeport and the offshore sectors. However, there is still space for the development of niche markets at the manufacturing industry level. Some companies are taking advantage of the COMESA valued-added factors to develop light manufacturing in the country and then export the products at preferential customs duty rates in COMESA countries. This is promoted especially by the freeport sector where the tendency is to position Mauritius as a regional hub for manufacturing and storage.

As an alternative and given the various facilities offered in the region, Mauritian entrepreneurs are looking to the countries in the region in order to expand their existing activities and to set up new ventures.

Regional Cooperation and Delocalisation of Production Units

Mauritius has joined a number of regional organisations such as the Indian Ocean Commission (IOC), the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), and the Indian Ocean Rim (IOR). With the strengthening of economic co-operation with the member countries of these organisations, Mauritius has been looking for regional markets for its exports. Given the limited expansion capabilities of the Mauritian economy its future lies in the region. Similarly member countries of these organisations are making efforts to offer investment opportunities for regional investors. Consequently, Mauritian entrepreneurs have been trying to take advantage of the favourable conditions to use their entrepreneurship skills and expertise, gathered over the years in the agricultural and manufacturing sectors, to expand their activities in the region.

Delocalisation started a few years ago with a few local textile companies investing in Madagascar which is only an hour and a half away by air from Mauritius and where there is a large pool of cheap labour. This delocalisation process has been successful since the
number of Mauritian companies being set up in Madagascar has been increasing. It is not only complete delocalisation of existing plants but in many cases Mauritian companies are expanding their activities or are making use of the comparative advantages to delocalise part of the activities.

The trade figures and the number of industries that have delocalised in the region provide tangible proof of the success of the Mauritius African Economic Policy. If we consider that trade turnover with the 21 COMESA member states was a mere 15 to 20 million rupees in 1986, Table 7.2 clearly indicates the progress in the development of trade relations between Mauritius and its regional trading partners.

In relative terms exports and imports have grown by more than 1,000 percent over a single decade and the trend indicates a net acceleration in commercial exchanges which was expected to be further influenced by the complete dismantling of tariffs on intra COMESA trade by October 2000. It is also interesting to note that Mauritius has managed to successfully export a number of non-traditional items such as dental

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>24</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Burundi</td>
<td>2</td>
<td>20,327</td>
<td>-</td>
<td>16,424</td>
<td>-</td>
<td>2,109</td>
</tr>
<tr>
<td>Comoros</td>
<td>-</td>
<td>23,691</td>
<td>405</td>
<td>25,411</td>
<td>-</td>
<td>3,611</td>
</tr>
<tr>
<td>Djibouti</td>
<td>-</td>
<td>1,986</td>
<td>37</td>
<td>310</td>
<td>-</td>
<td>3,611</td>
</tr>
<tr>
<td>DR. Congo</td>
<td>1,487</td>
<td>816</td>
<td>7,043</td>
<td>-</td>
<td>622</td>
<td>-</td>
</tr>
<tr>
<td>Egypt</td>
<td>12,626</td>
<td>1,940</td>
<td>27,220</td>
<td>5,387</td>
<td>3,826</td>
<td>216</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>24,619</td>
<td>14</td>
<td>2</td>
<td>1,083</td>
<td>204</td>
<td>23</td>
</tr>
<tr>
<td>Kenya</td>
<td>237,739</td>
<td>82,929</td>
<td>176,890</td>
<td>132,150</td>
<td>31,298</td>
<td>18,156</td>
</tr>
<tr>
<td>Madagascar</td>
<td>641,842</td>
<td>1,193,110</td>
<td>754,569</td>
<td>1,626,379</td>
<td>117,165</td>
<td>411,328</td>
</tr>
<tr>
<td>Malawi</td>
<td>1,538</td>
<td>67,914</td>
<td>1,636</td>
<td>38,361</td>
<td>-</td>
<td>12,762</td>
</tr>
<tr>
<td>Namibia</td>
<td>8,214</td>
<td>244</td>
<td>4,226</td>
<td>75</td>
<td>404</td>
<td>23</td>
</tr>
<tr>
<td>Rwanda</td>
<td>-</td>
<td>34,490</td>
<td>-</td>
<td>12,107</td>
<td>-</td>
<td>12,398</td>
</tr>
<tr>
<td>Seychelles</td>
<td>5,360</td>
<td>72,506</td>
<td>30,763</td>
<td>107,354</td>
<td>1,409</td>
<td>15,410</td>
</tr>
<tr>
<td>Sudan</td>
<td>19,363</td>
<td>464</td>
<td>131</td>
<td>28</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Swaziland</td>
<td>94,499</td>
<td>699</td>
<td>137,724</td>
<td>84</td>
<td>28,507</td>
<td>67</td>
</tr>
<tr>
<td>Tanzania</td>
<td>19,574</td>
<td>19,054</td>
<td>573</td>
<td>70,962</td>
<td>9</td>
<td>7,845</td>
</tr>
<tr>
<td>Uganda</td>
<td>2</td>
<td>13,469</td>
<td>-</td>
<td>17,717</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Zambia</td>
<td>30,415</td>
<td>93,937</td>
<td>1,960</td>
<td>4,092</td>
<td>41</td>
<td>704</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>16,302</td>
<td>254,202</td>
<td>132,370</td>
<td>149,974</td>
<td>10,532</td>
<td>14,253</td>
</tr>
<tr>
<td>Total</td>
<td>1,191,267</td>
<td>1,804,167</td>
<td>1,275,549</td>
<td>2,209,922</td>
<td>194,054</td>
<td>503,391</td>
</tr>
<tr>
<td>South Africa</td>
<td>5,649,573</td>
<td>141,715</td>
<td>5,221,993</td>
<td>190,461</td>
<td>1,234,713</td>
<td>14,925</td>
</tr>
</tbody>
</table>

Source: CSO
equipment, syringes, video tapes, chemicals and wheat flour on the COMESA market. Government policy towards the region has been motivated by the imperative need to diversify both the market and the product bases of the country and to expand its economic space. Consequently, Mauritius has elaborated an economic strategy for the region that involves the delocalisation of labour intensive industries and investment in the key sectors, including textiles, sugar and tourism in several countries of the region. To that end, a Regional Development Certificate Scheme has been established which provides fiscal incentives to Mauritian investors targeting the region. To date, some 100 Mauritian companies are in Madagascar, Mozambique, Lesotho and Cote d’Ivoire, among other countries. Mauritius has therefore adopted a very clear policy towards Africa. It is obvious that the implementation of the Africa Growth and Opportunity Act requires a regional development strategy and this will further consolidate the economic relationship of Mauritius with Africa.

**New Trade and Industrial Strategy**

The fundamental objective of the government’s economic policy should be to maintain high and sustainable economic growth. This objective can only be achieved if Mauritius becomes more internationally competitive and more successful as a trading nation. Export performance is the key determinant to economic growth. There is an imperative need, therefore, to re-engineer the existing trade and industrial policies, to evolve new strategies that would enable the country to meet the challenges of the New World Economic Order.

The prerequisite for the new strategy envisages sound macro-economic management. The government should aim at achieving a more flexible and efficient economy capable of sustaining growth at a rate which will bring unemployment rate to around two percent without jeopardising low inflation or placing unsustainable pressure on the current account. The objective of macro economic management should be to achieve international competitiveness.

Fiscal policy should aim at containing public expenditure with a clear demarcation between current and capital account. Public expenditure should be reduced and brought to around 22 percent of GDP, while the wage policy should be revisited and linked to productivity. Collective bargaining should be encouraged to achieve a sectoral determination of wages. While substantial progress has been achieved in the management of the monetary and the credit policies, there is an imperative need to accelerate the process with a view to bringing in new players. The end objective should be to reduce the extremely high cost of finance to industry. The recent decision by commercial banks to increase the prime lending rate does not augur well for industry development. Competition among banks seems to be lacking due to the limited number of players. Government will have to market the commitments made to WTO in the financial services sector with a view to bringing more operators in the finance sector, in particular the banking sector.

Foreign exchange transactions have been liberalised in Mauritius since 1994. There is, however, the need for the Bank of Mauritius to play a more active role in the management of the exchange rate, in particular in making frequent use of the exchange rates as a competitive tool. While most of its competitors have made aggressive use of competitive devaluation as an export-enhancing device, Mauritius has been less inclined to adopt such a strategy. It would also be appropriate to set up a foreign exchange management monitoring committee to see what is happening with cross-country
behaviour. The Ministry of Finance and the Bank of Mauritius should take the lead and seek assistance from international financial institutions in this regard.

The new trade and industry strategy requires an appropriate regulatory framework to support economic development. In this regard, action should be geared towards fostering competition in some of the key sectors which impact directly on the competitive edge of Mauritius.

The monopolistic situation in the production of electricity should end and air cargo traffic should be liberalised. The private sector should be encouraged to engage in the production of electricity.

In view of the strategic importance of telecommunications in the conduct of international trade, the liberalisation process in the sector, which will only start in 2004, should be accelerated. Partial liberalisation may start earlier to attain full liberalisation in the year 2004. The Telecom Act should therefore be amended to cater to the process. An independent regulator should also be set up.

Information technology lies at the heart of development. The absence of appropriate legal framework to provide protection to IT may impede its development. There is therefore an urgent need to finalise the Industrial Property Legislation, which encompasses patents, trademarks and industrial design. The legislation should be passed at the National Assembly as soon as possible. On the other hand the new Copyright Act which covers protection of computer software should be marketed aggressively to attract investment in software development. The authorities have failed so far to achieve this objective which was the basis for the early passage of the Bill. The Industrial Property Legislation should also incorporate the protection of undisclosed information, the layout designs of integrated circuits and geographical indications as per the WTO Agreement on TRIPS. A co-ordinating mechanism for Intellectual Property Rights and for industrial design should be set up.

Necessary amendments should be brought to the Industrial Expansion Act (1993) with a view to rationalising the incentives granted to the holders of EPZ certificates, pioneer certificates and those investors catering for the domestic market.

Besides the setting up of the necessary regulatory framework, it is important to improve the institutional framework if it is to play a meaningful role in the new trade and industrial development strategy. So far a number of support institutions have contributed significantly in enhancing the economic development of the country, especially the industrial sector. The Mauritius Standards Bureau and the Export Processing Zone Development Authority have contributed in improving quality and productivity whereas the Small and Medium Industrial Development Organisation (SMIDO) has done a useful work in providing support to SMEs. However, the size and resources that these institutions command are not adequate to face the new challenges. There are functions that no institutions are currently fulfilling — the most prominent among these being research, development and design (Sanjaya Lall and Ganesha Wignaraja — Mauritius: Dynamising Export Competitiveness).

The issue of productivity and competitiveness, especially of small and medium enterprises is not being addressed fully. There is no institution capable of formulating comprehensive strategies and delivering the entire package of finance, training, information, extension and marketing support that the local firms need. It is essential for government to strengthen existing institutions and set up new ones where necessary.
In this regard, it is important in the first instance to develop an overall vision to achieve international competitiveness. A Productivity and Competitiveness Council should be set up as early as possible to take charge of all matters on creation and maintenance of export competitiveness. The Central Policy Unit could be restyled and transformed into a strong competitiveness council with a high level secretariat. A second alternative is for EPZDA to be the secretariat of the Productivity and Competitiveness Council in view of the nature of work being performed by the authority. EPZDA could work out all issues relating to productivity and competitiveness and implement them. However, the council should have clout so that its decisions are binding.

The other institutional reform required relates to the development of a national investment promotion strategy, more so as foreign direct investment has been declining since the early 1990s in Mauritius at a time when flows into the developing countries continued to increase.

The Mauritius FDI Policy Regime and Investment Promotion Strategy should be improved to increase investment flows. There have been delays in getting foreign investment approvals, which fall under the Prime Minister's Office. Moreover, overlaps in the activities of the different public institutions responsible for foreign investment approval and promotion have resulted in bureaucratic and structural bottlenecks in the approval process. The investment promotion strategy itself is outdated as it is neither focused nor properly planned. There is also the need to simplify procedures relating to the grant of work permits.

All this requires the establishment of a co-ordination mechanism for investment promotion. This function could well fall under the jurisdiction of the Productivity and Competitiveness Council. However, it would be worth setting up a separate institution whose task would be to look at all the issues related to investment promotion. The creation of a Board of Investment (BI) has already been announced. However, so far the necessary legislation in that respect has still not been enacted and there is the need to expedite matters in that direction. The Board of Investment should take over the responsibility to scrutinise investment applications, to grant investment and work permits. Moreover, the one stop shop operating in the Ministry of Industry and Trade should also form an integral part of the board. The work of the Industrial Development Committee operating at the Ministry of Industry and Trade should also be taken over by the board. Reducing delays in processing and approving investment permits should be a top priority of the board. It will have to implement a fast-track approval procedure for investment projects and introduce other measures to facilitate investment, including the issuance of multiple entry visas for foreign investors and streamlining procedures for the granting of work permits. Regarding investment promotion proper, the promotion strategy would benefit if it focuses on a reduced number of potential sectors and home countries for attracting FDI and developing the country's potential as a regional centre for transnational corporations.

Concurrent to the development of an investment promotion strategy, it is also important to revisit the export promotion strategy of Mauritius. There should be a clear demarcation between investment promotion, export promotion and marketing promotion which should operate more at micro-economic i.e. at the firm level. The organisation responsible for export promotion in Mauritius is MEDIA. However MEDIA, as pointed out by Lall and Wignaraja, is involved in an overly broad range of activities. Apart from export promotion, it also constructs and manages industrial estates. The weight of the two latter functions does not allow the Authority to focus sufficiently on export promotion. In fact
experience in developing countries shows that multi-functional promotion organisations are rarely capable of dedicating sufficient resources to export promotion. The organisation failed to use modern export promotion tools and methods such as the use of the Internet to promote exports. It ought to have initiated steps in the setting up of a trade point and explore Electronic Trade Opportunities (ETOs) since the early 1990s when such a programme was developed by UNCTAD.

MEDIA should therefore be relieved of investment promotion (to be taken up by the Board of Investment) and the construction and management of industrial estates (a function which should be left to the private sector).

Besides the creation of governmental support institutions or the restructuring of existing ones, it is also necessary to create focal points that would assist in identifying and articulating the needs of specific sectors of industry and enhance industrial competitiveness and clustering. The creation of such focal points should be left entirely to the private sector, to such private sector institutions like the Mauritius Chamber of Commerce and Industry and the Mauritius Export Processing Zone Authority which have been involved with industry development for a long time. The role of these institutions will have to be reviewed in light of the changing world requirements. In particular, the enhancement of clustering among industries would result in a more integrated industrial base. Although MEPZA has done a lot in bringing together operators in the EPZ sector, it seems to have lost its initial touch as it concentrates too much in organising the yearly quality award. MEPZA should become a powerful think-tank for industrial development as it regroups the major players of the sector in the country. It should be able to suggest concrete measures that need to be initiated to increase industry competitiveness and propose policy options to government. Therefore, its objectives and role will have to be revisited.

Another set of recommendations related to the new industrial and trade development strategy deals with the technology support system. Technology support plays a vital role in enabling firms to undertake the kinds of technological initiatives that they cannot manage individually. On the other hand, mastery, adaptation and improvement of technology require concessions, effort and investment. They also require the creation of new skills and information through investments in training, searching for new technical know-how, and through experimentation.

The government may have to think of investing a percentage of GDP in R&D. Still, the private sector should also think of investing more in R&D, while the SME should be provided with the necessary technology support. There is need to channel fiscal incentives for investment towards promoting technological upgrading, increasing local value added and facilitating research and development.

The technology support system should focus in particular on the following:

- The creation of a research and development co-ordination mechanism under the aegis of the National Productivity and Competitiveness council. R&D should be stimulated by tax breaks, and an awareness campaign should be carried out vis-a-vis the industry.

- An improved access of the private sector economy to the know-how required to upgrade productivity, quality, design and response time in a manner which is demand responsive. In this respect the existing Technology Diffusion Scheme should be re-apprised and its scope extended to small and medium enterprises. The
government should negotiate soft loans from international and regional financial institutions for the strengthening of the TDS.

• The diffusion of international quality management standards should be facilitated. Access of the private sector to testing and metrology to raise export quality and facilitate investment in higher technological operations should be improved.

• A national information technology strategy should be developed with a view to enhancing business practices based on more effective application of information technology, thereby transforming Mauritius into an information-based economy. The Strategic National Information Technology Plan commissioned by the National Computer Board would serve as an important step in that direction.

• The development of the local design capabilities.

As a first step the legislation on industrial design as part of the Industrial Property Legislation should be enacted urgently. On top of that a feasibility study should be carried out to study the establishment of a design centre. The centre could operate either under the Clothing Technology Centre operating actually under the aegis of EPZDA or a design faculty could be set up at the University of Mauritius.

The technology support system should go hand in hand with a comprehensive human resource development plan. Development of skills should be at the centre of technological development. Accordingly, a co-ordinated approach for human resource development should be worked out. To that end, an appraisal of the manpower coordination unit and the development unit should be undertaken to reassess the needs for skills development. The focus should be on the retraining of workers, the flexibility of training, the targeting of people for training and the encouragement of demand-driven training. In addition, training at the level of SMEs should start with basic training, followed by more focused training and end up with specialised training.

Concurrently, the potential for Mauritius to export knowledge based on its experiences and developmental level in the region should be explored. To that end, a knowledge industry should be created in the country. However, for it to flourish, it will have to develop a comparative advantage.

As a starting point, a needs analysis in the region should be carried out. Once the needs have been elaborated, the HRD programme should be tuned to cater to the regional market. Knowledge should be seen as an exportable product. On the other hand people in the region should be encouraged to come and train in Mauritius. This will help produce quality training and build international competitiveness.

The recommendations for macro-economic management, regulatory framework, institutional support, technical support, and human resource development should set the background for the elaboration of a new industrial and trade strategy. It should be recognised that the trade and industrial regime of Mauritius is now much more liberal than it was in the past. However, various studies have established that the effective rate of protection in Mauritius is still very high, although a decline has been noted.

Protection rates in the domestic market for many industrial activities remain high and in excess of the relative incentive to produce for the export market. A study carried out by De Chazal du Mee has indicated that more than 10 percent of the GDP is produced by highly protected industries operating on the domestic market. The policy regime should be directed towards eliminating the anti-export bias. The high level of protection besides creating the anti-export bias also acts as a deterrent to the increase of industrial linkages;
export firms need to use competitive inputs. Lowering export bias requires that protection of the local market be reduced, thereby pushing the domestic industries to seek export markets or providing pressures for resources to be released to those activities with export potential.

In committing itself to WTO, Mauritius could have used relatively low tariff bindings to reduce the nominal and effective rates of protection. This has not been the case. On the contrary tariffs have been bound at rates higher than the prevailing ones. In line with the flexibility provided to developing countries, Mauritius bound only 10 tariff lines at the ceiling rate of 65 percent on industrial products. The remaining industrial goods remain unbound. The majority of the products in the agricultural sector have been bound at the ceiling of 122 percent (much higher than the prevailing rate). The remaining products are bound at 37 and 82 percent respectively.

There is an opportunity cost attached to the high rates of protection favouring import substitution. Export promotion requires that relative incentives favour export activities over others. In trying to provide incentives for all types of activities, the impact of incentives in Mauritius tends to be offset or neutralised.

There is therefore the need for Mauritius to try to achieve a low and uniform level of protection. In this perspective bindings of tariff should be brought to relatively low levels. A programme of future tariff reform needs to be worked out. We agree with Lall and Wignaraja that highly protected activities which have no economic rationale should be systematically phased out over a short period of time, while those that can develop into future exports should be assisted by supply-side measures to promote rapid restructuring and upgrading.

Alongside implementation of the above recommendations, the government should also aim at introducing a single consistent and simplified investment policy for industry by removing the discrimination against the non-EPZ sector, especially in incentives. Although WTO outlaws a number of incentives, especially those related to export promotion and import substitution, it is necessary that WTO-compatible incentives continue to operate in favour of targeted activities.

So far Mauritius has remained a passive player at WTO, although it has intervened quite forcefully at the second WTO Ministerial Conference on the question of small economies. Mauritius should already decide on its priorities for forthcoming negotiations in the agricultural and the services sectors and elaborate a negotiating strategy for the Millennium round. In particular:

- Mauritius should seek to extend the scope of the WTO special and differential treatment to cater to the specificities of vulnerable economies. In this regard it should press for the elaboration of a vulnerability index and the need for WTO to draw an action plan similar to the one for LDCs.
- Small economies endowed with limited raw materials and other resources should be able to use specific incentives to attract foreign investors and boost the expansion of value added industries.
- The country should be able to prepare schedule of commitments aimed at liberalising the services sector with a view to attracting investors. To that end, an assessment of the services sector needs to be carried out and sectors with comparative advantages identified so as to determine the exact nature of the commitments.
Mauritius should seek to bind all its tariffs at relatively low levels to remove the anti-export bias and to send the right signal to the investor community.

Based on the commitments made to WTO by traditional and potential partners, an export development plan should be worked out to tap emerging trade opportunities. The plan should cover priorities of Mauritius on the specific markets, what its competitors are doing on the markets, the schedules of commitments made by the countries, the identification of the potential of benefits, and work out a programme for trade development in each country.

The trade development plan should specify the trade promotion strategy that should be adopted on each market, and this strategy should contain provisions to force protected firms into the export markets. In this regard, regular meetings between government officials and heads of enterprises should also be envisaged to monitor progress made towards export targets. It may be difficult for protected firms to tap opportunities on the world market immediately, but highly protected firms could use the regional market as a stepping stone in building international competitiveness. The export development plan could therefore contain strategies to penetrate the regional market in the first instance and then move to a higher level of competitiveness. Mauritius is well positioned to tap trade opportunities in COMESA countries. The achievements so far speak for themselves. If exports in COMESA countries in 1985 stood at Rs15 million, the latest available data show that in 1998 Mauritius exported goods worth some Rs1.7 billion on that market. Moreover, the composition of these exports shows that many enterprises that used to service the domestic industries have started to look at the region. However, exports are conducted on an ad hoc basis. A more organised approach to the region would enable the country to significantly increase its export drive. Such an approach becomes more evident as the SADC Trade Protocol comes into force. The removal of trade barriers on the South African Market for sensitive products would require a more forceful marketing effort so that Mauritius sets a strong foothold on the market at the very beginning.

The marketing capability of Mauritius should, therefore, be strengthened and, in this regard, the capacity of institutions such as EPZDA, and the private business associations and firms to provide support to improve marketing capabilities.
References


This page intentionally left blank
8. KENYA: FORMULATION AND IMPLEMENTATION OF STRATEGIC TRADE AND INDUSTRIAL POLICIES

Gerrishon K. Ikiara, Joshua Olewe-Nyunya, and Walter Odhiambo

Introduction

Although the Kenyan economy remains predominantly agricultural, industrialisation has been an integral part of the country’s development strategies both in the colonial and post-colonial periods. Not only has industrialisation been seen as a mechanism of diversifying the economy but also as a dynamic engine for sustained accelerated economic growth especially in the post-independence period. Kenya’s current Development Plan (1997–2001) emphasises the development of the industrial sector for stable and sustainable economic growth in the 21st century. Significant in this respect is the fact that in its Sessional Paper No.2 of 1996, the country plans to achieve the status of a new industrialised country by the year 2020 (Republic of Kenya, 1997).

While Kenya inherited a relatively well established industrial sector in the region, the sector’s overall performance has been rather poor for most of the post-independence period with the exception of the period between 1963 and 1972 when it registered an annual average growth rate of above 10 percent. The share of manufacturing sector in the Gross Domestic Product (GDP) has changed little over the past three decades. At the same time, the sector which was expected to play a leading role in the country’s development and growth process has not been dynamic enough to effectively play this role (Republic of Kenya, 1997). The reliance on the import substitution strategy in the early years of independence created a generally inward-looking sector, with limited technological progress. Despite a shift from import substitution to export promotion since the mid-1980s, and reforming the policy environment under the Structural Adjustment Programmes (SAPs), the performance of manufacturing sector in Kenya remained poor in most of the 1980s and 1990s in its share in GDP, growth of output and the creation of employment and linkages with other sectors of the economy.

Kenya’s industrialisation process has been influenced by a number of factors including the country’s colonial history, resource endowments, regional economic relations, foreign investor and donor perceptions, the prevailing socio-economic environment as well as the general policy environment. While much of the explanation of poor industrial performance in Sub-Saharan Africa (SSA) is often attributed to various exogenous shocks such as wars, droughts and adverse terms of trade, a poor policy environment must bear a significant part of the blame (Lall and Wangwe, 1998). In Kenya, and indeed, in other developing countries, there is need to question not only the context and content of government policy relating to industrialisation but also the legal and institutional capacity that define the scope and effectiveness of the policies.

This chapter traces the evolution of the policy environment in Kenya with specific reference to strategic trade and industrial policies. It examines the role of socio-political and economic institutions in the design and implementation of strategic trade and industrial policies in the country. The assessment is based on literature and detailed
interviews of domestic and foreign owned firms, government ministries and institutions such as manufacturers’ associations, retired and currently serving policy-makers and researchers. It looks at the structure and performance of Kenya’s manufacturing sector followed by a review of strategic trade and industrial policies in Kenya since independence. It also examines the role of different actors in the formulation and implementation of strategic and industrial policies in the country. Conclusions and policy implications are also presented.

An Overview of the Structure and Performance of Kenya’s Manufacturing Sector

A distinctive feature of the manufacturing sector in Kenya is the coexistence of the modern sector alongside a rapidly expanding informal sector. While the former comprises mainly of small, medium and large enterprises, the latter consists of numerous open-air small and micro scale productive activities in towns and rural trading centres. Traditional artisan production in the informal sector is dominated by small undertakings employing less than 10 workers. These are in most cases unregistered and use production methods which require limited specialisation and management capacity. A large proportion of their output is directed towards satisfying basics needs, namely the provision of low-income consumer goods and services. Such items include clothing, furniture, foodstuffs and motor vehicle repairs. While data on this sub-sector are not adequate, there is little doubt that it is one of the fastest growing sectors and a major source of employment in the country.

The small and medium scale enterprises, which form part of the formal economy, are characterised by some degree of specialisation. These enterprises manufacture a wide range of items including wood and furniture, metal products, glass and pottery, clothing and leather products. These items are generally designed to meet the domestic needs of the low-income households although part of these is exported to neighbouring countries especially Uganda and Rwanda. This sub-sector employed 2.3 million people in 1999 which was about 15 percent of the country’s labour force (CBS/ICEG, 1999).

With regard to ownership and management of firms in Kenya’s manufacturing industry, there have been some significant changes in the years after independence. Currently, multinationals and parastatals dominate the large industries while Kenya’s business people, mainly of Asian origin, dominate the small and medium ones. Kenyans of African origin own mainly micro-enterprises in the informal sector. Most positions particularly for the low and the middle level cadre have since been Kenyanized. It should, however, be noted here that although the Kenyan Government has been a major actor in manufacturing through a number of parastatals, there has in recent years been a rolling back of public investment in line with the IMF-World Bank instigated SAPs.

The structure of Kenya’s manufacturing sector has undergone minimal changes despite shifts in policies. Production is still largely geared towards consumer goods. The single most important industrial sub-sector is the food, beverages and tobacco which forms over 30 percent of the total manufacturing output in recent years (Table 8.1). This is followed closely by chemical, rubber and petroleum. Other important sectors in terms of contribution to the total output include leather, metal products, transport equipment and machinery.
Table 8.1: Share of Total Manufacturing Value Added by sub-Sectors, Selected Years

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, beverages and tobacco</td>
<td>11.5</td>
<td>28</td>
<td>98.8</td>
<td>31</td>
<td>947.4</td>
<td>44</td>
</tr>
<tr>
<td>Clothes, textile and leather</td>
<td>2.3</td>
<td>6</td>
<td>33.2</td>
<td>10</td>
<td>181.7</td>
<td>8</td>
</tr>
<tr>
<td>Wood and furniture</td>
<td>1.9</td>
<td>5</td>
<td>10.9</td>
<td>3</td>
<td>54.9</td>
<td>3</td>
</tr>
<tr>
<td>Paper and paper products</td>
<td>3.4</td>
<td>8</td>
<td>21.8</td>
<td>7</td>
<td>251.1</td>
<td>12</td>
</tr>
<tr>
<td>Chemical rubber and petroleum</td>
<td>5.4</td>
<td>13</td>
<td>36.3</td>
<td>11%</td>
<td>138.9</td>
<td>6</td>
</tr>
<tr>
<td>Plastic, glass and non-metallic minerals</td>
<td>0.5</td>
<td>1</td>
<td>14.6</td>
<td>5</td>
<td>168</td>
<td>8</td>
</tr>
<tr>
<td>Metal products</td>
<td>2.4</td>
<td>6</td>
<td>20.6</td>
<td>7</td>
<td>133.9</td>
<td>6</td>
</tr>
<tr>
<td>Machinery</td>
<td>2.7</td>
<td>7</td>
<td>21.8</td>
<td>7</td>
<td>143.4</td>
<td>7</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>7.4</td>
<td>18</td>
<td>27.5</td>
<td>9</td>
<td>79.8</td>
<td>4</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>3.2</td>
<td>8</td>
<td>31</td>
<td>10</td>
<td>42.1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40.7</strong></td>
<td><strong>100</strong></td>
<td><strong>316.5</strong></td>
<td><strong>100</strong></td>
<td><strong>2141.2</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>


The manufacturing sector’s share of GDP has increased only marginally in the last three decades. Table 8.2 shows the sector’s growth rates and contribution between 1964–95. It is evident that the contribution of the sector has only risen marginally from 10 percent in the 1964–73 period to only 13.6 in the 1990–95 period. The sector’s growth slowed down from 10 percent in 1973–79 period to only 3 percent in the 1990s. A combination of factors including the import substitution strategy, poor weather conditions, import liberalisation and deteriorating infrastructure could explain the slack.

Table 8.2: Percentage Growth and Contribution to GDP, 1964–95

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of output</td>
<td>9.1</td>
<td>10</td>
<td>4.8</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Contribution to GDP</td>
<td>10</td>
<td>11.8</td>
<td>12.8</td>
<td>13.6</td>
<td>13.1</td>
</tr>
</tbody>
</table>


The manufacturing sector in general suffers from low value added, low relative employment and relatively high wages (Republic of Kenya, 1997). The sector has a very small capital and industrial goods component and depends heavily on imported raw materials, capital goods and spare parts. Consequently, local linkages between and among industries are weak to generate requisite growth and employment synergy (Kimuyu, 1999). The only exceptions are industries based on natural resources and agriculture.

The sector’s export performance has also in many ways been disappointing. Table 8.3 summarises annual growth of Kenya’s exports for the period 1965–97. While the growth rate declined in all the sectors under consideration, it is in the manufacturing sector that the decline was most dramatic falling from 17.94 in the 1965–71 period to only 2.1 in the 1990s.
Table 8.3: Annual Growth Rates of Kenya Exports

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Exports</th>
<th>Manufactures</th>
<th>Food and Beverages</th>
<th>Other primary products</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965-71</td>
<td>6.55</td>
<td>17.94</td>
<td>5.85</td>
<td>-</td>
</tr>
<tr>
<td>1971-76</td>
<td>4.85</td>
<td>10.45</td>
<td>2.55</td>
<td>3.26</td>
</tr>
<tr>
<td>1976-84</td>
<td>-2.13</td>
<td>2.83</td>
<td>0.66</td>
<td>-3.38</td>
</tr>
<tr>
<td>1984-90</td>
<td>4.01</td>
<td>4.28</td>
<td>1.85</td>
<td>-3.55</td>
</tr>
<tr>
<td>1990-97</td>
<td>2.3</td>
<td>2.1</td>
<td>1.62</td>
<td>1.1</td>
</tr>
</tbody>
</table>


Industrialisation has been an integral part of Kenya’s development strategies throughout the post-independence era. Right at independence in 1963, the Government recognised the important role that industrialisation could play in the national development process and consequently accorded high priority to industrial development (Republic of Kenya, 1965). To achieve the objectives of industrialisation which include employment generation, diversification of the economy and conservation of foreign exchange, the government pursued a number of policies and strategies. This section reviews the key strategic trade and industrial policies in Kenya and the changing policy environment since independence.

The Political Setting

The policy-making environment in any country is determined to a large extent by the kind of political set-up that a country has in place, including the legal and institutional mechanisms established to guide the policy-making process. Whereas Kenya has remained politically stable for most of the post-independence period, there have been internal political dynamics with implications on the choice and implementation of policies in the country. For the first three decades after independence, Kenya remained largely a one-party state except for brief periods between 1963 and 1964 and 1966 and 1969 when the Kenya African Democratic Union (KADU) and the Kenya Peoples’ Union (KPU), respectively, served as opposition political parties.

A distinctive feature of most of this period has been the existence of a centralised system of government partly inherited from the colonial rule but strengthened soon after independence. The system was based on an administration tightly controlled by provincial and district commissioners and below them various cadres of district officers, and chiefs who together represented strong and extensive powers of the executive. This structure, known as the provincial administration, was by design geared towards maintaining law and order and was often ill equipped to perform the different tasks of preparing and implementing development programmes. The monopoly of political power and the colonial heritage helped to shape the nature of economic policies in general and trade and industrial policies that were pursued. This administrative mechanism gradually promoted a national culture where government actors dominated the policy formula process leaving little room for other stakeholders.

To adequately characterise the different policy regimes in Kenya since independence and to provide some historical perspectives on the nexus between politics and policy formulation and implementation, it is important to divide the post-independent era into
two major periods: the period between 1963 and 1978 when the country was under the stewardship of its first president, Jomo Kenyatta, and 1978 to the 2002 when Daniel arap Moi retired from the presidency.

The Kenyatta Regime — 1963–1978

A major characteristic of the Kenyatta regime, that was to continue even after his departure, was the emergence of extremely influential individuals and groups often based on tribal and political patronage. Given the diverse expectations and aspirations of the contending groups, a major task of the Kenyatta regime was to keep the groups united. The implication of this was that often, the task of decision making, especially immediately after independence did not reside solely in Kenyatta as a person but in an “elaborate power structure which had been built around him” (Nzomo, 1981). Thus, although the president was generally able to stand above factionalism, he usually chose to either suppress or co-opt various contending groups without personalising the public policy-making functions. He involved people who were close to him such as cabinet ministers, prominent public servants and friends.

The Kenyatta regime was also characterised by its deliberate efforts to nurture and support a class of indigenous entrepreneurs in manufacturing and other economic sectors through a number of programmes variously dubbed as “Africanisation,” “Kenyanization” and “Indigenisation.” The Ndegwa Commission (Republic of Kenya, 1970) which allowed serving civil servants to engage in business was one of the measures taken to pave way for greater and open participation of the civil service elite in entrepreneurial activities. While some of the measures taken have been blamed for the erosion of civil service integrity and efficiency and for creating an enabling environment for corruption, a class of rich and aggressive entrepreneurs emerged (Kaplinsky, 1978, NCCK, 1968).

The economic performance during much of the Kenyatta regime was, generally, impressive. During the first decade of Kenyatta’s regime (1963–73) virtually every indicator of performance was well above average. The manufacturing sector, which had already been identified as an important sector, recorded an average annual growth rate of about 7 percent over this period. This success can be attributed to a number of factors including sound management of the economy that characterised most of the Kenyatta regime. During this first decade, the government and the Central Bank generally followed a cautious financial policy which ensured low inflation and manageable levels of external debt. There were deliberate efforts to keep budget deficits within manageable levels and to reduce the country’s dependence on aid. However, from the second half of the 1970s, the country’s economic performance started to decline, partly due to the commodity and oil shock of the 1970s.

The Moi Regime — 1978 to 2002

The year 1978 witnessed a change of government, with Daniel arap Moi, taking over the reins of power from Kenyatta. While the new regime had initially promised to continue with the policy pursued by the previous government through what came to be called “Nyayo” (Swahili word for footsteps) there were certain fundamental changes in the political structures during the Moi regime. For instance, Moi’s rule was characterised by an acceleration of consolidation of the power of the executive at the expense of parliament and the judiciary, a development which had started in Kenyatta’s regime. This has had a profound effect on the decision-making processes of the government as the role of the bureaucrats and the technocrats as advisers and decision-makers have declined.
creating a major weakness in the decision making process. A political culture emerged in which the authority of the president in many socio-economic and political spheres of national life was largely unquestionable.

The death of Kenyatta brought to an end an era in which there were a number of actors in policy-making to one where the head of state became the main actor both in the making and execution of policies. By and large major policy announcements of the government were directly and indirectly influenced by the president (Orwa, 1994).

The emergence of a strong executive meant that other would-be actors in policy formulation and implementation process including political parties in the 1990s were effectively shut out. Other government organs, including parliament and the judiciary, were seriously emasculated to a point where they played only a minor role in the determination of the country's broad socio-economic and political development policies and strategies. The private sector was also largely ignored and was hardly consulted in virtually all policy areas, including strategic trade and industrial policies.

Moi's regime also witnessed the emergence of multilateral and bilateral donor institutions as crucial actors in the country's economic policy formulation especially in the 1980s and 1990s. These changes started in 1980 when the country joined a group of other African countries implementing the World Bank-IMF SAPs. By the close of the 1990s, the role of the donor community had become perhaps the most important force in Kenya's policy formulation process. The participation of donors was particularly enhanced by the economic crisis which gripped the country in the second half of the 1990s making the country heavily dependent on external donor resources.

The growth of an indigenous entrepreneurial class experienced setbacks in Moi's regime largely due to the country's patronage and ethnicized politics. The 1980s saw increased cases of deliberate harassment of leading indigenous businessmen who were perceived to be opposed to the political regime. Some of the publicised cases of locally owned manufacturing firms that became bankrupt due to officially instigated measurers include Madhupaper and J.K. Industries. There was a widespread perception within a large section of the Moi political elite that the entrepreneurial class that emerged during Kenyatta's era was largely drawn from a narrow ethnic base and did not have adequate loyalty to the regime. Liquidity pressures from government-owned banks, denial of import licensing, credit facilities and other licensing measures were used to drive some of these local firms into bankruptcy, resulting in considerable slowdown in the indigenisation of key sectors especially manufacturing, banking and distribution.

Moi's regime has been generally characterised by poor performance of the economy in the 1980s and the 1990s. While a number of external factors like commodity and oil shocks and the unfavourable international environment are partly responsible for the performance, a number of domestic factors such as mismanagement, corruption, poor infrastructure and insecurity have been more important.

**Evolution of Trade and Industrial Policies**

Kenya's industrialisation efforts in the post-colonial period have been undertaken through three main phases of industrial policy: import substitution, export promotion and structural adjustment phases. This section highlights the main features of each of the phases, pointing out the key players in the adoption and implementation of the policies. The section also attempts an assessment of the impact of each of these key policies on the economy.
The Import Substitution Phase

In the period immediately after independence, Kenya pursued an import substitution strategy as a means of promoting industrialisation. The strategy was influenced by the conventional wisdom prevailing during this period in most developing countries. The objectives of the strategy were rapid growth of industry, easing balance of payments pressure, increased domestic control of the economy and generation of employment. To achieve these objectives, the government relied on a variety of policy instruments including an overvalued exchange rate, high tariff barriers, import licensing, foreign exchange controls and quantitative restrictions to protect local producers against foreign competition (Bienen, 1990; Roemer, 1993; Hill, 1993).

Foreign exchange measures were extensively used during this phase to protect local manufacturers. The Foreign Exchange Allocation Committees were established to administer foreign exchange quotas for imports for which a limited quota had been established to protect domestic producers. Foreign exchange controls were used to discriminate against certain imports, promote foreign exchange earning industries and to conserve foreign exchange which was a major constraint in the economy.

Tariffs were also used extensively as an instrument of protection. For most of the time, the Kenya tariff structure reflected the overall import substitution strategy. Tariffs were generally high on imports of final products relative to capital and intermediate goods. For example, throughout the import substitution period, the average unweighted scheduled tariff rates for textiles and clothing were about twice the rates for capital and intermediate goods such as machinery and building materials. Until the collapse of the East African Community (EAC) in 1977, Kenya could not unilaterally change external tariffs. However, due to a weak administrative capacity, quantitative restrictions proved to be more effective in controlling imports compared to tariffs. Import license requirement was the main instrument for quantitative regulation, with inputs and certain products receiving preferential or priority treatment in the issuance of import licences.

Impact of the Import Substitution Industrialisation Policies

The import substitution phase and the policies that sustained it had mixed results. On the positive side, the country enjoyed a considerably high rate of industrial growth during the first decade of independence with the manufacturing sector growing at an average rate of 8.0 percent compared with rates below 5 percent in the 1980s and 1990s (Table 8.4). Industries that recorded rapid development during this period were processing of plastics, pharmaceuticals, steel rolling and galvanising, electrical cables, paper, vehicle assembly, industrial gases, rubber ceramics, and batteries manufacture. Some industries expanded from a few establishments into industries with a wide range of products and a large number of employees. They include paper, textiles and garment manufacturing, food processing, leather tanning and footwear (Coughlin, 1988, KAM; 1998).

Table 8.4: Growth Rates of Selected Economic Indicators, 1966–1994

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td></td>
<td>8.6</td>
<td>8.7</td>
<td>12.9</td>
<td>7.3</td>
<td>9.6</td>
<td>17.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6.2</td>
<td>5.2</td>
<td>7.8</td>
<td>3.7</td>
<td>5.0</td>
<td>2.5</td>
<td>0.7</td>
</tr>
<tr>
<td>GDP</td>
<td>11.5</td>
<td>11.8</td>
<td>12.2</td>
<td>10.4</td>
<td>11.3</td>
<td>12.1</td>
<td>12.4</td>
</tr>
</tbody>
</table>

The impressive performance of the economy in general and the industrial sector in particular was due to dynamism and prudent macro-economic management. Investment was encouraged through high protection, a liberal attitude toward foreign investors, an active role played by the government in promoting industrialisation through provision of credit facilities and other incentives and a relatively stable political and economic environment that was attractive to both domestic and foreign investors. The high growth rate was also facilitated by the economic dynamism normally associated with the import substitution strategy in the initial stages. The commendable manufacturing sector performance benefited substantially also from the expanding domestic demand partly due to rising agricultural incomes which was stimulated by modernisation and diversification of the country’s agricultural production for both export and domestic markets.

However, towards the end of the 1970s, there was a general deterioration in the country’s overall economic performance due to a number of factors. Industrial production for export markets slowed down substantially because the incentive structure favoured production for domestic markets creating an inward-looking industrial sector whose potential was severely limited by the size of the domestic market. The situation was aggravated by the collapse of the East African Community (EAC) in 1977. In addition, there was an erosion of fiscal discipline after the coffee boom in the late 1970s, which was aggravated by a deterioration in the country’s external terms of trade following the second oil shock in 1977 (Foroutan, 1993). The import substitution strategy was also in general strongly biased against exports.

Import-substituting industries created too few jobs while many industries used inappropriate capital-intensive technologies that created a manufacturing sector heavily dependent on imported equipment and raw materials. Moreover, the sector failed to develop strong linkages with the rest of the economy partly because of undue emphasis of production of consumer goods at the expense of capital and intermediate goods. Under the strategy, the indigenous population failed to control a significant portion of the manufacturing sector. Manufactured exports thus formed only a small proportion of the country’s exports while industrial development was concentrated in Nairobi and a few major towns (Ikiara, 1988; Nyongo, 1988; Ogonda, 1990). There was thus growing disenchantment with this strategy by early 1980s due to these and other shortcomings.

It should be pointed out that some of the failures of the import substitution strategy were caused by external factors beyond the control of Kenya’s policy-makers. First, the 1973 oil crisis resulted in an escalation of costs of production and exerted pressure on the balance of payments with adverse effects on availability of imported raw materials and equipment. Second, the collapse of the regional market in the late 1970s forced manufacturers to depend on a much narrower market, making many of them operate with excess capacity and carrying high overheads which undermined their competitiveness even with various protective measures.

By the end of 1970s, Kenya had virtually exhausted opportunities for further industrial growth through import substitution. Due to the absence of a well-articulated industrial policy, few measures were implemented to move the economy to the next stage of the strategy which would have facilitated the production of manufactured exports (Conghlin, 1988).
The Export Promotion Phase

As a result of increasing recognition of the economic realities facing the country, the government made some attempt to change the industrial strategy from import substitution to export-led industrialisation. Some of these intentions were evident from development plans and policy documents published during late 1970s and early 1980s. The Fourth Development Plan (1979–1984), for instance, advocated a more open strategy for the industrial sector. It outlined policies designed to create an enabling environment for industry through increased reliance on market-based incentives and less regulatory structures. This was to be done through a series of reforms in trade and industrial regimes. First, the quantitative restrictions were to be gradually replaced with equivalent tariffs. Secondly, the tariff rates were to be rationalised and reduced over time. Other recommended measures included a more liberal exchange rate policy and strengthening export promotion schemes (Foroutan, 1993).

Despite the expressed need to promote exports, there was lack of commitment in the implementation of the recommended measures. This poor record of implementation of policy measures was partly attributed to policy constraints facing the policy-makers (Bienen, 1990). After the initial round of liberalisation, the government temporarily reversed the reform process and reintroduced import controls for some items. Tariffs were steeply increased on some items with rates over 100 percent in some cases (Swamy, 1994).

During the period 1985–90, a number of institutional and market oriented initiatives were taken to re-orient the economy away from the import substitution strategy to export promotion. These included the export compensation scheme, Manufacturing Under Bond (MUB), and import duty and VAT remission schemes that were intended to improve export producers’ access to imported inputs at world prices. The export compensation scheme was to compensate exporters for government taxes on inputs, while the manufacturing under bond programme was meant to encourage manufacturing for world market. Under the programme, which was open to local and foreign investors, inputs were imported duty-free.

To attract foreign investors into the export sector, an Export Processing Act was passed in 1996 providing for the development of the Export Processing Zones Authority (EPZA). This led to the establishment of the export processing zones in Nairobi, Mombasa, Athi River and Nakuru. Another scheme was initiated in 1991 to promote exports through duty and VAT exemption. The scheme also introduced regulatory changes designed to make investment in bonded factories and export processing zones more attractive.

Impact of Export Promotion Policies

Table 8.5 shows the structure of Kenya’s total exports by broad economic category between 1984 and 1994. While traditional commodity products such as food and beverage continued to dominate over the period accounting for over 50 percent of the total exports there were signs of increasing diversification. The share of the food and beverage products in total exports had declined from 68 percent in 1986 to 52 percent by 1994 while that of fuels and lubricants had gone down by about two-thirds from 19 percent to 7 percent. Meanwhile the shares of industrial supplies and consumer goods categories had, respectively, risen from 15.0 percent to over 26 percent and 3.8 percent to 13.6 percent between 1984 and 1994.
The main export destinations for Kenyan exports continue to be the European Union (EU) and Africa with both accounting for over 70 percent of the total exports between 1985 and 1999. Little or no efforts have been made to penetrate and expand new markets such as the Middle East and Eastern Europe which remained unimportant (Table 8.6). It is, however, notable that by 1990s, Africa was emerging as an increasingly important market for Kenya, absorbing 44.6 percent of the country’s export in 1994 up from 26.1 percent in 1984.

### Table 8.5: Structure of Kenya’s Total Exports by Broad Economic Categories, (Million Pounds), 1984–1994

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
</tr>
<tr>
<td>Food &amp; beverage</td>
<td>467.51</td>
<td>61.9</td>
<td>646.8</td>
<td>67.5</td>
<td>546</td>
<td>59.5</td>
<td>744.1</td>
</tr>
<tr>
<td>Industrial supplies</td>
<td>113.21</td>
<td>15</td>
<td>146.7</td>
<td>15.3</td>
<td>194</td>
<td>21.1</td>
<td>245.6</td>
</tr>
<tr>
<td>Fuel &amp; lubricants</td>
<td>142.19</td>
<td>18.8</td>
<td>106.9</td>
<td>11.2</td>
<td>118</td>
<td>12.9</td>
<td>150.4</td>
</tr>
<tr>
<td>Machinery及其他 capital equipment</td>
<td>2.18</td>
<td>0.3</td>
<td>4.17</td>
<td>0.5</td>
<td>5.61</td>
<td>0.6</td>
<td>6.9</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>1.24</td>
<td>0.1</td>
<td>3.23</td>
<td>0.3</td>
<td>5.34</td>
<td>0.6</td>
<td>2.62</td>
</tr>
<tr>
<td>Consumer goods not classified elsewhere</td>
<td>28.24</td>
<td>3.8</td>
<td>49.95</td>
<td>5.2</td>
<td>47.5</td>
<td>5.2</td>
<td>82.23</td>
</tr>
<tr>
<td>Goods not specified</td>
<td>0.54</td>
<td>0.1</td>
<td>0.29</td>
<td>0.1</td>
<td>0.18</td>
<td>0.01</td>
<td>0.56</td>
</tr>
<tr>
<td>Total</td>
<td>754.81</td>
<td>100</td>
<td>955</td>
<td>100</td>
<td>918</td>
<td>100</td>
<td>1,232</td>
</tr>
</tbody>
</table>


### Table 8.6: Destination and Earnings of Kenya’s Exports (Kenya Million Pounds), 1988–98

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>EEC</td>
<td>453.26</td>
<td>47.6</td>
<td>551.4</td>
<td>44.3</td>
<td>691.3</td>
<td>39.1</td>
<td>1,965.5</td>
</tr>
<tr>
<td>W. Europe</td>
<td>43.64</td>
<td>4.6</td>
<td>52.8</td>
<td>4.2</td>
<td>53.36</td>
<td>3.1</td>
<td>112.77</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>5.97</td>
<td>0.6</td>
<td>19.78</td>
<td>1.6</td>
<td>0.97</td>
<td>0.1</td>
<td>7.05</td>
</tr>
<tr>
<td>USA</td>
<td>48.24</td>
<td>4.9</td>
<td>42.6</td>
<td>3.4</td>
<td>63.29</td>
<td>3.6</td>
<td>146.83</td>
</tr>
<tr>
<td>Canada</td>
<td>8.61</td>
<td>0.9</td>
<td>10.85</td>
<td>0.9</td>
<td>11.49</td>
<td>0.7</td>
<td>28.92</td>
</tr>
<tr>
<td>Africa</td>
<td>243.88</td>
<td>25.6</td>
<td>269.83</td>
<td>21.7</td>
<td>469.5</td>
<td>25.9</td>
<td>1909.1</td>
</tr>
<tr>
<td>Middle East</td>
<td>23.57</td>
<td>2.5</td>
<td>48.25</td>
<td>3.9</td>
<td>50.56</td>
<td>2.9</td>
<td>74.33</td>
</tr>
<tr>
<td>Far East &amp; Australia</td>
<td>76.94</td>
<td>8.1</td>
<td>155.69</td>
<td>12.5</td>
<td>283.3</td>
<td>13.6</td>
<td>484.52</td>
</tr>
<tr>
<td>All other countries</td>
<td>0.75</td>
<td>0.1</td>
<td>1.77</td>
<td>0.1</td>
<td>11.64</td>
<td>0.7</td>
<td>24.17</td>
</tr>
<tr>
<td>Aircraft &amp; ship stores</td>
<td>49.04</td>
<td>5.2</td>
<td>91.04</td>
<td>7.3</td>
<td>153.7</td>
<td>8.8</td>
<td>128.96</td>
</tr>
<tr>
<td>EPZA</td>
<td>5.57</td>
<td>0.13</td>
<td>17.6</td>
<td>0.3</td>
<td>18.2</td>
<td>0.3</td>
<td>11.8</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>1242</td>
<td>100</td>
<td>1742</td>
<td>100</td>
<td>4282.1</td>
</tr>
</tbody>
</table>

* Provisional


Nonetheless, Kenya’s industrial sector remained predominantly inward looking throughout the 1980s and 1990s. A number of factors have constrained the country’s export growth. Firstly the government not only was slow in implementing liberalisation but also did little to put in place effective export promotion policies. Insufficient exchange rate adjustments in the 1980s frustrated import liberalisation while inefficient
fiscal adjustments worked against investment. The end result was a persistent bias against exports despite the announced shift away from import-substitution to an outward-looking export strategy (Wignaraja and Ikiara, 1999). High tariff rates and burdensome administrative procedures contributed in discouraging Kenyan exporters from vigorously pursuing export expansion programmes as manufacturers found it more profitable to produce for the protected domestic market.

Secondly, the government’s institutional and administrative machinery continued to be biased in favour of import substitution, leading to slow and uneven implementation of export-promotion policy reforms. In spite of the fact that policy makers clearly identified policy-related constraints to export growth, nothing much was done to change the situation. While many export promotion policies were regularly announced in various government policy documents, development plans and budget speeches, they were either not implemented at all or were implemented in such a bureaucratic manner that their incentive value became eroded or eliminated altogether. This was partly due to the fact that some of the policy announcements were largely as a response from donor pressure without genuine domestic ownership of the policies.

Lastly, both the public and private sectors exhibited adverse attitudinal stances that worked against a successful push to increase export of manufactures. Despite government policy announcements in favour of exports, exporters were often not given adequate support by the government. Exporters frequently experienced difficulties in obtaining foreign exchange to facilitate trade promotion trips and other activities while their export compensation claims were delayed. The private sector, for its part, was often unwilling to take the steps necessary to raise their competitiveness in international markets (KAM, 1989).

The Structural Adjustment Phase

The beginning of 1990s marked the beginning of sweeping economic and political reforms that included privatisation of parastatals, liberalisation of the financial and energy sectors, price decontrols, and phasing out of import controls. The main thrust of the adjustment programmes was to effect a shift from a highly protected domestic market to a more competitive environment that would facilitate increased use of local resources, outward oriented production policies that would promote employment creation and exports expansion.

However, in spite of the official adoption of economic reforms in the early 1980s, the government did not seriously implement the reforms. In November 1991, the donors froze their quick disbursing aid to Kenya as a result of the slow pace in economic and political reforms. This aggravated the country’s economic crisis and balance of payments deficits. This was to serve as a critical catalyst for radical economic and political reforms soon after, and by end of 1991, the government had introduced Foreign Exchange Certificates (Forex-Cs), which became an important source of foreign exchange to the private sector. This marked an important first step in the liberalisation of Kenya’s foreign exchange market (University of Nairobi and University of Gothenburg, 1984).

The government continued with the reforms and in the 1993/94 budget introduced a number of changes relevant to the manufacturing sector, including further reduction of import duties, restructuring of Value Added Tax (VAT), introduction of an Essential Goods Production Support Programme and increased incentives for the Export Processing Zone (EPZ) enterprises. As part of the policy to reduce government
participation, there was need for privatisation and restriction of government investment to certain aspects of infrastructure and social services. This period of economic adjustments also witnessed increased pressure for reforms in the political system from a single party regime to a more open, accountable and transparent system for efficient management of public affairs.

The introduction of the sweeping economic and political reforms in early 1990s coincided with a particularly difficult period for the country's economy. The period witnessed a sharp decline in major macro-economic performance indicators. The GDP growth rate recorded a negative rate of -0.4 percent between 1991 and 1992, the lowest rate in the post independence period. The per capita GNP fell from US $350 in 1992 to US $270 in 1993 while the real annual growth rate of the manufacturing sector fell from 3.8 percent in 1991 to 1.8 percent. Inflation more than doubled to 46.8 percent from 19.62 percent between 1991 and 1993.

In general, the liberalisation policies that started in 1980 had a number of weaknesses. First, for a long time the country was unable to attain the necessary speed, and the intensity of reform was wanting. The reforms were carried out rather gradually and without full ownership or commitment. The overall protection of the manufacturing sector continued to be high. During the first two phases of liberalisation, implementation moved slowly and intermittently, mainly due to little commitment on the part of policy makers and rampant rent seeking which was rapidly becoming one of the most serious bottlenecks in the country's economic and socio-political development.

Institutions, Politics and the Formulation and Implementation of Industrial Policies in Kenya

This section examines the role of different actors in the formulation and implementation of trade and strategic policies in Kenya focusing particularly on the role of politics and related institutions in the process. A number of questions are posed: What institutions are involved in the industrial policy formulation and implementation in the country? Who are the major actors in the process and what is their relative importance? What role do enterprises and enterprise networks play in policy formulation and implementation? What determines the choice of policies and what role does politics play in this?

Policy Formulation: A Conceptual and Theoretical Framework

Public policy refers to a broad government statement which outlines how a government intends to deal with specific social, political and economic issues. In this case, policy would refer to specific statements, guidelines and pronouncements on trade and industrial development and related issues in the country. The process by which such government statements are arrived at is broadly referred to as policy-making.

There are several theories of public policy making in literature. One of the most popular theories or models is the Rational Comprehensive Model or the Normative Economic Theory. This model assumes that policy decisions are normally arrived at in a rational manner. Policy making, according to this approach, involves the identification of a problem, examination of the various alternatives for dealing with the problem and selecting the best policy package, based on costs and benefits. A second theory of policy making is the so called the Disjointed Incrementation Model. The basic assumption here is that the day-to-day process of policy-making often does not drastically alter existing policies but merely improves on them. There are then other theories like the Mixed
Scanning Model, which combine features of the Rational Comprehensive Model and the Mixed Scanning one.

While the models outlined above are quite useful in explaining steps taken to arrive at various policy options, they are inadequate in as much as they fail to outline how public policy-making is conducted in a wider society to incorporate private individuals, communities, pressure groups, the business sector, professional organisations, the media and other stakeholders. Recent literature on the analytical framework for explaining public policy is dominated by theories of new political economy and new institutionalism. Central to these theories is the fact that different groups will generally tend to push for their special interests in policy to be enacted by the government. Seen in this way, policy formulation and implementation is a process that is political at every stage.

A view that is gaining increasing currency in Kenya today is that economic policies, irrespective of their “soundness” do not operate in a vacuum, but take place within a setting of political institutions. According to this view, there are no pure economic decisions based on the market. Instead, public policy “is the product of interested actions of private parties and individuals who bring their resources to bear upon politically ambitious policies and the political process” (Bates, 1989). The immediate inference from this is that national industrial development is greatly influenced by the type of government in place, the policies it pursues and its commitment to their implementation. The character of the state as reflected in the legal and institutional framework has thus a strong bearing on the underlying economic model of development and in general on the state of the economy.

Reviews of economic policy-making in developing countries, and in Sub-Saharan Africa in particular, point to the dominance of the executive or the presidency in the policy formulation process. Consequently, effective participation of the other state institutions, mainly the legislature, judiciary and the political parties in the policy-making process is usually compromised. The contributions of research institutions, the private sector and the civil society are often either ignored or given inadequate attention and priority.

### Trade and Industrial Policy Formulation in Kenya

Trade and industrial policies in Kenya are the outcome of numerous processes and actions of a number of actors. Among the major players are the legislature, judiciary, the executive and its agencies, various special-interest lobbies, professionals, private sector entrepreneurs, bilateral donors and multilateral organisations and a wide range of government, non-governmental and civil society institutions.

The Ministry of Planning and National Development, which is charged with the overall national planning, plays a leading role in the initiation of policies and programmes, usually in consultation with the relevant line ministries. Through the Five-year Development Plans, the Ministry of Planning and National Development establishes the broad policy framework, objectives, strategies and targets which are subsequently pursued and implemented by various line ministries, in this case, the Ministry of Trade and Industry. The annual budget, prepared by the Ministry of Finance is also an important instrument in the country’s policy formulation process. In broad terms, the national budgets are expected to translate the national development goals and strategies into annual activities for purposes of implementation by the relevant public and private sector institutions.
Most of Kenya's trade and industrial policies have been influenced by the Ministries of Planning and National Development, Finance, Commerce and Industry and the Office of the President. These are the government institutions that are either directly involved or are in one way or the other able to influence the direction of policy in industry in Kenya. These institutions also play an important role in policy implementation.

A Stifling Presidency

The presidency has since independence been a key factor in the determination of the nature and direction of policies in the country. This is because the entire post-independence period has been characterised by a gradual concentration of power and authority in the presidency leading to a situation where there is little autonomy for ministers, permanent secretaries and other organs of the government to make decisions without approval from the Office of the President (Gerzel, 1970; Leys, Nyong'o 1989; Okumu and Holmquist, 1984; Barkan, 1984). This process has taken place through numerous constitutional amendments that have shifted power and authority from parliament to the presidency. The erosion of parliamentary power and the enhancement of the executive and the presidency have had serious implications on policy formulation and implementation in Kenya (Odhiambo-Mbai, 1998).

Although the post-independence state in Kenya has been characterised by the concentration of power and authority in the presidency, it is possible to isolate the phases of Kenya's industrialisation in which the presidency has had more impact on industrial policy design and implementation. At independence, the new African government came to the realisation that a large proportion of Kenya's industry and commerce was in the hands of foreigners and non-indigenous actors. The Africanization of industry and commerce thus became an important goal fully supported by the government. The president was one of the driving forces behind this policy. Besides the 1967 Licensing Act which allowed and encouraged multinational corporations (MNCs) to operate in the country, the Kenyatta regime actively encouraged the establishment of parastatal organisations specifically to create financial and other forms of infrastructure to enable small indigenous entrepreneurs to enter into manufacturing and other commercial activities. Some of the parastatal institutions created or strengthened for purposes of promoting industrialisation were the Industrial and Commercial Development Corporation (ICDC), the Development Finance Company of Kenya (DFCK), the Kenya Industrial Estates (KIE) and the Industrial Development Bank (IDB).

The area in which the presidency in Kenya seems to exert more influence is in the policy implementation. An overwhelming 93 percent of the heads of 127 firms interviewed in this study identified the presidency as an important determinant of industrial policy implementation in Kenya. The dominant view is that the presidency, both in the Kenyatta and Moi regimes, has tended to interfere with policy implementation for political reasons. The actions of the presidency in most cases have been to cater for socio-economic and political interests of groups who in return offer support in their quests to maintain power. The constituencies or interests represented by political clients have ranged from ethnic, religious, professional, business and sometimes regional. The country's chief executive in an attempt to cultivate and maintain political support among various constituencies is often tempted to respond positively to the demands of his clients. The interference with official public policy by the presidency, has been one of the main causes of the discrepancy between official policy statements and their implementation, (Odhiambo-Mbai, 1998). Some of the motives, that have tended to influence government industrial
policy include equitable regional distribution of industries, generation of employment opportunities, export earnings and ownership structure.

There was virtual consensus among the policy makers interviewed that due to the gradual increase in political and economic powers of the institution of the presidency, the Office of the President has over time emerged as a crucial institution in both the initiation and implementation of trade, industrial and other policies in the country particularly in the 1980s and 1990s.

Reduced Role of Parliament

The usurpation of power by the presidency, which has characterised most of Kenya's post-independence period, has had one major result: It has significantly eroded the powers and the authority of parliament in policy formulation and implementation. The new style government left parliament, in the views of many analysts, largely as a rubber stamping institution. This was particularly pronounced in the era of one-party rule. Typical features of this period were the absence of serious policy debates and lack of capacity and commitment to monitor policy implementation. There was thus little or no feedback mechanism making parliament's impact on the design and implementation of policies including trade and industrial policies minimal. However, with the introduction of the multi-party politics in 1992, there were signs by the end of the 1990s of the country's parliament starting to re-assert itself in the country's policy-making process.

Beyond the institution of parliament, certain individual politicians close to the president have often significantly influenced certain industrial policies. This has been the case particularly with industrial location policies that have in most cases been influenced by factors other than pure economic considerations. Political interference by individual politicians or by political oriented groups has been regarded as a major hindrance to industrial policy implementation in Kenya. Results of the survey conducted for this study indicate that over 70 percent of the firms interviewed considered political interference as one of the main obstacles to effective design and implementation of trade and industrial policies in Kenya.

External Influence

Both bilateral and multilateral donors also influence the process of policy making. This is mainly through conditionalities that these donors impose while giving out financial assistance. Reforms in Kenya, which have been part of SAPs, are almost wholly donor-driven. The export promotion strategy that the government implemented in place of the import substitution strategy and which has also been part of the SAPs has also a sizeable donor input. Unfortunately, the other actors namely the lobby groups, manufacturers' associations, professional associations and chamber of commerce have not singly or jointly had any significant input into the formulation of industrial policies in Kenya.

While domestic institutions are important in the policy formulation and implementation process, external influence has been much more crucial in some of the country's trade and industrial policies, through bilateral and multilateral donor institutions. Some of the international institutions which have had a major impact in Kenya's trade and industrial policy process in most of the post-independence period include the World Bank, the International Monetary Fund (IMF) and the United Nations Industrial Development Organisation (UNIDO). The country's trade and industrial policies and reforms in the 1980s, and 1990s under the SAPs, have been heavily dominated by multilateral donor
institutions, notably the World Bank and the IMF. This domination was much more than had been the case previously.

**Weaknesses in the Policy Formulation Process**

Interviews with retired and currently serving senior policy makers in the country as well as private sector professional and business executives reveal the following weaknesses in Kenya’s policy formulation process. First, the process has not been adequately consultative even with some of the key stakeholders. Government officials and donor representatives have dominated the initiation of trade and industrial policies, with the private sector playing no or only a minimal role. The country’s blueprint to transform Kenya into a Newly Industrialising Country (NIC) by the year 2020 was, for instance, finalised without any input from the Kenya Association of Manufactures (KAM) according to the organisation’s officials. KAM was only invited to participate in the seminar when this important document was being launched.

The failure to involve stakeholders in the policy formulation process was attributed to mutual suspicion between the private and public sector officials and institutions. The problem was sometimes due to the passive nature of the Kenyan private sector which has not been active in coming up with new ideas. The sector had, over time, become too dependent on the government, passively following the government in most cases. Indications are that this is gradually changing and that the private sector is increasingly asserting itself.

The low involvement of the private sector and civil society in policy formulation was due to the long period of single-party rule in the country that created a culture of fear and passiveness in national policy issues. The creation of a more competitive political environment following the re-introduction of multi-party politics is gradually changing the scene as private sector and civil society associations and lobby groups find more political space to agitate for issues of interest to them. Kenya’s trade and industrial policies have also been greatly influenced by external factors, often seriously diluting the local contribution.

Those interviewed indicated that there were more home-grown policies in the 1960s and 1970s compared with the 1980s and 1990s. The import substitution industrialisation strategy which dominated the first two decades of Kenya’s post-independence period, for instance, was largely formulated by the government although this was then the conventional industrialisation strategy in most of the developing countries.

Poor implementation of policies has been one of the main weaknesses in the country’s economic policy process. This is due to a number of factors including too much concentration of decision-making at the Office of the President, corruption and mismanagement of national resources, inadequate supervision of the public sector workers, inadequate checks and balances and weak reward and punishment mechanisms in the public service.

**Assessing Kenya’s Trade and Industrial Policies**

The broad perception of the Kenyan manufacturers is that the government’s commitment to industrialisation has been doubtful or at best weak. Industrialists operating firms of all sizes, large, middle, small and micro indicated that the government had consistently exhibited lack of clarity and weakness in designing policy as well as in its
implementation. These weaknesses in policy formulation and implementation were attributed to a number of factors including a political leadership which failed to create a conducive environment for policy formulation and implementation, a general breakdown of policy making and implementing institutions especially in the 1980s and 1990s, the excessive powers of the presidency which emasculated most of the other institutions and the failure to focus on long-term national goals due to excessive pre-occupation with short term and sometimes parochial considerations, corruption and mismanagement.

Determinants of Small and Micro Enterprise Policy

A variety of actors including public and private sector institutions as well as bilateral and multilateral institutions have played a significant role in shaping the design of small and micro enterprise policy in Kenya. A major shift of interest towards the so-called informal sector took place after the 1972 ILO report which highlighted the role of the sector in the country’s economic development process. Since then the government, NGOs, and other intended institutions like churches have actively engaged in activities and programmes aimed at the promotion of small and micro enterprises, which are currently regarded as crucial for the country's strategic policies to alleviate poverty and to generate employment.

A wide range of policy interventions have been formulated and sometimes implemented in the last 30 years. The scope of intervention on SMEs have over time shifted into infrastructure, technology, information, financial and institutional reforms. Today, some semblance of macro policy seems to be emerging, with policy seeking to address meta-level issues such as regulation and social organisation.

All in all, the hand of the government has been strong in intervention and guiding the path of policy formulation for small-scale enterprises. Its direct role in implementation has however been sometimes limited. A number of government institutions has been involved in guiding the policy building process for SMEs in Kenya. These include the Small and Micro Enterprise Department in the Ministry for National Planning and Development (MNDP). Its role has been largely perceived as policy development for the sector while the Ministry of Science, Research and Technology took charge of technical training issues related to technology development. Under the ministry, there are a number of training and research institutions, that have the meso-wide tasks of training and technology development for the sector.

After several years of marginalisation of SMEs in the mainstream policy, the process of building a framework for this sector has been slow and confused by both donor interests and the multiple roles of the sector. Donors’ interests have been both multi-faceted and multi-institutional. An inadequate government resource base has led to and encouraged donor dependence. Donor intervention has, however, also been too diversified and uncoordinated, hampering development of an effective small and micro enterprise policy for industrialisation in spite of its widely acknowledged contribution, especially in terms of employment creation and national poverty alleviation efforts.

Macro-Economic Effects on Policy Implementation

Some of the factors that have influenced the government’s capacity to influence policy design have also limited its ability to implement formulated policies. Macro economic instability and the erosion of local resource mobilisation capacity have, for instance, limited the ability of the government to implement policy. Most industrialisation
programmes are today financed largely by specific bilateral and specific multi-lateral grant or debt arrangements, which substantively reduce the governments’ role in both policy design and implementation.

Implementing capacity and effectiveness of support institutions

Some of the factors that have influenced the level of policy implementation in the country are the effectiveness and the capacity of key institutions such as the Ministry of Trade and Industry, Export Processing Zone Authority (EPZA), Investment Promotion Centre (IPC), Customs Department, ports facilities, Customs and Excise Department, import and export banks, other credit institutions and licensing authorities.

The capacity elements take into account the human resource base as well as capital support base in terms of buildings, and other facilities for industrial policy implementing institutions. Generally, the Kenyan civil service training and employment schemes are well established and capable of effectively addressing the national human resource requirements. It is the political elements relating to incentives and appointments for top staff positions that usually limit the ability of these institutions to function effectively.

Promotion of staff based on ethnic considerations, political patronage and endemic corruption have had adverse effects in reducing professionalism in a large number of these institutions, seriously impairing the country’s policy implement.

The Role of the Government in Policy Design and Implementation

Political considerations play a crucial role in Kenya’s policy process. The country’s wide network of patronage is used extensively to modify, delay or stop the implementation of any policy programmes that certain key actors in the patron-client relations might consider to affect negatively the interest of their respective constituencies.

Political intervention has been more pronounced in areas of resource allocation, where rent seeking is prevalent. This has particularly been the case in industrial location policy where politicians have influenced industrial location purely to satisfy personal, group and regional interests. There are also many instances in which political influence has been behind delays in execution of projects to enable certain vested interests to reap financial benefits from inflated project costs.

Industrialists perceive the government to be weak both in the design and implementation of trade and industrial policies. This weakness in policy formulation and implementation was attributed to corruption and rent seeking, a political leadership which did not create a conducive environment for policy formulation and implementation and a general breakdown of the policy making and implementation institutions especially in the 1980s and 1990s. The excessive powers of the presidency, which had emasculated the influence of most of the other institutions, was generally regarded as one of the key factors behind the decline in the government’s capacity to design and implement policies.

References


Republic of Kenya, Development Plan, (various issues) (Government Printer, Nairobi).


9. ZIMBABWE: ECONOMIC POLICY-MAKING AND IMPLEMENTATION: A STUDY OF STRATEGIC TRADE AND SELECTIVE INDUSTRIAL POLICIES

Benson Zwizwai, Admore Kambudzi and Bonface Mauwa

Introduction

The post independence government of Zimbabwe inherited a fairly well diversified economy with an industrial base stronger than that of most Sub-Saharan African countries north of the Limpopo River. In pursuing its development objectives, the government developed several plans: the Transitional National Development Plan (TNDP), the First Five Year National Development Plan (FFYNDP), the Second Five Year National Development Plan (SFYNDP), the Economic Structural Adjustment Program (ESAP), the Zimbabwe Program for Economic and Social Transformation (ZIMPREST) and, more recently, the Zimbabwe Millennium Economic Recovery Programme. Most of the objectives of these plans were never realized and in almost all cases, the targets, particularly growth targets, were never met. Some aspects of the plans were never implemented and an outstanding example is an aspect relating to science and technology policy for industrial development that was first mentioned in 1981. The Second Five Year National Development Plan was sidelined in favour of ESAP.

The main objectives of drawing up development plans was stated in the first government policy document, Growth with Equity, and that objective remains the same to date: to “achieve sustainable high rate of economic growth and speedy development in order to raise incomes and standards of living of the people” (GoZ, 1991). The structural adjustment programme introduced in 1991 was aimed at restoring macro-economic stability through reduced government expenditure, trade liberalization and deregulation. On the whole, ESAP resulted in higher levels of inflation and high interest rates that affected investment. The level of unemployment increased as external competition forced some firms to close down. Trade liberalization, in particular the abolition of the foreign exchange allocation system, was implemented at a pace faster than scheduled. This exposed domestic companies to international competition before they were prepared for it: opportunity to modernize their plants. Tariffs on capital equipment remained high. Fiscal reforms, especially reduction of government expenditure, proceeded much more slowly and hence the budget deficit remained high, throughout the ESAP period.

In the past three years, the economic situation in the country has deteriorated, especially since the devaluation of the Zimbabwe dollar in November 1997 and again in August 1998. The cost of living has been on the increase, resulting in many social disturbances, such as strikes and consumer boycotts. These have had a negative impact on the country’s rating by the international community.

The country’s policy-making environment appears to be cascading into a high congestion grid of irreconcilable demands. The demands are precipitated by:

- landless peasants who wanted land (commercial farms) by yesterday;
school leavers, discharged at the rate of 300,000 graduates per annum who cannot be absorbed in formal sector employment;

ex-combatants who, besides receiving gratuities of Z$50,000 need higher monthly earnings, pension, business capital, social security and land;

increasing prices of essential products and services;

industrial lay-offs and closures that reflect increasing de-industrialization trends; and

farmers being in disarray owing to the haphazard land reform process.

It is quite clear that industrial development in Zimbabwe has not proceeded according to government or national expectations. This may be explained by the fact that although the plans were medium term, in essence they tended to be short-term macro-economic management tools. The annual budgets, the means for translating the national plans into actual development programmes, were more influenced by the need to respond to short-term shocks. Development planning became more of a crisis management process without a guiding long-term vision.

There were several examples of sudden policy changes that negated previously adopted official positions. A clear example is the case of the Second Five Year National Development Plan, which was abandoned in favour of the Structural Adjustment Programme. In the area of land reform the official policy changed from one of land acquisition from large commercial farmers with compensation to that of land acquisition with no compensation, in response to increasing pressure from peasants and ex-combatants who were demanding agricultural land.

In the area of science and technology the government still did not have an S&T policy in spite of pointing out to the need to do so in the Growth with Equity Policy Statement, the Transitional Development Plan and the Second Five Year National Development Plan. The country adopted an industrial policy only in March 1999, some 19 years after independence. Still, the industrial policy is a general framework without programmes or details on how the industrialization drive is to be implemented.

There appear to be two issues that to a large extent explain why Zimbabwe is in serious economic problems:

Policies are formulated but are only partially implemented.

The need to formulate certain policies is recognized but policies are not formulated.

It is therefore necessary to understand the process of policy formulation and implementation and the forces that determine this in Zimbabwe.

This chapter characterizes the process of economic policy making and implementation in Zimbabwe, focusing on trade and industrial policies. Specifically the study investigates the mechanisms through which industrial and trade policies are initiated and adopted. This involves an examination of the institutional relations among the various state organs and other stakeholders, and the roles that these play in the process of policy formulation and implementation. Further, the study examines the capacity of both the government and the private sector to formulate and implement trade and industrial policies and strategies for national development. The study also evaluates the strength and constraints faced by industrial and trade support institutions such as the Zimbabwe Investment Center (ZIC), Zimtrade, Industrial Development Corporation (IDC), Export Processing Zone Authority (EPZA) and research and development (R&D) institutes.
The study examines the extent to which there is national consensus among the major stakeholders — policy-makers, industrialists and labour unions — with regard to industrialization and development strategies and the appropriate policies to achieve these.

As Charles Soludo points out the following key variables affect policy formulation:

- the ideology of the ruling party;
- the dominant development theory;
- the objective conditions of the economy;
- the preferences and expertise of technocrats; and
- the external pressure from donors and foreign technical and policy advisers.

The study examines how these variables have affected policy choice and implementation, and how this has changed over time.

Finally, the study recommends reforms and changes in the policy process that are necessary to facilitate the design and implementation of effective and credible industrialization and technology strategy.

**Industrial and trade policies in pre- and post-independent Zimbabwe**

There are two broad categories of trade and industrial development policies and strategies that have been pursued in Zimbabwe to date. Up to 1990, Zimbabwe developed within the framework of an import substitution industrial and trade policy regime (ISI) characterized by a highly regulated economic environment. From 1990, the country adopted an economic structural adjustment programme which heralded the change from ISI to a liberalized export-oriented industrial development strategy.

The ISI period can be broken down into the pre-independence era (prior to 1980) and the post independent period of 1980 to 1990. Generally, similar industrial and trade policies were pursued during these periods but with modifications to reflect the different ideological positions of the pre-and post independence governments.

**Pre-independence Policies**

**Infancy of Industry, Technology and Trade in Rhodesia (1930–1960)**

Rhodesia acquired responsible government status in 1923, following an all-white referendum that rejected a proposed union with South Africa. Since then, Rhodesia behaved more as a “state” than a British colony. It only ran short of international recognition through to independence in 1980.

Unlike in South Africa, and to some extent in Zambia, where mining provided the base for industrial drive, commercial agriculture provided the take-off base for industrial and technological development in colonial Rhodesia. Since the establishment of the colony in 1890, following an abortive mineral prospecting effort, agriculture became a priority on the colonial agenda. In pursuit of this agenda, the government put in place legislation depriving the Black majority of land. The legislation included the following:

- the 1930 Land Apportionment Act which legalized the forced dispossession of land from indigenous inhabitants to create space for White settler commercial agricultural production;
- the 1958 Land Husbandry Act and the 1962 Land Tenure Act, both of which consolidated the White settler political and economic base vis-à-vis the Black majority; and,
- the 1956 Law and Order Maintenance Act which created a legal umbrella under which the police and the army dealt expeditiously with any dissent.

By 1950, the best arable land was in the hands of White commercial farmers supported by an infrastructure including dams, boreholes, electricity and markets. At independence, white commercial agriculture was highly developed and diversified.

Internal self-sufficiency was the principle that featured in Rhodesian policy-making, while an exclusive white stakeholder approach to policy was recognized. The first generation of industries were tailored to meeting local input needs — agricultural implements, fertilizers, pesticides, agro-chemicals, as well as basic consumer goods such as mealie-meal, soap, edible oil, bread, flour and beer. Heavy industry began to take shape in the 1950s, including iron and steel, structural engineering, agricultural machinery and sugar refining. Then followed light industrial ventures geared to the production of components and spares. However, defense industries were not rigorously constructed, as was the case in South Africa due to constraints in expertise and capital.

**Industrial and Trade Policy During UDI**

Ian Smith in 1963 took over the leadership of the Rhodesian Front that was propelled by pro-independence White politicians and farmers. In October 1965, Smith announced the Unilateral Declaration of Independence (UDI) of Rhodesia. The Rhodesia Front, by engaging in UDI, counted on a vibrant agro-industrial and manufacturing economy built and designed to provide for shortfalls that could arise due to anti-UDI international sanctions.

The United Nations imposed economic sanctions against Rhodesia in 1966 in response to UDI the government responded by implementing state controls and interventionist policies, covering the major economic sectors of industry, agriculture, mining and services. In trade and industrial policies, the government imposed quantitative restrictions on imports and an administered foreign exchange allocation system, in addition to investment controls, all aimed at promoting the development of import substitutes. The government also used the Industrial Development Corporation (IDC) to spearhead industrial development by venturing into “green pasture” investment projects that were too risky for the private sector to enter into. Those projects were sold to the private sector after being proved to be viable, and the proceeds used to start other ventures.

The colonial government in Rhodesia regarded the industrial sector as vital to economic development (A. Whiteside, 1989). This position could be viewed as rational in three ways. Firstly, the industrial sector had the potential to absorb a larger portion of the labour force, far above the absorptive capacities of the extractive sectors such as agriculture and mining. Secondly, the industrial sector had more room to develop and expand in the long-term, unlike agriculture or mining where the potential to expand is often limited. Thirdly, given appropriate technologies, skills and incentives, industry is capable of value addition on export products.

Thus the Rhodesian government viewed the industrial sector as the engine of growth and development. The political motives consisted of the creation of a stable government capable of building and managing a modern economy, the projection of Rhodesia as a model political economy, and the domination of the black-ruled states around and to the
north (J. Arrighi and J. Saul, 1967: pp 42-67). The economic motives were of a two-fold character: firstly, the reduction of external dependence on imports of industrial products and, secondly, to increase the size of the agro-industrial and manufacturing sectors and to expand output. South Africa was viewed as the model industrial guide.

The government fixed goals which were popular with the business community, and which they later helped to achieve. Government industrial and trade policies were entrepreneur-friendly. To create jobs and competitive goods, the government looked up to industrialists and farmers.

The government provided incentives to domestic producers who could develop the capacity to produce for certain needs from within. For instance, the foreign exchange regulation regime was so liberal (A. White, 1989:4) only the industrial efforts of the entrepreneur justified the allocation. Racial and class privilege were guaranteed through a network of legislation that confined the non-White populations outside the mainstream economy, i.e. Land Apportionment Act 1930, Land Husbandry Act, 1956, Land Tenure Act, 1968. At the same time, the protection of the domestic market cushioned the industrialists against foreign competition. This practice, however, eventually undermined qualitative industrial productivity. Furthermore, an array of infrastructure, both physical and productive, were implanted: electricity, dams, telephones, roads, rail services, serviced industrial land, efficient and cheaper transport to and from coastal ports on the Indian Ocean, as well as an efficient, well maintained internal transport system, thanks to the layout of the internal rail system between 1894 and 1917 connecting future major mining, agricultural and industrial centres. From the onset, railways provided prime locomotion in the economy.

The investment regulations and foreign exchange allocation mechanism were used to prevent duplication of investment by barring entrepreneurs wishing to start new firms that would produce goods already in domestic production. This contributed to the high degree of concentration characterizing Zimbabwean industry today. In addition, imports of goods that competed with domestic production were not permitted. As a result, the 1960s witnessed the diversification of both the industrial sector (textiles, fuels, mineral processing, etc) and the economy at large (a vast array of commercial agriculture, forestry and export processing activities).

The Black majority were excluded from mainstream economic activities through land policies that condemned them to the most unproductive areas. Africans were therefore forced to be a cheap pool of labour for industry, commercial agriculture and the mining.

**Trade Policy: Capturing Close Markets**

Regional processes largely influenced trade policy in the pre-independence period especially in the 1950s and 1960s. In addition, the process of settler colonisation from South Africa at the end of the 19th century, funded by the British South Africa Company (BSAP), shaped the trade regime. Rhodesia and South Africa geared up as trade partners and as industrial suppliers for southern and central Africa. The economic boom fuelled by gold and diamond mining as well as rapid industrial build up made South Africa the first industrial supplier by 1950. Large family business conglomerates grew — De Beers, Renne Grinaker and Oppenheimer. South Africa offered the largest market, given its huge urban population, and large industrial sector. Thus, in the 1960s, negotiations began between the two countries to have a trade agreement. In 1964 a “Preferential Trade Agreement” was signed, covering a range of agricultural, semi-fashioned and industrial
products, especially those that Rhodesia could have on the South African market. The
government also carved out another market outlet in Botswana, which remained the
second largest close trading partner, particularly long after independence. In a study of
Botswana’s economy, I. Martin observed that “more than half of all regional trade with
Africa (excluding South Africa) is with Zimbabwe” (I. Martin 19).

The short-lived Federation of Rhodesia and Nyasaland (1953–1963), was exploited by
the government to carve out yet another closer market. Zambia and Malawi, plus Zaire,
all became captive markets. In fact, by 1964, Rhodesian industry enjoyed unbridled
market access in central Africa. And had it not been for the internal racial policies and the
political exclusion of Blacks, which African states in the north abhorred, Rhodesia could
have captured the entire African market south of the Sahara.

The pre-independence trade policy can be summed up as a “trust and sell to thy
neighbour” regime. Yet the domestic market remained fairly protected against goods
from outside. Nonetheless, the choice to trade around within the region was a pragmatic
one. This is the trade policy that post-independent Zimbabwe improved upon, with a
tendency to diversify to wide-ranging overseas markets for example, eastern Europe and
Asia.

The Post-Independence Period
The 1980 independence elections gave a landslide victory to ZANU-PF, led by R.G.
Mugabe. The post-independence period’s policy environment had a different climate:

- peace was restored in the country;
- economic sanctions were lifted;
- the country was re-admitted to the international community;
- the disadvantaged Black majority developed massive expectations, and these were
  met with politicized promises;
- the new political captains resolved to uproot the vibrant capitalist economy, and
  constitute an egalitarian socialist economy (in real terms, the capitalist economy
  stayed intact, though less dynamic, since 1980); and
- labour and women movements aligned to the ruling party cropped up.

Absence of Articulate Industrial Policy
It could be fair to say that post-independence Zimbabwe (up to about 1999) knew the
measures towards industries but not industrial development policies. The latter are not
evident in the successive policy framework — the Transitional National Development
Plan, Growth-With-Equity, and Five Year National Development Plan (1984/85–
1989/90). While the FFYNDP recognised the important role of industrialisation to
economic development and employment creation, it failed to put in place the necessary
measures to ensure that industrialisation took place. Industrial emphasis is not laid in the
plans underlying economic structural adjustment since 1990 — ESAP 1990–1995;
ZIMPREST — Zimbabwe Programme of Economic and Social Transformation 1996–
2000. Economic policy-making and implementation left industrial rehabilitation
expansion and growth in limbo, with the exception of the symbolic “growth points”
launched as rural development centres in the mid-1980s. Even then, none of these
“points” have become significant industrial ventures; they have been a proliferation of
retail outlets, butcheries, coffin shops, grinding mills, beer halls and horticultural shelves.
Setting out the Priorities: Doom of Industry

The government was suspicious of White business owners, fearing economic sabotage or the creation of artificial shortages. Consequently, the government's priorities in industry targeted ownership and not enterprise creation. National economic security became the main pre-occupation. Rather than develop industry, the government's main policy focus was penetration and control through so-called "commanding heights of the economy." Parastatals were the main instruments for effecting this penetration and control. The takeover bids did not go well with most private entrepreneurs. In spite of this, the Five-Year Plan (1985–1989/90) stressed the need for government control of strategic enterprises. In the plan, the government made the control of strategic sectors a must, and relegated foreign investment simply to areas of shortfalls in skills and capital. Where the Rhodesian government had sought a closer marriage with international firms, the Zimbabwean government sought a quick divorce or some other suitable partnership.

The commitment to socialism, without a socialist owned and controlled economic base had a disruptive impact. Industry, commerce, banking, insurance and agriculture remained firmly within the capitalist ethic, albeit with little expansion in some sectors over the successive years of independence. Business remained jittery and doubtful about the future ideological thrust of the government.

The primary mover of early national policies, Growth-With-Equity, grossly favoured the expansion of social services, rehabilitation and re-distribution of land to landless peasants. There were barely major economic goals in Growth-With-Equity in respect of new, productive investments. Finally, the social and economic measures taken since 1980 triggered off an incremental budget deficit, galloping inflation, and declining foreign exchange allocations.

The falling foreign exchange reserves in the country, coupled with an under-performing economy, high unemployment and de-industrialisation trends, compelled the government to seek relief in internal borrowing from IMF, donors, commodity aid programmes, foreign grants and loans. This way, the recipe for IMF and donor intervention was created and, since 1990, the recipe was tasted under the Economic Structural Adjustment Programme (ESAP).

The absence of any rapport with the private sector that existed in UDI, led to a situation where the bureaucracy had become a major obstacle to the running of business. The two specific areas quoted were price controls and labour regulations, particularly those relating to security of employment. Company management time and effort was wasted in wrestling with bureaucracy in the sourcing of foreign exchange, investment approvals and in dealing with labour regulations so that these controls became the major impediment to the efficient running of business. The price control system posed problems for the government as well as the business sector. For the government, problems were in enforcing control and dealing with huge administrative costs, large administrative work in determining prices under various types of price control formulae. For the business sector, problems were in approvals that took too long to be granted, and in most cases the price increases granted were less than those applied for by the companies. With respect to labour regulations, this had the effect of making labour a fixed cost of production, and it restricted management’s control in labour matters. Employers therefore responded by looking for means of substituting capital for labour, an approach that militated against the employment creation objectives of the government.
Trade Policy: Search for Diversity

However, in the area of trade policy, government made strides in increasing the range of trade partners.

Zimbabwe inherited a trade policy linked on exports to Zambia, South Africa, Malawi and Botswana. The re-entry into the international community opened avenues to new markets. The country immediately became a member of the Southern African Development Co-ordination Conference (SADCC), with prospects of a region-wide market. It also became a member of the Lome Convention, and obtained preferential entry for agro-exports in the European Economic Community markets. Further, it joined the Preferential Trade Area, accessing a closer but extra-regional market in Southern and East Africa. In addition, the government negotiated barter-type trade agreements with a number of socialist countries — North Korea, former Yugoslavia, Hungary, Cuba and China, among others.

The post-independence trade policy, evidently, did not seek world market penetration for industrial produce. Instead, the trade policy thrust sought three things:

• accessible markets for agricultural raw materials and products;
• preferential treatment in markets where quality and competition would be obstacles to surmount, given the domestic base which was still short of major skills, capital and technology, and,
• the publicity and attraction of foreign investment.

To achieve this, more foreign embassy missions were launched to provide publicity, and about 14 had been set up by 1983. There are now approximately 34 and pressure has been mounting to cut costs by limiting diplomatic missions to key economic interest countries.

There is no doubt that the Government reinvigorated the trade policy, thereby diversifying outside markets. However, Zimbabwe tightened its hold on the regional market.

It must be noted that Zimbabwe has little leverage to press for reciprocal markets in other countries, especially in developed countries. Between 1992 and 1998, the Government made vigorous attempts to re-negotiate and renew the 1964 Trade Agreement with South Africa. The negotiations have been lengthy and inconclusive. The problem with regional trade is the common nature of the products available.

Import Substitution in Post Independence Zimbabwe

The post-independence government continued to implement ISI policies but in the framework of a socialist ideology that aimed at reducing income inequalities in an attempt to address the non-egalitarian nature of past development policies. Import substitution industrial development after independence occurred at a slower pace compared to the pre-independence era partly because the shallow phase of ISI, which involved consumer product projects, had been exhausted. Further ISI opportunities lay in the “deeper” phase that required huge capital outlays, greater technological capabilities and detailed economic, financial and technical feasibility studies.

The post-independence government introduced some changes in the foreign exchange allocation mechanisms, aimed at promoting what was termed as the emergent business persons (basically indigenous entrepreneurs), in line with the new government’s objectives of creating opportunities for Black Zimbabweans who had been discriminated
against by the previous government. Unfortunately, the emergent businesspersons who received import licenses remained merchants in the import business, aiming at benefiting from foreign exchange scarcity rent without using the profits to diversify and engage in productive economic activities. Some actually sold the import licenses to larger companies at higher profits, in contravention of the regulations and laws of the country. These were a class of "brief case" business persons, most of whom engaged in conspicuous consumption, only to become bankrupt after abolishing of foreign currency rationing.

During the ISI of post-independence, government also promoted exports through such schemes as the export revolving fund, the export retention scheme and the incremental export bonus scheme. There was therefore a period during which ISI was encouraged under a protective trade regime and, at the same time, exports were encouraged through the foreign exchange allocation system.

In 1990, government abandoned the ISI strategy and the socialist ideology, in favour of an open market economy, by adopting the World Bank-sponsored economic structural adjustment program (ESAP). The decision to make this dramatic policy change came about because of the deep economic problems that the country was facing in the second half of the 1980s. The country was experiencing stagnant economic growth, low levels of investment and export growth, a high budget deficit and inflation, growing unemployment and a decay of infrastructure.

The root causes of these problems, among others, lay in the egalitarian policies pursued by the post-independence government of Zimbabwe, particularly high social expenditure. After 1980, the government embarked on a programme to reconstruct the economic infrastructure that had been destroyed during the war of liberation. The government also went into a massive programme to expand the educational system and health services particularly in the rural areas. Primary school enrolment rose from 1.2 million in 1980 to 2.2 million in 1989, while enrolment in secondary school rose from 74,000 to 671,000 during the same period. In addition, the government introduced free and compulsory primary education in addition to free health care for all earning less than Z$ 400.00 per month. This imposed a heavy burden on the government budget at a time the economy was not expanding and the prices of primary commodities were declining on the international market. The heavy expenditure on education and health was not matched by attempts to increase the productive capacity of the economy.

The major policies pursued with adoption of ESAP included trade liberalisation, monetary policy and financial sector reforms, economic deregulation, agricultural marketing reforms, public enterprise reforms and fiscal policy reforms.

The government of Zimbabwe spelt out the objectives of ESAP as follows:

The fundamental objective of economic reform in Zimbabwe is to improve living conditions especially for the poorest groups. This means increasing real incomes and lowering unemployment, by generating sustained higher economic growth. In order to achieve this primary objective, the economy needs to be transformed to make it more competitive and productive.

The major macro-economic target of ESAP were to:

- achieve a five percent annual growth rate in GDP between 1991 and 1995;
- raise savings to 25 percent of GDP;
- raise investment to 25 percent of GDP;
• reduce inflation from 17.7 percent to 10 percent by 1995;
• reduce budget deficit from over 10 percent to five percent of GDP by 1995; and
• achieve export growth of nine percent per annum.

The fundamental objective of introducing economic reforms has not been met. According to the Central Statistical Office (1998) the incidence of poverty in Zimbabwe increased from 40.4 percent in 1990/91 to 63.3 percent by 1995/96. The situation has generally worsened since.

The macro-economic targets set were not met. Instead of the budget deficit falling from 10.4 percent of GDP to five percent by 1994/95, the deficit had actually increased to 13.4 percent of GDP. Inflation peaked at 42.1 percent in 1992 before falling to 22.5 percent in 1995 against a target of 10 percent. By the year 2000, the rate of inflation was above 60 percent. The manufacturing sector has been shrinking and its contribution towards national output declined from 24 percent prior to economic reforms to about 17 percent. Employment declined in key sectors such as manufacturing, construction, education, health and mining.

The burden of adjustment under ESAP was borne largely by the compression of wages and personal consumption expenditures. Real wages declined by a cumulative 60 percent in agriculture, 35 percent in manufacturing, and 28 percent in mining. While real wages were declining, company profits increased by a cumulative 80 percent during the seven years to 1996.

On the whole since ESAP was introduced in 1990, the standard of living in Zimbabwe has declined and unemployment and inflation increased.

The following questions arise: Given the major objective of ESAP as stated before and the situation realized, were the targets set realistic? Who was involved in the design of the policies? What capacity was there in policy formulation, target setting and implementation? It appears there are serious problems in the area of policy formulation and implementation in Zimbabwe, as reflected by the glaring disparity between policy objectives and targets compared to outcomes. This disparity is not confined to the ESAP period as pointed out in section one. But it was most pronounced during this period and thereafter.

The sections below will provide more details on the policy-making approaches in Zimbabwe both before and after independence.

**Policy-Making Approaches before and after Independence**

The purpose of policy-making is to array the broadest and representative possible grand lines of action to resolve identified problems, overcome perceived constraints, and achieve selected socio-economic objectives and developmental strategic goals. These grand lines are variably called "Blueprints," "Plans," "White Papers," "Green Papers," etc all of which are expressions of macro-development policy. This section examines the broad approaches used in policy formulation in both pre- and post independence Zimbabwe.
Pre-Independence Policy-Making Approaches

The Whites who settled in Rhodesia, most of whom were of British extraction, brought with them a Western type liberal-democratic political culture. But they brought it to a new land for themselves only. They propped up some kind of sectional democracy.

The government remained elective, and the political system was built around the values of openness, competition and periodic change of leadership. The political practice in Rhodesia, from 1923 to 1964, has been viewed as “sectional democracy” (M. Sithole-1978; D.A. Mungate-1981; J. Moyo-1992). Black people were excluded from the system, as they were considered politically immature.

Otherwise, successive White governments ruled through referenda on basic issues:

Referenda and white opinions

<table>
<thead>
<tr>
<th>Issue</th>
<th>Year</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union with South Africa</td>
<td>1922</td>
<td>Turned down</td>
</tr>
<tr>
<td>Federation</td>
<td>1953</td>
<td>Approval</td>
</tr>
<tr>
<td>1961 Constitution</td>
<td>1961</td>
<td>Approval</td>
</tr>
<tr>
<td>1969 Republican Constitution</td>
<td>1969</td>
<td>Approval</td>
</tr>
<tr>
<td>Pearce Commission (Blacks voted)</td>
<td>1972</td>
<td>Disapproval</td>
</tr>
<tr>
<td>Internal Settlement</td>
<td>1979</td>
<td>Approval</td>
</tr>
</tbody>
</table>

While referenda served as a source of popular mandate, regular elections characterised White politics, though racial supremacy and White economic security and privilege always remained the main election issues.

Policy-making in the economic sector in Rhodesia proceeded on a consultative basis between the government and various White stakeholders. Farmers, intellectuals, industrialists and organised foundations had a lot of influence in policy formulation during this period (D.A. Mungate, 1981).
According to G. Arrighi and J. Saul (1976 p. 67) White farmers provided enormous political and financial support to the government, making them both the first and last goal post in the policy-making process. Pricing, marketing, labour and wage policies in the agricultural sector were largely a reserve of White farmer organisations. Allied with the Tobacco Research Board and the Randals Foundation, they together constituted the pillar of economic policy-making. Implementation was, equally, their major concern, exerting pressure on the government for essential services, infrastructure, foreign exchange, protection and security.

The Confederation of Rhodesia Industries (CRI) acted as the key policy agent in pre-independence industrialisation era. It played a leading advisory role, and as a critique, to the Government over industrial development strategies. Unlike the industrialists’ wait-and-see attitude that prevailed after independence, the CRI acted as a vanguard of industrial development.

Additional policy back up came from White academics and researchers at the then University of Rhodesia. In the 1960s and after, the university formed the core of the thinking of the Rhodesia Front, the last White party to rule the country from January 1963 to December 1979.

It remains a historical point of reference that policy-making and implementation in Rhodesia survived and succeeded on the free interplay between the government,
economic stake-holders and selected (White) social partners. Policy and its implementation had a popular ownership and appropriation basis as White settlers, politicians and business people perceived the policies as their own, for their own benefit. Political parties and the government simply endorsed what the various policy influencers preferred. As the financial resources came from stakeholders, voluntarily in some cases, the government felt morally bound to share policy-making with the private sector.

Figure 9.2 shows the revived party policy-making and implementation system.

**Post-independence Policy-Making Approaches**

The policy-making and implementation system in post-independence Zimbabwe would, perhaps, need a new nomenclature to describe it accurately. The system had nothing akin to liberalism. It could not be said to be “democratic-centralist,” in the spirit of classical “Leninism”; neither was it “traditionalist-African.” One would better use the term “partocracy” to characterise the ensemble of the structures, mechanisms and processes of policy-making and implementation. Partocracy springs from the notion in a ruling party that it knows best the people’s needs, and only itself, as the liberator, can build providence.

**Essence of Partocracy**

Partocracy can best be said to mean the omnipresence and all-embracing character of a party in power with no contesters or watchdogs. This situation in Zimbabwe began during the liberation struggle. Ordinary people were organised into revolutionary cells to undermine the colonial system and army. War strategies were unquestioningly developed down the party structure in this closely-knit system.

After the war, and following the independence elections in 1980, the victorious Zimbabwe African National Union (ZANU-PF) revived its wartime structural-organisational style in policy setting. The leadership aimed at an arrangement that enabled uncontested party decisions and policies that could quickly assume a national character.

In this partocratic system, formal state structures were crossed with, and subordinated to party structures. This ended the separation of party, government and state, giving supremacy to the party. Party office bearers, some of whom held established state posts,
mattered more in the policy-making and policy implementation. Thus, socialist rhetoric of free education and health, re-distribution politics and abortive land reforms abounded in this system. So did the concomitant inattention to details of efficient economic management, industrial expansion and growth, vibrant trade and wealth creation. This is the problem of partocratic policy making and implementation that evolved since 1980. Not a single referendum was held until 2000 after a lot of pressure from the National Constitutional Assembly.

Rise of the Multi-Influencer Policy System

Since 1997, a new approach to macro-economic policy-making and implementation has slowly evolved. Having tried all sorts of development and social policy alone in the 1980s, and having seen the fast growing torrent of economic malaise by the end of the decade with the inevitable advent of the IMF, World Bank and donors on the policy-making scene, the government finally called everybody to assist. It is important to note that the IMF position, like that of the World Bank and donors, remains an influential factor in any new policy dispensation. Similarly, several internal players have arrived on the policy scene.

First, the ZANU-PF leadership dropped the socialist ideology in 1989 and began to bless the capitalist enterprise. Second, the economic malaise outweighed government capacity for initiative, which started requesting assistance from the private sector. Third, the restless labour force, and a confidence-losing business sector could no longer afford the brunt of persistent economic decline. Hence, some convergence occurred between these diverse interested parties. But the movement to a common discussion platform, much as it humiliated the government, occurred amid uncomplimentary motives. Some among the new players wanted to prove to politicians that they have to listen to private business. Others wanted the economic discussion to culminate in political changes. Certain interest groups, like labour, felt that the government should simply resign, given the economic mess that it had brought. Labour has been aspire to a new political dispensation whereupon a new political leadership has to take unhindered initiatives to resolve economic problems on a long-term basis.

National Economic Consultative Forum

The shift to the National Economic Consultative Forum appears to be a temporal survival measure. The forum is a tripartite policy discussion structure. It is not, constitutionally, a formal and binding national structure through which national policy must pass. But it is an interface, which the government desperately created in 1997 to get labour, industry and commerce groups to discuss macro-economic issues and problems together. It was an attempt to pave the way for commonly owned national policies. Sitting on the forum are the President, Cabinet ministers, top civil servants and representatives of labour, industry and commerce.

Viewed, critically the NECF is a safety valve for the government, through which new ideas are thrown in by non-government interest groups, and this places the government in a better position to handle certain policy issues and to avoid assuming total blame for failure.

One problem of the NECF is that the government remains the single most powerful participant, and it is free to take only those ideas that tally with party and government philosophy. Another is the reluctance of the labour movement to engage seriously in
NECF dialogue on the basis that the decisions made by NECF are not binding to government. This does not augur well for the continued evolution of the multi-influencer policy-making system.

The next section below discusses the formal institutional structures for industrial and trade policy formulation and the role and capacity of relevant ministries and parastatals.

**Policy-Making Process and Capacity in Policy formulation**

**Institutional Arrangements**

**Inter-ministerial Committees**

There are a number of inter-ministerial committees in operation in government. These comprise officials from relevant ministries who are experts in their areas of operation. In many instances, the inter-ministerial committees are the first forum where a ministry’s new policy or position stance is discussed. The recommendations of the inter-ministerial committee are passed on to the Committee of Permanent Secretaries, who in turn pass their own recommendations to Cabinet.

The purpose of the inter-ministerial committees is to bring together government officials with relevant qualifications, expertise and experience, so that they can help improve on a policy position being advocated by a ministry. These committee meetings also help a ministry to fully understand how its actions impact on other government ministries. As officials are responsible for the day-to-day running of ministries, this group consists of technocrats, who are fully informed about the likely effects of one ministry’s actions to other government ministries. Again, the recommendations of the ministry officials who attend the inter-ministerial committee meetings are adopted by the committee of permanent secretaries with minor amendments or modifications. As and when necessary, the inter-ministerial committees can co-opt other organizations to attend their meetings. Such organizations include the parastatal sector and other government agencies such as Zimtrade, IDC, ZIC and EPZA.

**Committee of Permanent Secretaries**

From the inter-ministerial committee, policy papers and their recommendations are forwarded to the Committee of Permanent Secretaries. This committee also discusses the policy position papers and the recommendations drawn up by the lower committee. Essentially, the Committee of Permanent Secretaries fine-tunes the recommendations from the lower committee so as to come up with a policy position that is in line and dovetails with the overall government development objectives. The Committee of Permanent Secretaries may change the recommendations from the lower committee to reflect its own thinking on any particular issue. Hence the operations of the Committee of Permanent Secretaries are geared towards ensuring that each ministry’s policy initiatives are in line with the overall perceived Government policy and ensuring that all relevant ministries support this policy initiative besides ensuring that this policy thrust is in line with the overall government’s development plans and goals.

In other words the Committee of Permanent Secretaries makes sure that all government ministries operate as a single and coherent unit in the execution of government tasks. The recommendations of the Committee of Permanent Secretaries are forwarded to Cabinet for final decision.
The Cabinet

The Cabinet has the final say in the formulation of policy as well as in its implementation. Whereas the inter-ministerial committees run by officials base their recommendations on financial and economic analysis, as well as on the day-to-day operations of ministries, the Committee of Permanent Secretaries takes that into account, but in addition addresses the political implications of the new policy thrust. History has shown that the Cabinet often makes decisions based on political expediency without taking due regard to the economic and financial implications of those decisions. Such decisions are at times cause for concern to the bureaucrats who would be well aware of the severity of the economic and financial implications of such action. However, this has to be understood in the context that Cabinet ministers are politicians whose driving motive is to please their electorate and stay in power. Thus often, bureaucrats’ influence is limited as their function is simply to advise the politicians. However, the Cabinet also works to ensure that the ministries policy thrust and changes are such that commonness of government objectives is achieved.

Capacity in Policy-Making and Implementation

Overview

Broadly speaking, it can be argued that there is a vibrant capacity in policy-making in both the private and public sectors in the economy. Zimbabwe has a vast stock of professional and technical people who are well qualified and experienced to develop sound policies geared towards improvement of the economy. The factory labour force is also fairly well educated and trained, so that learning new skills does not pose a problem. Given the increase in the number of universities, technical and vocational colleges being established, the county is assured that it will continue to have a vast stock of competent, educated and well-trained human resources.

Capacity in policy-making in the public sector is, however, constrained by political interference. Bureaucrats may formulate policies guided by financial and economic considerations, but such policies may be changed or put aside simply on the basis of political expediency. This trend was very much pronounced in the first decade of independence, when socialism was the official ideology. Since 1990, when economic reforms were introduced policy formulation became based more and more on economic rather than political considerations (up to the eve of the 2000 Parliamentary elections).

The IMF and World Bank contributed towards this shift with their emphasis on prudent economic management.

But the extent to which economic considerations overshadow political considerations is a function of the magnitude of political threat resulting from adoption of certain policies. An interesting example in this regard is the formulation of Vision 2020 in Zimbabwe. Government hired a consultant to undertake nationwide consultations with officials from the National Planning Commission so as to draw up the vision.

The Vision 2020 document was finalized about a year before general elections scheduled for the year 2000. The document placed a lot of emphasis on the need for good governance, transparency and accountability, which was lacking in government.

The Cabinet felt that these issues were too sensitive and critical of government, especially in light of the parliamentary elections that were forthcoming. The document was revised
several times until the consultant disowned its contents on the grounds they no longer reflected the ideas of the people consulted. To date, the government has not adopted the Vision 2020 and discussion on the subject has died down.

In this case, the government perceived considerable political threat in that opposition parties could use Vision 2020 as a basis for criticizing the ruling party in the areas of governance, transparency and accountability. In spite of the importance of the vision in guiding long term national development, the document was suppressed for political expediency.

During the run-up to the 2000 parliamentary elections the President increased the salaries of chiefs from Z$2000 to $10,000 and those of sub-chiefs from Z$600 to $5,000. Just after the 2,000 parliamentary elections ex-combatants were drafted into a reserve army and had their monthly allowances doubled from $2,000 to $4,000. All these expenditures had not been budgeted for but were found to be politically prudent, in light of the Presidential elections to be held in early 2001. These examples demonstrate that political considerations predominate in the policy-making process.

Unlike capacity in policy formulation, the area of policy implementation still leaves a lot to be desired in both the private and public sectors of Zimbabwe, but more so in the latter. With respect to the public sector, a good example that illustrates this point well relates to the development plans produced by the government, whose implementation has always failed to meet required targets. Government agencies have the institutional capacity and flexibility for policy formulation but are weak in the area of policy implementation. Poor policy implementation by these government agencies is caused, partly, by lack of government support, particularly funding, and in some cases, interference.

**Ministry of Industry and Commerce**

The Ministry of Industry and Commerce has responsibility over industrial and commercial matters in the Zimbabwean economy. In the area of capacity in policy formulation, it has been observed that a major problem that the ministry has faced has been its own transformation from being a regulatory agency (for instance, in foreign exchange allocation price and investment controls) to a facilitating agency. The perceived ways of doing business prior to ESAP appears to have been carried over into the post-ESAP era. The major problem experienced in this area — and this relates to most government ministries — is to let go the power they once wielded in the pre-ESAP era. Having been used to giving rules and regulations and seeing them followed, most ministries are finding it difficult to listen and take ideas from the labour movement and the private sector.

A major area of weakness has been in industrial policy formulation by the Ministry of Industry and Commerce. The ministry worked on this for many years but the industrial policy was only produced in March 1999. The absence of an industrial policy created problems for organizations like EPZA, ZIC and Zimtrade, which are charged with promoting investment and trade in the country. The absence of an industrial policy also created problems for the IDC, which is supposed to be in the forefront in implementation of government’s industrial policy and Black empowerment in the economy.

In the area of trade, the functional relationship between the commercial attaches at the embassies abroad, the Ministry of Industry and Commerce, and Zimtrade has not been well defined. This needs to be addressed urgently from a policy perspective. However,
the ministry has been willing to take suggestions from development agencies in the policy formulation arena unlike the Ministry of Finance. Such agencies include EPZA, IDC and Zimtrade.

The Ministry of Industry and Commerce lacks adequate human resources in SMEs and in the informal sector. There is a pressing need for industrial extension officers for this sector, as is the case in communal agriculture. This is a very necessary development to aggressively lend technical and business management techniques to SMEs.

**Ministry of Finance**

The Ministry of Finance is the most powerful ministry since it controls the budget. Although the ministry has reasonable capacity in the area of policy formulation, it has serious problems in the way it relates to other ministries. Historically, the Ministry of Finance calls meetings at short notice and expects other ministries to rubber stamp its policy decisions. This has resulted in other ministries not being able to contribute to the refinement of policy proposals from the Ministry of Finance. In some cases, other ministries have been called to Finance and informed by the Minister that the paper presented for discussion would become policy in two hours' time. Such machinations by the Ministry of Finance show that the ministry is not prepared to listen to contributions from other ministries. Thus in policy formulation, the Ministry of Finance does not make full consultations which are necessary for the refinement of a policy being proposed by the ministry. This mode of operation does not create a good working relationship between the Ministry of Finance and the other government ministries. It also does not help create a commonness of purpose and vision among government ministries. This has serious negative implications on commitment on the part of other ministries to implement policies dictated by the Ministry of Finance.

Full consultations are necessary to ensure that all the government ministries move in together in implementing the government policies. Equally worrying is the fact that the Ministry of Finance does not have a good working relationship with government agencies that fall under its control. In December 1998, the Director of ZIC indicated that he had not been in contact with the Minister of Finance for the previous 18 months! This does not augur well for investment promotion in the country, as ZIC should have direct contact with the Minister of Finance and the President to iron out urgent issues being raised by investors.

In policy implementation, the Ministry of Finance has not faired well either. In part, this failure in policy implementation is a manifestation of the poor manner in which policy formulation is undertaken in the Ministry. When other ministries are called to simply rubber-stamp the position taken by the Ministry of Finance, they will be uncommitted to implementation. For example, in budgetary allocations, the Ministry of Finance should be a facilitating agency, so that the allocations make it possible for the ministries and agencies to carry out their work without undue hardships. It appears the Ministry of Finance does not fully take all the variables in the policy implementation drive. For example, during the era of the administrative foreign exchange allocation system, companies would be allocated increased foreign exchange without increasing the allocations to those companies that supply important inputs to the former companies. This resulted in companies with increased allocations failing to increase output because of the inputs supply bottlenecks due to unbalanced raw material stocks.
EPZA, IDC, ZIC and Zimtrade

As has already been alluded to, these government agencies have the capacity for policy formulation. In the case of EPZA, IDC and Zimtrade, their suggestions for policy changes are well-received by their parent ministry, the Ministry of Industry and Commerce. There is also a good working relationship between these agencies and the Ministry of Industry and Commerce. But while ZIC has institutional capacity in policy formulation, the ideas it puts forward for policy changes to be operationalised are not taken into consideration by the parent ministry, the Ministry of Finance.

EPZA, IDC, Zimtrade and ZIC have institutional capability to carry out their tasks well. However, they face problems related to inadequate budgetary allocations. The Ministry of Finance has always argued that the foreign travel costs of EPZA, ZIC and Zimtrade are prohibitive. Such remarks by the Ministry of Finance seem to indicate that the ministry is not in a clear picture about how these organizations should operate. Although domestic focus is well and good, there is a lot of scope for their activities and operations to be well understood outside the country, which is the source of foreign investment.

As one official from ZIC remarked, the Ministry of Finance operates as if it were staffed by bookkeepers whose preoccupation is balancing of books as opposed to facilitating national development programmes.

Research and Consultancy Services

Local and foreign consultants are used in areas where government lacks capacity for policy formulation. This type of support system usually is called for when the government is undertaking new policy measures in which ministries do not have the required capacity. For example, when the government was working on the trade liberalization programme in 1988, officials from the Ministries of Finance and Economic Development, Industry and Technology, Trade and Commerce, and the Reserve Bank of Zimbabwe, in association with two local consultants and two visiting consultants from the Centre for International Economics of Australia, carried out the first comprehensive study on trade liberalization on behalf of the government. This team of government officials was also sent out to the Centre for International Economics to attend a trade liberalization workshop so as to enhance their understanding of the pros and cons of the envisaged economic reform process that the government wanted to implement.

The use of consultants in those areas where the government does not have capacity is necessary. A number of research studies have been undertaken for the government with the use of both local and foreign consultants. However, at times, the government does not make use of the research results. Most of the results used by the government tend to be from government-initiated research work. There is also a tendency for government ministries to prefer foreign consultants to local ones. In many cases, local consultants are more knowledgeable about the Zimbabwean situation than the foreign consultants, which enables them to produce research results that are better and more applicable to the country. It is therefore not surprising that the indigenisation programme under the State Enterprises and Indigenisation Department is pushing for more tenders for indigenous consultants.
Factors Influencing Policy formulation and Implementation

Overview

Zimbabwe has a well-developed national institutional structure to effectively contribute to the policy-making and implementation process in industrial development and trade. The ministries and industrial and trade support institutions are staffed with qualified technocrats. The country has produced several development plans that unfortunately have not been implemented as expected. This section analyses factors that have influenced policy formulation and implementation by comparing policy pronouncements with outcomes.

At independence, the government pronounced a policy thrust of socialist transformation aimed at addressing the economic and social inequalities inherited from the previous regime. The government identified “the people” as the most valuable resource; their characteristics and qualities were to play a key role in the economy. “The people” were also expected to play an important role in both policy formulation and implementation. “Their importance in development is that they are the sources of ideas, policies, decisions and measures on investment and production, innovations and other opportunities of which are essential for sustained development” (TNDP, 1982–85). Similar sentiments had been expressed in the “Growth-with-Equity” policy statement, which emphasized popular participation in the development process.

At a practical level, drafting of subsequent plans was not participatory as had been suggested. In addition socialist transformation and Black economic empowerment was not implemented as pronounced.

Throughout the first ten years of independence, Zimbabwe did not pursue a comprehensive development strategy but mainly took measures to treat symptoms without addressing the structural nature of the economy.

The government feared that taking a radical approach could have led to an exodus of White skills. The government was also bound by the Lancaster House Agreement which protected the status quo. The Bill of Rights, which formed part of the agreement, provided for a ten-year guarantee on the inviolability of private property.

The government also feared that taking a radical approach would affect the flow of international aid and capital. For example, it was estimated that Zimbabwe lost about US$ 40m in US aid for voting against the USA invasion of Grenada and for abstaining against voting on the Soviet shooting of a South Korean airliner (Sibanda, 1988).

Zimbabwe had a hostile neighbour in pre-independence South Africa, and this again constrained the government from following a radical agenda. During the first decade of independence, South Africa took a number of economic and military measures to destabilize the Zimbabwean economy. The same country stopped renewing contracts for Zimbabwean emigrants at the same time and this led to a loss of $25m in annual remittances. South Africa also disrupted the flow of Zimbabwean goods through the railway line by withdrawing South African technicians that had been seconded to Rhodesia Railways and by withdrawing 24 diesel locomotives leased to Rhodesia Railways.

Zimbabwe had to open another trade route through Mozambique and had to send troops to guard the Beira corridor, a move that was very costly. The regional and international
environment within which Zimbabwe had to operate forced the country to adopt a cautionary and reconciliatory strategy. It turned out that socialist rhetoric was used for purposes of mobilizing people while in practice the government was implementing more orthodox policies. For example, the government would indicate that it was suspicious of foreign investment but at the same time it sought to attract that investment.

Donor influence was also important in determining policies in the country. In 1987 the World Bank refused to sign an agreement for an extension of the export revolving fund until measures were taken to liberalise trade. Zimbabwe complied. While the international environment, particularly the donor community and close trade links with apartheid South Africa, influenced the direction of policy in Zimbabwe, there were also internal factors. Some attribute the abandonment of socialist policies to the fact that the ruling elite was accumulating wealth under the status quo. And as the ruling elite enriched itself, it increasingly became unable to put in place policies and practices that responded effectively to the aspirations of workers and peasants (I. Mandaza-19).

In evaluating its own policies and practices, the government has conceded that it has failed in implementation, particularly during the period of economic reforms. According to the Millennium Economic Recovery Program (MERP), "... implementation of the two previous reform programs lacked both co-ordination and commitment at all the institutional levels resulting in the missing of targets by wide margins." In this regard the document points out at delays in rationalizing the civil service, privatization and commercialization as having contributed to the missing of targets. MERP concedes that "...critical aspects of the reform program such as divestiture of public assets has been repeatedly targeted in successive state budgetary statements without any serious intent to meet those targets."

The budget itself, until recently, has traditionally been designed very secretly with line ministries marginalized in its preparation. The role of parliament was reduced to rubber-stamping the budget. There was limited consultation of the private sector and civil society through pre-budget meetings with officials from the Ministry of Finance but such inputs were not taken seriously.

ZIMPREST recognized that any reform programme would only succeed if it were nationally owned. This point was taken up further in MERP, which emphasized the need for a shared vision on the part of all stakeholders, including the need for dialogue with international co-operating partners to enlist their support. The institutional framework put in place to ensure national ownership of policies and programmes is the National Economic Consultative Forum (NECF). Unfortunately, participants in this forum are invited in their own individual capacities. It is therefore clear that one of the problems in industrial and trade policy formulation is lack of consultation and consensus building to create a national ownership of policies and programmes.

One weakness that has been pointed out on successive development plans right up to the most recent MERP is that the plans have tended to be well-articulated pronouncements of good intentions but without an equally well-articulated means (strategy) of attaining those intentions. It is this that has resulted in the plans being undermined by short-term budgetary concerns. On the whole, the budgetary process has not been guided by priorities set out in the development plans. For example, ZIMPREST was launched in April 1998 when it was covering the years 1996 to 2000. It means that when the programme was launched, it was already two years behind. In addition it came when financial resources for the remainder of the period had already been committed through
the three-year rolling budget system. Similarly, the Millennium Economic Recovery Programme was to run concurrently with the millennium budget. But the millennium budget was done before MERP.

It is insightful at this point to present cases of failure in policy formulation and implementation respectively to illustrate some of the problems in these areas.

**Failure in Policy Formulation — Case Study of S&T Policy**

In post-independence Zimbabwe, the importance of science and technology in national development was first mentioned in the Growth with Equity Policy Statement of 1981. In that policy statement, the government announced its intentions to come up with an explicit national S&T policy to guide efforts aimed at building the country’s technological capabilities. This point was repeated in the Transitional Development Plan and the First and Second Five Year National Development Plans. In fact, the Second Five Year National Development Plan (SFYNPD) lamented the lack of progress in the formulation of a national S&T policy. But by the year 2000, Zimbabwe still had not come up with a national S&T policy.

The first efforts to draw up a national S&T policy were made around 1986 through the then Ministry of Industry and Technology. But before that document was finalized, the technology portfolio was removed from that ministry and the ministry was transformed to a Ministry of Industry and Commerce. Staff from the Technology Division was relocated to other departments or ministries where their assignments had nothing to do with technology policy.

The Research Council of Zimbabwe (RCZ), with the Scientific Liaison Office as its secretariat, remained with the responsibility of advising the government on matters of S&T. In 1998 the technology portfolio was assigned to the Ministry of Higher Education. However, when this was done, the Ministry was not provided with clear terms of reference. The Ministry of Higher Education and Technology (MoHET) took advantage of the Science and Technology Dialogue Forum, housed at the Institute of Development Studies (IDS) of the University of Zimbabwe, to assist it in coming up with a national science and technology policy. IDS have a mandate to undertake policy-oriented research. Through the Department of Economics and Technology Studies, IDS has been conducting research in S&T policy with funding, mainly from the Carnegie Corporation of New York and the African Technology Policy Studies Network.

IDS, through the S&T Dialogue Forum drew up a draft Science and Technology Policy for the country and submitted it to MoHET in June 1999 as requested. That policy document had been drafted after nationwide consultations and had been subjected to a national review seminar involving all S&T stakeholders, both in and outside the government and with external resource persons (from the United Nations Institute for Economic and Development Planning, Africa Technology Policy Studies Network and the Carnegie Corporation of New York). But by the end of 2000, the MoHET had not finalized the policy document for submission to the Cabinet.

Parallel to these efforts, the Research Council of Zimbabwe was also involved in drafting a national S&T policy. This process was done in secrecy with RCZ being unwilling to discuss its document even with other government departments, let alone S&T policy researchers and other stakeholders. The efforts of RCZ started in the early 1990s, but to date no document had been submitted to the Cabinet.
There are several factors that explain why the country has not been able to come up with a national S&T policy in spite of recognizing the importance of doing so. First, the responsibility for S&T policy formulation has been shifting among ministries. This has resulted in discontinuities and abandonment of previous efforts. Secondly, the national administrative and management structures of S&T are not very clear. MoHET has the technology portfolio, while RCZ has the statutory mandate to advise government on matters of S&T policy through an Act of Parliament. But RCZ falls under the office of the Vice-President and does not report to MoHET. The relationship between RCZ and MoHET and the division of responsibilities among these is not clear. Similarly, the division of responsibility between any one of these two, and the line ministries responsible for overseeing sectoral S&T programmes is not clear.

Another factor that has led the government to sideline S&T policy relates to the nature of investment in S&T. The benefits that accrue from investment in S&T are usually realized in the medium to long term. The government has been preoccupied with immediate and short-term problems of macro-economic stabilization. As a result, the government has kept on postponing making serious efforts to come up with a national science and technology policy. Having such a policy and implementing it would require resources in competition with recurrent expenditures and social expenditure programmes that create political popularity especially during hard economic times.

Finally, the country does not have mobilized capacity in the area of S&T policy formulation. The failure by the Research Council of Zimbabwe to come up with an S&T policy after more than six years of effort is a clear indication of this lack of capacity. When MoHET was assigned the technology portfolio, it was not allocated additional financial resources to recruit personnel to work in the technology division. Therefore, the ministry does not have adequate human resources to formulate and oversee the implementation of S&T policies and programmes. However, nationally, there are adequate human resources and institutions to contribute to the formulation of a science and technology policy. IDS have mobilized these human resources through the Science and Technology Dialogue Forum.

Unfortunately, the policy-making process in Zimbabwe has traditionally been carried out under secrecy and has been the preserve of government bureaucrats. Policy documents would only be made public after having been adopted by the Cabinet. Civil servants still have the mentality that by consulting experts, particularly those that volunteer their services, they would be confessing ignorance. This to a large extent explains why MoHET has not submitted to the Cabinet the draft S&T policy document drawn up by experts from the S&T Dialogue Forum based at IDS, a national research institution funded by the government through the University of Zimbabwe.

It was the Minister of Higher Education and Technology who solicited the assistance of IDS in drafting a national S&T policy. But that minister was transferred to another ministry and replaced by a new minister who was unaware of the efforts in S&T policy formulation. This provided an opportunity for the technocrats in the ministry to sideline the S&T policy document drafted by IDS.

MoHET is attempting to come up with “its own” S&T policy document with the assistance of two consultants. The first draft produced by the consultants was disappointing to the ministry itself. This experience is likely to change the attitude of civil servants particularly in MoHET with regard to utilizing nationally available experts, institutions and stakeholders in policy formulation.
Failure in Policy Implementation — Case Study of Growth Points

The objective of the Growth Point (GP) policy was to promote rural industrialisation and transformation by encouraging de-centralisation of investment in industry. This would create employment and promote a more nationally balanced development pattern. GPs also provided an opportunity for every racial, ethnic and business group to invest in the country. The “communal lands” in Zimbabwe are overcrowded due to pre-independence policies that displaced Africans from fertile lands with reliable rainfall. GPs would relieve pressure on the land by providing some form of urban resettlement with an industrial component, given the fact that the cities and towns are already overcrowded.

For the ruling ZANU-PF party, the rural electorate was seen as the most reliable voters and hence the need to engage complementary development projects destined for the rural population.

As early as 1982, the government identified ten places to be set up as GPs. Thereafter, more places were given GP status, and accruing “investments in infrastructure continued in the 1980s.” The goal of the Growth Points strategy was to jumpstart rural industries to achieve new industrial growth and to decentralise industry (A.M. Kambudzi-1992: pp 268-274).

For a place to be identified as a GP, it had to offer a comparatively higher potential to attract investment, entrepreneurs, consumers and marketing agents. With the convergence of these factors and players, that place would essentially attract infrastructural developments as well as the implantation of administrative and other supportive services. In the main, such a place should gradually evolve as an industrial nucleus.

Criteria for GP Status

The criteria used to select a place and evaluate its potential for Growth Point status were four:

- proximity to an area of elevated agricultural production;
- possession of a basic economic potential to jumpstart agro-industrial and industrial ventures;
- presence of a significant population in the surroundings to provide labour and a market; and
- accessibility relative to existing or newly planned sources of water supply, electricity, residential places and other infrastructure.

The criteria were set up in terms of economic considerations. However, the practical process of identifying GPs departed from the set criteria and was heavily influenced by political considerations.

By 1987, sixteen rural centres had been awarded GP status and obtained public investments in electrification, telephone installation, construction of water supply dams and waste disposal system, erection of administrative facilities, and provision of social services and construction of feeder roads and banking facilities.

Field research was targeted on some of these Growth Points, with a bias on the long established ones to enable some reviews to be made on the ongoing and potential industrial projects. Table 9.1 is indicative:
Large scale industries located in the traditional economic hubs have hardly moved to any of the GPs, with the exception of those located in close proximity to Harare, such as Ruwa and Juru. Table 9.1 shows a marked decline in manufacturing and processing projects on the five GPs covered by the study. The small-scale industrial projects that had been established in GPs include maize-mealing, oil processing, bakeries, fruit canning and soap making.

The market factor and the intervening distance seem to have influenced investor decisions more than the provision of infrastructural and administrative services. There has been some geographic inertia, even contrary to the call in the Five-Year Plan to decentralise industry towards new centres.

In several cases, Growth Points were not situated at a place consistent with the set criteria of substantive economic potential. On the contrary, some members of parliament, ministers, deputy ministers, local politicians, and influential personalities have interfered with the eventual location of Growth Points. Political influence, prestige, support and grass-root party structures were considered more important for the location of a Growth Point. In some instances, the proximity of a place to the rural home of a political heavyweight sufficed to locate a Growth Point.

One of the examples encountered during this study is Sadza Growth Point. Sadza has stagnated over the past twelve years. Local businessmen and potential investors who were interviewed suggested that the GP status be transferred to another place, Nharira, which is located on the main trunk road, with access to electricity, water supply, dairy projects and productive informal undertakings. Nharira has been a victim of political conflicts and favours, which led to the growth point status been given to low potential Sadza. In reality, Nharira demonstrated the conditions vital for a Growth Point better than Sadza (Tables 9.2 and 9.3).

The Sadza-Nharira mislocation affects various other Growth Points throughout the country. Some original indigestions and imperfections in government policy formulation sometimes translate into constraints at the level of implementation. Such constraints arise from two sources. Either the policy makers and planners over-expand the range of a project, anticipating certain future resource inflows, which may never materialise, jeopardising the chances of project success and goal achievement, or the project lacks a

---

**Table 9.1: Type and Numbers of Activity at Growth Points in 1986 and 1999**

<table>
<thead>
<tr>
<th></th>
<th>Murombedzi</th>
<th>Sanyati</th>
<th>Gutu-Mupandawana</th>
<th>Mfuli</th>
<th>Chitsa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel (lodging/other)</td>
<td>6</td>
<td>7</td>
<td>10</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Retail stores</td>
<td>10</td>
<td>13</td>
<td>7</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Commercial outlets/w-sale depot</td>
<td>8</td>
<td>8</td>
<td>10</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Artisanal</td>
<td>6</td>
<td>9</td>
<td>2</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Manufacturing products</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>8</td>
</tr>
</tbody>
</table>

Note: Each case is a longstanding GP as well as a former rural service centre township
Source: a) Helmsing A.H.J. *Rural Industries and Growth Points*, 1986, University of Zimbabwe
b) Field survey, January 1999
stage-by-stage achievement approach, in which case, investments at places X and Y must be accomplished by avoiding the ambition of simultaneous projects at places T and S.

Zimbabwe’s GP projects were too many at the same time, shunned by economic stakeholders, and without available resources to trigger off the intended productive activities. The idle facilities at some Growth Points manifest serious stagnatory tendencies. These idle facilities, again, are indicative of the constraints upon a Growth Point.

In assessing the Growth Points, one would like to contend that the strategy of GPs failed to get new industrial poles rising on the rural front for a number of reasons:

- The strategy was formulated in economic terms, but the execution of policy was deflected by self-interested political interventions. Some places did not qualify at all on the given criteria to acquire GP status;
- The parent ministry policy formulation was too statutory (central policy makers, technocrats) and excluded actors who mattered most, such as industrialists, entrepreneurs, local people and service recipients; otherwise, there were enough industrialists to have decided to develop one or more of these Growth Points;
- Some of the places turned into Growth Points were just far behind, requiring every type of initial investment in water, electricity, telephone, housing, roads, waste disposal, administration, financial and postal services. The macro-economic environment, from the mid 1980s, had too many negative features (inflation, budget deficit, escalating debt, etc) to generate sufficient investments to finance all those needs. And the time lost by government in putting up these investments translated into the loss of investor patience and confidence;
- The Growth Point issue was not cast as a “national plan,” but was made part of “national plans”; and
- Apart from infrastructural investments, soon discontinued in some cases, there was little preparation to turn Growth Points into new agro-industrial, industrial and rural development poles.
Ethnic Factor and Geo-investment Asymmetry

Growth Points could be made a top policy priority again, since they can be used to contain inter-ethnic hostilities arising from perceived economic variations in investment growth and job creation. For example, over the 1980s, the two western Matebeleland provinces, mainly inhabited by Ndebele people, received insignificant investment owing to political antagonisms between the then leading Shona-based and Ndebele-based political parties.

Between 1981 and 1986, there were serious civil, political and military disturbances in the predominantly Ndebele Western provinces. After some negotiations between the leaders of ZANU-PF and ZAPU-PF, Shona and Ndebele, respectively, some unity formula was attained in October 1987. This “Unity Accord,” ended inter-party and inter-ethnic violence in the country.

But the damage in Matebeleland over the years of violence and is still evident today. In fact, some civil groups in the area have been advocating compensation for human and developmental losses during the disturbances. The disturbance resulted in:

- destruction of infrastructure;
- closure of businesses in rural areas and small towns;
- desertion and stagnation on commercial farms;
- withdrawal of transport and communication services;
- migration of business towards safer areas elsewhere in the country; and
- non-implantation of domestic and foreign investments.

In the post-Unity Accord period, Ndebele politicians, leaders and youth organisations have cried out for investments in infrastructure, dams, industry, resettlement and employment creation projects.

Not surprisingly, from 1990, the Ndebele leadership advocated and banked their hopes for fruitful investment on the realisation of the Zambezi Water Pipeline Project, with its potential to promote agricultural, industrial and tourist projects. The Zambezi Water Project Trust, headed by Dumiso Dabengwa (then Minister of Home Affairs), was set up in 1996 to assist with consultancy, fund mobilisation and lobbying government towards the project. In 1997, the project was adopted in the Ministry of Lands and Agriculture as a multi-billion-dollar national project. The project, initially motivated by the need to supply water to Bulawayo, is anticipated to generate several development and downstream industrial activities.

It appears that to sustain a hard-won inter-ethnic cohesion, some deliberate investment initiatives need to be taken in Matebeleland. Without it, the lack of investment, high unemployment rate and socio-political agitation will remain rife in Matebeleland.

The influence of the ethnic factor in investment decisions, both nationally and provincially, can also be viewed in the context of indigenous business pressure groups. In these, both collective and ethno-centric leadership conflicts and advocacy for region-based investments are quite manifest.

Conclusion

The experience of Zimbabwe in industrial and trade policy formulation demonstrates that stakeholder involvement in policy formulation is critical for successful implementation of industrialization strategies. It is important to create an alliance between the government
and the business community and for this alliance to be cemented by a common vision. The government should demonstrate consistency and commitment to avoid a situation where business develops a feeling that it is waiting in ambush. The country has adequate natural and skilled human resources, and has the potential to re-industrialize.

References


Introduction

With the exception of a few countries, the post-independence development of Sub-Saharan Africa has been disappointing. In most countries, the growth of national income has barely kept pace with population growth. In others, GDP and per capita income growth rates have been negative. When the international economy is on a rapid march towards globalization making the world an integrated workshop for production and a unified market for consumption, Africa is still on the throes of subsistence agriculture. It has missed the fast moving boat of development, which it needs to catch before it is too late.

In many parts of rural Africa, an almost free land, the hoe and part-time woman labour are still the main factors of production. A combination of high population and urban growth rates before industrialization have resulted in massive underemployment and unemployment in the urban areas. And more recently, a large portion of the unemployed are the educated young with a high propensity and capacity to demand their share of the national cake. On the other hand, the reproduction of abject poverty has relegated the survival of societies and governments to the goodwill of donors. Paradoxically, this malady has enabled those strategically located to enjoy the First World's living standards while pushing the poor to be poorer, thus endangering political stability.

The causes of, and possible corrective measures for, the sorry state of affairs of the continent are contentious, many and interdependent. In all cases, however, the woes could be traced to the unseating of nationalist and pragmatic governments by imperialism. There have also been inappropriate institutions copied without adaptation from competing ideological camps, anti-growth economic policies which turned the terms of trade against agriculture, and implementation failures arising from a mismatch between policies and institutions.

At independence, African regimes, propelled into power by the national liberation agenda, came from a variety of ideological and professional backgrounds. Some were truly nationalistic and soon found themselves at loggerheads with imperialism. Aspiring to build nations in the mould of European nation states, they ignored legitimate demands of the populace, arising from, among others ethnicity, and regionalism. When it was not their social policy, their statist economic management, as evidenced by Tanzania, turned out to be inefficient and anti-growth. Except for a few countries, many of them experienced military coups, which brought brutal dictatorships into power. Radical regimes such as Guinea Bissau, Mozambique, Angola and Ethiopia were not different.

For African countries to be on a sustainable path of development, a manufacturing export strategy, backed by a rehabilitated agricultural sector and a home market, is essential. The strategy would depend on the starting position and the resource endowments of each country.
In such large countries as Nigeria, Congo and Ethiopia, import substitution in the early stages of industrialization can complement export promotion, given the size of the home market. Albeit in varying degrees, democratization and the emergence of more accountable governments have opened up social space.

However, premising African development on the social trajectories of other societies without adaptation leads to disaster. To make a positive contribution in the realm of adaptive institutions, policies and policy-making, it is imperative to examine the political economy of each country in the light of the historical record in policy formulation. This would set a benchmark for future actions from which to draw lessons. It is in this context that this study explores in some detail the experience of Uganda.

The Case of Uganda

When Uganda attained independence in 1962, it was one of the most promising former British colonies. It had acquired considerable skilled manpower. Secondly, a well-managed and serviced agricultural sector enabled it to become one of the leading producers of Robusta coffee in the world. Tea and coffee, mainly cultivated in the western and central parts of the country, respectively, ushered in a regional equity of income. The northern and eastern regions had also begun to benefit from increased commercial cotton and cattle production.

Backed by sound macro-economic policies, the economy registered an annual growth rate of over five percent between 1964 and 1971 when Idi Amin ascended to power (GoU:1998 p 84). The country’s flourishing smallholder agriculture had backward and forward linkages with industry, including manufacturing, laying the foundation for a home market and thus paving the way for industrialization. A concomitant vibrant service sector was expanding rapidly. As a foreign exchange earner, tourism ranked third only to coffee and cotton.

Unlike in Latin America and Asia, most of the growth in agricultural output came from small holders as opposed to plantations or tenant peasantry. The industrial and commercial sectors, however, were dominated by Asians, and to some extent, by Europeans. As is well known, this fuelled economic chaos when Amin seized Asian properties and he expelled most of the Asians from Uganda.

In resource endowment, per capita income and the profile of exports, Uganda at independence compared favourably with Malaysia. However, whereas Malaysia transited to become one of the so-called Asian Tigers, the Ugandan polity degenerated into political turmoil and economic chaos leading to massive violence unleashed by the state and quasi-state armed groups. Today, at US$3,890, Malaysia enjoys a per capita income 16 times that of Uganda.

In the conflict period of 1965 and 1986, Uganda registered an annual GDP increase of 0.8 percent, which was only one-quarter of the rate of population growth. This modest growth was the result of the expansion of the area under food crops to cater to the increasing population. The rapacious direct and indirect taxes from coffee, tea and cotton led to their massive decline with the first two perennial crops being uprooted in many areas.

Hence, for over 20 years, with population growing at three percent per year, per capita income declined by 2.2 percent, a fate shared with only two countries — Congo and Niger. The economic consequence of the period was unmitigated disaster for industry.
Manufacturing output declined by 3.7 percent and 0.3 percent in 1965–1980 and 1980–1986, respectively, decimating a nascent industry.

Since 1987\(^2\), Uganda has made many bold economic reforms including those aiming at the stabilization of its macro-economy and structural adjustment to lay the foundations for sustained growth and development. The management of demand via fiscal and monetary policies and the floating of the exchange rates have to a large extent restored equilibrium and have brought down inflation. Macro-economic stabilization has, to a certain degree, reduced the fiscal deficit to a manageable size.

The now widely acclaimed macro-economic stabilization programme has also acted as a catalyst on the structural adjustment component of the reform programme. By changing the terms of trade in favour of tradable goods, it has shifted the structure of production by stimulating the agricultural sector. Trade and foreign exchange liberalization, prudent fiscal and monetary reforms, improved incentives on domestically produced goods, a reform of the regulatory framework and the development of human capital by improving health and education services have once again put the economy on the path to growth and development\(^3\).

Since agriculture employs about 80 percent of the population, generates about half of the gross national product and over 75 percent of the value of exports, the package of reforms geared at improving the performance of the sector has direct implications for rural poverty. Agricultural pricing and incentives, trade liberalization and promotion, restructuring of the marketing boards, rationalization of crop processing, improvement of infrastructure, financial stabilization of co-operative unions and the strengthening of agricultural research have made a major contribution towards the attainment of a sustained 4 to 5 percent annual growth of agriculture\(^4\).

The Political Economy of Trade and Industry Policy-Making:
Independence to the Okellos (1962–1985)

Compared to a number of other African countries in Sub-Saharan Africa, independent Uganda did not inherit from Britain, her former colonial master, an economy of milk and honey, but it certainly inherited one about which there was some genuine and justifiable cause for pride, as well as for expectations for greater things to come. Tragically, however, with the coming to power of Idi Amin in 1971, all the optimism for the country’s economy was badly dashed.

Since the coming to power of Idi Amin, the grim challenge has been that of recovery, rehabilitation, reconstruction and rationing rather than growth and development. This reminds Ugandans that as far as their economy is concerned, the hard and inescapable reality is that of a seriously disabled economy that urgently requires, among other things, sound strategic and well-selected policies to make it stand on its feet. What was the original benchmark of the economy that warranted such pride and expectations? And in the context of policies, what went wrong to shatter the pride and expectations? What inspiration and lessons might be derived from those years? In this new era, many who would in the earlier years have been described as ill-assorted, are paying homage to the state as an inevitable actor in the development process, and hence in the policy-making process. As one scholar (Soludo: 1999) puts it:

…the debate about whether or not government should intervene in the industrial and technological development is trite: all governments do and will always intervene.
A similar point has been made by Meir (1999: 300). In summing up contributions in his book on what he refers to as the New Political Economy (NPE) he says:

All the contributions... agree with the NPE thesis that political factors influence the selection of economic of policies and that political objectives frequently have economic consequences contrary to the economist's objectives.

The literature along these lines is massive: and many other writers could be cited. Obviously, there are differences as to the precise patterns or intensity that involvement of the state should assume. But there is also a kind of consensus emerging that this a matter best handled not by way of a general pontification or rigid model to be applied to each and every state, but pragmatically on the basis of the needs and peculiarities of each state or region.

The African state, as some scholars have termed it, however, a "soft" one. The consequence of which is that it is quite permeable to outsider or exogenous forces that must be taken into account, even while admitting the centrality of its role in development and the policy-making process. Yet, a second consequence of this "softness" is that a number of structures that inhibit it to act are formidable to be overcome easily.

The balance between the external and the internal national long-term interests on the one hand, and the problems and opportunities posed by the "softness" and strength of the state inhibit the capacity of the state to design and implement strategic trade and selected industrial policies. The following analysis of the different regimes that presided over the country in the period 1962-1986 provide indicators in the actual working out of these processes.

The Obote I Regime

The promotion and protection measures of the Obote regime towards industrial development may for convenience of analysis and clarity be presented as falling into two main phases. The first phase covers the first five-and-half years after independence, namely, 1962-1968; while the second phase covers the last two-and-half years (1968-1970).

But what really set them apart from each other in the context of this analysis? The first half of the answer lies in the ideological and political orientations of Apollo Milton Obote, the prime minister and, subsequently, the president of Uganda, whose position and character, like those of political leaders elsewhere in Africa, enabled him to play a critical and decisive role in Uganda's policy-making process during this period.

In the first phase, although Obote nurtured a kind of ideological radicalism that tempted him to have a soft spot for a socialist path to development, he was cautious and guarded about his predilection for that ideology (Gingyere-Pinycwa, 1978: 171-192).

Under the circumstances, it was only nationalism and pragmatism, rather than socialism, that came to influence his policy-making process generally, and promotion and protection of industries. In his own words, "Uganda, my country, whose development is so far behind, must rise up and develop industrially through policies which are as non-offensive as possible to politically interested parties." This would appear to have been the general line of the regime's approach during the first phase.

By contrast, in the second phase, following the demise of the monarchies in 1966/1967, he gained some political breathing space and became bolder ideologically and politically.
He accordingly came out in the open, not merely to profess his preference for the socialist ideology, but to embark practically on the socialist path in policy-making in a broad spectrum that included the drive towards majority state-ownership of industry, the targets of which were set out in three national plans. These formed the bedrock from which specific export and industrialization processes were derived. Annual budgetary speeches and the accompanying annual background to the budget pinpointed and elaborated specific policies.

By doing so, Obote and his regime stepped on the toes of some people and groups in Uganda and abroad who felt the pain most critically, but who were also too powerful to let go their interests. To be sure, in the face of the regime’s many policy innovations in foreign relations including international trade relations, with non-traditional trade partners from the Eastern bloc countries, some measure of alienation and resentment was evident in the first phase. But they were muted. In the second phase, however, they assumed a level of intensity too dangerous to the regime.

Idi Amin Regime

In a treatment in which so much emphasis is being placed upon the role of the state or politics in the policy-making process, it is in order to begin with some political background about Amin the politician, considering the power he wielded in public affairs in his eight years in power. No one, it would appear, knew this man from the political perspective. In the public eye, he was an unknown political entity. Those who have described him before his ascent to power as a “gentle simple-minded giant” may in retrospect, be forgiven.

Before long, what may have been his true personality came to the fore, and for some eight years, cast itself as a colossus over the affairs of Uganda and the lives of Ugandans. To be sure, he started on a rather uncertain footing much on the advise of his Israeli and British mentors, now recognized by many as having played a critical role in catapulting him in power. Given his background, it was no surprise that his political dispensation and policies generally favoured his Western and Israeli supporters. But it was destined to be a very short honeymoon that quickly gave way to a radically different political posture. It is, thus, convenient to present the Amin regime in two phases.

The first was a short and highly pro-western, pro-Israeli and right-wing phase (January 1971-March 1972). It was in the second phase that Amin, the politician emerged out of his cocoon, extremely anti-Western, anti-Israeli, but pro-Arab, extremely unpredictable and, of course, extremely harsh and brutal. In export promotion and protection measures, the first phase was one of revision or annulment of all the socialist measures Obote had started in his second phase, and which had aroused much resentment among Amin’s new-found friends, the Israelis, the British and other Western countries.

The first to be affected by this revision of policies were Obote’s so-called “Nakivubo Pronouncements” of May Day 1970, and other steps of the “Move to the Left.” The ratio of government ownership to private ownership in all the industries and businesses that had featured in the pronouncements was now altered from 60 percent:40 percent to 49 percent:51 percent in favour of the private sector. Obote’s Common Man’s Charter and proposals for national service were now completely debunked.

This restored confidence in the political environment for external investors and for exports — a critical but indirect measure for promotion and protection of exports and
capitalist industrialization. However, Amin, had entered the second phase of his regime with an anti-Zionism zeal, with rhetoric and unpredictability.

The most important consequence of this change was the declaration of the so-called "Economic War" and the expulsion of entrepreneurs, businessmen and industrialists of Asian origin from Uganda. This went hand in hand with the distribution of their businesses and property to some Ugandans, the majority of whom were like fish out of water in the world of high, complex and sophisticated business to which they had been catapulted. They did not, indeed, fear the new challenge. But without the requisite skills and know-how, as soon as the stocks left behind in the abandoned stores and industries were exhausted, many of these could proceed no further.

To make matters worse, the political environment at home was not conducive to meaningful economic development. With high rates of extortion, delayed payments and low prices by state monopolies, the peasant producers of the two main export commodities, cotton and coffee, now stopped production.

But the external environment was worse. The country's traditional trade partners abandoned ship almost wholly, leaving the country to fend for itself helplessly and without much profitability in international trade. What then, may one say about promotion of exports and protection of nascent industries in the second phase of the Amin regime? Almost nothing, though not quite as Mamdani, (1983) has tried to show in his book, *Imperialism and Fascism in Uganda*. Secondly, towards the end of the regime, it introduced its *Action Programme*, which might, perhaps, have stimulated exports and industrialization. But it was not given a chance. There were too many iron rods in the fire for the regime, and it was forced out of power shortly after this programme was introduced. Thirdly, in the very same year the *Action Programme* was published, the regime came out with the *Foreign Investments Protection Act*, amending the one the Obote regime had put in place in 1964 to make Uganda more attractive to investors. It could not of course have the desired effect: matters had gone out of hand as far as foreign investment was concerned.

Two basic submissions may be made about the revolving-door regimes of the interlude of the Uganda National Liberation Front (1979–1980) — Yusuf Lule's, Godfrey Binaisa's and the military commission under Paulo Muwanga in less than two years. First, they were too absorbed in their quarrelsome and divisive politics. In the circumstances, the matter of the promotion and the protection of exports towards industrialization was, without doubt, not within the scope of their attention.

In the early days of the UNLF, Lule, who presided over for only 68 days did, admittedly, invite a Commonwealth Team of Experts to review the state of the economy and make recommendations for its resuscitation. The team did its work. But nothing much over came from it. But the political climate remained inhospitable to any systematic economic policy-making, let alone one pitched on sound industrialization.

**The Obote II Regime (1980–1985)**

Obote came back to power again in 1981. But he came back a chastened and contrite man, as far as his ideological and political orientations were concerned. He was now a different politician, completely unencumbered by the left-wing or socialist temptations he had succumbed to in the second phase of his first regime. He was, in fact, now amenable to doing business with the Bretton Woods institutions, and to allow the country to
swallow a number of their bitter prescriptions. For this, he was now doubly armed: for he was both President and Minister of Finance.

Accordingly, it was under him that the Uganda shilling was allowed to float, to attain its real value in the interest of promoting the country's exports, price controls were relaxed; and the country's hyper-inflation was tackled through appropriate fiscal and monetary measures. Funds from the Bretton Woods institutions to boost production and exports began to find their way in meaningful amounts into the country. Political goodwill from the international community and willingness to trade with, and to invest in, the country rose considerably, to mention but a few of the positive developments.

But it was a time of war, too. Poised strategically close to the heart of the country in the so-called Luwero Triangle, Yoweri Museveni and his NRM army harassed and destabilised the regime, neutralizing all its economic efforts, but without wrecking the regime's image internationally. It was a time the regime needed a clean record to remain in power and to succeed economically. The political climate was, in short, not conducive for investment or domestic production.

Whenever Yoweri Museveni has had the opportunity, he has told the public that he defeated Obote; indeed the process contributed substantially to the collapse of Obote's regime and his economic efforts in collaboration with the Bretton Woods institutions to promote exports and industrialization. But other actors administered the direct push that felled the regime. The two Okellos — Tito Lutwa and Bazilio Olara, the head of state and military commander, respectively, were high-level military officers who overthrew Obote and ruled the country for five months. Both had no economic ideas or programmes worth talking about. Their quarrel was largely ethnic in character, in that they considered Obote to have favoured his tribesmen, the Langi, more than he did the Acholi, their own tribesmen. Having settled that score, they themselves had more or less accomplished their agenda.

They did, admittedly, put together a fine team of well-educated persons in their cabinet. But they could not give it the leadership or sense of direction required. However, to give the devil his due, there was a hot and pressing war for them to fight and win, before they could have much time for anything else. This was Yoweri Museveni's guerrilla war in the Luwero Triangle. In the event, they lost to Museveni and, thus disappeared from the political scene without having made any impression worth talking about.

The Political Economy of Trade and Industry Policy-making Process II:
The Era of the NRM (1986 To-date)

The Early Years

An account of these years with regard to promotion and protection of trade in the interest of industrialization could also be rendered in two phases. The first of these covers the year 1986 in particular. During this period, the regime spoke in left-wing or Marxist language in its public rhetoric. It gave the impression that it was set to translate this ideological and political orientation into practice.

Thus, many of the orthodox measures normally employed, as those in the early phase of the Obote I regime, as well as under the Obote II regime, were debunked as worthless, with the exception of attempts to broaden the geographical base of trade to include new partners like Cuba. The main emphasis was on barter trade, and an insistence to get
“value for value” in the country’s trade, contending that the imperialists had cheated Uganda for too long in international trade with worthless commodities like beads and whisky being traded for minerals, raw materials and slaves.

But it was a short-lived phase. Under the imperatives that arise from real politics, the regime quickly disabused itself of this high-flying left-wing romanticism. This was the circumstance under which, in 1987, it made its peace with the Bretton Woods institutions and embarked on taking the prescriptions. The country has been under that kind of treatment since. This change in policy orientation has been described particularly well blow by blow by Joshua Mugyenyi who had been an insider of the NRM right from its inception, as well as by Erisa Ochieng (Twaddle et al, Changing Uganda).

The Liberalization Phase

Since 1987/1988, except for armed conflicts in some districts of the country, Uganda has been on a steady path of political stabilization. It has undertaken profound institutional and economic reforms with far-reaching implications for development. Bold reforms to stabilize its macro-economy and subsequently lay the foundations for sustained growth and development have turned the economy around. The management of demand via fiscal and monetary policies and the floating of the exchange rates have to a large extent restored equilibrium and have brought down inflation. Macro-economic stabilization has, to a certain degree, reduced the fiscal deficit to a manageable level.

By eliciting a supply response in agriculture, the now widely acclaimed macro-economic stabilization programme has acted as a catalyst on the structural adjustment component of the reform programme. And changing the terms of trade to favour tradable goods, it has shifted the structures of production through stimulation of the agricultural sector and its links with the rest of the economy. Trade and foreign exchange liberalization, prudent fiscal and monetary reforms, improved incentives to domestically produced goods, reform of the regulatory framework and the development of human capital through improved health and education services have once again put the economy on the path to growth and development.

As a result of these stabilization measures, SAPs, the rehabilitation of infrastructure, relative peace in the country and institutional reforms, the national economy has registered an average growth rate of 6.5 percent per annum with a maximum rate of 10.5 percent in the coffee boom of 1994/1995 and a low of 3.1 percent in the drought year of 1991/1992.

Besides Vietnam, Uganda has regained its position as a leading robusta coffee exporting country in the world. Between 1991 and 1996, exports of coffee doubled. This notwithstanding, given the low growth rates of GDP in the chaotic years and high population growth rate, the country is yet to reach the peak years of the immediate post-independent period.

Buoyed by increased rural demand for basic industrial goods previously imported from Kenya, between 1987/1988 and 1997/1998, the manufacturing sector has registered a steady rise in output, averaging 13 percent per annum. Since the country had been almost de-industrialized, the growth rate in manufacturing is yet to change the structure of the highly agrarian economy.

Although value added from manufacturing has increased from only four percent of GDP in 1980 to six percent in 1995, it is still a low proportion of GDP compared to such
countries as Burundi (12 percent) Malawi (18 percent), Chad (16 percent), Burkina Faso (21 percent) and Madagascar (13 percent), all with lower per capita incomes than Uganda (World Bank 1997: 236). The current tiny manufacturing output is of import substituting variety. Manufacturing exports have yet to make any impact in foreign earnings — an essential requirement to sustain a high growth rate and change the structure of the economy.

On trade, policies in Uganda are defined in the context of their overall economic development strategy. Accordingly, the objective of trade policies in Uganda is to encourage trade liberalization, export and investment promotion in order to spur economic growth and development. Market opening, deregulation and privatization are expected to induce productivity, foster export competitiveness and improve resource allocation.

In line with these general objectives, Uganda has liberalized import and export procedures and abolished licensing requirements since mid-1980s; replaced import controls by tariff-based protection, removed export taxes, encouraged private investment through tariff and tax incentives, abolished state-trading monopolies and sought to improve the commercial focus and efficiency of public enterprises.

For a long time, foreign direct investment in Uganda was discouraged by restrictive government regulation, compounded by episodes of expropriation in the 1970s. The enactment of Expatriated Properties Act in 1983 was the first attempt to regain investor confidence. More substantial changes came with a Structural Adjustment Programme in 1987, and a new investment code introduced a general set of investment incentives, guaranteed profit repatriation and provided protection against expropriation of assets. It also gave birth to the Uganda Investment Authority (UIA) a “one stop shop” centre for processing investment proposals and offer assistance and advice to potential investors.

Social Characteristics of the Firms in the Study

A study that informed this chapter showed that over 80 percent of the industry and trading firms were limited companies. Nearly 2/3 and their associations came into being during the reign of the National Resistance Movement government. While trading firms and an associations go back before independence in 1962, eight percent, six percent and 17 percent became operational during Obote I, Amin and Obote II regimes, respectively. The study showed that half of the policy-makers are in the age group of 50-60 years with the remaining quarter above the age of 60. And 51 percent of all the four groups are members of at least one association. Only one trading firm and five policy-makers reportedly belong to no professional association.

Just under 1/3 of the industry (44 percent) and trade (30 percent) firms employ more than 50 persons each, and about one-quarter employ 10 persons or less. A fairly high proportion of the management and work force is educated. Thus 21 percent of the managers in the skilled category are university degree holders. Another 20 percent have diplomas. There is no significant difference in qualification between management in industry and trade on the one hand and between Ugandan and expatriat-run firms, on the other.

While 28 percent of the firms comprising 35 percent of industries and 24 percent of traders have annual turnovers of over US$35 million, the small firms with less than US$350,000 per year account for 22 percent of the total. Industries compared to traders
and foreign-owned firms tend to have a statistically significant higher business turnover. Europe and other undisclosed destinations supply about half of the total capital. The rest originate from Africa, a significant 13 percent is mainly from Kenya and the Far East. Given the high cost of domestic capital and the convertibility of the Uganda shilling, it appears that Uganda's post-SAP growth is fuelled by foreign merchant capital.

Foreign owned firms have a higher turnover and foreign capital in trade supersedes industrial capital, making the Ugandan economy entangled with the flow of merchant capital. This has far-reaching consequences for domestic accumulation, the formation of a national capitalist class and the bases of transition from agrarian to industrial economy. Apart from capital, the bulk of the raw materials are imported. This is part of the pervasiveness of the flow of foreign merchant capital into the economy. Still, there is no statistically significant difference between industry and trade in either accessing foreign capital or raw materials.

Unlike capital and raw materials, most technical innovations are reported to be domestic while Europe accounts for nearly one-quarter. Two-thirds of all the surveyed firms reported an increase in the trend of output in the past five years. Another one-quarter reported a decrease while about five percent in both categories reported no change. Although a bulk of the trading and marketing of industrial products is destined to the domestic market, one-quarter of the industrial firms cite Europe and Africa as their main markets. With substantial foreign merchant capital, industrial production and trading appear to have an outward orientation requiring further extension and deepening. While foreign merchant capital may have many potential adverse consequences for industrialization, its orienting of production and trade to the global economy is positive and may require enhancement by policy. There is also growing interest to expand the market for the products into Africa from the current level of seven percent of the firms to 50 percent.

The Policy-Marketing Process

According to 67 percent of the current and past policy-makers, the engagement of economists and economic consultants in the policy-making process is high. More than half also consider that the private sector and bureaucrats participate systematically in the framing of policies. Since such major policies have to be enacted by Parliament, all cite its role “highly” and “very highly.” Some 45 percent consider that some policies are enacted by Presidential fiat.

Closeness to the Presidency and the personal character of the top bureaucrats in the policy-making ministry are also important factors. Thus, according to current and past policy-makers, support by powerful individuals plays a vital role in policy-making.

Indeed, after the Presidency, foreign transnational corporations and the Bretton Woods institutions are the most pervasive groups. The Uganda Manufacturing Association is a distant third. Individual firms and to a lesser extent indigenous ones exert some influence. Trade unions and state firms have little input. Donors, the Bretton Woods institutions and transnational corporations are among the most influential groups in economic policy-making. Inappropriate policy influence of interest groups, lack of capacity and good leadership are the other perceived problems in the design of trade and industry policy.

At the level of implementation, the most dire problem is corruption followed by lack of resources, poor incentives, overlapping responsibilities of ministries non-commitment of the bureaucracy, frustration of implementation by disgruntled interest groups, and lack of
staff training. Policy-makers recognize that the private sector has a vital role to play in the policy-making process provided that its potential is enhanced through training and practical experience. Most policy-makers are aware of the programmes of privatization, commercialization, training and special credit availed to the private sector. The most important rationale for the reformed tariff and trade policy regimes are compliance with the demands of the Bretton Woods institutions.

The most important lobbying issue is tax, especially value added tax that was introduced in 1997. Lengthy import and export procedures, tight regulations and denationalization are the other minor issues for lobbying. In this case, traders and industrialists, and to some extent trade associations are the main lobby groups. For 10 percent of the traders, lobbying resulted in a worsened situation. More improved change is also reported by traders and associations while the no change scenario is more among industrialists. The most important media of lobbying, especially by the industrialists, are the newly established associations followed by personal contact. Powerful persons, religious and ethnic associations are not important venues of lobbying. While the latter responses may appear somewhat unrealistic particularly in their significance as extra venues, formal associations appear to take the stage in lobbying for members' interests.

Consultations about policies in government mostly take place in associations. Some 57 percent of the industrial and 48 percent of the trade firms are also directly consulted on anticipated policy changes. Also consulted are the policy-makers. Since many of the trade firms are small, more than half are not directly consulted.

The variation in the degree of consultation is statistically significant. As with lobbying, the single most important area of consultation has been on VAT and to a lesser extent forex, import export procedures and denationalization. A significant number say consultation had led to change in the policy.

Industrialists also complained about export and import procedures. The main media of complaint are associations, letters and personal contacts. While 40 to 50 percent of the complaints resulted in positive changes, those that went through associations did so more significantly. Judged from lobbying, consultations and complaints, there have been extensive formal and informal interactions between traders, industrialists and their associations on the one hand, and policy-makers, on the other.

As evidenced from the channelling of complaints, formal associations are becoming more and more important as media of communication. Despite the numerous trade associations, lack of regular fora are the most important obstacles to improved communication. This is a decreasing level from industrialists to traders, associations and policy-makers. This is followed by complaints against the government that it does not listen.

Bureaucracy is abhorred by as majority of traders and industrialists. Understandably, few policy-makers view government as a major obstacle to effective communication between it and business. Lack of organization is hardly viewed as an obstacle to communication, bringing to the fore the role of the formal business in the policy consultation with government.

The study also sought a ranking of different regimes in Uganda with respect to vision, transparency, sensitivity and accessible mode of operation. Obote in his first term scores as high as Museveni, reflecting the high level of openness and consultation in the policy-making in the country.
Idi Amin's regime scores worse than the colonial period on the attributes necessary for policy-making. The case of Amin is indicative of its massive negative intervention with no major policies informed by vision for the country's development.

In terms of vision, at 81 percent and 80 percent, Obote I and Museveni I are almost at par. The second phase of both regimes however declines significantly. While it is nearly halved in the case of Obote, Museveni II goes down. Again Obote I and both periods of Museveni demonstrate enhanced transparency. Of those who favour intervention in the realm of credit, 71 percent want high-level intervention, which is understandable given the high margins between borrowing and lending. The issue is articulated more by the policy-makers and to a lesser extent by industrialists.

There is a great desire for government intervention in the control of foreign investment, provision of credit and incentives for strategic industries. Few people support government involvement in trade and industry policy formulation and implementation.

Apart from corruption, the other major obstacle is lack of adequate infrastructure. Other obstacles include taxes financial constraints, and processing procedures.

In Uganda, political instability and inflation still haunt the business community. The low government intervention, and liberalization of the labour and money markets have led to a decrease in obstacles to industrialization and to promotion of export.

In the country, communication and road infrastructure are lesser obstacles for industrialists. Crime and theft are considered as threats more by policy-makers and to a lesser extent by associations. The fear of inflation by industrialists is nearly as high as that of traders. Low government intervention and foreign trade regulation are much less problems to associations and traders, respectively.

By far the most important consideration of government in trade and industry policy is the maximization of revenue, closely followed by satisfaction of the requirements of international organizations. All policy-makers consider them as the important. Balance of payments is also important but to a lesser extent.

In their assessment of government capability to design and implement industrial and trade policies, most industrialists and policy-makers consider it as weak and as requiring to strengthen capacity for effectiveness. The weakness is generally attributed to corruption, lack of effective institutions, and to lack of training.

Nearly one quarter and one fifth cite personal rule and rent seeking, respectively, as the major constraints to government's capacity to design and implement trade and industry policy. The greatest constraint to government-business interaction is said to be the greater importance the state attaches to external interest groups. The second highly rated constraint is poor organization of trade and industry. Nearly half of the people consider communication as the third important constraint, and one-third cited lack of vision by government. The institutional reforms suggested by more than 80 percent with no significant difference between the four groups are strengthening of the Uganda Investment Authority, reforming capital markets and integrating them into the international system, strengthening the Chamber of Commerce and the Ministry of Industry, Tourism and Trade, improving audit systems at all levels and re-orienting the Ministry of Foreign Affairs towards the promotion of trade and industry.

New institutions such as the Joint Venture Forum and the Import and Export Bank are also recommended but coming well behind the need to strengthen the already existing
ones. It is also recommended that courts be established for arbitration of industrial disputes and for improvement of general judicial system for enforcement of contracts.

**Schematization of the Current Policy-Making Process**

The diagram on schematization of the policy-making process in Uganda shows the process and its implications for development, trade and industry. It begins with a vision operationalized in the NRM's 10 Point Programme which was revised with liberalization and the adoption of SAP. The Presidency is the fountain of policy and inspiration.

The contemporary policy-making social space is composed of growth, foreign aid, economic liberalization, socio-political innovations in governance, institutionalization of democracy, open society and a free press. Juxtaposed against the operating environment are the major interest groups that exert heavy influence in policy-making. These are: foreign organizations — donors, the Bretton Woods institutions, multi-national companies and, to a lesser extent a local companies. Also exerting pressure are the Uganda manufacturers' associations and individual interest groups. Labour unions have almost no influence.

The policy-makers from the Presidency and the Cabinet interact with the major interest groups and the policy analysts. Given the three structures of the policy-making process,
the execution depends to a large extent on the objectives and capacity of these two groups, and their influence on the policy-makers manifested in their agenda setting, focus and implementation thrust.

Its hypothesized success of the policy-making process will depend on the degree of national commitment by the policy-makers on the one hand, and intellectual confidence, technical competence, political autonomy and access to political power by the policy analysts, on the other. If agenda setting and focus are heavily tilted towards interest groups or if a weak autonomy is exerted by national policy-makers, the execution of policy will not attain the medium and long term objectives of development. The following is a brief comment on the opportunities and constraints of each.

In the past 10 years or so, the Ugandan economy has been growing at an average rate of about 6.5 percent per annum. This is a reasonably high rate by world standards. However, most of the growth is accounted for by the reconstitution of factories and farms, which were in the past rendered unproductive. Uganda has yet to attain the pre-independence zenith per capita income level. Growth has been aid-driven. As a percentage of GDP, the country is the largest recipient of foreign aid in the world. Most government development and recurrent expenditure originate from foreign sources. This obviously reduces its autonomy to manage the economy and develop policies independent of donors and other international interest groups — an unfortunate position that it shares with many other African countries in Sub-Saharan Africa.

Most growth in agriculture has occurred through lateral expansion of land and labour inputs rather than through absorption of technology. Being a high cost country, there are few manufactured goods for export. However, the economy can advance to the level of the likes of Cote d’Ivoire.

Uganda has a free press by any standards and national and local policy issues are openly discussed.

Liberalization is taken almost as gospel truth. It appears as if the governing class has made a complete swing from orthodox Marxism to unbridled market economy probably under the influence of the major interest groups. However, corruption is perceived to be pervasive and to be an obstacle to industrialization and trade. The growth of the economy has not embraced the two districts in the North that have experienced an insurgency for more than 10 years and another three in the West. The insurgency has led to a diversion of resources to the military, a development that has a negative effect on attraction of foreign capital. Among the negative constraints, corruption and the insurgency are being openly discussed by all sectors of society. However, the sustainability of the foreign-aid driven strategy and its impact on reducing national autonomy in industrialization does not figure in popular discussions.

Foreign capital is merchant in nature and is engaged in the export of primary products, import of raw materials and manufactured goods and import substitution in light manufacturing. For example, in the multinational structure, the propensity for repatriation of extraordinary profits by multinational firms from coffee is very high.

Bilateral and multilateral donors began to give aid following NRM’s acceptance of the prescriptions of the Bretton Woods institutions, which have considerable influence among funding personnel in the public and private sectors.

There is consultation by foreign institutions with state agencies on what is ideal for the Ugandan economy. Although the Ugandan Manufacturers’ Association has some
influence, that of Ugandan nationals is insignificant. The expulsion of Asian traders and industrialists by Amin's regime left behind the positive legacy of a national merchant class, albeit in the lower echelons.

The weaknesses of the national bourgeoisie in accumulation could be countered by the state class as in Latin America and East Asia during their early stage of industrialization. Thus, the critical issue in the development of an industrial strategy is the interaction between the major interest groups, and their influence on agenda-setting, policy-making and execution.

Whether or not the growth of the Ugandan economy will be sustainable and transit to industrialization via the development of a home market and manufactured exports depends on the national commitment, intellectual confidence, technical competence, political autonomy and access to political power by senior level policy analysts and advisors.

Conclusions and Policy Implications

At independence in 1962, Uganda had a sound macro-economic base. It had a respectable growth rate, low inflation, a healthy balance of payments status and a low fiscal deficit. It had a thriving peasant economy, ranking among major producers of robusta coffee in the world. It also produced cotton, tea and sugar, complemented by copper from the mining sector. Its nascent industry, dominated by Indians, had a dynamic home market from among the peasantry. Uganda, therefore, had the potential to make a post-colonial African economic miracle.

However, designed for stability and exploitation by the colonial regime, its political structures were wrought with problems which British imperialism manipulated to its advantage after independence. Through its divide-and-rule policy, Buganda, a Protestant aristocracy, enjoyed more power in the colonial administration. This was deeply resented by others who had become double-layered colonial subjects of the British and their most loyal functionaries, the Baganda aristocracy.

The colonial government presided over the rivalry of Protestants and Catholics, in many ways reminiscent of the conflict in Ireland. Support was accorded to the former. The Muslims formed a religious minority, as colonial subjects not professing the religion of the master. As in other British and French colonies, most of the army personnel were recruited from the "fierce looking" people of the Luo North.

Although the combined anti-colonial struggle ousted the British, the Protestant-based alliance between the Kabaka (King of Buganda) and the Uganda Peoples Congress fractured soon after independence, culminating in the narrow escape from death and subsequent exile of the King in 1966. Later, when the Obote government became "visionary" as manifested in the The Common Man's Charter in the middle of Cold War, the regime became anathema to world imperialism. Obote met the fate of Nkrumah, Lumumba and other visionary African popular nationalist leaders.

The machinations of imperialism demonstrated in Idi Amin's intervention brought to the fore many of the potential sources of conflict which British colonialism nurtured for control of post-independent Uganda for its own national interest. Following the overthrow of Amin, tinkering with the political, social, economic and moral ruins left by Amin, the highly rated Obote in his 1962–1971 phase scored very low in terms of vision, transparency, openness and sensitivity.
The system of government embroiled state and society in protracted conflict. Some of the impacts are still reverberating to this day. From 1971 until the coming to power of the NRM government in 1986, the Ugandan polity was reduced to "an example of poor initial conditions ... lack of appropriate socio-political environment for the flourishing of private enterprise and growth" (Soludo: 1999, p 32). In the typology of Collier et al (1996), a promising Uganda was reduced to the level of Angola, Sierra Leone, Burundi, Liberia, or Somalia. In some measure, it lacked all the three conditions necessary for growth: a minimum degree of social stability, macro-economic balance and efficiency.

Lacking stability, cohesion and endurance, the state atrophied, with its legitimacy and authority in the realms of the economy, politics, and security severely diminished. These functions were fragmented and re-located to the household, to localities and other pre-mordial institutions — a situation still posing serious problems in the public service. Unlike Cote d "Ivoire, Kenya and others, there is little systematic, trade or industrial policy to review and evaluate during the period 1971–1985.

In the post-SAP period, growth appears to have been fuelled by foreign aid and merchant capital with far-reaching consequences for domestic accumulation, the formation of a national capitalist class and the basis for transition from an agrarian to industrial economy. Apart from capital, the bulk of the raw materials are also imported. This shows the pervasiveness of foreign merchant capital into the economy. However, with policy direction aimed at indigenizing it, this outward orientation has the potential to garner enterprise, foreign direct investment, skills, product development and markets.

A reversal of the downward trend of economic and social development set in motion during the era of Idi Amin will depend on policy-makers with commitment, policy analysts with intellectual confidence, technical competence, political autonomy and access to those with political power.

Notes

1 The highest manifestation of which is in Zambia where more than half of the population is now classified as urban although the share in GDP and employment in the industrial sector is no more than other countries where the rate is much lower

2 While this is the beginning of a full-fledged SAP, a limited one was undertaken during Obote II in 1981–85. Comparisons of general policy-making processes are made between the pre-independence (pre-1962), under Obote I in the post-independence period (1962–1971), the era of Idi Amin (1992 1999), Obote II (1980 –85) Museveni I with limited reforms (1966–1992) and Museveni II with full fledged reforms (1992–1999). In the enquiry, the brief interludes between Amin and Obote I on the one hand and between Obote II & Museveni I each lasting for less than a year on the other are excluded.

3 It is however worth noting that defence expenditure alone took 28.7% of total Government expenditure in 1995/96 which was almost equal to total spending in health and education in the same year (Opio: 1997 p.14).


5 These are identified and expounded upon in a work by Charles C. Soludo.
6 It is however worth noting that defence alone took 28.7% of total government expenditure in 1995/96 which was almost equal to total spending in health and education in the same year (Opio: 1997, p.14).

7 Given an almost universal access to land and that the effect of SAP in agricultural has been in tradable agricultural commodities, its impact on small-holder cultivators has generally been positive.


9 A substantial portion of this, for example, in health and education does not reach its grassroots target.

10 Due to the high cost of local capital most merchant capital handling the most important sub-sector is off-shore short-term capital and other money from the neighbouring countries. Oligopolistic exporters are also importers and roasters in Europe and America. They are allowed to operate at all levels in the domestic trade controlling the marketing chain from the farm onwards up to roasting abroad. Apart from stifling local enterprise, by reducing the producer prices via their oligopolistic power and repatriating profit, they are bound to play a significant drain of capital minimizing inter-sectoral resource transfer for industrialization.

11 Whether the strategies adopted for a peasant economy could have resulted in the deceleration of the dynamics of the rural economy resulting in stagnation as it turned out in Tanzania is a moot question.

References


11. SENEGAL: INSTITUTIONAL ASPECTS OF TRADE AND INDUSTRY POLICY

Gaye Daffé and Momar Coumba Diop

Introduction

The economic history of independent Senegal can be divided into two main characteristic periods: spanning the 1960s and 1970s: the first one was dominated by sustained interventionism in the economic sector; the second one, which started in the early 1980s, has been characterized by policies of liberalization and private sector development under the aegis of the World Bank and IMF. The transition between the two was marked not only by a change in policies and economic strategies, but also by a replacement of a good number of the political ruling elites and by a steady rise of a new breed of economic operators (Diop and Diouf, 1990).

Senegal is one of the first developing countries to have experimented with the structural adjustment programmes initiated by the World Bank and IMF in the early 1970s (Rodrick, 1992). With the exception of World Bank publications, there exists little systematic research on the conditions of implementation of such reforms, though. Yet, besides being increasingly influenced by the institutional framework, structural adjustment affects a country's social and political environment. It is therefore not easy to understand the episodes of economic policy reforms without a systematic analysis of institutional aspects which, as everyone knows, condition a mastery of such policies and the adjustment of economic players to the reform process. In this context one understands better why the role of the state and other social players has become once again one of the most important discussion topics on strategies for the industrialization and international integration of Sub-Saharan Africa.

The aim of this chapter is to bring to the fore the historical context in which economic policies and industrial strategies have been carried out in Senegal since independence, the institutional environment and the trade and industry policy reforms elaboration process, the relationship between the social forces and the institutions that inspired the design of such reforms, as well as the reaction of social and economic players to the implemented measures.

After an overview of the various phases of the industrialization of Senegal and of the strategies used to achieve it, the chapter analyzes the institutional environment of trade and industry policies and assesses their impact on Senegal's economic performance. The last part of it talks about the prospects and conditions of implementing a successful trade and industry policy in Senegal.

Economic Policies and Industrial Performance: Historical Landmarks

In Senegal, the phases of state formation, the turning points of political and economic life have been for a long time closely linked with groundnut production performance. That is why, by abruptly putting an end to the "socialist" leanings of the first leaders of independent Senegal, subjecting the Senegalese economy to structural adjustment, also
coincided with a time when the model of economic regulation essentially relying on exploiting of this groundnut industry had run out of steam.

From the various episodes of the structural adjustment programme implementation and the social players’ response to the proposed reforms, there transpires an attempt to overhaul a political and economic management model adopted soon after independence, with a view to submitting the national economy to new organizational and functioning standards. In order to better understand the underpinnings of such changes, it is essential to shed light on the process of industrialization of the Senegalese economy.

The Trade and Industry Model during the Colonial Period

Located at the crossroads of the trade routes linking Africa, America, Europe and, through the Maghreb, the Arab world, Senegal aroused great interest for the outside world very early. Brought by the trans-Saharan caravans, the Islamic influence penetrated the region in the 13th century. Two centuries later, it was the turn of Portuguese navigators to reach the Senegalese coast. They were followed by the British and the French who set up their first trading posts in the first half of the 17th century. Since then, Senegal remained a bridgehead first, for the triangular trade, and then for the French colonial expansion in Sub-Saharan Africa, which completely shaped Senegals’ mode of economic development.

Thus, the slave trade, the trading post of which was at Gorée, was replaced by the gum arabic trade along River Senegal with Saint-Louis as the main trading post. However, after brief experiments in growing cotton and indigo, groundnuts stood out as the most dominant crop, thus establishing Dakar’s dominant economic role (Daffe, 1994). The passage from a slave trade-based economy to that based on the groundnut as a cash crop was going to deeply influence the subsequent economic development of Senegal.

Built between 1863 and 1898, the port of Dakar established its pre-eminence at the time when the town was promoted to the rank of administrative capital of French West Africa. As the first port of call for European ships en route to South America, Dakar port was also destined to serve, like those of Gorée and Rufisque, as a warehouse between Europe and the other ports of call in Africa. Most of trade companies had their main African headquarters in Dakar. With Dakar playing such a prominent role, one can understand why Senegal got ahead of other French speaking territories in Africa by several decades from the point of view of industrial installations.

The captive trade and private credit system linking manufacturers and metropolitan suppliers to merchants and dealers based in Senegal were progressively replaced by monetary exchanges whose popularisation was due to the extension of groundnut growing, to the inflow of the first public investments needed for the development of transport infrastructure and to timid industrialization attempts (Daffe, 1994).

Moreover, the expansion of the French colonial empire which, in Senegal, translated into an unprecedented increase in groundnut production towards the end of the 19th century, demanded a widening of the activity domain and possibilities of intervention of the banking system. Having replaced the Bank of Senegal (created in 1853), the West African Bank (BAO — Banque de l’Afrique Occidentale) was not only vested with the right of issuance for the whole of French West Africa, but it equally functioned as a deposit-cum-business bank (Suret-Canale, 1964). This change was a response, at the level of the banking system organization, to the rise of America’s industrial power at the end of the 19th century and to the tight competition that ensued at the international level. The
liberalism that had characterized trade relations between colonial powers and their empires was to be replaced by a type of protectionism that guaranteed to each metropolis preferential access to markets in the territories under its domination (Rocheteau, 1982).

The exchange economy and, before it, the goods exchange trade thus put Senegal in a state of total dependence vis-à-vis its metropolis. The economic circuit set up looked like a mere extension of that in France. The venal nature of such a system, and the dissociation of production from the commerce it entailed were not conducive either to the integration of various activity sectors or to national capital accumulation.

With the colonial administration being definitely established, relations between France and French West Africa in general and with the colony of Senegal in particular were governed by what was called the "colonial pact," which was a clever balance between the interests of metropolitan manufacturers and those of trade companies established in the colonies. Suret-Canale (1964) and Rocheteau (1982) have aptly described how such a mechanism managed to reconcile the divergent interests of commercial firms among these, on the one hand, and between the same firms and metropolitan manufacturers, on the other. As far as these firms are concerned, two groups of interest can be distinguished: on the one hand, the *marseillaises* (so called because they originated from the city of Marseilles) and, on the other hand, the *Bordelaises* (so-called because they originated from Bordeaux) and other firms. Connected with the manufacturers at the oil factory in Marseilles, the first group, headed by the French Company for West Africa (*CFAO*-Compagnie Française de l'Afrique Occidentale), was hostile to trade protectionism in the colonies, which it considered as an obstacle to the free supply of goods by the metropolitan industry.

The second group, mainly composed of commercial firms from Bordeaux, was linked to branches of the metropolitan industry that exported textiles and cars especially. In search of outlets, this group was naturally favourable to trade protection of colonial markets. Colonial administration, which closely followed the trends in the prices of colonial products and tax and customs revenues, became a natural ally of the group.

However, in spite of their divergent interests, the two groups had in common their hostility towards the industrialization of colonies. By guaranteeing the selling, at high prices, of manufactured goods on colonial markets, while at the same time allowing the metropolitan industry to get supplies from the same markets at low prices, the colonial pact thus constituted a barrier to the development of industry in the colonies. Suret-Canale (1964) has shown how the collusion between manufacturers who supplied goods to the metropolis and commercial companies allowed the former to get a foothold on restricted but regular and very profitable trade outlets, and the latter to maintain a de facto monopoly that guaranteed them handsome profit margins. Furthermore, there was a concentration of commercial activities de facto controlled by three big firms sharing among them a quarter of investments and 50 to 90 percent of French West Africa's imports and exports. One can thus understand why, until World War II, the investments made in the French African territories remained so low compared to those made in the Portuguese and British territories. In addition, of the rare capital flow to French West Africa, only a very small proportion was invested in industry: the bulk of investments was destined for trade, real estate and, regarding public investment, for transport infrastructure.

The first important industrial activities started only as an aftermath of World War II, when the shortage that resulted from the maritime blockade created the need for new
consumer industries oriented towards the local market, while the activity of the first industries set up in 1920s, oil factories in particular, was strongly stimulated (NguyenVan Chi-Bonnardel, 1978).

From the end of World War II to independence, the process of development and diversification of Senegal's industrial apparatus never stopped. The socio-economic concerns in France's colonial politics led to the adoption of infrastructure development plans the implementation of which was entrusted to a special French government fund, namely the Investment Fund for the Development of Overseas Territories (FIDES — Fonds D'investissement pour le Développement Economique et Social des Territoires D'outre-mer). At the same time, there was an increase in the flow of private investments in trade and industry. As a result, almost the whole industrial apparatus in Senegal was set up 1955. It underwent very few changes during the entire decade that followed independence. Activities were little integrated because they essentially rested on import substitution industries that relied on the sole criterion of profitability. The industrial sector was rather directly pegged either to export agricultural produce, of which it was just an extension, or to the final consumption.

Even though most of the efforts to industrialize the colonial economy were done by metropolitan manufacturers, this industrialization was not done without resistance. As for the big colonial trade, it is only in the mid-fifties that it really started to become important, especially in the cotton industry. This period indeed corresponded to the end of the "colonial pact" and, with the suppression of authorization required before setting up industries, to a certain amount of the trade and industry policy liberalization for colonies. The French government's strategy aimed both at adapting and strengthening dependence links between the colonies and the metropolitan economy. Trade interdependence was effected through a system of reciprocal preferences guaranteeing the selling of products from colonies to the metropolis as well as support for farm gate prices higher than world market ones (Rocheteau, 1982).

At the monetary level, the adaptation consisted in creating the franc for the French Community of Africa (CFA — Communauté Française d’Afrique) in 1945 and in instituting unlimited convertibility of this CFA franc vis-à-vis the metropolitan franc at a fixed exchange rate\(^5\); it also consisted in total free money circulation within the Franc area. Such a system which, even today, constitutes the pivotal element of economic and political relations with France and its former colonies in Sub-Saharan Africa, has proven to be remarkably stable.

Naturally, neither the "colonial pact" nor the readjustments brought to it on the eve of independence worked in favour of the promotion of Senegalese economic operators. On the contrary, all the trade policies and strategies were meant to systematically evict them from the business community and decision-making centres (Marfaing and Sow, 1998). With the big crisis of 1929–30, it was first the massive arrival of economic operators of Lebanese origin that started to eat into the economic space which national independent traders had managed to carve for themselves during World War I. Some of these gave up their own businesses to be employed by the big colonial firms. Others were reduced to engaging in contraband trade, particularly in areas bordering British (Gambia) and Portuguese (Guinea-Bissau) territories.

With World War II, some Senegalese economic operators were given an opportunity to widen their field of action by establishing, for their imports, direct contacts with representatives of French firms. To other operators, the shortage of merchandise and of
means of transport and technical skills owing to the severance of relations with the metropolis, created business opportunities in urban centres. However, those operators had only limited contact with the big French commercial firms which could serve as their only intermediaries for their transactions with Europe, as they themselves were Lebanese (Marfaing and Sow, 1998). With the return to economic liberalism, which was heralded by the end of a war economy, there was a massive withdrawal of French economic operators from the interior of the country. They gave up general trade to devote their time to importing heavy equipment, goods and to highly protected light industry. At the same time as the French interest groups were withdrawing, there started a policy of “Senegalisation,” followed by that of putting the groundnut circuit under state control. The two policies fostered the emergence of Senegalese operators on the economic scene. But even in this context, the Lebanese operators were more efficient and swift in taking over areas of activities abandoned by French firms. That period was even put to better use by certain big Lebanese businesses, which tried to diversify businesses, notably in the food industry.

It is only in the transport sector that Senegalese operators in the end managed to achieve a lasting breakthrough. Taking advantage of the shortage of vehicles and workforce during World War II, many of them indeed turned to this sector. This change of sector increased soon after independence and continued until all agricultural produce marketing circuits were brought under state control.

Economic Policies and Industrial Strategies of the Post-colonial Government

The Rampant Interventionism of the 1960s and 1970s

The Global Economic Project of the Post-colonial Government

More than changes in the political life inside France, it is a number of events that took place in the mid-fifties (military defeats in Indochina and Algeria, the anti-colonialist conference in Bandung) that explain the abrupt change in France’s development policy towards its colonies. These events called for a different policy that would allow France to safeguard its interests and involve the African elites more in the management of political and economic power. But the aspirations of the African populations at independence influenced the restructuring of the colonial system.

In Senegal, it is under the leadership of Léopold Sédar Senghor that, since independence, the ruling class tried to set up political, administrative and economic structures capable of taking over from the colonial system. Guided by the doctrine of “the African way of socialism,” it quickly took control of the country whose economy was on the decline.

The option taken by the first rulers of Senegal for state capitalism was permanent, even though strategies for its implementation varied with time (Rocheteau 1982). Soon after independence, the state was perceived as a foreground player in economic life. Asserted in the first four-year plan (1961–64), this general orientation was regularly reaffirmed in all the next three plans. It was also in the first plan that the role of “engine” which the new state was going to play in the process of industrialization was stated. State intervention on the economic scene in general, and in the industrial sector in particular, remained, in keeping with the blueprint drawn in the first four-year plan.

Two phases can be identified in the economic policies and development strategies of the two decades after independence. The first, the 1960s, was marked by the setting up of
state institutions and agriculture intervention structures. The second, from 1970 to 1979, is a phase which some authors like Berthélémy et al. (1996) have labelled the “interventionist U-turn” in favour of industrialization.

The 1960s: the State as Promoter of Agricultural Development

In their search for accelerated economic and social development, the rulers of the newly independent state placed emphasis first on increasing and diversifying agricultural production. A large programme to control, manage and support farming activities and the rural population was launched. It had a double objective: to replace the foreign private sector by the State in the groundnut circuit and to modernize agriculture and increase output by providing seeds, fertilizers and agricultural implements on credit.

After the dismantling of French West Africa, the break-up of the Mali Federation and the severing of trade links with Guinea, the Senegalese industrial market abruptly fell from twenty to only three and a half million consumers (Berthélémy et al., 1996). The trade and industry policies set up in various countries refocused on nationalist considerations rather than on demands for regional integration: each country set out to set up its own consumer industries that competed with those in Senegal. The signing of a customs agreement between the member States of the former Federation in 1959, which later changed into a customs union, the Customs Union of West African States (UDEAO — Union Douanière des États de l’Afrique de Ouest), and then into an economic community, the Economic Community of West Africa, (CEAO — Communauté Économique de l’Afrique de l’Ouest), could not prevent the various economies to turn on themselves.

In this first phase, Senegal’s industrial policy limited itself to encouraging diversification of food-processing industries with a view to increasing the value of local resources, and to working towards a better integration of the economy (Rocheteau, 1982). A few food-processing industries were started (essentially fish processing), but on too small a scale to worry the French firms already operational in this sector. Although rare, the attempts to strengthen the farming and industrial sectors were more ambitious. However, these few industrial projects were not meant to go against French firms’ interests. The import-export trade, which in the meantime had fallen into the hands of Lebanese-origin operators, continued to prosper as in the past. The national economic operators, they were kept at the periphery of economic power.

The state’s intervention in economic life and the strong presence of foreign interest groups in the key sectors of the industry, finance and trade thus blocked the emergence of a dynamic national private sector. The only domain in which the new state took initiatives to promote national economic operators was retail and distribution. These initiatives consisted in extending and supporting formulas, whose implementation started towards the end of the 1950s, according to which some former colonial trade companies accepted to take care of management and importation for Senegalese retail traders’ cooperatives (Rocheteau, 1982).

This experimental phase of interventionism in the farming sector ended at the end of the 1960s in a climate of discontent and disillusionment with regard to the hopes raised by independence (Berthélémy et al., 1996). The mismanagement and ineffectiveness of the structures designed to intervene in and control farming activities, the withdrawal of the French support for groundnut farming (which entailed a 25 percent reduction of its price)
and the aftermath of the first signs of drought on groundnut production led to an increasing loss of interest in groundnut farming on the part of farmers.

The economic slump in the countryside provoked a rural exodus. This strained urban development by exerting pressure on the supply of public amenities and on the urban labour market. Unemployment and precarious living conditions became the order of the day; so did claims and protests from an ever-increasing urban youth population. The discontent led to social unrest in 1968 and 1969. As we shall see later, these events were a watershed in the political and economic history of Senegal, as the solution to the problems raised entailed speeding up growth. But this would only be possible through a change of strategy in favour of voluntary participation and a type of interventionism more oriented towards industrialization.

The 1970s: the Interventionist Turning Point in Favour of Industrialization

Senegal's economic policy immediately after independence was founded on a double challenge: on the one hand, to maintain the former hegemonic positions of the Senegalese industry over the whole of West-Africa and, on the other hand, for the Senegalese economy to continue attracting foreign private capital and investments. It is this double challenge based on the performance and promising prospects of the Senegalese economy that explains the Government's choice to allocate the bulk of public investments to agricultural development. However, experience has shown that such a choice, as well the hypotheses on which it rested, stemmed from too much optimism on the part of the decision-makers.

Changing the interventionist strategy in favour of industrialization at the end of the 1960s was not a consequence of the sole failure of the experience by the state in running the farming sector; it was also due to the increasing difficulties which the Senegalese industry faced, following the shrinking of its "natural" market and the progressive industrialization of other countries in the sub-region. The massive repatriation of former colonial public servants deprived the domestic market of its most solvent section of the population. In the face of the production overcapacity resulting from such a situation, companies (mostly of French origin) reacted either by not renewing their equipment or by relocating production units in countries with fast-growing industrialization such as Côte d'Ivoire and Cameroon.

In contrast, in the face of severe criticisms levelled at the government in the context of structural adjustment programmes for intervention in the industrialization process, it is interesting to recall the role which the World Bank and other sponsors played in the reorientation of economic policy in Senegal and in other developing countries. The change of course was directly inspired by a doctrine defined by MacNamara in 1971. Since the farming sector was not capable of meeting the increasing demand for jobs, it was deemed vital, in the framework of the new approach, to develop industrialization and adapt the methods of intervention in this area. But it was also specified that such rapid industrialization must be backed by production of export goods taking into account existing comparative advantages.

It is on the basis of the reorientation that Senegal opted, in the early 1970s, for outside-oriented industrialization. Nonetheless, the negative reaction which this industrialization engendered in the community of French employers forced the Senegalese government to adopt a less clear but more pragmatic approach. For instance, while opening access to the advantages offered by the new code of investments and export subsidies to the industries
producing goods for the West African market, the government maintained and strengthened the measures protecting these advantages. Until the end of the 1980s, this type of compromise remained a constant in the trade policy reforms undertaken in Senegal. The image of the World Bank as a "trouble-maker" in the eyes of a good number of French manufacturers in former French colonies, especially Senegal, can thus be traced to that period.

The interventionist turning point in favour of industrialization began with the creation, in 1968, of the National Company for Industrial Research and Development (SONEPI — Société Nationale d'Étude et Promotion Industrielle)\(^{14}\). The setting up of SONEPI was followed by that of the National Company for Development Studies (SODED — Société Nationale d'Études pour le Développement) whose role was to provide information and technical advice on the social and economic problems faced by officials from both the public and para-public sectors. The aim behind the setting up of such structures went beyond the need to support the administration in its development endeavour, though; it also consisted in strengthening the government’s negotiating powers in its dealings with foreign financial and industrial institutions.

Taking reference from Galbraith’s theory on the power of "techno-structure" in the modern enterprise (Rocheteau, 1982), the government decided to take a three-pronged action: a progressive senegalisation of executive positions in the subsidiaries of foreign firms, the training of new leaders capable of being at the same time administrators and managers at an international level, and the development of a breed of businessmen likely to compete with foreign entrepreneurs. Contrary to the previous situation where the government bowed to the will of and conditions imposed by foreign partners, it took the initiative to invite international investments, decided on industrial projects, and looked for and selected foreign investors. Industry creation became a political act that necessitated the collaboration of both the administrative services and private managers. It also made investment a state affair. Nonetheless, such change required prior setting up of an appropriate institutional framework\(^ {15} \). To the projects started in the first plan and linked to the agro-industry sector, the third and fourth plans added three new forms of intervention in the industrial sector: i) the setting up of production units until then belonging to developed countries, such as a ship repairing yard built in 1971; ii) support for the diversification of industrial activities in the sectors where private enterprise was dominant, such as the tourist industry; iii) the extension of the investment programme to the areas of activities hitherto solely in the hands of the private sector, in exchange for a revision of the public service concession system\(^ {16} \).

Taking advantage of the massive influx of capital in need of reinvestment and of the favourable economic situation owing to better prices for groundnuts and phosphate, the fourth plan (1973–1977) served as an opportunity for the government to launch a vast and ambitious investment programme. Ignoring the industrialization efforts underway in the other countries of the sub-region, the country’s leaders wanted to restore and strengthen the former hegemonic position of the Senegalese industry on the market of the former French West Africa. Following the international economic crisis of the early 1970s, Senegal widened the circle of financial and industrial partners. Such diversification of financing sources and industrial partnership gave to the public authorities greater freedom in the choice of levels and types of intervention. From 37 billion Francs in the first plan, achieved investments rose to 166 billion Francs in the fourth (Berthélemy et al. 1996). Similarly, the proportion of investments devoted to industry and energy rose to 28 percent, while it was almost non-existent in the first two plans.
By deciding not to intervene any further in the processing industries, the government designed a new set of projects that aimed to provide the country with a heavy industry notably in the mineral and petrochemical areas. However, due to the complexity of institutional and technical problems raised by these projects, as well as the very high cost of developing them, their implementation required the government to increase its own funding capabilities. This was the main reason for the decision to extend the public authorities' control over a bigger number of industrial activities.

It all started in the oil and mining industry sectors. Through the creation and acquisition of industrial units, the government progressively extended its control over as varied sectors as food processing industries, chemical, and textile industries, oil refining and banking. The number of para-public companies created between 1970 and 1975 was thus estimated at 70 (Berthélemy et al. 1996).

That said, the Senegalese decision-makers of the 1960s and 1970s were as much explicit about the objectives and strategies for the country's industrial development as they remained relatively discreet about the corresponding trade policies. Development programmes nonetheless contained a number of objectives and measures pertaining to these policies. Nevertheless, even though the option of diversifying exports was asserted in the early 1970s, there had to come the fifth plan (1977–80) to see the trade openness become a major axis for Senegal's trading policy. In addition to the increased measures designed to promote and diversify exports, this plan was actually an opportunity to standardize customs tariffs, while at the same time non-tariff-related protection measures were made more selective.

Created in 1974, the industrial free trade area in Dakar was the first initiative aimed at encouraging export-oriented industrial investments. Its creation was followed by numerous other institutions destined to give support to export companies in the form of advice and information (one of them being the Senegalese Centre for Foreign Trade) or in the form of insurance and favourable credit conditions.

However, even though the different measures were oriented towards a growth strategy relying on foreign trade, they still remained within the limits of a relatively protectionist political framework. As a matter of fact, from 1960 to 1979, import duties and taxes varied about 20 percent of the value of imports, which was not a negligible rate if one considered the relative share of imports in the resources of Senegal's economy. In the face of the reduction of French public aid, the Senegalese Government resorted more and more to customs receipts to cater for its expenditure. On the other side, to escape such tariff protection that had become increasingly complex and selective, numerous companies sought to benefit from exemptions and special the advantages linked either to the code of investments or to special conventions. In 1977, more than 30 companies benefited from this type of convention. The multiplication of such exceptional measures contributed to rendering the protection system even more complex and opaque.

As government appointed executives newly graduated from universities and public service training institutes to head public and para-public corporations, its policy also sought to promote a new breed of Senegalese business people. But the selection was not done on the basis of efficiency and economic management criteria. Instead, bank loans and fiscal advantages were granted based on "clientelism" (Diop and Diouf, 1999). It was in this context that some Senegalese private operators, who were used to a more open commercial and economic environment, chose, after independence, to run their businesses through a contraband system that got round protectionist barriers. This change
of strategy coincided with the decline in groundnut production and the call from the religious leaders of the Mouride brotherhood urging their members to engage in activities that were more lucrative. Rural exodus and migratory waves which followed that call provoked the explosion of the informal sector. It was then that big Senegalese business people emerged who, owning huge capital often of dubious origin, invested in immediate profitability sectors.

The poor performance of the Senegalese economy in the 1960s and 1970s as regards productivity and competitiveness worsened the problem, which the industrial sector faced soon after independence: that of finding markets for its production. Moreover, with the industrial development unable to rely any longer either on levies from an agricultural sector hard hit by drought, or on foreign public aid in constant decline, it became impossible to find an alternative to a groundnut economy out of steam (Duruflé, 1994).

The 1980s and 1990s: The Economic Crisis, Institutional Changes and Structural Adjustment

Origins of the Crisis

The crisis in which the Senegalese economy stayed for a long time at the end of the 1970s was already noticeable with the break in the trend in groundnut production from the second half of the 1960s to the mid-1970s. At the same time, consequences of the closure of the West African market could be noticed in the domestic industry. The decline in groundnut production and the ensuing financial difficulties led to a slowing down of GDP growth. This fell from an annual rate of 2.5 percent between 1960 and 1970 to that of 1.8 percent between 1975 and 1980. Given the high rate of population growth, the per capita GDP fell to -1 percent.

The economic imbalance was compounded by a trend in consumer expenditure that was not commensurate with the resources of the economy. Supported by the inflow of foreign financial resources of the early 1970s and by the export revenue boom that followed on the heels of this inflow, the GDP proportion of consumer expenses rose to more than 100 percent in 1979. But its decline in elasticity that was to follow had disastrous effects on domestic savings, the GDP proportion of which plunged to about -7 percent in 1981. The fall in domestic investment could not be made up for by greater recourse to external sources of funding, since these were drying up.

Senegal's foreign accounts depreciated at an alarming rate too. Taking the place of a slowing down domestic production, imports kept increasing while export revenue fluctuated according to climatic vagaries and increasingly unstable prices on international markets. From an average of 0.1 percent between 1960 and 1970, the growth rate of export goods and non-factor services rose to 6 percent between 1970 and 1975, before becoming negative between 1975 and 1980. No surprise then that the current account deficit grew larger by rising from 10.4 percent of GDP in 1970 to almost 26 percent in 1981.

The country's budget deficit followed a similar trend by rising from 0.6 percent of GDP in 1970 to 12.5 percent in 1981. The deterioration of public finances increased as the debt service became a necessary component of budget expenditure, while at the same time foreign borrowing had become the preference source for financing Senegal's domestic and external deficits (Boye, 1992).
The deterioration of the country’s exchange rates and the frequency of occurrence of the shocks that had to do with climatic factors, oil crises and an international environment, were undoubtedly linked to the increasingly mediocre performance of the Senegalese economy since the end of the 1970s. However, in spite of the option taken in favour of a type of industrialisation aimed at diversifying exports, this poor performance was also the result of an absence of a strategy for external competitiveness.

The leaders of the newly independent state were mistaken not only in opting for import substitution industrialization — no alternative strategy was possible then — but also in deluding themselves that industrialization projects in themselves were enough to make of the manufacturing sector the main source of export diversification, without explicit strategic measures (Mkandawire and Soludo, 1999).

Nevertheless, from the possible explanations for the crisis of the Senegalese economy one cannot exclude the behaviour, on the part of some social groups, of a predatory nature in the pursuit of unearned income (Berthélemy et al. 1996), the ambivalence and contradictions of state policies (Mkandawire and Soludo, 1999), and the wrong choices or mismanagement by a government that led a life not commensurate with own resources.

**Structural Adjustment at the Backdrop of Institutional Changes**

The gravity of the crisis in the Senegalese economy at the end of the 1970s led to deep changes in the institutional mechanisms of decision-making and economy management. Before the Senegalese economy underwent structural adjustment, the first “therapy” was to make the government admit that the previous economic policies were inappropriate and inefficient, and that these had indeed been responsible for the genesis and depth of the crisis. The second one brought it to accept reforms that could rectify the deficiencies. A voluntarist policy oriented towards the strengthening of development foundations was thus replaced with a set of “recipes” for managing economic imbalances.

Since 1979, three generations of structural adjustment programmes that came directly from the offices of IMF and the World Bank in Washington replaced one another, all with the objective of rectifying macro-economic imbalances and re-launching the growth of the economy. However, with a close look at the succession of the reforms implemented, one will be struck by the correspondence between the events linked to those reforms and the cycle of presidential and legislative elections in Senegal. It can actually be observed that each one of the elections in 1983, 1988 and 1993 put an end to one adjustment programme while ushering in a more severe one.

The 1980-84 Economic and Financial Recovery Plan was, after the short-lived stabilization plan of 1979-80, the first adjustment programme of the Senegalese economy. The episodes of its implementation, as well as the ins and outs of the accords signed with the Bretton Woods institutions, were largely written about by the World Bank (Banque Mondiale 1987, 1989, 1993) and Berg (1990). As the objectives set for those reforms were not achieved, neither the extended facility accord signed with the IMF, nor the programme concluded with the World Bank when the first structural adjustment loan was granted were implemented to the full. The 1983 elections created a context of uncontrolled overspending in the management of public expenditure the deficit of which reached a record level of 28 percent of GDP.

However, soon after elections, the Government took vigorous action to cut down expenses, which thus allowed the resumption of talks with international financial institutions. This resumption took place on the occasion of the first meeting of the
Advisory Group for Senegal in December 1984 during which a Medium and Long-Term Structural Adjustment Plan (PAMLT — Plan d’Ajustement Structurel à Moyen et Long Terme) was designed (Banque Mondiale, 1987).

Planned to cover the 1985–92 period, this latest programme was not implemented to completion either, even though its implementation was better carried out than that of its predecessors. Still, it was characterized by a weak grasp of the constraints, objectives and urgency of stabilization measures, despite the important financial contribution that was put into it. Shortly after the launch of the PAMLT, the Government’s will eroded as the reform programme became harder and its implementation met with stiff resistance from “above” (Diop and Diouf, 1990). This resistance came, for instance, from certain administrative circles — like that of the customs — which were hostile to World Bank recommendations (Berg 1990). Nevertheless, in the end it was the 1988 post-elections unrest and the violence which arose from the border conflict with Mauritania in 1989 that got the better of PAMLT for good.

Neither the political relaxation moves which followed those events (Diop and Diouf, 1999), nor the attempts to resume economic policy talks with multilateral institutions succeeded in relaunching the reform process suspended in 1991. And with the February 1993 presidential and legislative elections approaching, the implementation of the remaining set of measures was postponed for good. Replacing the “emergency plan” adopted immediately after these elections, the CFA franc devaluation in 1994 — which we shall talk about further below — became the starting point of the last wave of structural adjustment policies implemented in Senegal.

The Senegalese Industry: Its Trends and Current Characteristics

The current state of the Senegalese industry would make one believe that the country has never benefited from the historical advance, which it enjoyed in the industrial sector compared to other African countries. In spite of the shrinking of its markets following the dismantling of French West Africa and industrialization efforts in other countries, the Senegalese industry continued, until the mid-seventies, to record relatively strong growth. As the World Bank (Banque Mondiale, 1992) itself recognized, this sustained dynamism of the industrial sector rested mainly on considerable investments made by the country to modernize, diversify and promote old and new import, substitution or export industries. However, in 1975, the Senegalese industry entered a long decline phase marked by a sharp slow-down of growth that was going to develop into a recession in the early 1980s. From 100 in 1976, the industrial production index indeed rose to 103.3 in 1982, before falling down to 96.3 in 1986 (Banque Mondiale, 1992).

The contribution of the secondary sector to GDP (in current value) which was 11.5 percent in 1960 and 15.4 percent in 1980 is currently around 22 percent, against 24 percent, 19 percent and 18 percent, respectively, in the primary sector. However, in view of the weight of the energy, housing and public works sub-sectors, and of the development which the informal sector (also called “other industries”) has experienced since the beginning of the 1980s, the share of the manufacturing industry in the growth of the secondary sector appears extremely weak, if not nil.

As we shall see later, the New Industrial Policy, which was designed to reinvigorate the Senegalese industry, had rather a recessionary impact (Latreille and Varoudakis, 1996) both on production and industrial employment, while its expected effect on competitiveness and diversification of manufacture exports did not materialize at all.
Forced to give up its driving force role and to withdraw from various industrial activities, the government left whole patches of the industrial fabric to fall in ruin. From 10 percent in the 1960s, the share of the Senegalese manufacturing industry has reached the ceiling of only 14 percent since the beginning of 1990s.

In the last industrial sector census (Republique du Sénégal/PNUD, 1997), the number of industrial firms active in Senegal between 1992 and 1995 was estimated at a little more than 500. In 1995, the 300 firms for which data could be obtained offered permanent employment to 27,000 people and to 18,000 seasonal workers. Their turnover was CFAF 920 billion, one third of which was from exports. Measured by the amount of gross fixed assets, the realized investments were CFA 1,120 billion.

With 41 percent of permanent employment, 74 percent of seasonal employment and 42 percent of the turnover of the overall industrial sector, the food industry constitutes the most important sub-sector. It is followed by the chemical industry and the “water-energy” sub-sector. In terms of realized investments, this sub-sector tops the Senegalese industry with 34 percent of fixed assets. This is proof of the importance in the Senegalese economy of SENELEC (the national electricity company) and SONEES (the national water company).

Despite relatively old industrialization, Senegal’s industrial production is little diversified. Industrialization is principally concentrated in the Dakar area, which in 1995 alone, accounted for nearly 90 percent of the companies and three quarters of permanent employment and turnover.

Before being largely stripped by the recent privatisations, public corporations had for a long time enjoyed a quasi-monopoly in strategic sectors such as electricity distribution, water and telecommunications. They continue to play an important role in industrial activity, investment and employment. According to the World Bank (Banque Mondiale, 1994), before the first privatisation programme in 1987, the public sector counted 66 national corporations or those with private minority interest. Because of this, this sector represented 29 percent of investment and 17 percent of employment, but only 7 percent of GDP. In 1995, shortly before the second wave of privatisations, public corporations still employed one third of industry workers and contributed half of the turnover and nearly three quarters of exports (Republique du Sénégal/PNUD, 1997).

Unlike the public sector, the private sector is of a heterogeneous nature in terms of type of activity, age and size of companies. In addition to a small number of big industries set up before or during the first years of independence, industries which were controlled either by foreign interests or by the State, there are countless numbers of informal enterprises. According to the last industrial sector census (Republique du Sénégal/PNUD, 1997), while the big industry brought together hardly 10 percent of enterprises in business between 1992 and 1995, it however represented 70 percent of investments and jobs and 75 percent of the turnover of the entire industrial sector. Although the small industry accounted for 60 percent of the enterprises identified during the census, it nevertheless accounted for only 13 percent of jobs and 8 percent of the turnover.

Moreover, studies of the Senegalese private sector, such as that by the World Bank (Banque Mondiale, 1994) or that by Qualmann (1995), show that out of the ten biggest enterprises in business in Senegal in 1991, five were controlled by private foreign capital at more than 50 percent, against only three companies in which the government held majority interest and just one controlled by private Senegalese individuals. Another source (Pigato et al. 1997) shows that of the 22 biggest industrial enterprises in the
country, 13 were entirely controlled by foreign interests, against only five controlled by private Senegalese interests. Although industrial groups formed by private Senegalese individuals or linked to religious brotherhoods (especially the Mourides brotherhood) have been set up since the early 1980s, foreign interests still head the most powerful and oldest of the groups.

The Socio-Political Context and Policy Choice Institutional Capacities

In the preceding sections we have been able to reconstruct the paths followed by the Senegalese government, the conditions under which Senegal underwent structural adjustment of its economy, the major episodes of the implemented reforms, as well as some results achieved in this respect. It is now time to draw the lessons relating to the role of the public authorities and other economic and social players in the structural adjustment process and, especially, in trade and industry policy reforms. The specificity of the "Senegalese case" lies in that the context in which the first programmes of structural adjustment and economy liberalization occurred was marked by a renewal of the ruling class following Senghor's departure and Diouf's arrival as Head of State.

The Socio-political Context

The Colonial Heritage

The current political life in Senegal originates from the old administrative and political management traditions of the colonial era. From the beginning, Senegal was indeed governed through a "direct administration" system, following the same rules as the metropolitan territory. Apart from exercising its authority at all levels, the colonial government had the mandate not only to govern the territory but also to levy taxes, administer the judiciary and protect France's interests which, as we have seen, were the same as those of trading firms and metropolitan industries. This protection was even more necessary since the network that set up these firms inside the territory often served as an efficient intermediary for the administrative and political control of populations (Rocheteau, 1982).

Unlike British colonialism, the French colonial system did not want to allow traditional chiefs to keep their traditional prerogatives. All over the colonial territory their sovereignty was purely and simply abolished and replaced with that of the colonial administration (Suret-Canale, 1964). But as the number of French administrators was not enough to cover the whole territory, the colonial government had to seek the services of indigenous assistants. However, because of territorial expansion, the need for a wider network of intermediaries made it necessary to set a new chieftainship that was less traditional but more administrative.

It is in this same context that religious brotherhoods were also made party to the endeavour to get rid of traditional chiefs\(^{23}\). The specificity of the role of religious societies in Senegal — especially that of the Mourides — lies in that they allowed for extensive growing of groundnuts.

However, the setting up of the new indigenous and religious-based administration (Diouf, 1992) went hand in hand with a policy to assimilate part of the population. It started with granting, in the 1782–89 years, French citizenship to the populations of the communes of Gorée, Saint-Louis, Rufisque and Dakar. Later, in 1946, this citizenship was granted to the entire Senegalese population. Before that, in 1914, the election to the French National
Assembly of deputy Blaise Diagne, an indigenous Senegalese, had put an end to the monopoly of the Whites and Mulattoes over the political life (Suret-Canale, 1964).

This political life was coupled with equally intense trade union activity. As a matter of fact, while the first workers' strikes took place in the mid-1920s, it is the coming to power of the Popular Front government in France that effectively paved the way for trade unionism and extended the application of some provisions of the metropolitan labour code to its colony, Senegal.

**Political Confrontation and the Strengthening of State Authoritarianism**

As Berthélymy et al. (1996) have pointed out, even before independence Senegal had a political and intellectual elite capable of running public affairs. After independence, the first rulers of the country first tried to unify the ranks of the political class in order to tackle the huge task of economic and social development. However, Diop (1992) shows that this period was not spared social and political unrest, be it in rural areas or in towns. But the political power more or less adjusted to this situation by restructuring the State apparatus, strengthening political authoritarianism, and repressing or co-opting opposition leaders. At the political level, the result of such initiatives was the creation of a *de facto* single party following the integration of all legal parties into the Progressive Senegalese Union (UPS-Union Progressiste Sénégalaise), which held power.

Diop (1992) stresses the fact that the army is one of the institutions that have contributed the most to assert the authority of political institutions. By strengthening the corporate nature of the different sections of the army, by constantly reorganizing its command structure and awarding substantial perks to army personnel, the political establishment managed to make the army stay loyal to the government and pacify the social and political environment. This can partly explain why the army in Senegal was little keen on coups d'état, unlike in most countries of the sub-region.

Nonetheless, political authoritarianism and the constant restructuring of the state apparatus were not enough to appease the social front. Social discontent was evidenced by the strikes and violent confrontations of the end of the 1960s (Diop and Diouf, 1999). The challenges which such events constituted for the government brought about an abrupt taking over of unions. This taking over consisted in instituting the so-called "responsible participation" trade unionism, the ultimate end of which was to make workers' unions partners in the running of the state apparatus by affiliating them to the ruling party and appointing their leaders to legislative and ministerial positions. The creation, in 1969, of the Senegal National Workers' Confederation to replace the Senegal National Workers' Union, which had been dissolved, was one move to take over the social environment in the country.

Business communities were not spared this general trend to strengthen state authoritarianism. The modest breakthrough of Senegalese operators on the economic scene just before independence translated into the creation, in addition to the first unions controlled by French and Lebanese traders and manufacturers, of small professional groupings of Senegalese traders which, by widening their reach to other professions, attempted to unite into one single organization. Created in the thick of students' and workers' protest movements in 1968, the Union of Senegalese Economic Groupings manifested, from the outset, its political independence and its "nationalist" orientation. But its too critical analysis of the economic situation could not leave the government indifferent: this reacted by sponsoring a new federation called the Senegalese
Economic Grouping (GES — Groupement Économique Sénégalais). Like the union of workers’ trade unions, the GES was thus created as an organization affiliated to the government.

One can thus date to the end of the 1960s the government’s interference in the business circles with the aim of channelling the development of national economic operators’ activities and weaken their capacity to organize and mobilize against French interest groups. For the government, such a strategy had a twofold objective: i) to facilitate its own entry into the economic world; ii) to avoid any collision with the interest of French firms on which the former colonial power was still keeping a watchful eye. As we shall see later, the private sector’s current level of organization and negotiation ability are still marked by such a policy.

For Senghor’s regime this reorganization of the state apparatus and social institutions was not enough; it had to take into account technical competence in the appointment of ministers and top public service officials. This translated into the sudden appointment, to the ruling party organs, of young executives without popular support or force of persuasion, which the first political leaders had. The political relaxation moves, which were designed to respond to the demands of the urban lower middle class, were thus accompanied measures to “technocratize” the regime with such appointments of young executives, among whom were Abdou Diouf as Prime Minister and Babacar Bâ as Minister of Economy and Finance.

Such moves went in parallel with the setting up of a patronage apparatus that would enable the functioning of a “mercenary support” system. We have already seen how the government, through a special bank account which received money from the public revenue department, allowed its political supporters to have access to bank loans (Diop and Diouf, 1999). The “big growers” of groundnuts, the majority of whom were the marabouts, also had access to loans which were often not reimbursed, thus taking part in the plundering of national companies such as the National Marketing and Assistance Board for Development (ONCAD — Office de Commercialisation et d’Assistance pour le Développement). Likewise, senior young executives suddenly found themselves at the head of newly created public corporations.

Combined with growing adverse natural factors and unfavourable changes in world groundnut markets, as well as the reduction of French aid, such a submission of the national economic activity to the government’s objectives of social and political pacification brought about, towards the end of the 1960s, severe deterioration of the economy, a fall in peasants’ living conditions, and dissatisfaction on the part of urban workers. For the best-organized and most rebellious groups, such as teachers’ and students’ unions, the situation offered good opportunities for strikes and uprising. Leaders of the Mourides brotherhood, who traditionally were allies and supporters of the ruling class in the rural community, also echoed the peasants’ grievances against the administration. The political openness marked by the authorization, in 1974, of the Senegal Democratic Party headed by Abdoulaye Wade, together with the reinstatement of a multi-party system limited to four political “opinion currents” in 1976, failed to appease the urban middle class that was becoming increasingly hard to please (Diop and Diouf, 1999).
The End of a Political and Economic Regulation Mode

The 1970s was the most significant period for the economic and political management of Senegal. The hard economic times demanded a totally different strategy and mobilization of exceptional institutional capacities that would enable the implementation of austerity measures required to access external funding. The social unrest of 1968 and 1969 was the first warning sign of the end of an economic system built on the revenue from a single crop, the groundnut. The same unrest also exposed the failure of a mode of management of the economy and political power that served only the interests of a heterogeneous coalition of politicians, bureaucrats and religious leaders. Senghor's resignation from power and the changes at the top of the country in December 1980 were a culmination of all the restructuring of the political, social and economic environment that had been going on since the late 1960s (Diop and Diouf, 1990).

At the same time, a new generation of entrepreneurs and a network of very dynamic traders (named Baol-Baol, after the name of the region where most of them came from) who drew their socio-economic influence from their ties with Mouride marabouts emerged (Cruise O'Brien, 1971). With their emergence, the renewal of the political and administrative leadership of the country made it possible to put an end to the old mode of economic and social life. The growing economic imbalances, the multiplication of regionalist protests (in Casamance) and the rising of tensions at the borders (with Guinea-Bissau, Gambia and, later, Mauritania) were particularly suitable opportunities to part with previous political and economic strategies.

When he came to power, Abdou Diouf admittedly strengthened his legitimacy by proclaiming economic nationalism. However, due to strong financial constraints, the support from external partners was conditional to his government's dealing with the macro-economic imbalances that beset the national economy. The economic development imperative was therefore replaced by the demand to achieve macro-economic balance in the short term. Donor funding thus consolidated Diouf's power, but, in return, weakened his government's ability to define and achieve its economic objectives with relative autonomy.

The dismantling of the Government's intervention — and sources of funding — in the economic sphere thus went hand in hand with a renegotiation of social, economic and political compromises which, for two decades, had enabled the whole country to function. The "extended cabinet" formula (which brought together ministers from both the ruling party and the opposition) was one of the political manifestations of such compromises. At the economic and social level, the modifications to the post-colonial consensus provoked the emergence of protests and forms of association whose methods of action were totally different from those of traditional trade union and employer organizations.

It was in such circumstances that "techno-bureaucrats" were appointed to the top positions of government. Their role was to implement the "new economic policy" prescribed by the Bretton Woods institutions. The claim to technical expertise was the instrument of legitimating the hegemonic structure of the new ruling class. Nonetheless, by virtue of the severity of the socio-political constraints which the leadership of the country had to face, and of the arbitration to carry out among the various factions into which their supporters were grouped, the management of the political and economic system was predicated on the short term, as what was accepted one day could be rejected the following one. The strategies to maintain the new decision-makers in power were thus
carried out to the detriment of the country’s socio-economic balance and cohesion among politicians. This cohesion was becoming increasingly fragmented because of the heterogeneous nature of the coalition and the shrinking of its base. The process of designing and implementing the reforms the country was engaged in until the mid-1990s showed a weak appropriation of the same reforms by the organs in charge of their implementation.

An upheaval occurred in the early 1990s, though. That was on the occasion of the evaluation missions carried out by the World Bank and IMF on the macro-economic situation in the country (Banque Mondiale, 1992 and 1993; Rouis, 1994). Following up on an equally critical report by Berg (1990) on economic reforms in Senegal, these evaluations outlined a new approach to adjustment and a turning point in the relations between the Bretton Woods institutions and the Senegalese Government. One of the conclusions of the evaluations was that while the adjustment programmes had allowed the Senegalese economy to record undeniable results, the manner in which these were achieved was questionable. The government was accused of a lavish lifestyle, mismanagement of public resources, protection of unearned income, lack of transparency, and lack of willingness to combat corruption. At the same time, it was discovered that techniques of massaging and hiding some indicators had, for a long time, enabled the country to get access to external resources without honouring its commitments.

In 1993, after a long period of prevarication and strained relations with international financial institutions, the government was obliged to anger workers’ unions by adopting an austerity programme baptized “emergency plan,” which was followed by the devaluation of the CFA franc one year later. Relations between Senegal and its foreign partners took a different look. At the same time, the restructuring of France’s cooperation policy, the more pragmatic economic approach and the new language adopted by the Balladur government signalled the limits of the financial support from France. This new approach, which was in keeping with the point of view of international financial institutions, constituted a constraint which the Senegalese government had no choice but take.

The Ability of the State and the Private Sector to Implement Policies

The analysis of the steps and context of policy options has allowed us to show how each new phase came with its own methods and instruments of economic and political power management. But, for their part, these instruments depend on the administrative ability to make decisions and implement policies, as well as on the degree of involvement of the parties involved in the reform process.

The Administration’s Force of Inertia

In its evaluation of the trade and industry policy reform implemented in the framework of the New Industrial Policy of 1986–88, the World Bank (Banque Mondiale, 1992) believed that the failure of the reform could be explained by the weak determination on the part of the government. Nevertheless, whatever a government’s level of involvement in implementing a reform programme, its success may largely depend on the human, intellectual and technical capacities of the implementing institutions.

Yet, the structural adjustment programmes implemented in Senegal did not only lead to government institutions (the National Assembly, ministries, etc.) relinquishing power on
economic policy (Dieng, 1995); they also undermined the human, intellectual and moral capacities of the administration. The overwhelming involvement of international financial institutions on the economic policy front meant legitimate political organs would not be involved in the study of the main economic policy orientations, and also that the details of the measures and conditions would be known only to an inner circle of senior civil servants close to the President, the Prime Minister and the Finance and Economy Minister (Dieng, 1995). The frustrations created by this development were compounded by those generated from the gradual deterioration of civil servants’ working conditions.

Praised for a long time for its political stability and efficient administration (Banque Mondiale, 1989), Senegal now saw its achievements in human resources and administrative capacities progressively melt at the pace of the implementation of stringent budgetary policies and the restructuring of the public service. Opinion from some administration officials suggests that while a small number of directors and heads of departments had the required profile for the positions they held, most of the public service employees had neither the competence nor the experience required to design and implement economic policies in general, and trade and industry reforms in particular. With the exception of the Customs Directorate, no other department had personnel capable at the same time of formulating economic reform programme policies, implementing them and assessing their impact. For instance, the sectional policies division in the Planning Directorate did not have a single expert in industrial economics. In the Industry Directorate, out of 18 members of staff, only eight were highly educated, among whom only four were economists. In this directorate, as in the rest of the departments in charge of the implementation and follow-up of the reform measures, the bulk of the officials actually had civil administrators’ training, while the few specialists available, whether economists or not, had generally received on-the-job training which was complemented, for some of them, by short training courses with organizations such as the IMF and the World Bank.

There are several explanations for the lack of competence within the administration, in designing and implementing economic policies. In addition to the public service restructuring plan, there were the freeze on recruitments and the “voluntary retirement” scheme that was proposed to a good number of civil servants. The incompetence in the civil service was also due to poor working conditions and delays in the payment of wages and salaries. Taken together, all these reasons can explain why an increasing number of senior civil servants were attracted by job opportunities with international organizations such as the World Bank, IMF and UN agencies, where career prospects and salaries were definitely more attractive. These new “expatriates” thus joined the already big numbers of senior employees who, after graduating from European or American universities, preferred to offer their services to the international job market rather than to the Senegalese one. In this respect, the overwhelming intervention of international financial institutions in designing and implementing adjustment programmes thus had the effect of attracting to the best trained civil servants rather than strengthening the administration’s capacities for policy analysis and management.

The Private Sector's Weak Intervention Capacities

The lack of prior consultations between the government and the private sector during the formulation and implementation of the trade and industry reforms, and of the New Industrial Policy in particular, is characteristic of the way adjustment programmes in Senegal were imposed on social players until the mid-1990s. The lack of openness and
transparency is all the more surprising because the socio-political environment in the
country was, since the colonial era, characterized by permanent dialogue between the
central power and interest groups, whether these were socio-professional, political or
religious. As we have already seen, besides the role played by religious brotherhoods in
the colonial endeavour to conquer land, especially in the hinterland, political and trade
union organisations have always found a way of claiming and benefiting from the same
freedom and rights as existed in the former colonial metropolis.

One can analyse the capacities and intervention means of the social players in the trade
and industry policy in Senegal from two angles: on the one hand, the crumbling and weak
capacity of private sector organisations and, on the other hand, the strength and the
negotiating power of civil society organisations. As we have seen, professional groupings
from the business community date back to the colonial period. While these first employer
organisations were in the main made up of foreign business communities, the
Senegalisisation of executive and managerial staff in companies and the subsequent rapid
expansion of activities of Senegalese economic operators, both of which followed
independence, diversified and widened these operators' make-up and forms of grouping.
But, in spite of all unification attempts that marked the first three decades of
independence, the Senegalese private sector representation remained marked by
fragmentation and internal competition which was detrimental to its credibility, its
intervention capacity and its negotiating power (Barbier, 1993).

Created in 1987, the Senegal National Council of Employers (CNP — Conseil National
du Patronat du Sénégal) was the first framework uniting the interests of both foreign
business community and national economic operators. Even today, it brings together
about 27 professional unions. However, the hegemonic position held in the CNP by
unions such as those representing manufacturers (SPIDS), banks (APB) and fishermen
(GAIPES), in which a strong presence of foreign interests was visible, led to the split of
the council and the creation of the National Confederation of Senegal's Employers
(CNES — Confédération Nationale des Employeurs du Sénégal) in 1993. From the
outset, this CNES was seen as oriented towards defending the interests of Senegalese
entrepreneurs rather than those of foreign employers.

One striking phenomenon in the union landscape was the creation, in 1990, of the
National Union of Senegal Traders and Manufacturers (UNACOIS — Union Nationale
des Commerçants et des Industriels du Sénégal). The specificity of this organisation,
which claims to have tens of thousands of members, lies in its quite heterogeneous make-
up, with the majority of the members coming from the informal sector. Moreover, while
employers' unions had until then brought together national economic operators whose
membership had built up during the first two decades, the economic crisis that followed
raised doubts about the system of economic and social promotion that relied on
occupying sectors neglected by French capital or the government. At the same time as a
number of individual success story cases were highlighted, the dramatic rise of UNACOIS
came as a kind of revenge against this post-colonial model of promoting
national business people. Combined with the weight of the informal sector in the
economy, the economy liberalization context made this union a key player on the
economic scene and an interlocutor for the debate about trade and industry policy
reforms. However, falling victim to its success, the UNACOIS in turn increasingly
threatened to split up.

The most recent case of unification of professional organizations consisted in the setting
up of the Senegal Employers' Coordination (CPDS — Co-ordination Patronale du
Sénégal. Set up in 1995, the CPDS was an initiative of almost all the unions and professional associations in the country. By allowing all the constituent organisations to show their unity on one of the many consultation occasions created after the devaluation of the CFA franc, the existence of the CPDS was proof of the role which the private sector was bound to play in the new context of choosing and implementing structural adjustment policies.

The Senegalese private sector’s weak capacity to intervene in adjustment policies was compensated for by the relative influence and negotiating power gained by civil society associations. Created in the context of structural adjustment, these gained their strength from the control they exerted over the associative mediation system as well as from the initiative they showed in response to the good governance demands from donors. The strong position enjoyed by the associations also arose from the fact that as from the late 1990s the government fell into disrepute with regard to both its management of public resources and governance. This disrepute indeed led a number of outside contributors to establish more and more direct links with the beneficiary populations.

In another respect, the evolution of the process in Senegal has led to the loosening of the grip over the rural population thanks especially to the marabouts. The system is today threatened by the exit of the first generation of religious brotherhoods’ leaders and their replacement by a new generation, that of “ordinary marabouts,” more concerned with their “own business” or their political career than with their traditional functions.

Finally, the lack of transparency and consultation in the choice of economic policies is all the more unacceptable because private sector and civil society players can now boast of having wide knowledge. The increase in the number of independent newspapers, the setting up of private radio stations and television channels, the dramatic expansion of new information technologies, all play an important role by making available, for the population, information that concerns not only their daily life but also the management of public affairs.

Assessment of Trade and Industry Policy Reforms

The second phase of the structural adjustment programmes in Senegal was marked by the introduction of two sectional policies, which pioneered a drastic change of course: the New Agricultural Policy (NAP) and the New Industrial Policy (NIP) (Qualmann, 1995). In the history of structural adjustment in Senegal, the NIP passed as a global programme of the reform of a trade policy and an industrial strategy that were considered responsible for the slow industrialization of the Senegalese economy. The results of the NIP were so disappointing that today, almost seven years after the CFA franc devaluation, the Senegalese economy is in search of lost foreign competitiveness.

The 1986–1988 New Industrial Policy Experiment

The NIP Conception

Considered as the trade and industry component of the adjustment programme, NIP is the name that was given to the “Action Plan for the Industry” devised in 1986. The main characteristic of this policy lies in that it was not only one of the most radical reforms ever undertaken in Senegal since the country’s economy underwent structural adjustment, but also one the implementation of which was judged, in its time, as satisfactory by the World Bank.
As in many other countries of Sub-Saharan Africa, structural adjustment in Senegal rested on the assumption that the decline of the economy originates from market inelasticity and price imbalance resulting from the administrative management of the economy, the government's excessive intervention and protectionist measures. It is therefore not surprising that the economic reforms took such a considerable place in the reform programmes implemented to break with a strategy of industrialization based on import substitution and which was held responsible for the Senegalese industry's loss of competitiveness. The caricature was pushed to the point of baptizing the reform programme the "new industrial policy," that is the same name the World Bank had decided to give to what it considered the only alternative to the "old" strategy of import substitution industrialization (Bhagwati, 1994; Lall, 1993, 1995).

However, as for all the adjustment-related reforms, the official line and the World Bank's and IMF's beliefs were all identical at the time when NIP was conceived and only the World Bank appeared keen to defend the model from which this policy was inspired (Qualmann, 1995). It was thus normal that the World Bank was the main interlocutor of the government while designing the gist of the proposed reform programme.

Although France never expressed its disagreement with the main orientations of NIP, given the importance of French interests in the Senegalese industry it, however, showed reservations about suddenly abandoning the idea of protecting the industry.

For the Senegalese government, one can say that initially there was total adherence to the NIP reform programme. There were three reasons for this: one, the hope for a pickup of industrialization through greater openness of the economy to foreign competition; two, the temptation to put to test a private sector dominated by French interests and taken to be unduly protected; three, the urgency of an accord enabling access to financial resources to which adoption of NIP entitled the country.

But this official position was not defended in the same manner by all sectors of the administration. As the project manager of NIP and the main interlocutor of the World Bank, the Industry Ministry was obviously favourable to the proposed reform. As for the Finance and Economy Ministry, besides having in its midst an influential core of "technocrats" who supported the reform process (Berg, 1990; World Bank, 1993), it was keeping an eye on the extra income expected from the tariff structure. It is in this perspective that the customs directorate staunchly defended the principle of lowering entrance fees, since such a measure would contribute to reducing smuggling. However, the same directorate underscored the risks, which the industry was running if there was a hasty reduction in tariff protection and the abolition of non-tariff barriers at the same time. To simplify import and export procedures, the Foreign Trade Directorate for its part defended the abolition of import quantity restrictions.

Even if employers admitted the excessive protection industries they had benefited from in the past, they reluctantly accepted the implementation modalities and schedule for trade openness measures. Arguing that the protection mechanisms did not benefit all the industries equally, manufacturers wanted prior sector-based studies to be carried out in order to allow adjusted application of the reform and the supportive measures.

Instead of furthering the opening of dialogue between the various players, the divergent positions were, on the contrary, an obstacle to making all the parties concerned partners in defining the reform programme. In fact, despite the existence since 1983 of a framework of dialogue between the government, donors and the private sector, no consultation was organized to discuss the NIP principle. Motivated by budgetary
considerations, and in the absence of a coherent project of its own, the government hastened to agree in principle to the programme proposed by the World Bank. The discussions that were later held between some sections of the administration and the World Bank were limited to specific points such as the timetable for modifying customs duties or revising special conventions.

The private sector was not invited to take part either in the discussions on selected reform measures or in defining supportive measures. The only meeting to which its representatives were invited took place only three weeks before the meeting of the interministerial council that officially adopted NIP (Geourjon, 1990).37

Workers' unions were not less surprised when it came to relaxing the provisions of labour regulations relating to recruiting and laying staff. Reactions to this relaxation were strong as well. Started in 1986, the numerous attempts by the government to have a new labour legislation by the National Assembly came to fruition only at the end of 1994.

**The Objectives of NIP**

The definition of NIP objectives and measures was thus based on a prognosis made by the World Bank on the weak competitiveness of the Senegalese economy. This diagnosis put emphasis on the strong protection of the domestic economy, the overvaluation of the real exchange rate, the low level of work productivity, the high level of the cost of production and the mediocre quality of the institutional environment38.

Three objectives were set for the NIP: i) to restore the competitiveness of the industry on both the foreign and domestic markets, which supposed an increase in productivity and the quality of industrial products; ii) to promote export-oriented activities and to restructure inefficient enterprises; iii) to relax labour market conditions.

These objectives show the extent to which NIP was in line with the trade reform programme that was in fashion with the World Bank in the mid-1980s. Aiming at an abrupt liberalization of the economy in order — so said its proponents — to avoid the political pressure that would result from reforms spread out in time, the method underpinning such a programme was known as the “shock therapy,” in contrast with a gradual implementation of reforms (Fanelli and Frenkel, 1994). The drawback of such a method lies in that it does not adequately take into account the “time” factor, which is crucial in a period of structural adjustment (Geourjon, 1992).

Planned to last two years, the reform programme comprised five principal types of measures: i) the reduction and harmonization of customs tariffs; ii) the abolition of import quantity restrictions; iii) the reorganization of the export promotion system in favour of activities with a higher local value added; iv) the revision of the investment code and the gradual abolition of special conventions. To these measures were added those called supportive measures, which bore on the lowering of the cost of technical factors, on the relaxation of labour laws and better access to credit by small and medium-sized enterprises.

However, of all those measures, only those having to do with the protection system reform were implemented in accordance with the programme and the planned implementation schedule. This made the World Bank (Banque Mondiale, 1992) itself say that NIP had in the end been relegated to trade liberalization. In less than three years, all the non-tariff barriers had been abolished and replaced by lower customs duties that brought the protection differential between finished products and intermediate goods
down from 40 percent in 1986 to 20 percent in 1988 (Geourjon, 1992). Similarly, the system of market price list values and levy minima was dismantled before the end of the year of NIP implementation.

With the exception of those concerning company products protected by a special convention, the import quantity restrictions were all abolished between July 1986 and February 1988. Some of these measures were even taken before the initially set date (Geourjon, 1992). Relaxing the conditions of access to the import-export card made it possible for the number of holders of it to increase three-fold (Banque Mondiale, 1992).

Other measures towards liberalizing domestic and foreign trade were taken, among them the adoption of a new investment code and customs laws that were less repressive vis-à-vis smuggling, or the abolition of price controls in competitive sectors. The restructuring of the export activities promotion system consisted in fixing an export subsidy at 25 percent of the local value added and in widening the range (about a hundred) of the products likely to benefit from it. However, the subsidies actually granted were not only insufficient, but also very irregular.

While all the reforms having to do with the system of protection and export incentives were more or less implemented in the scheduled period, it was not the case at all with the supportive measures designed to facilitate the adaptation of the domestic industry to the new competitive environment. Except for a small reduction in the electricity price that occurred in 1987, no measure designed to reduce the cost of technical factors was applied. The liberalization of the labour market, which had after all been planned as a key arrangement of the structural adjustment of the Senegalese economy (Rouis, 1994), was limited to the abolition of the recruitment monopoly held by the labour force department.

The NIP Failure

The exceptional fall in customs and tax receipts that came as a consequence of the 1988 series of tariff restructuring measures gave the government the pretext to call into question the reform programme. After rising from 73 billion francs in 1985 to 83 billion in 1987, customs receipts indeed dropped to 74 billion francs following the 1988 tariff restructuring measures. Consequently, in August 1989 the government decided to annul those measures by reinstating the pre-1986 customs duty rates. At the same time it "rectified the errors" in the list of import products in order to increase the number of those of them that would be subject to standard or raised taxation. The second raising of tariff barriers came in July 1990, with the institution of a customs stamp (of three percent) on almost all the imported goods. Finally, market price list and levy minima were reintroduced. These reversals in tariff restructuring provoked the rise in the economy protection level: the legal average rate of imported goods tax, which had fallen from 98 percent to 68 percent between 1986 and 1988, again arose to 90 percent in 1991 (Banque Mondiale, 1994b).

Even though, as Berg (1990) says, the conclusions of the first evaluation (carried out only a few months after the implementation of the first reform measures) of the NIP impact were neither alarming nor reassuring, they are evidence of the haste with which the de-protection measures were designed and applied, as it is on the occasion of this study that the reform supportive measures were identified and investment needs estimated. All the NIP evaluations that followed this report, including those that acknowledged that the reform programme was coherent (Valette, 1989; Geourjon, 1992;
Banque Mondiale, 1992), were unanimous in admitting the negative effects of the liberalization of imports on industrial production and job creation in Senegal. Such poor performance is indicative of the disastrous consequences which NIP’s trade openness measures had on the industrial sector. It shows that for 13.5 percent decline in production between 1985 and 1989, there was indeed a 14 percent job loss. While in the manufacturing industries proper there was a lesser decline (five percent) in production, job losses were far more important (16 percent).

With regard to enterprises that closed, the Senegal Industries Professional Union (SPIDS) estimated their number to be about 30 between 1985 and 1989, while the World Bank (Banque Mondiale, 1993) put the number at about 50, among them big companies which could not survive the opening of the domestic market to foreign competition. Comparatively, only one industrial unit was created during the period (Geourjon, 1990).

Aggravated by the crisis in the banking sector, the slowdown in industrial activity was accompanied by a drop in private foreign investments. According to statistical data cited in Geourjon (1992), from US$ -3 million in 1985, the flow of direct investment from outside fell to US$ -50 million in 1987 45.

NIP did not have positive effects on Senegal’s trade balance either. The upturn in exports that was observed during NIP implementation could be attributed to an increased demand of phosphate at world level. The other traditional exports either stagnated or diminished (Rouis, 1994; Pigato, 1997). With a 46 percent increase in imports between 1986 and 1990, the current account deficit rose to 11 percent of GDP. Despite the macro-economic positive aspects one likes to see in implemented structural adjustment programmes (Pigato et al. 1997), the share of Senegal’s exports on foreign markets fell by one fifth of what it was in the 1960s.

Although in the modern sector the measures to reduce the tariff and non-tariff protection ruined some enterprises in difficulty and weakened others that were in a better situation, they, on the other hand, benefited informal sector trading activities. As a number of authors (Duruffé, 1994; Geourjon, 1992; Diouf, 1992) have shown, the consequences of the lowering of tariff barriers indeed were the transformation of a big number of producers into “importers-traders” and the expansion of the informal sector.

While the economic constraints on the competitiveness of the Senegalese economy were more or less well diagnosed when NIP was being designed, in the end no prior analysis allowed for assessing the government’s ability to carry out, in such a short period of time, a reform of such a scale, or to assess the level of preparedness and the private sector’s reactions to the implemented measures. It is therefore not surprising to notice such a big contrast between the abruptness of the measures proposed on the one and, on the other hand, the flimsiness of the institutional mechanisms used in their design and implementation.

As the World Bank (Banque Mondiale, 1993) has admitted, the government’s will to implement agreed-upon measures eroded as the other social players not only showed hostility towards the reforms already underway, but also organized to defend their interests. Thus, the greater the intensification of the structural adjustment implementation, the stronger the reaction of the parties concerned, and the more hesitant the institutions in charge of co-ordinating the reforms. This hesitation in turn contributed to creating a climate of uncertainty around the reforms and to strengthening the interest groups’ defence means.
By admitting, afterwards, the imperfections of the reform programme, the government — as well as the World Bank — implicitly proved right employers' unions, which, as soon as NIP was announced, had tried in vain to draw its attention to the harmful consequences of trade openness, if this was not accompanied by compensatory measures. Angered by the government's failure to listen to them, entrepreneurs then came together to form — as we have seen — the CNP (National Employers Council). Bringing together almost all national and foreign business circles, CNP at one moment stood as the sole defender of the interests of Senegal's modern private sector enterprises.

The government's lack of preparedness to the effects of NIP was in fact such that as the measures were implemented, the advantages of the reform — which seemed obvious at the time it was designed — became less important than the costs linked to its implementation (Rouis, 1994). The post-electoral riots of 1988 and the violence that followed the border disagreement with Mauritania in 1989 added to the doubts as to whether the government was able to carry out reform, the economic and social consequences of which had become harder and harder. This climate of tension contributed to exacerbate the negative response from both manufacturers and workers and caused by enterprise closures.

With the decline in customs revenue, which resulted from the 1988 tariff reduction measures, the administration was not short of political and "budgetary" arguments to convince the World Bank and IMF to reconsider many of the measures. This turn-about was further made possible by the falling influence of members of the government who supported the economic policy reforms (Rouis, 1993). It is therefore not surprising that some authors, like Foroutan (1993), consider the implementation of NIP in Senegal to have taken the form of "one step forward" followed by "two steps back."

NIP thus constitutes one of the reform programmes launched in Senegal the implementation of which obeyed both the spirit and the letter of the World Bank's requirements. Its implementation also mobilized much energy on the part of the government and its administrative departments responsible for applying the different measures. In this respect, the government indeed deserved full marks from the World Bank and IMF. But experience shows that there was an "overdose" of the medicine prescribed for the patient. Not only did the shock therapy that was applied fail to cure the illness, but also the results obtained from it proved contrary to the expected effects.

The Trade and Industry Policy After the CFA Franc Devaluation

Added to the weak impact of internal adjustment policies on economic growth, the growing pressure from the World Bank and IMF got the better of the CFA franc countries which in the end accepted that only a "surgical" operation of the CFA franc devaluation would provoke the shock needed to spur economic growth without entailing prolonged political resistance on the part of economic and social players.

Senegal had thought it would escape the devaluation by adopting an emergency plan (dubbed the Sakho-Loum Plan) immediately after the 1993 elections. The scope and robustness of the measures contained in the Plan reflect the enormous pressure put on the government to accept monetary adjustment. The implementation of the Plan lasted only six months, since the economic recession (decline in industrial production, company closures, job losses) and the financial crisis (fall in tax revenues, investment decrease, flight of capital) had deepened. Such an economic situation, compounded by the rising economic and social costs of internal adjustment, rendered the pursuit of such a
programme politically dangerous (Rouis, 1994). In another respect, the overvaluation of the CFA franc had become incompatible with the deterioration of exchange rates that resulted from the fall of the dollar compared to the French franc, and from the competitive devaluations carried out in other sub-region countries like Nigeria and Ghana.

For donors, the World Bank and IMF in particular, the shock of a 50 percent CFA franc devaluation was inevitable if the new adjustment programme was to be spared the lack of credibility, institutional obstacles and social and political pressure which the implementation of previous reforms had suffered. The idea of making change in the CFA franc exchange rate a unanimous decision by the CFA franc area heads of state in person rested on a four-pronged message: i) to give a strong signal on the involvement of the countries concerned in a strategy that marked a total break with the hesitations and institutional weaknesses of the past; ii) to guarantee, through the simplicity and scope of the operation, the irreversible nature of the option of a strengthened liberalization of the economy; iii) to create a framework that would be more conducive to deepening the structural reforms designed to liberalize the economy; iv) to dispel the fears linked to a possible break up of the CFA franc area after France had abandoned it.

Soon after the devaluation, Senegal, as well the other countries of the CFA franc area, received important support from international financial organizations and bilateral partners. In order to facilitate the implementation of the measures that immediately followed the devaluation, the National Assembly passed a law authorizing the President to take, by decree, decisions relating to the salaries of the public sector, foreign tariffs, basic consumer goods and taxes.

Designed to curb inflation and stabilize public finances, these measures were accompanied by a wide programme of structural reforms aimed at substantially reducing the government's role in the economy, at strengthening labour market flexibility, at further opening the economy to the outside world, and at creating a more favourable environment for the private sector (Pigato et al. 1997). The Private Sector Adjustment and Competitiveness Project (PASCO — Projet d'Ajustement du Secteur Privé et de Compétitivité), which was adopted a few months after the devaluation, is one of the major mechanisms set up to lift the obstacles to competitiveness and to support the private sector. Important measures were equally taken to liberalize investments, to pursue the privatisation of public corporations and to revise the customs and tax laws. The withdrawal of state funding, which constituted the frame of the "new economic policy," was accelerated especially with the privatisation of the National Telecommunications Company (SONATEL — Société Nationale des Télécommunications) and the floating of the shares of the Senegal National Water Company (SONES — Société Nationale des Eaux du Sénégal) and of the National Electricity Company (SENELEC — Société Nationale d'Electricité).

The devaluation of the CFA franc thus provoked a real turnaround in the relations between Senegal and donors by creating a new climate of trust. This change was facilitated by transfers within the political community. As a matter of fact, while until the end of the 1980s political parties, especially opposition ones, had always made a detailed critical analysis of adjustment policies, in the 1990s there was a change that significantly reduced the head-on opposition to the policies recommended by the Bretton Woods institutions.
Inset 1

In their description of the Senegalese fishing industry, often cited as a good example of export offer response to the devaluation, James and Raffinot (1998) have shown the difficulty of fishing companies in going beyond the first positive effects of the devaluation and in keeping their foreign markets shares. With the fishing industry's export revenues indeed having increased fourfold as a result of the change in the exchange rate, the number of enterprises producing goods for foreign markets more than doubled between 1993 and 1997 (from 25 to 55 enterprises exactly). In the face of the scarcity of halieutic resources, this rush towards the private sector resulted in stirring up competition and bringing down profits. Many firms were thus forced to close, whereas those that survived were obliged to function below their production capacity.

Another important element related to the government's change of priorities. During the post-devaluation period, the problems of access to foreign markets and the creation of an environment favourable to the private sector development indeed became a major preoccupation for the government, in addition to a reform of public finances and a restructuring of the public sector. All that was accompanied by a reorientation of state interventions towards areas such as the environment, institutional reforms or the fight against poverty.

In spite of the speeding up of the macro-economic, structural and institutional reforms undertaken since the CFA franc devaluation and the subsequent economic upturn, for many analysts the road to a sustained and lasting growth is still not smooth for the Senegalese economy. As far as the trade and industry policy is concerned, the progress achieved along the lines of price and import liberalization, of the reduction of port dues, of the abolition of non-tariff barriers and of a better access to international trading was translated neither into higher factor productivity, nor into a sustained export growth (See inset below.) Likewise, the private sector's contribution to the objectives of investment rates remained modest despite donor support, which funded public investments and some private projects.

Finally, it should be pointed out that few measures — other than those taken to strengthen the reforms undertaken before 1994 — were taken to reduce the cost of inputs and to create incentives that would enable enterprises to withstand the devaluation-related inflationary effects or to set off to conquer foreign markets under the best auspices (Qualmann, 1995).

The Administration's and Private Sector's Assessment of the Trade and Industry Policy Reform: Study Findings49

The Administration's Point of View

As the adjustment process after a trade and industry policy reform is structural in nature, the new rules of the game must be known beforehand as they contain a long-time guarantee from the institutions responsible for their application. Such guarantee is indeed necessary to reassure the new investors that the reforms undertaken are meant to last and that the risks involved are minimal (Nash, 1992). The role of the institutions in charge of implementing the proposed measures is thus crucial to ensuring the credibility of the trade reform. Personal and unequivocal commitment on the part of senior government authorities could even prove decisive. (See Inset 2.)
It is to illustrate the importance of the role of political leaders in a policy of export promotion that Gray and McPherson (1999) recall the example of an important purchase order, in 1997, for a model of shoes made by a Senegalese craftsman. Addressed by a French importer to Senegalese shoemakers, this order was never filled, though. In spite of the many moves made by the then Trade and Industry Minister in person, no Senegalese enterprise had in fact been able to find the human, technical and financial means required for the order to be filled. However, Gray and McPherson think that if Senegal's Head of State had personally undertaken to support manufacturing exports, local shoemakers would definitely not have had any problem in finding such resources.

And yet, in its hurry to get access to resources from the second Structural Adjustment Loan (SAL II)\textsuperscript{50}, the government had willingly refrained from examining the trade reform scheme proposed by the World Bank within the framework of the New Industrial Policy (Geourjon, 1992). The adjustment programme was thus globally perceived as a set of measures imposed from outside Senegal. The Government's acceptance of NIP was also suspicious because of the influence exerted in the whole process by some senior officials who completely supported the World Bank's and IMF's policies in advance\textsuperscript{51}.

It is thus, not surprising that public institutions in charge of policy implementation, follow up and evaluation hardly agreed on the objectives to be pursued and the means to achieve them. That is why many administration officials took it that the principal aim of structural adjustment programmes in general was to achieve macro-economic balance. But they agreed less when it came to giving their opinion on the objectives set for a sectional reform like the NIP one. Thus, while for the Customs Directorate the improvement of economic competitiveness was perceived as an objective subordinate to that of maximizing customs revenues and that of fighting fraud, for the Foreign Trade Directorate this improvement was the only means of promoting Senegalese exports. As for the directorates of planning and industry, they had a more precise idea of the advantages to expect from a trade and industry policy, since they considered that its effects could only show after a long period during which investment, employment and growth were stimulated.

This difference of opinion on the objectives of trade reform could be found not only in directorates belonging to distinct ministries, but also within the same ministry. The situation was obviously bound to have consequences on the implementation of the proposed measures and on the order of priorities and the coherence of actions undertaken by different parties involved in the reform.

Regarding the government's responsibility and commitment in the formulation and implementation of policies, the opinion of the chief officials was, on the whole, quite reserved. However, those who expressed opinion suggested that even though at the time the reform was launched the administration's commitment and will were genuine; the motivation of the players in the field could only remain intact if the results expected from various measures were significant. Furthermore, it has been stressed that the determination of the departments responsible for implementing reform is a function of the government's financial incentives for the administrative staff. This latter factor was generally related to the corruption that was eating into the administrative machinery.

The administrative officials' points of view on success or failure of the trade and industry policies implemented in Senegal were equally varied from one interlocutor to another. While some interlocutors considered that making a policy a priority was the key to its
success, others thought the key lay in the political will and determination of the players responsible for carrying out the reform. And still, others thought that consulting with all stakeholders and getting their approval were prerequisites for success.

Paradoxically, it was observed that although almost all the administrative officials complained of lack of competence, only a few considered administration weaknesses as the possible cause of the failures in economic policy implementation. However, many of them agreed that the diagnosis and policy recommendations by foreign experts who were hardly conversant with local economic realities were responsible for the failures. This explanation is closely related to co-ordination problems stemming from the multiplicity of implementing agencies set up with the initiative of donors.

The administrative recognition, of the growing role of the private sector in the reform process does not necessarily translate into greater influence on the policy orientations adopted. For most of those that we interviewed, the strengthening of government-employer consultations had the advantage of enabling the parties to identify and better grasp the constraints likely to hinder the process of implementing the proposed reforms.

Administration officials admitted that whatever amount of pressure they came under from interest groups bore more on the measures than on the major policy orientations, which confirmed our analysis of the Senegalese private sector's weak negotiating power.

Furthermore, there was a relative agreement on what officials considered to be the place and role of the state in the economy. While for some the state must limit its role to defining the rules of the game as laid down in international accords, others considered that it should, in addition, facilitate and protect private enterprise. In some directorates, those of industry and customs for example, officials went a step further to readily admit that the state should also provide impetus and support sectors deemed to be strategic.

Nonetheless, only a few believed the state must withdraw from all sectors of commercial activity in favour of the private sector if the sector was to survive in an environment that had grown more competitive. This scepticism can be explained by several reasons: the private sector's organisational weakness and lack of preparedness in accessing technology and finance a weak capacity for initiative and the absence of development strategies, a weak market size, and a small of enterprises.

The Private Sector's Point of View

We have already seen that even if a big number of manufacturers agreed with the diagnosis that the Senegalese industry was excessively protected, the abruptness of the methods used to impose the reform programme, the haste with which this was undertaken and the lack of coordination between liberalization measures and supportive ones, all combined to transform the manufacturers' initial scepticism vis-à-vis the reform into its rejection. This is one of the main conclusions that emerged from the survey conducted with manufacturers in preparation of this study.

The views collected during the interviews with company managers and representatives of employers' organizations gave some idea on the extent of the role that the problem of credibility played in the implementation of the trade and industry policy reform undertaken by Senegal. For the private sector, the reform programme's lack of credibility was visible in three respects: the foreign paternity of policy options, the weak government's appropriation capacity, and the mediocrity of results in relation to the expected results.
Used to seeing the government impose, without consultation, measures usually agreed upon only with foreign donors, the private sector indeed ended up making no distinction between the options of the former and the demands of the latter. It is this state of affairs that explains why a big number of manufacturers (three fifth of the surveyed enterprises and all professional unions) still considered that the trade reform measures implemented by the government were a faithful reflection of the recommendations of the World Bank and IMF. Only a minority of company managers (one fifth of them) thought that government policies also took into account the demands of the development of the economy in general and the interests of the domestic industry in particular. The government’s room for manoeuvre regarding trading policy decisions was equally constrained by the international accords linking the country to organizations such as the World Trade Organization, the Economic Organization of West African States and the European Union.

But, even when manufacturers considered the recommendations from international financial institutions as a simple general reference framework, only a few of them believed the government had the ability to appropriate these recommendations and formulate them in the form of a trade openness policy for industrialization. The findings of our survey showed that nine-tenth of enterprises shared this scepticism about the government’s capacity and determination to carry out to the end the trading policy reform designed in the NIP framework. The repeated calling into question of the measures already undertaken is proof that the private sector players’ feeling was not without reason.

In the face of the private sector’s perception of the paternity of policy options and the government’s inability to undertake a programme of sufficiently sustainable reforms, the trade and industry policy implemented in Senegal became even less credible due to lack of proof of their supposed effectiveness. Since they considered NIP trade openness measures to benefit more the finished products importing sector, company managers did not miss any opportunity to voice their disappointment with the effects of those measures.

What Industrial and Trade Policy?

The way in which the trading reform programme was designed and implemented in Senegal highlighted three main reasons for its failure: a dogmatic bias for the market and against the State, a wrong appreciation of the institutional constraints facing the implementation of trading policy reforms, and the fact that the programme content was deeply unbalanced in favour of strictly commercial reforms at the expense of industrial policy measures.

Beyond the Free Trade Dogma

A good understanding of the trade and industry policy reforms undertaken in Senegal, as elsewhere in Sub-Saharan Africa, requires one to bear in mind that such reforms are underpinned by the dogma according to which the market is essentially effective while state intervention is crippling and ineffective (Lall, 1995). As already pointed out, Senegal is one of the countries that served for experimentation of the “new industrial policy,” as a component of the development strategy imposed, in the early 1980s, especially in Latin American countries by the USA and the Bretton Woods institutions (Rodrick, 1992). As a result of a “Washington consensus,” the approach that inspired that strategy holds it that the economic stagnation those countries had experienced since the
1970s could be accounted for by the previous development model which was adopted by most of the countries in the region: the model of industrialization to substitute for imports. With such a diagnosis, there was naturally need for a policy founded on trade openness. In addition to the similarity between this diagnosis and that of the Senegalese economy, the fact that trading reforms were carried out simultaneously in Senegal and some Latin-American countries suggests that they had a common source of inspiration.

A careful examination of the outline of the new industrial policy shows however that what was presented as a prognosis of those economies was in fact only a set of arguments meant to demonstrate the assumed superiority of an export-oriented strategy vis-à-vis the import substitution model. Thus, as it is often the case for any reasoning based on a given dogma, the diagnosis and the hypothesis become the same thing. For the proponents of the new industrial policy it is the protectionist and interventionist measures followed by the country’s first leaders that were responsible for the poor economic performance of the Senegalese industry and for the price and market distortions within the economy. It was therefore enough to replace such practices with a policy strictly based on market mechanisms if the economy was to regain its domestic and foreign competitiveness.

The change of policy was thus aimed at reducing the role of the state to that of a simple guarantor of free trade and a stable macro-economic environment. By insisting that obstacles to a smooth running of markets be abolished, the proponents of the “new industrial policy” supposed that there exist regular trade relations among the economic agents assumed to be rational and equally sensitive to price signals (Mkandawire and Soludo, 1999). Accused of being the “trouble-maker” on markets presumed to be perfect, the state is thus ordered to stop all involvement in economic life.

But our analysis of the context of the Senegalese economy has brought to light the types of constraints which the implementation of such recommendations stumbles against. As Mosley (1995) has indeed stressed, it is a fact that market imperfections, which cannot be attributed to policies followed in the past, are more numerous in Africa in general and in Senegal in particular than elsewhere. Such a particularity did not seem to worry the proponents of the new trade and industry policy, though. If the government had not played the role it effectively played in the setting up of modern economic structures and hence in the development of market relations, those imperfections would certainly have been more important. It is therefore not surprising that each step made by the government in its withdrawal from economic activity translated into a decline of commercial relations in favour of the expansion of the informal sector.

**The Crucial Role of Institutional Factors**

The big variation observed in the results achieved by the country that experimented with the “new industrial policy” for the past 20 years calls for questioning the relevance of this policy with regard to the institutional environment of the economies concerned. That is why, prior to implementing such a policy, an analysis of organisational factors and political constraints that influence the perception of the concerned players and their response to incentive measures can prove as essential as the study of only economic mechanisms for policy transmission. The Senegal experience has highlighted the decisive role, which such factors play in the implementation and the results of trading reform policy.

Three reasons have generally been put forward to explain the NIP failure in Senegal: the lack of credibility of the reform programme due to weak determination on the part of the
government, the non-involvement of the private sector in defining the reform measures, and the non-implementation of the planned supportive measures.

As already pointed out, the credibility of the trade reform undertaken in Senegal first suffered the effects of the financial crisis at the time when it was implemented. After three years of "weaning" following the cancellation of previous adjustment accords signed with international financial institutions, the hasty adoption of a reform that broke so drastically with past policies could hardly be seen as sustainable by industrialists. Such a perception was reinforced by the attitude of the government which at no single time in the implementation of the reform showed any sign of beginning to appropriate it or any willingness to carry it out to the full.

The lack of transparency about the conditions of NIP elaboration was not going to earn it enough credibility in the eyes of the private sector players either. And yet, such a policy stands better chances of succeeding if the main players are involved in the definition of reform measures from the start. This involvement serves also as an opportunity to evaluate the manufacturers' adjustment ability and to estimate the costs of the implementation of these measures.

In the end, one can understand why in the absence of the supportive measures provided for in the reform measures, the implementation of which would have alleviated the lack of credibility, the manufacturers' scepticism vis-à-vis the government's determination to pursue a sustainable reform transformed into a reaction of rejection. This grew stronger as the real impact of the implemented measures departed further and further from the effective gains expected from the change of policy.

**Elements of a Trade and Industry Policy**

The weak impact of liberalization and trade openness policies on the Senegalese industry leads one to question the effectiveness of the strategies used to curb the industry's decline that started in the mid-1970s. In order to draw the outline of a trading policy that would enable a resurgence of Senegal's industrialization, we will look at three elements around which reflection on the industrialization of the whole of Sub-Saharan Africa centres. The three elements are: the compatibility of externally-oriented industrialization on the one hand and the trading system in force in developed countries on the other hand; the required degree of trade openness and its different phases; the position of the government in the reform process and its role in the building of the capacities necessary for industrial development.

Bhagwati (1994) has shown the asymmetry which, for about 50 years, had characterized trade and industry policies in developed countries on the one hand, and developing ones, on the other. It is a fact that while from the 1950s to 1970s the former group of countries constituted the main centre of application of free trade and the latter that of protectionism, in the 1980s arguments in favour of one camp or the other changed sides completely. The context then was marked by the contrast between a "strategic" policy favourable to selective state intervention in developed countries on the one hand and, on the other hand, insistent recommendations urging African countries to liberalize their trading system. Thus, while admitting that state intervention could enable developed countries to reduce market imperfections, governments in developing countries were asked to abandon any policy aiming at protecting domestic industries (Bhagwati, 1994).

By giving the example of Asian countries that benefited from such externally oriented industrial strategies, the proponents of this model too often forget that the adoption of
such policies happened before the structural imbalance of the early 1970s. Besides, not many people anymore believe that the state did not play a fundamental role in the industrialization process in Asian economies.

As Mkandawire (1988) has stressed, while the import substitution model adopted at the end of World War II by some developing countries was compatible with the strategy and the needs for industrialization and reconstructing European economies especially, the export orientation that was dictated to Sub-Saharan African countries in the 1980s was hard to reconcile with protectionist barriers set up during the same period by industrialized countries. In the case of Senegal, the question could be asked as to how important the efforts of trade openness could be for a country whose export capabilities still depended on two or three main products. The effects of such dependence lie in placing not only the economy in a situation of extreme vulnerability in the face of external shocks, but also all the economic sectors in a situation of permanent uncertainty. These may be those dealing with foreign markets or those whose activities are entirely oriented towards the domestic market.

Moreover, in a country like Senegal where the integration of economic structures is weak and the industrial fabric is little diversified, it is hard to imagine that the mechanism of allocating resources could function fully without state intervention. This was all the more necessary because there was a tendency to run an increasing number of economic activities following a model different from a market model proper (Fontaine, 1992).

As the Senegalese operators in the fishing and oil industries have learned recently, it is not enough to simply go beyond the traditional protectionist barriers in order to have access to European markets; it is necessary to overcome the obstacles related to quality standards, to lack of professional skills and information on these markets, and to the rising costs of acquiring appropriate technologies. Obviously, these obstacles cannot be overcome by simply opening domestic enterprises to foreign competition. To be effective, the trade openness strategy must go hand in hand with the building of capacities required in all these domains. The liberalization process must be based on a realistic evaluation of activities viable in the medium term, with an exhibition rhythm dictated by the learning needs associated with different activities.

One most significant contributions of industrial economy has indeed been to demonstrate that the process of acquiring technological skills in an industry is not only long, but costly and risky as well. The lack of policies and institutions that would develop professional qualifications and offer the technical information and technological support required for enterprises of the size to be found in Senegal constitutes a serious handicap to the development of competitive capacities.

As we have already seen in the case of Senegal, one of the difficulties in the way of the resource allocation mechanism postulated by the trade and industry reform lies in that in an economy, the industrialization of which is founded on import replacement and domestic resource transformation, foreign competitiveness based on comparative advantage can contradict the promotion of high value added industries aimed at by the reform of the export subsidies system (Siggel, 1991). This conflict can be explained by the fact that formerly protected sectors are generally those where there are over profits and unexploited economies of scale at the same time (Rodrick, 1992). If structural rigidity is not eliminated, it is probable that a simple withdrawal of protection, without compensatory measures, will lead to underusing productive resources instead of transferring them to export activities.
The privatization examples we have seen these last years show that de-nationalization of public corporations more often translated into their being taken over by foreign interests than serving as opportunities for investment for the national private capital. Due to a lack of financial resources and management capacities enough for people to launch into the industrial sector, this sector must usually content itself with service or informal activities with a low value added.

In such conditions it is not surprising to realize that while the great majority of Senegalese industrialists stated their approval of the new economic policy orientations, indifference seemed to be the rule as regards the trade and industry policy proper. To the question of whether they preferred the current strategy or that which preceded the structural adjustment years, 20 out of the 30 enterprises surveyed responded by saying that they were indifferent to the two strategies. Seven company managers said that they preferred the adjustment period, while three stated their preference for the period before SAP.

Company managers considered that the then current economic policies were less conducive to rapid industrialization. Four fifths of the surveyed enterprises even thought that the country did not have a true industrialization policy and that it was not much in favour of industrialization. The findings of the survey show that 18 out of 30 enterprises (i.e. three fifths of them) wanted to see the government play a greater role in promotion of the domestic industry, against eight who, on the contrary, thought the government should rather play a lesser role. Only one-tenth of enterprises (three) did not wish for any intervention by government to promote industrialization.

Regarding types of intervention, 21 enterprises (70 percent) thought that the government should limit its intervention to setting up infrastructure and a competitive environment for all the enterprises, whereas 13 of them wanted the government to facilitate access to credit and 12 of them wanted it to ensure the promotion of some strategic industries through specific incentive measures.

It is evident from the answers that for the majority of enterprises, the state still has a big role to play in industrial development. However, they consider that this role should consist more in promoting domestic industries than in intervening in industrial activity proper.

**Conclusion**

At least four types of lessons can be drawn from the analysis of the institutional environment of the trade and industry policy reforms undertaken in Senegal within the framework of structural adjustment. Firstly, it is a sound question to ask whether the context of macro-economic instability in which the trade reform was imposed on the economy was opportune for too abrupt a change of policy. As we have already noted, even if the gravity of the economic and financial crisis the country was undergoing brought the Government to be receptive to the recommendations of its principal donor, namely the World Bank, it probably reduced the advantages of liberalization too. Some analyses (Nash, 1993; Fontaine, 1994) show indeed that the macro-economic imbalances brought the country to weigh the following two options: the necessity to limit imports in order not to deepen the domestic and foreign deficit on the one hand, and the need to increase imports of intermediate goods and equipment in order not to strangle the productive sector, on the other hand. We have seen how the Senegalese government came out in favour of the former option through reversing tariff measures. It is thus not
surprising that the weak growth of the economy during the 1980-1988 period was coupled with a decline both in the ratio of GDP exports and that of GDP imports, which is a result least expected of a trading policy reform.

The second lesson is that even if the implementation of a trade reform must take place over a short period of time, it is advisable to publicize it beforehand so as to allow the different parties concerned, both the losers and the winners, to get prepared. The impact of announcing the reform measures could even make investors behave in a way that anticipates the objectives of the reform.

The third lesson that stems from the Senegalese experience is that, since the adjustment process after a trade reform is of a structural nature, the new rules of the game must be known beforehand as much as their application must be guaranteed on a long-term basis by the institutions responsible for it. Such a guarantee is not only necessary for the reallocation of productive resources, but also because even though sectors become profitable, they will attract new investors only if these are convinced that the reforms undertaken are designed to last (Nash, 1992).

Finally, given the duration which enterprises need to adapt to a new environment, it is essential that the reform objectives be shared by a maximum of enterprises and that the behaviour of these should not be frustrated by frequent hesitations and too much calling into question on the part of the institutions responsible for implementing the reform programme.

Notes

1 Indeed, for merchants and manufacturers from Marseilles, the capturing of the Senegalese market meant a loss of earnings, in view of the fact that it would put restrictions on cheaper supplies to British colonies like India and Nigeria.

2 These firms are: the Commercial Company of West Africa (SCOA — Societe Commerciale de l’ouest-Africain,) the French company of West Africa (CFAO — CompagnieFrancaise de l’Afrique de l’Ouest) and the New Commercial Company (NOSOCO — Nouvelle Societe Commerciale), a branch of Unilever (Suret-Canale,1964; Assidon, 1984). A similar concentration could be observed in industry and mines, where 13 and 7 firms held a total of 60 percent and 65 percent of investments respectively. According to a study carried out by the French Ministry of Colonies in 1943, the investments of private capital exported from France to French tropical Africa between 1900 and 1940 rose to 28 billion francs, 39 percent of which was invested in trade and 10 percent in the banking sector and real estate, against 9.6 percent in industry and 7.5 percent in the mining sector (Suret-Canale, 1964).

3 It was, for example, estimated that the capital investment between 1870 and 1936 was two pounds sterling per capita in the French territories, while it was about ten pounds sterling in the Portuguese and British territories and 56 in South Africa (as cited by Suret-Canale, 1964). Besides, a study carried out by the French Ministry of Colonies in 1943 showed that 39 percent of private capital investments exported from France were in trade, 10 percent in real estate and banking; against 9.6 percent in industry and 7.5 percent in the mining sector.

4 Since 1939, it had indeed become necessary to promote by supply of groundnut oil produced in Senegal to North Africa in order to make economies on freight and avoid the double transport of the groundnut raw material from Senegal to France, and then of its oil from France to North Africa (Suret-Calale, 1964). That is why, after its factory in France was put out of use, the Lesieur Company obtained authorization to set up another one in
Dakar. Simultaneously, various small industries were started in Dakar: cement works, shoe or furniture factories, fish canning factories, and carpentry workshops. Between 1942 and 1945, 30 authorizations were granted to set up industrial companies in Senegal (Nguyen Van Chi-Bonnardel, 1978).

5 Fixed at 1.70 (old) metropolitan franc in 1945, the CFA exchange rate later rose to 2 metropolitan francs in 1948, a rate that remained unchanged till the 1994 devaluation.

6 It can be read in that plan that even if the state "expects the intervention of substantial private capital," it however does not intend "to stay passive, but rather to play an engine role by defining an industrialization programme, creating and maintaining a climate conducive to industrial expansion by undertaking studies and research essential for the setting up of new industries and participation if need be" (cited by Rocheteau, 1982).

7 This policy was in total agreement with the development strategy that had been defined in the "action proposals for the decade of development" adopted in 1962 by the UN (Singer, 1994).

8 For more information on this episode, see Thioub (1994).

9 One can mention the case of the Senegal Fertilizer Industrial Company (SIES — Societe Industrielle des Engrais du Senegal) and that of Senegalese Industrial Company for Mechanical Construction and Farming Equipment (SISCOMA — Societe Industrielle Senegalaise de Constructions Mecaniques et Materiel Agricole). Started in 1961, the SIES was the first fertilizer factory in Sub-Saharan Africa. It provided the farming sector with inputs obtained from locally produced phosphate. SISCOMA was an agricultural equipment factory. Neither factory survived the crisis in the groundnut farming.

10 It is in this context that SOSECOD was created in 1961. It was replaced by SONADIS in 1965. Designed to serve as an instrument of promoting Senegalese traders, SONADIS was an association of both the SCOAI company and the Government of Senegal. The creation of AFRIDEX in 1960 came about through a similar type of association between CFAO and numerous small Senegalese traders.

11 1968 and 1969 saw scenes of uprising from students and urban workers which seriously shook up Senghor's regime.

12 Nguyen Van Chi-Bonnardel (1978) estimated at 15,000 the number of consumers represented by the sole French military and the family members present in Senegal at the time of independence.

13 The World Bank was actually the first to acknowledge the important role it played in shaping the economic policy of Senegal. One of its 1987 reports (see Banque Mondiale, 1987b), indeed states that through its work, its advice in matters relating to economic policy and thanks to continuous dialogue with the Government of Senegal, it has always exerted considerable influence on economic decisions, an influence that was considered incommensurate with the level of its financial contribution.

14 The SONEPI had a double mission: on the one hand to contribute to the development of national small and medium-sized industries, and on the other hand, to look for foreign private investors.

15 This corroborates the idea that one of the conditions for implementing an industrialization strategy through import substitution is to have a high level of political independence likely to attract foreign capital or to protect domestic industries (Mkandawire, 1988).

16 The revision, in 1971, of the public service concession system for the production and distribution of electricity resulted in the creation of SENELEC as a mixed economy company in which the government and the former concessionaire held 50 percent of the capital each. As for the water distribution company, it simply lost all its concession rights because the government re-owned the whole network through SONEES corporation.
The Politics of Trade and Industrial Policy in Africa (Rocheteau, 1982). Such were the rare cases of nationalization implicating the Government since independence, as most of the other public corporations were directly set up with public funds.

17 For instance, the first plan stated as one object to reduce cereal imports in order to “reserve the country’s importing capacity to goods necessary for development,” while customs protection was deemed necessary for the start of new industries, while avoiding to establish monopolies and hence hinder competition. In accordance with the exporting orientation of the 1970s, the third plan re-affirmed the objective — already started in the second plan — to increase and diversify exports. It also provided for a further opening of the domestic markets to foreign competition: protection of the local production was to be limited to the necessary period companies would require to mature. The fourth plan, for its part, aimed at both modifying the structure in favour of equipment goods and at strengthening the measures likely to help domestic companies to win foreign market shares.

18 Among the important advantages offered to the companies set up in the area, there were: an exemption on import duties and taxes, an exemption on export taxes, fiscal exemptions, and guarantees related to the repatriation of capital income for foreign investors.

19 A special convention is a mechanism that allows for granting to a company a legal monopoly for the production or importation of one or more products, as well as granting it various advantages in the form of fiscal exemptions, subsidies or guaranteed prices. Such a convention has usually been applied to basic consumer goods.

20 One arrangement used to that effect was a bank account, named Account K2, into which was paid money from the public coffers, which allowed the government to grant bank loans to its supporters under unorthodox conditions (Diop and Diouf, 1999).

21 Djouga Kébé and Djily Mbaye were best known of those business people. The two men had in common the fact that they both acquired their wealth abroad and were linked to the Mourides Brotherhood. After amassing considerable capital from the diamond trade in former Zaire and from cocoa in Côte d’Ivoire and Guinea for the latter, they founded groups which, in their lifetime, were among the 12 most important industrial groups in Senegal (Banque Mondiale, 1992). While the Kébé holding company ran operations covering industrial sectors such as food processing, estate, tourism and trade, the Mbaye group had interests in food processing, textile, banking and real estate sectors.

22 The study by the World Bank points out that the majority shareholder in this enterprise was actually a Frenchman naturalized as Senegalese.

23 Cruise O’ Brien (1981) has shown that the peripheral integration of Senegalese companies into the world market economy, through colonial structures, was made up for by a universal religion, Islam. Like all the authors who have written about this issue, he postulates that there is a connection between the development of religious brotherhoods, the extension of groundnut cultivation and the colonial stranglehold.

24 That is why within one and a half years (from May to November 1937), 42 professional unions had been created (Suret-Canale, 1964). The rapid development of the union movement was crowned, in 1938, with the creation of a union of African trade unions for the Dakar area.

25 The UPS is the ancestor of the current Socialist Party. Being the first party to come to power in 1960, it retained this until the last presidential elections of February-March 2000 which saw the victory of an opposition coalition that supported candidate Abdoulaye Wade from the Senegalese Democratic Party.

26 See also Diop and Paye (1993):
The information about economic operators in Senegal was drawn from the various papers published in Marfaing and Sow (ed), (1998), from Kébé (1998) and notably Seck (1998), and from a sturdy we carried out with professional trade unions.

The appointment of Abdou Diouf as Prime Minister in 1970 was immediately followed by that of Babacar Ba as Secretary General in the Office of the President, a position which he held until 1971 before becoming Minister for Finance and Economic Affairs. It is worth noting that Ba was the second Senegalese to head this ministry under Senghor, as all the other ministers before him were of French origin.

The ease with which the government of Senegal had access to external sources of funding gives an indication of the political support it has always enjoyed from donors. This support allowed the country not to apply measures of internal adjustment, in particular those relating to the government's lifestyle.

Balladur was France’s Prime Minister between 1993 and 1995. Less inclined to be carried away by the “Franco-African friendship” and impervious to orders from some in the old Gaullist network, the Balladur government played a decisive role in convincing President Mitterrand and member states of the CFA franc to accept its devaluation.

In Senegal, it is public knowledge that even the Prime Minister is only rarely invited to take part in the process of defining policy reforms: the most part of the negotiations and implementing process is almost exclusively the responsibility of the Head of State and the Finance and Economy Minister.

The economic departments in the administration where we could conduct interviews are the directorates of foreign trade, industry, planning and customs.

Members of the executive staff who had received post-university training had, generally speaking, graduated from the École Nationale (ENAM) in charge of training civil administrators, already holders of a Master’s degree.

In the framework of this scheme, about 4,000 servants retired between June 1990 and August 1991 (Rouis, 1994).

Such was the attraction to these organizations that it is not rare to find former ministers and senior civil servants in the state apparatus now occupying relatively unimportant positions in the very organizations they negotiated with in the past in the name of the Government of Senegal.

Founded during the colonial period, the Senegal Industry and Mining Professional Union (SPIDS — Syndicat Professionnel des Industries et des Mines du Sénégal) is the oldest employers’ union. It was structured around the heavy industry which, as we have already seen, remained under the control of foreign interests. Moreover, it should be noted that it is the only employers’ organization in existence before the structural adjustment era.

Geourjon (1990), observes that although this meeting took place on 18 January 1986 and the Ministerial Council meeting was to be held on 10 February 1986, employers were asked to make comments on the NIP measures but no written document on this policy was given to them.

Studies carried out in the mid-1980s had indeed brought to light the fact that quality restrictions concerned not less than 160 products and that 25 enterprises which realized about 30 percent of their total manufacturing value added benefited from special conversion (Banque Mondiale, 1994b). As for the figures of effective protection rates calculated for 198, they revealed that while domestic market-oriented and low value added industries benefited from positive effective protection rates, those for foreign market-oriented industries were negative. In total, the mean effective rate of Senegalese industries had thus reached the excessively high level of 165 percent in 1985.
39 In the scheme initially proposed by the World Bank, the revision of customs tariffs was to be carried out in one go, but the customs administration was eventually allowed to carry it out in two phases: in 1986 and 1988. Geourjon (1992) points out that since the customs administration later did not wish to go beyond the measures taken in 1986, those of 1988 were imposed by the World Bank.

40 Used to fight underbilling, market price lists are minimum reference values imposed on importers. Levy minima are specific custom duties fixed by the customs office independently of the goods declared value.

41 In 1987, enterprises enjoying a special convention represented 30 percent of the total value added of the manufacturing industry. Following the new investment code adopted the same year, it was planned all the special conventions that would expire would be progressively abolished. However, when NIP was abandoned in 1989, only one of the 15 remaining accords had come to an end.

42 Instead of increasing, export subsidies diminished, falling from eight billion francs in 1986 to a little more than six billion in 1989, which, in relative terms, represents a fall from 13 percent to 8 percent of the f.o.b. value of the exports for the years in question (Banque Mondiale, 1992).

43 In the end, the revision of certain provisions of the labour legislation by the National Assembly, happened only in 1994, after all sorts of incidents due to the pressure from trade unions. It can therefore be suggested that the government fell victim to its own strategy of "responsible participation" by workers' unions in the management of political power and economy.

44 It was carried out by an American research consultancy firm, the Boston Consulting Group.

45 Geourjon (1990) further notes that among the three Sub-Saharan African countries (out of the 19 for which statistics were available whose flow of investment was negative in 1987), Senegal had the worst results.

46 Sakho was the Economy, Finance and Planning Minister and Loum the Minister of State for the Budget when the emergency plan was adopted. During a reception of workers' unions that were striking against the measures contained in this plan, the President of the Republic made it clear to them that the only alternative to the implementation of these measures was devaluation and thousands of lay-offs in the public service. Moreover, it is well known that President Abdou Diouf was, to the last minute, among those who were strongly opposed to changes in CFA franc mint par of exchange.

47 Although PASCO was considered as the most important mechanism in support and development of the private sector, it was not the only one. The devaluation was in fact followed by such a big number of projects with the same objective that, according to Berg et al. (1997), their beneficiaries did not even know which institution to address requests for assistance.

48 This revision of customs and tax law was meant to anticipate the institution of a common foreign tariff in the year 2000, in the framework of the West Africa Economic and Monetary Union Treaty adopted at the same time as the devaluation of the CFA franc.

49 This section draws essentially on the findings of three empirical studies conducted as part of the preparation for the present study. The first was a survey of 30 enterprises. It was based on a questionnaire on their technological and productive potential, on the impact of trade and industry policies, on the role of the government and on the enterprises' level of participation in the design and implementation of policies. The sample selected covered all industry branches on the list of the official system of Senegal's industrial accounts. The survey was complemented by interviews with four employers' unions: the Professional
Union of Senegal's Industries and Mines (SPIDS), the Senegal National Council of Employers (CNP), the Senegal National Confederation of Employers (CNES) and the Senegal National Union of Traders and Manufacturers (UNACOIS). The study also took into consideration the opinions from interviews with official responsible for foreign trade, industry, custom, planning and the Dakar Chamber of Commerce and Industry.

50 We know how the first Structural Adjustment Loan (SAL) from the World Bank and the extended facility accord from the IMF were annulled because of non-respect by the Senegalese Government of its commitments made on the occasion of the Economic and Financial Recovery Plan. Because of that, for three years the government was deprived of important financial resources.

51 Mamoudou Traore, the then Economy Minister, was seen as the best representative of this group of officials. Directly landed from the IMF, where he was its director for the Africa Desk, he made Senegal start walking on the path to structural adjustment. After resigning from the government in 1986, he returned to hold a new position with IMF.

52 These last years, European directives aimed at imposing hygiene and quality standards to the Senegalese fishing companies dealing with European markets have succeeded in a campaign denouncing the toxicity of the groundnut oil produced in Senegal.

References


Banque Mondiale, 1994a. L’Ajustement en Afrique: Réformes, Résultat et Chemin à Parcourir; World Bank, Washington DC.


11. Senegal 313


12. CÔTE D'IVOIRE: POLICY MAKING AND IMPLEMENTATION: EXAMPLES OF SELECTIVE TRADE AND STRATEGIC INDUSTRIAL POLICIES

Kouassy Oussou, Pegatienan Jacques and Bamba Ngaladjo

Introduction

The globalization of the world economy tends to create an integrated and unified market imposed on all countries, especially on the smaller ones. This phenomenon generates opportunities as well as threats for Africa. Hence African countries must initiate and implement appropriate adjustments to seize these opportunities and to minimize the threats. Studies show that there is a consensus that trade liberalization, despite its sequencing problems, stimulates economic growth. The poor economic performance of Africa, therefore, can be explained by its trade regime that is more restrictive than that of other countries.

Indeed, Africa appears insignificant in world economy. Its per capita income of US$ 509 in 1995 (297 excluding South Africa) is 1.1 percent of world GDP and its exports are 1.4 percent of world exports (Wang and Winters, 1998). Africa’s share in world trade decreased for all categories of goods. The share of OECD imports of the 30 most important products fell from 20.8 percent in 1962–1964 to 9.7 percent in 1991–1993. Africa’s exports have somehow diversified since the share in world exports of the 30 most important goods in 1991–1993 was 42 percent compared to 72 percent in 1962–1964. Despite this diversification, the share of OECD imports of those goods further declined to 6.3 percent in 1995 (Wang and Winters, 1998). The conclusion is that competitiveness of Africa’s products deteriorated.

Despite its liberalization efforts, Africa’s openness is narrower than elsewhere, for example East Asia. Over the early 1990s, customs duties were 26 percent in Africa compared to 17 percent in other developing countries.

The limited openness of the continent is not accounted for only by its restrictive trade regime, but also by the insufficient industrial development and especially the weakness of its manufacturing sector. The rate of growth of manufacturing value-added fell from 3.3 percent in 1989–1990 to 1.7 percent in 1992–1994. The share of Africa in world industrial exports declined from 1.5 percent in 1980 to 0.8 percent in 1994; its share of foreign direct investment also declined from 6.6 percent in 1984–1989 to 2.5 percent in 1995. Its industrial sector is characterised by a weak technological development; the structure of industrial production was not transformed and is still dominated by the processing of raw materials.

The profile of trade and industrial performance in Côte d’Ivoire, which is very close to this picture, is shown in Table 12.1.

Table 12.1 shows a stagnation of industrial development and manufacturing export; at the same time, a significant growth of total export and a non-negligible share of export in GDP. There is a predominance of raw materials in exports; the movements of the GDP
share of manufacturing show that it is mainly domestic market-driven. The possible obstacles to trade liberalization in Africa are internal and external; internal factors are changes in income distribution, time inconsistency of policy-makers, uncertainties about gains and losses, and political instability.

African economies are dominated by agriculture that generates incomes distributed among social groups through marketing boards controlled by the government. The greater the tax on producer prices, the lower the rural incomes, and the greater the incomes of marketing boards and government. This means that the main economic actors are peasants, urban elite and the government.

Trade liberalization implemented through reduction of taxes on agricultural producer prices modifies the income distribution in favour of rural populations and against the government that controls the marketing board and urban elite, including those living on rents derived from the administration of the tax system. The pressures of urban groups are generally stronger than those of rural populations who are ignorant and politically unorganized. Re-allocation of resources necessary to compensate losers are so large that trade liberalization may be blocked.

Trade liberalization has been hindered by the reversal of policy stances; increases of trade taxes have followed reductions of the same taxes and vice-versa. These policy reversals are common in Africa and are explained by pressure groups.

Very often, economic reforms announced by African governments are not credible because of lack of transparency in public management of the economy and because of the weaknesses of the judiciary and legal system as a consequence of multifaceted corruption, which reduces the trust of the incentive system. Political instability is another decisive factor in the economic policy-making in Africa as governments in power fight to ensure support groups are on the side of gainers. Often too, these groups belong to specific ethnic groups or regions, adding to ethnic tensions. This is an additional explanation of policy reversals, as the power relations between these groups tend to move.

There are external factors explaining the difficulties of trade liberalization in Africa: a hostile external environment and unfavourable trade rules. Over the 1970–1990 period, the least developed countries, of which Africa is a major part, had to undergo a cumulated loss of 50 percent of their terms of trade. As for debt, Africa pays its creditors a debt that is fourfold its expenditure for health.
On top of that, the results of the Uruguay Round negotiations did not make trade rules better for Africa. Indeed, less developed countries obtained low tariff reductions and Africa obtained few specific tariff reductions; tariff escalation subsists whereas the dismantling of MFA is planned over a long period; Europe and America will continue to heavily subsidize their agriculture because the UR Agreement did not impose strict liberalization agenda for agriculture; the UR Agreement on property rights and trade-related investment measures might hinder African countries’ efforts to modernize their economies. For instance, protection of trademarks and other forms of intellectual property, which is becoming compulsory, renders modern technologies more expensive and less accessible. This will further marginalize Africa.

Despite the general move of the world economy toward globalization, Africa is not in a position to take automatic advantage of the situation. In fact, trade liberalization policies and an open external environment are necessary conditions to increase the integration of Africa to the world market. But the conditions are not sufficient to obtain actual integration because of the weak technological capabilities of African economies. This is due to the fact that industrial policies implemented do not emphasize the learning process for acquisition and improvement of technological capabilities; adoption of an antagonistic approach instead of a complementary approach of import substitution and export promotion; lack of explicit government strategy to meet the demands for technological capabilities; the fact that the extent and the speed of trade liberalization are not in pace with the speed at which technological capabilities are acquired.

Côte d’Ivoire suffers from these policy weaknesses and setbacks. Though the country embarked in a far-reaching trade liberalization and a renewal of industrial policies aimed at establishing a leading role for the private sector, Côte d’Ivoire still faces policy instabilities and technonological backwardness.

This chapter seeks to analyse the trade and industrial performance of Côte d’Ivoire in light of this background. It will review trade and industrial performance and policies of Côte d’Ivoire, describe and examine the policy process in the country with emphasis on trade and industry related measures and further examine the ability of the government to design and implement appropriate measures as well as the capabilities of firms and other recipients of policy ingredients to respond to or influence policy measures. In the Ivorian context, it will also look at State intervention in trade and industrial developments, insisting on the conditions under which such interventions can be efficient and effective in the new global trading system (WTO) and in regional integration schemes.

A Review of Trade and Industrial Performance and Policies in Côte D’Ivoire

The overview of trade and industrial policies in Côte d’Ivoire requires an identification of critical sub periods to determine the turning or breaking points in the policy content as well as the policy environment.

Characterization of Critical Sub-Periods for Trade and Industrial Policies

Basis for the Identification of Sub-Periods

The identification of episodes of trade and industrial policies can be based on economic or political factors. From an economic standpoint, Côte d’Ivoire was under a state controlled economy from independence to the end of the 1970s, and the country entered a reform period, led by the private sector, after 1980. This dividing line is critical and
episodes derived on this basis have resulted in different policy patterns and economic performance that should be taken into account in analyzing the policy process.

Between independence in 1960 and 1990, Côte d’Ivoire was under a strong single party political system, though limited political contest in the ruling party was introduced in 1985. In 1990, a multiparty political system was reintroduced. Between 1960 to 1993, the country was firmly led by Houphouet Boigny whose reign was characterised by a display of strong personal power, and confusion between economic and political rule. Houphouet Boigny himself held very important private stakes and often resorted to political clientelism in dealing with the business community; he distributed quotas and licences for such areas as coffee and cocoa exports and rice imports. He also benefitted from strong support from France, the former colonial power, and from French companies.

After his death in 1993, Houphouet Boigny was replaced by Konan Bédié. Bédié’s regime had less political power, because of the multiparty system that the country had embarked on in 1990, the wider spread of the economic power as well as the weakening of France and French interests in Côte d’Ivoire as a result of the increasing weight of the World Bank and IMF.

Clearly, the shift from the Houphouet Boigny to the Bédié regime was a breaking point as important as the restoration of the multiparty system in 1990. The other political change, the limited political contest within the single party, was also an important move. The political changes should be taken into account in analyzing the economic policy process. But, we will stress the economic basis for the identification of critical periods, while incorporating political changes in the analysis where they are relevant.

Critical Sub-Periods for Trade and Industrial Policies in Côte d’Ivoire

On the basis of economic factors, two broad critical periods are identified: from 1960 to 1980 and from 1981 to date. The first period is relatively homogenous politically and economically. Over this period, trade and industrial policies display the usual import substitution features, with wide direct state intervention.

The second period witnessed more frequent changes. Three sub-periods have been identified. During the first one, which runs from 1981 to 1985, Côte d’Ivoire initiated the first structural adjustment programmes (SAPs) under a single party system. Measures adopted then were mainly macroeconomic and stabilization policies. Over the second sub-period, running from 1986 to 1993, the second wave of SAPs, was launched under political opening up (limited opening up in 1985 and full multiparty system from 1990), with more sectoral policies. Since the policy measures adopted did not include an exchange rate realignment, the adjustment remained real. The last sub-period, going from 1994 to date, is dominated by the CFA franc devaluation, which complemented the real adjustment pursued so far, and a deepening of political multipartism.

Trade and Industrial Performance and Policies Between 1960 and 1980

Trade and Industrial Performance

Table 12.1 shows the trade and industrial performance of Côte d’Ivoire between 1960 and 1980. In its early stages, the industrial sector performed well. The share of industrial output in GDP moved from 11 percent in 1960 to 21.3 percent on average in 1970–1975. Manufacturing export was less sustained after 1975. Its share in total export decreased
between 1960 and 1965, increased slightly in 1970, and stabilized at around 26.5 percent up to 1980. Nevertheless, the gap between manufacturing exports and imports has been narrowing since 1960. Overall, the industrialization process accelerated in the 1970s, with an increasing share in GDP and in total exports, and a better export-import ratio.

From the table, it appears also that export performances were rather odd over the 1960-1980 period. Indeed, export growth was negative between 1965 and 1975 and positive between 1970 and 1980, whereas the share of exports in GDP declined slightly in 1965 and was relatively high and stable throughout the period. These elements seem to indicate that industrial growth over the period 1960-1980 was driven by domestic market, whereas export was led by primary goods.

**Trade and Industrial Policy Episodes Between 1960 and 1980**

The trade and industrial performance discussed above should be related to various policies adopted, and the political changes observed over the same periods. During the 1960s and 1970s, industrial policy in Côte d'Ivoire, like in most developing countries, was dominated by import substitution. The driving forces of this policy were foreign and public investment. Foreign investment was encouraged by a generous investment code, adopted in 1959, just before independence. This investment code granted foreign investors substantial tax holidays and exemptions and various tax rebates on imported inputs.

These measures resulted in escalated tariffs and different levels of protection across sectors. This was thought to help increase the rate of processing of the major primary exporting goods. According to Noël (1982), between 1971 and 1978, the range of nominal coefficient of protection (NCP) of industrial sectors moved from 1.2070-1.8573 to 1.1547-1.5574, while the range of effective coefficient of protection (ECP) moved from 1.1855-2.0601 to 0.9177-2.1805. He also showed that on average, NCP was stable while ECP increased sharply from 1.3884 to 1.7608 (+26.8 percent) over this period.

Domestic market protection was reinforced by price controls and non-tariff barriers (NTBs) from the beginning of the 1970s. By the end of the 1970s, three price regimes were in place in Côte d'Ivoire: set prices for the basic goods, authorized prices for most goods and free prices for a few goods. Under the authorized price regime, firms had to submit their projected prices to the trade and commerce administration in order to be allowed to apply them to the public. Tax rebate incentives were also used in Côte d'Ivoire under the priority firms and activities regime. Indeed, those firms and activities registered as priority benefitted from additional tax rebates.

Public investment took the form of infrastructural developments and the financing of the activities of state-owned enterprises. Infrastructural developments dominated public investment in the 1960s whereas state-owned enterprises (SOEs) were very active in the 1970s. Most of them operated in the agro-business and were linked to the export diversification policy. According to Contamin and Pauré (1990), more than 250 SOEs out of the 400 listed in 1981 were set up between 1971 and 1980.

SOEs were also seen as a means for an increase in national control over economic wealth and activities. The interest for an increasing national participation in the life of the nation and economic activities was also at the heart of the indigenization policy of the 1970s, based on preferential treatment for national employees (lower employer taxes, better access to training in programmes, among others), that a ministry of employment and “Ivorisation” was set up to undertake. This concern was also behind efforts toward the
promotion of small and medium scale enterprises (a separate ministry — and various public agencies were in charge of this task) over the period.

It seems that the Houphouet Boigny regime focused on the national control of the work force in the modern sector rather than on a private national control over the ownership structure, though the President encouraged Ivorians to enter business as deeply as himself. This resulted in a general attitude among Ivorians, characterized by a high preference for wage work, particularly civil servant positions and expected attached rents, and a little interest in risk-taking and private activity undertaking. Despite these efforts toward increased national participation in economic activity, the 1960–1980 period was characterized by strong foreign control, dominated by French interests.

In the 1960–1980 period, trade and industrial policies displayed the features of a controlled economy. Indeed, escalated tariffs and NTBs, selective tax policies, direct state intervention and price controls, were obvious signs of a highly controlled economy. Surprisingly, Côte d'Ivoire achieved its best economic performance, with high and sustained real GDP growth (eight percent on average per annum between 1965 and 1975), low inflation and moderate external indebtedness. Relating this performance to the controlled economy of that time gave rise to a controversy on the extent to which they were linked and reflected the respective roles of the stable international context and of the long-standing increase in international prices of the primary commodities, among others.

Proponents of the controlled economy argued that as long as it was directed towards productive activities, the state's selective intervention helped to boost domestic production and take advantage of the favourable international context. The subsequent crisis is then explained mainly by the degradation of the international context and the prevalence of a misuse of the resources allocated to huge and unproductive projects. Opponents of the controlled economy, on the contrary, argued that given the good initial conditions and international context, a liberalized and decentralized economy would have led to better performance and would have helped to avoid the subsequent profound crisis. The argument insists on the importance of the openness of the economy in explaining the performance and the negative effects of the lack of flexibility and adaptability of the Ivorian economy, which made it difficult to adjust to the changing international context. In fact, the profound economic and financial crisis, which started at the beginning of the 1980s, required appropriate correcting policies, which took place with the support of IMF and the World Bank in the post-1980 period.

Polical and Institutional Changes Between 1960 and 1980

There is no major disagreement among economists on the fact that success in economic policies also depends upon non-economic factors, namely institutional and socio-political. Such factors tell the economic story of Côte d'Ivoire. The importance of institutions in the outcome of macroeconomic policies pursued in Côte d'Ivoire has been ascertained by Pégatiénan (1997). Using simulation analysis, he showed that effects of changes of institutions' quality on savings, investment and foreign direct investment dominate effects of macroeconomic policies in Côte d'Ivoire. Institutions affect these variables through transaction costs and risks. These links between institutions, transaction costs and risk will be particularly important in assessing the credibility and sustainability of trade and industrial policies in the country.

As mentioned earlier, Côte d'Ivoire was under a single party system between 1960 and 1980. In 1958, Côte d'Ivoire became an autonomous territory before its full independence
in 1960. Between 1958 and 1965, there were tensions due to efforts by Houphouet Boigny to gain total control of the country's leadership. From that time up to 1980, he controlled almost everything, resulting in a long standing period of political and economical homogeneity. According to Pégatiénan, recalling a comment of the World Bank, during Houphouet Boigny's long reign, "any decision of consequence, specially in the field of economic policy was taken by the President himself" (Pégatiénan,1993, P.39), and it appeared that "ministers ... were not able to convince the President, who was actually the sole decision-maker" (Pégatiénan,1993, P.18). Accordingly, Azam (1993) argued that it is difficult to disentangle political reasons from domestic economic and foreign pressures in explaining the expansionary policies of the 1970s in Côte d'Ivoire.

In fact, over these years there was an articulation between economic policies and political factors through the single party system (Azam,1993; Pégatiénan,1997). Despite the autocratic nature of the political system, it played this paramount role of rooting economic policies adopted then in a political frame, succeeding in securing significant internal political support. The external presence was then technical (direct and visible through technical assistance), compensating partly institutional and technical weaknesses, and political (indirect and less visible apart from military rescue in specific cases like during the regional unrests in the Middle-West and the Eastern areas in the late 1960s and the early 1970s). This presence was dominated by France, the former colonial metropol.

Nevertheless, behind the homegeneity and continuity that characterized this period, significant political events and institutionnal changes took place. In 1970, for example, an ethnic group of the Middle-West revolted against non-natives, who were thought to have destroyed too much forest by planting coffee and cocoa. This gave rise to a serious crisis because the region supplied a sizeable amount of cocoa in Côte d'Ivoire.

Between 1965 and 1974, active economic planning guided economic policies in Côte d'Ivoire. Though the plans adopted were not compulsory, they offered an integrated framework for various policy options. The early trade and industrial measures took place in this framework. Between 1974 and 1976, the coffee and cocoa boom resulted in a windfall of external resources. The government launched an ambitious investment programme, including sugar plants in the north of the country, which reinforced the Planning and Finance Ministries. In 1977, following the outturn of the boom and mismanagement of the sugar project, the Planning Ministry was dissolved and incorporated into the Ministry of Economy and Finance, and the former ministers of planning and finance sacked. This move prepared the end of the planning process, while redistributing the power in the government.

Clearly, the political and institutionnal changes influenced policy measures and were signs of the likely developments over the next period.

Trade and Industrial Performance and Policies Since 1980

Trade and Industrial Performance Since 1980

Trade and industrial performance since 1980 can be traced in the three sub-periods: between 1980 and 1985; from 1985 to 1993 and after 1994. In the first sub-period, exports performed well while manufacturing displayed poor performance. The share of total exports in GDP and per annum growth of total exports increased sharply, while the share of manufacturing output in GDP and the share of manufacturing exports in total exports decreased. These figures tend to indicate that exports over the sub-period was led
by primary exports. The increase in manufacturing exports probably meant an accelerated compression in manufacturing imports. The weakening of both manufacturing outputs and imports tends to indicate that Côte d'Ivoire was on a disindustrialization path.

In the second sub-period exports performed poorly, with a decline in the growth, followed by a weak recovery, while manufacturing was characterized by a non-sustained recovery, with an improvement in manufacturing indicators in 1990, followed by a deterioration in 1993. In this sub-period, the Ivorian economy faced a lack of overall competitiveness, and there was not a substantial change on the de-industrialization trend of the previous sub-period.

The last sub-period, starting with the CFA devaluation, is characterized by a sustained recovery of exports, with a positive growth in 1994 and an increasing growth subsequently (in 1995 and 1996), and a limited manufacturing recovery. The response of manufacturing output to the devaluation took some time; the share of manufacturing output in GDP increased only after 1995, whereas manufacturing export responded barely to the measure. Therefore, though the CFA devaluation seems to have significantly corrected the lack of international competitiveness in Côte d'Ivoire, the manufacturing sector still displays a sluggish response. The strengthening of post-devaluation industrialization seems to require additional measures and policies.

**Trade and Industrial Policy Episodes From 1980 to Date**

**Trade and industrial policies between 1980 and 1985**

This sub-period witnessed the early structural adjustment programmes (SAPs), supported by IMF and the World Bank, with their usual stabilization-growth enhancing sequencing. The emphasis was on the stabilization component over the sub-period, which meant trade and industrial policies were subject to the macro stabilization objectives. In the light of this, objectives of the programmes focused on export development regardless of their sectoral features, which reinforced the traditional exports of Côte d'Ivoire (cocoa, coffee, wood products and fresh fruits), privatization and liberalization measures as the means of state retrenchment and public sector downsizing. Removal of domestic price controls and of NTBs, rationalization and reductions in tariffs were seen as the best ways of moving from a selective to a more neutral incentive structure (Noël, 1984; Kouadio et al, 1985).

The approach in many ways reversed the previous strategic orientation, and aimed clearly to move away from the controlled economy. An active industrial policy was not necessary in this new approach, which called upon market forces to regulate the main economic activities. The export promotion efforts, at least during the early stages of this new strategy, did not focus on industrial exports or try to rely heavily on the comparative advantage prescriptions.

**Trade and industrial policies between 1985 and 1993**

Since 1986, a renewed interest for industrial development could be noted in Côte d'Ivoire. The government introduced then an export support scheme based on export subsidies and import duty draw-back on inputs used in export activities. Along with these efforts an industrial development plan was designed with the support of UNIDO (Ministère de l'Industrie, 1988). The plan analyzed the potentially exporting products, identified the required production chain developments (identifying specially backward-forward linkages), and devised options for different industrial strategies. Due to financing problems, the plan was not implemented. But, the thrust of the plan paved the way for a
consistent industrial policy based on an increase in industrial value added and exports, and the strengthening of the linkages in industrial activities, and between the industrial sector, agricultural production and the service sector.

Direct state intervention was particularly challenged during the period. Yet, in 1981 a full listing of SOEs was published and a restructuring and privatization plan was set up. After 1985, the major measures in this respect concerned privatization and liquidation of some SOEs (particularly in the housing, services and banking sectors) and the restructuring of a number of SOEs, mainly in the agricultural and industrial sectors (Contamin et Faure, 1990; Azam, 1993).

The macro underpinning of the adjustment programmes of the early 1980s faced significant obstacles and the country witnessed major policy reversals. Due to pressures from domestic industries and accelerated fiscal imbalances (partly due to the collapse of international prices of the country’s major primary exports), the liberalization process was stopped and tariffs as well as NTBs went up in 1989 and onwards. The privatization process also slowed down given the accumulation of technical problems (valuation of assets, narrowness of the financial markets and difficulties in organizing the sell out of the companies), whereas the export subsidies went through payment arrears.

The export environment was worsened by a continuous appreciation of the currency due to domestic inflation and the French franc’s appreciation against the US dollar. A devaluation of the CFA franc was required in order to ease these additional constraints and restore the international competitiveness. But Houphouet Boigny’s skepticism, and that of the political leadership as well as uncertainties and fears of the business community, made it difficult to adopt this measure. Furthermore, difficulties to reach an agreement over the opportunity and the size of the devaluation among West African Monetary Union (WAMU) country members delayed the devaluation. For many authors the case of Côte d’Ivoire over this period is characterised by a postponed adjustment (Demery, 1994; Chamley, 1991).

The situation also demonstrated the constraints of collective policies in regional groupings like WAMU as opposed to unilateral policies. To reach a similar result on the trade front an alternative approach to devaluation was adopted over the second half of the 1980s. These measures aimed at an active export promotion, complemented the export subsidies scheme by a further rationalization of tariffs (reduction in the number of tariffs) combined with selective rises in some rates as well as an increase in NTBs on some products. Indeed, the government extended the list of products under NTBs in response to complaints of industrial firms, mainly from the textile industry. This was a good example of reversals under local firms’ pressure on the government. It also displays the frequent conflicting interests between foreign donors (pro-liberalization views) and local firms (pro-protection views) in economic reforms, particularly strong in trade and industrial policies.

From 1992, liberalization stance became strong again and a competitiveness enhancing programme (PASCO) was launched. The programme tried to rationalize the incentive structure, reduce the cost of production factors (liberalization of interest rates and reform of the labour market aiming at more flexibility and labour tax reduction) and phase out reductions in domestic tax costs. PASCO also started the removal of price controls while restarting the liberalization process. In addition, the government decided to eliminate export duties on coffee and cocoa and to introduce a single office ("guichet unique") to deal with export incentives, regulation and procedures. The government also adopted a
PSI (preshipment inspection) scheme in order to enhance custom valuation operations which were centralised and contracted out to an international private agency (SGS).

During the last period of the Houphouet Boigny reign (1989–93), the Ivorian economy faced a major challenge, the shift from a controlled economy led by the state, to a more decentralized economy led by the private sector. This shift supposed that the private sector is developed and imaginative enough to take over most of activities handed over by the state. But, given the weaknesses of the domestic private sector, the move toward more liberalization and privatization resulted in increased foreign control of the economy. A recent survey of the manufacturing sector (Bohoun, McKay and Kouassy, 1995) shows that in the wake of the devaluation, exporting firms were mostly foreign (54 percent of the total) with a very high proportion of French firms (28.4 percent of the total). Therefore, efforts to assist the domestic private sector, which were initiated under Houphouet Boigny, were taken over by the new regime, which accentuated aspects of this policy and others of the non-achieved trade and industrial agenda of the previous era.

Trade and industrial policies since 1994

The CFA devaluation is the major change observed in the last adjustment period starting in January 1994. Indeed, after many years of heated debate on the issue, African Franc Zone countries agreed to devalue their common currency heavily (50 percent in foreign currency terms). This measure, which restored the external competitiveness of the Ivorian economy (the competitiveness gap was estimated at 20-30 percent before the devaluation), did not automatically lead to equal benefits across sectors and groups (importables against exportables, agriculture against non-agricultural sectors, rural against urban populations, wage against non-wage workers, etc). In addition, the nominal adjustment provided by the devaluation could not be sustained if price inflation was not controlled and foreign currency earning activities not developed sufficiently. To ensure maximum benefit from devaluation the government took accompanying measures.

The accompanying measures involved first, tariff and custom reforms, with a reduction in tariff rates, and further elimination of NTBs. VAT and other domestic taxes were also involved. The government reduced the number and the level of VAT rates, eliminated employer tax paid on nationals, and reduced the rate paid on expatriates. A new investment policy was also promoted, based on the adoption of a new investment code, and the acceleration of the privatization programme and the recovery of public investment. The new investment code extended the advantages of the previous codes to smaller investors and simplified the application procedure. Investment promotion was further reinforced by the creation of a specialised centre, CEPICI, in charge of this task, including the handling of the single window for investors.

The privatization programme was up-dated in 1994 and accelerated. Indeed, out of 45 companies privatized between 1990 and mid-1997, 10 were sold before January 1994 and 35 after. From less than three PEs privatized on average every year between 1990 and 1993, five companies were privatized in 1994 and 10 each year between 1995 and 1997.

In addition, vigorous economic policies, mainly fiscal and sectoral, were adopted. On the fiscal front, the government cleared most of the pre-devaluation public arrears, restored public investment and clarified the external debt situation. It also controlled for current expenditure by imposing a very small increase in nominal salaries in the public sector. The sectoral measures consisted in increasing producer prices of the main primary exporting products (coffee, cocoa and coton), setting industrial development objectives in
order to increase the processing rate of most traditional primary exporting goods and develop the mining sector. The government also set out a liberalization programme of the marketing of primary exporting activities. Industrial activities were also boosted by the salary freeze, which was extended to the private sector, improving their cost competitiveness by saving wage costs.

These measures helped to strengthen the fiscal situation while avoiding the usual surge in inflation following an important devaluation. It improved the real income of the peasants and of the other rural populations, while wage-workers and urban populations suffered significant losses in real income. But firms of all economic sectors gained from wage cost saving and public arrears clearing. Overall, the set of measures adopted following the devaluation seemed to have clearly focused beneficiaries: private firms, peasants and rural populations, external donors and interests.

Overall, the different policy measures introduced in Côte d’Ivoire since independence yielded ambiguous results. This is particularly true after 1980 when the world economy became more unstable and international competition increased. The reforms engaged over the post-1980 period seem to have improved the overall efficiency of the economy, particularly after the CFA franc devaluation, but they were characterised by poor growth and fiscal performance and efficiency over the second half of the 1980s.

According to Pégatiénan (1997), the total factor productivity growth, which was negative between 1962 and 1981 (-6.3), became positive between 1981 and 1989 (4.0), with a sharp increase between 1981 and 1986 (9.5), whereas the volume of inputs increased (12.8) and decreased (-6.1), respectively, over these two periods. The degradation of the fiscal performance following a slight improvement over the early 1980s is a sign of non-sustainable results of most policies adopted in Côte d’Ivoire in the 1980s. Reversals and poor or non-sustained results explained partly the poor industrial performance in the country. This in turn raised the issue of the source of growth efficiency in the industrial sector.

A recent study of industrial and source of growth (Kone, 1995) confirms the manufacturing growth episodes identified in the above discussion. Between 1965 and 1980, the Ivorian manufacturing sector performed well, apart from the period 1970–1975. Its growth rates were between seven percent and nine percent on average. Between 1980 and 1985, the manufacturing sector still grew at a significant rate. Between 1987 and 1993 the manufacturing sector stagnated, then decreased. Industrial growth recovered slowly with the CFA devaluation, then accelerated.

The sources of industrial growth in Côte d’Ivoire changed over time. Between 1965 and 1980, it was driven by domestic demand, export was important as an engine of industrial growth between 1970 and 1975 and between 1980 and 1985, and particularly important over the last period. Import-substitution played a leading role between 1965 and 1970 and between 1980 and 1985. Technical change has always been the weakest source of manufacturing growth in Côte d’Ivoire. The weakness of technical change suggests that manufacturing growth in Côte d’Ivoire has been mainly extensive. This is consistent with the results of other studies on growth decomposition (Kouassy and Pégatiénan, 1996), showing the predominance of extensive growth in Côte d’Ivoire, and of recent manufacturing sector survey mentioned above (Bohoun, Kouassy and McKay, 1995), which showed that immediate post-devaluation growth of export came mainly from an increase in capacity utilization.
Political and institutional changes since 1980

During the post-1980 period, Côte d'Ivoire experienced tremendous political and institutional changes. First, far-reaching reforms, adopted under pressure from both domestic actors and events and from IMF and the World Bank, were not costless. These programmes induced introduction of new policies and institutions that resulted in conflict with the Ivorian leadership, and leading to a reaction of the population and of some domestic firms, and in policy reversals.

Over the period, three broad political changes took place: a political opening up, the weakening of the French influence, the death of Houphouet Boigny and the coming to power of Konan Bédié. The economic and financial crisis of the late 1970s and the adoption of SAPs under the pressure from the Bretton Woods institutions called for a political adjustment. The need for political measures was reinforced by the feeling of a mismanagement of Côte d'Ivoire resources accruing from the coffee and cocoa boom, as well as the important internal aid that the country benefitted from over the 1970s.

Political changes of the period came first through election and contest within the single party system in 1985. This limited political competition broadened the regime's base. Then, following the failure to impose the austerity measures of 1989, including a general salary cut, and as a response to political unrest that resulted, Houphouet Boigny's regime authorized full political activity, free elections and a broader political contest. Therefore, a multiparty system was reintroduced in 1990. The first free elections took place in 1990, with a candidate, Laurent Gbagbo, challenging Houphouet Boigny for the presidential and the election of opposition MPs. Along with the political opening up, two independent labour unions were created (DIGNITE and FESACI), as well as a number of other civil society associations (in the areas of human rights, the defense of women's rights, consumers' rights, etc.), theoretically resulting in a full pluralistic society. Despite these changes, the ruling party stayed in power.

The other major change came with the death of Houphouet Boigny, giving rise to a contention within the ruling party between Konan Bédié, the then Speaker of the National Assembly, and Alassane Ouattara, Houphouet Boigny's Prime Minister. On the basis of favourable constitutional provisions, Konan Bédié took over, while most of Ouattara’s followers left the ruling party and created later an opposition party. Up to now, the dividing line between “Alassanists” and “Bédiéists” is still strong and explains some political tensions which appear from time to time. This adds on pressures from traditional opposition parties, broadening the basis for political power sharing in the country. Besides these purely political actions, labour unions’ activities increased over the period. They first concerned resistance against the effects of the reform of SOEs (staff downsizing, salary and social benefits revision, etc.). Then followed actions of teachers’ organizations against the loss of housing benefit and inflation surges of the early 1980s. Unions’ activities picked up with the unrest against the government plan of a general salary cut in 1989. In the post-1990 pluralistic regime, street demonstrations and strikes organized either by DIGNITE or FESACI became frequent.

The weakening of the French influence in Côte d'Ivoire began to show with the adoption of SAPs, supported by IMF and the World Bank. Starting from macroeconomic policies, these institutions gradually got involved in sectoral and structural reforms. In addition to this direct impact, as argued by Ouayogode and Pégatiénan (1994), the nature of the policies that they advocated, namely liberalization and elimination of trade barriers, SOEs restructuring and privatization, public finance rationalization and expenditure
transparency and cut, hit French firms, experts and expatriates who benefitted widely from the previous regime.

For instance, the civil service reform of the mid-1980s resulted in a sharp reduction in the number of French advisors and experts employed by the administration (in secondary schools and higher education, and public revenue generating administrations), which were replaced mostly by Ivorians. Another example is the shrinking of the studies commissioned by the government as a result of fiscal adjustment. These studies were executed mostly by French consultants or consulting firms. The weakening of the French influence in Côte d’Ivoire peaked in 1994 with the devaluation of the CFA, to which French political leadership and business community were opposed. Another sign of the weakening of French influence in Côte d’Ivoire was in the evolution of DCGTX. This institution, dominated by French experts, was highly powered by Houphouet Boigny in 1983 when he extended its missions to the design and execution of most studies and projects of government, well beyond its traditional activities of supervision of public works. In this new capacity, DCGTX participated in the Ivorian negotiating team with the IMF and the World Bank up to 1989. Pégatiénan (1989) argued that the early opposition to the Bretton Woods institutions in Côte d’Ivoire came partly from the resistance of French experts based at DCGTX.

Following withdrawal of DCGTX from the discussions with the IMF and the World Bank, it was reconstructed to become BNETD in 1995, its leadership and staff indigenized, reducing considerably the French influence in policy-making in Côte d’Ivoire.

Since 1980, Côte d’Ivoire has been under SAPs, supported by the IMF and the World Bank. These programmes are set up within specific frameworks (for instance PFPs for ESAFs; project documents for sectoral loans, etc.), with their corresponding institutional and procedure requirements. Therefore, over this period, institutional changes in Côte d’Ivoire have been heavily influenced by SAPs. This influence was mitigated by Houphouet Boigny’s personality and smartness up to 1989 when he was forced to appoint Alassane Ouattara as the head of an inter-ministerial committee, and in 1990 as the first Prime Minister of Côte d’Ivoire.

Referring to the period 1980–1993, Azam (1993), shows that the post-1980 austerity measures served also to achieve some of Houphouet Boigny’s political objectives. He particularly stressed the convergence between Houphouet Boigny’s objective in trying to fix his perceived opponents (teachers and intellectuals, specially affected by the housing reform of 1981) and undermine the economic position of some political leading figures (discharging of Philippe Yacé and limited opening up of political contests in 1985, frequent changes in the constitutional provision for succession to the President, frequent changes in the composition of the government, the strong position of DCGTX from 1980, etc.), public sector reforms and financial soundness advocated by foreign donors. Azam argues that none of the economic measures adopted in Côte d’Ivoire in this period could have been taken without Houphouet Boigny’s agreement.

Ouayogode and Pégatiénan (1994), who provide an interesting account of the dialogue between Houphouet Boigny’s government and the World Bank, came to a similar conclusion. The selective endorsement of most advice suggested by these institutions to Côte d’Ivoire in the Houphouet Boigny reign can be illustrated by resistance to the dismantling of the Caistab (the marketing board), to the CFA franc devaluation and to the
abandoning of direct state intervention despite the commitment to external openness and the adoption of market-oriented measures.

The major institutional changes over this period were first, the evolution of strategic development planning. As mentioned above, the adoption of SAPs in the early 1980s coincided with the abandoning of previous five-year development plans, replaced by short term programmes and individual projects. By the end of the 1980s, the government went back to strategic development planning, which started in 1988, with the adoption of an industrial strategic plan, with UNIDO support. Between 1992 and 1994, Côte d'Ivoire initiated a long-term prospective analysis, with UNDP support. In 1998, a department in charge of development planning was created, showing the government's interest in strategic planning.

During the period, there was a renewal of industrial and trade policies. New industrial and trade policies were rooted in privatization and liberalization efforts. This meant a further removal of tariff and non-tariff barriers and an increased role devoted to the private sector. The policies adopted sought for industrial diversification, aiming at the development of non-traditional products and an increase in the processing rate of most traditional products. The privatization programme accelerated after the 1994 CFA franc devaluation as earlier shown.

With the new development strategy led by the private sector, and the important state divestiture in many activities, the need for an indigenous private sector became stronger. During this period, a number of institutions were set up in order to promote small-scale enterprises (OPEI — Office de Promotion des Entreprises Ivoiriennes; and CAPEN — Centre d'Appui des Petites Entreprises Nationales — during the first half of the 1980s; and INIE — Institut Ivoirien de l'Entreprise more recently), and private investment (CEPICI — Centre Ivoirien pour la Promotion des Investissement en Côte d'Ivoire). Other institutions were set up for a more active promotion of exports (CICE — Centre Ivoirien du Commerce Extérieur and CCIA — Centre du Commerce International d'Abidjan over the 1980s, and APEX-CI more recently).

Côte d'Ivoire created over the second half of the 1980s, a standards-setting and quality operating system, consisting of CODINORM along with a technical laboratory, LANENA. This system aims at the development of internationally recognized standards, in order to increase the competitiveness of Ivorian industry and guarantee the quality of products sold in Côte d'Ivoire. Its functions and activities are to: (i) conduct an inventory of existing needs meeting national standards; (ii) develop Ivorian standards; (iii) operate a national system of certification (for products and businesses); (iv) promote the establishment of standards, certification and quality products in general, as well as assistance to business; (v) provide training in the field of quality; (vi) represent Côte d'Ivoire at international forums relating to standards. This system has established more than 272 national standards, notably in the priority sectors of agribusiness, building and civil engineering. The standards are also used in awarding government contracts.

The Consensus on Current Trade and Industrial Policies

On the industrial sector, recent policies relate to the development of mining activities (oil, gas and precious metals) and primary products processing. The strategy adopted by Côte d'Ivoire is an accelerated privatization of SOEs, a better organized investment institutional framework (mining code, new investment code, setting up of the investment promotion centre — CEPICI) in order to attract foreign investors, and an active
infrastructural development policy. Côte d’Ivoire is also updating its strategic industrial plan ("schéma directeur") with the support of UNIDO. This has resulted in the identification and analysis of promising industrial activities. The new industrial strategy has been further discussed during a strategic workshop, SALI, organized in March 1999. The efforts are the sign of the government’s willingness to reveal the industrial opportunities while urging the private sector to be involved in the industrial development, with the state providing an enabling environment and refraining from direct involvement in these activities.

On the trade front, priority areas for trade policies in the country came up clearly during a trade strategic workshop (ACOMEX-99) in February 1999. The workshop identified three major areas of interest for the near future: promotion of non-traditional exports and export diversification, with greater attention directed toward regional markets; a better knowledge and strengthening of trade of services; an increase in the supply of trade-related information, and efforts toward an increase in product quality.

On infrastructure, greater involvement of the private sector is sought through the partial privatization of the public telecommunication company in 1997, following the full privatization of the water and energy supply companies in 1992. The new strategy also relies on contracting out the provision of infrastructure and commercialization of the two ports (PAA, in Abidjan and PASP, in San-Pedro).

**Economic Design and Implementation of Trade and Industrial Policies**

**Different Levels of Power and Key Actors**

**Domestic Sources of Policy Design and Implementation**

The analysis of the concrete policy-making process in Côte d’Ivoire refers to an assessment of the institutional setting of the country and the interplay of various actors intervening in this process. As recalled by Soludo (1998), the policy process encompasses the following three stages: policy design (policy content and agenda setting), policy implementation, and policy control. The institutional setting of Côte d’Ivoire has been described by a few studies (Azam, 1993; Hoffman, 1995; Kouassy, 1996; Pégatiénan, 1997). It consists of a strong government, legislative and legal mechanisms, the private sector, individual firms, professional and civil society associations. From this, a clear distinction can be made between the different levels of domestic sources of policy design and making as detailed now.

**Government Level of Power**

Questions of trade policy are primarily handled by the Ministry of Trade who defines the country’s trade policy with the assistance of various ministries, depending on the type of activity: the Ministry of Economy and Finance, the Ministry of Industry and Small Scale Enterprises, the Ministry of Development Planning, and the Ministries of Agriculture and Animal Resources, of Mines and Oil Resources, of Energy, Transport, and Infrastructure. The Ministry of Industry and Small-Scale Enterprises is in charge of industrial policies, with the assistance of relevant ministries. In the event of differing viewpoints among ministries on an issue, the matter is arbitrated by the Prime Minister or the President if it is serious enough.
The government is dominated by the President's Office, which initiates policies and exerts most of the arbitration; the Prime Minister plays some political role, but reports to the President. On technical issues, the Prime Minister has more power. Other actors are ministries and some special administrations. Concerning ministries, Hoffman (1995), classifies them in central ministries (ministries of Finance, Planning or Economic Forecasting) and line ministries (Agricultural, Education, Employment, Trade and Industry). The interplay between ministries and their relations with the purely political levels of government (the President's and Prime Minister's Offices) constitute the basic frame of the policy process.

Special administrations include the Director of Customs, the tax Administration, BNETD — the government's think-tank, and university and research centres. Though they have some political power, they are supposed to provide additional technical support to the government.

In addition, various public or joint specialised agencies have been put in place in order to handle specific problems relating to investment (CEPICI), export promotion (APEX-CT), or small scale enterprises development (INIE). In order to help Ivorian products and exporters face increasing competition and more stringent international quality standards, Côte d'Ivoire has put in place a quality scheme around CODINORM and LANENA. One should also mention some checks and controls required from sanitary inspection of the Ministry of Agriculture for any imports of vegetable products and the export of live animals and vegetables. After the CFA franc devaluation the government-private linking committee has been reactivated. This committee, under the Prime Minister's authority, is a venue for discussions on policy and implementation.

Parliamentary and Judicial level of Power

On trade and industrial policies, the contribution of parliament and the judiciary is weak. This is due to political and technical reasons. The political reasons can be traced back to the single party system when there was no independence of parliament or the judiciary. At the time, parliamentary discussion of government policy was a formality; judicial checks and controls were loose, ineffective and never led to any action from the government. Instead, the judiciary was sometime used as a means to punish businessmen who were not tamed. This monocolor nature of parliament and the ineffectiveness of the judiciary still prevails in Côte d'Ivoire today despite efforts to open up the political system. Technical reasons have to do with the complexity of trade and industrial policy issues, the low professional skills of parliamentarians and the short period of time devoted to discussions of policy measures. The judiciary is also understaffed and the financial resources devoted to its activities are generally weak. Obviously, this is a sign of lack of political will to empower, check and control institutions.

The Private Sector Level of Power

Private sector power is more dispersed in the society, but is important since the market economy in Côte d'Ivoire has private actors as the main recipients of policies. They make them work or fail. Their perception and attitudes are important in analyzing the outcome and the sustainability of government policies. This level of power consists of individual firms and professional associations. There are two types of employers' associations — those which deal with general interests (UPACI, employers' general union; chamber of commerce and industry), specialized interests (GEPEX, coffee and cocoa exporting firms' associations, SCIMPEX, a grouping of import-export activities; FNISCI,
Private firms and professional associations have played a significant role in the past in trade and industrial policy. The policy reversal in the liberalization process in the middle of the 1980s was partly the outcome of pressure from manufacturers. The private sector is stronger and more efficient than the civil society organizations, operating often behind the scenes and having solid links with policy-makers. An increasing role of the associations in the policy process might help improve the relevance and the social acceptability of policy measures.

The Civil Society Level of Power

Three unions are active in Côte d'Ivoire: UGTCI, FESACI and DIGNITE. The oldest, UGTCI, was very close to the ruling party. FESACI, which was set up in 1992, is made up of civil servants' organizations, including the organization of teachers which used to be the major opponent to Houphouet Boigny's power, and a few independent labour organizations from the private sector. DIGNITE, created in 1991, is present in the private sector, particularly in industrial activities. Labour unions have traditionally been weak in Côte d'Ivoire because of the tight links between UGTCI and the then ruling party, which prevented workers from demonstrating particularly during the single-party system.

Nevertheless, labour unions have exerted some influence on policies adopted in Côte d'Ivoire over the past 20 years. The resistance of teachers to the elimination of a housing benefit resulted in the adoption of significant housing allowances. It is also to be remembered that the government renounced the general salary cuts envisaged under the Koumoue Koffi plan in 1990 following strong opposition from workers. This event led to a major political change, the restoration of multipartism. More recently, vigorous actions of civil servant organizations forced the government to abandon a more selective career promotion scheme to provide for more public support to workers' health insurance, and to phase out non-wage-index to inflation, which was in place since the first adjustment programmes of the early 1980s.

The involvement of the other civil society associations could also play an important role in improving policy transparency and social acceptability of policy measures. Here, the 1990 breaking point is very significant. The major achievement will be found in the development and activities of an independent press. This has resulted in frequent publication and discussion of policy measures, bringing them to public knowledge and contributing to public awareness. The other change at this level has to do with actions of formal associations on the defence of human rights and vulnerable populations. The impact of these actions on policy making may be limited now, but might increase in future. In the event of an increase in the influence of civil society associations, the overall policy transparency and social acceptability are likely to improve.

The private sector and the civil society, exercise a degree of influence on the preparation of trade and industrial policies in the country through their associations.
External Sources of Policy Design and Implementation

ECOWAS, WAEMU and the regional level of power

There is an external source of power in the policy process in Côte d'Ivoire — regional integration schemes and foreign donors. This level is important and intervenes mainly through government. Regional integration schemes are ECOWAS and WAEMU. These schemes aim at establishing a free trade area. A similar plan of action had been adopted: starting with a customs union and moving gradually to the free trade area. Measures related to free movement of people, a common infrastructural programme and common security are dealt with in ECOWAS whereas a common monetary policy, macro policy convergence, institutional harmonization, and the adoption of a common external tariff are primarily dealt with in WAEMU.

These regional policy areas encompass domestic trade and industrial policies. Thus, the policy context is bound by the government in the regional integration groupings. This might make it more difficult to tailor different policy measures to the requirements of the sole economy of interest. The case of the CFA franc devaluation is a good example of this regional binding of domestic policies (Collier and Gunning, 1997). The discussion of this policy lasted nearly 10 years (1984-1993). Even then the rate of devaluation remained a controversial matter. In addition, WAEMU has made substantial progress in the past five years.

Other external sources of policy measures

The other external source of policy measures in Côte d'Ivoire, foreign donors, was important right from independence. The influence comes through aid and loans, generally accompanied by suggested programmes or explicit conditionalities. Prior to SAPs, project loans dominated external financing of the Ivorian economy. This type of financing led to donors' influence at the micro level. With SAPs and programme loans, donor involvement became more macro. IMF and the World Bank in particular promoted the package approach, with a complete set of measures that loan recipients had to follow with corresponding strict conditionalities for funds release. The design of PFPs under SAFs and ESAFs reinforced this tendency to set a full economic and social programme for the recipient countries. Bilateral financing offered additional channels of influence, more politically marked. France's support to the Ivorian government during the financial crisis at the end 1980s obliged Côte d'Ivoire to serve French companies first after the devaluation.

Côte d'Ivoire benefited from the different types of external financing, and suffered from strong foreign donor influence. The main policy choices in the area of trade and industrial policies between the mid 1960s and the end of the 1970s were inspired by advice from French experts, UNIDO and other UN agencies and partly by the World Bank, with substantial support from outside. The controlled economy in place then, which was challenged at the beginning of the 1980s, resulted from continuous donor influence. Similarly, the post-1980 liberalization programmes were inspired from IMF-World Bank packages, endorsed by donors. This strong donor influence raises a number of issues. The first is the ownership and social acceptability of the measures. Was the government clearly and sincerely committed to the measures adopted over the period? How were externally inspired policies accommodated internally? Since the counterpart in translating policy measures into action is the government, what are the consequences on the domestic policy market equilibrium?
Evolution of the Policy Process and of Power Distribution

The Main Stages of Trade and Industrial Policy Process

Trade and industrial policies follow the process of economic policies. Two distinctions can be made. First, a distinction between the two broad stages, the design and implementation stages. Second, distinction between inputs and outputs at each stage of the policy process. The policy process is guided by the combination of the strategies of the key actors. The policy process can be interpreted as a market, where supply and demand of policies meet. In the case of Côte d'Ivoire suppliers of policies are domestic and foreign while the demand for policies is mainly domestic. Thus, the outcome at each stage of the policy process reflects the power position, and the bargaining power of the actors as well as the effectiveness of institutional arrangements.

The Formulation and Design Step of the Policy Process

The design and formulation of the policy process in Côte d'Ivoire is based on inputs from the government in form of policy statements, policy papers, technical studies and special reports, reports and studies of parliament, and special studies and technical studies of foreign donors. Inputs to the design of policies come also from firms and professional associations, through studies or formal consultations of the government, parliament or donors. The other actors participate in the process by making independent contributions or initiatives.

Here, suppliers of policies generally play a paramount role. In particular, the government, which launches the process and controls the administration, exerts a leading role. This level of power is dominated by the the President's Office by making political choices, the Prime Minister's Office and other ministers by making economic and technical choices. The power of the government in the process can be mitigated by parliament if it is powerful enough or by foreign donors. When the private sector, workers and the rest of the civil society are well organized, policy demand pressures can also alter the strong position of the government in formulating policies.

The process itself starts from the government's statement of projected measures. Formal and informal consultations are carried out with donors and the private sector. When proposed measures are selected, they are submitted to parliament, which amends and adopts them. But Parliament hardly plays its checks and balance role. The influence of the private sector and of civil society was negligible during the pre-SAP period, but since 1980, the private sector and labour organisations have exerted increasing pressure in the policy design, as have other civil society associations since 1990. Thus, demand pressures tend to have become more important during the post-SAPs period, particularly after 1990.

Regarding the importance of external sources of policies, two special features of the Ivorian situation should be stressed. As the policy review showed, France's influence was dominant during the reign of Houphouet Boigny. This influence has waned since 1980 as a result of the increased influence of the IMF and the World Bank. UNIDO's influence on industrial policies has been limited. UNIDO was active in Côte d'Ivoire at the end of the 1980s, when the first industrial strategic plan was launched. Then its activities were curtailed till 1997, with the current revival of the 1988 industrial strategic plan. Foreign donors are very influential in the policy design in Côte d'Ivoire. Their influence has resulted in the weakening of the intersectoral linkages and of the long term policy planning.
Also to be noted is the impact of the regional integration schemes, mostly WAEMU, which now include a wider range of policy areas — external common tariff, macro economic convergence, sectoral policy harmonization. Therefore, regional integration limits unilateral policy options of Côte d'Ivoire, particularly in the areas of exchange rate, monetary and credit, and more recently, external tariffs.

The private sector has a relatively greater influence on the policy design because of its connection with policy-makers and better organization. It coordinates easily and appears as an integrated interest group despite internal contentions and interests. Consensus exists in the private sector. As the president of the federation of small-scale enterprises argued, the success of interest groups depends on their ability to incorporate their needs and desires. In addition, firms resort more frequently to complaint and lobbying actions directly conveyed to policy-makers using non-institutional channels.

The survey data confirm most of these elements.

Table 12.2 shows that less than half of the surveyed firms have complained (47.7 percent of the sample). The proportion of associations having complained is lower (17.6 percent). The measures that firms and associations mostly complained about are high tariffs, price controls, high cost of credit and government procurement policies. The means used are letters directly to the ministers or personal contacts with the concerned policy-makers. The use of professional associations and the press is not frequent (between two and four percent of surveyed firms and associations).

Also, 86 percent of firms and 89.2 percent of associations have never lobbied, against 1.5 percent of firms and 11 percent of associations having lobbied. Only 7.6 percent of firms and 6 percent of associations could identify the measures for which they lobbied, i.e. lifting or waving of price controls, tariff changes, lifting or wave of export regulation, tax exemptions, etc.. Lobbying was made through professional associations (7.7 percent of firms and 3.9 percent of associations) and personal contacts (3.1 percent of firms and 9.8 percent of associations). Firms and associations successfully lobbied for tariff lowering, the simplification of most export regulations and the publication of government economic programmes.

| Table 12.2: Frequency and means of complaints against government policies or lack of policies |
|------------------------------------------|------------------------------------------|
|                                       | % of surveyed firms | % of associations |
| Have ever lobbied                      | 47.7               | 17.6              |
| Most measures against which have complained |                      |                   |
| • High tariffs                        | 23.1               | —                 |
| • Allocation of public procurement    | 10.8               | —                 |
| • Liberalization                      | 7.7                | —                 |
| • Price controls and no anti-dumping measures | 3.1               | 2.0              |
| • Tax measures                        | —                  | 7.8               |
| • High cost of credit                 | —                  | 3.9               |
| Means of complaints                   |                      |                   |
| • Letter to ministers                 | 26.2               | 11.8              |
| • Through professional associations   | 13.8               | 3.9               |
| • Personal contact                    | 6.2                | —                 |
| • The press                           | 3.1                | 2.0               |
Theses results suggest that firms and associations did not complain or lobby very often. When they did, they used their personal contacts rather than institutional channels, which limits opportunities for policy dialogue between firms and the government.

Labour unions exert a little influence on the design of policy partly because they are dispersed, and are not able to develop the scope of their claims and actions. Their weakness depends also on the non-democratic nature of the State, which is barely sensitive to workers' protests and actions. Though workers have recently organized relatively successful joint actions, they remain a weak interest group.

The Policy Implementation Process

Inputs to implementation of policy consist mainly of outputs of the design and audit and reports on executed programmes. The output takes the form of legislation, the setting up of appropriate institutions, resource mobilisation and expenditure execution. The implementation involves administration and the government. In some cases, before the adoption of legislation, consultations are held with parliament, the private sector, and labour unions.

Workers' organizations have had even less influence on implementation. The only means available to them are protests and demonstrations against the adverse effects of policy.

Foreign donors are also involved in implementation through funds disbursement, projects tracking, supervision missions, review and audit missions. Foreign donors use these instruments as leverage to a more systematic enforcement of the government policy commitments. This direct involvement of foreign donors in implementation of policy has been particularly strong in trade and industrial policies, where most African governments have constantly shown a great deal of scepticism.

Ability of the Government and Other Policy Actors to Design and Implement Policy

Government Ability to Design and Implement Trade and Industrial Policies

State intervention in trade and industry in developing countries (DCs) has been widely discussed. Helleiner (1992) clearly enunciates the theoretical basis for state intervention in DCs:

- correct market failure, leading to sub-optimal equilibriums or non-feasible price solutions;
- correct knowledge gaps, which result generally in technological backwardness and non-competitive production processes; and
- correct institutional failure, with associated bottlenecks and coordination failures.

On the need for the state to take appropriate actions in order to achieve these goals, there is little disagreement. Controversy arises on how this can be done efficiently. Questions frequently raised are the following: What should be the extent and the type of state intervention? Should it be selective or general? Should it be time bound or not?

These questions are particularly important when put in perspective with the no-economic rationale behind trade and industrial policies in DCs. Indeed, in addition to economic rationale, socio-political preoccupations are part and parcel of policy-making in DCs. They include poverty alleviation, protection of the national interest and political support.
The purely non-economic preoccupations should be taken care of in assessing the outcome of policies adopted in countries. The extent of non-economic factors seems particularly important in African countries. In order to take into account this array of factors, the analysis of the policy process can be organized in the two basic groupings proposed by Soludo (1998): state-centred and society-centred approaches.

State-centred models refer to situations where the state has large autonomy vis-à-vis society and can choose and implement policies that it deems valuable, relevant and feasible. In this model, the role of interest groups is limited. This model has two versions. In one, the state-centred model collapses in a personalised rule model (dictatorship), where a rational dictator generates and controls policy measures. The other version is the bureaucratic model, where bureaucrats hold political power in addition to technical power. They formulate and implement policy according to their perception of priorities and preferences.

In society-centred models, on the contrary, policies are derived endogenously as the outcome of conflicts, bargaining and coalitions between organized social groups that constitute society. This model also has two versions. In one version, organized groups are dispersed and policy choices are based on unstable equilibria and occasional coalitions. In the other one, a limited number of social groups is organized and are powerful enough to capture political power, direct and control the policy-making process.

The Role of the State in Trade and Industrial Policy

The Private Sector, Main Source of Wealth and Productive Employment

Industrial and trade policies are designed to: (i) facilitate the building up of a solid industrial base to transform local agricultural and mineral raw materials into finished goods, aiming at the satisfaction of growing demands; (ii) stimulate industrial firms to exploit business opportunities profitably and competitively; and (iii) equip local firms with adequate technological and entrepreneurial capacities and skills.

In essence, trade and industrial policies require the collaboration of its main actors, the state and the private sector. In the recent past, there has been a conflict between these two since the state used to be involved in productive activities as trader and industrialist before the adjustment policies and programmes initiated the transfer of these tasks to the private sector. As a consequence, at the end of the transfer, the private sector will eventually become the main source of wealth and productive employment. There is now a consensus that this change is in the right direction.

The local private sector is still weak, especially for productivity and competitiveness in globalization and regional integration and cannot discharge its duties properly without state support. To the extent that the state maintains a strong interest in competitive trade and industrial activities, there is a need for partnership between it and the private sector.

The Need for Action and the Relative Role of Main Actors

The Areas of Need for Action

The most important needs for all parties include: (i) adequate and efficient financing system; (ii) a moderate, selective and stimulative fiscal system; (iii) diversified industrial products and export markets; (iv) sustained improvement of industrial competitiveness;
developed and update technological capacities; and (vi) competent analytical and technical skills coupled with adequate organizational and management capacities both for government and the private sector; (vii) the coming up of risk taking businessmen capable of developing competitive strategies, with a fading of the tendency of the private sector to seek for rent positions.

Financial constraints rank highest in the list of problems faced by local firms, especially the small and medium scale enterprises (SMSEs) that show the greatest growth and employment potential. Indeed, SMSEs have problems securing start-up funds, working capital as well as operation and investment funds to finance their growth. These problems are analysed at several levels, including access to credit, the high cost of credit, the inadequacy of type of credit, to type of activity and the lack of appropriate guarantee and insurance. The reforms implemented during the past ten years have not yet succeeded in providing the SMSEs with adequate level of financing at a reasonable cost. Thus, given the low level of self-financing allowed by limited family income, private enterprise and self employment grow at rates lower than expected. These deficiencies inter alia explain the high death rate of SMSEs in Côte d’Ivoire, estimated at 80 percent over three years.

The government currently faces a trade-off between the short run need for high fiscal revenues to finance increasing public expenditure on one hand, and the medium term risk that high tax rates will deter investment and productive activities, on the other. This trade-off accounts for the time inconsistency of tax policies, the high cost of production and imported intermediate inputs as well as the low level of local and foreign investment. To eliminate this trade-off and broaden the fiscal base, the tax structure (income versus trade and production taxes, direct versus indirect taxes) and collection need sweeping reforms that will make the fiscal system moderate, selective and stimulating, especially for SMSEs and for industrial exports.

An illustration of this dilemma appears in the conflicting understanding of tax matters. Indeed, the business community complains about high tax. Though excessive taxation did not appear in the firm survey as a major obstacle to industrial development, this concern was widely shared.

With technological progress underway, natural resources and raw materials are being progressively crowded out of the production process and replaced by accumulated human capital in information and management skills. The improvements in productivity and competitiveness required for growth in the export industry are impossible unless SMSEs organize themselves to adequately muster information technologies.

For the government, the challenge here is how to continue to regulate economic activity while being out of direct production.

**Required Actions and Relative Roles of Main Actors**

Apart from policies related to macroeconomic and institutional reforms and development of basic infrastructure and public services that benefit all activities and actors, there are more selective policies focusing on specific targets. The targets should be export activities and SMSEs in general, and more specifically, microenterprises, project developers and enterprises with difficulties. Actions required to meet the identified demands include: (i) prioritization of export activities and stopping the granting of rent positions; (ii) sweeping reforms to fix the fiscal trade off and access to financing by SMSEs; (iii) setting up of the base for steady improvements of technological, entrepreneurial and managerial skills.
Like most African countries, Côte d'Ivoire needs to minimize the risks of its marginalization from world trade; at the same time, it needs to generate adequate flows of foreign exchange earnings in order to pay for growth-promoting technologies, equipment and intermediate inputs. Thus, both the state and the private sector need to strongly commit themselves to prioritize the development of export activities. For the time being, however, the local market is the main target (41.5 percent of surveyed firms), while regional and external markets are targeted by only 17 percent and nine percent of surveyed firms. There is no problem with local markets when they are competitive. But, to the extent that this is not always the case there must be concern that the bulk of activity concentrates on local markets. Thus, a lot remains to be done to change the structure of industrial firms and promote an export base.

More importantly, the local private sector, especially the SMSEs, lacks the analytical and technical capacities required to comprehend, design and propose appropriate policies; besides, their tendency to work in isolation precludes a common vision on strategic planning and management and on what policies the government should be implementing. Finally, the building up of a consensus on strategies to bring about changes has been difficult to reach because of the lack of efficient mechanisms for dialogue between the state and the private sector. Two recent initiatives, ACOMEX (Assises du Commerce Extérieur) and SALI (Salon de l’Industrie), are fora that can facilitate the required policy dialogue between the government and the private sector.

Difficulties in SMSEs’ analytical and technical capacities dictates that the government takes the lead in initiating efforts for the private sector to promote export activities.

Since promotion of industrial exports and SMSEs is a priority, the government should eliminate the distortions that exclude SMSEs from the credit market and provide them with start-up funds, working and investment capital on fair terms.

The Private Sector Responsibility in Undertaking Appropriate Industrial Development Actions

Though important in supporting industrial development, government policies cannot be a substitute for private sector efficacy and proficiency in building a competitive industrial base. Indeed, it is the responsibility of the private sector to: (i) demonstrate willingness to improve economic efficiency; and (ii) improve productivity and competitiveness.

The willingness to improve efficiency should not be taken for granted as any improvement in productivity and competitiveness is costly; if the cost is deemed too high this effort, although beneficial in the medium term, may not be forthcoming. Since rent seeking activities prove less costly, private enterprises find it easier and rational to engage in them. To avoid rent seeking activities that stimulate corruption, targeted public support services and selective financial help necessary to reduce the transitional costs would be justified.

To break the isolation of SMSEs and improve their access to information, technologies and markets, professional organizations should network.

Finally, to demonstrate their commitment to the changes, the private sector should be ready to contribute some of its financial resources.
Nature and Content of State-Private Sector Partnership

In the past, lack of confidence between the state and the private sector led to the failure of the official mechanisms of consultation, dialogue and communication. One reason is the perception of the private sector as the main source of wealth and productive employment; indeed, the private sector is perceived as a hunter for tax exemptions or privileges and subsidies.

With a clear political choice to promote export activities and SMSEs, there must be a mutual need for consultation, dialogue and communication. Given this mutual need for an efficient partnership, both parties must redefine the aims and scope of existing mechanisms to take due account of these new priorities leading to the development of the private sector. The pillar of this new partnership should be professional organizations in SMSEs. The government has a strong interest in strengthening the analytical capacities of these organizations to promote the vision for change among professionals so that they can appraise the changes ahead and take appropriate strategies to move forward. To facilitate the emergence of this potential think-tank, there is need not only for financial support services, but also non-financial support services, including: information, counselling, technical and market studies, training and search for markets.

One obvious area where this new partnership can be tested is the joint provision, through concessions, of public services and basic infrastructure. In this regard, a strategy of systematic sub-contracting to SMSEs, where applicable, is a priority.

Finally, for the private sector to trust the process, government actions must be predictable; this is not possible unless the government has a programming mechanism that works and is ready to convey adequate and timely information to the private partner.

In forging stronger links between the state and the private sector an active use of the Comité de Liaison (government-private sector linking committee) and the strengthening of private sector organizations should be seriously considered. Among the organizations of the private sector are FINISCI, CCI-CI, and CNPI, and among the sectoral organizations are FIPME, OCAB, and ADPH. By providing support to these organizations the government will create conditions for the coming up of permanent and credible private sector representatives in order to facilitate a continuous dialogue on main policy issues.

References


--------, 1997. Fiscal Adjustment and SAPs, African Perspective on Structural Adjustment (APSA), CODESRIA.


N. I. Ikpeze, C. C. Soludo and N.N. Elekwa

Introduction

Nigeria’s experience with external trade and industrialization is a classic case of tragedy. Manufacturing value-added as a percentage of GDP was about five percent in 2000 (less than the proportion at independence in 1960), making Nigeria one of the 20 least industrialized countries in the world. Industrialization in Nigeria soared during the oil boom era (1973–81 with manufacturing share of GDP reaching 11 percent), but has had a precipitous decline to about five percent in 2000. Manufacturing export was barely 0.4 percent of exports, while import of manufactured goods was about 15 percent of GDP or more than 60 percent of total imports. Export of agriculture has declined from a share of more than 80 percent at independence to less than four percent, and that of oil approximately to 95 percent since the mid 1970s. Thus, there has been rapid de-industrialization, continuing loss of market shares in traditional export markets, and increasing import dependence especially food imports.

This is in spite of government’s huge investment in the industrial sector, active industrial policies as well as a restrictive trade policy with effective rate of protection higher than the developing country average. This is also in spite of four different national development plans (1962–1985), and industrialization as the number one priority of successive governments in Nigeria.

So, what went wrong? Studies on the trade and industrialization process in Nigeria have paid great attention to a plethora of factors explaining the failure (see for example Egbon 1995; Ekuehare 1996; Ikpeze 1991; Oyejide 1975; Oyeleran-Oyeyinka 1997; Soley 1987; Teriba et al 1981; Ugbor 1988; Usoro 1997). However, “what is missing in this more technocratic exposure of the country studies is an analysis of political and sociological aspects of African industrialization regarding, for example, the state class, which has more or less ignored or hindered the development of domestic industries” (Kappel, 1991). For Nigeria specifically, Ademisokun-Turton (1992) admits that:

Nigeria’s industrial policies, objectives and strategies are often subject to either modifications, or neglect or even total abandonment. In other words, industrial policies and practices are pursued on an ad-hoc basis and in a most uncoordinated manner. This major shortcoming partly explains the reason for the concentration of Nigeria’s few industries in major cities like Lagos, Kano, Ibadan, and Port Harcourt, the centres of political power of the ruling elites. This partly explains why industrial location is not solely a function of reasoned entrepreneurial planning and decisions, since political considerations are often given undue weight (emphasis added).

This chapter focuses on the political economy of the policy process, policy choice and implementation.
In a country like Nigeria where the prizes are so few, and the stakes so high, the fight for booty or "national cake" is fierce and often vicious. It has at times led to a debilitating corruption in the arena of public policy making and implementation. "Who gains, who loses in these federal, state and local policy arenas is rarely an accident. More often than not, the distributional consequences of public policies are the intended result of the private interests which have been instrumental in their design, passage and implementation." For the entire country, the manipulation of public policy for private purposes comprises yet another disjunction in our fractured history. Not every public policy fails; and not every public programme or project is redundant. But when once in a while a policy succeeds, it is often not because of government per se, but in spite of it (Garba 1995: 237).

Three thematic frameworks are central in the analysis and interpretation of Nigeria's trade and industrial policies, namely the power of dominant development ideas, the failure at the meta level orchestrated by the objective conditions of the rentier oil economy and the distributional consequences of the politicization of ethnicity, and the domination of private and group interests over national interests. Overall, the broad thrusts of Nigeria's trade and industrial policies have largely tracked the major swings in the mainstream ideas of development in these areas. Following political independence in 1960, the successive governments adopted the import-substitution industrialization and five-year development plans (as was the case in most developing countries) and with financial assistance by international financial institutions. In the 1970s, nationalization of foreign industries was in vogue and Nigeria tagged on, and the oil boom provided the impetus for deepening the strategy of import substitution and self-sufficiency. The 1980s, especially following the publication of the Berg Report in 1981 saw the implementation of structural adjustment programmes (SAPs) in most of Africa, and Nigeria was not left out. The broad direction of policy has since been characterized by liberalization and emphasis on export orientation and competitiveness.

Economy-wide or systemic competitiveness is important in thinking about the levels and nature of interventions as well as the actors crucial in evaluating appropriate industrial and trade policies. Under this framework, what happens at the meta-level is key. That is, the politico-social and governance arrangement that is broad-based and that builds "national consensus" or "national vision" for industrialization; an ideology of development that supports wealth creation, is export-oriented, prone to competition, and is market-oriented. Without this governance structure at the meta-level, it is difficult to see how the meso (institutions and infrastructure) or the macro (macro stability and competitive real exchange rate regime) or the micro-level (emergence of capable and competitive firms) that support industrialization can materialize.

In Africa, Nigeria is probably a classic case of failure at the meta level, and hence the ineffectiveness of actions at the other levels. We identify the lack of a "nationalist orientation" given the politicization of ethnicity as a key element in the failure at the meta level. This has been exacerbated by the rentier economic system — based essentially on patronage and rents from the enclave oil sector — and hence the dominance of distributive politics of trying to hold together the fractious polity (euphemistically referred to as "sharing of the national cake") rather than emphasis on the "baking of the cake" or wealth creation. Thus, while much of the policy documents are full of nationalist rhetoric, the implementation process can almost be completely explained by the public
choice model — almost complete capture by personal and special interests. Understanding the interests of these individuals and the incentives that drive their actions is critical to an evaluation of certain policies and why they are chosen or how implementation outcomes are shaped.

Political economy literature presents two model frameworks that can be used to characterize the trade and industrial policy process and policy outcomes — the public choice, and the state-centred models. The public choice model shares basic assumptions with pluralist thinking but views both societal interest groups and government officials as purely self-interested, with the latter predominantly concerned with maintaining power by attracting and rewarding supporters and favouring certain groups. Rent-seeking via policy formation and implementation is a major feature of this process. In the public choice model the competition among the various interest groups is inimical to the collective interest. Rational politics generates irrational economic policies. The model might be placed in either of two categories: state-centred or society-centred (Healey and Robinson 1992; Sadoulet 1995).

Group interest theory further explains society-centred approaches. Group theory begins with the proposition that interaction among groups is the central fact of politics. Individuals with common interests band together formally or informally to press their demands upon governments. According to the political scientist, David Truman, an interest group is “a shared-attitude group that makes certain claims upon other groups in the society.” Such a group becomes political “if and when it makes a claim through or upon any institutions of government.” Individuals are important in politics only when they act as part, or on behalf, of group interests. The group becomes the essential bridge between the individual and his government. Politics is really the struggle among groups to influence public policy. The task of the political system is to manage group conflict by (i) establishing rules of the game in the struggle; (ii) arranging compromises and balancing interests; (iii) enacting compromise in the form of public policy, and (iv) enforcing these compromises.

According to group theorists, public policy at any given time is the equilibrium reached in group struggle. This equilibrium is determined by the relative influence of interest groups. Changes in the relative influence of any interest group can be expected to result in changes in public policy. Policy will move in the direction desired by the groups gaining influence and away from the desires of groups losing influence. The influence of groups is determined by their numbers, wealth, organisational strength, leadership, access to decision-makers and internal cohesion (Dye, 1981).

The state-centred approach argues that the perceptions and interactions of policy elites and the broad orientations of the state more generally account for policy choices and their subsequent pursuit. This perspective views the state as analytically separable from society and the state elite as having interests, which they adopt and pursue, with some autonomy. These interests include the pursuit of ideologies of “national interest” or the achievement and maintenance of the state elite’s own hegemony vis-à-vis societal actors and the particular self-interests of regime incumbents. In Nigeria this categorisation includes the impact of politicians, the military, bureaucrats, the legislature and the state is conceptualised as a complex organisation of numerous bureaucrats and politicians, each with their own objective, information and instruments for influencing policies.

Society-centred approaches explain or predict policy choice in terms of the values, perceptions, behaviour and historical or international contexts of social classes and
interest groups. These encompass neo-Marxist theories for which social class formation and changes in the composition of the dominant class or class allegiance are key to policy formation and political change, and pluralist perspectives which see the state as a neutral arbitrator among competing organised interests in society where its principal role is to respond to societal pressures. Public-policy results from conflict, bargaining and coalition formation among potentially large numbers of societal groups organised to advance the interests of their members.

As indicated earlier, Nigeria's trade and industrial policies have largely swung with the pendulum of dominant development ideas since 1960. However, the specific policy choices and implementation in each of the policy regimes have largely reflected personal and special interests. For example, these personal and special interests have determined the nature of tariff and non-tariff barriers to trade and their frequent reversals, the structure and administration of incentives, the timing and administration of the indigenization of enterprises; the location, size and management of public sector investment in core industrial projects.

In a sense, the policy environment has been dominated by three broad categories of interest groups — the business community or the private sector, ethnic groups, and the state.

The business community has, right from the colonial period, always been in alliance with the state for assistance. In the early post-independence period, however, the alliance turned "unholy." By the 1960s nearly all businessmen were necessarily in politics because the state had become the main source of finance and contracts; and nearly all politicians were in business (Wrigley, 1974). This relationship intensified as the state became a major source of rents — through contracts, foreign exchange allocation, direct credit at below market interest rates, tariff concessions, and a gamut of incentives directed at the private sector. Given the overarching dependence of the private sector on state patronage and rents, the dividing line between the state and the private sector has largely blurred over time. The organised private sector is represented by a plethora of organisations but the major ones include the Manufacturers' Association of Nigeria (MAN), and the National Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA). Over time, the state and the organised private sector have tried to formalise relationships through formal consultations. For example, in the formulation of the 1975-1980 Development Plan, businessman Fajemirokun is reported to have observed that:

the government is happily becoming more and more responsive to the constructive suggestions which the organised private sector of the economy is privileged to make from time to time. For the first time the sector has been deliberately and meaningfully involved with the development planning process and the indications are that it will be even more closely associated with the implementation process (Schatz, 1977).

Since the early 1990s, the elite businesses have formalised the channels for lobbying and influence on policy through the Nigerian Economic Summit Group (NESG).

The state, with its coercive force and enormous financial resources has been the key instrument for keeping the ethnically divided country together, as well as an arena of fierce competition for patronage and fight for booties for personal and sectional interests. The key players have been the military and the bureaucracy. Most military interventions have been determined by the allure of power and the fortunes that go with it in a rentier
system. One of the reasons advanced by General Mohammed for the overthrow of General Gowon was that the latter "did not consult senior military officers in affairs of state." The military sought to build an independent power base founded on private fortunes as a hedge against future losses in income when they are out of power. Thus, its choice of specific policies and their implementation was directly related to the need to serve personal and sectional interests.

The technocratic role of the top civil servants during the civil war and during the immediate post-war years of reconstruction, rehabilitation and reconstruction gave them enhanced status and power. The staggering expansion of the public sector not only made the bureaucracy more powerful than the private sector but also created opportunities for top government officers to build private fortunes in the private sector. Not least among these opportunities were those for taking bribes, commissions and kick-backs from contractors and suppliers in public sector projects. It is not surprising therefore that the economic interests of the bureaucracy coincided with those of the business community, both of which were now involved in "extractive" capitalism rather than production. Policies were either designed or implemented by this bureaucratic elite to maximise their extractive power or rents.

Ethnicity and Distributive Politics of Rentier Economic System

Nigeria, with over 250 ethno-linguistic groups, is one of the most ethnically diverse countries in the world, with three major tribes — Hausa-Fulani, Igbo, and Yoruba — often referred to as the tripod of Nigerian politics, and with each constituting about 20 percent of the Nigerian population. The problem is not the number of ethnic groups (other countries such as Indonesia have a comparable number). It is the politicisation and intensification of ethnic diversity in national life — including the conduct of state affairs and private sector activities, to the point that one of the founding fathers of the country, Obafemi Awolowo, was said to have described Nigeria as a "mere geographical expression." Each ethnic group organised themselves in the contest for the state booties, and saw public policies largely from the prism of their ethnic or sectional interests.

Individuals in appointive positions in government or in the bureaucracy saw themselves largely as "representatives" of their villages, towns, states, or ethnic groups, with a single mission to "get their fair share of the national cake" by whatever means. High level bureaucrats are "expected" to be corrupt since they are expected by their people to subvert public policies and laid down procedures to favour their people or loot enough resources to dispense favours in their villages or among their ethnic groups. Policy-makers as "representatives of their respective ethnic groups" consequently care greatly about the "origins" of those who would benefit from specific policies. In most cases, the expected sectional rather than national impacts of policies become the overriding consideration in their design and implementation. In essence, no matter the merit of particular policies or their potential "national" impact, if they were not perceived to favour the specific interests of the dominant power groups, such policies will not be adopted or implemented. We will illustrate how this framework explains the timing and implementation of the indigenization policy, and the location of core industries.

A key implication of the fractious society and predominance of sectional interests is that there is hardly single-minded focus in the design and implementation of a "national agenda." National vision is missing (except in the rhetoric), while the nature of implementation often reveals the intended objective of the policy.
Compounding this situation is the objective condition of the economy as solely dependent on rents from an enclave oil sector, which accounts for about 70 percent of government revenue, and 95 percent of export earnings. Oil, turned into a curse, rather than a blessing, as it further distorted the incentive system and destroyed the traditional link between industry and government. Traditionally, governments support industrialisation not merely out of altruism, but because industrial growth serves the interests of the government and society. Industry creates jobs, earns foreign exchange through exports, and brings revenue to government through taxes on both corporate profits and personal income. With the oil boom, these links were temporarily severed, and the then Head of State — General Gowon — was quoted as saying that Nigeria’s problem was how to spend its huge oil wealth. Government could get revenue and foreign exchange without the industry. It could also expand public sector employment to compensate for any shortfall in the industry. Thus, aside from the rhetoric on the “need for diversification,” there was no immediate pressure or incentive on the part of government to pursue industrialisation, except where such industries were to be built by government. When government builds industry, the bureaucrats benefit because of the enormous rents that go with it, and more bureaucrats get involved in managing such enterprises as well. The enormous rents also increased the pie to be shared, and hence the affairs of the state were dominated by distributional politics of dispensing patronage rather than wealth creation. Furthermore, such distributional agenda was used largely to keep the elite from the disparate ethnic groups happy, thus serving as the glue that kept the components of the “mere geographical expression” together.

The consequences of the interaction of ethnic politics with the rentier economic system for industrial and trade policies were enormous. First, the state was pre-occupied with distributive politics rather than a systematic programme of wealth creation and hence did not really take seriously the issue of providing an enabling environment for industrialisation. Second, the ad-hoc measures that passed for industrial and trade policies — state involvement and siting of core industries, administration of incentives, highly volatile tariff and non-tariff barriers — were ostensibly implemented to benefit special (often sectional) interests. Some analysts believe that the intended objectives of these measures were to create rents rather than to industrialise. Third, with the rents from the state providing the quickest means of acquiring stupendous wealth, most of the elite who could have become the hub of the entrepreneurial class were diverted into rent-seeking in government rather than seeking risky investment opportunities in the private sector. For example, besides the huge bureaucracy and large number of political appointees to service government machinery, the Federal Government appointed about 5,000 board members to run the largely comatose public enterprises. Most of these are people who should have channelled their talents into productive activity in the private sector. Fourth, given the federal nature of the country, and the dependence of state revenues on statutory allocations from the oil dominated “Federation Account” (more than 95 percent for most states), the incentive to creatively pursue wealth creation through industrialisation at the regional-state levels was dampened.

Essentially, the framework for thinking about trade and industrial policies in Nigeria combines the state-centred model (bureaucratic model) at the level of rhetoric or policy design with the public choice model at the level of implementation. The key players include the private sector operators and their associations dominated by bureaucrats and politicians or their agents, the bureaucrats and politicians who act mostly as “representatives” of special (sectional) interests rather than the “nation,” and the various ethnic associations which champion the cause of their “representatives” in government.
and defend them against any perceived “persecution.” It is a framework in which those who are supposed to implement specific measures are in most cases the persons who are likely to lose or gain from such measures since the dividing line between the private and public sectors is very thin. It is this constant friction between public and private (or sectional) interests, and the domination of private interests that help us to understand the so-called “implementation failure” in Nigeria. In much of public policy discourse, analysts often attribute every public policy failure to this ubiquitous “implementation failure” without explaining why almost every “well designed” policy is perverted at the implementation stage. This framework also helps us to understand the context of economic policies in the past two decades when the IMF-World Bank supported structural adjustment programme (SAP) was supposed to dominate the policy process. In almost all policy aspects, Nigeria is exemplary for its consistent failure to implement the measures it willingly commits itself to. Like for most other public policy, the problem is less about the design, but rarely is 40 percent implementation rate achieved.

**Historical Overview and Policy Episodes**

There are several ways of categorizing the historical period of Nigeria’s industrialization and trade policy. For example, two eras — the colonial (pre-1960) and the post-colonial (post-1960) periods — could be distinguished. The latter may be further periodized using the broad regime shifts (import substitution strategy, 1960–1985), and liberalization and outward-orientation (1986 to date). Alternatively, periodization could be according to the governance regime type — civil and military regimes. Between 1960 and May 29, 1999 civilian regimes have effectively been in place for barely nine years (1960–1965 and 1979–1983). Military regimes were in charge for the rest of the period: January 1966 — July 1966 (General Aguiyi-Ironsi); July 1966–1975 (General Gowon); 1975–1979 (Generals Murtala and Obasanjo); 1984–1985 (General Buhari); 1985–1993 (General Babangida); 1993–1998 (General Abacha); 1998–May 1999 (General Abubakar). The military was thus responsible for policy-making and implementation for 30 of the 39 years in question. This periodisation is calculated to highlight the implications of regime changes and personalities for the style and substance of policy design and implementation. However, the decadal periods used do not always neatly fall into the regime classifications. An alternative classification, a major objective of the historical overview itself, is to indicate the extent to which the structure of the economy (size of the industrial sector) and ownership structure (ethnic, domestic vs foreign ownership) affected policy episodes and outcomes. The following periodization is used in the analysis below: colonial period, and the decadal periods of the 1960s; the 1970s and the indigenization programme and oil boom; the 1980s and the adjustment programme; and the 1990s and the new industrial policy.

**The Colonial Period (1914–September 1960)**

In the colonial period industrialisation in Nigeria proceeded without the benefit of orchestrated trade and industrial policies. What passed for trade and industrial policy amounts to no more than a patch-work of ad hoc measures which may be categorised as follows:

1. Incentives — the enactment of legislation offering tax and import duty relief to industrialists e.g. Aid to Pioneer Industries Ordinance (1952); Industrial Development: Import Duty Relief Act (1957); Industrial Development: Income relief Act (1958).
2. **Infrastructural Support** — the provision of water, power and other facilities such as industrial estates, albeit on a severely limited scale.

3. **Industrial Promotion** — the dissemination of basic information about the Nigerian economy among prospective industrialists, especially foreign investors.

4. **Credit Facilities** — the establishment of the Federal Loans Board and regional development corporations, provision of government guarantees for external loans.

5. **Safety of Foreign Investment** — guarantee against expropriation and nationalization, promise of easy repatriation of capital, profits and dividends.

6. **Protection from Foreign Competition** — high tariff walls, import licensing, and quantitative restrictions.

Public policy and private initiatives promoted investments mostly in extractive industries and distributive trade rather than manufacturing (Soleye, 1987). The manufacturing industries that were established by alien trading firms during and immediately after World war II concentrated on light industrial goods such as detergents, confectionery, soft drinks, and textiles, as a way of making the transition from purely commercial activities into the beginnings of import-substituting manufacturing (NCEMA, 1995). This initial penchant for the production of light consumer goods set the stage for two drawbacks that have persisted in the nation's industrialisation effort to date: neglect of technological development and reliance on imported production inputs.


The promotion of industrial development was broadly entrusted to two agencies, the Nigeria Local Development Board and the Department of Commerce and Industry. The former, among its other functions, was expected to ensure (i) the promotion and development of village crafts and industries and the industrial development of the products of Nigeria; (ii) the setting up and operation of experimental undertakings for the testing of industrial, or for processing the development of any Nigerian, products; (iii) suitability of other projects approved by the Governor-in-Council. The latter was to oversee and encourage the conduct of local trade and the development of “native industries.” The lack of concreteness and vigour in the formulation and prosecution of the colonial industrial policy is attested to by the fact that only 27 percent of the 22 million pounds sterling budgeted for industrial development under the Ten-Year Plan could be spent.

This state of affairs was not due to any preference on the part of the imperial power for a laissez-faire approach in economic matters. Rather it stemmed from the reality that Britain's national interest lay not in the economic or industrial development of Nigeria but in the development of basic infrastructure (rail and road networks) to facilitate the evacuation of primary products and the distribution in Nigeria of manufactured goods imported from the metropolitan economy (Ikpeze, 1991). Attention was lopsidedly directed towards the development of agricultural produce to serve as a raw-material base for British industry. Local industrial development received short shrift, being supported by a patchwork of only a few ad-hoc incentives such as tax and import duty reliefs.
During the colonial period, the key actors were the colonial administrators, and it is interesting that most of the deliberate incentives and measures to promote industrialisation occurred during the 1950s when Nigerians were already largely in charge of the regional administrations, and the pressure for independence was becoming irresistible. The fight for independence was largely also a fight for the right to participate in the industrial (formal) sector. Thus, the nationalist movements all embodied explicit programmes to embark on industrialisation and participation of the citizens. Most responses by way of explicit policies to promote industrialisation in the 1950s could be said to be a direct consequence of the pressures by the nationalists. In spite of these later efforts, one of the colonial legacies bequeathed to the new nationalist leaders at independence was a low level of industrial development and industrial infrastructure. Although beginning from a total of 182 company registrations in the country between 1935 and 1945 and advancing to 1,027 registrations between 1946 and 1958, the pace of industrialisation remained low, considering that of these 1,027 establishments only about 15 percent were of the medium and large-scale variety (Usoro, 1977; Teriba, Edozien and Kayode, 1981).

The 1960s: From Independence to End of Civil War

With independence in 1960, the nationalist rulers aggressively pursued import substitution industrialization as part of the response to the minuscule industrial base bequeathed by the colonial masters. The regional governments in the three regions — East, West, and North, and later in 1964 Mid-West, deliberately promoted industrialization even without any formal industrial policy. In the first three years of independence value-added in manufacturing grew by an average of 11.4 percent per annum. Rapid growth of manufacturing and diversification of industrial activity were major objectives of industrial sector development as articulated in the various national development plans (1962–1968, 1970–1974, and 1975–1980). By 1965, manufacturing as a share of GDP had grown to six percent, up from five percent at independence. Between 1967 and January 1970, Nigeria was plunged into a civil war. Despite the war, the decade of the 1960s could still be described as the golden era of Nigeria’s industrialization effort as Table 13.1 shows.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Growth Rate percent (annual average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of establishments</td>
<td>12.1</td>
</tr>
<tr>
<td>Number of employees</td>
<td>12.6</td>
</tr>
<tr>
<td>Wage-bill</td>
<td>17.9</td>
</tr>
<tr>
<td>Gross output</td>
<td>16.4</td>
</tr>
<tr>
<td>Gross Value Added</td>
<td>18.7</td>
</tr>
</tbody>
</table>

Source: Berger 1975

At the heart of this remarkable performance was the competition among the regions, controlled by three different parties, for supremacy in economic transformation. Industrialization was the ultimate index of that transformation, and the dominant strategy was import substitution industrialization.
The 1970s: Indigenization Policy and the Oil Boom

The decade of the 1970s was remarkable in a number of ways. For one, it was the first decade of undiluted military rule. For another, it was the decade of the first oil boom which put enormous financial resources in the hands of the military rulers — enough resources to prosecute whatever development programmes they fancied. Following the end of the civil war, was also a decade the government earmarked for reconstruction, rehabilitation and reconciliation. It was a decade of massive direct government investment in manufacturing. Government began to exercise almost complete monopoly in some sub-sectors of industry. Actual outcomes, however, belied all rosy expectations, and the 1970s laid the foundation for much of what is wrong with Nigeria’s policy and development.

Three key features of the decade germane to our analysis are the oil boom and government responses to it; the indigenization programme, and government massive investment in, and location of, industries.

Reaction to the Oil Boom: A key feature of the 1970s, which provides the context for much of the policy environment was the oil boom. Between 1973 and 1981, Nigeria earned the fabulous sum of over N60 billion (about $90 billion) from oil. What did the country do with the windfall? A nation’s choice is governed by a complex interplay of its rate of time preference, portfolio choice, and expectations regarding future revenues. On the question of whether to consume now or in the future (time preference) the nation adopted a spendthrift attitude. The mood that pervaded all economic calculations from 1972/74 was that of unrestrained optimism about future petroleum prices and government revenues. Government spending under the various National Development Plans quadrupled, and the size of government ballooned so that in the early 1980s the public sector had grown to account for about 50 percent of GDP and 70 percent of modern sector employment. This expansion of the public sector contribution derived mostly from the provision of services and infrastructure and the payment of salaries and wages.

Thus, all three factors (time preference, portfolio choice, and expectations) interacted to produce an economically irrational reaction to the oil-boom in Nigeria. This has been the experience of some other oil exporting countries. According to Seers, “Oil is often not the blessing it appears to be: it provides great opportunities, but the very nature of the industry also makes these almost impossible to grasp and induces growing structural strains. A particular property of oil is that it casts a smokescreen over a country’s real problems. Symptoms such as foreign exchange problems and fiscal inadequacies are temporarily concealed.” In Nigeria’s case the “smokescreen” induced Dutch courage, which emasculated the agricultural and industrial sectors.

In a sense, the choice made by the Nigerian government in favour of massive spending (mostly distributional) especially in the context of the reconstruction and rehabilitation programmes after the civil war, was a response to the demands of the politics of the day. With the military government eager to sustain its legitimacy and an insatiable demand for distributional programmes, it was little surprise that the government chose consumption over production. The bulk of the productive investments made were in infrastructure, and education.

Still, such patterns of investment might have been induced by the drive for rents. Up to the time of the first boom (1973), the Nigerian government (whether colonial or post-colonial) had nurtured capitalism in the country by “creating a congenial economic climate and by programmes and policies designed to assist and stimulate business generally.” But the
surge of oil revenues since 1973, by transforming the government treasury into the predominant source of economic surplus, brought about an unhealthy transition from “nurture capitalism” to “pirate capitalism” (see Schatz, 1984). According to him:

For the most vigorous, capable, resourceful, well connected and lucky entrepreneurs and potential entrepreneurs (including politicians, civil servants, army officers, etc.) productive economic activities, the creating of real income and wealth, has faded in appeal. Access to and manipulation of the government spending process has become the golden gateway to fortune.

This vintage appeals to the classic rent-seeking (public choice) model. With the economy awash with the huge rents from oil, it became irresistible for politicians, bureaucrats, and citizens not to want to share in the new wealth. The new wealth provided the means to maintain, for example, the high appreciation of the exchange rate, the unsustainable consumption levels, government investment in all manner of industries, etc. All these involved some form of rents for the participants and the oil wealth helped to postpone the consequences of the rent-seeking environment. Besides the distortions inherent in the activities, the new wealth tended to induce a misallocation of productive resources. Industrialisation was largely state-led at the time and much of private sector (entrepreneurial) activities were devoted to chasing rents from government. It was thus not surprising that at the end of the oil boom, the private industrial sector was still feeble and accounted for an inconsequential proportion of the total industrial sector or GDP.

**Indigenisation Policy and the Politics of Rent-sharing**

Prior to 1970, the pattern of ownership in the manufacturing sector had become heavily skewed in favour of foreigners, thanks to the special incentives and the guarantee against nationalization. After the civil war the military government reacted to this development by embarking upon an indigenisation effort. This move which, according to Schatz (1973), dates back to 1949, had merely gathered momentum by 1970. Its enabling legislation, the Nigerian Enterprises Promotion Decree of 1972, which reserved certain categories of industrial activity, mostly services and manufacturing for Nigerians, miscarried in a number of respects. In particular, its intention was subverted by foreign firms, which proved to be adept at using Nigerians as fronts to corner business in the forbidden lines of industrial activity. The 1977 revision of the decree turned out to be an abortive attempt at using a single policy tool to achieve three distinct objectives simultaneously. Trying to accomplish indigenisation, diversification and Nigerianisation of management in one fell swoop has been likened to using a few equations to find too many unknown answers (Adejugbe, 1980). Most importantly, although the programme of enterprise indigenisation was abolished (in 1995) it serves historically to provide a classic illustration of the interplay of the interests of military regimes, the state bureaucracy and the business community (alien as well as indigenous) in the formulation and implementation of policy on industrial development.

Basically, ambiguities arose in the role of the state on account of its attitude to foreign capital which has been variously described as “ad hoc” and “compromising” (Collins, 1980). The following examples will suffice:

- The drafting of the 1972 decree reflected the influence of foreign business as an organized pressure group. Foreign business manoeuvred behind the scenes to accomplish the reclassification of certain enterprise types, from one schedule of the decree to another.
• In the choice of organizational framework for implementing, the policy room was created for foreigners to pick indigenous notables who could provide political protection, to buy shares. The Capital Issues Commission and the Stock Exchange regulated the sale of shares of public companies. Private company transactions were not controlled.

• Foreign business, in addition, was able to tie in indigenous distributors and competitors in various ways (e.g. credit facilities and access to supplies).

• A loophole was created for the direct manipulation of the machinery of government. Federal and State Commissioners of Trade and Industry had de jure powers to change the schedule, and grant exemptions. Bureaucrats had discretion over whether a company fell under schedule I or II. Tax authorities assessed the returns of foreign companies independently. The decree was vague on the difference between retail and wholesale activity.

• The decree itself reveals the compromising nature of state action. Apart from the requirement of a 40 percent of Nigerian equity participation the larger companies were not affected. For specified industries the transfer of ownership and control was to be accomplished within a given time period. The transfer of ownership and control was to be made not to an expanded state sector but to the indigenous private sector, signalling that the state was aiming at establishing a division of labour between foreign private capital and the nascent indigenous private sector in such a manner as to give foreign capital the upper hand.

• In terms of the problem of ethnic dimension of the ownership structure, the Igbo claims to have been marginalised. This claim, as pointed out by Ikpeze (2000), is based on two inter-related measures taken by Chief Obafemi Awolowo, a Yoruba, after the Nigerian civil war in his capacity as Finance Minister. According to Ikpeze:

  Immediately after the war, Awolowo put a ceiling of 20 million pounds sterling on all bank accounts that had been operated in Biafra during the hostilities. This was deliberately calculated to neutralize the savings and, therefore, the capacity of Igbo people to rehabilitate themselves and to re-enter (and, indeed, regain their share of) the Nigerian economy, which he was intent on reserving for his Yoruba kith and kin. Only two years after the war, when the Igbo were still in the economic doldrums, Chief Awolowo contrived to auction off the Nigerian economy to the Yoruba through the Indigenisation programme. The timing of the exercise ensured the effective exclusion of Igbo from ownership in Nigeria's industrial sector.

The bureaucracy positioned itself to extract maximum rents from the exercise. The top brass of the civil service and close members who had privileged access to credit, information and contacts with foreign business were able to buy large blocks of shares for themselves. The bureaucracy also manipulated to concentrate share ownership in the hands of its members through resale and transfer processes since private company share transactions were not regulated. Bureaucrats allowed themselves to be courted by foreign firms for behind-the-scenes favours regarding the formulation and implementation of the programme. Some top public officials were able to retire into virtual sinecures in industry.

Nigerian businessmen and foreigners also collaborated to share in the rents. Foreign firms used Nigerian businessmen as fronts to corner business in the forbidden lines of enterprise. In addition to fronting for alien firms, indigenous businessmen also served as intermediaries between foreign firms and the bureaucrats. The interests of foreign capital
were well represented in the higher circles of government. Indigenous senior executives of large foreign firms dominated the Nigerian Chamber of Commerce. Leading Nigerian industrialists bought entire enterprises and large blocks of shares. The indigenous commercial elite secured a niche in the alien-dominated distributive network.

As observed by Collins (1980), these patterns of co-operation and clientele paint the picture of a tightening nexus between government and foreign capital: the bureaucracy and the managerial elite were coopted as shareholders while the commercial elite secured a niche in the alien-dominated distributive network and were therefore tied in as satellites through the alien monopoly of supplies and credit. In some sectors such as construction, the reverse pattern of clientele prevailed. For example, indigenous construction companies often won contracts, which were then passed on to expatriate firms to execute. Although the military, the bureaucrats and businessmen pursued their particular interests, they were united in both their opposition to foreign capital in the national interest and in their collaboration with foreign capital in the interest of development (Ohiorhenuan, 1980).

A major conclusion from the formulation and implementation of indigenisation of policies is that both the society-centred and public choice models play important roles. On the one hand, the national interest (state-centred model) was central to the agenda setting, that is, to the formulation of the policies. On the other, in the implementation stage, private interests took over and ensured that the outcomes benefited some individuals and sections of the society more than others.

Public Investments in, and Location of, Industries

To the extent that the state invested oil money in the industrial sector, its attention was focused on the so-called Core Industrial Projects (CIPs), notably iron and steel, paper, fertilizer, petrochemicals, oil refineries, machine tools, liquefied natural gas, and aluminum smelting. A key justification for direct government involvement with CIPs is that they are typically capital-intensive and, thus, beyond the scope of indigenous entrepreneurs. Besides, two special advantages were expected to flow from the projects: backward and forward linkage effects (Hirschman 1958), saving and generation of foreign exchange, and exporting some of the products. Expectedly, some of the projects were embarked upon during the oil boom decade of the 1970s. The others, however, were established in the 1980s in spite of the foreign exchange difficulties of that decade. It could be argued that the state-centred model (national prestige, self-reliance and power) provided the justification for public investments in these industries. We argue below that the public choice model — self-interest and ethnicity — provides the explanations for the siting of the industries and their management.

A more dramatic point to note is the location of these CIPs. The economics of the location of industrial projects is traditionally concerned with the availability of raw material inputs, land, labour, infrastructural facilities, etc. and nearness to the market. In theory, the profit-maximising private investor analyses these factors to arrive at the optimal location. But in the case of state-owned industrial projects, such as Nigeria’s CIPs, the economically optimal location may be displaced by a politically expedient choice. CIPs are normally considered in Nigeria, as elsewhere, to be of strategic importance either in providing “the necessary solid base for accelerated industrial growth and development” (CBN, 1990) or from the point of view of national security. It follows therefore that the “philosophy behind government investment is central to the eventual location, and this could downplay the influence of economic factors” (Ogun and Alokan,
As pointed out by Ogun and Alokan, the philosophy of evenness in the spatial distribution of industries could lead the state to spread industrial investment thinly so as to ensure "federal presence" in all parts of the country.

In Nigeria, the conflicting interests of ethnic or regional groups and the structure of control of political power at the centre have combined to yield sub-optimal locations of major CIPs. We illustrate this point with two examples: oil-refining and petrochemicals, and iron and steel companies.

**Oil Refining and Petrochemicals**

In the oil refining and petrochemical sector the location of industrial projects has been vitiated by the principle of geographical spread. The location of refineries at Warri and Port Harcourt, which are situated in the oil rich coastal region of the south, is clearly material-based. The location of a similar facility at Kaduna, in the North, is not material-based but was determined by the political need to assuage the sectional interests of the northern region. This economically irrational location was technologically made feasible by a 3001-kilometre pipeline system connecting all petroleum depots in the country with Kaduna.

A second aspect of the economic irrationality of the Kaduna location is that it has eventually entailed the duplication of petrochemical facilities. The first refinery sited at Port Harcourt lacked the capability to manufacture petrochemical products. It had therefore been indicated in the Second National Development Plan (1970–1974) that in the design of a second refinery attention would be given to its possible linkage with the development of a petrochemical industry. But it was in the Fourth National Development Plan (1980–1985) that it was explicitly decided that the petrochemical complex would be located at Port Harcourt. In the interim, however, the Warri and Kaduna refineries had been built during the Third Plan period (1975–1980) and both were designed to also produce petrochemical products. The eventual implementation of the Plan to site a petrochemical complex at the choice location (Port Harcourt) has thus implied some duplication and waste.

**Iron and Steel**

The decision to locate iron and steel projects in the country has also been dominated by non-economic considerations. In the first National Development Plan (1962–1968) which benefited from a major 1955 World Bank study of the industrialisation potential of Nigeria as well as the expertise of a foreign consultant, Professor Wolfgang Stolper, the "Onitsha and Lokoja areas" were indicated as the most economic location for the nation's iron and steel project based on raw-material availability, transportation facilities, and other relevant considerations. However, in the Third National Development Plan (1975–1980) the choice of Ajaokuta was rationalised on the ground that "it is near Itakpe and Lafia," the sites of discovery of high grade iron ore and cokable coal respectively.

The Third National Development Plan provided for five direct reduction plants. Since the plants are to utilize gas the optional location should be the oil fields in the southern region. But in implementation only one such plant has been located appropriately in the oil zone, i.e. the Delta Steel Company at Aladja. Although the Ajaokuta and the Aladja projects have in-built rolling mills, three rolling mills have surprisingly been located at Katsina, Jos, and Osogbo. These locations are quite far from the Delta Steel Company, which is supposed to feed them with billets. It was contemplated in the Fourth National
Development Plan that the Katsina rolling mills should be redesigned into a full "mini steel complex" to produce flat steel from scrap metal. The rationalisation — which buttresses our third illustration above — is that the cost of transporting billets over the long distance between Warri and Katsina would make the Katsina rolling mill unviable (Federal Government of Nigeria, 1981:151).

In all these instances policy formulation and implementation have been unduly influenced by the principle of even spread of core industrial projects. Economic rationality has always been the casualty. It is also instructive to note that while "even development" is the underlying principle, the precise location of the CIPs is a function of the dominant political forces at the time. Many analysts reckon that the domination of the political leadership (since independence in 1960) by the North has a serious bearing on the location of certain key industries in the region eg. iron and steel, refineries. These industries have no business being located in such places. Consequently, certain parts of the country that have not been part of the political leadership (especially the North East and South East) have little or no significant Federal industries. This dispersion of industrial location without regard to economic considerations is a critical factor in understanding the reasons for poor performance and international competitiveness of such industries. Furthermore, most of the CIPs have been comatose, reflecting the rent-seeking environment that characterized their management.

The 1980s and the Structural Adjustment Programme

The experience of the 1980s amply underscores the impact of the objective conditions of an economy on the policy choice. If the oil boom of the 1970s induced and nurtured a statist, command-planning policy regime, the failures of that regime as well as the objective conditions of the 1980s foisted a necessity for fundamental reforms.

1982 signified the end of an era, with the collapse of the international oil market. With this collapse, Nigeria’s structural defects, which had been papered over by the oil boom, came to the fore. Foreign exchange difficulties became acute, and the entire manufacturing sector (based on ISI strategy and heavy dependence on imported inputs) was in serious trouble. The manufacturing sector still manifested a litany of problems such as concentration on the light and elementary industrial groups, low local value-added; high import intensity, negligible contribution from the engineering industry groups, poorly developed local inter- and intra-linkages, low technology activities, limited employment effects, regional agglomeration of concentration at the Lagos-Ibadan (South-West), Jos-Kano-Kaduna (North) and the Onitsha-Nnewi-Aba (South-East) axis, poor export performance, dualism, without any tendency for small-scale and informal-sector enterprises to upgrade, and undue government involvement, especially in heavy industry (Oesterdiekhoff, 1991).

These objective conditions demonstrated that economic policy should not be business as usual. A fundamental reform agenda was needed. The most dramatic feature of this era was the adoption of the SAP policies in 1986 by General Babangida. The key objectives of the SAPs with respect to industrial policy were to:

- encourage the accelerated development and use of local raw materials and intermediate inputs rather than depend on imported ones;
- develop and utilize local technology;
- maximize the growth in value-added of manufacturing activity;
The Politics of Trade and Industrial Policy in Africa

- promote export-oriented industries;
- generate employment through the encouragement of private-sector small and medium scale industries;
- remove bottlenecks and constraints that hamper industrial development, including infrastructural, manpower and administrative deficiencies; and
- liberalize controls to facilitate indigenous and foreign investment (Federal Republic of Nigeria, 1986).

It must be noted that the reforms under SAPs did not come without a fight. There was tremendous resistance to change and the struggle has lingered ever since. Nigeria’s experience, as with other countries implementing SAP, illustrates the importance of external (donor) agencies in the choice of particular policies. It also illustrates the importance of ideology or mainstream economic thinking. While the intellectual force of ISI strategy essentially drove the old policy regime, the new regime foisted by the SAP agenda favoured a “no industrial policy” and a liberal trade regime. Nigerians and their government resisted and still resist many of the policy prescriptions. But because Nigeria sorely needs to negotiate debt rescheduling with the Paris Club of Creditors (which requires certification from the IMF as an eligibility criterion), the country has had little room to manoeuvre. As the Finance Minister who introduced the SAPs often said during the famous debate on whether or not Nigeria should take the IMF loan, “the question is not whether or not Nigeria wanted to reach agreement with the Fund, but whether it could afford not to do so.” So, with the loss of policy autonomy and the policymakers’ hands tied, they had little option but to swallow the bitter pill of reforms.

Consequently, the government of General Babangida rammed through the set of reform measures, in many cases having to quell street riots against the programmes. Some of the policies impacting on industry included the dismantling of the import licensing regime and commodity boards, the liberalization of the foreign exchange market, significant reduction in the tariffs and especially the non-tariff barriers, reduction of subsidies, privatization and liberalization of most aspects of economic activity. Indeed, the elements of SAP in Nigeria (even though it was supposed to be “home grown”) turned out to be the standard adjustment programme. Resistance to several aspects of the programme has endured even as the constituency for these kinds of reforms has remained skeletal and feeble. It is therefore not surprising that the Nigerian government and the donor agencies have largely played a cat-and-mouse game, with the government signing on to the reforms while failing to implement the agreed policies. In some cases, one could discern the actual policies by examining the implementation record. For example, while the tariff regime is (on paper) more liberal than before, the frequency of the reversals (sometimes revised a few times in one year) render the published tariffs inoperative. Even with the liberalized foreign exchange market, the market still operates a dual regime thus providing significant rents for those with access to the foreign exchange at the official rate.

In summary, the Nigerian experience with SAP policies in the area of trade and industrial policies illustrates the interplay of several factors in the determination of policy design and implementation. In one sense, there is the loss of policy autonomy since the IMF and donors could almost retain a veto power on policy choices. In practice, Nigerian policymakers have had tremendous room to manoeuvre. Their implementation record has often woefully failed to keep up with the policies they signed on to. Second, it illustrates the power of ideology — which is essentially driving the neo-liberal content of the policies.
under SAP. Third, it also shows that entrenched domestic interests hardly die. Nigerian bureaucrats have always had their way around the policies to still create enough room for rents or to sufficiently weaken the implementation.

If the dismal performance of the manufacturing sector under the ISI strategy necessitated a fundamental change of policy, the outcomes under the new policy regime have not been better. Since the 1990s, manufacturing value added as a share of GDP has stagnated, and as at 2000 was 4.9 percent of GDP (less than the 5.3 percent at independence in 1960). Capacity utilization has remained at around 35 percent, and manufacturing employment has declined, despite the fact that raw materials and capital goods imports gulp about 60 percent of Nigeria’s foreign exchange earnings.

Perhaps, it was the frustration with the failures of the old industrial policy as a patchwork of ad-hoc measures that informed the need to systematically articulate a comprehensive industrial policy. In 1989, the Babangida government launched the first formal Industrial Policy of Nigeria, and in 1990, the first trade policy was also launched. These policy documents have also been revised — industrial policy in 1998, and 2001, and trade policy in 2000 and 2001. How are these different, and are they likely to succeed in laying the foundations for Nigeria’s industrial take-off?

The “New” Trade and Industrial Policies: Agenda, Politics and Prospects

As a coherent framework for evaluating the policy environment and potential for effective outcomes, we extend the Lall (1990) framework for effective industrialization to include the meta-level elements of systemic competitiveness. Lall posits that provided macro-economic conditions and physical infrastructure are appropriate, the progress of industrial development is a function of three sets of factors: incentives, capabilities and institutions. The complex nature of the interplay of these factors is such that all three must operate simultaneously for the kind of dynamic industrial success registered by the East Asian NICs to be realised.

However, over and above these factors which might impinge on the micro-level efficiency and competitiveness of firms is the overarching policy environment — the general problem-solving and conflict resolution architecture, and the extent to which they are conducive or hostile to industrial competitiveness. For an appropriate characterisation of the systemic competitiveness, such architecture encompasses the meta-level set of issues (see Chapter 1). The meta-level architecture refers to the nature of the control and governance capacity of government and collective problem-solving arrangements. Competitive industrialisation cannot happen without social transformation and social integration. This is more so in the context of weak markets, weak firms and weak states that characterize many developing countries. In some countries this has further deteriorated due to the structural adjustment programmes, and failure to establish regulatory and governance capacities (government reform, formation of complex linkages between strategic actors) and the requisite social structures. The governance structure should produce a basic consensus on the necessity of industrial development and integration into the global system. If fundamental differences on these issues exist, macro- and meso-policies designed to support industry will be erratic, and firms will develop a defensive posture to be able to react quickly to changes in the rules of the game. Thus, some of the major elements of this level include the development-oriented pattern of politico-economic organization, ability to formulate strategies and policies, learning and change-friendly value attitudes, and social cohesion. Questions of whether a
broad national vision for industrialisation exists, how such was orchestrated, whether a broad consensus exists on the strategy, and mechanisms for resolving potential conflicts are critical to successful industrialisation.

Content Analysis of the Trade and Industrial Policies?

In spite of the meta-level issues, the new civilian government has proceeded to re-draft new trade and industrial policies (2000 and 2001), perhaps as a framework to address the meta, meso and micro level issues. What do the new policies seek to change? This should be the starting point of a meaningful evaluation. A short answer is that the policies seek to address a plethora of the daunting legacies of the past as other problems, including:

- Statism and global isolation (nurtured under the import substitution industrialization (ISI) strategy which has conditioned an isolationist mental model — leading to a dominant belief that Nigeria is different). Statism has conditioned the state as the “doer” rather than the “facilitator” of industrialization. The isolationist mental model wrongly assumes that Nigeria can develop solely by looking inwards (“self-reliance”), and there is the self-delusion that “Nigeria is so different” that it can invent its own economic laws and principles.

- A damaged government reputation, and a tarnished image of Nigeria as corrupt. Frequent policy reversals have so tarnished the reputation of government that announced policies are not believed by economic agents to be credible. There is a very poor implementation record of announced policies.

- A myriad of self-inflicted constraints — prohibitive transaction costs and poor infrastructure, an uncertain and unprofitable investment climate, inexperience and non-confidence of Nigerian firms in exporting, weakened institutions for rule of law and contract enforcement.

- A perverse incentive structure that has not worked. Industrial surveys show that most firms are either unaware of the so-called “generous incentives” in the books or that they believe that such incentives are so poorly administered that they don’t make any impact.

- An industrial structure characterized by a regressing technology, where growth has been driven mostly by factor accumulation rather than factor productivity.

- An uncoordinated structure of protection among ECOWAS countries

- Dumping of substandard goods, and an escalation of tariff peaks in industrial countries.

- Significantly changed international rules of the game as dictated by WTO, the evolving global financial architecture, and pressure for regional harmonization of trade, investment, and industrial policies.

These are the stylised facts and environment that the new trade and industrial policies should seek to change — transition from a pre-industrial, largely primitive economic structure to a modern, competitive one. Certainly, navigating the daunting challenges and building a modern competitive economy requires approaches that are not “business as usual.” But are the new policies and environment up to the task?

A content analysis of both policy documents clearly shows that the trade policy (although not without its own problems) has significantly come a long way in providing a framework for reversing these legacies. Its objectives speak to these issues, even though
the instruments are not always consistent with the stated objectives. But a faithful implementation of the trade policy can take the country a long way. The draft industrial policy (1998 and 2001) is an unfinished product, and demonstrates the problems of clarity and realism with agenda and target setting, internal consistency of objectives and instruments, tensions between the rhetoric of the need to chart a new path and the recourse to the failed ISI strategy, institutional turf-fighting and poor coordination, lingering weak capacity, etc. The major differences in the quality of the two documents could be a reflection of the quality of the process that led to each of them. While the trade policy was process driven — drafted by a large inter-ministerial committee with members drawn from the academia, the private sector and with international consultants and benefitting from wide consultations and workshops — the industrial policy was essentially the product of the bureaucrats in the Ministry of Industry. We concentrate on a few aspects of the industrial policy to illustrate what can go wrong when policy designs are not process-driven.

On the objectives or goals of policy, a more serious attempt is made to ensure that the trade policy objectives and targets derive from, and are consistent with, the government’s overall economic policy, that is, Obasanjo’s Economic Policy Direction (1999–2003) as well as consistent with trends in similar economies in Africa that have implemented the kinds of reforms anticipated by the policy. It is less so with the industrial policy, and one gets the impression that the industrial policy is a rehearse of the Vision 2010 document in goals and targets, but without an attempt to justify such targets and goals in light of the current realities. There is an obsession with the magical year 2010 but without any sense as to the benchmarks or milestones.

A key point to note is that some of the objectives and targets lack realism and are internally inconsistent. Two examples will illustrate the point. For example, “it is envisioned that by 2010, Nigeria would have been transformed into a major industrialized nation and an economic power.” But then the policy proceeds to set a target for the “Manufacturing sector to account for at least six per cent of total non-oil exports by the year 2010.” It is unrealistic to expect that in nine years’ time, and given the facts on the ground as well as the “business as usual” type of instruments outlined to realize it, Nigeria can become “a major industrialized nation.” What annual rate of growth of the industrial sector (50 or 100 per cent in real terms?) can ensure such a transformation in nine years’ time from a base of five percent of GDP? There is nothing wrong with envisioning el dorado, but Nigeria’s experience with national development plans would caution against setting targets that are unrealistic. Furthermore, all the measures outlined in the policy to perform the magic have been around since the 1990s or earlier, and the magic has not already started happening. Besides “unrealism,” there are issues of inconsistency. Assuming that Nigeria can become “a major industrialized nation in nine years’ time, how is it that it will merely be able to export about six percent of non-oil exports by that time? Note that as at 1999, manufacture exports (by one-digit SITC category) was about 20 percent of non-oil exports, and the policy targets six percent for 2010. There are several other policy inconsistencies. For example, among the short-term objectives is “to adapt and respond to the changing global environment.” The policy recognizes that membership of WTO requires compliance with ISO 9000 and 14000 series, but it targets only 25 percent compliance rate by 2005, and only 40 percent by 2010. No explanation is provided for this. Several of the targets and instruments are also vague and imprecise.
Poor Mechanisms for Coordination

In today's globalizing world, industrial, investment, and trade (IIT) policies are closely linked and hence are increasingly harmonized and coordinated. The intuition for this is simple. More than half of the world merchandise trade is intra-industry and among TNCs. Industrialization is about production and production is about investment. And you can't trade if there is no production, nor industrialize if there is no trade. Under WTO, and especially given the set of emerging "new issues" for negotiation in the next round, trade, investment and industrial policies will be greatly synchronized. Ideally, therefore, there should be one policy document—Industrial, Investment, and Trade Policy of Nigeria. This policy document ought to cover the bulk of what could constitute the Real Sector Policy or what many countries might call Trade and Competitiveness Policy (TCP). The reality in Nigeria is a world of three institutions and three policy documents—namely Nigerian Investment Promotion Council's Investment Promotion document, the Ministry of Industry's Industrial Policy of Nigeria, and the Ministry of Commerce's Trade Policy of Nigeria. What is troubling is that each document is a complete stand-alone, and one hardly gets the impression that drafters of any one of them have read any of the others. The trade policy acknowledges other sectoral policies germane to its operation. But if there is any synergy or coordination among government economic or sectoral policies, the industrial policy does not reflect it. An interesting feature of the various policy documents is that each ministry or agency tries to use the policy document as a vehicle to assign to itself the "exclusive" powers over issues pertaining to its policy issues. This is a signal that inter-ministerial fighting for turfs rather than coordination and cooperation characterizes the policy environment.

Priorities and Sequencing

The Trade Policy lists what it calls Priority Areas of Export Promotion. Some people would dispute the basis for the list. But there is a sense of prioritization and focus of policy. While one must caution against a policy that aggressively tries to "pick winners," there is still a need to have a sense of direction. This can be informed by sound information and analysis of the structure of industries, the resource base, and trends in the global markets. The Government Economic Policy clearly places emphasis on "agro-allied industries." It also has definite statements regarding steel mills, petrochemical industries, machine tools industries, etc and the synergies between these and the envisioned future "industrial complex." But the Industrial policy has no clear indication of its vision of the country's future industrial complex.

Instruments: Incentives and Institutions

This is one area where both policy documents need serious re-thinking. The sections under "Incentives" in the two documents merely describe what has existed in the past without any indication of continuing usefulness. Are they necessarily the "best" means of promoting industrialization and trade? Nigeria's trade and industrialization process has entailed the continuing creation of new institutions and a gamut of incentives since the 1960s. Currently, there are dozens of such institutions and incentives. One would have expected that the design of the incentives and institutions under the "new" policy regime would require full empirical knowledge of which instruments and institutions have or have not worked in the past, the extent of their contributions, and hence a clear statement of their continuing usefulness. Such instruments should be subjected to basic efficiency criteria for evaluating policy instruments. In essence, the choice should show which of
the existing incentives and institutions should be rationalized, phased out, and which new ones should be introduced in light of the changed and changing circumstances.

Furthermore, there is vagueness as to the appropriate instruments to accomplish several of the stated goals. The draft Industrial Policy has a large dose of ISI strategy. At the outset, the Policy correctly diagnoses that one of the features of the failed industrialization attempt was the undue focus on a deceptive notion of a large domestic market. But the new draft is yet to make a significant departure from that orientation. There are scattered references to the “changes in the international environment” or export orientation but without any strategy to aggressively nurture and promote it. A few examples illustrate the point:

**Policy is not Proactive:** Industrial policy makes references to the need to “comply with changing international environment” but without proactively planning for them. Policy does not anticipate upcoming changes in trade and investment relationships (be it within WTO’s new issues, or the evolving opportunities and challenges under the US-Africa Growth and Opportunity Act (AGOA), the new EU’s Everything But Arms (EBA), the EU-ACP-Cotonou Agreement, the proposed negotiations for Regional Economic Partnership Agreement (REPA), or even the proposed ECOWAS FTA. All these have tremendous implications for patterns of industrialization and their competitiveness. Although the draft trade policy has advanced in this aspect, it could do better.

On most of the issues that pertain to international competition, the draft industrial policy simply alludes to the need with no explicit strategy on how to address it. For example, it simply mentions the need to encourage Nigerian multinationals, the need to encourage “clusters” — but without stating how. There is no clear articulation of priorities of government policy in light of emerging patterns of global competition, division of labour, and national endowments. There is no indication of the niche markets for Nigeria’s manufactures. Again, it would be important to know the structure of industry envisioned by the policy, given the developments in the global environment. In the section on competition policy, the policy ignores the “external dimension.” It is essentially targeted at the domestic market, and no mention is made of “anti-dumping,” for example. Under the new regime of liberalization, the old industrial structure ostensibly rooted in the ISI model has come under competitive pressure and almost half of it is dead or comatose. The policy does not discuss any explicit strategy for restructuring and technology upgrading, the nature of the “transition costs,” or the structure of industry envisaged thereafter.

Rather, in most of the document, the industrial policy lays emphasis on “local content,” “reliance on domestic resources” as “a central objective of industrial policy” in order to ensure “value-addition.” There is nothing wrong with encouraging the use of local resources for industrialization. The problem is that there is no instrument or strategy to accomplish this except the reference to the existing Raw Materials Research Institute. The government is currently moving towards granting producers duty-free access to imported inputs. The policy draft has not reconciled the emphasis on local resources with the direction of policy.

**Capabilities:** The emphases here are on the provision of the “skills needed to identify and evaluate projects; to specify correct scales, product and input mixes; to select, buy and transfer the right technology; to carry out, monitor or participate in project basic or detailed engineering; to select, buy, check and install equipment to carry out the necessary civil works; and to commission plants and execute start-up and training
functions” (Lall, 1990). The leading problem is that Nigeria’s new industrial policy fails to address the relationship between the educational system and the provision of the human capital base needed for industrialisation. The Industrial Training Fund, established as far back as 1971, continues under NIP to be responsible for “promoting and encouraging acquisition of skills in industry and commerce” in spite of its lack-lustre performance since inception. As pointed out by Lall (1990), training by firms and such agencies as ITF cannot be productive “unless the educational system first provides the base of literacy or formal training needed for industrial capabilities.” It is also the educational system that should produce the scientists, engineers and technicians needed for the industrialisation effort.

Another crucial aspect of the building of capabilities is the technological effort, as typically reflected in R and D statistics. A larger supply of trained (technical) manpower is a most effective facilitator of the assimilation and diffusion of technology.

Also, capacity problems can manifest at the level of the government’s technical ability to design and implement policies. More often, this presumed weak capacity of the African bureaucracy is tendered as a conclusive case against government activist intervention in policy design. Even though such capacity is not necessarily synonymous with mere academic qualifications of the policy-makers and their advisers, such qualifications can provide useful insights. The capacity levels in the ministries of commerce and industry are mixed. The two ministries have staff strengths of 2,429 and 2088, respectively. In the Ministry of Commerce and Tourism, only 15 staff have university degrees, with only five holding advanced degrees. This compares to 341 with degrees and 15 with advanced degrees in the Ministry of Industry. Ten of the 15 university degree holders in the Ministry of Commerce are economists, while industry has only one economist. There is hardly any economist with specialist training in trade and industrial matters in the ministries. As percentages of the total employment, these numbers are indeed very small. However, inferences about the capacity of the ministries are hard to make. Technical ability in policy analysis and formulation may not necessarily be a number game. It depends essentially on the competence of the staff. A three-man team of highly trained and competent analysts and advisers might be more effective than a ministry filled with a thousand relatively incompetent economists. However, the policy-makers themselves identify the lack of capacity to design policies as one of the major impediments they face. The firms and interest groups suggest that an independent think-tank devoted to critical analysis of trade and industrial policies should be established as part of the answer to the capacity problem. The paradox therefore is why the Ministry of Industry, with its limited capacity, insists on in-house design of the industrial policy, without much outside input.

A more serious problem with the capabilities in the bureaucracy pertains to the lack of professionalism in the civil service, as well as the frequency of staff transfers. In three years’ time, the Ministry of Industry has had three ministers and three permanent secretaries, and several of the top civil servants in the ministry have been transferred. In the Ministry of Commerce, there is no commercial officer cadre. The fact that just about anybody can be posted to any ministry at any time means that resources spent on training staff to acquire specific skills can often go to waste. This is because there is little point in sending a staff off to WTO, UNCTAD or university abroad to learn the technicalities of trade policy and trade negotiations only to be posted to the Ministry of Women affairs upon return.
To sum up, both the process of crafting a national vision and consensus for trade and industrial policies as well as the articulation of explicit policies to pursue industrialisation remain work-in-progress. There are both institutional and technical weaknesses, and the draft industrial policy is structurally so weak that it neither signals the dawn of a new era nor provides definitive guide into the future.

**Conclusion**

Daunting as these challenges might seem, there is still a glimmer of optimism. The optimism derives from the opportunities offered by the new democratic experiment in the country. At a fundamental level, it opens the political space for dialogue and debate. Public policy dialogue is a nascent but growing feature of the new democracy. If this endures, it promises (with time) to provide the avenues for superior ideas to be canvassed, and ultimately for the enthronement of evidence-based decision-making.

**Notes**

1. Data from the Bureau of Public Enterprises show that about $100 billion of public resources was invested in public enterprises, and almost all of these enterprises are comatose or unproductive, with total market value of less than $5 billion.

2. See Soludo, 2000 for detailed analysis of the political economy of policy choice in Nigeria.

3. The ethnic identity of the dominant group in power could largely give a rough idea of the direction of policy implementation. What is implemented is the *de facto* policy rather than what is written in the policy document which is often ignored or reversed several times. The Hausa-Fulani group largely controlled upper echelons of the political office, while the Yoruba dominated the bureaucracy (especially since the Igbo left the Federal civil service during the civil war). The Yorubas also dominated the industrial sector. So, the interests of the Hausa-Fulani North and the Yoruba South-West coincide in the area of big government with large patronage dispensed through the corrupt bureaucracy. Also, since the recipients of the patronage-ridden incentives are mostly the industrialists of the South-Western origin (by virtue of their domination of the sector since the indigenization policy) it has served the interests of both groups to keep the pie within government. It is little surprise that the greatest defenders of subsidies’ import licensing or bureaucratically determined foreign exchange allocation, tariff walls, etc, come from the two groups. On the contrary, the Igbo who have been edged out of the bureaucracy and the military since the civil war but who dominate the commercial sector largely support a free trade regime, and less government intervention. Any time the government implements any restrictive trade practices such as import bans, or hiking of tariffs, or 100 percent import inspection, the Igbo raise the ethnic card and protest what they see as a calculated attempt to ruin “Igbo business.” Similarly the privatization scheme which will significantly diminish the power of the Presidency (such as power to appoint 5,000 board members of public enterprises) is largely opposed by the North and some in the South West who see the measure as designed to diminish their privileged access to national rents.

4. For example, the privatization scheme was vehemently opposed by the North because it feared that the shares of the privatized companies would be bought by the more advanced private sector in the South. A political solution had to be fashioned to: first allocate the shares by State, and second, to allow state government to buy the shares in privatized companies on behalf of their people. The situation therefore is a brand of “privatization” where the Federal government sells its enterprises to state governments. The state governments are expected to hold the shares in trust for “their people” until the private
sector is mature to buy the shares. Some people believe that privatization could not have been allowed to proceed without this kind of solution that cares more about which ethnic groups is in rather than national "efficiency."

5 A survey by the Federal Ministry of Finance of over 60 donor-funded projects in Nigeria reveals that barely 1 percent of such projects could be said to be economically viable, while the rest are either comatose or dead, despite the fact that many of the projects had passed the feasibility and viability tests before their commencement.

6 Some observers, especially of Igbo origin, argue however, that the timing of the indigenisation policy (two years after the civil war and after a deliberate policy to pauperize the Igbo) was a deliberate policy to completely marginalize the community from the commanding heights of the economy. Observers argue that the Yoruba benefited more than any other group because they exploited their dominance of the civil service (after the Igbo vacated most positions during the civil war) to ensure that the implementation process favoured them. This fear of domination by one or more ethnic groups is blamed as one of he reasons why Nigeria has footdragged on the privatization programme.

7 See Soludo 2001 for detailed comparative evaluation of the two policy documents.

8 An analysis taking cognisance of the three dimensions is critical. For example, Nigeria is the world's largest producer of cassava, and intuitively many people in Nigeria believe that cassava should be one of the topmost export items. However, a recent survey of international market conditions by Chemonics International Inc. reveals that the market is very gloomy and prospects for significant exports from Nigeria very dim — at least in the near future.

9 It must be stressed that these statistics were valid only at the time of the survey. Given the frequency of staff postings, it is conceivable that these statistics could change within months or weeks.

References


NCEMA, 1995. Sectoral Policy Management in Nigeria, Ibadan: NCEMA.


