Mixed Trade Strategies Answer to Industrialisation

Molla Mansur Ahmed

Any single or one-sided strategy in trade regime would not help growth in the industrial sector in a growing economy, maintains the author, who suggests an admixture of some liberal and some protected policies for the developing countries.

IN recent times with rapid technological advancement and communication facilities industrialisation is considered to be the essential state for rapid economic growth for every nation but the question is how industrial sector can be structured to support sustained growth. With diversity of tradition, historical perspective, availability of resources and skilled manpower there is no common direction or model for all the nations of the globe to follow to structure their industrial sector. However, it is common that industrialisation involves the interaction of technology, specialisation and trade leading to high investment and employment.

A country with a large domestic market is in a better position to establish industrial plants that take advantage of economies of scale. since distance between countries in many cases confers natural protection to domestic firms, everything else being equal, a country with a larger domestic market, in terms of area and population, can begin industrialisation earlier than one with a smaller domestic market.

Trade policies can be characterized as outward-oriented or inward-oriented. The foreign trade policies are framed on the basis of social and economic structure of a country.

Import policy of a country provides for inflow of goods and services into the country for finished consumer goods, machineries, equipment and technology for industries and development projects and raw materials and semi-finished goods for industrial use.

In most of the developing countries while they are at the transitional stage of industrialisation, governments need to finance both public and private sector entrepreneurs, mainly providing scarce foreign exchange for import of industrial goods. So governments can frame trade policies to allow inflow of foreign exchange through alternate channel allowing importers the access to a secondary exchange market for imports.

For rapid industrialisation of backward areas governments also can provide incentives top entrepreneurs in the form of tax exemptions to establish industries in those areas where labour and raw materials are easily available and there local demands for the products. Import policy should also allow industrial importers of the same category to form groups to import raw materials utilizing the official foreign exchange given in small amounts by the government to them. This would help avoiding monopoly trading by big importers of such industrial raw materials.

For the sake of technological advantage most of the industries are established and development projects executed by foreign contracting and /or consulting firms.

These firms which work mostly on trun-key-basis may be allowed to import freely non-consumable items which are otherwise banned or restricted for import on returnable basis and easy and timely clearance and re-export of those items should be ensured.

On the other hand, for rapid industrialisation, governments have to play roles in the export regime also. Industrial products, on fulfilment of local demand, may stockpile surplus which need exportation but individual industrial unit may not be properly manned to handle such export. Government should create institutions to give exporters supporting services in the areas of market information, competitiveness abroad and advisory services for quality control. Industrial exporters may be allowed to utilize certain percentage of their own foreign exchange earnings for imports of machineries and equipment for BMRE and raw materials for their industries. They may also be provided with preferential treatments for shipping of goods and banking facilities.

So it is seen that governments complement on the path to industrialisation. But the question is what type of policy — inward-oriented or outward-oriented; liberal or protected should be more emphasized for industrial growth, governments must sometimes intervene to achieve an officiant outcome. The governments have to set the rules of the game. The more they are certain, well defined and well understood, the more smoothly the economy can function. When these rules are unclear, interpreted in unpredictable ways and managed by a cumbersome bureaucracy, they raise the costs and discourage industrialization.

Six studies undertaken in the 1960 and 1970s (Little & others 1970, Balassa 1971, Douges 1976, Bhagwafti 1978 and Krueger 1978) provided evidence that countries that adopted or moved toward outward oriented strategy did much better in growth than those with inward-oriented strategy. These studies also showed that countries those reduced or removed the bias against exports had accelerated their growth rates, those with import substituting strategy did not. One of the studies, however, explicitly sought to quantity the possible effects of alternative trade regimes on savings rates, technical progress and entrepreneurship — the dynamic factors that affect a country's growth rate. The advocates of free trade regimes emphasize that it would create an economic framework that provides the necessary incentives for entrepreneurship, productivity and thrift.

Policy makers in developing countries are generally hesitant to undertake trade policy reforms because there are many unresolved issues in the area of trade reform. Moreover, many trade reforms have had to be reversed leading to the perception that they entail high costs and produce limited benefits.

On the other hand, mostly trade liberalisation comes in the wake of economic crises and such crises may create the political will for change — an important ingredient for undertaking trade reforms — but reforms undertaken in a crisis atmosphere may not be sustainable.

Which policy has fostered greater success? An analysis of 41 countries by World Bank explored the relationship over 1963-85 of trade strategies to economic performance. The results of the study indicate that outward orientation economics have performed better than inward oriented ones. Some economies which did not fall clearly in either the outward or inward-oriented category showed mixed results. There was no strictly discernible relationship between trade orientation and economic and industrial performance. This is because factors other than trade strategy influence economic performance.

Different forms of intervention of the government will have different effects on the economy. The important question often is not whether to intervene, but how. Quantitative restrictions on import, for example, may be used to protect domestic infant industries. But these will raise social costs more than a tariff, because they encourage unproductive activities and may lead producers to avoid the controls, Tariffs, on the other hand, raise prices to consumers. Subsidies to the infant industry could give the same assistance without raising prices — but they raise public spending and add to budgetary deficits.

All the above discussion reveals that governments in developing countries have greater roles through trade policy reforms for industrialisation but what strategy the governments should adopt is controversial. Any single or one-sided strategy in trade regime would not help growth in the industrial sector in a growing economy. So the governments in developing countries should adopt mixed strategy which would be a mix of some liberal and protected policies and inward and outward-oriented. With changing patterns of growth and advancement governments should intervene to adjust the policies and strategies over the time.

Americans Get in Fast with Contracts to Rebuild Kuwait

The rebuilding of Kuwait is expected to take up to ten years and cost $100 billion. US firms took four out of seven of the first contracts for emergency repairs. The three remaining went to a British, a Kuwaiti and a Saudi company. As the battle for contracts continues, questions arise as to who will do the work. Companies may be prohibited from employing workers from countries such as Jordan and Yemen, which supported Iraq. And, reports Gemini News Service, there will be a particular problem with the large number of Palestinians, who in the past have played a major role in management in Kuwait. —by Edward Bishop

THE EMIR OF KUWAIT
Democracy promised

AS soon as the Gulf ceasefire was confirmed an almost unseemly scramble began for lucrative contracts to restore and rebuild the Iraqi-ravaged city and state of Kuwait. So far American firms have taken up the most contracts.

That the city will resume its picture postcard glory of splendid and luxurious hotels, superbly furnished office blocks, vast expressways and expensively-stocked shopping arcades, is indisputable.

As for the time scale, estimates vary from five to 10 years to complete a programme for repairing and building hotels and business accommodation and completing the mammoth task of bringing the oilfields back into production.

A priority will be Kuwait International Airport. Military transports are already delivering equipment to restore water and electricity. With the hangars and administrative buildings wrecked, a stranded British Airways Jumbo jet a burnt-out carcass it can provide only a utility service for the time being.

In many ways Kuwait is far more fortunate than West Berlin and the other rubble cities of Germany after World War Two. US and British Army engineers are already on the spot patching damaged facilities and planning new infrastructure.

To speed the most urgent work the US Army Corps of Engineers has, somewhat controversially, got a stranglehold on the issue of early contracts in what has been estimated as a $100 billion operation to rebuild Kuwait.

American companies took four of the first emergency repair contracts issued. British firm Morrison Construction Group got another for work on damaged water and sewage systems. Other contracts went to Kuwaiti and Saudi interests.

The hunt for lucrative contracts is a prime reason for the haste with which Kuwait's coalition friends are sending in their ambassadors and announcing business as usual.

Britain, anxious to get among the goodies, slid commandos down ropes from hovering helicopters to frisk the embassy for booby traps so that the ambassador could walk in the front door and begin to offer British companies the support they have come to expect from increasingly commercial-oriented diplomats.

As an official of the giant British construction company George Wimpey (which has much Saudi experience), commented, those who show they can organise the logistics — transport, specialist teams standing by and diplomatic backup — will get the work.

Signs are, however, that the urgency to make Kuwait habitable and commercially viable is ruffling the emirate's great merchant families and the affiliated agents accustomed to handling tenders and contracts.

With ministers returning from exile in Saudi Arabia what can be conveniently called "usual channels" can be expected to re-open.

Scrupulous attention is paid by government to bids, sometimes as many as six for one major project, but such are the commercial traditions of the Middle East that it can help a company to enter a bid through an agent with family or friendly connections in high places.

Although the US Corps of Engineers has been contracted to co-ordinate emergency work for 90 days, it appears that the "usual channels" are already getting their act together, with Kuwaiti ministries beginning to award some very large contracts.

But even when the contracts are granted, the question is: who is going to carry them out? For that reason the army engineers are already heavily involved. Another problem is the emergence of a policy of Kuwait-for-the-Kuwaitis. Companies may be prohibited from employing workers from countries such as Jordan and Yemen which supported Iraq.

It would not be without precedent for prisoners-of-war to be employed for some of the hard labour.

As the passions of liberation cool will Yasser Arafat's embrace of Saddam Hussein be forgiven for the sake of expediency? Or will some 240,000 able people be scorned? The same question can be asked of the Jordanians who played such a part in the middle reaches of commercial life.

Then there are still the large number of overalled Asian and Filipino sweepers who used to prevent the desert sand from reclaiming the expressways, and Filipino girls working in offices or as servants in Kuwaiti homes.

Meanwhile, the Kuwaitis have what must be hoped will be the stability — already possibly at risk because of the multiplicity of weapons left behind by the Iraqis — of three months martial law to sort themselves out.

Then the National Assembly could be well on the way to restoration and, according to promises of the ruling al-Sabah family, the slightly more democratic 1962 constitution put back in place. — GEMINI NEWS.

Edward Bishop was managing editor of The Kuwait Times. A former Fleet Street foreign correspondent, he is also a writer on aviation and defence affairs and has written books on the Gurkhas, aircraft and the second World War.

Asians get back the property Amin took

Nearly 20 years after their expulsion from Uganda by Idi Amin, Asian investors and property owners are returning to the country. They are major owners of housing and commercial property and are taking a key role in Uganda's foreign exchange business. The return of Asians as major players in the Ugandan economy, reports Gemini News Service, has been heralded by some and condemned by others who are refusing to give up Asian property ceded them by Amin. by Sensasi Benjamin

NINETEEN years after they were expelled from Uganda by former President Idi Amin, Asians are slowly but steadily beginning to return to Uganda. Immigration officials put the figure at over 10,000 since 1996 when Yoweri Museveni's National Resistance Army (NRA) captured power.

President Musevei's government has shown considerable interest in the return of Asians and repossession of their property. Last summer a protocol was signed with Ishmaili leader Aga khan to return his buildings and other property.

Another Asian tycoon, Hamitlal Gandesha, has repossessed his property, which includes blocks of flats in Kampala. Nakasero, one of the four major soap factories in the country, was given back to its former Asian owners last year.

Leading hotels have been given back to their rightful owners. Imperial Hotel, which cost the Uganda government millions of shillings in renovations, was returned to the Aziz Kassim Lakha family of India last year.

An official of the Asian property Custodian Board, which was set up to look after properties after the Asians were expelled, says the Fair Way Hotel, which used to belong to Bandali Jaffer and The Speake hotel, owned by Norman Gordino, are also set for repossession.

About 300 properties out of an estimated 7,000 left behind by Asians are to be given back in the bear future. Unclaimed properties will be sold off. The local press has run lists of properties to be sold. Most potential buyers are reported to be Asians.

The government legalised the parallel foreign exchange market, locally known as the Kibanda Market, last July.

More than 30 foreign exchange offices have sprung up in Kampala, most of them operated by returned Asians. Pre-1972 Asians were investing in long-term ventures. Today they seem more interested in the quick returns of the money market.

The foreign bureaux are among the highest revenue earners in the country and much foreign exchange business has shifted to them from Bank of Uganda's foreign exchange control department.

Between July and December last year, $100 million is reported to have gone through the bureaux, 90 per cent of it was handled by three of them owned by Asians investors.

This business has helped the government which still finds itself facing serious shortages of foreign exchange because of the fall in the international price of its biggest earner, coffee. Annual returns from coffee have fallen from $400 million to $150 million.

The ready supply of foreign exchange in the Asian-run bureaux has given Uganda the cheapest videos, silks, textiles, radios and whiskeys in East and Central Africa.

The Gulf war also led a number of Asians to turn to Uganda to do business in East and Central Africa. The central position of Uganda in this region, ensuring easy distribution, the availability of foreign exchange and the openness of the country's borders have all encouraged traders.

Economic aspects apart, some Asians who had escaped to neighbouring countries have been driven back to Uganda because of harassment in those countries. Animosity against Asians has grown in Kenya and many Asians have moved to Uganda.

Not all Ugadans are happy about the return of the Asians. Most disgruntled are those who had taken over the businesses and buildings belonging to Asians and are now threatened by repossession.

When Gandesha got back his blocks of flats, the occupants refused to obey orders to quit. Kampala district authorities stopped the evictions on the grounds that they could instill hatred against the Asian community in general.

The Uganda Muslim Supreme Council also refused to relinquish its right to Asian property given it by Idi Amin.

—Gemini News

As Land Acts Go South Africa Farming Problems Grow

When a new constitution and a new government are in place in South Africa one of the most daunting problems facing the country will be working out a new land and agriculture policy. The Land Acts, which have put more than 85 per cent of the land in the hands of whites for 80 years, are now being abolished. But this is only the beginning and, as Gemini News Service reports, the farmers are already more at odds with the government than ever before. by John Perlman

IT is one thing to announce to the world that you are at last scrapping a law that has discriminated against black people for nearly 80 years. It is another to come up with a policy that will ensure that those crippled by the law will be able to get up and walk again.

South African State President FW de Klerk acknowledged as much when he announced scrapping the Land Acts, a body of laws which have effectively restricted black people to 13 per cent of South Africa's land. He said : "Much more is necessary than the mere repeal of discriminatory legislation."

A land and agriculture policy for a new South Africa has to be woven from the tangled mess of the old. And de Klerk's announcement came at a time then white maize farmers—the pillars of the old order—are more at odds with the government than ever before.

A week before De Klerk's speech on February 1 farmers driving tractors took over the streets of Pretoria, the capital city, and paralysed traffic for hours. They were drawing attention to the problems they say are dragging them under.

Maize farmers have been hit by a murderous drought in most of the country. The years 1983 to 1988 were dry too, "but the drought has just exacerbated the underlying problems in maize farming", says Giel Van Zyl of the National Maize Producers Organisation.

These, he says, are inflation and high interest rates, exacerbated now by a government decision to cut direct subsidies to farmers by half.

The agriculture debt now stands at about R16.5-billion. 60 per cent of short-term credit. And whereas producer prices for farmers rose by 5.4 per cent in the last financial year, inflation ran at 16 per cent, interest rates at 25 per cent and production costs at roughly the same.

Says Van Zyl: "The combination of these two means a farmer's debt burden can double over one harvest. The drought years have left farmers with huge debts. And while the real price to producers of maize has dropped, costs have risen."

He reels off some statistics. In the north-west Free State, a rich grain region, the last harvest cost an average of R714 to plant. At that year's price of R265 per ton—up just R22 since 1986—farmers were losing R66.50 per hectare.

South African farmers have bought an average of 14,000 tractors annually over past years, but in 1990 just 4,000 were bought. And whereas you could buy a Mercedes on 134 tons of maize in 1972, it now takes closer to 470.

These pressures have been intensifying steadily through the Eighties. They have already cost the National Party (NP) political support to the point where it no longer holds any seats in the maize farming countryside. The severing of those political ties, the farmers say, is a major reason why the government will not help them.

It was not always like this. For decades the grain barons, whose farms spanned vast tracts of the country's heartlands, were one cornerstone of the NP. Once in power, it redrew the constituency map of South Africa in order to maximise this rural support, then repaid the farmers through lean years, and agricultural credit which fixed interest well below bank rates.

It was a system under which many could flourish. In return, they argued, their efforts ensured that agriculture, after gold, became south Africa's second largest earner of foreign exchange and provided some 30 per cent of the population with work.

Not everyone saw it that way. Inefficient farmers were kept afloat by subsidy, goes the counter argument. Land not suited to maize was over-fertilised—causing ecological and economic damage—so farmers could plant it to qualify for subsidies. And even good farmers squandered their profits on over-mechanisation and grandiose lifestyles.

There is some truth in that, and the state will probably decide to let some white farmers go to the wall. The Development Bank—a parastatal—proposed that the banks now foreclose on some 3,000 farmers in debt beyond salvation, thus freeing 10 million acres for redistribution to black farmers. Publicly that was never accepted, but it is an idea that will resolve two political problems at once.

The thorny issue, though, is ensuring that what is good about South Africa's current commercial farming structure is not lost in the process.

Take Johan Hoffmann, a 30-year-old Afrikaner farmer in the north -west Free State. His response to drought was to devise irrigation for tomato production—never done in that part of the country—which made him a six-figure turnover. He rebuilt his ploughing machinery to reduce his trips across the land and cut deep into his diesel bill.

Last year he devised a scheme to import fertiliser at 40 per cent less than local price. He has a degree in agriculture. He is scarcely an example of a farmer coasting along on a subsidised gravy train. And yet, he insists, he too is perched on a knife edge of inflation and interest rate.

He says: "We can't run things any better here. It cost me between R250,000 and R300,000 to plant a crop. If the maize fails, I could have a R600,000 debt, plus interest when next I plant. And most of my profits will just go to paying interest."

If a new agricultural policy buries farmers like that, it will probably cost South Africa dear. After all, the country has already buried one set of productive farmers. Before conquest and the Land Acts drove blacks off their farms—and forced them to seek work in the country's mines—many matched and surpassed the efforts of white farmers. There is a belief that this can be restored.

For both black people and Afrikaners, the land question is a profoundly emotional issue, bound up as it is with each of their histories of conquest, widely differing as they may be. The pressure to restore land to blacks who were driving off it will be enormous, whoever governs South Africa in the future.

Precisely how that is done is going to take some clear-headed thinking. Land without credit, without resources, without access to markets could end up as a cruel political trick. Fortunately, some starts have been made. The Development Bank has for a number of years, consisting of seed, fertiliser, some implements and agricultural support.

The results have been encouraging rather than spectacular. Some—scale aid like this—costing around R500 a farmer—has put farmers on a footing where, for the first time, they are feeding their families plus producing something for the market and a first-ever cash turnover.

Schemes like that will not solve all of agriculture's problems. They do provide one important pointer. South Africa's new agricultural policy will not have to rely on scorching the old earth. Huge potential can be liberated if those areas which have long become barren are simply given a chance to be planted afresh. —GEMINI NEWS

Exchange Rate: $1= 2.53 Rand

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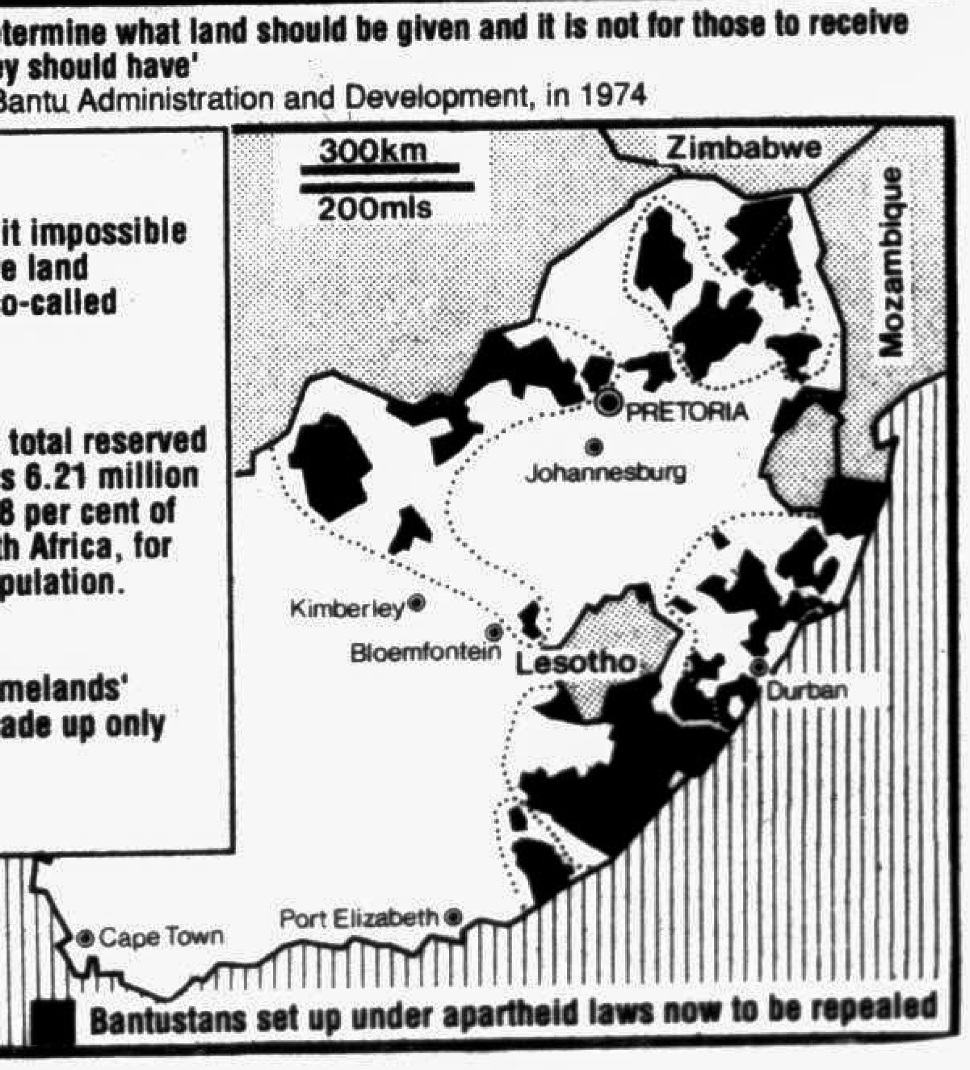
South Africa: land and apartheid

'We as the givers must determine what land should be given and it is not for those to receive to point out what land they should have'
M.C. Botha, Minister of Bantu Administration and Development, in 1974

- **1913 Land Act made it impossible for Africans to acquire land ownership rights in so-called 'white areas'.**
- **Under 1936 Land Act total reserved area for Africans was 6.21 million hectares – about 13.8 per cent of the land area of South Africa, for 70 per cent of the population.**
- **Actual 'bantustan homelands' decades later still made up only 11.9 per cent**



Bantustans set up under apartheid laws now to be repealed