Uganda's future in industry and how we can achieve it

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Uganda is currently grappling with a historic paradox – growth without transformation. Uganda is known for some robust growth domestic product (GDP), particularly in the period 1990–2010, although in recent years, this growth has become sporadic.

Much of the current government policy is targeting recovery. However, we should not forget that even when the economy was growing rapidly, the growth profile remained jobless and barely sustained. Over three-quarters of Ugandans remained stuck in low productivity subsistence agriculture.

The few Ugandans who escaped subsistence and joined commercial farming, industry and formal services prospered. This led to rising inequality to the extent that the richest 20% of Ugandans shared half of the national income, while their poorest contemporaries shared only 6%.

Since Uganda's growth has been happening in low productivity sectors, particularly informal services, it did not create jobs. We heard from authorities how growth was robust as joblessness, particularly among educated young Ugandans, increased to the point where one job had 500 qualified applicants. Did we learn any lessons?

Why not services?

Economists teach us that transformation occurs when production and employment shift from agriculture and other primary sectors such as mining to manufacturing and finally to services – in that order.

Empirical researchers have always told us that "all countries that transformed their economies have done so by industrialising". We seem to have jumped from agriculture to services. Yet, services have never acted as an escalator sector. Why?

First, services such as information technology require high skills – long years of education and institution building are required before farm workers can be transformed into programmers or call centre operators.

Secondly, services are less tradable (less exportable), with some exceptions such as cell phones and tourism. Uganda's growth is driven mainly by non-tradable activities (things we do not export) such as construction and real estate, public sector investment, mobile telephony, transport, banking, education and health services.

A fruit factory in Arua district. Experts say investing in manufacturing will help transform Uganda's economy

Manufacturing sector

If you engage in non-exportable activities, your capacity to create jobs is limited since you are relying on the low domestic demand, itself vulnerable to internal political business cycles and other shocks – macroeconomic shocks, weather, demographic changes.

Although it would be wrong to think that the past will necessarily look like the future, I would not want to think that Uganda, or Africa in general, will be the first to reinvent the wheel. If we want to transform our economy, we are going to do so by investing in manufacturing.

It has stagnated at about 7% of GDP for the past 40 years. Its share in total employment has also stagnated at 5.7%. It has been left to small and medium enterprises that make up over 93% of firms operating in the manufacturing sector.

Research shows that industrial upgrading has never happened through market forces. The market gave all industrialised countries unambiguous signals that they should not promote the industries they dominate today.

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Carrots and sticks

When Toyota's attempt to export its first passenger cars to the US in 1958 flopped, many Japanese economists argued that the country should stop subsidising the 'wrong industry' – car manufacturing – and stick to silk.

Imagine what the world would be today had the Japanese government listened to those economists! Imagine a world without Toyota. The same can be said of Samsung and Hyundai (South Korea) and Nokia (Finland).

Turning to Uganda, the manufacturing sector faces a number of constraints but research shows most of them are symptoms of the following diseases:

First, the generic policy framework, without practical co-ordination and linkages among government ministries, departments and agencies (MDAs) involved in Uganda's industrialisation agenda.

Uganda's MDAs are more obsessed with mandates and budgets (the means) instead of focusing on the end. To solve this, the Government must restructure itself. Currently, co-ordinating authorities such as the Office of Prime Minister and ministries are ineffective and powerless.

They should be empowered to use both carrots and sticks for different behaviours. Our government must learn to sack people who fail to deliver, and reward performers. Agencies that fail to perform should be closed instead of creating parallel ones to circumvent the non-performing ones.

Capitalise UDC

Most importantly, leaders must understand that policy documents alone will not industrialise Uganda. We shall need to act and learn from the mistakes and failures.

For instance, now that the governance at the revived Uganda Development Corporation (UDC) has been strengthened with a new board and a new strategic and investment plan, let the government capitalise its investment arm.

The economic ideological dogma that used to worship markets and private sector-led models as if they were magical wands has been globally disproved.

Any well-meaning person now agrees that the state, despite its shortcomings, popularly referred to as government failures, has a role to play, particularly when it comes to experimenting with industries where the private sector is disinclined.

The past three decades must also have taught us that a number of market failures impeded industrialisation. Information externalities, for example, are everywhere for us to notice. Markets are sending wrong signals to entrepreneurs invest here, not there; yet they should have invested there, and not here.

Minimise 'learning costs'

To solve this, the Government must minimise "learning costs" for the private sector. The learning process for manufacturing is too long and often involves huge financial losses. That is why the private sector has avoided manufacturing (both as an investment and financing area).

Let us use UDC to experiment with industries with uncompetitive cost structures. Once the private sector is assured of a return on investment, it will not wait for invitation or 'facilitation'.

Since in today's globalised world it is no longer practical to use conventional industrial policy instruments – such as tariffs, exchange controls, and import licensing – to nurture infant industries, we should use UDC to incubate these industries with a view of passing the mature industries on to the private sector.

In principle, although private firms, not state-owned enterprises, must be the engine of industrial production and management, the state should directly invest in the experimentation stage of industries – iron and steel, petroleum, agro-manufacturing, and other export-oriented manufacturing.

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