

Domestic Reform and the Global Economy: Structural Adjustment in Uganda

By Amy Bromberg

Structural adjustment has had mixed results in achieving its goals of macroeconomic stability, microeconomic efficiency, and growth in Uganda. Uganda's high growth rates make it an exception and a success story for adjustment in Africa. Structural adjustment has been most successful in improving microeconomic efficiency and growth, while macro-stability goals have not been realized. Macroeconomic stability consists of low inflation, low government deficits, and balance of payments equilibrium. Ways to improve microeconomic efficiency include privatization of public enterprises, as well as the elimination of price controls and subsidies. Growth, the chief goal of structural adjustment, results from export promotion policies. The World Bank admits in its publication *Adjustment in Africa*, that no "African country has achieved a sound macroeconomic policy stance—which in broad terms means inflation under 10 percent, a very low budget deficit, and a competitive exchange rate" (World Bank 122). In this context, Uganda's economic policy improvements and positive growth rates since the late 1980s represent real progress for adjustment in Africa.

In order to see if structural adjustment policies have achieved their goals, I will examine three policies of structural adjustment: privatization of state-owned industries, elimination of price subsidies, and export-led growth. According to the World Bank, the "objective of structural adjustment programs thus is to establish a market-friendly set of incentives that can encourage the accumulation of capital and more efficient allocation of resources" (World Bank 2). Reducing the role of the state in the economy through privatization of state enterprises and the elimination of price subsidies and marketing boards, as well as focusing on export-led growth to increase the foreign currency reserves for debt repayment represent three mechanisms to improve market efficiency.

STRUCTURAL ADJUSTMENT POLICIES

Privatization is one of the policy tools of structural adjustment programs used to achieve microeconomic efficiency. According to the World Bank (1994), private ownership fosters efficiency and frees up public resources for infrastructure and social programs. Governments privatize by auctioning off state-owned enterprises, including telecommunications companies, utilities, and other businesses the government might own. Because many developing country governments committed themselves at least nominally to socialism in the 1970s, governments run many companies in the economy. This situation crowds out private investment. Private investment is key to improving economic development in the World Bank's (1994) view. The World Bank explains that "private investment must pick up to sustain the current recovery" in Africa (World

ig4). Following the neoclassical tradition of the Bank, private investors are sed to make more efficient use of the factors of production than governments, h might special political interests clouding their production decisions.

Another goal of structural adjustment is to eliminate price distortions in the market. Price distortions include import and food subsidies, as well as wage floors. The World Bank disapproves of price subsidies because they distort the workings of the market—they do not let the market reach its pareto-equilibrium; this is the point where supply and demand curves cross and no one can be made better off without making someone else worse off. Meier writes: "The crux of neoclassical reform is to markets as completely as possible to equate supply and demand, thus allowing PS to reflect opportunity costs. Transactions made under these prices would move prices and factors towards maximum output and an optimal rate of growth" (Meier 517).

Before reforms, countries would buy agricultural products at a set price, lower than the international price for the product, in order to make food affordable to the urban population. Because development economists like Lewis promoted a strong urban, industrial sector, governments subsidized food and housing for rural dwellers who ventured to the city to find work. In the 1970s, following the Import Substitution Industrialization policies advocated by the Dependency school, developing country governments subsidized technological imports to help domestic industry "catch up" with more developed countries. With the failure of these previous policies, the World Bank introduced the idea of eliminating price distortions. The Bank explains:

The common package of reforms includes (a) moving farmer prices toward export or import prices, (b) announcing administered prices before planting times, (c) speeding payments to farmers and eventually liberalizing prices altogether, (d) relaxing maize movement controls and other restrictions on trade, and (e) restructuring parastatal maize marketing companies (World Bank 85).

Implementing these policies reduces the role of the government in the economy, and how supply and demand to optimize output and consumption. Because governments held the price of labor higher than the market levels at the same time they subsidized imported capital inputs, governments exacerbated unemployment problems in their countries. Another problem, which the World Bank points out, is that price controls were probably still a source of rent, and removing them should have reduced transaction costs and facilitated new entry, thus stimulating growth and greater competition. "Petition" (World Bank 91). Therefore, eliminating price distortions should provide incentives for domestic firms to produce more efficiently.

A third component of structural adjustment programs is export-led growth, export-led growth is relying on exports to be the "engine of economic growth" (Meier 515). One reason the World Bank encourages export-led growth is that promoting exports allows developing countries to earn foreign exchange to pay off external debts, following an export growth strategy corrects the development strategy of the 1970s which had a clear bias against exports, heavily taxing agricultural exports, one of the best suppliers of foreign exchange" (World Bank 20). The anti-export policy regime of the 1970s hurt growth rates in the World Bank view. The protectionism of these policies reduced competition. Competition, according to the World Bank, "increases productivity while trade restrictions increase input prices and the cost of capital, leading to higher growth" (World Bank 24). The solution lay in promoting exports to compete in

the international market. The World Bank (1994) held up East Asian economies as examples of successful export-oriented growth policies.

STRUCTURAL ADJUSTMENT POLICIES IN UGANDA

Privatization efforts have been relatively successful so far in Uganda. The recent privatization of Uganda's Post and Telecommunications utility company, as well as the divestiture of the Apollo Hotel Corporation illustrate the governments' commitment to this policy (Indian Ocean News 15). Key industries, including the Hima and Tororo Cement and the NYTIL-Jinja, are already in production under private ownership (Economist Intelligence Unit 1996a). These recent divestitures represent a rapid improvement for Uganda; between 1986 and 1992, however, Uganda had only divested between 0 and 10 percent of its public enterprises (World Bank 104). Before divestiture began, Uganda had somewhere between 51 and 100 public enterprises (World Bank 104).

The recent divestiture of Uganda's telecommunications sector is a strong step forward for development because telecommunications and utilities are difficult to privatize because of the strategic importance. The World Bank writes that strategic firms were "exempt from divestiture because of their economic importance" (World Bank 102). The Bank also notes, however, that these strategic enterprises were the "major cause of losses and economic distortions" in the economy (World Bank 102). Hopefully the privatization of Uganda's Apollo Hotel company, as well as its telecommunication sector, will reduce losses and distortions in Uganda's economy.

Uganda has also pursued the elimination of price controls in its economy. Before undertaking price control reforms, the Ugandan government intervened at a medium level in the economy (World Bank 96). Medium government intervention means that there was "some government involvement in producer price-setting, government monopolies in one or more key sectors, and some price controls," (World Bank 96). By late 1992, Uganda had achieved a policy of little government intervention in its economy. Currently, the Ugandan government does not set producer prices, allows private sector competition in key sectors, and has liberalized prices of all goods, except petroleum products (World Bank 96). Price liberalization in Uganda increased producer prices of coffee, cotton, tea, and tobacco—Uganda's major export crops (Mosley 437). Increased producer prices are important for agriculture to "recover and prosper" (Tumusiime-Mutebile 36).

According to the permanent secretary of Uganda's Ministry of Planning and Economic Development, Tumusiime-Mutebile, "[r]ealistic producer prices are... a necessary condition for increasing agricultural production" (Tumusiime-Mutebile 36). Uganda's neglect of appropriate prices, Tumusiime-Mutebile explains, led to the country's "exports shrinking to the point where [Uganda] has lost [its] share of the world coffee market at a time when other developing countries were increasing their shares of the same market," even as world coffee prices declined (Tumusiime-Mutebile 36). Therefore, the elimination of price controls has improved incomes for export farmers, encouraging them to produce export crops which will raise GDP growth for Uganda, as well as foreign exchange reserves.

Tumusiime-Mutebile (1989) also acknowledges the role of input prices in raising producer prices. As one of its medium term goals, the Ugandan Ministry of Finance and Economic Planning, mentions eliminating "distortions in relative prices in the markets for inputs, outputs and financial resources including foreign exchange

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which impede the supply side adjustments in the economy" (Ministry of Finance and Economic Planning ii). Removing these factor price distortions can contribute to more efficient markets by passing the opportunity costs of labor and capital on to the producer. The producer will then choose the cheapest way to utilize capital and labor inputs. Without a subsidy, capital inputs will be more expensive than labor inputs. Therefore, producers will choose labor-intensive methods of agricultural production without factor price distortions. In theory, this factor choice will both increase the income of the farmer and contribute to reducing high unemployment levels.

Structural adjustment programs have also required Uganda to follow an export-led growth strategy. Export-led growth, or export promotion was part of Uganda's policy plan to help reduce balance of payments deficits by increasing the "economy's capacity to generate, from domestic sources, the foreign exchange required to sustain economic growth" (Ministry of Finance and Economic Planning i). The main policy tool of export-led growth is currency devaluation. Uganda pursued currency devaluation in its initial phase of structural adjustment reform from 1986 to 1989 (Mosley 424). Initial reforms included legislation of black market in foreign exchange, progressive removal of export taxes, as well as the removal of price controls and the establishment of the Uganda Investment Authority (Mosley 425). Three years after these reforms set in, Uganda experienced a change from a real GDP growth rate of -3.3 to 6.7 growth rate of real GDP (Mosley 425). This early success created "credibility for the advice of donors" (Mosley 424). Success in the first stages leading towards devaluation helped Uganda follow through with this policy to increase export-led growth.

While currency devaluation is always politically unpopular because it reduces the amount of imports people can buy, it is much easier to implement than directly reducing domestic costs. Tumusiime-Mutebile illustrates this point: "For most countries it is very difficult to directly reduce domestic costs: very few people like having their pay cut; so this leaves devaluation of the currency as the only feasible option" (Tumusiime-Mutebile 42). Between 1987 and 1993, Uganda reduced the "premium between the official and the free market exchange rate" and liberalized foreign exchange surrender requirements, (Ministry of Finance and Economic Planning 0- By November 1993, Uganda's currency was fully convertible for current account purposes (Ministry of Finance and Economic Planning iii). Devaluation then helped strengthen market institutions by reducing the incentive to trade currency in the parallel market. Accompanied by 6 percent growth rates, devaluation increased demand for Uganda's exports in the world economy and raised foreign exchange reserves. At this point, ten years after the initial policy reforms to promote exports in the world market, Uganda can now afford 3.8 months of imports with its current foreign exchange reserves—a large improvement from its 1980 level of 0.1 month's import coverage (World Bank 216).

CRITIQUE OF STRUCTURAL ADJUSTMENT POLICIES IN UGANDA

While Uganda, along with the majority of African countries, has not achieved macroeconomic stability by following structural adjustment, it has made some improvements. External debt still comprises 43 percent of GDP (World Bank 216). The Current account balance, which is the "sum of the net exports of goods, services, and income and net transfers," has decreased from -6.6 to -7.6 percent of GDP (World Bank 216). Inflation, another target of macro-policy, remained high, at 65.7 percent (World

Even these numbers represent improvement, however. Inflation in 1987 to 1988 averaged 167.9 percent (Ministry of Finance and Economic Planning 4). Another improvement is the -2.2 percent central government deficit (World Bank 216). The World Bank classifies a -2.2 percent government deficit as moderate (World Bank 222). In 1990 to 1991 Uganda's government deficit was classified as large at -4.1 percent of GDP (World Bank 222). Overall, macroeconomic indicators have improved as a result of Uganda's participation in structural adjustment programs. The main failure of these structural adjustment is that it did not significantly contribute to the reduction of the balance of payments deficit in Uganda.

Another failure of structural adjustment is the fact that currency devaluation and the relaxation of price controls have not brought corresponding improvements in agricultural growth or producer prices. Despite Uganda's large decrease of the real exchange rate by 46.5 percent, exports of goods and services as a percent of GDP has declined from 19 to 12 percent of GDP (World Bank 238). Producer prices for export crops have fallen even more significantly in Uganda. Between 1981 and 1991, producer prices for export crops fell by 36.8 percent (World Bank 244). This means that just as Uganda began to follow structural adjustment policies, terms of trade and prices worsened for Uganda. Although the focus of structural adjustment is to increase agricultural exports, agriculture as a percentage of GDP fell from 72 to 50 percent from 1980 to 1995 (World Bank 236). These reductions in benefits from agricultural production contradict World Bank expectations that export promotion policies will improve the performance of developing country primary product exports to create foreign exchange to reduce balance of payments deficits and to improve growth. While GDP did increase in Uganda, exports as a percentage of GDP decreased, defying the expectations of the Bank's adjustment programs.

While the World Bank points to imperfect policy implementation at the domestic level for this contradiction of export promotion, critics of structural adjustment policies cite external factors. External factors include low elasticities of demand for primary products in the world economy. Mengisteab explains: "Given such low elasticities, devaluation can hardly be expected to increase the global consumption of these commodities...Attempts by a large number of countries to increase the volume of their exports through devaluation has worsened the oversupply of primary commodities in the world market, culminating in the fall of their prices" (Mengisteab 117). According to this argument, policies which advocate export promotion of primary products will not bring long term growth to Uganda or other countries in Africa. Rather, the international market is saturated by primary products, like Uganda's main export crop, coffee. Despite successful implementation of currency devaluation—the deregulation of the price of foreign exchange, Uganda's exports declined in the international economy.

Another anomaly of structural adjustment is that, in spite of this decrease in exports as a percentage of GDP, Uganda increased its growth. This phenomenon contradicts World Bank expectations of export promotion bringing growth. Improvements in microeconomic efficiency, such as privatization and the elimination of price controls, affected growth to some degree, especially by reflecting the opportunity costs of capital and labor in the production process. Loxley suggests that growth in Africa might follow from low inflation and consistency of policies over time. Another explanation stems from the fact that in the late 1970's, Uganda experienced civil war and unrest. The high rate of growth is especially high because the prior rate of growth was very low due to the war.

In light of the recent debt reduction initiative for Uganda, as well as recognition by the Bank that structural adjustment will not solve the balance of payments crisis for the world's poorest, most heavily indebted countries, it is clear that structural adjustment failed to bring macroeconomic stability to Uganda. Uganda's debt burden remained unsustainable, even after Uganda has pursued the "correct" policy formula. The neoclassical assumption that economic growth is tied to export promotion of primary products has not held true in Uganda. While GDP has remained positive since Uganda began adjusting, exports decreased as a percentage of GDP decreased. Industry value added increased 10 percentage points during the same period, as did the services sector (World Bank 236). In fact, growth seems to have occurred in Uganda in spite of the fact that producer prices declined, and exports as a percentage of GDP declined. Singh (1994) argues that the World Bank has drawn the wrong lessons about export promotion policies from the success of the East Asian economies. Rather than focusing on their export-promotion strategies, the Bank should encourage countries to focus on their careful protection policies which, would "seek 'strategic' rather than 'close' integration with the international economy" (Singh 1811). Singh also advocates a larger role for government in the economy, which would allow governments to pursue a "dynamic industrial policy to bring about the desired structural transformations in the economy as speedily as possible" (Singh 1811). Considering the low elasticity of demand for Uganda's primary product exports, Uganda should pursue some policy to improve industrialization. Because the effects of Uganda's recent divestitures has not yet been measured, we do not know the gains in growth that policy might bring. Relying mostly on primary products for foreign exchange, it will be difficult to keep up GDP growth, as primary product prices continue to fall and price elasticity remains low.

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Growth vs. Development in the Indian Software Industry

By Aparna Kumar

Located in south-central India, Bangalore, the medium-size capital city of Karnataka state, is renowned for its beautiful gardens, ancient temples, fresh air and cool summers. For those like myself who have not visited Bangalore in the past five years, it might be difficult to imagine how this city has since come to be known around the world as the "Silicon Valley of India." *Time* has already pointed out that Bangalore * is currently the fastest growing city in all of Asia. (Stremlau 160). This sudden transformation was ushered in by a dramatic boom in India's export-oriented software industry. Spurred by the central government's trade liberalization policy in 1991, which sought to reduce its deficit through a new emphasis on exports and foreign direct investment, India's software sector marked a 53% increase in exports between 1990 and 1996 and generated \$500 million in sales between 1994-5 alone. (Stremlau 153).

Eager to take advantage of the Indian government's sudden friendliness towards foreign business and anxious to place a foothold in one of the world's largest "virgin" markets, several multinational corporations raced to establish operations in India. To many industry-watchers around the world, the Bangalore software boom is an early indication that, after 40 years of bankrupt state planning, India may well become a leader of the next century's global economy. Research done by the National Association of Software and Service Companies has projected Indian industry sales reaching \$5 billion by the year 2000 (153).

Unfortunately, this growth has not come without strings attached. Although the boom has created thousands of well-paid jobs and has reduced the inertia propelling India's technically-skilled elite to emigrate, it has also brought into the city huge inflows of job-seekers and has overburdened its already-crumbling infrastructure. Pollution, overcrowding, and a widening gap between the rich and poor have become the bane of a city that was once considered a "pensioner's paradise" (161). Still, there is reluctance to pressure tax-evading multinationals to pay their due for fear that they will just as soon pack up and leave India. In fact, there is little assurance that the growth, which is largely powered by foreign investment, can be sustained even into the near future. Moreover, the fact that the Bangalore software sector is export-oriented and dominated by foreign multinationals has meant that the domestic market remains primarily underdeveloped. The paradox of the "Bangalore boom" is an ideal case-study to show how globalization, "free trade", and export-oriented production can generate high growth and be antithetical to development at the same time.

EFFECTS OF GLOBALIZATION

In the last two decades, the term "economic globalization" has rapidly been gaining currency as a convenient buzzword for politicians, business executives, and organizers alike. The concept of globalization, which describes the growing trend of an international amalgam of resources, trade based on comparative advantages