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Paul Hesp

MANUFACTURING IN SUB-SAHARAN AFRICA - WHICH WAY OUT OF THE CRISIS?*)

Introduction

While agricultural problems are the most worrying and obvious element of the protracted depression from which most economies in sub-Saharan Africa (SSA) suffer, the manufacturing sector of these economies is in bad shape as well. Both on a national and an international scale, the sector is usually quite small: GDP shares are on the whole less than 10 per cent, SSA's share in world manufacturing value added was 0.4 per cent in 1985. This, however, does not mean that the negative impact of industrial stagnation, or even "de-industrialization", on SSA economies is small. For in one way or another, industry is essential for economic growth - providing employment, processing raw materials to increase their usefulness and market value.

The purpose of this short essay is to give a thumbnail sketch of the present state of manufacturing in SSA, and of its major problems, and to suggest some of the factors that are essential for successful industrial development in the future. It should be stressed that the overall picture sketched below is necessarily full of generalizations - some African countries, such as Zimbabwe, Kenya, Cameroon and Mauritius, have performed much better during the 1980s, but the length of the present essay does not allow a separate treatment of these. Figures will be used sparingly - reliable continent-wide figures are scarce and qualitative information from various sources was therefore not only used to supplement it, but in some cases even considered more reliable. Readers are referred to the documentation listed in the References for data on individual countries.

The Present State and Present Problems of Manufacturing

Until the early 1980s, African industries exhibited growth rates similar to those elsewhere in the Third World. Most of these industries produced for the domestic market, substituting imported consumer goods, but they remained heavily dependent on imported machinery, spare parts and inputs. Around 1980, a decline of raw material prices set in. This led to drastic reductions of export earnings in virtually all African countries. Combined with increasing prices for imports and the maturing of

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*) United Nations Industrial Development Organization (UNIDO), Vienna. The views expressed in this article are those of the author and do not necessarily reflect the views of the UNIDO Secretariat.

debts (which also had to be repaid in hard currency), the result was a foreign exchange "squeeze". This drastically curtailed industry's ability to buy essential imports. Domestic markets, moreover, contracted as income in the monetized sector declined following the decrease in export earnings. To these problems must be added on older problem: the declining production of a wide range of crops whose government-controlled prices were no longer remunerative. The domestic sources of industrial supplies that did exist were therefore drying up as well. Many factories had to be shut down, average capacity utilization rates below 40 or even 30 per cent became common in many African countries. Negative MVA growth rates prevailed throughout SSA during the first half of the 1980s, with yearly averages as low as -4 per cent.

There is an upturn from 1985 onwards, with average MVA growth rates or of SSA probably around 4 - 5 per cent per year. This upturn, it should be noted, is not absolute growth, but a recovering of ground lost in the late 1970s/early 1980s. The improvement - which has not taken place in all countries - can in many cases be traced to somewhat better performance in the agricultural sector, which has resulted in, a.o., a partial recovery of domestic demand for manufactured products, higher export earnings (allowing a greater allocation of foreign exchange to essential imports) and better supplies to factories.

Whether this upturn will last is uncertain. In a few countries, agricultural policies have been much improved in recent years, and may have instigated a process of stable long-term agricultural growth. But in most cases, even radically better policies will only have a clear impact in the long run, when the combined effects of improved rural education, extension services and infrastructure provide a "critical mass" for rural development. Meanwhile, susceptibility to climatological fluctuations and pests, the increasing substitutability of many agricultural products and competing exports from other Third World regions will continue to contribute to the vulnerability of SSA's economies. And the overall upturn is also no more than a partial recovery of lost ground: recent figures are not available, but SSA's total 1986 exports (US-$ 23 billion) were still only 60 per cent of its 1981 exports.

The debt burden is another threat to renewed growth. The debts were originally incurred on the basis of the high export earnings of the 1970s; when raw material prices collapsed, African governments went on borrowing to continue the ambitious development programmes that were started earlier. When these debts started maturing in the early 1980s, many countries found themselves incapable of paying back, for the development programmes were as yet generating little income, if any. Total African debt now amounts to some US-$ 230 billion. This is not much by international standards, but given the small size of most of the economies in the continent, and their low export earnings, the burden is crippling. In 1987, the overall debt service ratio for the continent was 47.3 per cent - in other words, almost half of Africa's limited export earnings was needed to pay off debts.

In spite of debt reschedulings and debt relief proposals (a number of developed countries has in fact written off part of the debt owed by African countries), the debt burden has forced most countries to drastically curtail imports. SSA's total imports dropped from US-$ 46 billion in 1980 to US-$ 20 billion in 1986, and industrial enterprises in many countries now experience a chronic shortage of spare parts and intermediate inputs. In order to continue to be able to borrow money, many SSA countries have implemented IMF and World Back-sponsored structural adjustment programmes. Although the lack of efficiency, the bloated government services and inefficient public enterprises, and the overall stagnatin of the economies certainly warrant structural adjustment, one short-term effect of these programmes has usually been a drop in living standards of the great mass of the population, resulting in, a.o., a further decrease in demand for domestic manufactures. Another result is a further reduction of essential imports.

SSA's continued dependence on raw material and the debt burden are two major obstacles to renewed industrial growth which are directly related to SSA's position in the international economy. A third major problem, as pointed out, is the manufacturing sector's dependence on imports, a result of the weakness of linkages with other domestic industries and - especially - with the domestic raw materials base. But there are other problems as well, all of them aspects of low overall domestic development levels:

- low literacy and technical skill levels;
- poor transport, telecommunications and power infrastructure;
- lack of industry-related services (consultancy, repair and maintenance, credit);
- shortage of entrepreneursa nd investors that take an interest in manufacturing (not an activity where one makes 2 "quick buck") - this is a partial explanation for:
- excessive involvement of the political/administrative apparatus in economic activities, including the actual management of plants.

The shortcomings of the domestic environment (political, economic, educational, infrastructural, etc.) combined with a heavy external dependence has resulted in a large number of "white elephants": complex, capital-intensive projects in, for example, the cement, steel and paper industry. Neither the African governments who took the initiative for these ambitious projects, nor the firms from developed countries that actually prepared and executed them, made realistic assessments of the problems that such factories would encounter - whether it was with regard to manpower, inputs, maintenance or the market for their products. In many cases, these multi-million dollar projetcs will have to be written off.

It is clear that the industrialization strategies followed so far have on the whole not been successful. it is also clear that SSA will need industry to make economic progress. Which new directions can be suggested for recovery and future growth?

Ways Out?

The former section has already referred to the Structural Adjustment Programmes (SAPs) advocated and partly financed by the World Bank and the IMF. These favour a stronger export-orientation of the economy and a drastic reduction of government expenditure and government involvement in economic development. Increased export earnings and private enterprise are to solve SSA's economic problems. Recently, the World Bank, together with the UN Developlemt Programme, published an assessment of the results of SAPs in the 1985 - 1987 period. The report concludes that SSA countries that had implemented wide-ranging SAPs ("strong reformers") and had meanwhile not be subject to unforeseen economic shocks, had made conspicuous GDP gains during the period indicated. Growth in these countries was estimated at 3.7 per cent, as opposed to 2.6 per cent for all "non-reformers". A continuation of growth was expected in 1988. Admittedly, however, growth was partly the result of good harvests, resulting less from SAPs than from favourable weather conditions, and even among the "strong reformers", *per capita* GDP growth was only barely positive. The evidence in support of SAP success all in all seems somewhat weak.

The UN's Economic Commission for Africa (ECA), interpreting the World Bank's own statistics differently, concludes that the "strong reformers" saw their GDP *decline* over a long period (1980 - 1987), while those that did *not* implement SAPs at least had a GDP growth that roughly equalled population growth. We will not pursue the numbers game any further here, although it would be worth a discussion by itself. But the conclusion presents itself that the result of SAPs has so far been ambiguous in most cases. Moreover, as the ECA points out, the great mass of the SSA populations has had to pay a heavy toll for the reforms, through increased prices for consumer goods and curtailment of essential government services. For a society as a whole, the social disruption might cancel out any economic gains made.

The discussion outlined above does not say much about manufacturing, which is not surprising, given the modest role of the sector in SSA as a whole. But there is little evidence that the economic liberalization resulting from SAPs has yet done much to attract private enterprise to manufacturing; nor does SSA appear to have much of a change to penetrate world markets with manufactured products - in SSA countries that have liberalized imports the domestic industry finds it difficult enough to compete with the products of Asian NICs. Moreover, as a.o. Singer has pointed out, developing country exports to the developed world tend to be subject to much heavier restrictions than trade movements among the developed countries themselves.

The ECA suggests a number of alternatives which could replace SAPs, while recognizing that these contain useful elements, such as reducing government interference in economic affairs. Among these suggestions there are several that have a direct bearing on industrial development and that, taken together, can be said to give a rough idea of what an "African alternative" for manufacturing development could be:

- much stronger linkages between domestic agriculture and domestic industry (agriculture as a supplier of raw materials, industry as a supplier of equipment);
- promotion of small- and medium-scale industry, expecially in rural areas;
- renewed attention to the domestic production of basic needs goods;
- rationalization of productive capacity, and rehabilitation of viable existing enterprises rather than new investment;
- more attention to creating a "supportive environment" for manufacturing.

The latter covers a wide variety of issues: local repair and maintenance services, local consultancy, technical education, credit (especially for small- and medium-size enterprises), but also major investments in agricultural and infrastructural development, which will indirectly benefit industry.

Last but not least, the issue of African co-operation is addressed as far as manufacturing is concerned. The record of industrial enterprises collectively owned by several countries is rather dismal. But there are other ways of stimulating industrial development through co-operation. A number of African countries is beginning to lower the barriers to trade among themselves, and complementary industrial structures are being discussed by the member states of the Southern African Development Co-ordination Conference (SADCC). The measures would facilitate the functioning of a number and financial resources.

The ECA document may suffer from blue-eyed idealism here and there (it advocates, among others, the "banning of certain specific luxuries") and the difficulties in realizing the above are enormous. Most of the "regional" organizations for economic co-operation are quite weak, as political will and financial support are in short supply, and the proposed strategies will cost huge amounts of money. SSA's debt, and the political and economic instability of many countries, will make it difficult to attract funds. The reappearance of the basic needs issue on the agenda is an indication of the lack of progress in solving that issue. The question of the impact of highly competitive imports from Asian NICs in liberalized markets is not addressed.

In spite of all this, the ECA's proposals may be more realistic than those of many hard-nosed experts from the North. They are based on a growing awareness of the complex interrelations between the various elements (social, cultural, political and economic) of development in SSA countries; in fact many of the ECA's proposals can be found, in one form or another, in the recent "home-grown" adjustment programmes of a number of SSA countries. There is no pretending that SSA, in its present state, will be able to follow the rapid export-led growth path of the East Asian NICs. Certainly not in manufacturing, with so many of the preconditions still lacking in so many countries. It is understood that feeding the population must be a first priority, if a country is to function at all; under those circumstances, the basis for industrial development will in part be determined by what the rural areas produce and need. This is a "low-key" approach, but it is well-suited to the present situation, where industries that make modest demands on manpower, infrastructure, etc. are those most likely to survive. Their operational continuity and economic viability being more likely than those of the prestigious projects launched in earlier years, they will help to provide the funds and the expertise needed for industrial development in the long term.

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Paul Hesp, UNIDO, Regional and Countries Study Branch, Vienna International Centre, Postfach 400, 1400 Wien

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Tadeusz Hunek

FUNCTIONS OF AGRICULTURE IN STRATEGIES OF GROWTH IN CENTRALLY PLANNED ECONOMIES

Abstract

The paper is an attempt of a synthesis of the role of agriculture in strategies of growth in centrally planned economies. By analysing the historical experiences of socialist countries as well as recently undertaken economic reforms, there are cutlined three basic models (concepts) of the role of agriculture in the development process of a centrally planned economy. These are the following:

- the model of "sacrificing" rural and agricultural interests to the interests of non-agricultural sectors, to the city,
- the model of stabilizing functions of agriculture in the national economy,
- the model of dynamic functions of agriculture in the development of national economy.

Introduction

The agriculture of most socalist countries, determined in the economic literature as countries of centrally planned economy, experienced, particularly in the seventies, serious development problems. The most evident proof of that condition was the insufficient increase of agricultural production in relation to social demand. That situation led to considerable imports of agricultural products, especially from capitalistic countries. In the years 1980-81 the socialist countries purchased 32 % of the world cereal supply.[1] The occurring inefficiency of agriculture, which was, in fact, a reflex of vanishing dynamism and rationality of non-agricultural sectors, made, and still makes, a dramatic necessity of reforming the entire national economy, agriculture included. The paper presents an analysis of the conditionings and the course of processes of the breakdown of agricultural performance efficiency, and of the attempts of undertaken reforms to improve the situation. The key for our analysis was educed from the connotation of the determination strategy of agricultural development, conceived as the combination of the sphere of programming (planning) with that of policy (management) in the choice of means and socio-economic instruments for achieving the model of rural and agricultural development and its ranking in the national economy. In our considerations we concentrate both on the experiences and the reformist actions undertaken in Poland. Although this agriculture is of a specific character and structure - domination of peasant agriculture - it can meet the conditions of a "case study" of the role of agriculture in strategies of growth in centrally planned economies.