

# MICHIGAN STATE UNIVERSITY

The African e-Journals Project has digitized full text of articles of eleven social science and humanities journals. This item is from the digital archive maintained by Michigan State University Library. Find more at:

<http://digital.lib.msu.edu/projects/africanjournals/>

Available through a partnership with



*Scroll down to read the article.*

# Globalization and competitiveness: implications for poverty reduction in Uganda

AUGUSTUS NUWAGABA<sup>1</sup>

## *ABSTRACT*

*The paper focuses on the interface between globalization and poverty reduction in Uganda, beginning with the advances in information technology that have transformed the globe into a virtual village. The paper presents the macroeconomic framework that has characterized the global economy and its distorted benefits to developing countries. The exchange parity between exports and imports in both factor and product markets has been skewed against poor countries such as Uganda, exacerbating rather than reducing poverty. It is argued that globalized markets require a competitive capacity that the Ugandan economy does not have. It is because of this that most sub Saharan countries , including Uganda, have globalized through systemic shocks rather than making use of opportunities. Global competitiveness is, however, inevitable if the Ugandan economy is to catch up with global trends and patterns. Globalization can lead to adverse effects if poor countries open their economies without thinking. Globalization must be cautiously embraced if development is to be sustainable.*

## **1.0 Background**

A FEW CENTURIES AGO the world seemed infinite. Separated by mammoth oceans and seas, communication between peoples of different continents was minimal. Historical evidence shows that a recently as the year 1900, many nations were not aware of the existence of others. All this has changed dramatically mainly as a result of improvements in

---

<sup>1</sup> Department of Social Work and Social Administration, Makerere University, Kampala, Uganda.

technology. With improved and faster means of transport, the more advanced communities embarked on exploration, empire-building, conquests, evangelization and trade in other territories. In Africa the most vivid experience of globalization was through slavery, characterized by the exploitation of African labour in the Americas, Europe and Asia. A more recent globalization phase brought colonialism to almost the whole of the African continent and, indeed, to many other countries. The colonial forces also brought ideas and ideologies that have become difficult for former colonies to resist. Consequently, while the formations of the colonial state have been physically replaced with indigenous governments in most developing countries, the ideological inputs have remained in place. It is generally recognized that this was the beginning of what is currently referred to as globalization.

The late twentieth century has been characterized by global competition fuelled by the explosion in production, information and communications technology (Gustaner et al., 1986). The concept of a global village refers to the vastly increased interaction among countries. This is manifest in the areas of communication, trade, politics, tourism and so on. The Internet, e-mail, telephones and rapid air transport, coupled with greater cooperation, have reduced the entire globe to what is virtually a village. In addition, the end of the Cold War between the Western and Eastern blocs has seen a marked improvement in interaction amongst these previously-opposed blocs. Liberalization policies in numerous countries and the formation of such global bodies as the United Nations and its many agencies, the World Trade Organization (WTO), the International Monetary Fund (IMF) and the World Bank have enhanced collaboration among countries. However, globalization has increased competition among individual countries in the international market. It is this question and its implications for an underdeveloped country like Uganda that this paper attempts to address.

## **2.0 Competitiveness**

THIS PAPER FOCUSES on two main aspects of competitiveness, namely; competition to attract foreign capital and competition to sell exports in

international markets. For purposes of this paper, the countries of the world may be divided into three categories:

### ***2.1 Industrial first-world countries***

These are characterized by industrial economies with high levels of technology; a high per capita income and high standards of living. These include, *inter alia*; countries of the G8<sup>2</sup> such as the USA, Germany, the United Kingdom and Japan.

### ***2.2 Industrializing countries***

These include countries that are rapidly industrializing; mainly as a result of technological transfer from industrialized countries. These countries are characterized by an increasing income per capita. They include among others, the Asian Tigers; Hong Kong, Taiwan, Singapore South Korea, Thailand and part of East Europe such as Czechoslovakia.

### ***2.3 Developing countries***

These constitute largely agricultural or mining-based economies. Low per capita income and pervasive poverty characterize them. They include most African countries especially sub Saharan Africa, most of west Asia and many countries in Latin America.

## **3.0 Globalization: the current trends**

### ***The end of the Cold War and the birth of globalization***

POLITICAL IDEOLOGY, PREVIOUSLY spearheaded by the United States of America and the former Union of Soviet Socialist Republics, had created a world polarized between the former, capitalist, bloc and the latter, socialist one. Political differences were intensified by the different economic policies pursued by these countries, together with their theories and practice of governance and their sociopolitical institutions. International relations followed the ideological divide. While other relatively developed countries gained, possibly as a result of economic independence, sub Saharan Africa lost out because these countries were exploited and political manipulated by the relatively well-developed countries. Examples here include the former Zaire, Somalia, Burundi, Ethiopia, Angola, Malawi and the Central African Republic.

---

<sup>2</sup> The former G7 have now incorporated Russia as a member.

Uganda fell prey to this ideological polarization and experienced coups d'état just like many other African countries. In the same way, countries like Korea were polarized so that people were forced to denounce their blood relatives for the sake of ideology. This dogmatic behaviour is increasingly fading due to increased globalization.

The forces of globalization have shown that the way to progress is not to take refuge in ideological slogans but to work toward improving relations. It is gratifying to note that North Korea have shown willingness to cooperate with the South and that the previous hatred and ideological rift in the Peninsula is thawing. Progressive international cooperation should be directed at spearheading mutual benefits among the players.

The current trends of increased globalization have, however, provided unequal economic opportunities, resulting into unfavourable terms of trade among countries. This refers to the exchange parity between exports and imports of different countries in the international market. Not only have the terms of trade for the developing world been poor but they have been declining over the past three decades (UNDP 1995). The industrial economies have, on the other hand, become increasingly competitive with favourable terms of trade, as will later be discussed. The chief reasons behind these trends include:

### ***Technology***

IMPROVEMENTS IN TECHNOLOGY in industrialized countries have enabled them to produce massively and at reduced unit costs. Production takes place in hi-tech factories with a decreasing unit cost of inputs. This has influenced the terms of trade of industrialized countries favourably in international market.

### ***Synthetics***

THE INDUSTRIALIZED WORLD has now found substitutes for raw materials previously exported by developing countries, including substitutes for rubber and cotton. The substitutes are supply elastic and have a longer shelf life than natural materials.

### ***Infrastructure and communication***

GOOD INFRASTRUCTURE ENSURES that the costs of production and distribution are cheaper. This facilitates mobility and enlarges markets and it has opened virtually the entire globe to commerce and business.

Poor utilities ensure poor returns on capital and vice versa. The better-off industrializing world has become a fierce competitor due to its improved communication systems, financial services, and utilities such as energy and road networks.

On the side of capital, most of the competition for the developing world has come from the fast-industrializing second world. Increasingly, bilateral, multilateral and private capital finds its way into the promising areas such as Eastern Europe and the Asian Tigers rather than Africa or the least developed countries of Asia (World Bank 1996). The lack of competitiveness among developing countries has been engendered by such factors as:

- *Political instability.* Political liberalization has been *sine qua non* of globalization. But much the developing world, particularly sub Saharan Africa, has been very volatile politically and our countries are characterized by civil strife and turmoil. This has repelled foreign capital, which has found its way to countries in Eastern Europe where investment is perceived to be relatively secure.<sup>3</sup>
- *Market size.* Developing world local markets are notoriously small, despite their huge populations. The people in such countries do not demand goods because they are poor and have no purchasing power. It is because these markets are so small that some efforts have been made to harness regional markets such as the Common Market for Eastern and Southern Africa (COMESA), SADC, and the Economic Community of West African States but many of these economic unions have been bedevilled with political bickering among the countries concerned, resulting in break-ups, as in the case of the East African Community (EAC) in 1976, or lack of commitment by some country members. Investors have therefore shunned such countries.

---

<sup>3</sup> Take, for example, Uganda's case where the military junta under Idi Amin unilaterally expelled the whole Asian community from Uganda and expropriated their property in 1972. The turmoil in Somalia, DRC, in Sierra Leone, Liberia and Chad, scares off would-be investors.

#### **4.0 Poverty reduction policies in Uganda: the role of MAPs**

UGANDA IS ONE OF THE least developed countries on the globe. With a population of about 21 million and a paltry per capita income of US\$240 per annum, the country has been classified as the ninth poorest country on the globe (World Bank 1999). Empirical data shows that about 60% of the population are found below the poverty line. About 45% are illiterate and only 52.3% have access to medical facilities (Ministry of Health, Uganda, 1999). There is a shelter deficit of 42,000 units and homelessness and destitution are not uncommon (Nuwagaba 1997). The country's economy hinges on agriculture, which contributes over 80% of the exports and 67% of employment and provides a livelihood to over 90% of the population (Ministry of Finance, Planning and Economic Development, 1997). The main crops include coffee, tea, tobacco and cotton. There are also nontraditional exports and food crops like maize, fruits, vegetables and beans. The agricultural sector is characterized by a rudimentary technology in which the hand hoe is the main tool on smallholder farms. About 88% of the population is rural and subsistence agriculture is the main activity.

The current poverty in Uganda cannot be understood without describing the sociopolitical upheavals that have bedevilled the country over the last three decades. During the 1970s the Ugandan economy virtually atrophied. This period was characterized by political turmoil, civil strife, intrigue and the collapse of political and economic institutions. The decline of institutional structures resulted into the collapse of the industrial sector and subsequently mass unemployment and massive macroeconomic disequilibria.

It is against this background that the country adopted the structural adjustment programmes (MAPS) in early 1980s. The goal was to make the Ugandan economy competitive again on the world stage and the programmes were meant to correct the structural bottlenecks and economic disequilibria that had arisen due both to increased importation and increased government expenditure against the backdrop of declining exports and government revenue. This was a dramatic change from the period after independence where the economy was buoyant and promising. Then there were healthy foreign reserves, exemplary social

services, especially in health and education, growing industrial and commercial sectors, a good standard of living and stable economic growth (Jamal 1985). Equally well documented is the economic mismanagement, tyranny and decadence of the subsequent period up to the mid 1980s (Mamdani 1992). The result of all this was the socio-economic regression that created widespread poverty.

In 1986 the National Resistance Movement (NRM) came to power. In 1987 they initiated stabilization and adjustment programmes under the auspices of the Bretton Woods twins; the World Bank and the International Monetary Fund (IMF). Such programmes go with conditionalities like desubsidization, wage freezes, devaluation, deregulation and drastic cuts in government expenditure. They demand tight budgetary discipline to promote prudent financial management and the subsequent growth of the economy. To date, the measures implemented in Uganda include:

- Devaluation of the currency;
- Reforms of the civil service;
- Privatization of public enterprises;
- Liberalization of trade, including financial markets and commodity trade;
- Cost-sharing in social services, especially education and health.

The measures are based on the principles of *laissez faire* economics, which, if not carefully handled, cause poverty. Both the proponents and the critics of these programmes agree that in the short run, the impact of the measures has been the impoverishment of the masses (Oxfam 1992). The proponents argue that this is worthwhile in return for longer-term improvements while critics maintain that the initial poverty is not worthwhile, given that the anticipated long-term benefits may take too long to produce gains. The following measures in particular have contributed to the escalation of poverty among Ugandans:

#### **4.1 Civil service reform**

Civil service reform has aimed to improve efficiency among civil servants on the assumption that retrenched personnel would be absorbed in development anticipated in the private sector. This did not happen, as a former employee of Uganda Grain Milling Company asserts:



---

*When they retrenched us, the government assured us that we would eventually be absorbed in the private companies but this has not worked. We are here unemployed with not even money to ensure daily meals for our families.*

---

Another retrenched person from Lira Hotel in Northern Uganda remarked;

---

*Our households depend on only one adult breadwinner and now my family has no one to depend on. It is like the head of the family has died....Our children are very disturbed about the way things have changed.*

---

When people think about the good old days, they feel the current policies are wrongly conceived and cannot lead to any better situation. The above assertion is reiterated by Mabogunje (1990) who observes; Everywhere in sub-Saharan Africa poverty has increased despite the macroeconomic policies meant to revitalize the economic performance of these economies.

Currently about 170,000 people have lost their jobs (Ministry of Public Service, 1998). The growth of the private sector has been too slow to absorb the retrenched civil servants culminating into widespread unemployment and retrenchment is a common household experience that has contributed to the burgeoning numbers of the urban poor (Nuwagaba 1999).

#### **4.2 Demobilization of soldiers**

From 1990–1997 up to 40,000 soldiers were demobilized (Ministry of Finance, Planning and Economic Development 1999). Demobilization was implemented to rationalize defense expenditure in conformity with trends in other countries. The major safety net of the demobilization programme was the Veterans Assistance fund, which provided seed capital to demobilized soldiers to help them embark on development projects in their home areas. However, studies (Seguya 1999) have shown that due to lack of skills and other problems, such as a lack of alternative sources of income, most of this seed capital has been diverted into basic necessities such as food and shelter. As a result most demobilized

soldiers are roaming the streets of Kampala as journeymen, shoe-shiners and wheelbarrow pushers. As indicated by Nuwagaba (1999), these soldiers, given their lack of skills, have found it difficult to be absorbed in civilian employment.

#### **4.3 Cost-sharing**

Up to 1993, social services like health and education were free, as their provision was the responsibility of the State. Since 1993, user charges were introduced in the health and education sectors to cover the increasing costs of the services (Nuwagaba and Lucas 1999). This policy emanated from the World Bank poverty paper (World Bank 1987), where it was stated that poor countries, especially in sub Saharan Africa, could no longer provide health and education services for free, when other countries, including developed ones, had to provide such services under a cost-sharing arrangement.

The introduction of this cost-sharing policy encountered great resistance from the local populace, who questioned the logic of the policy since the people were already paying tax. "Won't it amount to double charging?" they questioned. Many countries had privatized these services to improve quality and efficiency in service care delivery. However, such privatized services and the subsequent improvements in quality are practicable only in relatively high-income societies where the population can afford to pay (Nuwagaba and Lucas 1999). In some countries such as Ghana and Kenya, introduction of cost-sharing in health has resulted in the decline in utilization of health facilities (Mbugua 1993).

#### **4.4 Liberalization**

The most important aspect of liberalization has been the freeing of commodity trade. Markets have been opened up to potential importers and exporters and previous marketing boards such as the Uganda Coffee Marketing Board (CMB) and the Lint Marketing Board (LMB) were liberalized. While this has had numerous positive effects like an abundance of commodities, it has also led to the marginalization of local business due to foreign competitors. This is because young domestic industries have found it difficult to compete with imported products that are relatively cheap. Similarly, the policy has not helped to improve

the ever-deteriorating price of commodities such as coffee and cotton on the world market.

#### ***4.5 Tight fiscal and monetary policies***

The fiscal regime in Uganda has been reformed and fiscal measures tightened. High tariffs have been put in place and government has been very stringent in its expenditure. It often even fails to pay its local suppliers, in the name of controlling the money supply to keep inflation low. These have continued to make it difficult to earn disposable income, thus reducing effective demand for goods and increasing the economy's negative growth rate. The objectives of a tight fiscal policy and wage freeze have been to avoid deficit-financing, so that the budget is prudently managed. While such interventions may have been well-intentioned, the anticipated results have been thwarted by the galloping inflation that has persistently eroded the purchasing power of wage-earners. Real wages have, therefore, been eroded as persistent hikes in consumer prices result from inflation.

#### **5.0 Globalization or impoverishment: the missing link**

THE PROCESS OF GLOBALIZATION appears to be irreversible. Indeed, it is almost universally hailed as the recipe for growth. Increasing interaction among countries in commerce, politics and even culture is slowly turning the world into one big family. This interaction can be divided into two phases, namely the semi-global (regional) phase and the actual global phase.

##### ***5.1 Regional phase***

This phase is characterized by economic cooperation pacts amongst various regional blocs. They include the EEC in Europe, Association of South East Asia in Asia, Economic Community of West African States in West Africa and Common Market for Eastern and Southern Africa, the East African Community and the Southern Africa Development Community in Eastern and Southern Africa. The main objectives of these regional blocs is to promote trade and economic cooperation amongst member countries, together with other objectives such as cooperation in defense, culture and education. In the longer term,

political union is often mentioned in the respective charters of these associations.

By their very nature, these associations are formed along geographical lines within a particular region. Other considerations include historical background, economic aspirations and political ideology. However, while political ideology used to play a major part during the Cold War, it has now assumed a lesser and lesser position.

### ***5.2 Global phase***

This is characterized by increased interaction among countries, regions and continents regardless of location or distance between each other. This interaction has been greatly enhanced by advances in technology. It is manifest in the mammoth scale and diversity of international trade, bilateral agreements, world tourism, technology transfers and the liberalization in the world economy.

Unlike the regional phase of globalization, this phase is unplanned. Indeed, many regional blocs have been formed to help member countries survival within an increasingly competitive global environment. They are therefore largely a product of globalization itself. However the regional blocs have also served as catalysts to accelerated globalization.

### ***5.3 Poverty implications***

Whether regional or on a worldwide scale, globalization has serious implications for the least developed countries like Uganda. These largely hinge on the question of the increasing the competitive capacity of these countries. We shall here look at the major issues at stake.

**Capital:** In an increasingly open world, investment capital tends to be attracted to fast-growing countries with developed communication, infrastructure and relatively higher demand for goods within the population. This retards the investment share in slow-developing countries like Uganda with poor infrastructural services and a low-income population. Because of low investment, the Ugandan GNP per capita has been declining over the period 1980 to 1994 with only a slight improvement between 1994 and 1998. Table 1 shows the trends in growth of foreign direct investment and corresponding GNP per capita.

**Table 1: Foreign direct investment and trends  
in GNP per capita: Uganda**

	1980	1985	1992	1993	1994	1995	1996	1997	1998
Foreign direct Investment (US\$ millions)	42	30	2	4	5	-	121	180	-
GNP per capita (US\$)	440	160	260	200	190	240	-	320	320

SOURCE: THE GLOBAL COALITION FOR AFRICA (1995), THE WORLD BANK (1999)

As indicated, the growth in foreign investment has declined over the period 1980 to 1994 with only slight improvements from 1994 to 1998. The major reasons seems to be political instability, poor infrastructure and lack of effective demand among the population (Jamal 1985).

**Terms of trade:** Agricultural and raw-material producing countries, which are usually the least-developed, have been facing declining terms of trade. With expanded markets and a greater number of substitutes that come with globalization, the exchange value per unit of exports<sup>4</sup> of these countries has been fetching less and less. Table 2 indicates the trends in Ugandan terms of trade over the period 1986–1998.

The declining terms of trade and subsequent poverty have led to international social exclusion. Which country in the developing world, especially in Africa, may be given the opportunity to stage world events such as the World Cup or the Olympic Games? The major reason given has always been that poor countries do not have the capacity to hold such events. The irony, however, is that events such as the World Cup are accompanied by multimillion dollar injections in the local economy.

<sup>4</sup> See, for example, the declining price of Uganda coffee between 1995 and 1999 from US \$0.8 per kg to US\$ 0.3 per kg. Most raw materials are demand-inelastic and subject to drastic fall in prices on the world market.

**Table 2: Trends in terms of trade and balance of payments**

<b>Indicator</b>	<b>1986</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1996</b>	<b>1998</b>
Exports (GNFS)							
US\$ million	389	246	199	195	206	333	609
Imports (GNFS)							
US\$ million	446	676	671	582	753	893	1193
Current private transfers							
US\$ million	101	78	81	136	241	304	397

SOURCE: BANK OF UGANDA, 1995; MINISTRY OF FINANCE AND ECONOMIC PLANNING, 1999.

NOTES: GNFS DENOTES GOODS AND NONFACTOR SERVICES. THE BALANCE OF PAYMENT REFERS TO THE INDEX FOR MEASUREMENT OF TERMS OF TRADE. POSITIVE BALANCE OF PAYMENTS VALUES MEANS FAVOURABLE TERMS OF TRADE (MORE EXPORTS THAN IMPORTS) WHILE NEGATIVE VALUES MEANS MORE IMPORT RECEIPTS. IFS US\$/LC) DENOTES LOCAL CURRENCY UNITS. AN INCREASE IN LCU DENOTES APPRECIATION.

The table indicates unfavourable terms of trade as import invoices have far exceeded the export receipts over the whole period 1986 to 1998. The current account balance has consequently been negative over the period. The country has spent more in imports than it has earned resulting into the deficit of balance of payments. It is because of this deficit financing that government has reduced public expenditure, increased taxes and introduced cost-sharing in social service delivery. All this has been done to promote prudent financial management. As a result the poor cannot afford to pay for such services as health and education. This has affected poverty alleviation efforts since the government is constantly deprived of resources. Government does not have the capacity to provide essential services as it runs a deficit budget.

**Local industries:** Most poor countries can boast of only an infant industrial sector. This sector, however infant, is often one of the major pillars of poverty eradication. These industries provide employment, markets for local raw materials and substitutes for imports. Liberalization and globalization often kills these budding industries through uncontrolled imports. Relatively cheap imported products fuel the

poverty cycle since they curtail local industries which are unable to compete. This results in unemployment and poverty.

This argument should not be misconstrued as supporting unviable classic protectionism—the imposition of high tariffs on imported goods. Classical protectionism is likely to hurt the consumer since in this formula the consumers have to subsidize local manufacturers. The only way forward seems to be to increase exports and control imports. The economy ought to develop a reasonable competitiveness. Measures such as protective tariffs can only postpone that day when the Ugandan economy can stand on its feet.

**Technology:** Technological innovations invariably go hand in hand with competitiveness. In the quest for profit maximization, foreign investment cannot be expected to consider local needs and conditions. In poor countries like Uganda where labour is abundant, many of the new investment companies employ capital-intensive technologies with complete disregard for the availability of labour. The result is unprecedented unemployment levels currently estimated at 60% of the labour force (Ministry of Finance, Planning and Economic Development 1999). The influence of unemployment on poverty levels requires no emphasis.

**Dependence:** Globalization has intensified the dependence of developing countries on the more developed economies. Many of the former countries survive on loans and grants from the latter.<sup>5</sup>

Table 3 shows the trends in growth of external debt over the period 1980 to 1999.

The existence of such a large foreign debt means that more money is required to service the debt regularly. The table shows the debt service ratio between 1991 and 1999 and indicates that a substantial proportion of export earnings are spent on debt-servicing, exacerbating the balance of payment crisis.

Uganda has benefited from the Highly-Indebted Poor Countries (HIPC) initiative through which debt relief has been extended to it.

---

<sup>5</sup> Uganda finances 90% of its development budget from grants from both bilateral and lateral organizations ( MFEF 1999).

**Table 3: Trends in growth of external debt and debt servicing 1992-1999**

	1992	1993	1994	1995	1996	1997	1998	1999
Multilateral institutions	1775	1843	2284	2488	2655	2763	2827	2783
Bilateral institutions (Paris Club)	273	282	343	371	351	339	325	288
Bilateral institutions (non-Paris Club)	378	381	424	404	401	457	462	362
TOTAL	2667	2682	3170	3375	3512	3658	3664	3510
Debt servicing as % of exports	59.7	69.5	45.6	26.4	24.1	23.2	33.7	28.9

SOURCE: IMF STAFF ESTIMATES; WORLD BANK 1996, GoU, 1995, GoU, 2000

NOTES: THE ABOVE DATA MAY NOT CORRESPOND TO THE WORLD BANKS DEBTOR REPORTING SYSTEM DUE TO DIFFERENCES IN CLASSIFICATION OF CERTAIN CREDITORS. THE DEBT HAS GROWN DUE TO THE NONREPAYMENT OF THE PRINCIPAL AS WELL AS INTEREST CHARGED ON ARREARS.

However, it should be noted that, while this initiative is a welcome one, in the short run it will not stimulate growth and development. If a country takes on a loan, then it is obliged to pay it back. No country can survive on the savings of another and no country should deceive itself that it can leap forward on the basis of relief from another country. The sooner this bitter truth is realized by developing economies, the better. As the classical theorists have argued, *“Development is a process that can only be initiated from within, it can only be propelled from outside (emphasis supplied).*

Ugandan economic managers may appreciate the efforts of HIPC but should accept that this is just a stopgap. The real initiatives for the leap forward must be strategic policies that will revamp the economy through competitive exports, a regime of suitable governance, efficient



**Table 4: Growth of real per capita income in high income and developing countries (average annual % change in real per capita GDP)**

	1960-1970	1970-1980	1980-1990	1991-2000	1990	1991
All developing countries	3.3	3.0	1.2	2.9	-0.2	-0.2
Sub Saharan Africa	0.6	0.9	-0.9	-0.3	-0.2	-1.0
All high income countries	4.1	2.1	2.4	2.1	2.1	0.7
East Asia	3.6	4.6	6.3	5.7	4.6	5.6
Latin America	1.4	1.1	3.1	3.1	2.6	1.5
Middle East	2.5	3.1	-0.5	2.2	-2.4	0.6
North Africa	6.0	3.1	-2.5	1.6	-1.9	-4.6
Eastern Europe	5.2	5.4	0.9	1.6	-8.3	14.2

SOURCE: THE WORLD BANK, 1992

management and instituting an infrastructural capacity capable of sustaining the economic sector. As a result of heavy debt-servicing few, if any, reserves remain for investment and capital formation. This results in the lack of basic services due to the lack of capacity to finance the services. It is because of this that the social services have been funded through grants. This does not auger well for the poor.

**Macro policy:** As already explained, this has been one of the most important poverty-related implications of globalization. Full scale liberalization, retrenchment, wage freezes, cost-sharing and tight fiscal and monetary policies have impoverished a whole cross-section of the Ugandan population. These measures are result of globalization—an attempt to make Uganda competitive on the world stage, at least in the long run. However, at present poverty has reached alarming proportions with a decline in real per capita income in developing countries, as indicated in Table 4.

- While real GDP per capita in sub Saharan Africa is in decline there has been positive change in real GDP per capita among developed countries. The result of declining real per capita income is a corresponding decline in standards of living and subsequent poverty,

in Africa in general and Uganda in particular. The causes of this decline include:

- Declining export prices and the falling domestic production of export commodities;
- A crisis of confidence in government and an erosion of institutional capacity.

Most sub Saharan African governments are preoccupied with crisis management, short-term solutions and self-preservation at the expense of long-term developmental concerns. Democratic institutions that provide a strong basis for political stability must be put in place in order to attract foreign capital.

According to the Oxfam Report (1992), the World Bank in its review of structural adjustment programmes in sub Saharan Africa conceded that adjustment has failed to restore growth and social welfare, and even where these programmes have been associated with higher levels of growth, as in the case of Ghana and Uganda, there is no evidence that they have reduced poverty levels.

Even in cities acute poverty have swamped the more affluent social classes which thought they had escaped its thrall and conditions for the masses are becoming increasingly difficult and stressful. What is required is policymakers with the foresight to look beyond aid and dependence and also able to look beyond the debt overhang. They must adopt policies that enable countries to compete effectively, generate employment and stimulate growth at both macro and micro levels.

Free-market competition itself is dangerous to poor countries<sup>6</sup> in a global village. For a poor country like Uganda to compete with powerful and very advanced countries like the USA and Japan can spell nothing but trouble for the former. Japan exports high-value automobile products

---

<sup>6</sup> Even in the past, regional cooperation pacts have crumbled due to the uneven distribution of the fruits of cooperation among the members. Invariably, the richer and more powerful the member, the greater the gains. An example is the old East African Community (EAC) where the more advanced Kenya gained much more than her neighbours, Uganda and Tanzania.

while Uganda exports coffee that is subject to inelastic demand. This has affected our foreign earnings and everything that follows.

## **6.0 The way forward**

POVERTY IN UGANDA is complex, cyclical, seasonal and multidimensional. Because it is so complex there can be no single-stranded solution for poverty reduction. A multifaceted approach is necessary to combine complementary sustainable and relevant interventions that are geographically-specific, carefully-targeted and mindful of seasonal pressures on households (Ministry of Finance and Economic Planning, 2000).

### ***6.1 Policy instruments for poverty alleviation in developing countries***

THE COLLAPSE OF COMMUNISM heralded a new era with the break-up of the eastern bloc and the end of the Cold War. Subsequent upheavals in the Asian Tiger economies and the depthless poverty in the adjusting poor countries in Africa and Latin America show that globalization and liberalization need to be handled with extreme care. The sustainable way forward seems to be a carefully-balanced embrace of the inevitable globalization, coupled with built-in policy mechanisms for mitigation the worst effects of international economic cooperation. For poverty eradication in the face of competitive globalization, poor countries like Uganda need a number of mechanisms.

### ***6.2 Industrialization***

IT HAS ALREADY been noted how industrial products attract more value than the raw material and agricultural products of the developing countries. Emphasis should therefore be placed on the development of a viable industrial sector, preferably using local resources and raw materials. Processing agricultural products to add value to them could be one way forward. Incentives, at least in the initial stages, should be provided to those willing to invest in such ways and would provide employment for local people.

### ***6.3 Diversification***

THE VAGARIES OF WEATHER and the notorious fluctuation of the prices of such products often adversely affect agriculturally-based countries like Uganda. Other forms of wealth such as oil and other minerals should be

sought. We should not depend on producing a small range of crops or minerals but should diversify into products such as flowers, fruits and semi-processed products. We also need to develop an appropriate infrastructure including roads and telecommunications, to facilitate marketing. Initiatives in the agricultural sector that have already been made have been impeded by the poor infrastructure.

#### **6.4 Infant industry protection**

THE WHOLESALE LIBERALIZATION of developing countries is likely to damage the growth of local enterprise. While embracing the principles of liberalization, it should be implemented selectively and gradually. Some infant industries need initial protection against dumping or against superior import substitutes. Considerations should include factors like employment, markets for local raw materials and national security.

#### **6.5 Modernization**

ONE MAJOR ADVANTAGE of globalization and the competition that comes with it is the promotion of efficiency. Conscious policies in agriculture are needed to promote efficiency and productivity. Modernization can greatly help: tractors should gradually replace hoes; fertilizers should be made use of and better varieties of seeds should be introduced. An example, which has already yielded results among peasant farmers, is clonal coffee.<sup>7</sup> Such innovations should be supported.

#### **6.6 Infrastructure**

AS MENTIONED IN section 6.3, it will be an uphill task to alleviate poverty in Uganda without addressing the question of the infrastructure. From the roads to railways, telecommunications, water and electricity, the infrastructure needs repair. Recent efforts in providing trunk roads and telephone lines have started to bear some fruit. There should be more emphasis on rural feeder roads to ease the marketing of rural produce. Electricity generation would also enable industrial sector growth.

#### **6.7 Governance**

ONE PILLAR OF good governance is democracy and accountability. The former ensures participation and non-exclusion while the latter ensures

---

<sup>7</sup> Coffee has increased their earnings from the sale of the cash crop but the world markets offer fluctuating prices.

efficient, and effective resource allocation and use. For almost four decades poor governance and corruption have bedeviled Ugandan government institutions. Structures to enforce accountability collapsed in the 1970s and have yet to be put in place. Cases of financial mismanagement at various levels of government are not uncommon and faint-hearted attempts to fight corruption have yet to bear fruit. It is precisely because of corruption, poor management and the lack of accountability that parastatals have been privatized. The paradox of privatization is that these corporations are run purely on *laissez-faire* principles with minimal, if any, consideration of social responsibilities such as the creation of more employment opportunities. It is unlikely, therefore, that the private sector will create more employment.

In 1993 Uganda has decentralized by devolving certain powers to the local governments.<sup>8</sup> The prime objective was to spread resources and incomes to the lowest levels of local government but the success of this depends on financing from the centre. In Uganda the centre itself is impoverished<sup>9</sup> and does not offer adequate support to local councils.

### **6.8 Vulnerable groups**

AS A RESULT MANY Ugandans will find it very difficult to extricate themselves from the clutches of poverty. Groups such as people with disabilities and uneducated and unemployed women and unskilled youth are at risk. Some well-targeted safety measures need to be incorporated in the national development policy. These may include support for small-scale enterprises and for local development projects initiated by young industries. Other policies could include the cross-subsidization of services such as health, education and sanitation.

---

<sup>8</sup> Since 1993 the government of Uganda has decentralized so that administrative, judicial and executive powers have been devolved to local government units.

<sup>9</sup> An impoverished population cannot be expected to generate revenue to government, because of less economic activity, widespread unemployment and subsequently low taxation.

## 7.0 Conclusion

### *Development partnerships or aid?*

FOR DECADES, THERE has been massive flow of aid to support poor countries but donor fatigue has set in. Uganda must find its own solutions. We have endeavoured to examine the impact of globalization and competitiveness on poverty alleviation and concluded that globalization is inevitable, given current trends in the development of technology. The powerful and invisible forces that have given rise to globalization are impossible to resist. However, some poor countries like Uganda may embrace globalization wholesale to their detriment. Caution is therefore advised to avoid calamitous consequences for such countries.

## References

- Akello, L.T. 2000. *The Impact of Retrenchment in Restructured and Divested State-owned Enterprises on the Socio-economic Well-being of the Affected Persons*, Kampala, Makerere University
- Bambeger, T. Holt, V, Von Braun 1996. *The Design and Management of Poverty Reduction Programmes and Projects in Anglophone Africa*. Proceedings of a seminar sponsored jointly by the Economic Development Institute of the World Bank and Uganda Management Institute, Washington DC
- Bank of Uganda 1995. *Annual Report*, Kampala
- Global Coalition for Africa, 1995. *African Social and Economic Trends, Annual Report*, Washington DC
- Gusterner, B. et al. 1996. African recovery in the 1990s. In: *World Bank Development Strategies in Africa*, Washington DC
- Mabogunje, A. 1990. The role of urban centres and resource mobilization. In: *Urban Perspectives*, 16 1 1 No. 2
- Masire, K. MacNamara, S. Pronk, S. Zenawi, M. Stewart, C. and Ginwala, F. 1995. *African Social and Economic Trends*, Washington DC, Global Coalition for Africa Publications

- Mbugua, K. 1993. *The Impact of User Charges on Utilisation of Health Care Facilities in Kenya*, Ph.D. Thesis, Brighton, University of Sussex
- Ministry of Finance and Economic Planning, 1990. *National Population and Housing Census*, Kampala
- Ministry of Finance and Economic Planning, 1997. *Background to Budget*, Kampala
- Ministry of Finance and Economic Planning, 1999. *Background to Budget*, Kampala
- Ministry of Finance and Economic Planning, 2000. *Uganda Participatory Poverty Assessment Project*, Kampala
- Ministry of Public Service, 1998. *Civil Service Reform*, Kampala
- Nuwagaba, A. 1997. *Sustainable Human Settlements in an Urban World*, Kampala, Makerere University
- Nuwagaba, A. 1999. Impact of macro economic policies on housing investment in Uganda; implications for the urban poor. In: *Social Science Research Review*, Addis Ababa, OSSREA
- Nuwagaba, A. and Lucas, 1999. *Household Coping Strategies toward Introduction of User Fees in Uganda*, Working Paper No. 26, Brighton, UK, University of Sussex, Institute of Development Studies
- Seguya, 1999. *Integration of Retrenched Soldiers in Civilian Life in Uganda*, Master's Dissertation (unpublished), Kampala, Makerere University
- UNDP 1995. *Human Development Report*, London, Oxford University Press
- UNDP, 1990. *Human Development Report*, New York, Oxford University Press
- World Bank, 1990. *World Development Report: World Development Indicators*, Oxford University Press
- World Bank, 1992. *Global Economic Prospects and the Developing Countries*, Washington DC
- World Bank, 1996a. *African Development Indicators*, Washington DC
- World Bank, 1996b. *Uganda; The Challenge of Growth and Poverty Reduction*, Washington DC
- World Bank, 1999. *World Development Report*, Washington DC