The Myth of Donor-Driven "Structural" Economic Transformation:
Understanding Taiwan's Lessons for Uganda

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Introduction

- Over the last few decades donor agencies (esp the BWIs) have been criticised for:

- Being undemocratic and unaccountable
- Being unconcerned about the voiceless poor
- Obsession with growth or what Ha-Joon Chang calls "growth fetishism" (Chang, 2006)

- Unconcerned about the structural transformation of the economies of aid recipients

Donors have responded to critics by..

- Initiating "home-grown", "country-owned" Poverty Reduction Strategy Papers (PRSPs)
- Supposedly giving "voice" to the poor thru "participatory" policies eg PEAP in Uganda
- Debt forgiveness under the HIPC Initiative
- Encouraging "structural" economic transfo.

- Purpose Of Paper: *Interrogate the possibility of donor-driven structural economic transformation (in Uganda)*

Central Argument

- *No fundamental change has taken place in the values/norms of donor agencies*
- Donors are becoming more subtle
- Adopting language of their critics *without* changing their economic ideology esp free-market fundamentalism whose recent manifestation is the trade-led development orthodoxy

To illustrate my point, I …

- Examine 'structural' transfo in Uganda in the light of effective transformation in Taiwan
- <u>Rationale for comparing Taiwan and Uganda</u>
  - Both are former colonies (one Japan, other Britain)
  - Both are economies of SMEs
  - Both are small nation-states
  - Both emerged from colonialism with an agricultural economy
  - Both had strong wishes to industrialise
- Question: *Why has Taiwan succeeded and Uganda failed to attain structural economic transfo?*

To answer the question, I …

- 1^{st} conceptualize structural economic transformation (SET)
- 2^{nd} Outline SET in historical perspective
- 3^{rd}, Document the presence or absence of SET in Taiwan and Uganda
- Outline the myths of SET in Uganda in the light of SET in Taiwan
- Conclusion

Conceptualizing structural economic transformation (SET)

- Orthodox donor agencies have committed 2 sins: one of omission and the other of commission
- The sin of omission lies in the claim that one should not worry about the structure of the economy is so long as the economy is growing rapidly
- Thus, Uganda (6% GDP growth) is compared favourably with Asian Tigers (eg Taiwan).

- Sin of commission is associated with donors’ misuse of “structural” economic transformation

By SET donors + local allies mean …

- Getting peasants to produce "for the market" – to resolve Goran Hyden's problem of the "uncaptured peasantry"
- Export diversification from traditional exports (coffee, cotton, tea) to non-traditionals eg. maize, vanilla, cut-flowers + processed fish ...
- Both are attained via things like micro-finance …
- Neither high value-added industrialization nor the hi-tech services sector is factored into donor perceptions of "structural" transformation

My Point of Departure …

- 3 distinctive scenarios of economic perfo. exist:

- Commodity-driven growth (based on extractive activities eg agriculture, mining, fishing, etc.
- Cosmetic value-addition (ie. ‘processing’ sugar, etc and last stage assembling)
- Substantial value-addition.

- 1st 2 deliver poor quality growth.
- 3rd delivers durable growth premised on SET

By “economic transformation” I mean…

- The fundamental change of the key productive sectors of a country from primary commodity production to higher value-added industrial and information activities (cf. ECA, 2006: 127).

- SET means changing the economy from the god-given comparative advantages to politically constructed *competitive advantages*.

- *SET is unlikely unless economic nationalism is adopted as the dominant ideology.*

By "economic nationalism" I mean …

- The use of domestic institutions to guide the key productive sectors
- Econ nationalism cannot take root unless econ liberalism is tamed.
- I've argued: econ liberalism is not necessarily a wrong ideology: It is simply inappropriate for LDCs
- What LDCs need are *strategic* (not orthodox) trade and industrial policies
- LDCs need to reclaim space for infant industry protection, subsidization, and SET

SET in Historical Perspective

- All successful countries historically embarked on the transfo of their economies into high value-added industrial and information economies.
- Examples:
  - Early Industrialization in – 18th C Britain
  - Early "Late" Industrialization – USA
  - "Late" Industrialization – Germany
  - "Late, Late" Industrialization – Japan
  - Catch-up Industrialization – Asian Tigers
  - *It's the absence of SET that explains failed development in Uganda/Sub-Sahara Africa*

SET in Taiwan *and* Uganda?

- Between 1961-1988, Taiwan achieved miraculous growth averaging 9.3%
- In late 1980s, Taiwan graduated into an industrial economy
- GDP growth averaged 6.4% in 1990s & 5% in 2000-2006.
- Taiwan survived the 1997 Asian crisis
- In 1950s, Taiwan's economic gurus promoted selected industries:
- Textiles, chemicals & artificial fibres, cement & metal products, electrical machinery and paper (Wade, 1990).

The criteria used

- According to the 1965-1968 Plan:
- … Stress must be laid on basic heavy industries (such as chemicals, wood pulp, petrochemical intermediaries, and large-scale integrated steel production) instead of end-product manufacturing or processing. Industrial production in the long-run must be centred on export products that have high income elasticity and low transportation cost. Around these products, there should be development of both forward and backward industries, so that both specialisation and complementarity may be achieved in the interest of Taiwan's economy (Quoted in Gereffi, et al., eds. 1990: 240).

Outcome? Real SET in Taiwan

- In 1980s, *strategic industries* for priority promotion were redefined in terms of "***high*** technology intensity, ***high*** value-addition; ***large*** market potential, ***large*** industrial linkage, ***low*** energy consumption, or ***low*** pollution (CIER, 1995: 12).
- In 1980, the Hsinchu Industrial Park was set up
- Taiwan becomes the world's 3rd largest producer of IT products in 1995 (Kuo and Liu, 1998).

SET in Taiwan cont'd…

- Btn 1981-1996, the share of traditional industries in manufactured output fell from 42.9% to 26.6%
- Share of technology-intensive industries rose from 20.2% to 37.5% (Table 1).
- Between 1989-1996, the share of technology-intensive exports in total exports rose from 24.3% to 38.0% (Kuo and Liu, 1998).
- Today, Taiwan is categorised as a high-tech industrial and knowledge economy

Taiwan: Structural Change in Manufacturing Sector (% Shares)

Year	Technology Intensive Industry	Traditional Industry	Basic Industry
1981	20.2	42.9	36.9
1986	24.0	40.4	35.6
1991	31.2	33.7	35.1
1995	35.5	26.8	37.7
1996	37.5	26.6	35.9

Uganda’s case

- Share of agriculture in total GDP remained the same btn 1963 & 1980 (about 52%), it then increased to 53% (1990) before declining to 42% (2000) & 36% (2005)

- Share of industry oscillated btn 7.8% (1963) to 8.7% (1970) to 4% (1980), 10% (1999) and 20% in 2005
- Share of services sector (dominated by tourism in 1960s) increased dramatically to 40.6% (2000) and 43% (2005)
- Tempting conclusion: Uganda has had SET.
- Problem: *Processing* dominates ‘industrial’ sector
- High-tech telecom services – raises qn of sustainability

Myth 1: Taiwan attained SET because of American Aid

- Erroneous prescription: Salvation for Uganda/LDCs lies in foreign aid.
- This claim misrepresents the facts.
- US aid was undoubtedly important in 1950s. But Taiwan rapidly deepened domestic savings
- Btn 1956 – 1960, domestic savings accounted for 54.5% of GDI.
- Btn 1971 – 1975, domestic savings accounted for 97.7% of GDI.
- By 1980s, Taiwan had repaid her creditors and started exporting capital.

Uganda's …

- Been donor-dependent esp. under Museveni rule (1986 – to-date).
- Ratio of domestic savings to GDI is only 5%
- Between 1991-1997, foreign aid to Uganda averaged US$590 million a year (MoFPED Database).
- In 1998, Uganda's total debt stock was US$3.2 billion (declared unsustainable).

- Uganda - the 1st country to obtain debt relief under HIPC. Under the original (1998) and the "enhanced" (2000) HIPC, Uganda got debt relief of US$2 billion (75% of the debts).

- "[D]ebt relief served as a license for the government to borrow even more" (Mwenda, 2006: 5).

- Uganda's total debt stock increased from US$3.6 billion in 2000/01 to almost US$5 billion in 2004/05

No. 2: The “Myth” of Debt Relief?

- Activists pushing for debt relief should know: debt cancellation is necessary but no sufficient.
- Evidence shows that borrowed monies do not become a debt burden if they are used productively
- A lot of re-prioritization is needed in domestic economy
- Evidence from Taiwan: Foreign aid works if it’s used for a short time.
- Deepening domestic savings matters a lot

Myth 3: Taiwan succeeded because of EOI

- Taiwan used a multi-pronged strategy:
- Basic ISI (protected by the state) – 1950s
- Advanced ISI + Basic EOI – 1960s
- Advanced ISI + Advanced EOI – 1970s +

- Implication 1: The claim that Taiwan avoided ISI in favour of EOI is mythical.
- What is true is that Taiwan used ISI for short time (cf. Latin American ISI)

N0. 4: Myth of structural transfo via export diversification

- As already hinted, the claim that structural transfo can take place via export diversification is mythical
- The shift from traditional exports (eg coffee) to non-traditionals (eg. cut-flowers) is a shift from commodities to commodities.
- It signifies ***no fundamental change*** in ‘structure’ of the economy

No.5: The myth of “rapid” donor-driven poverty reduction

- The reforms of IMF/World Bank fraternity have gone thru 3 major phases:
- Orthodox economic reforms - 1980s
- Pro-market institutional reforms – early 1990s
- Poverty Eradication Action Plan – (since 1997)
- Under PEAP, poverty supposedly declined from 56% (1992) to 35% (2001) to 39% 2003.
- Btn 2005 and 2006, poverty supposedly ‘declined dramatically’ from 39% to 31%

What’s the source of data?

- Experts at Uganda Bureau of Statistics + donors have based their empirical argument on:
- Increased land sales
- Increased ‘disposable incomes’ assoc with sales
- Increased expenditure on air-time
- Increased expenditure of the poor on health.
- These, I contend, do not necessarily signify improvements in SoL
- Eg: Land sales are largely ‘distress’ sales
- Tracer studies suggest worsening, not improving, SoL among those who sell off their land

Conclusion

- The claim of donor-driven structural economic transformation is mythical
- No fundamental change in econ structure has taken place in Uganda
- LDCs like Uganda have a lot to learn from SET in Taiwan and other Asia Tigers
- Effective SET in Taiwan resulted from economic nationalism PLUS *strategic* (not orthodox) trade and industrial policies
- This is what Uganda & other LDCs must learn.