TOPIC 3: THE DEVELOPMENT PROCESS AND CHOICE OF A DEVELOPMENT STRATEGY

Development process

Development is a multi-dimensional process characterized by the increase in real capital income of a country over a long period of time. The economy is transformed from a backward economy to a modern advanced industrial economy.

Development strategy refers to the policy measures taken by a planning authority aimed at the achievement of given development goals/ aims/objectives during a given time.

OR It is a broad policy guideline initiated and followed by a country in formulation and executing long term economic policies for the development of the nation.

NB: Economic policy refers to a statement of objectives and methods of achieving those objectives by the government, political party and business community

Choice of development strategy

This is defined as a search or an appraisal of an alternative course of action which leads to the development of the economy.

Development strategies for developing countries

Export promotion industrial development strategy

(Outward looking industrial development strategy)

Export promotion industrial development strategy: refers to an industrial strategy of promoting the domestic manufacturing sector with the view to increasing the export of manufactured goods.

Or

Is the policy of establishing industries to produce goods for the export market

Reasons for the adoption of the export promotion strategy of industries development

- To increase the country's foreign exchange earnings and this build up the reserves. This is due to the increased exportation manufactured products
- To improve on the country's balance of payments position. This is mainly due to the increased foreign exchange earnings from the increased export.
- To diversify the economy. This is due to the promotion of the industrial sector which increase the variety of goods produced and exported.

- To facilitate the use of idle potentials (domestic resources) of the country. This is because of the utilization of local resources as inputs in the manufacturing industries that are set up.
- To create more employment. This is due to the setting up of many manufacturing industries that employ many people as machine operators and managers leading to increase in incomes.
- To promote commercialization of the economy. This is because of the encouragement of production for sale.
- To redistribute income in the economy. This is due to the numerous employment opportunities that are a source of income to many people.
- To develop the agricultural sector, Uganda being an agro-based economy. This is due to the linkages created by the development of the manufacturing sector that utilizes inputs from the agricultural sector.
- To diversify foreign markets. This is due to the expansion of exports necessitating the acquisition of a variety of markets for the existing products.
- To encourage development of technology. This is because most of the manufacturing industries are owned by foreigners who bring with them modern efficient production techniques leading to high quality and quantity output.
- To accelerate economic growth. This is because most of the establishment of many industries that results into increased output hence economic growth.
- To facilitate the development of infrastructure. This is due to the setting up of roads and energy facilities. The roads are set up ease transportation of raw materials and finished products.

Requirements for export promotion strategy.

- Skilled manpower.
- Adequate raw materials.
- Extensive advertisement abroad.
- Transport and energy facilities.
- Trade agreements to create guaranteed markets.
- Export promotion institution.
- Extensive research to identify products needed in external markets.
- Fiscal incentives to the export sector like tax holidays and subsidies.
- Large entrepreneurial class to undertake risks in the development of the export promotion industries.

Questions

a. **Explain the objectives for export promotion in your country.**
b. **What are the limitations to export promotion as a development strategy?**

a. **Distinguish between export promotion and import substitution industrial development strategies.**
b. **Explain the merits of adopting the export promotion strategy of industrialization**.

Limitations to export promotion as a development strategy

Factors that limit adoption of export promotion strategy in my country are:

- Poor infrastructure like poor roads discourages potential investors from establishing industries for fear of high production costs involved.
- Limited skills. There is limited skilled manpower like machine operators (technicians) to be employed in the industries.
- Limited foreign market due to low quality products that cannot compete favourably in foreign markets. This discourages producers for fear of making
- High level of corruption. This results into misuse of the funds that would have been used for the expansion of the manufacturing industries.
- Political instabilities scare away potential investors from establishing industries and the existing ones from expanding theirs for fear of destroying them and losing their lives.
- Inadequate capital to buy land, machinery and inputs to be used in the establishment and running of the industries.
- Poor land tenure system limits accessibility to land to many potential investors thus discouraging them from establishing industries and also discouraging the existing investors from expanding theirs.
- Protectionist policies of the developed countries. They put restrictions on the exports from developing countries thereby limiting the amount exported hence discouraging them from exporting for fear of making losses.
- Limited local natural resources. There are limited raw materials which discourage potential investors to establish industries and existing ones to expand theirs for fear of producing at excess capacity and failing to earn high profits.
- Poor technology in the developing countries discourages potential investors from establishing industries for fear of producing low quality products which cannot compete in foreign markets.
- Limited entrepreneurial skills hinder the would be investors to establish industries because they do not have the necessary skills to run and manage them. This results in poor organization of other factors of production hence limited development of export-related industries.
- Firms are Usually high cost producers hence their products are relatively expensive. The strategy is limited by the expensive exports due to the high costs of production which make the exports uncompetitive in foreign markets and this discourages investors from producing for export for fear of making losses.

- Production of similar products hence cannot utilise developing countries" markets. There are limited markets for the exports of developing countries because they produce similar products which cannot be absorbed.
- High costs of advertising, market research and research into better products and processes scare off the potential investors.

Measures being taken to improve the performance of the export promotion strategy

- Giving fiscal incentives to exporters like tax relief and refund (customs drawback).
- Sending delegations of trade researchers to foreign markets or countries.
- Giving credit facilities to investors.
- Improvement of infrastructure.
- Setting up export promotion institutions.
- Joining regional co-operations.
- Encouraging diversification of exports.
- Carrying out extensive sales promotion campaigns in foreign markets.

Import substitution industrial development strategy

(Inward looking development strategy)

Import substitution industrial development strategy: refers to a strategy of producing internally the formerly imported industrial goods to reduce outflow of foreign exchange

Or

Refers to measures aimed at establishing industries to produce locally, goods that were formerly imported.

N.B. The inward looking development strategy calls for policies that stress economic self-reliance on the part of developing countries. These include development of indigenous appropriate technology and imposition of substantial protective tariff barriers in order to promote import substitution.

Requirements of the import substitution strategy

- Raw materials.
- Skilled manpower.
- Adequate market.
- Developed transport facilities.
- Adequate power / energy to run the industries.
- Incentives like tax holidays, credit facilities, tax rebates etc.

- Protectionism of the import substitution industries by imposing high tariffs on imported manufactured goods.
- Reduction of taxes on imported raw materials.

Reasons for the adoption of the import substitution strategy of industrial development.

- To reduce economic dependence. Import substitution industrialisation aims at reducing the reliance on imported manufactured goods.
- To save foreign exchange that would be used to import goods. Import substitution industrialisation aims at reducing foreign exchange expenditure on imported manufactured goods.
- To facilitate increased resource utilisation. Import substitution industrialisation aims at facilitating resource utilisation. This is due to increased production in the industries and high demand for raw materials by the industries.
- To develop the local skills. Import substitution industrialisation aims at promoting the development of local labour skills. This is through training facilities provided by the industries to enable labour handle modern physical capital.
- To create more employment opportunities. Import substitution industrialisation aims at providing gainful employment opportunities to an ever increasing larourforce. This is due to increased investment and production in the industries.
- To improve the Balance of Payment position. Import substitution industrialization aims at correcting the BOP position. This is done through reduction in the volume of imported manufactured goods and increase in foreign exchange earnings from exports in the long-run.
- To facilitate technological transfer. Import substitution industrialisation aims at enabling the shifting of new and better techniques of production by the foreign investors. This is due to the high use of efficient capital intensive technology in the import substitution industries.
- To accelerate economic growth. Import substitution industrialisation aims at stimulating investment. The increased investment leads to increased output production in the industries hence economic growth.
- To stimulate expansion of infrastructure. Import substitution aims at encouraging the development of infrastructure like energy plants to avail power and the road network to increase access to raw materials and areas of market for finished goods.
- To encourage capital inflow as foreign investors are attracted to set up such industries. Import substitution industrialisation aims at attracting foreign investors' to take on the large industries.
- To increase government revenue by way of taxation. Import substitution industrialisation aims at increasing sources of public income through payment of taxes and license payments.

- To control / check imported inflation. Import substitution industrialisation aims at ensuring stable prices in the economy by increasing production of formerly imported products from inflationary prone economies.
- To earn foreign exchange as some of these industries grow and begin to export some of the goods they produce.

Merits of import substitution

- Helps in saving scarce foreign exchange. The strategy saves scarce foreign exchange resources available by restricting expenditure on imported products.
- Reduces economic dependence. The strategy leads to production of goods that were formerly imported which results in reduced importation of manufactured goods hence reducing external dependence.
- Encourages exploitation of idle resources. More domestic resources are exploited as some of the industries use the locally available raw materials in the production process.
- Provides greater employment opportunities in the long run. This is because the strategy has more forward and backward linkages and facilitates the use of labour intensive techniques of production.
- Improves balance of payments (B.O.P) position. The strategy facilitates the setting up of industries that produce many goods that were formerly imported thus reducing importation and expenditure abroad.
- Facilitates technological transfer from More Developed Countries (MDCs).efficient modern technology is imported which leads to the improvement of the local technology leading to increased productivity.
- Stimulates growth of the industrial / manufacturing sector. This is because of the increased backward and forward linkages which enable the setting up of many industries.
- Promotes development of local skills through training. The strategy enables the organisation of workshops and seminars for the training of workers to operate and repair machines which results in improvement of skills.
- Promotes infrastructural development. The strategy encourages the construction of roads and rails to ease the transportation of raw materials and finished products.
- Controls imported inflation / reduces imported inflation. The strategy helps to control imported inflation by reducing the volume of imports from inflation prone economies.
- Encourages entrepreneurial development. The strategy facilitates the development of local entrepreneurs who undertake to bear risks and uncertainties through organisation of other factors of production.
- Encourages capital inflow in form of foreign private investments. The strategy facilitates the transfer of productive resources by foreign investors into the economies of developing countries leading to increased foreign exchange.

- Leads to foreign exchange earnings in the long run. In the long run, the strategy is outward paying and source of foreign exchange through exportation of the surplus products.
- Acts as a wider source of government revenue because it has more linkages and hence more economic activities which are taxed to raise income for recurrent and development expenditure.
- Promotes economic growth. The strategy fosters internal growth of the economy through increasing the quantity of consumer goods available.

Demerits of import substitution

- Encourages capital flight through profit and income repatriation .The strategy promotes excessive capital outflow since most of the industries are owned by foreigners.
- Subjects nationals to highly priced goods due to high costs of production. The strategy leads to high domestic prices due to high production costs leading to low standards of living.
- Limited variety of goods hence falling standards of living. There is limited variety of goods on the market because of protectionism which limits entry of imports.
- Consumption of poor quality goods/inferior substitutes due to continued government's protection which limits competition.
- Encourages high use of imported capital and intermediate goods causing balance of payments (B.O.P.) problems as a result of increased import expenditure.
- Tends to encourage capital intensive techniques resulting into technological unemployment whereby people are replaced by machines in the production process.
- Promotes monopoly tendencies with all the negative effects due to protectionism that limits competition from imported goods.
- Increased wastage of resources due to limited market. These industries produce r. excess capacity due to limited market resulting in wastage of resources.
- Over protectionism may lead to retaliation which reduces the volume of trade.
- Increased rural-urban migration with its evils since many of the industries are urban based. Many people move to urban areas to look for jobs leading to high crime rates, congestion, prostitution and development of slums.
- Results in a decline in government revenue due to a fall in import duty resulting from reduced importation.
- Increased government expenditure on subsidising the industries to encourage them to grow.
- High social costs like pollution because of many industries that are established eve off gases and release industrial wastes which pollute the environment.

- Management contracts are usually expensive to maintain for example tax holidays and concessions given. This reduces the net benefits of the investments in import substitution industries especially by foreigners.

Limitations to import substitution as a development strategy

- Small domestic markets hinder the expansion and growth of import substitution industries due to poor quality goods and the final product being more expensive than the imported goods. The investors are thus discouraged from establishing and expanding industries for fear of making losses.
- high cost industries because of protectionism. The industries put a lot of pressure on the government to protect them from foreign competition through government providing subsidies and tax holidays.
- Shortage of inputs or raw materials hence the need for imported intermediate products. The limited supply of basic raw materials leads to production at excess capacity. This discourages investors to establish the industries and existing ones to expand because of getting low profits.
- Limited capital for establishing the industries. There is limited capital to buy raw materials and install new machinery thus making it difficult to set up industries.
- Limited technology. Developing countries have poor technology which limits the establishment of efficient import substitution industries.
- Limited skills to manage these industries. There is limited skilled manpower in developing countries which results in inefficiency in the operation of import substitution industries.
- Political instability. Political unrest in some parts of developing countries has hampered successful operation of import substitution industries by scaring the investors from injecting capital for fear of their lives and property.
- Setting up of wrong industries due to poor choice of priorities. The
- industries set up are inefficient and cannot be maintained, for example, the foreign investors set up assembling plants for final stages of production, which industries are not a priority for the developing countries.
- Dependency on unreliable sources of foreign aid to finance the establishment and maintenance of the import substitution industries. This strategy requires high capital investment that may necessitate foreign aid which in most cases is unreliable.
- Demonstration effect in consumption which is reflected in high marginal propensity to import. Consumers in developing countries prefer imported goods to those locally produced goods which further limits the market.

Review questions

1. **“To what extent is the inward-looking industrial development strategy ideal for your country?"**

2.(a) Explain the rationale of setting up import substitution industries in your country.

b. What are the limitationsto import substitution as a development strategy?

Choice of technique of production in industry

1. **Labour intensive techniques of production (1 pound technology).**
2. **Capital intensive techiniques of production (1000 pound technology).**
3. **Intermediate technology.**
4. **Appropriatetechnology.**

N.B: Technology basically refers to the ways or methods of carrying out production in an industry.

Developing countries need to make a wise choice between capital intensive and labour intensive techniques of production. **The choice of technique to be used depends on the following factors:**

- The degree of availability of the technique**.**
- The size of market to be served by the technique of production.
- The amount of output required.
- The benefits from the technique.
- The efficiency of the technique.
- The dangers associated with the technique.
- The cost of the technique in relation to the prices of the final output.
- The degree of substitutability of the method of production.

Labour intensive techniques of production(1 pound technology)

These are production methods that employ relatively more labour than other rectors, especially capital.

This production technique uses proportionately more labour than capital. It is referred to as a 1 pound technology or a capital saving technology. It is called a capital saving technology because it saves capital but it uses more units of labour, it is also called a one pound technology because it is cheaper and associated with low skills.

Merits of labour intensive techniques of production in developing countries.

- It is a source of employment in developing countries which experience high rates of unemployment. It creates more jobs in developing countries where there is redundant labour force. For example labour intensve methods help to create more jobs for people in the agricultural sector.

- It is cheap and easily affordable. It is cheaper to obtain and maintain when compared to the capital intensive techniques which are expensive to acquire. This is a bigger advantage in developing countries which have limited capital resources.
- It saves foreign exchange which would otherwise be used to import capital machines. This is because there is use of locally made simple tools hence there is no need of spending foreign currency to buy capital machines from other countries.
- It requires limited skills. The technique does not require complex skills because many people learn on the job. This fits well in developing countries where there is shortage of highly trained manpower.
- It facilitates the exploitation of vast rural potentials since the techniques are mainly rural - based. These techniques promote resource utilization in the rural areas through activities like farming, brick laying, making mats, carpentry e.t.c. This reduces excess capacity in the rural areas.
- Facilitates fair income distribution. More people are employed when labour intensive techniques of production are used. Income is earned by the employed people and this helps to re-distribute income.
- It is needed in agriculture where human judgment is paramount. Activities like harvesting ripe coffee beans, weeding of crops such as beans, maize, millet e.t.c) call for human judgment. Therefore, such activities require manual workers i.e labour intensive techniques of production.
- It reduces social costs in form of pollution. This method of production is not associated with activities that easily pollute the environment, that is, it is environmentally friendly unlike the use of capital intensive methods in industries that give rise to negative externalities like air and water pollution.
- Controls over- exploitation of resources. It does not result into excessive use of resources especially in the short - run. Irrational use of resources is avoided. As more people are employed, incomes and aggregate demand rise hence encouraging further investment.
- It can easily be spread all over the country and this helps to increase output. As output rises, higher rates of economic growth / GDP are attained. As more people are employed, incomes and aggregate demand rise hence encouraging further investment.

Demerits of labour intensive techniques of production

- It results into low output levels (low productivity). Due to use of rudimentary tools and limited skills in production, there is low output per un: of labour. This low productivity leads to slow growth of firms.
- It gives rise to low quality output. Production units that use labour intensive techniques produce low quality products. Such low quality products are less competitive and they are sold at low prices on the market. This causes losses to producers.

- It is associated with labour unrest. Trade unions can mobilize the dissatisfied workers to go on strike. The employers have no alternative since they depend on this labour. Strikes lead to loss of production time hence causing losses to producers.
- It is costly in the long-run. In the long run, it becomes costly to maintain a big number of workers (labourers) in terms of paying wages, catering for their accommodation, medical care, feeding, transport allowances e.t.c.
- It calls for a lot of supervision of workers at their work place. These results into heavy supervision costs because there is need to employ supervisors to be in charge of the workers.
- It does not encourage skills development. Since there is use of rudimentary tools in production, workers may not undergo training to acquire skills of using them. This kills the drive to acquire better skills in production.
- It does not encourage technological development. It is associated with limited innovations and creativity. The methods of production are not improved upon and remain more or less the same over time. This limits technological development.
- It results into under- utilization of resources. Due to its low productivity, some resources remain un exploited. Excess capacity arises and this causes low rates of economic growth. / low GDP.
- It is slow and time consuming. This arises from use of manual labourers who take more time to accomplish tasks. Therefore, more time is taken before goods are put on the market. A producer may miss some immediate opportunity to sell goods to those who need them yet they are not available on the market.
- It is hard to produce standardised output using this technique of production. It is hard to have products of uniform size, appearance and quality when producers use labour intensive techniques of production.

Capital intensive techniques of production (£ 1000 technology or labour saving techniques of production)

Capital intensive technology is a production method which employs relatively proportionately) more capital than other factors of production, especially labour.

This production technique employs a big proportion of capital relative to labour ice other factors. It is alternatively termed as **a labour savingtechnique of production**. The term is used because it uses less units of labour and more units of capital. Since the technique is expensive and it involves hiring highly trained manpower, it is referred to as **the £1000 technology.**

Advantages of capital intensive techniques of production;

- Leads to high quality of output. As firms use capital intensive methods, the quality of products improves. Such high quality commodities command a wider market. Producers are able to earn higher profits which are an incentive for increased production.

- It saves time and it is less tiresome. The use of machines reduces on loss of reduction time in industrial firms. Machines simplify work and this reduces fatigue.
- Economies of scale are enjoyed due to large scale production (it leads to mass production/ it increases output). The level of productivity increases when capital intensive techniques of production are employed. More output is generated hence a higher level of economic growth/ GDP is attained
- It minimises the size of the wage bill paid to labour. It uses fewer labourers and consequently there is a reduction in the amount of money paid to workers in form of wages.
- It improves the skills of workers hence increased labour efficiency. Workers who handle machines are able to acquire skills from time to time, for example, some technicians learn skills of handling machines via on-job-training. Improvement in skills creates efficiency at work.
- It results into technological development and transfer. As a result of innovations and inventions, firms that are capital intensive gradually improve on local methods of production. At the same time there is technological transfer in form of imported machines like tractors and other industrial implements.
- It minimises or reduces on labour unrest. Less manual workers are employed in capital intensive production units. Therefore, the possibility of labour unrest in form of strikes is reduced.
- It facilitates better (optimum) and increased exploitation of resources. Capital intensive machines are applied in farming and in extracting minerals from their natural state (endowment). This enhances use of resources and excess capacity is avoided.
- It facilitates development of infrastructure. Capital intensive machines such as heavy tractors are used in road construction thereby helping in setting up basic infrastructure that supports further production.
- Leads to standardisation of output. By using machines during production, it is possible to make products of standard/same size, quality shape e.t.c E.g if a Bakery uses machines to cut dough into uniform sizes, loaves of bread of standard size are produced.
- It may promote employment in the long-run. Many capital intensive industries are set up and they provide jobs to machine operators or technicians and professional engineers. As these firms expand, investment levels rise thereby creating more jobs in the long- run.

Demerits / negative implications of capital intensive techniques of production

- It is associated with technological unemployment. The use of machines in production units reduces the size of the manual workers. Tasks which could have been handled by manual labourers are executed by machines. This causes technological unemployment.
- It worsens income inequality. It creates an income gap between those employed in the labour intensive firms (these earn low incomes) and those employed in capital intensive firms, like engineers who earn higher incomes due their professional skills.
- It is associated with mass production which may lead to wastage especially where the market is small. This results into losses to the producers thereby limiting further investment.
- It requires complex skills which may not be readily available in developing countries. Many developing countries experience shortages of trained engineers and technicians who can competently handle machines in production firms. These countries resort to use of expatriates who are expensive to maintain and at the same time external resource dependence is worsened.
- It is mostly afforded by foreign firms whose owners repatriate profits to their mother countries. This causes a small multiplier effect in developing countries.
- It is associated with high costs. Heavy costs are incurred on purchase machines and related spare parts, repair and maintenance, salaries to machine operators e.t.c These heavy costs reduce the profits of producers.
- Over exploitation of natural resources which leads to resource depletion is bound to occur. By employing machines in the harvesting of timber from forests, there is a danger of depleting forests as a resource (there is reforestation).
- It generates social costs/ negative externalities to the public or society. Machines used in industries cause noise pollution. Dangerous gases are also emitted from industrial machines thereby causing air pollution. These social zests reduce peoples' welfare.
- Machines are not applicable in certain tasks or activities where human judgment is required /vital. A task such as marking handwritten examinations calls for personal human judgment of the examiner and a line is not applicable. Harvesting of ripe coffee beans and vanilla also - for human judgment hence rendering machines irrelevant.

Limitations of adopting capital intensive technology

- Limited funds / stock of capital to purchase machines repair them and maintain them.
- Limited labour skills to operate and repair the machinery.
- Small / limited markets for the technology and products i.e. the small markets cannot support mass production.
- Inappropriate where human judgement is required.
- Underdeveloped / poor conditions of infrastructure like poor roads to transport the machines.

- Political instability whereby investors are not willing to install their machines for fear of being destroyed.
- Conservatism / cultural rigidities whereby people are not willing to use machines and prefer to use their traditional production techniques.
- Poor land tenure system that cannot support production on a large scale.
- Low level of inventions and innovations due to limited research capacity.
- Limited entrepreneurial ability whereby there are few people with ability and skills to use and manage the modern technology.
- Poor topography, for example, hilly areas or rugged terrain that does not allow use of machines in production.
- Poor accountability or corruption leading to misuse of funds meant for the purchase of the technology.

Circumstances where capital intensive techniques can be applied in spite of abundant labour

The abundancy of labour does not mean that labour should always be used. There are situations that necessitate the use of capital intensive techniques. These include:

- Where capital intensive equipment is given to developing countries as a donation or grant, the abundant labour will not be utilised.
- Where labour is abundant but lacks the necessary skills, capital intensive techniques will be used.
- Where there is need to produce high quality products required in international markets, capital intensive techniques are preferred. Where the entrepreneur wants to acquire high levels of efficiency and productivity, capital intensive techniques are preferred to labour intensive. Where there is need for continuity in production process, capital intensive techniques will be used since the abundant labour may disrupt production through strikes.
- Where labour is abundant but expensive in the long run in terms of feeding, accommodation etc yet capital is artificially cheap due to lowering of taxes or. the equipment by the government. This encourages the entrepreneur to use capital intensive techniques rather than labour which is abundant. Where there is need to encourage technological development and transfer, capital intensive techniques are preferred, for example, foreign investors are more used to capital than labour.
- Where there is need to save time and produce output at a faster rate, capital intensive techniques are preferred compared to the abundant labour that is slow and time consuming.
- Where there is need to produce standardized output in order to promote economic growth, capital intensive techniques will be applied leaving the abundant labour unemployed.

- Where there is need to maximumly utilise the local resources, capital intensive techniques are preferred compared to the abundant labour which may result into excess capacity if applied.

A summary of the impact of labour intensive and capital intensive techniques

Labour intensive technology is the method of production which uses more labour relative to other factors of production especially capital.

Impact of using labour intensive techniques

Positive impact

- Provision of employment opportunities
- Facilitated fairer income distribution
- Encouraged use of locally available resources
- Widened tax base
- Controlled social costs like noise and pollution
- Helped to control excessive resource exploitation
- Saved foreign exchange that would be paid to expatriates.
- Helped to spread development because can be adopted in all regions of the country
- Encouraged investment due to increased demand
- Easily adapted since there are limited skills and requires low skills

Negative impact

- Constrained productivity in the economy
- Low quality output produced
- Resulted into resource under utilisation S low in producing goods
- Hard to standardize output
- High costs of providing amenities and wages
- Stifled skills development
- Labour unrest in for of strikes
- Stunted technological development
- Limited infrastructural development
- Hampered firms enjoying economies of scale due to low output levels.

Capital intensive technology are production methods that employ relatively - :re capital than other factors especially labour.

Impact of capital intensive technology

Positive impact:

- Facilitated optimal resource utilization, this is because the exploitation of available potentials is made possible as marginal land is put to use.
- Led to production of better quality goods.
- Led to production of higher output hence economic growth.
- Reduced labour unrest.
- Enhanced labour efficiency through training.
- Encouraged technological transfer and development through encouraging research and innovations.
- Led to the development of infrastructure. This is by facilitating and initiating mad construction to increase access.
- It is time saving in that it has promoted efficiency in production as it is faster than labour using techniques.
- Acts as a basis for industrial development.
- Diversification of production is made possible.
- Led to reduced/ lower costs in the long run because of low wage bill.
- Led to development of labour skills.
- Led to standardisation of output.
- In the long run offers employment.

Negative impact:

- Led to technological unemployment.
- Worsened the problem of income inequality.
- Resulted into over exploitation or resources thus quick resource exhaustion or depletion.
- Requires a lot of capital to purchase and maintain.
- May not apply in all areas or sectors for example it cannot be used in production of goods that require human judgements like tea and coffee.
- Led to high social costs like pollution and environmental degradation.
- Led to rural-urban migration and its negative effects.
- Resulted in problems of profit repatriation because of foreign ownership.
- It is costly in the short run.
- Led to mass production and thus wastage where market is small.

Technology

Technology refers to the knowledge of how to produce goods.

Technology development

Technology Development is a process of introducing, initiating and improving of the indigenous techniques of production.

Technology transfer

Technology Transfer is the shifting or movement of new and efficient production techniques from one economy to another mainly form developed economies to less developed economies.

Merits of Technology Transfer

- Leads to increased productivity of labour leading to greater output.
- Facilitates exploitation of resources. The introduction of better machines helps to exploit resources that would have remained idle.
- Leads to new and better quality products leading to high standards of living.
- Leads to development of labour skills. Labour acquires skills through training to use the new efficient machines.
- Leads to increased growth of the industrial sector. The new and efficient production techniques lead to establishment of more and more industries leading to the growth of the industrial sector.
- Facilitates infrastructural development. There is increased construction of roads which enables easy transportation of finished products and raw materials leading to increased output.
- Leads to reduced wage bill in those affected firms as less labour is used.
- Leads to social and cultural transformation leading to economic growth and development.
- Promotes improved relations between countries hence increasing the volume of trade.
- Leads to production of standard output because goods pass through the same production process.

Demerits of Technology Transfer

- Leads to technology dependence and its associated negative effects like importation of capital intensive technology which is not appropriate to the economy.
- Leads to mass production which is not suitable for the small markets hence wastage of resources.
- It is expensive or costly to employ for it requires highly skilled manpower which is expensive and the process requires a lot of money to purchase and repair
- Leads to increased outflow of foreign exchange to import spare parts hence worsening balance of payments position.
- Leads to technological unemployment whereby machines replace labour.
- Leads to regional imbalance since it is mainly applied in urban areas neglecting rural areas.
- Leads to over exploitation of resources leading to quick depletion of resources.
- Promotes income inequality since it is owned by a few people.

- Leads to moral decay, for example, through internet on computers where people Jewess pornography.

Limitations (obstacles) to technology transfer

Major obstacles/ constraints to technology transfer from Developed to developed countries include:

- Political instability. This scares away potential investors discouraging them team installing their machinery and does not provide a conducive environment for technological development.
- Inadequate funds in the developing (recipient) countries. There are limited funds to purchase and maintain the technology since it requires a lot of money to buy spare parts. This limits technological capacity building.
- Inappropriateness of the technology being transferred. Most times the technology transferred is irrelevant and unsuitable to conditions prevailing in the developing countries.
- Prohibition by patent laws in the developed countries. Intellectual property rights in form of patent laws have limited the developing countries from using their technology.
- Inadequate scientific skills for manning the technology. There is limited skilled manpower to operate and repair the new technology.
- Conservativeness. Some people are not willing to embrace the new technology (ideas) due to strong religious, cultural and traditional attachment, hence they prefer to stick to their technology they are used to.
- Poor infrastructure like poor roads which discourage movement of machines.
- Limited absorptive capacity. When the new technology is introduced it operates at excess capacity leading to wastage.
- Foreign sabotage. The rich technologically developed countries have sabotaged technological development in developing countries which would subject them to stiff competition and probably make the developed countries lose their market in the developing countries.
- Protective policies of recipient (developing) countries whereby they restrict importation of technology by imposing high tariffs on capital goods.
- Limited entrepreneurship skills whereby there are few people with ability and necessary skills to use and manage the modern efficient technology
- Ideological differences. This makes difficult to access better technology from some developed countries.
- The poor education system which is theoretical in nature and inappropriate does not facilitate technological capacity building but instead promotes capacity to consume foreign technologies and their products through the foreign sophiscated tastes it creates.

Intermediate technology

Intermediate technology is the method of production that is neither tool backward nor too advanced.

Or a method of production that is between capital intensive and labour intensive technology. It thus uses labour and capital in a fair proportion.

It is a production technique which lies between the advanced capital intensive technology and the labour intensive technology. Therefore, this production technique is mid-way the capital intensive and labour intensive methods of production. For example the use of ox-ploughs in cultivation in some parts of Uganda is an example of intermediate technology.

Characteristics of intermediate technology.

- It mainly uses locally available resources / raw materials.
- Production is largely based on the local market, that is, producers sell output the local market.
- It can easily be adopted to local conditions like the use of Ox-ploughs in an area, takes into account the existing climatic conditions in that area.
- It is cheaper than capital intensive technology and can be afforded by a fairly big number of producers.
- It is basically a rural - based technology.

The impact of intermediate technology

Positive impact (merits)

- Created more employment opportunities to the people.
- Reduced rural urban migration and its negative evils.
- Facilitated rural development since it is a rural -based technology.
- Promoted local skills and expertise.
- Produces according to the local needs of the people and therefore reduce wastage.
- Re-distributed income thereby creating a fairer income distribution.
- Facilitated exploitation of resources.
- Increased the level of output.
- Saves the scarce foreign exchange since it uses limited imported inputs.
- Led to improved quality of output.
- Led to the development of local technology.
- Cheaper and easy to adopt.

Negative impact (demerits)

- Involves high costs since some machines are bought to be combined with manual labour that is being hired in a production unit.
- Gives rise to depletion of resources in the long - run.
- Results into lower productivity / lower output levels than that generated in capital intensive using production firms.
- There is a high wage bill incurred by producers. This arises because wages are 3£id to manual workers and the professional experts in charge of operating and repairing machines.

Role of intermediate technology in development

Role of intermediate technology in development include the following:

- Creates employment opportunities by making use of locally available labourforce in most segments of production.
- Helps in fair income distribution as it employs more and is used widely.
- Encourages exploitation of local resources or raw materials.
- Reduces foreign dependence on imported inputs and consumer products.
- Increases productivity of local resources leading to high output thus economic growth.
- Encourages rural development and transformation as it is mainly rural based. This controls rural-urban migration.
- Saves scarce foreign exchanges as limited inputs are imported.
- Promotes forward and backward linkages with other sectors of the economy hence limited wastage of resources.
- Promotes local research, innovativeness and creativity.
- Promotes local entrepreneurship by encouraging risk taking in the economy and organization of other factors of production.
- Promotes economic indigenisation as it mainly uses local resources.
- Promotes balanced regional development as it is geographically widespread.
- Promotes development of local skills most especially where it involves -rgrading of labour intensive methods.

Limitations of intermediate technology in developing countries

- Narrow markets for the locally produced goods.
- Inadequate supply of skilled manpower.
- Limited capital to finance research.
- Foreign sabotage by More Developed Countries.
- Conservatism.
- Limited government support and encouragement.

Appropriate technology

An appropriate technology is a production method which is **socially and economically suitable** for a given economy (society).

OrA production method which is in line with development objectives and suits the development level of an economy.

N.B The emphasis is on the suitability of the technology e.g the use of energy saving cooking stoves , use of solar energy equipment, use of gas for lighting arc cooking can be appropriate in one society while in another society it is Hydro -electric power which is appropriate as a source of energy.

Conditions under which a technology may be regarded as Appropriate

In developing countries, technology is said to be appropriate if it satisfies the following conditions:

- When it suits the social conditions of the economy /area.
- When it is economically suitable for the society using it.
- When it is affordable and readily available to the people who want to use it.
- When it is suitable for the local surroundings and friendly to the environment in which it is being used.
- When it leads to employment of the locally available labour.
- If it uses locally available resources or raw materials.
- When it is rural based thus facilitating the establishment of industries in rural areas.
- When it is suitable for the market it is intended to serve.
- When its components and maintenance are made and done locally.
- When it does not require advanced skills that are not available but uses locally available skills.

Factors that influence/affect/determine the development of appropriate technology

- Availability of funds/ capital
- Level of skills / education.
- Level of entrepreneurship.
- Level of innovations and inventions.
- Degree of external / foreign influence.
- Government influence on technological development.
- Market for technology and products made using that technology. A wider market for goods produced using appropriate technology, increases the use of that technology while a small market for goods leads to a reduction in the use of the technology.

- Cultural factors. Where cultural beliefs favour appropriate technology, it becomes more developed. However, where cultural beliefs are not in line with this technology, it becomes less developed.
- Natural factors, for example, topography, soils and drainage. Unfavourable natural factors limit the development of appropriate technology while favourable natural factors stimulate the development of appropriate. Technology for example, the use of ox-ploughs as an appropriate technology in some areas is influenced by natural factors.

Factors that limit the development of appropriate technology

- Limited capital.
- Unfavourable cultural factors,
- Negative external influence.
- Limited skills.
- Limited government support on technological development,
- Low level of entrepreneurship.
- Low level of innovations and inventions
- Unfavourable natural factors like poor soils, por drainage etc.
- Narrow market for the technology and its products.

Questions

a) "Distinguish between **Labour saving** and **Capital saving** techniques of
b) "Uganda needs to adopt capital intensive techniques of production as a way of attaining higher rates of economic growth. "Discuss".

a)Distinguish between **technological development** and **technological transfer.**

b)Explain the factors that limit technological transfer in developing countries.

a) Differentiate between Labour intensive technology and Intermediate technology.

b) Assess the implications of using labour intensive techniques of production in ml economy.

Foreign direct investment in uganda

Foreign direct investment or direct foreign investment is the transfer of productive resources or capital by foreign individuals, companies, and multinational corporations inform of business operations.

Key terms to note

i. Investment is the process of creating capital stock or process of devoting part of a person's / nation's income to create capital stock /capital goods.

ii. A Multinational corporation. This is an international company which has its headquartersin one country but it has a number of affiliate branches and areas of operation in other countries; in both developed and developing countries. Examples are: Coca-cola, Caltex, Shell, MTN: Sony, Panasonic, Toyota among others.

iii. Foreign private investment refers to the process of devoting part of income to the increasing of capital stock in the country by individuals and firs from other countries.

iv. Foreign capital investment refers to investment by foreigners as individuals, companies and multi-national corporations involving the transfer of productive resources in form of business operations.

v. Foreign capital refers to producer goods in the country which are owned by outsiders/foreigners and it is mainly manifested in investment undertaken by MNCs.

vi. Private foreign investment is the shifting of producer goods from one country to another, mainly form developed to developing countries, by firms and or individuals.

Factors that have influenced the level of foreign direct investment in uganda

- The availability of investment incentives (tax incentives). The provision economic incentives such as land allocation in Namanve and tax holidays (relief) leads to high levels of foreign direct investment because it reduces production costs and increases profits which encourages the foreign investors to invest more but high taxes lead to low levels of foreign direct investment because it leads to high production costs and low profits thereby discouraging foreign investors.
- The level of infrastructural development. High level of infrastructural development leads to high level of foreign direct investment because it enables the transportation of inputs to production sites as well as transportation of finished products to markets which encourages foreign investors but poor infrastructure in form of poor roads hinder access to inputs and market for finished products which discourages foreign investors hence low foreign direct investment.
- The political climate /atmosphere. Favourable political climate leads to high levels of foreign direct investment because foreign investors are confident of the security of their lives and property which encourages them to establish production plants but political unrest leads to low levels of foreign direct investment because it destroys production plants and infrastructure resulting in heavy losses hence scaring foreign investors from investing in such areas.
- The availability of raw materials (the natural resource base). Greater and better exploitation of available natural resources leads to large scale production which encourages high levels of foreign direct investment but limited basic raw materials limits the production capacity of firms that are set up which results into low levels of foreign direct investment.
- The availability of capita/ (the existing stock of capita). Big size of the existing capital leads to high level of foreign direct investment because it increases the capacity of

investors to hire factors of production to be used for the establishment of foreign investments and expansion of the existing ones while small size of the existing stock of capital leads to low levels of foreign direct investment because it limits the capacity of investors to hire factors of production to be used for the establishment of new firms and expansion of existing ones.

- The entrepreneurial ability. High level of entrepreneurial ability leads to high levels of foreign direct investment because investors have sufficient skulls to organise factors of production to yield maximum output and to exchange the products to maximise profits but low levels of entrepreneurial ability leads to low levels of foreign direct investment because investors are unable to effectively mobilise factors of production which limits establishment of new foreign investments.
- The labour skills. A big size of highly skilled workers is able to promote foreign direct investment due to its high level of efficiency and productivity but limited labour skills result into low labour productivity and efficiency thereby discouraging foreign direct investment.
- The techniques of production. The use of better, advanced technology encourages greater levels of production which promotes high levels of foreign direct investment but the use of poor technology in production does not lead to increase in output thereby discouraging foreign direct investment.
- The land tenure system. A better land tenure system which allows individual ownership of land increases access to land for investment purposes hence high levels of foreign direct investment but a poor land tenure system limits access to land resources for investment purposes which discourages foreign direct investment.
- The degree of conservatism. Increased levels of conservatism where people have a negative cultural attitude limits production due to the traditional way of doing things thereby discouraging foreign direct investment but an increase in the number of people with a positive cultural attitude are willing to take on modern methods of production and are able to produce more goods and services leading to high levels of foreign direct investment.
- The market size. The expansion of market for the products of foreign investors through, for example, joining regional co-operation such as East African Community leads to high levels of foreign direct investment because there is an increase in the amount of profits enjoyed and limited wastage of resources but a small size of the market leads to low levels of foreign direct investment because investors are discouraged to invest due to fear of excess output that leads to wastage of resources and heavy losses.
- The level of accountability (corruption). High level of accountability and financial discipline increases the funds meant for investment thus promoting high levels of foreign direct investment but poor accountability or1 of corruption leads to misuse of funds that would facilitate investment to personal interests hence limiting foreign direct investment.

- The price stability (the rate of inflation). Low inflation rates lead to low costs of production and increased profitability which encourages the expansion of foreign direct investment but high rates of inflation increases the cost of production and reduces profit levels thereby discouraging foreign direct investment.
- The degree of liberalisation of the economy. The liberalisation of the economy allows foreign investors to participate in production for exchange which results in the growth of foreign direct investment but increased unnecessary government controls on trade limits the freedom of individuals to set up investments thereby discouraging the growth of foreign direct investment.
- The level (degree) of bureaucracy. High level of bureaucracy makes it difficult to acquire clearance, work permits and licences thereby discouraging foreign direct investment but low level of bureaucracy makes it easy to get work permits, clearance, licences and access to utilities thereby promoting high levels of foreign direct investment.
- The level of (external) publicity of investment opportunities in the country. Increased international campaigns on possible investment opportunities in the country encourages more foreign investors to come and set up investments hence increase in foreign direct investment but the inability to carry out international campaigns to convince investors to come and set up investments in an economy limits the level of foreign direct investment because there is limited awareness of investment opportunities.

Merits (benefits) of foreign direct investment in Uganda

- Closes the foreign exchange gap/ leads to increased inflow of foreign exchange. Foreign investors bring in foreign exchange in order to finance then-activities. They exchange it for the local currency and this help to close the foreign exchange gap in Uganda.
- Leads to increased output hence economic growth. Foreign investors increase the volume of goods and services produced in Uganda thereby contributing to economic growth and increased Gross Domestic Product (GDP).
- Creates more employment opportunities. Business firms and enterprises set up by foreign private investors provide more jobs to the local people (both skilled and semi-skilled people). Those who are employed earn income in order to sustain their lives by buying the basic necessities.
- Source of revenue to government through taxation. The government taxes the profits of multinational corporations (corporate tax) or charges PAYE (Pay As You Earn) from the salaries of workers in Multinational corporations. This enables government to raise revenue to provide public goods which are necessary for development.
- Means of technological transfer/ fills the technological gap. Foreign direct bring better and more efficient techniques of production from their countries. This leads to production of high quality products.
- Promotes the development of local labour skills/ leads to increased supply of labour. Foreign investors train the local people through on - job training programmes and this

enables them to acquire the basic skills needed in that is, they train technicians, production supervisors, book keepers among others.

- Promotes use of local resources which would have remained idle hence of resource wastage. Multinational corporations produce final products by making use of raw materials and other resources that would otherwise lay idle for example, oil companies from other countries are exploiting oil wells in Uganda; which have remained un- tapped.
- Widens consumer choice due to production of a variety of goods. Since consumers are able to select what to buy from a wide range of inter-related goods and services, this enables them to improve their standard of living.
- Promotes the development of basic infrastructure. Foreign investors are investing in the provision of infrastructure like electricity, communication facilities, banking infrastructure among others. This has promoted the development of basic infrastructure in Uganda. Although the infrastructure are for their benefit, members of the general public also benefit by accessing the infrastructure.
- Promotes efficiency of local firms due to competition. The local firms also strive to improve quality of their products so that they are not outcompeted by the foreign investors. This results into increased efficiency of local domestic firms.
- Accelerated industrial growth in Uganda/ led to the development of the industrial sector. Some foreign investors set up industrial firms for example manufacturing and agro - based processing industries and this increases the pace : f industrial development in Uganda.
- Promotes international co-operation (friendly relations with other countries) and therefore increases international peace and the volume of goods traded. By hosting foreign investors, Uganda is able to maintain stronger political ties with mother countries of those foreign investors. This has an advantage of promoting trade links with other countries hence getting other associated benefits.
- Encourages inventions and innovations, hence technological development. Foreign investors carry out research and try to develop better production techniques and marketing strategies. This consequently improves the quality of goods and services produced in Uganda.
- Improves the Balance of payments position. Some of the foreign investors produce goods which would have been imported from other countries and paid for in hard currency. This enables the country to reduce her foreign exchange expenditure and this slowly improves the Balance of payments position.
- Leads to production of quality goods and services. Due to use of better methods of production and competition between private investors, quality of products increases thus enabling consumers to consume better quality products.

Demerits or costs of foreign direct investment in uganda

- Accelerates capital out flows in form of profit repatriation and this causes Balance of Payments (B.O.P) problems.
- Worsens income disparities. The foreign private investment contributes to the widening of the income gap by providing more incomes to the foreign owners compared to indigenous entrepreneurs.
- Promotes external dependence of the economy. Uganda relies on foreign investors to bring in foreign capital, technology and skills which worsens external dependency problem.
- Local firms may be out competed by the big foreign investors.
- Gives rise to technological unemployment which arises from the use of advanced capital intensive machines / technology. Human labour is replaced with machines hence unemployment is created.
- There is irrational use of resources which leads to quick depletion of some of the resources. Private foreign investors lead to exhaustion of resources due to overexploitation since the objective of production is profit maximization no: resource conservation.
- Breeds foreign domination of the economy. These foreign investors always demand for excess concessions from government in form of tax holidays, free land for location of projects etc. These excessive concessions given to foreign investors by government finally reduce the net benefits from such foreign investors.
- Results into environmental hazards like air and water pollution where foreign investors are investing in industrial projects or establishments. The foreign investors degrade the environment by dumping of industrial wastes on the environment.
- Breeds regional / sectoral imbalances in development. This arises because foreign investors prefer to locate their industries or business projects in urban areas and this leaves out the rural areas.
- Promotes rural - urban migration and its associated problems. This is due to concentration of their activities and investments in urban areas thereby promoting rural exodus in search of better income earning opportunities.
- Erosion of cultural and moral values. This is due to the transfer of western-values by the owners and foreign workers in these investments thereby eroding the traditional African culture.

Impact of relying on foreign investments- a summary

Positive impact

- Helped in closing the savings-investment gap
- Source of government revenue
- Created employment opportunities
- Promoted technological progress and transfer

- Helped in skills development through training
- Encouraged infrastructural development
- Promoted international co-operation
- Helped to fill the skilled manpower gap
- Improvement in resource utilisation
- Innovations are encouraged
- Widened consumer choices because of variety
- Encouraged efficiency in firms
- Helped in accelerating economic growth
- Facilitated industrialization process
- Closed the foreign exchange gap
- Led to production of quality products

Negative impact

- Accelerated profit repatriation or capital flight
- Worsened economic dependence
- Led to irrational exploitation of resources
- Led to regional imbalances
- Interference in government decisions
- Promoted rural-urban migration
- Led to unemployment due to use of capital intensive techniques
- Worsened income inequalities
- Local firms are sometimes outcompeted
- Excessive concession which reduces net gains
- Erosion of cultural / moral values
- Caused substantial social costs for example pollution

Problems facing the private foreign investment in Uganda

- Limited capital. There is limited capital due to low profits and limited access 3 loans from financial institutions as a result of problems of collateral security, untrustworthiness of the borrowers and discouraging interest on the loans.
- Limited skilled labour. The efficiency of the investments set up by foreigners is limited by the use of mainly unskilled and semi-skilled labour due to :he poor system of education.
- Inadequate market. There are limited markets for products of the foreign private investments both at home and abroad. Internally the markets are limited by the general low incomes of consumers and competition by superior imports. Externally, the markets

are limited by the poor quality of the products which cannot therefore, compete abroad and by protectionism in the external markets.

- Poor infrastructure. Infrastructures such as roads, rails and power are in a poor state and impede (hinder) the transportation of inputs to production sites as well as transportation of finished products to markets.
- Political instability in some areas. There is political unrest in some areas of me country which has resulted in the destruction of production units of the foreigners hence discouraging private foreign investment in such areas.
- Poor investment climate for example high tax regimes. Taxes imposed on private foreign investments sometimes are too high to enable firms meet costs of production from the sale of final products. This has resulted in the closure of enterprises and stagnation in the growth of others.
- Poor land tenure system. This limits access to land resources for investment purposes as most of the land is in the hands of absentee landlords and communal ownership.
- Poor technology. The techniques used in production are mainly labour intensive which does not lead to rapid increase in output. The available techniques are poor due to limited innovations and inventions and importation of main unsuitable technology for production.
- High level of corruption / poor accountability. This leads to misuse c funds that would facilitate investment to personal aggrandizement (interests).
- Limited natural resources / limited basic raw materials. This limits the production capacity of the firms that are set up by the investors.
- High inflation rate. The high rates of inflation increase the costs < production making it difficult to undertake investments in the country.
- Natural hazards. These mainly affect investments in the agricultural sector thereby limiting the supply of raw materials needed for the agro-based industries
- Limited entrepreneurial ability. Some of the foreign business people do no: have sufficient skills to organise factors of production to yield maximum outpx and to exchange the products to maximise profits.

Measures that have been taken to promote the operations of the private foreign capital

- Improvement of infrastructure. The government has facilitated the building of strong and sound infrastructural facilities, for example, banks, power plans and the road network. The improved road network has enabled the investors access areas of market for their final products and raw materials needed in the production units.
- Maintenance of political stability. The government has tried to create ar enabling environment in order to give confidence to the foreign investors I undertake greater production.

- Expansion of market through economic integration. The government has taken measures to expand markets for products of the foreign investors througn for example, joining regional co-operation such as the East African Community.
- Improvement in technology. There has been encouragement of technologies development and transfer through research and enabling policies which has enabled setting up of many investments in the country.
- Liberalisation of the economy. The economy has been liberalized to allow every individual to participate in production for exchange. This has resulted in the growth of the private foreign investments.
- Improvement in labour skills through training. The government has encouraged the setting up of many vocational institutions and universities to offer training to labour. This has resulted in improvement of labour skills.
- Provision of favourable investment climate through offering investment incentives to foreign investors such as land allocation, tax holidays and tax rebates. Private foreign investment has been encouraged by provision economic or tax incentives to investors. This has encouraged the foreign investors to invest in the economy since they are guaranteed tax relief till their investments been profitable.
- Undertake land reforms. The government has enacted land laws (the Land Act) to ease access to the land resources for investment purposes.
- Maintenance of price stability (fight against high inflation rates) through macro-economic stability policies. Inflation has been controlled and price stability maintained through using sound macro-economic policies such as contractionary restrictive) monetary and fiscal policies. This has discouraged speculation in the my and encouraged production for exchange.
- Privatisation of public enterprises. Most enterprises which were previously state owned have been sold off to private foreign entrepreneurs as a way of increased efficiency in the enterprises.
- Improvement in entrepreneurial skills. This has been done through training r me proper management of business operations by way of seminars and workshops for entrepreneurs. This has the potential of providing skills into better organisation of other factors of production through increased taking on of risks.
- Provision of credit facilities. There has been encouragement to financial institutions to avail credit at low interest rates to the foreign investors to enable them acquire capital necessary for business operations.
- Attempts at fighting corruption to ease investment. There has been effort - stumping out corruption through the use of the institution of the Inspector General of Government (IGG) and the Anti-Corruption court so as to reduce the rest of doing business in the country.

- Establishment of specialised institutions to promote investment like Uganda Investment Authority (U.I.A.) which is a one-stop centre for all information on investment related activities.
- International campaigns to convince investors to come into the country. The government has undertaken measures to carry out international campaigns on possible areas of investment through strengthening bi-lateral ties with countries like China, Germany, Japan among others. This has encouraged more foreign Investors to come and set up investment ventures.

Steps which are being taken to attract foreign investors in Uganda

- Offering of investment incentives for example tax holidays being offered to foreign investors, gazetting land for the foreign investors at Namanve industrial park e.t.c. Private foreign investment is being encouraged by provision of economic or tax incentives to investors. This is encouraging the foreign investors to invest in the economy since they are guaranteed tax relief till their investments become profitable.
- Building of strong and sound infrastructural facilities/ improving basic infrastructure by constructing better roads. The government is facilitating the building of strong and sound infrastructural facilities, for example, banks, power plants and the road network. The improvement of the road network is enabling the investors to access areas of market for their final products and raw materials needed in the production units.
- Attaining political stability in the country. The government is trying to create an enabling environment in order to give confidence to the foreign investors to undertake greater production since there is assured safety of life and property.
- Fighting inflation or achieving macro- economic stability, for example, ensuring stability in prices, stability in exchange rates and so on. Inflation is being controlled and price stability maintained through using sound macro-economic policies such as contractionary (restrictive) monetary and fiscal policies. This is discouraging speculation in the economy and encouraging production for exchange.
- Undertaking further privatization of public (state) enterprises. Most enterprises which were previously state owned are being sold off to private foreign entrepreneurs as a way of increasing efficiency in the enterprises.
- Undertaking further liberalization of the economy. The economy is being liberalized through removal of unnecessary government controls on trade. This is to allow every individual to participate in production for exchange. This has resulted in the growth of the private foreign investments.
- Intensifying international publicity of investment opportunities available in Uganda. The government is undertaking measures to carry out international campaigns on possible areas of investment through strengthening bi-lateral ties with countries like China, Germany, Japan among others. This is encouraging more foreign investors to come and set up investment ventures.

- Training people and equipping them with skills required by foreign investors/ Undertaking appropriate manpower training in Uganda. This is through offering training to labour in form of organizing seminars, workshops and on-job training so as to increase efficiency and productivity in the firms established by foreign investors.
- Reforming the land tenure system. The government is trying to enact appropriate land laws (the Land Act) to ease access to the land resources for investment purposes.
- Encouraging acquisition of entrepreneurship skills. This is being done through training in the proper management of business operations by way of seminars and workshops for entrepreneurs. This is being done as a potential way of providing skills into better organisation of other factors of production through increased taking on of risks.
- Fighting corruption to ease investment. There is effort being made in stumping out corruption through the use of the institution of the Inspector General of Government (IGG) and the Anti-Corruption court so as to reduce the cost of doing business in the country.
- Expanding of market through joining economic integration. The government is taking measures to expand markets for products of the foreign investors through, for example, joining regional co-operation such as the East African Community.

Review questions and answers

(i) what is Meant by **'private foreign investment'?**

Private foreign investment is the shifting of producer goods from one country to airily form developed to developing countries, by firms and or

(ii) Mention three limitations to **foreign private investment** in your country.

- Poor infrastructures
- Conservation of the people
- High levels of corruption
- Limited labour skills
- Poor political atmosphere
- Poor land tenure system
- Limited supply of raw materials
- Insufficient tax incentives
- High levels of inflation
- Bureaucracy in obtaining permits,
- Limited market.

I. **Define the term direct foreign investment.**

(ii) Give any three demerits of direct foreign investment in your country.

Direct Foreign Investment is the transfer of productive resources / capital by individuals, companies and multi-national corporations in form of business operations.

Demerits of Foreign Direct Investment thus;

- BOP problems rise
- Unemployment due to use of capital intensive technology and R-U-M.
- Over exploitation of resources
- Capital flight
- Excessive concessions given to them reduce the net or real benefits
- Worsens economic dependence
- Sectoral and regional imbalances are perpetuated
- Subduing or suffocating local firms
- Interference in political decisions
- Erosion of cultural / moral values
- Have worsened income inequalities.

a) **Explain the role of multinational corporations in the development of Uganda**.

- Source of government revenue.
- Encourage the development of infrastructure.
- Creation of employment opportunities.
- Promotion of international friendly relations.
- Promotion of labour skills.
- Close the savings-investment gap.
- Production of variety of goods and services.
- Close technological gap.
- Facilitate industrial development
- Promote high quality goods and services.
- Help in closing the manpower gap.
- Promote high quality goods and services.
- Promote efficiency in the firms.
- Encourage utilisation of the available resources.
- Promote economic growth.

(b**) Examine the factors that affect the operations of multinational corporations in your country.**

- Government policy of taxation and subsidisation.
- Political climate.
- Level of infrastructural development.
- Labour skills.

- Entrepreneurial skills.
- State of technology.
- Level of accountability or degree of corruption.
- External publicity.
- Land tenure system.
- Market size.
- Availability of raw materials.
- Degree of conservatism.
- State of inflation or price fluctuations.
- Degree of bureaucracy, for example, in clearance, acquiring licences among others.

Questions:

1. (a) Define the term **Foreign direct investment.**

   (b) Assess the implications of foreign direct investment in an economy.

2. (a) Explain the role of the private sector in the development of your country,

   (b) What are the challenges faced by the private sector in your country?

3 (a) What is meant by **Multi- national corporations?**

   (b) Assess the impact of multi-national corporations in your country.

4. (a) What are the objectives of promoting foreign direct investment in your country?

   (b) Why may foreign direct investment be undesirable in your country?

5. (a) Explain the factors that influence foreign investment in your country.

   (b) Suggest measures that should be taken to encourage foreign investment in your country.

6. (a) What are the benefits of direct foreign investment in your country?

   b) plain the measures that are being taken to promote foreign investment in

Sub- topic: education and development

Meaning of education

Education refers to the acquisition of knowledge and skills both formally and

Informally. It is an ingredient in the process of human capital formation.

Education is regarded as a consumer good, an economic good and a capital good therefore, it is an investment.

Education as a consumer good

The following qualify education to be a consumer good;

- The recipient derives utility of having an education.
- Society derives utility by living with an educated person,
- Education raises the quality of life and enables one to appreciate life more fully.

Education as an economic good

The following characteristics or traits qualify education to be an economic good;

- Has a money value or a price to be paid.
- Provides utility.
- Has opportunity cost.
- It is scarce
- It is marketable and transferable.

Education as an investment

The following features qualify education to be an investment;

- Has opportunity cost because it requires sacrifice,
- Cost money and has a price to be paid.
- Involves risks and uncertainties, for example, failing to move from one level / class to another
- Involves time preference.
- Produces high quality services in the long run since it raises the quality of xanpower and its productivity.
- Has returns in the long run, for example, generates future streams of income.

Reasons for investment in education

- To provide skills to labour.
- To reduce income inequality.
- To promote national integration.
- To solve the unemployment problem.
- To reduce dependence on foreign skills/ to save foreign exchange for paying expatriates.
- To increase the rate of natural resource utilisation and avoid wastes.
- To increase output hence economic growth / to accelerate economic growth.
- To create a productive labourforce .

- To fight conservatism / to act as a vanguard for introducing new ideas in the country. Education is used to eradicate backward attitudes, beliefs, cultural values and superstitutions.
- To promote acceptable values and attitudes / to facilitate change in the attitudes of people.
- To control population growth rate / to control fertility in women.
- To spearhead political, social and economic changes.

The role of education in the development process

Benefits of education in the development process

- Provides skills to labour. Education equips labour with the necessary skills to utilise and maintain modern physical capital.
- Reduces income inequality. Education acts as a means of effecting fairness in income distribution especially if it is accessible to all school going children like Universal Primary Education and Universal Secondary Education.
- Promotes national integration. Education is a means of facilitating national integration / unity through promoting national consciousness that is necessary as a precondition for all progress.
- Solves the unemployment problem. Education creates employment to the teachers, the industrialists producing scholastic materials etc and thus it is a source of income.
- Reduces dependence on foreign skills/ saves foreign exchange for paying expatriates. Education raises the quality of local labour, its efficiency and productivity thereby reducing the over reliance on foreign skills.
- Increases the rate of natural resource utilisation and avoid wastes. This i because of the increased market for manufactured and agricultural products.
- Increases output hence economic growth / accelerates economic growth. The increase in labour skills enables the production of high volumes of output due to efficiency of labour.
- Creates a productive labourforce. Education raises the quality of labour, its efficiency and productivity.
- Fights conservatism / acts as a vanguard for introducing new ideas in the country. Education helps to eradicate backward attitudes, beliefs, cultural values and superstitutions. Thus it promotes acceptable values and attitudes / facilitates change in the attitudes of people.
- Controls population growth rate / controls fertility in women. Increased education level encourages use of family planning methods and forces women to postpone chances of child birth at an early age.
- Spearheads political, social and economic changes. Education acts as a means to social, political and economic change.

- Education leads to innovations and inventions through research thus technological progress.

Challenges associated with education

- High dropout rates due to the increased expenses need to attain better education
- Low returns to investment, that is, low cost-benefit ratios. The returns of education are in the long run but may not be fully achieved if the educated fails to get a job.
- Accelerates unemployment. Education brings about school leavers' unemployment because the present education system is more theoretical than Tracheal.
- Worsened income inequalities. This is because it is mainly accessible to those with a rich family background. This increases their income earning chances unlike those with a poor family background.
- Principal cause of rural urban migration and associated problems.
- Leads to brain drain. The present education system enables people acquire high skills yet highly skilled labour may prefer moving for greener pastures upon filling to get a job in Uganda.
- Not aligned to the needs of developing economies.
- Creates educated people with no skills. This is because of the theoretical nature of the system.
- Discourages people from joining rural agricultural sector. The present education system does not prepare one to take up a living in the rural areas.
- Replica of colonial masters thus creates people with inappropriate attitudes. The present education system from the productive traditional cultural background by way of promoting western values.
- Heavily exam oriented. This is because the current education system is geared towards getting good grades with no sense of social responsibility.

Possible solutions to changing the present education system in Uganda

- Encourage free and compulsory primary education to reduce the illiteracy level and increase the enrollment ratio. This can promote equity in income distribution.
- Vocationalisation of education through promotion of practical subjects like woodwork, tailoring and agriculture. This can impart technical and practical skills to the youth for job creation.
- Encourage free female education in order to overcome the sex inequalities in the education sector.
- Encourage cost-sharing for post-secondary education for those who are able to pay. This can be done through extending loans and scholarships to students.
- Encourage private investment in education especially technical institutes, polytechnics, universities etc to increase on the literacy rate.

- Design a flexible school programme to fit the interest of the community in order to reduce the dropout rate.
- Integration of education in the community setting through community service oriented skills like extension services in agriculture, adult literacy programmes.

Sub-topic: foreign aid

This is the **international transfer of public funds in form of loans or grants or technical assistance** either directly **from one government to another (**that I bilateral aid)or indirectly through the **vehicle of a multi-lateral assistanceagency** / organization like the World Bank and International Monetary Fund (IMF) (that is multi-lateral aid).

OrIs the transfer of resources from one country to another usually from the developed countries to the developing countries; either directly or through international agencies. It could be bilateral aid or multilateral aid.

OrIs the transfer of resources, mainly funds, from one country to another by government, organisations, firms and individuals in order to help the recipient country.

Forms of foreign aid

Grants refer to the transfer of resources without any requirements for repayment.

Loans refer to the transfer of resources which must be repaid back with interest or without interest in a given period of time thus there are loans with interest and interest free loans.

The loans may be short-term, medium-term or long-term. They may also be soft loans or hard loans.

N.B.

i. **A soft loan** is financial assistance provided at very low or no interest and with long repayment periods. It is usually provided by one government to another.

OrIs the transfer of funds from one economic entity to another which must be paid with interest over a long period of time at concessionary or low interest rates.

OrRefers to funds lent out (financial advance) at concessionary (low) interest rates or no interest yet it provides other concessions to borrowers for example, long repayment periods, interest holidays, extended grace periods etc. .

ii. A hard loan is financial assistance with a high interest rate and a very short repayment period.

OrIs one with high interest rate yet with very short repayment periods. It is mainly paid in currency of a nation that has economic stability and a sound reputation abroad.

Reasons why Uganda continues to rely on loans

- Due to low tax revenue.
- To finance long term development projects.
- To fill the persistent budgetary deficits of government
- Due to low domestic savings.
- Low export earnings yet there is rising need for imports.
- Technical assistance: this is the transfer of resources in form of high level manpower like doctors, engineers, economists, nurses among others and the provision of scholarships.
- Direct Foreign Investment is the transfer of productive resources / capital by foreign individuals, companies and multi-national corporations in form of business operations.
- Relief items in form of medicine, food, clothes etc.
- Military assistance in form of training the army and the police.
- Technological transfer in form of machinery and equipment, for example, computers.

Some key terms

Project tied aid (use-tying) refers to assistance from an economic entity to another with (specific) conditions on profits / economic activities to be financed /

developed.

Or

Refers to assistance given to support a specific project hence resources given be diverted for any other purpose.

Merit of Project tied aid

- Promotes proper project planning
- Promotes proper accountability
- Creates market for the products of the donor country ?
- Avoids diversion of funds by the recipient country,
- Fills the budgetary gap by providing revenue for government projects. .
- Fills the manpower gap
- Fills the technological gap
- Fills the savings-investment gap.
- Strengthens international relations .
- Accelerates industrial growth
- Increases employment opportunities.

Tied aid refers to foreign aid in the form of bilateral loan or grants that require the recipient country to use the funds either to purchase goods from the donor or to use it to finance a specific project named in the aid.

OR

Disbursement of the aid is dependent on the recipient country implementing socioeconomic and political conditions set by the donor.

Examples of tied aid

- Tied aid which requires the recipient to abide by conditions set by the donors for example the recipient country is required to purchase goods from the donor country using the grant / funds **i.e. aid tied to source orpurchase (procurement tying).**
- Aid given to finance a specific project named by the donor. The recipient country's is required to implement socio- economic and political conditions dictated by the donor before the aid can be given i.e. project tied aid.

Reasons for the existence of tied aid in my country include;

- To promote proper project planning
- To increase control of the recipient country by the donor.
- To ensure proper accountability by both the recipient and donor.
- To create market for the products of the donor country.
- To alleviate the effects of natural disasters.
- To fill the manpower gap
- To fill the savings-investment gap
- To fill the technology gap
- To fill the government revenue-expenditure gap
- Due to the inability of the recipient country to identify cheaper and unconditional sources of aid.

Untied aid is one that the donor allows the recipient country to spend it on a wide variety of items (justified in terms of the total needs and development plan of the country rather than any particular project).

A Donor is a country or agency that gives aid or assistance. Donors can be multilateral or bi-lateral.

Multi -lateral aid is assistance offered through international aid agencies like the World Bank and IMF and with no direct link between the donor and recipient countries.

While

Bilateral aid is assistance that is offered directly from one government/country another without going through an aid agency.

Benefits of relying on foreign aid in developing countries

- Closes the foreign exchange gap or trade gap. Foreign aid is to finance import surplus like fuel, drugs and manufactured goods which cannot be paid for from our exports.
- Closes government revenue-expenditure (budgetary) gap. Foreign aid gives budgetary support to the country. It is used by the government to cover recurrent a development expenditure that cannot be financed by the country's revenue sources like taxation, that is, it is a source of income to the government that is used to finance he-expenditure shortfalls.
- Fills the savings-investment gap. In developing countries like Uganda, the required investment which could be generated from the local or domestic savings always exceed? the available domestic savings. Thus the need for foreign aid to supplement domestic savings in order to meet the investment requirements.
- Fills the skilled manpower gap. The available manpower usually falls below the required personnel, thus, foreign aid supplements skilled manpower in form of technical
- Facilitates the development of infrastructure. Foreign aid has financed the development of supporting modern infrastructure such as roads, power dams, schools and hospitals which form the framework for economic development.
- Provision of employment opportunities. Foreign aid has created employment opportunities through being channeled into financing government projects and expanding the industrial sector. This expands the employment opportunities for the local people.
- Closes the technological gap. Foreign aid in form of capital goods or machinery has enabled the country to improve on its level of technology through encouraging logical transfer.
- Alleviates (solves) the effects of catastrophies. Foreign aid especially relief assistance has been useful in offsetting the effects of natural calamities like famine, drought, wars, feces, earthquakes and so on by meeting the needs of the suffering people.
- Where it is well utilised, it improves productivity, skills and wages. Foreign aid channeled to institutions of higher learning improves on the skills of local labourforce resulting in increased productivity.
- Facilitates the utilisation of idle resources. Foreign aid enables the recipient country ■ 32 to use the formerly idle resources and this leads to increase in output of goods and
- Strengthens international relations. Foreign aid has promoted international co-:n and international understanding between donors and recipients. This has increase the volume of international trade.

- Foreign aid in form of capital investments accelerates the pace of industrial growth. Foreign aid has been utilised to promote the development of the industrial sector through renovating old industries and setting up new ones.

Problems of relying on foreign aid in developing countries

- Leads to balance of payments problems due to repayment obligations especially when the aid is tied. Foreign aid accelerates capital outflow in form of loan repayment and interest thus affecting the capital account of the balance of payment
- Leads to unemployment. Sometimes technological aid is inappropriate causing dislocation of local labourforce due to introduction of machines like computers in banking industry. This causes technological unemployment.
- Promotes brain drain. Foreign aid in form of technical assistance demoralizes local manpower forcing many of the highly skilled individuals to seek employment in other countries.
- Kills local initiatives, that is, promotes/ encourages laziness. Foreign aid discourages local initiative as recipients constantly expect assistance instead of working hard.
- Leads to domination of the economy by foreigners, that is, the preconditions set are sometimes disastrous. Foreign aid has promoted the external dependence of the developing countries on the donors through interference in the economic decision making process.
- Leads to cultural erosion. Foreign aid erodes the socio-cultural values of the recipients and instead has promoted western values that are not in the best interests of the borrowers.
- Political domination by foreigners. Foreign aid has enabled the donors to interfere in the political decision making process of the developing countries, thus undermining their sovereignty. This is because aid at times has political strings attached with the objective of promotion of foreign political ideologies.
- Accelerates capital outflow due to debt servicing. The costs of contract finance are high in form of high interests and short repayment periods. This results into excessive capital outflow.
- Distorts planning since sometimes aid is inadequate, uncertain inconsistent, tied etc. In most cases, the aid is inadequate, inconsistent and may be withdrawn before completion of a project. This may distort the planning process or development programmes of the recipients as most of the projects may remain incomplete.
- It is costly, for example, to maintain expatriates and due to the aid being tied to source / purchase. Aid in form of technical assistance and tied aid is expensive. For example, aid tied to source or purchase prevents the recipient from buying from the cheapest sources elsewhere in the world.
- Leads to under-utilisation of local resources. The technological aid provides to the developing countries kills local production as the aid cannot be sufficiently used to

exploit the local resources. Also, food relief reduces domestic production of some consumer goods leading to operation at excess capacity.

- Sometimes preset conditions are disastrous. Foreign aid may have politic, strings attached to it thus undermining the political sovereignty of the country as it promotes foreign political ideologies.
- Undermines capital formation due to debt servicing and payment.
- payment of the principal and interest on the foreign loans reduces the available in the domestic economy for investment purposes hence limited c formation.
- Debt servicing sometimes denies nationals essential goods and services
- Foreign aid in form of contract finance leads to high costs due to high interest and short periods of repayment. The increased debt service burden sometime denies the national of essential goods and services.

Question

Examine the impact of relying on foreign aid in your country.

A summary

Impact of relying on foreign aid in Uganda- a summary

Positive impact

- Helped to fill the savings - investment gap
- Helped to fill the foreign exchange gap
- Helped to fill the government revenue-expenditure gap
- Helped to fill the skilled manpower gap
- Helped to fill the technological gap
- Helped in provision of more employment opportunities
- Helped to develop infrastructure
- Accelerated industrial growth
- Strengthened international relations
- Helped to raise level of economic growth
- Helped to alleviate suffering of the people due to catastrophies / disasters

Negative impact

- Led to balance of payment problems,
- Led to unemployment.
- Promoted brain drain.
- Killed local initiatives /promoted laziness.

- Led to domination of the economy by foreigners / Preconditions set are sometimes disastrous.
- Led to cultural erosion.
- Led to political interference/domination by donors or foreigners
- Accelerated economic dependence
- Accelerated capital outflow due to heavy debt servicing requirements,
- It is costly for example to maintain expatriates.
- Disorted planning since sometimes aid given is inadequate, uncertain and tied. .
- Led to under utilisation of local resources
- Inappropriate technology transferred
- Stifled and development due to pay back burden

Importance of aid to donor countries

The motives of giving foreign aid by the donors include:

- Creating employment for surplus labour. Aid increases employment to the donor countries. The increased output required to satisfy both the domestic and foreign remand leads to employment of more labour.
- Commercial reasons through creating market for surplus output. Aid enables enable countries to dispose off their surplus output that would have killed the local production in their economies.
- Ideological / social / cultural dominance. Aid is used by the donor countries for ideological reasons and to persuade the recipient countries into a similar line of development.
- Extending military influence. Aid is used by donor countries for strategic reasons. It is used to maintain spheres of influence in the developing economies especially aid in form of military assistance.
- Economic dominance. Aid increases the exports of the donor country and its Gross National Product (GNP) through encouraging the recipient countries to import from the donor countries.
- Humanitarian reasons. Aid is given for humanitarian reasons to offset the effects of calamities in the developing economies, for example, famine, drought, floods and so on.
- Political dominance. Aid can be used to serve foreign diplomacy through enhancing the culture and political influence of the donor country in the recipient country.