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PROBLEMS CONNECTED WITH INDUSTRIALIZATION IN THE LEAST DEVELOPED COUNTRIES AND THEIR POSSIBLE SOLUTIONS 1/

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It is an accepted fact even in the agriculturally prominent countries that industrialization plays a leading role in the economic development of a country.

In a developing country like Tanzania, manufactured products fifteen years ago constituted a very small fraction of the total exports but today it is forming 10% of the total exports. The major role played by industries established in least developed countries is in import substitution especially with commodities where the least developed countries are producing their own raw materials, viz. textiles. The expectations and aspirations of most least developed countries (LDCs) is for speedy industrialization basing the industries on locally produced raw materials. Unfortunately experience in most of these LDCs has shown that the process of industrialisation is a very slow one and it would appear that the following are the major factors contributing to this state of affairs.

1. <u>Lack of foreign exchange</u>

This is perhaps the most critical factor and experience has shown that in most least developed countries, there are several good projects for which feasibility studies have already been prepared but have had to be shelved for lack of foreign exchange. Even the pace of implementation of some of the projects under implementation is slowed down due to lack of foreign exchange in raising equity funds. The only solution to this problem is for the World Bank and other international financial institutions to step up their efforts in borrowing money from developed or well-off countries and lending the same to LDCs at low interest rates so that part of the loan can be converted into equity funds.

2. <u>Difficulties in selecting the 'right' technical partner for a project</u>

Generally prospective technical partners present technical agreements which are unacceptable to LDCs and a lot of time therefore is wasted negotiating with them for favourable terms of agreement. To try to solve this problem agencies such as UNIDO should work out standardised and general technical agreements for various projects explaining the rationale of each statement and circulate these 'standard' technical agreements to LDCs.

3. <u>Lack of foreign markets</u>

Most of the industries set up in the least developed countries are geared to satisfy the internal market demand. Beyond that there is always the risk of not finding the market for the product unless if the factory produces or processes a primary product, e.g. leather, sisal twine, cashew nuts etc.

4. <u>Interest rates on loans</u>

These are very high both in the case of loans from local financial institutions as well as from international financial institutions. Repayment periods for the loans are also too short. To solve this problem the World Bank (IDA) should be given more funds so that it can channel the same to LDCs at low interest rates or transfer the funds to LDCs as a grant.

5. <u>Tied aid projects</u>

Tied aid projects are sometimes very expensive especially if the designs are prepared in the donor country. For this problem, it is up to the recipient countries to study the agreement and technical drawings and other project details before accepting the aid.

6. <u>Lack of infrastructure</u>

This leads to certain projects not being implemented, especially those based on minerals viz. iron ore, bauxite, etc. Infrastructure development requires a lot of capital and such projects do not have immediate and direct impact on economic development of the country. With high interest rates on loans the tendency therefore is for most LDCs to pay little attention to the development of infrastructure and concentrate on other sectors such as agriculture and industry. Certain financial and economic institutions such as EEC have taken a step in the right direction by giving grants instead of loans for the development of infrastructure in the LDCs. This example should be emulated by other international institutions.

7. <u>Technical partners</u>

Technical partners are not willing to impart knowledge to local people as expeditiously as expected of them although there are exceptions to this, e.g. technical partners from socialist countries as well as from Italy who are always eager to hand over the factory's management to local people. Governments of the LDCs should exert pressure on the technical collaborators and impart technical know-how to the local people as soon as possible.

8. Lack of basic industries

Basic industries in the LDCs are a must if the countries are to develop economically. It would be preferable for these industries to be set up on a regional basis but as it appears that regionalism is not being taken up enthusiastically, then each country will have to set up its own basic industries although initially most of them will be making losses on account of not taking the advantage of economies of scale. These industries (pulp and paper, iron and steel etc.) will provide the needed backward and forward linkages to the existing industries.

9. Lack of technology

Lack of technology on the part of LDCs which could enable the developing countries to establish small scale industries for processing fruits, vegetables, starch, household items etc. is of primary concern. Acquisition of technology for small-scale industries is going to take a long time and for this the LDCs will have to step up their training programmes. Attitudes of consumers should also change in order to accept goods locally produced or processed in place of the expensive imported commodities such as canned foods, household items etc.

10. Multinational corporations

Multinational corporations seem not to be interested in effecting backward integration of their factories in order to produce the raw materials they require for their factories in the LDCs. They seem to be more interested in securing the market for their products more than anything else. It is high time the Governments of the LDCs exerted pressure on multinational corporations to effect backward integration.

There are so many other problems facing the LDCs in their efforts towards industrialization but the above-mentioned seem to feature prominently.

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