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INDUSTRIALIZATION OF THE LEAST DEVELOPED COUNTRIES[1]

by

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INDUSTRIALISATION OF LEAST DEVELOPED COUNTRIES

Industrial development of least developed countries is held upon account of a variety of problems and constriants. These are caused by the absence or inadequacy of:

(a) Physical infrastructure;

(b) Trained manpower;

(c) Finance (in particular external currency) and financing institutions;

(d) Market and facilities of market development;

(e) Expertise to facilitate the transfer of technology;

(f) Small industry and emphasis on its development;

(g) Under-utilisation of installed capacity;

(h) Institutions for promoting and supporting activity in the fields of investment promotion, project selection, project formulation and project implementation;

(i) Industrial policy.

Situation as existent in Somalia of today is briefly described below:

(a) Physical infrastructure:

Lack of infrastructure and its inadequacy, restricts the choice of locating industrial plants, increases the investment cost substantially and adversely affects the economics and profitability of industry. In Somalia, an industrial enterprise is invariably required to make investment on the construction of an approach road, installation of a power generating set, a pumping set or a tubewell for water, and the construction of a sewrage line sometime several kilometers long. On account of restricted flow of industrial inputs and outputs, not only marketing is difficult but also the costs of production and sale go up. In Somalia industry is concentrated in the port towns of Mogadiscio, Kismayo and Berbera. Lack of adequate harbour facilities either make the establishment of large size projects difficult or necessitate the inclusion of a harbour exclusively for that project.

Investment required for the creation of physical infrastructure has to be very large. Accordingly, this is a constraint which will get removed after the passage of a long time.

(b) Trained Manpower

This is the second major constraint. This causes delay in the implementation of industrial projects, results in under utilisation of installe capacity, and sub-stan ard maintenance of industrial plants at prohibitive costs. Concerted efforts are being made to overcome this problem. The university of Mogadiscio has now faculties of Engineering, Economics, Chemistry etc. A Polytechnic is also in the process of being established. Two technical training institutes, a vocational training centre, a craft training workshop, a school of accountancy and surveying and a fisheries and maritime institute, have been established already and these are now being run. Somalia has also established an institution (known as Somali Institute of Development and Management) to provide inservice training facilities for Managers and Accountants. Training facilities in specialised fields of technology, economics, management, commerce and accountancy do not exist. It is not feasible to create these facilities at the present stage of development. It is therefore necessary to send a fairly large number of qualified Somali citizens abroad for training on fellowships to be offered by UN agencies and friendly countries.

(c) Capital formation and financing:

Capital is needed both in local and foreign currency for industrial development. Long term soft loans rarely become available to the least developed countries. Loans on commercial terms are too expensive and these sometimes make industry in a least developed country, an uneconomic proposition. In these countries per capita income and resultant level of consumption is low . The incidence of taxation is high and possibilities of increasing revenues further taxation are negligible. Thus budgetary surpluses are meager and inadequate to finance industrial projects. In Somalia almost all large sized industrial projects are in the public sector. Profitability of public sector industry is not enough to ensure capital formation at a satisfactory pace. Thus in countries where domestic savings and budgetary surpluses are negligible and per capita income is low, industrial development plans cannot be conceived without sizeable soft loans, subsidies and grants. A Plan has to be devised by which capital could be pumped into the economic viens of least developed countries for promoting the growth of industry.

(d) Market:

Somalia has a small market for industrial products because of its small population viz. about 9 million.

Somalia is a vast country spread over 638.000 sq.kms. There is no railway and all-weather asphalt roads are few. More are still under construction. This makes the flow of goods and services difficult. Smallness of market makes the modern industrial plants for producing consumer goods unfeasible. Thus even if such plants are established, intermediate technology is perforce choosen to keep production at the level of local consumption and market possibility. This results in higher cost of production and makes locally produced consumer goods expensive and uncompetitive with the imported goods, necessitating tariff protection or other type of subsidy. As regards resource based export oriented industries, the export becomes a problem. It is for the least developed countries to sell their manufactures in the international market. As a consequency, these are sold either to the foreign a price of their choice. Consequently return on investment of such plants is so low that their growth becomes impossible.

(e) Transfer of Technology

Lack of expertise obliges the least developed countries to buy technology, simple or sophisticated, suited to their conditions or not, at the price offered. Foreign suppliers of machinery, equipment and technology, are fully aware of the lack of their capacity to assess their requirements of technology and to evaluate the offers received for the transfer of technolgoy. Offers are not always based on tender documents, nor these are always made in response to specific requests. Thus comparable offers are seldom available. Offers are made on the basis "accept this as it is or remain deprived of the industry". Thus the least developed countries are open to exploitation. This is a situation which needs a change.

(f) Small industry

Least developed countries are mostly those which at the time of their respective independence had no or very little traditional small industry. Cottage industries and handicrafts provide a base for industrial development. If this base is non-existent, the apparent choice is to leap frog over to the stage of large scale industry based on most modern technology. This results in difficulties. Small industry has a role to perform in the development of every country. Entrepreneurs, managers, production supervisors, master craftsman and skilled workers emerge either from small industry or from commerce. Farmers and herdsmen do not have normally a tendency for such occupations.

Large scale industrial enterprises in a least developed country lack like oasis in an industrial desert. Least developed countries have to pay attention to the development of small industry. Perhaps there is no choice. But as at present this has the lowest priority in the economic development plans of least developed countries.

(g) Under-utilisation of installed capacity

Utilization of installed industrial capacity of least developed countries could be upto 60 %. This is on account of a variety of factors, the most important of which are; scarcity of trained managers and skilled workers, delay in the supply of materials, spares etc. and other reasons beyound their control. For instance fish factories in Somalia operate below capacity because of inadequate catch which in turn is on account of lack of fishing fleets and fishing harbours. The capacity installed for producing processing and canning meat is underutilised because of low prices of its products in the foreign market. The sugar mill does not work upto its capacity on account of short supply of sugar cane which in turn was due to problems of agronomy and water supply. Thus there are a variety of factors which prevent 100 % utilisation of industrial capacity already installed. Yet here is a tendenc to establish new industrial plants and to develop new capacity. It is obvious that frist priority has to be given to the full utilisation of existing capacity, and least developed countries have to be assisted to overcome the problems causing under utilisation.

(h) Lack of institutional infrastructure for industrial planning

Least developed countries like Somalia do not have enough expertise to investigate and assess the prospects of different industries and to identify viable industrial projects. The only source of technical assistance in this field is UN agencies and bilateral assistance of friendly countries. Economic and industrial data is also not readily available. Nor there are institutions to formulate industrial projects or to undertake feasibility studies. Similarly in all matters related project implementation, least developed countries have to look beyond their borders. As a consequence gestation period is very long for industrial projects. Foreign consulting firms, several of which are controlled by suppliers of machinery come forward to assist. In some cases the suppliers of machinery provide technicians for erection but they invariably avoid to undertake jobs on turnkey basis. These facilities are very expensive, and these when availed raise the investment cost sky high. This is a situation which call for urgent consideration at international level.

(i) Industrial policy

Least developed countries, in general, design their industrial policy primarily for achieving import substitution. In formulating such a policy no consideration is paid to the optimum utilisation of existing installed capacity. Nor such consideration is given to small industry. Import substitution results in the establishment of non integrated industrial units. Heavy dependence on imported inputs result in under utilisation of installed capacity, high prices of industrial products, and adverse effect on the balance of payment position. Such factories in Somalia are:

Cigarette and match factory, plant for producing corrugated ship containers, detergents and paints.

The reasons for which an emphasis in the beginning is laid in import substitution industries require study in depth. This may be because investment on resource based industries is very high and export market uncertain. This may be because technology needs for the purpose is too expensive and too sophisticated. These problems will have to be studied and solved.

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