UNIVERSITY OF NAIROBI

THE CHALLENGE OF ECONOMIC ASPECTS OF GLOBALIZATION FOR THE AFRICAN STATE: A CASE STUDY OF UGANDA (1986-2006).

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DECLARATION

This dissertation is my original work and has not been presented for a degree in any other University.

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This dissertation has been submitted for examination with my approval as a University Supervisor

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DEDICATION

I am indebted to many people for the success of this work. First and foremost I thank His Excellency, Yoweri Kaguta Museveni, President of the Republic of Uganda and Commander in Chief of the Armed Forces, for allowing me to be away for the duration of one year during which I undertook this study.

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Mum and Dad (wherever you are) without you I would not be here in the first place to do all this. I dedicate this work to you.

May God bless you all.

ABSTRACT

The term globalization defies definition. Whereas some see it as a social process, others see it as purely an economic process. It might be more useful to regard it as encompassing economic, political and social processes.

The origin of globalization is another area of some controversy. Some scholars argue that globalization is an old process that has been creeping upon us since about the fifteenth century. This might be true if globalization is equated to internationalization. However, globalization as we know it today, is a recent phenomenon, as recent as mid twentieth century. Since the 1970s globalization has been spurred on by the activities of IMF (International Monetary Fund), WB (World Bank) and more recently the WTO (World Trade Organization). Above all the technological advancements in transportation, travel and communication have driven globalization to unprecedented heights.

The benefits accruing to different regions and countries have not been evenly distributed. North America, Europe and Japan (the Triad) have benefited most while Africa has benefited least. Many argue this is because of the structure of the international economy.

The role of the state, in particular the African state, appears to be threatened. It appears the globalization forces are pushing the state away from the roles it traditionally performed, such roles as the provision of security and social services. And so it appeared the idea of social contract between the state and its citizens, was too, threatened. This however, has not come to pass. First of all without the state creating the necessary

environment, globalization might not be as far reaching as thought. Further, in rural Africa, the state is still the main provider of security and social services like education and health.

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CHAPTER ONE: Introduction and background to the Study

"When has the entire earth ever been so closely joined together, by so few threads? Who has ever had more power and more machines, such that with a single impulse, with a single movement of the finger, entire nations are shaken?" [1]

1.0 INTRODUCTION

This research dissertation is about the challenge economic aspects of globalization pose for the African State, using Uganda in the period 1986 – 2006 as a case study. Challenge, rather than impact, is deliberately chosen to enable the researcher explore both the negative effects as well as the opportunities that globalization offers. Globalization is chosen because of its all pervading influence. Although globalization is related to numerous issues, it is economic globalization which is the dominant influence behind many of the world's problems today. The lives of the African people, and indeed of people almost everywhere on the globe, are today greatly influenced by globalization. The choice of globalization and the state, has also been dictated partly by the controversy which still surrounds this subject and partly by the need to underscore the importance of strengthening the state and its institutions in a globalizing world. I would like to examine to what extent economic aspects of globalization in particular, have affected the African people.

Uganda is chosen because it is a typical African State, a State, according to Migdal[2], which is weak. The period 1986-2006 is chosen deliberately because it corresponds to the period since when NRM (National Resistance Movement) government has been in control in Uganda, having come to power in 1986. The year

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[1] Emma Rothschild: Globalization and the return of history in Foreign Policy. 1999. Pp 110.
[2] Migdal Joel S. Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World. Princeton University Press. New Jersey.1998

1986 also almost corresponds to the end of the cold war; end of history according to Fukuyama[3], when globalization became truly global.

Interdependence, interrelatedness, interconnectedness, internationalization, globalism and mutual dependence are just a few of the numerous terms that have been used in the past fifty or so years interchangeably and sometimes synonymously. These terms are used, arguably, to connote the same phenomenon; the high degree of interstate integration characterizing the international system that emerged from World War II[4]. Such terms were the precursors to the word globalization- a term coined by French and American writers[5].

Although this term is almost in everyday use, whether in casual or academic discussions, its real meaning creates such abeyance that people are not agreed on its exact meaning[6]. For, while some people see it as an economic process, others see it as a cultural, or political or technological process. Globalization, although not a new phenomenon, is unquestionably of paramount significance for all nations, developed or developing, rich or poor, large or small. What is globalization? How is globalization affecting the role and functions of nation states? Is globalization good or bad? Is there a universal understanding of its potential or its costs? Can all societies benefit from globalization? Are all the states adequately prepared to enable their people seize the opportunities of globalization while minimizing its negative effects? How should public administration systems at the national level be redesigned in view of the changes occurring at the global level? These are some of the key questions this research intends to examine.

Economic globalization, particularly the impact of the policies of IMF (International Monetary Fund), The WB (World Bank) and WTO (World Trade Organization), has intruded in what had hitherto been the 'preserve' of the state. A range of tasks and responsibilities, and policy decisions, traditionally handled by national bureaucracies in their respective capitals, are being increasingly transposed

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[3] Fukuyama F. The End of History and the Last Man. Penguin Publishers. New York. 1992
[4] Cable, Vincent. Globalization and Global Governance. *Chatham House Papers. Royal Institute of International Affairs*. London. 1999.
[5] Held, David and MacGrew David et al. Global Transformations: Politics. Economics and Culture. Cambridge Polity Press. 1999.
[6] Gidens A. Runaway World: How Globalization is Restoring our Lives. New York. 2000

to an inter-governmental or supranational level as a result of increased flows between countries of goods, capital, labour and information. With or without globalization the state, especially in developing countries and countries with economies in transition, has a very important role in financing basic social services, such as health, education and adequate infrastructure (hospitals, schools, roads, power etc). The weakening of state institutions does not allow people to fully benefit from globalization. States with weak institutions do not provide a stable and sustainable environment to attract foreign investment, promote entrepreneurial capacity and favour economic exchanges; they do not create conditions for the development of a vibrant civil society as they lack the capacity to address the persistent problems of poverty and inequality, they are unable to provide social safety nets to those who suffer. I would like to examine to what extent the African state's capacity to meet its social responsibility has been affected by the policies of the IMF.

1.1 BACKGROUND

Since the end of the Second World War, and indeed since the 1980s, the world has undergone rapid and profound changes. The cold war came to an end. Communism collapsed. The Union of Soviet Socialist Republics (USSR) disintegrated. Most of the former socialist countries have embraced the global mainstream liberal policies. These changes tempted Francis Fukuyama[7] to conclude that we have come to the end of history when he asserted that a remarkable consensus concerning the legitimacy of liberal democracy as a system of government has emerged throughout, as it conquered rival ideologies like heredity, monarchy, fascism and, most recently, communism.

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[7] Fukuyama F. op ct

The various forces, which had been kept under wraps by the dynamics of the bipolar world power rivalries surfaced, with a vengeance, and quite serious implications. The world economy became more free but controlled from one power centre. Power assumed more competition based on economic power. Joan Veon alleged that global market volatility was created for the sole purpose of giving more power to the IMF to intervene in currency markets, extend lines of credit to troubled countries, supervise national banks, brokerage firms and insurance companies of the world and create a world bankruptcy court. That the recent action by the United States government to constitute a commission of five former US Secretaries of Treasury to study the possibility of merging the IMF/WB /WTO constitutes a final thrust for global economic suzerainty.[8]

The roots of this profound economic change were grounded in the history of capitalism facilitated by the USA as it took control of the world economy after the Second World War[9]. The realities of its success emerged in the 1970s with the emergence of the latest phase of globalization. There is no doubt much has happened since the emergence of globalization with social, economic and political events taking new shapes. The Secretary General International Chamber of Commerce[10] , as well as Wolf[11], acknowledges the emergence as being positive. Globalization is today a reality. Today almost everyone is aware that our lives are being shaped by an interconnected world economy of cross border flows of trade, finance and technology.

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[8]Veon, Joan. Globalization. Financial Services Inc. http://www.ninehundred.net/iveon/index.shtml?998NEWSL
[9] Wolf, Martin. Why Globalization Works. Yale University Press. New Haven. 2004
[10] http://www.iccwbo.org/home/new_archives/1998/case_for_the_global_economy.asp
[11] Wolf, Martin. Op ct

The third world countries, including Africa, tried to resist these global forces. They instituted protectionist policies (but as is now evident without much success). As a result their economies remained stunted. Poor economic performance quickly raised the levels of poverty, which in turn led to political instability and insecurity. The NEPAD report observes that between 1970 and 1990 Africa had more armed conflicts than any other continent; with 1 in 5 Africans living under conditions of conflict. Internally displaced persons (IDPs) in Africa had reached 13.5 million people, an increase of more than 5 million since 1988 and more than three times Africa's estimated refugee population.[12]

With time the African economies failed to support the state infrastructure thus undermining state independence and sovereignty. The ability of the coercive forces of the state to mobilize its power was diminished. In response democratic political reforms were initiated as a way to bail out the state. In effect an economic situation was thus created where the economy could not support the political institutions to act on behalf of the state. The foundations of the state were thus being uprooted and the state being re-structured. The state's rights, as envisaged under the Westphalia treaty of 1648, are under attack, as the state and globalization forces conflict. At least if not conflict the state and global forces are each finding a way of challenging or accommodating each other.

It is against this background that I examine the relationship between the economic aspects of globalization, particularly the challenge of the effects of the policies of IMF on the African state's ability to meet its core functions and responsibilities towards its citizens.

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[12] NEPAD Report, 2002. op ct

1.2 RESEARCH PROBLEM STATEMENT

Globalization is the catch-word today. The effects, particularly the impact of the policies of IMF, WB and WTO on the African state are currently debatable. While some scholars like Wolfgang[13] argue that globalization has mainly beneficial effects, other scholars like Stiglitz,[14] see globalization as having mainly negative effects; especially for the developing countries. Lonsdale[15] on the other hand sees globalization as being detrimental to the African state. Due to globalization a range of tasks and responsibilities, and policy decisions traditionally handled by the nation states are being increasingly transposed to an intergovernmental and supranational level. Yet the state, especially in developing countries and countries with economies in transition, still has a very important role in financing or supplying basic social services such as health, education and infrastructure. This study examines the extent of the impacts of economic globalization; in particular the study seeks to answer the question: To what extent globalization has affected the economic sector in Uganda.

1.3 OBJECTIVES OF THE STUDY

i) To examine the extent to which globalization has transformed the Ugandan society generally.

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[13]Wolgang, Martin. opct

[14]Stiglitz, Joseph E. Globalization and its discontents.Penguin Books Ltd. London.2002

[15]Lonsdale, John. *Globalization, Ethnicity, and Democracy: A view from "the Hopeless Continent"* in Hopkins, A.G.(ed). Globalization in World History .W.W.Norton and Company.London.2002

ii) To examine the effects of the policies of IMF on the political economy of Uganda.

iii) To examine the extent to which economic globalization has inhibited the Uganda State's ability to fulfill its social responsibility towards its citizens

iv) To contribute further to the body of knowledge that currently exists on the concept globalization

1.4 JUSTIFICATION OF THE STUDY

This study has both academic and policy justifications. Academically, there are many different definitions of globalization. All these definitions, because they emphasize one or the other aspect, end up being partial. This study will examine the concept of globalization in a holistic way with a view to contributing to deriving an all embracing definition.

This study will also examine the effects of IMF policies on Uganda so far. The majority of studies on Uganda, such as by Chango Machyo(2003)[16], Nuwagaba Augustus (2003)[17], Kaberuka William (2002)[18] and Omona Andrew (2006)[19] confine themselves to effects of globalization only. Only a few, such as by Kasekende (1999)[20] offer policy suggestions on how to deal with liberalization. This study will offer suggestions on how to deal with effects of IMF policies. It will

[16] Chango Machyo. Globalization is imperialism: How will Africa Survive? A Challenge to Patriotic Social Scientists. Paper presented at the NRM National Conference, 23rd March 2003

[17] Nuwagaba A. Globalization and Competitiveness: Implications for Poverty Eradication in Uganda. 2003

[18] Kaberuka W. Modernisation, Globalization and the Quest for Social Development in Uganda 2002

[19] Omona A. Effects of Globalization on the Culture of the Madi. An unpublished MA dissertation

[20] Kasekende and Ating-Ego. Impact of Liberalisation of Key Markets in Sub-Saharan Africa:The case of Uganda. *Journal of International Development.* 1998

further suggest that slow-paced implementation of liberalization and privatization will allow Uganda to cope with the otherwise adverse effects of globalization.

1.5 LITERATURE REVIEW

Globalization is a word that has obscure meaning, and was coined in the 1960s[21]. Paul Hirst and G. Thompson(1999)[22] note that globalization has become the new grand narrative of social sciences. Anthony Giddens(1999)[23] sees globalization as an intensification of world wide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa. This is for example, why the bombing of the world trade center on 11 September 2001 in New York, USA, is causing passengers all over the world, even in far away places as Entebbe Airport, to undergo rigorous airport security checks. Brink Lindsey sees globalization as consisting of interrelated economic and political processes[24].

Anne Krueger(2000) seems to offer a much simpler definition when she says globalization is "a phenomenon by which economic agents in any given part of the world are much more affected by events elsewhere in the world than before"[25]. David Henderson(1999) sees globalization more precisely as the free movement of

[21] Wolfgang H Reinicke. Global Public Policy: Governing without Government. Brookings Institute. Washington. 1998.

22Hirst, Paul and Grahame Thompson. Globalization in Question: The International Economy and the Possibilities of Governance. Polity Press. Cambridge. 1999

23Giddens, A. The Third Way: The Renewal of Social Democracy. Polity Press. Massachusetts.1999.

24.Lindsay B. Against the Dead Hand. P 275

[25] Anne O Krueger. Trading Phobias: Government, NGOs and the Multilateral System. *John Bomython Lecture on 10 October 2000.p2*

goods, services, labour and capital, thereby creating a single market in inputs and outputs, and full national treatment for foreign investors so that economically speaking there are no foreigners[26]. David Held(1999) posits that globalization is a process or sets of processes which embody transformation in the spatial organization of social relations and transactions assessed in terms of their extensity, intensity, velocity and impact that generates transcontinental or inter-regional flows and networks of activity, interaction and the exercise of power.[27]

The International Monetary Fund defines globalization in terms of economic interdependence and technological diffusion.[28] The International Forum on Globalization defines globalization as the present worldwide drive toward a globalized economic system dominated by supranational corporate trade and banking institutions that are not accountable to democratic processes or national governments.[29]

Despite these differences in perspectives in the definitions, it is possible to detect some thematic overlaps in the scholarly attempts to identify the essential qualities of the globalization processes. It is possible to isolate four qualities or characteristics that lie at the core of the concept of globalization;

First, globalization has a social perspective that involves the creation of new, and the multiplication of existing social networks. Second, globalization reflects economic activities and interactions. Third, globalization involves the

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26. David Henderson. The MAI Affair: A Story and its Lessons. Royal Institute of International Affairs. London.1999

[27] David Held and MacGrew David et al. Global Transformations: Politics, Economics and Culture. Cambridge Polity Press. Cambridge. 1999.

[28] *http://www.imf.org/external/pubind.htm*

[29] http://www.globalization.org

intensification and acceleration of social exchanges and activities[30]. And fourth, globalization involves the creation, expansion and intensification of social inter-connections and interdependences. All these four themes are helped by technological advancements.

It is therefore possible to conclude that globalization refers to a multidimensional set of social processes that create, multiply, stretch and intensify world wide social interdependences and exchanges while at the same time fostering in people a growing awareness of deepening connections between the local and the distant. Arising from the above definition it is clear that globalization has economic, political, cultural as well as ideological dimensions.

There is much academic discussion about whether globalization is a real phenomenon or just an analytical artifact. Although the term is widespread, many scholars argue that the characteristics attributed to globalization have already been seen at other times in history[31]. Also many note that such features, including the increase in international trade and the greater role of multinational corporations are not as deeply established as they appear.[32]

Some scholars prefer the term internationalization rather than globalization[33]. In internationalization the role and the importance of nation states are greater while globalization in its complete form eliminates nation states. So they argue that the

30..Anthony Giddens.opct. see also Anthony Giddens. Runaway World: How Globalization is Restoring our Lives. New York. 2000

31 A. G Hopkins (ed). Globalization in World History. W.W Norton and Company. New York.2002

32 Hoogvelt A. Globalization and Post-Colonial World: The New Political Economy of Development. John Hopkins University Press. Baltimore. 1997

33 C.A. Bayly. Archaic and Modern Globalization in the Eurasian and African Arena 1750-1850 in A.G Hopkins(ed) op ct. See also Wood E. A Reply to A. Sivanadan. *Monthly Review* September 1997

frontiers of countries, in a broad sense, are far from being dissolved and therefore this globalization process is not happening, and probably will not happen.

However, the world increasingly shares problems and challenges that do not obey nation-state borders; most notably pollution of the natural environment and the movement previously known as anti-globalization has transformed into a movement of movements for globalization from below.

Some scholars have argued that we are in transition to a planetary phase of civilization; the exact form and character of the global society is though contested, and will be determined by the choices we make in the critical decades ahead.[34] The Global Scenario Group has outlined alternative visions of the global future, with "market forces" or economic globalization being just one option, contrasted with "policy reform", "fortress world", "breakdown", "eco-communalism', and a "new sustainability paradigm"[35].

Other scholars maintain that globalization is an imagined geography; that is, a political tool of the ruling neo-liberalists, who are attempting to use certain images and discourses of the world politics to justify their political agendas.[36]

Whatever the debate, it would appear; especially after looking at the major characteristics of globalization, that globalization is a reality.

Since the word globalization has both technical and political meanings, different groups will have differing histories of globalization.

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34. Ali A Mazrui. Pan Africanism and the Origins of Globalization. *Lecture given at The Dubois Centre, Ghana, November 2001*

35 http://www.qsg.org/

36 Globalization Exposed

The term liberalization came to mean the acceptance of the neo-classical economic model which is based on the unimpeded flow of goods and services between economic jurisdictions. This led to specialization of nations in exports, and the pressure to end protective tariffs and other barriers to trade. The period of the gold standard and liberalization of the 19th century is often called "the first era of globalization". Based on the Pax Britannica and the exchange of goods in currencies pegged to specie, this era grew along with industrialization.[37]

The "first era of globalization" is said to have broken down in stages beginning with WW I, and then collapsing with the crisis of the gold standard in the late 1920s and early 1930s. Countries that engaged in that era of globalization, including Europe, The Americas and Oceania prospered. Inequality between those states fell, as goods, capital and labour flowed remarkably freely between nations. Globalization in the era since WW II was driven by trade negotiations which led to a series of agreements to remove restrictions on free trade. The Uruguay round of negotiations led to a treaty to create the WTO (World Trade Organization) to mediate trade disputes. Bi, tri and multilateral trade agreements, including the Maastricht Treaty and the North American Free Trade Agreement (NAFTA), have also been signed in pursuit of the goal of reducing tariffs and barriers to trade. Arising from the above, globalization is a reality and it has been creeping on us.

A number of studies have been done on the effects of globalization, particularly the effects of the policies of IMF and WB. Wolf[38] while looking at the effects of globalization, particularly in Europe, has argued that globalization has

[37] Robert Gilpin. Global Political Economy: Understanding the International Economic Order. Princeton University Press. Princeton. 2001
[38] Martin Wolf. Op ct

had positive effects in Europe, as indeed, in the whole of the western world. Petras(2001)[39], while examining the effects of globalization in the third world, particularly Latin America, has argued that by and large, globalization is a new form of imperialism, just like Chango Machyo(2003)[40] has asserted in the case of Uganda. Stiglitz(2002)[41] has argued that globalization in itself is not bad but the third world generally is not ready for globalization. That there are no structures and institutions in place through which Africa can be a central player and beneficiary. Adebayo(1995)[42], Kaberuka(2002)[43] and Nuwagaba(2003)[44] are categorical that globalization has not benefited Africa, not so much as because globalization is bad but rather because Africa is on the periphery of the international system. Perhaps a UN World Public Sector Report (2001) on "Globalization and the State" provides a more balanced analysis of the effects of globalization, particularly how it affects the state.[45]

A state is an abstraction. The very abstract idea of 'state' is a complicated concept to appreciate. However, a state is generally understood to refer to a body of people politically recognized under one government; this may denote within a defined territory, with sovereign rights recognized by other sovereign states as

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[39] James Petras and Henry Veltmeyer. Globalization Unmasked: Imperialism in the 21st Century. Fernwood Publishing Ltd Halifax.2001

[40] Chango Machyo. Globalisation is Imperialism:How will Africa Survive? A Challenge to Patriotic Social Scientists. *Paper presented at the NRM National Conference, 23 March 2003.*

[41] Joseph Stiglitz. Op ct

[42] Adebayo O.Olukoshi and Lennart Wohlgemuth(ed). A Road to Development: Africa in the 21st Century. Nordiska Afrikainstitutet, Uppsala. 1995

[43] Kaberuka W. Modernisation, Globalisation and the Quest for Social Development in Uganda. 2002

[44] Augustus Nuwagaba. Globalisation and Competitiveness:Implications for Poverty Reduction in Uganda 2003

[45] UN World Public Sector Report. . ST/ESA/PAD/SER.26 of 2001

having a foreign status.[46] 'Sovereignty' refers to the exclusive legal jurisdiction that a state possesses within its territory and its freedom to act in international affairs without being subjected to any legal control by another sovereign state[47]. In short, it refers to its refusal to acknowledge any authority above itself. Sovereignty is thus a pre-requisite for a state's existence.

The development of productive forces did not end with the formation of nation state and national markets. The capitalist mode of production began to transcend the nation state framework. The logic of capital became universal where its inherent drive to accumulate wealth brought it to conflict with all previous forms of production as it strove to break down every barrier and cross every border. But nation states are based on erection of borders and barriers as defined by their authority and jurisdiction. Inevitably conflicts arise as capitalism (read globalization) seeks supremacy over state sovereignty. Thus we see the state and the global forces each trying to find a way of challenging or accommodating each other.[48]

Africa is a diverse continent comprising some fifty three (53) independent countries. Most of these are new, having achieved independence in the 1960s with the exception of Egypt, Ethiopia, Liberia and South Africa. To lump these states together is rather misleading because there are major differences between them. For example; there is a wide cultural gap between the North African Islamic Arab states and the black African states south of the Sahara, then there are geographical and

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46. Har Hara Das. Principles of International Law and Organization. Vikar Publishing House Pvt Ltd. New Delhi.1994

47 Ibid

48 Anderson M.S and Sprenger R U (eds). Market based Instruments for Environmental Management.Northampton MAE Elgar. 2000.(*http://www.tricity.wsu.edu/sorin/global.intro.htm)*

demographic differences as evidenced by the huge Sudan and DRC (Democratic Republic of Congo) when contrasted with tiny Swaziland, Lesotho, Rwanda and Burundi. Or the oil rich Nigeria with a population of over 124 million as compared to Botswana with a population of only 1.6 million people as of 2005 estimates. And politically some states have been stable and prosperous like Botswana, while others have been torn apart by civil war like Somalia, Angola, Sudan, DRC and to some extent Uganda.

However, these differences notwithstanding, African states have many things in common. For example; they are ex-colonial with the exception of Liberia. Even Ethiopia was colonized for a brief period. African countries have been subjected to colonial rule by Britain, France, Germany, Spain, Portugal, Belgium and South Africa (in the case of Namibia). They are searching for a new identity as nation states because at independence they acquired statehood but lacked nationhood. The states comprise of different people speaking different languages and at different stages of socio-economic development; for example, states like Nigeria have 200 different languages. These states are predominantly poor, rural and over dependant on the vagaries of the world market. Foreign aid received usually becomes spent in ways not initially intended because of unfavorable terms of trade. The new states have an unsettled political culture. The post colonial leadership had no experience of running government systems on a national scale and institutions such as parliament, political parties, civil service through which they had to work were also relatively young and weak. The weakness of the institutions was serious because the private sector was underdeveloped and the state itself had to assume a major entrepreneurship role. The result was an increase in the number of public enterprises and the bureaucratic power, and further widening of the elite-mass gap. Internationally the new states were and are still no match diplomatically and militarily to the developed states. Thus for some time most former colonies took shelter under the wings of the metropolitan power. It was only in the 1970s that oil gave a few African states significant economic power and therefore leverage. Uganda exhibits most of the characteristics described above and is therefore possible to conclude that it is a typical African state, but one which is weak.[49]

How is globalization affecting African countries?

The countries of the North (the developed countries) especially USA, Japan and Western Europe (the triad) for a long time were the main producers and exporters of manufactured products while those of the south (developing countries, Africa inclusive) exported raw materials and agricultural goods. Asymmetry arose from the fact that the north had a monopoly over the capital, technology and foreign exchange which the south needed for its development. The north also provided the major markets.

With the industrial revolution which has occurred in many countries of the south, particularly in South East Asia and Latin America, there has been a far reaching structural change as a considerable number of these countries have become major exporters of manufactured products and have therefore provided competition to the north in a wide range of manufactured products.[50]

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[49] Migdal.opct

[50] Joseph E Stiglitz. Globalization and its Siscontents. Penguin Books Ltd. London. 2002.

Although globalization has created opportunities for the south (Latin America, South Asia and Africa) globalization and liberalization have also introduced many hazards for the south, particularly Africa. Among these are the systemic problems which are associated with the unregulated global networks of the financial markets[51]. Therefore developing countries may suffer not only in volatility in their own markets but also from the contagious effects occurring elsewhere[52]

A growing major concern for developing countries, particularly African countries, is the role of the state. African governments have found out that their influence in shaping the rules of the game, which structure the new economic regime, has weakened[53]. This is mostly attributed to the decline in revenues to the state as a result of globalization in the sense that the reduction of import duties encouraged or forced budgetary adjustments, forced governments to leave some previous activities and services, like education and health, to the market[54]. And the African governments are, as a result, experiencing greater difficulty in coping with the impact of the new environment of free flows of trade, investment and finance. While their economies are subject to greater external influences, the traditional means at their disposal for dealing with external economic consequences of

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[51] Akindele, S.T et al. Globalization, its Impacts and Consequences for Africa. Department of Political Science. Abafemi Awolowo University. Ibadan 2002

52.Augustus Nuwagaba. Globalization and Competitiveness: Implications for Poverty Reduction in Uganda. 2003

[53] Ake, Claude. The New World Order: A view from Africa in Holm, Hans-Henrik and Sorensen, Georg. Whose World Order? Uneven Globalization and the End of the Cold War. Westview Press. Boulder.1995

[54] Joseph E Stiglitz. opct

openness seem to be limited[55]. This has consequently put to strain the social contract between the African governments, including Uganda, and their citizens[56]. Zurn (1995)[57]has argued that whereas globalization is based on the neo-liberal philosophy in which the market is supreme and therefore the role of the state would appear to be minimal, in Europe globalization has been pushed and permitted by policies of governments. The attendant economic prosperity has meant that more taxes accrue to the government. Consequently the governments are in a better position to meet their social responsibilities. Rizvi (1995)[58] while examining the effects of globalization on South Asia concludes that it has brought prosperity, democracy and a tendency towards regional integration and relaxation of tensions between Pakistan and India. Yunling (1995)[59] argues that globalization has led to an economic boom in China which has translated to wealthier Chinese, with China being looked more and more as a super power. Zubok (1995)[60] concludes that globalization partly brought about the disintegration of the Soviet Union. The neo-liberal economics introduced after disintegration created a dichotomous economy of haves and have-nots leaving Russia in a precarious situation. Inoguchi (1995)[61] argues that globalization has been a disincentive for integration in Pacific Asia

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55 Ake Claude. opct

56 Holm, Hans-Henrik and Sorensen Georg. What has Changed? In Holm, Hans-Henrik and Sorensen Georg. Whose World Order? Uneven Globalization and the End of the Cold War. Westview Press. Boulder. 1995

57 Zurn, Michael. The Challenge of Globalization and Individualization: A view from Europe in Holm, Hans-Henrik and Sorensen, Georg. Whose World Order? Uneven Globalization and the End of the Cold War. Westview Press. Boulder.1995

58 Rizvi, Gowher. South Asia and the New World Order in Holm, Hans-Henrik and Sorensen. Georg.opct

59 Yunling, Zhang. China in the Post Cold War Era in Holm, Hans-Henrik and Sorensen, Georg. opct

60 Zubok, Vladislav M. Between Peace and Conflict in Holm, Hans-Henrik and Sorensen, Georg. Op ct

61 Inoguchi, Takashi. Dialectics of World Order: A view from Pacific Asia in Holm, Hans-Henrik and Sorensen, Georg. op ct

because the countries therein are export oriented and benefit from an open trading system. The attendant benefits are translating to resurgent states like Indonesia, Malaysia, Singapore and China. Japan in particular might begin to have more dominant role in peacekeeping. Sunkel(1995)[62] concludes globalization has led to to more democratization in the Latin American region though the economic benefits are not so profound.

From the above it is clear that globalization is uneven in both intensity and geographical scope, in both the international and the domestic dimensions.

1.6 CONCEPTUAL FRAMEWORK

Globalization, in its present form, is mainly a product of liberal and neo-liberal theories. Globalization is a dynamic and multi-dimensional phenomenon. There is no single theory which can explain the entire dynamics and impacts of globalization. This study is based on the conception that globalization is not bad *per se*. For example, it has brought some progress in such areas as of technology, communication and transport, made goods and services more available and cheaper in the third world, and Africa in particular. In the political arena it has resulted in opening up of political space. But in comparative terms the countries of the north, like USA, European Union countries and Japan, have gained more economically, in the sense that they control a larger proportion of the world manufacturing, and trade through the MNCs and TNCs they control. In 1997 according to UNCTAD there

[62] Sunkel, Osvaldo. Uneven Globalization, Economic Reform, and Democracy: A view from Latin America in Holms, Hans-Henrik and Sorensen Georg. opct

were 53,000 TNCs and had a total overseas investment amounting to US $ 3,500 billion and total sales amounting to US $ 9,500 billion. The 500 largest controlled 80% of all foreign investment and 30% of global output, 70% of global trade and 80% of trade in information technology, and employed 17 to 26 million people. Of the 100 largest TNCs, 38 had their headquarters in Western Europe, 29 in USA and 16 in Japan and only 29 had their headquarters in poor countries. Seven TNCs control 85% of world trade in grain, eight control 60% of world trade in coffee, seven control 90% of world trade in tea, three control 83% world trade in cocoa and another three control 80% world trade in bananas. The rich countries control 97% of world's patents, 97% of international research and development spending, 40% of which is spent in USA alone. In Africa most investment by the TNCs is in raw material extraction though up to three quarters of that investment leaves as transferred profits. Indeed the former Secretary General of the UN, Kofi Anan has said "I remain convinced that globalization can benefit humankind as a whole. But clearly at the moment millions of people; perhaps even the larger majority of human race, are being denied those benefits."[63]

Also the Executive Secretary for Economic Commission for Africa has asserted, "For all the talk of free trade, the World Bank estimates that high tariffs, anti-dumping regulations and technical barriers to trade in industrialized countries cost sub Saharan African countries US $ 20 billion annually in lost exports. In other words, we lose more because of trade barriers than we gain because of aid. If rich countries want unfettered access to our markets we require that they open their

[63] UN World Public Sector Report. Globalization and the State. ST/ESA/PAD/SER.26 of 2001. p30

markets to us so that we can earn, rather than beg our way out of poverty."[64] The NEPAD report concludes "In the absence of fair and just global rules, globalization has increased the ability of the strong to advance their interests to the detriment of the weak, especially in the areas of trade, finance and technology. It has limited space for developing countries to control their own development as the system makes no provision for compensating the weak. The conditions of those marginalized in this process have worsened in real terms"[65]. In this respect therefore globalization has marginalized the African state economically and generally rendered the state unable to fully fulfill especially its social obligations.

It is from this perspective that I conceive globalization like a multi-headed octopus sucking food and nutrients from the periphery using its tentacles. The multi heads of the octopus are represented by the triad, that is, USA, EU and Japan to which the benefits of globalization flow. The tentacles are the policies of especially the IMF, WB and WTO, such as the Structural Adjustment Programmes (SAP), Privatization, Liberalization, Deregulation, Debureaucratization and the unfair trade policies. And the periphery being sucked, are mainly the underdeveloped countries of Africa, Latin America and South Asia.

1.7 HYPOTHESES

Globalization involves a number of processes which have both positive and negative effects. These processes impact on the state's ability to use its natural

[64] Ibid p39
[65] NEPAD Report Oct 2001. p7

resources and people, affect the state's ability to use its coercive power; its freedom to decide on both its domestic and foreign policies in line with the interests and welfare of its people. Globalization also affects the state's ability to maintain its national security. In short globalization affects state ability to fulfill its core functions. Therefore this study is based on the hypotheses that;

i) The policies of the IMF have lead to economic decline in Uganda.

ii) The policies of IMF have spurred economic growth in Uganda.

iii) The policies of IMF have reduced the ability of the government of Uganda to meet its social responsibilities.

1.8 METHODOLOGY

A qualitative research design will be used. A library survey of mainly secondary sources will be undertaken. The secondary sources will include books, manuals as well as journals. A survey of internet sources will also be carried out. Primary sources will also be examined. These will include Government of Uganda policy documents as well as Cabinet Minutes and Memos.

CHAPTER TWO: Definition and Dynamics of Globalization

"We cannot turn back globalization. Our challenge is to make globalization an instrument of opportunity and inclusion – not of fear and insecurity. Globalization must work for all"[66].

"In the absence of fair and just global rules, globalization has increased the ability of the strong to advance their interests to the detriment of the weak, especially in the areas of trade, finance and technology. It has limited space for developing countries to control their own development as the system makes no provision for compensating the weak. The conditions of those marginalized in this process have worsened in real terms. A fissure between inclusion and exclusion has emerged within and among nations"[67].

2.0 INTRODUCTION

Globalization is the buzz word yet its meaning remains elusive. In this chapter the researcher will seek to define globalization. Inspite of the various definitions the researcher will argue that globalization, in the main, is the march of capital all over the world in search of profit; a process reflected in the reach and power of the multinational corporation. It is about growing structural differentiation and functional integration in the world economy; it is about growing interdependence across the globe; it is about the nation-state coming under pressure from the surge of transnational phenomena, about the emergence of a global mass culture driven by technological advances. Globalization is a complex process which uniformizes and diversifies, concentrates and decenters, universalizes but also engenders particularities. In short it complexifies and simplifies; and is always mediated and differentiated in form and content by historical specificities. It has an overriding

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[66] From a speech of James Wolfensohn. President of the World Bank in April 2001
[67] NEPAD Report of October 2001. p7

trend, namely homogenization. The researcher will further examine the impact of globalization through the policies of IMF.

2.1 DEFINITION OF GLOBALIZATION

The word globalization comes from the word global. Global refers to the expansive interconnectivity of localities spanning local sites of everyday social, economic, cultural and political life, a phenomenon but also a spatial attribute. Globalization is not a new phenomenon. Interdependence and interconnections among nations and peoples have a long history, which can be dated in parts of the world as early as the sixteenth century or even earlier; during the time of Roman, Hellenistic and even Persian empires. The present process of increased international interconnections and technological innovations may be compared in some respects to the transformations of the mid nineteenth and early twentieth centuries. During that period governmental policies as well as new technologies such as the telegraph, the steam engine, the railways and the steam driven vessels brought about dramatic increase in world trade, international competition and interdependence[68].

Viewed from this perspective, globalization may be considered as an advanced stage of the historical process of interdependence, which although currently accelerating with unprecedented momentum, is by no means irreversible, as it was not in the 1920s. Two world wars abruptly reversed the progress made in fostering international trade as autarchic systems came to replace open economies, and, for decades a political and ideological divide separated peoples on all

[68] Reich Simon. What is Globalisation?: Four possible answers. *Working paper, The Hellen Kellog Institute for International Studies. 1998.*

continents. Though, as with any historical process, there may be a sudden change in the direction of events, in the next few years increased interdependence and cross border integration, especially in specific economic areas, are more likely than not, to continue, given the commitment of many countries to further trade liberalization. Globalization is a word of obscure meaning, coined in the 1960s[69]. Paul Hirst and G. Thompson(1999)[70] note that globalization has become the new grand narrative of social sciences.

The image of globalization as a promise or threat is, in fact, one of the most powerful and persuasive images of our times. Yet, despite the vast literature on this subject and the ongoing discussion, globalization remains an ill defined concept. Some view it as the international system that has succeeded the end of the cold war, while others prefer to continue using the term internationalization to describe the current changes in the international economy. As Secretary General of the UN has observed "some emphasize the increased mobility of factors of production, goods and services across borders and the resulting emergence of a truly global market. Others see primarily the results and future potential of an explosive progress in information technology, while still others view globalization primarily from societal and cultural perspectives".[71] It is not clear therefore whether the term globalization is generally employed to refer to a historical epoch, a process, a theory or a new paradigm.

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[69] Wolfgang H Reinicke, Global Public Policy: Governing without Government, Brookings Institute. Washington. 1998

70.Paul Hirst and Grahame Thompson. Globalization in Question: The International Economy and the Possibilities of Governance. Polity Press. Cambridge. 1999

Anthony Giddens(1999)[72] sees globalization as an intensification of world wide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa. This is for example, why the bombing of the world trade center in New York, USA on 11 September 2001 is causing passengers all over the world, even in far away places as Entebbe Airport, Jomo Kenyatta International Airport or remote places like Soroti or Bujumbura airports, to undergo rigorous airport security checks. Brink Lindsey sees globalization as consisting of interrelated processes "…..in three distinct but interrelated senses: first to describe the economic phenomenon of increasing integration of markets across political boundaries (whether due to political or technical causes); second, to describe the strictly p olitical phenomenon o f falling government–inspired barriers to international flows of goods, services and capital, and finally, to describe the much broader political phenomenon of global spread of market- oriented policies in both the domestic and international spheres…."[73]

Friedman (2000)[74] argues that globalization is the inexorable integration of markets, nation states and technology to a degree never witnessed before, in a way that is enabling individuals, corporations and nation states to reach around the world further, deeper and cheaper than ever before. That globalization is not simply a trend or fad but is rather an international system. Anne Krueger (2000) seems to offer a much simpler definition, much in the same vein as Gidden (1999), when she

71.UN Peport. ST/ESA/PAD/SER.26 2001. P163.
72. Anthony Gidden. The Third Way: The Renewal of Social Democracy. Polity Press. Massachusetts. 1999
73.Lindsey B. Against the Dead Hand. P.275
74 Friedman Thomas L. Understanding Globalization: The Lexus and the Olive Tree. Anchor Books. New York. 2000

argues that globalization is "a phenomenon by which economic agents in any given part of the world are much more affected by events elsewhere in the world than before"[75]. David Henderson (1999) on the other hand sees globalization more precisely as the free movement of goods, services, labour and capital, thereby creating a single market in inputs and outputs, and full national treatment for foreign investors so that economically speaking there are no foreigners[76]. David Held (1999) sees globalization as a process or sets of processes which embody transformation in the spatial organization of social relations and transactions assessed in terms of their extensity, intensity, velocity and impact that generates transcontinental or inter-regional flows and networks of activity, interaction and the exercise of power.[77]

Abbott (2002) views globalization as the inevitable outcome of the expansionary ambitions of a global market economy and the trans-border technologies in which states, societies and firms have no alternative but to conform and compete amidst the processes of change that occur above and beyond them, embracing convergent forms of organization[78]. Prakash (2000)[79] argues that economic globalization is the increasing integration of input, factor and final product markets coupled with the increasing salience of multinational enterprise, and cross national value chain networks. The International Monetary Fund defines

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[75] Anne O Krueger. Trading Phobias: Government, NGOs and the Multilateral System. John Bomython Lecture on 10 October 2000.p2

76. David Henderson. The MAI Affair: A Story and its Lessons. Royal Institute of International Affairs. London.1999

77. David Held and MacGrew David et al. Global Transformations: Politics, Economics and Culture. Cambridge Polity Press. Cambridge. 1999.

[78] Abbott J P.(ed). Critical Perspectives on International Economy. Palgrave Macmillan. New York. 2002

[79] Prakash Aseem and Hart J.A. Coping with Globalization. Routledge. New Yorlk. 2000

globalization as the growing economic interdependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services, freer international capital flows, and more rapid and widespread diffusion of technology.[80] The International Forum on Globalization defines globalization as the present worldwide drive toward a globalized economic system dominated by supranational corporate trade and banking institutions that are not accountable to democratic processes or national governments.[81]

People have been misled to associate globalization with economics alone. But as Enrique Cardoso (1996), former President of Brazil, argues, the boundaries within which the market operates are defined politically in direct negotiations between governments in multilateral forums such as the WTO, where the power game is always present[82]. The UNDP[83] defines globalization as the growing interdependence of the world's people and as a process integrating not just the economy but culture, technology and governance. Joshua Karliner (1997), the *Corporation Watch* Executive Director, argues that globalization is infact the acceleration of European political, cultural, economic and historical trends hastened by the advent of increasingly sophisticated and rapid communication and transport techniques, the decline of the nation-state (especially in the south), the absence of or ineffectiveness of democratic system of global governance and the rise of non-liberal economic ideology in which the primary beneficiaries are both the

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[80] *http://www.imf.org/external/pubind.htm*
[81] *http://www.globalization.org*
[82] Fernando Enrique Cardoso. Globalization and International Relations. *Public Address to the South African Institute of International Affairs, Johannesburg.* 1996.
[83] UNDP Human Development Report. 1999.

transnational corporations as well as the privileged consumer class in the north, and to a growing degree in the industrializing nations of the south[84].

Perhaps a more composite definition of globalization is offered by Apollo Nsibambi (2001), Prime Minister of Uganda, when he says "Globalization is a process of advancement and increase in interaction among the world's countries and peoples facilitated by progressive technological changes in locomotion, communication, political and military power, knowledge and skills, as well as interfacing of cultural and value systems and practices. Globalization is not a value free, innocent, self-determining process. It is an international socio–politico–economic and cultural permeation process facilitated by policies of governments, private corporations, international agencies and civil society organizations. It essentially seeks to enhance and deploy a country's (society's or organization's) economic, political, technological, ideological and military power and influence for competitive domination in the world"[85].

Despite these differences in perspectives in the definitions, it is possible to detect some thematic overlaps in the scholarly attempts to identify the essential qualities of the globalization processes. It is possible to isolate four qualities or characteristics that lie at the core of the concept of globalization.

First, globalization involves the creation of new, and the multiplication of existing social networks and activities that increasingly overcome traditional political, economic, cultural and geographical boundaries.

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[84] Karliner J. The Corporate Planet Ecology and Politics in the age of Globalization. 1997. (*http://www.corpwatch.radicaldesign.org/article.php)*

[85] Apolo Nsibambi. The Effects of Globalization on the State in Africa:Harnessing the Benefits and Minimizing the Costs. *UN(2nd Committee) Panel discussion on Globalization and the State.2nd Nov 2001*

Second globalization reflects the expansion and intensification of activities and interdependences, and shows that today's markets stretch around the globe, and electronic trading occurs around the clock. Gigantic shopping malls have emerged in all continents, offering those consumers who can afford it, commodities from all regions of the world including various products manufactured in different continents.

Third globalization involves the intensification and acceleration of social exchanges and activities. The internet displays distant information in mere seconds, and satellites provide consumers with real time pictures of remote events. As Anthony Giddens (1999) notes in his definition, the intensification of world wide social relations means local happenings are shaped by events occurring far away and vice versa[86]or as Ladu (2006) while writing in a Khartoum newspaper says "...in a large metropolitan city like Khartoum, one can find in a suburb of Omdurman, a young man communicating with a friend who is in Australia over his mobile phone. At the same time, this young man owns a "Raksha", made in India and a color TV, made in Taiwan, and wears a dress made in Italy and has an evening meal prepared from ingredients imported from Egypt. Here, we are in a small world village of Khartoum, watching the sad events of Tsunami happening thousands of miles away in Indonesia"[87].

86..Anthony Giddens.opct. see also Anthony Giddens. Runaway World: How Globalization is Restoring our Lives. New York. 2000

87 Ladu M Eluzai. Art and Culture: The Effects of Globalization on human culture. *Khartoum Times. 15 March 2006*

Fourth globalization involves the creation, expansion and intensification of social inter-connections and interdependences that do not occur merely on an objective, material level. As Roland Robertson (1992) notes in his definition, globalization processes also involve the subjective plane of human consciousness. Hence we must not forget that globalization also refers to people being increasingly conscious of growing manifestations of social interdependence and the enormous acceleration of social interactions.[88]

From the above definitions it is clear that globalization has economic, political, cultural as well as ideological dimensions. Economic globalization refers to the intensification and stretching of economic interrelations across the globe, and gigantic flows of capital and technology; and markets have extended their reach around the world, in the process creating new linkages among national economies. Political globalization refers to the intensification and expansion of political relations across the borders. These processes raise an important set of political issues pertaining to the growing impact of intergovernmental organizations and the future prospect for regional and global governance. The political aspects of globalization are evidenced when governments create international rules and institutions to deal with issues such as trade, human rights and the environment. Among the new institutions and rules that have come to fruition as a result of globalization are the WTO, the Euro Currency, NAFTA, to mention just a few. Whether a government is to consciously open itself to cross border links is the central question of this aspect.

[88] Roland Robertson. Globalization: Social Theory and Global Culture. Sage. London. 1992

Cultural globalization refers to the intensification and expansion of cultural flows across the globe. Globalization, like all social processes, contains an ideological dimension, followed with a range of norms, claims, beliefs and narratives about the phenomenon itself. Cultural global ties also grow through globalization as new ideas and fashions through trade, travel and media move around the globe at lightening speed. Global brands such as Coca-Cola, Puma and Sony serve as common reference to consumers all over the world. An individual in China enjoys the same soft drink as an individual in Puerto Rico; at the opposite ends of the globe. However, these ties may also cause strains. For example, western ideas of freedom of expression may clash with Islamic views on religious tolerance. If not strains, critics contend, this is really an imposition of cultural imperialism in order to preserve economic interests.

Globalization therefore is the physical expansion of the geographical domain of the global, that is, the increase in the scale and volume of global flows and the increasing impact of global forces of all kinds on local life. It is a multi-dimensional process or set of processes which embody a transformation in the spatial organization of social relations expressed in transcontinental and international flows and networks of activity, interaction and power. In short it is the widening, intensifying, speeding up and growing impact of world wide interconnectedness. Indeed as Stiglitz (2002) has put it, "Fundamentally it is the closer integration of the countries and peoples of the world which has been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to flows of goods, services, capital, knowledge and (to a lesser extent) people across borders. Globalization has been accompanied by the creation of new institutions that have joined with existing ones to work across borders. In the arena of international civil society, new groups, like the Jubilee movement pushing for debt reduction for poorest countries, have joined long established organizations like the International Red Cross….."[89]. However, in all these Africa is at the periphery.

2.2 IS GLOBALIZATION A MYTH OR REALITY?

There is much academic discussion about whether globalization is a real phenomenon or just an analytical artifact. Although the term is widespread many scholars argue that the characteristics attributed to globalization have already been seen at other times in history[90]. Also many note that such features, including the increase in international trade and the greater role of multinational corporations (MNCs) are not as deeply established as they appear.[91]

Some scholars prefer the term internationalization rather than globalization[92]. In internationalization the role of the state and the importance of nations are greater while globalization in its complete form eliminates nation states. So they argue that the frontiers of countries, in a broad sense, are far from being dissolved and therefore this globalization process is not happening, and probably will not happen.

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89 Stiglitz J op ct p9

90 A. G Hopkins (ed). Globalization in World History. W.W Norton and Company. New York.2002

91 Hoogvelt A. Globalization and Post-Colonial World: The New Political Economy of Development. John Hopkins University Press. Baltimore. 1997

92 C.A. Bayly. Archaic and Modern Globalization in the Eurasian and African Arena 1750-1850 in A.G Hopkins(ed) opct. See also Wood E. A Reply to A. Sivanadan. *Monthly Review* September 1997

However, the world increasingly shares problems and challenges that do not obey nation-state borders, most notably pollution of the natural environment.

Some scholars have argued that we are in transition to a planetary phase of civilization; the exact form and character of the global society is though contested and will be determined by the choices that will be made in the critical decades ahead.[93] The Global Scenario Group has outlined alternative visions of the global future, with "market forces" or economic globalization being just one option, contrasted with "policy reform", "fortress world", "breakdown", "eco-communalism', and a "new sustainability paradigm"[94].

Other scholars maintain that globalization is an imagined geography; that is, a political tool of the ruling neo-liberalists, who are attempting to use certain images and discourses of the world politics to justify their political agendas.[95]

Whatever the debate, it would appear; especially after looking at the major characteristics of globalization, that globalization is a reality.

2.3 HISTORY OF GLOBALIZATION

Globalization is not a new phenomenon. Interdependence and interconnections among nations and peoples have a long history, which can be dated in parts of the world as early as the sixteenth century or even earlier during the time of Roman, Hellenistic and even Persian empires. The present process of increased international interconnections and technological innovations may be

93. Ali A Mazrui. Pan Africanism and the Origins of Globalization. *Lecture given at The Dubois Centre, Ghana, November 2001*

[94] *http://en.wikipedia.org/wiki/International_Monetary_Fund*

[95] Ibid

compared in some respects to the transformations of the mid nineteenth and early twentieth centuries. During that period governmental policies as well as new technologies such as the telegraph, the steam engine, the railways and the steam driven vessels brought about dramatic increase in world trade, international competition and interdependence. Viewed from this perspective, globalization may be considered as an advanced stage of the historical process of interdependence, which although currently accelerating with unprecedented momentum is by no means irreversible, as it was not in the 1920s. Two world wars abruptly reversed the progress made in fostering international trade as autarchic systems came to replace open economies, and, for decades a political and ideological divide separated peoples on all continents.

Though, as with any historical process, there may be a sudden change in the direction of events, in the next few years increased interdependence and cross border integration, especially in specific economic areas, are more likely than not, to continue, given the commitment of many countries to further trade liberalization.

The many meanings of the word globalization have accumulated very rapidly and recently but the verb 'globalize' is first attested to by the *Merrian Webster Dictionary* in 1944. Although the term came into widespread use only recently, many scholars argue that the characteristics attributed to globalization have already been seen at other times in history96. Long before 1492, people began to link together disparate locations on the globe into extensive systems of communication, migration, and interconnections. This formation of systems of interaction between the global and the local has been a central driving force in world history.

[96] A. G Hopkins (ed). Globalization in World History. W.W Norton and Company. New York.2002

By 1350, networks of trade which involved frequent movements of people, animals, goods, money, and micro-organisms ran from England to China, running down through France and Italy across the Mediterranean to the Levant and Egypt, and then over land across Central Asia (the Silk Road) and along sea lanes down the Red Sea, across the Indian Ocean, and through the Straits of Malacca to the China coast. The Mongols had done the most to create a political framework for the overland network as attested by both Ibn Battuta and Marco Polo[97]. The spread of Muslim trading communities from port to port along the littorals of the Indian Ocean created a world of sea trade there analogous to the world of land routes in Central Asia[98].

This was a world of commodities trades in which specialized groups of merchants concentrated their energies on bringing commodities from one port to another, and rarely did any single merchant network organize movements of goods across more than a few segments of the system. For instance, few Europeans ventured out of the European parts of the system; and the most intense connections were among traders in the Arabian Sea or the Bay of Bengal or the South China Sea regions of the oceanic system. The novelty of the physical integration of the trading system is indicated by the spread of the Black Death in Europe-which was repeated in waves from the fourteenth through the sixteenth centuries-because the plague traveled from inland Mongolia and China to Europe by land and sea, lurking in rodents that stowed away on ships, feeding on their food supplies. The epidemics in Europe indicated a relative lack of exposure to the plague bacillus before then-and

[97] Hopkins A.G opct
[98] Amira K Bennison, Muslim Universalism and Western Globalization in Hopkins A. G.(ed). *Globalization in World History*. W.W. Norton and C. New York. 2002.

though some outbreaks are indicated along the coast and in China at the same time, it appears that plague was endemic to the Asian parts of the system.

The different parts of the system depended upon one another and with increasing frequency travelers' record movements across the whole system are recorded from 1300 onward, as by Ibn Battuta, Marco Polo, and others. Janet Abu Lughod (1999)[99] argues plausibly that the so-called "rise of Europe" after 1500 followed a mysterious period of decline in the Chinese part of the system, and that in the 1300s, it was actually the vast expansion in production in China that was most responsible for the integration of the trading system because all roads led to China in the medieval trading world. The expansion of the Chinese economy in this period is well documented and included agriculture and industry, and the Mongol regime in China was a significant force in tying China into the world economy more.

Coercion and state power was critical in producing stable sites of trade and accumulation along routes of exchange and in protecting travelers on the long overland routes between sites. There does not seem to have been any significant military power at sea. Exchange within the various regional parts of the system was connected by networks of trade to commercial activity within trade and power relations in other parts, in a segmented system of connections, like pearls on a string; and observers made it very clear that states took a keen interest in promoting and protecting trade, even as rulers also used force to extort revenues and coerce production here and there. In South Asia, it should be noted, the Delhi Sultanate and Deccan states provided a system of power that connected the inland trading routes

[99] Janet Abu Lughod. 1999.

of Central Asia with the coastal towns of Bengal and the peninsula and thus to Indian Ocean trade for the first time.

As Columbus went to the Americas, Vasco da Gama rounded Africa in 1498 and forced rulers in the ports in the Indian Ocean system to pay tribute and to allow settlements of Portuguese military seamen who engaged in trade, supported conversion, acquired local lands, and established a loose network of imperial authority over the sea lanes, taxing ships in transit in return for protection. The militarization of the sea lanes produced a competition for access to ports and for routes of safe transit that certainly did not reduce the overall volume of trade or the diversity of trading communities, but it did channel more wealth into the hands of armed European competitors for control of the sea. The Indian Ocean became more like Central Asia in that all routes and sites became militarized as European competition accelerated over the sixteenth and seventeenth centuries, as the Portuguese were joined by the Dutch, French, and British.

The commodities trades continued as before, well into the seventeenth century, concentrating on local products from each region of the Eurasian system-Chinese silk and porcelain, Sumatra spices, Malabar cinnamon and pepper, etc, but by the 1600s, the long distance trade was more deeply entrenched in the production process. An expansion of commercial production and commodities trades was supported by the arrival into Asia of precious metals from the New World, which came both from the East and West (the Atlantic and Pacific routes, via Palestine and Iran, and also the Philippines and China).

Like the plague in the 1300s, new arrivals in Europe after 1500 signaled the rise of a new kind of global system. In medieval Europe, there was no cotton cloth, and no cotton cloth was produced for export anywhere except in the coastal regions of the Indian Ocean. Europeans began not only to buy this cloth for export to Europe, but to commission cloth of specific types for specific markets, and to take loans from local bankers and engage in commodities trades within the Indian Ocean system so as to raise the value of the merchant capital that they could re-export to Europe.

By 1700, European capital invested in trading companies traveled regularly to Asia on ships insured and protected by European companies and governments, in order to secure goods produced on commission for sale and resale within Asian markets, with the goal of returning to Europe with cargo of sufficient value to generate substantial profits for investors. Circuits of capital thus moved along trade routes, across militarized sea lanes, and organized production of cloth for export in Asia.

This Eurasian extension of the circuits of merchant capital did not only emanate from Europe; it also included large expansions within Asia itself, not only among the merchants and bankers who financed the regional trade and facilitated European exports, but also along financiers who provided state revenues in the form of taxation. The connections between state revenue collection and commodities trades became very complex and the Europeans were surrounded by Asian "portfolio capitalists"[100] who operated both in the so-called private and state sectors.

[100] Bayly C.A. Archaic and Modern Globalization in Eurasian and African arena 1750-1850 in Hopkins A.G (op ct)

By 1700, competing European powers also controlled the Atlantic Economy; and like cotton from Asia, sugar and tobacco from the Americas arrived in Europe as commodities within circuits of world capital accumulation[101]. The role of primitive capital accumulation was much greater in the Atlantic System, including the capture of native lands in the Americas, forced labor in the silver mines of Peru, the purchase of slaves captured in wars along the African coast, the forced transportation of slaves to the Americas, and the construction of the slave plantation economy in coastal Americas. The volume of the slave trade peaked around 1750[102].

By 1800, the Atlantic and Indian Ocean systems were connected to one another via the flow of currencies and commodities and by the operations of the British, French, and Dutch overseas companies, all being controlled, owned, or "chartered" by their respective states. The 17-18th centuries were the age of mercantilism, in which state power depended directly on the sponsoring and control of merchant capital, and merchant capital expanded under the direct protection and subsidy of the state treasury. It has been argued that the expansion of "portfolio capitalists" in the Indian Ocean reflected a similar kind of mercantilist trend in Asia during the eighteenth century.[103]

Ottoman, Safavid, Mughal, and Ch'ing empires provided an overland system of economic integration and interconnection that was more expansive than any before. Asian capital, coercive power, and productive energies were dominant in

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[101] Samir Amin, Imperialism and Globalization. 1998. *http://www.monthlyreview.org/0601amin.htm*
[102] Bayly C.A op ct
[103] Samir Amin, Economic Globalization and Political Universalism: Conflicting Issues? *In Journal of Hellenic Diaspora, 25.* 1999

determining economic trends in the Asian parts of the world economy. European activity has long received the bulk of the attention by historians concerned with the integration of the early modern world economy, but from Istanbul to Samarkhand, Cochin, Dhaka, Malacca, Hong Kong, Beijing, and Tokyo, they were not the most prominent players in most of the major sites of economic and political activity until the later nineteenth century. Europeans were dominant only in the Atlantic System in the early eighteenth century; the hemispheres of the world economy remained, in this respect, very different. Basic eighteenth century economic conditions continued well into the nineteenth century, until the railway and steam ship lowered transportation costs significantly, and to create new circuits of capital accumulation that focused on sites of industrial production in Europe and the US. But important structural changes in the world economy began in the later decades of the eighteenth century.

First, European imperial control of the Americas was broken, first in the north and then the south. This accelerated the rise of capital and capitalists as a force in the reorganization of nationally defined states; whose purpose was the political representation of the interests of their constituent property owners and entrepreneurs. The independence movements in the Americas and revolutions in Haiti and France produced new kinds of national territoriality within the world economy, and states that strove for greater control of resources within their boundaries than any before. Adam Smith (1999)[104] and Frederick Hegel were two important theorists of this transitional period, both of whom took a universal view

[104] Adam Smith. The Wealth of Nations. BooksI-III as edited by Andrew Skinner. Penguin Books. London. 1999

of national issues, and theorized a great transformation away from an age of kings and emperors toward an age ruled by peoples and nations.

Second, European imperial expansion shifted into Asia, where the use of military power by European national states for the protection of their national interests became a new force in the process of capital accumulation. Chartered companies were criticized by Adam Smith as a state-supported monopoly, for the English East India Company had a monopoly on the sale of all commodities imported into England from the "East Indies," which included all the land east of Lebanon, and this early version of the multi-national corporation expanded its power base in India with government support but without official permission. The British Empire expanded without official policy sanction throughout most of the nineteenth century, as British troops went in simply to protect the operations of British nationals operating as merchants overseas. The national state thus became both a mechanism for the control of territory within its own borders and for the expansion of national enterprise around the world.

The US expanded over land and into Latin America by the expansion of the enterprise of its citizens and expansion of its military power, as the British Empire expanded into Asia and then Africa, along with the French and Dutch. In the discourse of nationalism, the "nation" and "empire" lived in their opposition to one another; but "economic imperialism" was standard practice for economically expansive nation states, and "gun boat diplomacy" became a typical feature of economic transactions among hostile states.

The 1840s form a watershed in the institutionalization of a world regime of national expansion and international economic organization, when the British navy forced open the interior of China to British merchant settlements with military victories waged during the Opium Wars to protect the right of British merchants to trade in opium in China; and when the US Admiral Perry forced the Japanese to open their ports to American trade. The integration of separate, specialized world regions of agricultural and industrial production within a world economy of capital accumulation occurred during the nineteenth century. The industrial technologies of the factory, railway, telegraph, gattling gun, and steam ship facilitated this development. But as important were the organizational technologies of modernity, which included state bureaucracy, land surveys, census operations, government statistics, national legal systems, and the like.

The result was not only the creation of regions of the world with their own distinctive economic specializations, integrated into one world system of production; but also the construction of a single world of rules and regulations for the operation of the system. This change did not happen over night, but it was clearly moving ahead at the start of the nineteenth century and well advanced by the end. The highest phase of extensive capitalism started with the wave of colonization of the late nineteenth and early twentieth century and concluded with the collapse of communism while the intensive expansion saw the technological achievements. Many, however, note that such features, including the increase in international trade and the greater role of multinational corporations are not as deeply established as they appear.[105]

Some scholars prefer the term internationalization rather than globalization[106]. In internationalization the role of the state and the importance of nations are greater while globalization in its complete form eliminates nation states. So they argue that the frontiers of countries, in a broad sense, are far from being dissolved and therefore this globalization process is not happening, and probably will not happen. However, the world increasingly shares problems and challenges that do not obey nation-state borders, most notably pollution of the natural environment.

Some scholars have argued that we are in transition to a planetary phase of civilization; the exact form and character of the global society is though contested and will be determined by the choices we make in the critical decades ahead.[107] The Global Scenario Group has outlined alternative visions of the global future, with "market forces" or economic globalization being just one option, contrasted with "policy reform", "fortress world", "breakdown", "eco-communalism', and a "new sustainability paradigm"[108]. Other scholars maintain that globalization is an imagined geography; that is, a political tool of the ruling neo-liberalists, who are attempting to use certain images and discourses of the world politics to justify their political agendas.[109]

105.Hoogvelt A. Globalization and Post-Colonial World: The New Political Economy of Development. John Hopkins University Press. Baltimore. 1997

106.C.A. Bayly. Archaic and Modern Globalization in the Eurasian and African Arena 1750-1850 in A.G Hopkins(ed) opct. See also Wood E. A Reply to A. Sivanadan. *Monthly Review* September 1997

107. Ali A Mazrui. Pan Africanism and the Origins of Globalization. Lecture given at The Dubois Centre, Ghana, November 2001

108 http://www.gsg.org/

109 Petras. Op ct

There are many factors that account for the spread of globalization, particularly economic globalization.

First, one of the most important factors behind globalization has been the pro-globalization decisions of the world's governments. For example, the decisions of the Spanish and Portuguese governments which encouraged and supported, and even spearheaded the explorations of Christopher Columbus in 1492 and Vasco da Gama in 1497.

The decisions of especially the European countries- Britain, Germany, France, Italy, Portugal, Spain and Belgium- to partition and colonize Africa extended European control and trading networks to the African Content thus bringing Africa into the world system.

The post WWII dominance of USA, especially economically, which dominance she used to shape the IMF and WB as well as the global trade agreements in the shape she desired. This dominance ensured the IMF and WB were headquartered in Washington. Furthermore the USA began the modern era of globalization when she floated the US dollar in 1971, in a panic move induced by increased post war trade competition from the European economies but also induced by its spending on the Vietnam War. Since then most governments around the world have progressively reduced their trade and capital controls.

The other important factor is the public international institutions. There are two groups of these institutions which relentlessly promote and expand economic globalization. The first group comprises the world's transnational corporations (TNCs). The TNCs have perpetuated economic globalization through their dominance of world trade, investment, research and development. The largest 500 TNCs for example, control 70% of world trade, 80% of global foreign investment and 30% of world output and employ between 17 and 26 million people[110].

The second group comprises the public international financial institutions- the IMF, WB and WTO. The start of the third world debt crisis in 1982 gave the IMF and WB enormous powers which enabled them to impose pro-globalization and free market conditions on their loans to the poor countries. Past and present debtors to the IMF and WB account for about 40% of the world's economies. Furthermore the WTO has increasingly pushed the boundaries of trade globalization through harsh trade rulings, and especially in the new areas like patents, investment and services trade.

The third factor is technology. Modern transport, communication and technology have greatly reduced the cost of moving goods and capital around the world and have made global business information more available faster than it has ever been before.

The fourth factor has been the reduction in world trade tariffs. This has occurred throughout the post war years, particularly in the 1980s and 1990s. These reductions effected by GATT (General Agreement on Trade and Tariffs), succeeded by WTO, boosted the post WWII expansion in world trade.

Globalization therefore, is a reality that has been creeping on us.

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[110] UN Report ST/ESA/PAD/SER.26 of 2001.

2.4 DYNAMICS OF GLOBALIZATION

Technological innovation and entrepreneurship cannot alone explain the process of globalization. It should not be forgotten that the impetus towards greater economic integration has stemmed from the efforts of governments to remove barriers to trade and investment.

Increased global integration in a number of economic areas began to intensify in the 1980s when many governments supported economic liberalization. "The latter has included financial sector deregulation, the removal of controls over foreign exchange and enhanced freedom of trade. Financial deregulation has resulted in the progressive elimination of capital controls, the removal of controls over interest rates, and the lifting of traditional barriers to entry into banking and other financial services"[111]. State efforts to uphold free trade and to encourage the reduction of trade barriers have been reflected in the eight successive negotiating rounds of the General Agreement on Trade and Tariffs (GATT), which culminated in 1995 with the establishment of a multilateral trading system, the World Trade Organization (WTO). The latter has not only led to the reduction of barriers to trade in goods, but has also proceeded to liberalize services and capital flows. The WTO has also focused more closely on an ever-growing range of policy measures affecting the terms and conditions of market access, such as standards and regulations, subsidy practices, and intellectual property rights[112].

It is of great importance to underscore the political source of economic globalization in order to avoid interpreting this phenomenon as a deterministic force

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[111] Cable Vincent. What Future for the State in *http://www.globalpolicy.org/globaliz/econ/globnat.htm*
[112] WTO 1998 Annual Report

about which little can be done. Economic globalization is not a blind force. It is still individual governments that are setting the policies and the rules of the globalized economy. Thus, it should not be forgotten that the State has played a pivotal role in allowing greater interdependence and economic integration of specific activities through the elaboration and adoption of market-oriented policies and regulations, at both the international and local levels. Economic globalization can be said to result from policy decisions made by individual countries that allow global market forces to operate.

The problem is which countries set the rules, whom do they favor and how can the least powerful, like the African nation states, also influence policy-making in the international arena, and do it in ways that will benefit them. Some countries do not have as much leverage as others do in setting the international economic and political agenda due to significant power imbalances among nations that are reflected in international institutions. The USA alone for example controls 17% of the voting rights of the WB. As a consequence, the present form of globalization is largely shaped by the rules advanced by one part of the world, namely the most influential, and these rules do not necessarily favour developing countries and countries in transition.

Technological innovation, as well as the constant reduction in transportation and communication costs, is responsible for drastically transforming the ease, speed, quantity, and quality of international information flows, as well as physical communications[113]. In particular, information technology and multimedia communications are producing shrinkage of distance and acceleration of change.

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[113] Cable S. op ct

Due to technological advances in the past 70 years, transportation and communication costs have declined drastically (*see graph 1 showing the declining sea transportation costs since 1920*). The end of State monopolies, where and when it has happened, and thereby the introduction of greater competition in the telecommunication sector, is also responsible for a sharp decline in communication costs.

The average cost of freight and port charges per ton has decreased from over US$ 90 to approximately US$ 30 constant dollars between 1920 and 1990. The decrease in average revenue per passenger mile between the years 1920 and 1990 has gone from US$ 0.7 to US$ 0.1(*see graph 2 showing the declining air transport costs since 1930*). Moreover, a three minute call between New York and London has decreased from almost US$ 300 to less than US$ 1 dollar over that period, or it can be free over the Internet(*see graph 3 showing the declining cost of telecommunications since 1930*). The cost of computers has also dramatically decreased over the past years, as well as that of wireless communications. This implies that many transactions can be processed in no time and at relatively low cost.

Indeed, there is no field of technological progress, which has evolved more rapidly, in the past 20 years than information technology (IT). Taking shape through the convergence of semiconductors, computers, telecommunications and software technologies, the information revolution has produced rapid and sustained falls in the cost of processing, storing and transmitting information.

Thus, it promises to make the information and knowledge base of humankind available anywhere, anytime, in any language. Businesses and individuals, mainly in the developed world, can now perform a wide number of activities through the information highways in a matter of seconds.

The growing interest in this relatively new channel of communication is reflected by the number of Internet sites, which rose by 118% in only two years, that is, between 1997 and 1999[114]. During the past decade, two significant developments have greatly accelerated the globalization of information flows. The first is that computers have invaded millions of households. The second is the emergence and development of the Internet technologies. The former demonstrates that the role of computers has been extended dramatically, not only as a tool for state and business organizations, but also as a household electronic appliance for information retrieval and processing, for education, for entertainment and for communication. The latter leads to a great leap in the technical and human ability to access, interpret and use information.

It presages the advent of a national information infrastructure (NII) and a global information infrastructure (GII) in the coming information age.

It has been estimated that in March 2000 there were 400 million personal computers and about 1 billion telephones in the world; 276 million Internet users worldwide with a growth rate of roughly 150,000 persons per day; 220 million devices accessing the World-Wide Web with almost 200,000 devices being added every day. Total world bandwidth (transmission capacity of computer networks or other

[114] NUA Report. 199

telecommunications systems worldwide) in 1996 amounted to 200 trillion bits per second[115].

In 2001, the bandwidth was 9,000 trillion bits per second. It is also estimated that, by 2015 there will be 1 billion personal computers and 3 billion telephones in the world[116].

Governments, organizations and business enterprises are seeking to harness the Internet to advertise and disseminate information. There are millions of web-sites, homepages and diverse documents on the Internet, which cover thousands of subjects. At present, web pages total 1.5 billion with almost 2 million pages being added every day. IT has greatly stimulated the globalization of information. Information flows on topics ranging from politics and business to sports circulate among organizations, cities, nations, regions and individuals day and night. The Computer Industry Almanac has reported that by the year 2002, 490 million people around the world had Internet access, that is, 79.4 per 1,000 people world-wide. By the year-end 2005, 765 million people had been connected to the Internet, that is, 118 people per 1,000; by 2010, Chinese online users are expected to outnumber US users.

The Internet, as well as other communication devices, such as the cellular phone and fax machines, have contributed to shrinking distance and time, and have allowed people to connect and communicate instantaneously. The option of being able to access the Internet from special models of cellular phones may also represent a breakthrough in the communication sector, especially for developing

[115] Ibid
[116] Ibid

countries that have not developed an extensive cable system and are now able to use cellular phones in their daily work activities.

However, as in the case of economic globalization, there is nothing deterministic about globalization via the spread of IT technologies and the Internet. It takes proper public policy frameworks to make it happen. For example, States have a policy choice to make in the area of deregulating their telecommunication sector. And, increasingly, geo-locating and firewall technologies allow them to shape the freedom of the spread of the Internet.

A careful tradeoff between perceived advantages and disadvantages is needed here. How to handle the IT revolution promises to constitute one of the most important policy decisions that a State will have to take. The so-called digital divide is a by-product of underdevelopment, and lack of financial and human resources. It must be stressed though that public policy is also instrumental in the present magnitude of this divide and in the pace at which it can be bridged.

IT opens new opportunities for increased government transparency, efficiency and effectiveness of its services. It gives the citizens a powerful tool for conducting the public discourse, organizing themselves and challenging, as the case may be, the existing political parties, professional associations, non-governmental organizations, and agencies of State administration, both locally and globally. IT is rapidly transforming all the sectors of the global economy. It helps to redefine concepts such as competitiveness, quality, delivery, responsiveness and innovation. IT has opened the way to advances in productivity by minimizing waste of raw materials, labour and time. With modern transportation means such as jumbo jets and container vessels and computerized reservations systems, the globalization of production and services has become a reality. Global information networks are rapidly transforming the ways an enterprise operates. In the last 20 years, both manufacturing and services have become increasingly globalized. A global production system has emerged. It goes without saying that IT is the central driver of this new world trend.

On the negative side, it must be said that the Internet is also being used in detrimental ways. It has become an easy communication device for all sorts of criminal and terrorist activities. This shows that the Internet can be used both in social and "anti-social" ways. The Internet in fact, as any other device, is not a "good" or "bad" tool per se. It is a facilitator. Whether it has a positive or negative impact on society depends on how it is used, perhaps abused, and how its use is regulated.

Thanks to technological innovations and greater economic liberalization, entrepreneurs, especially multinational corporations, have taken full advantage of more open markets to spread production processes all over the world[117]. The opening up of economic opportunities allows the movement of foreign capital, technology and management, largely from transnational corporations (TNCs), to host country entrepreneurs and corporations. As national economies open, mergers between businesses from different countries and purchases or investment in equity of businesses in one country by owners from other countries are becoming more common. Although TNCs are not new economic actors, what has dramatically changed is the way they operate around the world and their increased level of

[117] WTO Annual Report 1999

economic power. For example, the five hundred (500) largest TNCs control 80% of all investment in the world, 30% of global output, 70% of global trade and 80% of trade in information technology. TNCs have a particularly large influence over trade in the world's raw materials. For example, 07 (seven) TNCs control 85% of world's trade in grain, 08 (eight) control 60% of world coffee trade, 07 (seven) control 90% trade in tea and 03 (three) control 80% of the world trade in bananas[118]. According to the Commission on Global Governance, the number of TNCs is presently estimated at 37,000 worldwide[119].

Modern technology, transportation, and telecommunications are transforming, in many ways, how organizations and people operate, cooperate and interface. From a social point of view, new technologies have facilitated greater global integration and awareness through the establishment of worldwide networks. Concern for democracy, human rights, the environment, and poverty is being enhanced by the birth of cross-border social and political networks, whose members are non-state actors such as non-governmental organizations (NGOs), as well as private persons who want to participate in public matters, locally and globally. To be sure, the growing role of non-state transnational actors adds a novel dimension to globalization. TNCs are becoming increasingly powerful actors within the international arena due to their growing economic power. The creation of international organizations, such as the WTO, brings about new influential institutional actors in the global landscape. Furthermore, the greater role of global civil society is another distinctive feature of globalization, particularly if we

[118] UNCTAD Report 1997.
[119] Commission on Global Governance Report 1995

consider its increasing relevance in the international policy agenda and processes[120]. International NGOs work to aggregate global values and interests like the protection of human rights. Some NGOs work to protect the interests of national groups affected by global forces.

The increased relevance of non-state global players, such as TNCs and international social networks, has set in motion much discussion about the role of the State and its governance capacity in a globalized world, and whether it will be able to manage effectively a diverse range of pressures. In fact, the State is increasingly being pulled in different directions, and must respond to demands, and transnational groups. Strengthening the State's networking capacity will be crucial in a complex and interconnected world. Some see an emerging role for the State as an "orchestrator", catalyst of ad hoc alliances of diverse capacities and of diverse skills possessed by these many actors for achieving ad hoc developmental goals[121]. Economic globalization is mainly characterized by the rapid expansion of international trade, foreign direct investment and capital market flows. The last 50 years have seen trade expand faster than output by a significant margin, increasing the degree to which national economies rely on international trade in overall activity.[122] It is estimated that world trade, from about the 1960s, grew at a rate of 8% annually such that by 2000 it was twenty times larger than what it had been in the 1950s whereas world production, of especially goods and services, was only six

[120] Ostry S. Convergence and Sovereignty in Prakash Aseem and Jeffrey A Hart(eds). *Coping with Globalization*. Routledge. New York. 2000
[121] Ostry S. Ibid
[122] WTO Annual Report 1999

times larger than it was in the 1950s[123]. Now world trade is about 43% of world production. The decline in transportation costs and technological innovation, in particular the Internet, have contributed to an increase in the volume of trade, financial flows and speeded-up economic transactions by decreasing the time and methods of delivery and payment of goods and services. In addition, the declining transportation costs have led to a greater mobility of people across borders and have significantly augmented tourism, world wide, as well as a growing migration of workers.

The increase in international trade is reflected in the following data: on an annual basis, merchandise exports grew by 6 per cent in real terms from 1948 to 1997, compared to annual output growth of 3.7 per cent. Put differently, trade multiplied by the factor 17, while GDP grew approximately six-fold during this period. In the case of manufacturers, trade multiplied 30 times, while GDP grew eight-fold.

Among rich or developed countries the share of international trade in total output (exports plus imports of goods relative to GDP) rose from 27 to 39 per cent between 1987 and 1997. For developing countries it rose from 10 to 17 per cent[124]. Foreign direct investment (FDI), which is related to investments made by firms in foreign countries to establish and run business operations, has also greatly increased. US firms invested US$ 133 billion abroad in 1998, while foreign firms invested US$ 193 billion in the US. Overall world FDI flows more than tripled

[123] UNCTAD Report.op ct
[124] World Bank. World Development Indicators Report.2000

between 1988 and 1998, from US$ 192 billion to US$ 610 billion, and the share of FDI to GDP is generally rising in both developed and developing countries.

Developing countries received about a quarter of world FDI inflows in 1988-1998 on average, though the share fluctuated quite a bit from year to year[125]. Between 1980 and 1997, private capital flows to developing countries as a group soared to $140 billion from $12 billion.

The report on financing for development prepared for the UN Secretary-General, notes that during the period 1993 to 1998, 20 countries accounted for over 70 per cent of all FDI inflows to all developing countries. It further notes that the majority of low-income countries have been largely bypassed by private finance from abroad. Developed countries as a group received 0.5 per cent of world FDI inflows in 1999. On the other hand, firms from developing countries themselves increasingly invest abroad. FDI from developing countries increased from 2 per cent of total FDI outflows in the early 1980s to 10 per cent at the end of the millennium[126]. For African countries this is a double blow. Not only the inflow of FDI is relatively miniscule, especially outside primary commodities, but it has been estimated that 40 per cent of African private wealth is held overseas.

Foreign exchange trading in the world's financial centers exceeds 1 trillion US dollars a day, a multiple of 50 times or more of the amount of daily world trade and greater than the total stock of foreign exchange reserves held by all governments[127].

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[125] Ibid

[126] UN Report A/55/1000.2001

[127] Cable Vincent. What Future for the State in Deadalus Mar 22 *(http://www.globalpolicy.org/globaliz/econ/globnat.htm)*

The liberalization of capital movements coupled with information technology advances has made it possible to transfer large amounts of capital across national borders in seconds. A major transformation has also occurred in the territorial organization of economic activity.

The way multinational corporations operate across borders has in fact greatly changed. The pattern of production has assumed a truly global nature in that the present organizational structure of companies has become increasingly horizontal. This implies that the production process does not take place vertically within the same corporation and that finished products are then exported. Instead, manufacture of the various components of a product takes place in different regions of the world, either through affiliates or through outsourcing to foreign companies. For example many American products are no longer manufactured within the same company nor within the same country. The components may be produced in India, while some parts are assembled in Mexico and others in Bulgaria, and then sold in the US or other markets around the world. This is called intra-company trade. This internationalizes the local labour markets and rewards with quality jobs and wealth-creation opportunities, the concentrations of highly educated skilled, networked professionals, a fact that has profound public policy implications.

Globalization of technologies has enabled inexpensive, instantaneous communication and massive diffusion of information affecting styles of politics, culture and social organization. The globalization of technology has contributed not only to the explosive growth of information exchange via the Internet, but also to the expansion of education opportunities and the constitution of transnational networks. Information, which had been the monopoly of the few, is becoming accessible to wider and more diverse audiences.

The relative ease of accessing information has increased citizens' ability to share views, to become aware of their rights, to make their demands known and to increase their influence generally. As a consequence, citizens are joining together to demand improved levels of services and higher standards of behaviour from their governments. Public opinion moves to the forefront as a basis of the legitimacy of governments.

The reduction in transportation costs over recent decades, especially air and train fares, has significantly facilitated the movement of people around the globe and has allowed a greater awareness of international issues. People nowadays have greater access to and knowledge of other cultures, as well as social problems and issues. Social protest has also taken on a different form. It is not any longer confined to one particular country or to local issues; it transcends national borders. The recent events in Genoa at the G8 summit, in Prague in September 2000 at the International Monetary Fund and World Bank meeting, and in Seattle at the World Trade Organization meeting in 1999, are examples of these new forms of transnational organized movements and of globalization itself. International and regional organizations, such as NGOs and transnational networks, based on shared interests rather than on geopolitical similarities have proliferated in the late twentieth century.

NGOs, however, are by no means an "invention" of the past decades. Some notable NGOs, such as Save the Children, were founded at the beginning of the

20th century, while others even earlier as in the case of the International Red Cross, which was founded in 1868. What has changed is perhaps the increasing number of NGOs and their growing political leverage. Four decades ago, there were fewer than 1,000 NGOs, which operated mostly at the local level. Now at the beginning of the 21st century, the United Nations reports that almost 30,000 NGOs operate internationally. Moreover, NGOs are being increasingly invited to many global fora such as United Nations conferences and meetings and the recent World Economic Forum held in Davos, Switzerland or the G8 meeting held in Genoa, 2001.

In other words, NGOs are becoming actively involved in policy dialogues. Although NGOs are generally undertaking remarkable tasks and advancing relevant world causes such as the alleviation of poverty, the protection of children's rights, or the protection of the environment, NGOs have also been criticized for a number of reasons. It has been said that some compete against each other and, once institutionalized, become closed to new ideas and positions. It has also been argued that powerful NGOs are mainly based in developed countries and may not be as transparent and accountable as they expect other public and private agencies to become. But most fundamentally, it should not be forgotten that, despite their relevance in articulating and expressing a diversity of interests and concerns, NGOs should not be confused with political parties, as they are not democratically elected.

Therefore, their opinions and positions regarding different social and political issues are not representative of the people's will, as they have not received a mandate to represent them. However, increased access of its members to information and networking creates a pressure for increased relevance and improved internal governance of NGOs. This is bound to make them more responsive to the changing global circumstances and to the opinion of their constituencies.

Social globalization is a phenomenon which poses new challenges for the nation-State. In fact, the State becomes increasingly involved in a web of intricate interests and needs in order to respond to a growing number of demands on issues which are not solely limited to its territory. This requires the State to hone its role as mediator and develop new skills to deal with diversity.

2.5 THE ANTI GLOBALIZATION MOVEMENT

The Anti Globalization Movement (AGM) seeks to formulate coherent alternatives to the present economic order, that is, policies are being developed within the various groups that make up the Anti Globalization Movement. These alternatives are worked out at the various gatherings of the AGM like the World Social Forum (WSF). These gatherings have gained a lot of momentum in recent years. They are now occasions for discussion and policy formulation. This portends a bad future for economic globalization because alternatives are increasingly posing a real threat to those who support globalization, especially free market economics. For example; the USA type of globalization which is driven by capitalism is staggering and the USA has never been under more pressure as it is now. This can be evidenced in the US economy. The economy is experiencing a number of negative trends like, falling currency, an ever increasing trade and current account deficit, low economic growth and a number of collapsing corporations.

Within the WTO a number of poor countries are lining up against further expansion of the power of the WTO. Trade talks of the WTO have now collapsed three times in a space of a few years; at Seattle in December 1999, at Cancun in September 2003 and at Doha 2006.

The WB and IMF are under unprecedented attack from both the left and right of politics. Joseph Stiglitz is perhaps their most authoritative critic, having been an insider.[128]

There is increasing economic nationalism in countries like Indonesia, Argentina, Brazil and China.

After especially September 11 2001 protests against economic globalization are the order of the day.

Besides world poverty, the other big looser from economic globalization has been democracy. This democratic loss occurs at various levels; the democratic loss on the political and economic level. All international economic management is directed by a free market ideology. This global economic trend of free market has been pushed by the IMF, WB and WTO. It has also been pushed by almost every mainstream political party in the world. For example, most former communist parties of Eastern Europe are now free market, the Democrats and the Republicans in USA are both free market, The Tories and Labour Party of the UK are both free market, both the INC(Indian National Congress) and the Bhanatiya Janata Parties in India are free market. The ANC (African National Congress) of South Africa is free market, even the NRM in Uganda which at the time it came to power in 1986 was more socialist in outlook and orientation is now free market. This means people

[128] Stiglitz J op ct

don't have any political options anymore. This is why Fukuyama[129] said the world has come to the end of history.

At the local level the TNCs are taking away democratic choice from the local communities. This is very ironical because the centralization of economic power that the TNCs represent is making capitalism functionally similar to communism. Both capitalism and communism now represent economic concentration into fewer and fewer hands. Those who believe in economic globalization seriously thought that globalization would deliver more choice. However, this is not now the case. People now can no longer take poverty and loss of choice any more. In the 1980s and 1990s people thought globalization was a friend. But they are increasingly realizing that it is a monster. Governments that come to power with good intentions but end pursuing globalization policies uncritically have all over the world had a very uncomfortable governing of their countries. It is clear therefore that change in economic globalization is under way and the AGM is at the cutting edge of that change.

[129] Fukuyama, F. op ct

CHAPTER THREE: The IMF Policies in Uganda

3.0 INTRODUCTION

This chapter deals with the implementation of privatization, liberalization and debureaucratization policies in Uganda. These are the entry policy points by the IMF. The actual process of privatization of previously government owned businesses, liberalization of the financial and fiscal policies and reduction of government, in particular, the reduction in force exercise by UPDF (Uganda People's Defence Force) will be the focus.

3.1 ORIENTATION ON UGANDA

Uganda is astride the equator, stretching from approximately one degree south to four degrees north of the equator and from thirty degrees to thirty five degrees east[130]. Uganda is 800 Km inland from the Indian Ocean. Uganda has a total surface area of 241,038 sq Km (93,065 sq miles). The country measures 625 Km (388miles) from east to west and 638 Km (396miles) from north to south.[131] Uganda is bordered by Kenya to the east, Sudan to the north, The Democratic Republic of Congo (DRC) to the west, Rwanda to the south-west and Tanzania to the south.

Uganda is a country of remarkable physical features. It forms a plateau declining gradually from 1,300 m (4,300ft) above sea level in the south to 750m (2,460ft) above sea level in the north. The southern portion is forested though much

[130] Microsoft Word, Encarta Premium 2006
[131] Ibid

of the forest has been cleared for agriculture. Much of the north is open savanna, though to the north-east it is almost semi desert.[132]

The western rift of the Great Rift Valley, a series of cracks on the earth's crust, more than 5,000Km (3,000 miles) in length runs through western Uganda. Mountains rise on the eastern (Mt Elgon and Mt Moroto being the most notable) and western (The Rwenzori Ranges and Mt Muhavura being the most notable) borders of Uganda, the highest reaching more than 16,000ft above sea level[133].

Most lakes and rivers in Uganda form a drainage basin for the River Nile whose principle source is Lake Victoria. The Nile winds through Uganda and exits from the north of the country into Sudan and eventually to the Mediterranean Sea. The other large lakes include Lake Albert, Lake Koga, Lake Edward and Lake George.

Uganda has a wide variety of plant life; from Mvule hard wood trees and elephant grass of the plateau to dry thorn scrubs, acacia trees and euphorbia shrubs of the north-east, as well as papyrus in the swamps which surround the lakes.

Uganda's temperatures are moderate throughout the year. For example, average daily temperatures range from eighteen (18) degrees Celsius to twenty eight (28) degrees Celsius; except in the south western highlands where temperatures range from eight (8) degrees Celsius to twenty three (23) degrees Celsius.

The whole country receives sufficient rainfall, up to 2000mm annually, with the exception of the north east which receives 900mm annually.

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[132] Robert Stock. Africa South of the Sahara: A Geographical Interpretation. The Guilford Press. London. 1995

[133] Ibid

According to the 2002 census, Uganda's population stood at 27.3 million people, growing at a rate of 3.3% annually. Uganda is predominantly rural with only 12% of the population living in urban areas.[134]

As a result of migration and intermarriage, most Ugandans have ancestors from a variety of Uganda's more than thirty four ethnic groups, although people customarily identify with just a single group. In centuries past ancestors of many of these groups came to Uganda from what is now Sudan and Ethiopia[135]. Many of the languages presently used are not mutually intelligible. About two thirds of the populations living in the south speak Bantu languages. About one sixth of the population in the north are western Nilotic; such people as the Langi and Acholi. Another one sixth, the Iteso and Karamojong, speak eastern Nilotic. Extreme North West of the country is occupied by the Sudanic speaking people. English is the official language although Kiswahili is the lingua franca.

3.2 BRIEF HISTORY OF UGANDA

The earliest inhabitants of Uganda were hunters and gatherers who lived more than 50,000 years ago and whose stone axes have been found near the villages of Mweya and Kagera in the southwest and at Paraa in the northwest[136]. Their descendants retreated to the mountains between 2,500 and 3,000 years ago when the Bantu-speaking farmers moved into the forested areas and cleared the land for crops. Iron smelting by Bantu-speaking cultures has been dated from 2,500 years

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[134] Uganda Population Secretariat Report 2003

[135] Karugire S. R. A Political History of Uganda. Heinemann Educational Books. Nairobi. 1980

[136] Basil Davidson. The Search for Africa: A History in the Making. James Currey Ltd. 1994

ago, and Bantu pottery from 1,500 years ago[137]. Bantu-speakers near the shores of lake Victoria developed the banana as a staple food about 1,000 years ago, although there are conflicting accounts that the banana was introduced by the colonialists as a famine buffer crop[138]. Between 600 and 700 years ago the Chwezi, a Bantu sub-group, established settlements at Bigo in present day Mubende district. The Chwezi were depicted in legends as supernatural but probably were the ancestors of present day Hima and Tutsi[139]. Between the 14th and the 16th centuries AD Nilotic-speaking herders migrated south from Sudan, displaced the Chwezi, and established dominance over pre-existing farming peoples. The Nilotic speakers formed several kingdoms, notably Bunyoro, south of Lake Albert.

The kingdom of Buganda, located between Bunyoro and Lake Victoria, also developed about 500 years ago. Buganda, probably formed by a defeated claimant to the Bunyoro throne, steadily expanded over the next four centuries, largely at the expense of Bunyoro[140]. The earliest confirmed date in Ugandan history is 1680 when a solar eclipse was recorded during the reign of Jjuuko, an early *kabaka* (king) of Buganda. As opposed to the *omukama* (king) of Bunyoro, who was chosen exclusively from the royal clan and whose chiefs had some independent authority, the kabaka of Buganda could be chosen from any clan. By the 19th century the kabaka commanded total authority over his kingdom, and all power and wealth flowed from him[141]. He did not keep a standing army, but adult males were

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[137] Karugire S.R opct
[138] Chief Musamaali Nangoli. No more Lies about Africa. African Heritage Publishers. New Jersey. 1987
[139] Karugire S. R opct
[140] Robert W July. A History of the African People(4th ed). East African Educational Publishers. Nairobi. 1992.
[141] Ibid

conscripted for war as needed. By the 19th century the Ankole kingdom had become a caste system in which Hima herders, ruled by a king selected from the royal clan, dominated the Bairu farmers[142]. Toro, Uganda's fourth major kingdom, emerged about 1830 when a disgruntled son of the Bunyoro Omukama declared the region north of Lake Victoria that he ruled independent.

Until the mid-19th century, people outside Africa took no interest in Uganda. Arab traders from Zanzibar reached the royal court of Buganda in 1844 with guns and cloth, which they traded for ivory. They also introduced the religion of Islam. Curiosity about the source of the Nile led to European expeditions into the region. In 1862 British explorer John Hanning Speke was welcomed to the court of Kabaka Mutesa I of Buganda. Speke continued his journey and found the point where the Nile flowed out of Lake Victoria, correctly concluding that the lake was the source of the Nile[143].

British explorer Samuel White Baker and his wife, following the Nile upstream, entered Uganda from the north and in 1864 reached and named Lake Albert. On Baker's second trip, in 1872, Kabalega, the Bunyoro Omukama, attacked Baker out of fear that his subjects would become vulnerable to slave raids from Sudan, and forced Baker's withdrawal. Anglo-American explorer Henry Morton Stanley visited the court of Buganda in 1875 while en route from Zanzibar through the Congo rain forest to the Atlantic coast[144]. Due to Stanley's report that the Ganda people of Buganda would welcome Christianity, British Protestant and French Catholic missionaries visited Buganda in the late 1870s. Kabaka Mutesa I

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142 Karugire S.R opct

143 Low D.A and Alison Smith (eds). A History of East Africa. Vol.3. Claredon Press. London. 1976

144 Ibid

was more interested in foreign trade, arms, and military support than he was in foreign religions, but allowed missionaries into his court for diplomatic reasons[145]. The presence of Christian missionaries in Mutesa's kingdom helped deflect the potential threat of Egyptian annexation of Buganda by Charles George Gordon, the agent in southern Sudan of the Egyptian ruler.

Protestant, Catholic, and Muslim competition for converts, particularly among the pages at the royal court, many of whom later became chiefs, produced three religious factions. Fearing the consequences of disunity, Mutesa expelled missionaries from his court, but his son Mwanga, who succeeded Mutesa in 1884, invited them back. However, Mwanga reversed his decision in 1886 and ordered 22 pages who would not renounce their faith to be burnt to death.[146] The Catholic victims came to be known as the Ugandan Martyrs, and were canonized (declared saints) by the pope in 1964.

The Muslim, Catholic, and Protestant factions combined in 1888 to overthrow Mwanga, but then warred against each other until Mwanga was restored to the throne in 1889. This period of religious violence firmly established religion as an important basis of politics. The unsettled situation in Buganda was further complicated by competition between Britain and Germany during the Scramble for Africa, in which European nations rushed to claim African territory near the end of the 19th century. Under the Treaty of Helgoland in 1890, Germany ceded its interests in Uganda to Britain, whose government had given responsibility for

[145] Basil Davidson. opct

[146] Matthias A Ogutu and Kentanchui S. S. An Introduction to African History. Nairobi University Press. 1991

governing and exploiting the area to the Imperial British East Africa Company[147]. The company's representative, Captain Frederick Lugard, negotiated a treaty with Mwanga and Catholic and Protestant chiefs in 1891, but the two religious factions remained hostile. To strengthen the company's position, Lugard recruited a force of Sudanese troops in western Uganda, signing treaties with the kings of Ankole and Toro along the way and thus bringing these areas into the company's jurisdiction. With his new soldiers—and two machine guns—Lugard and his Protestant allies from Buganda provoked and won a battle against the Catholics in 1892, thus establishing Protestant political supremacy in Buganda and later in Uganda as a whole. Mwanga remained kabaka, but had to sign a treaty accepting British "protection" in 1893.

In 1894 Britain declared a protectorate over all of present-day Uganda and began the expansion of its control by invading Bunyoro in 1893 and 1894 and removing its king, Kabalega, whose troops were raiding areas under British control. Several Bunyoro counties were awarded to the Buganda government for its military assistance[148]. These areas became known as the Lost Counties, a hotly contested issue in Ugandan politics until the 1960s. In 1897 Mwanga rebelled, but was defeated and deposed as kabaka in favor of his infant son, Daudi Cwa. Mwanga fled to German East Africa, but soon returned to join Kabalega in guerrilla opposition to British forces. In 1899 both were captured and exiled to the Seychelles[149]

The consolidation of the protectorate created a pre-eminent position for Buganda, greater power for Protestants, and allowed for the ascendancy of chiefs,

[147] Basil Davidson. opct
[148] Karugire S.R opct
[149] Low D.A and Alison Smith. opct

who served as regents for the young Buganda king. Each of these situations contributed to Uganda's political problems during and after colonial rule. In 1900 all of these issues were formalized in the Buganda Agreement between the British and the chiefs of Buganda, which laid the basis for Buganda's economic prosperity during British rule[150]. The agreement gave the four-year-old king and his chiefs title to the more productive half of Buganda's land in return for which they accepted subordination to Britain and the right of the protectorate government to levy taxes. Treaties signed between Britain and the governments of the other kingdoms (Toro in 1900, Ankole in 1901, and Bunyoro in 1933) were much less generous, particularly in grants of land.

The British introduced cotton growing in 1904, and chiefs who had land became wealthy and established the prosperity of the colony through their contributions to exports and taxes. Uganda's growing population of immigrants from the Indian subcontinent also benefited from the new cotton industry. Indians (as the immigrants were known in Uganda) came to Uganda as laborers and traders in the thousands between the 1890s and the 1920s. By the 1920s Indian entrepreneurs owned a large percentage of Ugandan cotton processing plants and many other businesses. In the 1920s the British encouraged farmers in Buganda to grow coffee, which became increasingly profitable. Consequently, people in Buganda grew wealthy faster, received better education, and obtained more positions in the public service than those from other areas[151].

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[150] Karugire S R opct
[151] Yoweri Kaguta Museveni, Sowing the Mustard Seed: The Struggle for Freedom and Democracy in Uganda. Macmillan Publishers Ltd. London. 1997

In addition, some chiefs from Buganda were given positions as administrators over other parts of Uganda until World War I (1914-1918). The greedy conduct and cultural chauvinism of the chiefs from Buganda caused resentment and a corresponding rise in local ethnic identifications. As a result, many people from other parts of the country feared the domination of Uganda by Buganda, a fear still held by some Ugandans.

After poor peasants who labored on the lands of chiefs of Buganda protested their living and working conditions, the protectorate government passed legislation in 1927 limiting the peasants' rents and securing their occupation. Militant nationalism emerged following World War II (1939-1945), marked by an outbreak of urban strikes in 1945 and rural farm protests, primarily in Buganda, in 1949.[152] The colonial government responded by introducing greater African participation in the economy, encouraging African cotton farmers to process their own cotton, and promoting agricultural cooperatives (farms owned by, and operated for the benefit of, multiple African farmers). In addition, the British democratized some local governments.

In 1945 the first African representatives were allowed in the colonial legislative council. African representation in the council increased in the late 1940s and early 1950s. At the same time, the government also tried to control reform by regulating the new agricultural cooperatives and supporting moderate African candidates for the council seats. In the 1950s Ugandan prosperity was further strengthened by large state and foreign-financed infrastructure projects. The most

[152] Karugire S R opct

significant was the dam and hydroelectric station on the Nile at Jinja, built in 1954, and the Kilembe copper mine on the western border, which began in 1956.

However, the new governor, Sir Andrew Cohen, caused a crisis in 1953 when he introduced a plan for a unitary Ugandan government, which implied eliminating the government's special relationship with Buganda. Kabaka Frederick Mutesa II, until then known mostly as a playboy, opposed the plan and gained intense popular support among the Baganda. Cohen exiled him to Britain, bringing such strong demands for his return that Cohen was forced to negotiate a new agreement with the Baganda in 1955 that reaffirmed their privileges and granted additional powers to the Kabaka. The Kabaka, who returned in triumph, became a central political figure National demands for independence began with the formation of the Uganda National Congress (UNC) in 1952 by nationalists, Ignatius Musazi and Abu Mayanja. Baganda Catholic chiefs and educated urban professionals formed the Democratic Party (DP) in 1954. In 1960 Milton Obote formed the Uganda Peoples Congress (UPC) by joining northern branches of the UNC and representatives, mainly from western Uganda, who had been elected to the legislative council in 1958[153]. The DP and the UPC became the major national parties, each gaining influence by winning the support of local notable figures with rural ethnic followings in their home areas. Both parties opposed the Protestant Buganda establishment—the DP, because most of its members were Catholic, and the UPC (regarded as predominantly Protestant), because its members feared Buganda's dominance after independence[154].

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153 Karugire S R
154 Ibid

Buganda, for its part, felt increasingly threatened by the prospect of losing its special rights in an independent Uganda. In independence negotiations with Britain in 1961 and 1962, the Buganda administration secured further guarantees of its position. Notably, the Protestant-dominated Buganda local council was given the right to indirectly elect Buganda's representatives to the national parliament, virtually eliminating any chance of the Catholic DP winning any seats in Buganda. Bunyoro, Ankole, and Toro received only ceremonial privileges, but that was still more than the districts that lay outside the four major kingdoms received. Most of these kingdoms and districts had an ethnic identity, so their competition to gain the privileges that Buganda carried into independence guaranteed that ethnicity would be central to post-independence disputes in Uganda[155].

For Buganda's protection, the Kabaka's government formed an ethnic party, Kabaka Yekka (KY), in 1961. It made an unexpected alliance with the UPC to win pre-independence elections in early 1962. Uganda became independent in October 1962 with UPC leader Milton Obote as prime minister and several KY ministers in his cabinet. A year later Uganda became a republic with the Kabaka as ceremonial president. But the UPC/KY coalition split over the UPC's insistence on holding a referendum to decide whether to return the Lost Counties to Bunyoro.

The UPC used its control over the state bureaucracy to bestow favors to its followers and to lure members of the DP to its side. However, it never consolidated its control over its own factions, and in 1966 UPC cabinet members from southern Uganda tried to force Obote out of office. Obote had the cabinet members arrested and claimed the Kabaka was part of the plot. He suspended the 1962 constitution

[155] Yoweri Kaguta Museveni. opct

and forced an interim constitution through parliament in which Obote replaced the Kabaka as president. The Buganda government responded by threatening to secede. Obote ordered the army, under the command of newly appointed Army Chief of Staff Colonel Idi Amin, to take control over the Buganda government. The army defeated the small force defending the Kabaka, who fled in disguise into exile[156]. In 1967 Obote's government adopted a new constitution that abolished all four kingdoms and eliminated federal powers. In a futile effort to expand his support, Obote adopted radical policies that expanded state control over the economy. In 1969, following an assassination attempt on Obote, the DP and other minor parties were banned. The UPC remained the only existing party, though the constitution was not amended to prohibit the formation of other parties.

Obote's control over the army grew more uncertain as Amin consolidated his power. Obote placed allies in senior military posts in an attempt to diminish Amin's control over troops. However, Amin overthrew the civilian government in 1971, relying on members of the Nubian ethnic group within the army, who controlled the army's tank battalion. Though both Amin and Obote were northerners, Amin was a Nubian and a Muslim, while Obote was a Langi and a Protestant.

On taking power, Amin ordered the murder of soldiers he regarded as loyal to Obote. He soon also authorized attacks on civilians and ignored killings by his followers. Eventually, he was also responsible for the murder of several of his cabinet ministers, the chief justice, and the Protestant archbishop. Several hundred thousand people may have been killed and thousands more fled the country. No groups were spared, though the educated were singled out by the uneducated ruling

[156] Ibid. also Karugire S R opct

group, and the ethnic Acholi and Langi also were singled out, because Obote was thought to have derived support from those groups.[157]

Amin spurred the shift by several African states to align with Islamic nations rather than with the Jewish state of Israel in the Middle East conflict over possession of the historic region of Palestine. After receiving aid from Libya in 1972, Amin expelled all Israelis from Uganda. Later that year he also expelled almost all Indians, who had controlled almost the entire commercial sector. At first these bold strokes made Amin popular among Ugandans, especially among those who were given control of the Indian businesses. As the economy contracted, however, shortages occurred, foreign exchange disappeared, and inflation increased, and Amin lost most of his popular support.

Though condemned by much of the international community, Amin received military assistance from the Union of Soviet Socialist Republics (USSR) and Libya during most of his regime. In addition, both the United States and the British governments facilitated sales of military equipment by private businesses and arranged training for Ugandan "police agents" (even after the United States broke diplomatic relations and closed its embassy in Uganda in 1973). The military aid, business opportunities from the departed Indian communities, and money siphoned from state funds helped Amin buy the loyalty of his military. Nevertheless, he faced several attempted coups.

As a principled opponent of military rule, Julius Nyerere, the president of neighboring Tanzania, denounced Amin's seizure of power and permitted Obote and other opponents of Amin to reside in Tanzania and, initially, train guerrillas

[157] Museveni,Yoweri Kaguta. opct

there. In 1978 several units of the Ugandan army mutinied against Amin's rule. To distract the nation's attention from his weakening grip on power, Amin ordered loyal troops to invade the Kagera region of Tanzania. The Tanzanian government equipped a large army that, together with two small Ugandan contingents, {one loyal to Obote (Kikosi Maalum), the other (FRONASA) to guerrilla leader Yoweri Museveni}, quickly drove the invaders out of Tanzania. This military force then invaded Uganda and ousted the Amin government on 11 April 1979, forcing Amin to flee to Libya. The war had lasted less than six months, but the looting by Ugandans and Tanzanians during that period caused as much damage to Uganda's economy as Amin's policies had over the preceding eight years.

A 20-month period of transition followed, with the goal of preparing for elections. However, factional intrigue stemming from Uganda's complex ethnic and religious divisions resulted in three short-lived provisional governments during this period, led by Yusufu Lule, Godfrey Binaisa, and Paulo Muwanga. The 1980 election revived the competition between the UPC and the DP. The DP appeared to win, but Muwanga, a UPC stalwart, seized personal control over the vote count and declared a UPC victory. Museveni's newly formed party, the Uganda Patriotic Movement (UPM), ran a poor third.

Obote took power for a second time, but with an even narrower base of support than before. In addition, Museveni rejected the UPC victory and started a multiethnic guerrilla movement, the National Resistance Army (NRA), in rural Buganda. The armed resistance was launched on 6th February 1981. The UPC government responded with a savage campaign against the Ganda in the region to deprive the NRA of supplies. Corruption, torture, and deprivation of human rights by UPC and government officials exceeded the worst years of the Amin regime. In 1985 Acholi officers, complaining that Acholi soldiers had to fight on the front lines while Langi officers and men from Obote's area stayed safely behind, staged a coup. Again, Obote was forced to flee to exile, this time to Zambia. Acholi army officer General Tito Okello declared himself head of state in July 1985, but he had the support of only a fraction of the army, and was unable to establish control over the country. After inconclusive negotiations in Kenya between the combatants, the NRA marched victoriously into Kampala on 26th January 1986.

The National Resistance Movement (NRM), the political wing of the NRA, immediately created a broad-based government by inviting members of other parties, particularly the DP, but also the UPC, to join the government at all levels, including the cabinet. However, it insisted on its own version of popular democracy. Museveni argued that because the NRM was a "movement" open to all Ugandans, it alone could contest elections. The old parties, he insisted, competed on the basis of religion and ethnicity, not on issues of development. Museveni established a system of local government whereby the smallest villages were indirectly represented in the province-level administrative bodies. He also oversaw the diversification of the Ugandan economy and adopted market-oriented economic development programs, to which he adhered strictly.

Under Museveni Uganda has practiced an aggressive foreign policy. The country was intermittently engaged in hostilities with Kenya during the late 1980s due to Kenyan support of antigovernment Ugandan rebels. Uganda's support of southern Sudanese rebels elicited sporadic attacks by the Sudanese military. The Sudanese government also financed the Lord's Resistance Army, a fundamentalist Christian guerrilla group, which has caused much damage and loss of life by conducting guerrilla warfare in Acholi areas in the north. By stationing the army in the north and west, the government gradually gained the upper hand in the late 1990s.

In 1990 considerable numbers of Rwandese in the Ugandan army created an invasion force to attack and eventually defeat the Rwandan government. In 1996 Uganda allegedly helped the Congolese and Rwandan forces who crossed into the Democratic Republic of the Congo (DRC) and overthrew President Mobutu Sese Seko. In return, a second guerrilla war spilled into western Uganda from the DRC in 1997. In 1998 Ugandan military units helped the Congolese rebels battling the forces of Laurent-Désiré Kabila, who was then DRC president.

In domestic politics during the 1990s, the government took a number of bold steps. It supported a lengthy constitutional review that involved much public dialogue. The new constitution, adopted in 1995, permitted the return of traditional monarchs as cultural but not political figures. Several areas, including Buganda, promptly coronated kings. In 1996 Uganda held national elections for parliament and the presidency. All Ugandans, regardless of their party affiliation under previous governments, could contest the elections, but the government prohibited party activity and all candidates ran on a nonparty basis. International observers declared these elections free and fair.

Under Museveni, Uganda made remarkable strides toward reclaiming its international reputation since the bloody Amin and second Obote periods. Museveni and the NRM accomplished three remarkable goals: an army that respects the rights of civilians, disciplined economic management, and honest democratic elections, although within a nonparty framework. Nevertheless, as Uganda entered the 21st century, the country had not solved the problem of corruption in government, and its aggressive foreign policy periodically raised the ire of its neighbors.

In a national referendum in June 2000, more than 90 percent of Ugandan voters chose to retain the country's nonparty system of government rather than switch to a multiparty system. Museveni was re-elected in March 2001. Another referendum was held in 2004 in which Ugandans (close to 60%) chose to go multi-party. In 2005 the constitution was amended. The two term, each five years, limit to presidential office was lifted. This effectively opened the way for Museveni to run for a third term and in February 2006 he was again re-elected President of the Republic of Uganda.

3.3 BRIEF HISTORY OF IMF

IMF describes itself as "an organization of 185 countries, Montenegro being the 185th, as of February 29 2009, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty". With the exception of North Korea, Cuba, Andorra, Monaco, Liechtenstein, Tuvalu, and Nauru, all UN member states participate directly in the IMF. Some are represented by other member states on a 24-member Executive Board but all member countries are members of the IMF's Board of Governors. Vatican City, the Republic of China (Taiwan), the Palestinian Authority and the Sahrawi Arab Democratic Republic (Western Sahara) are the non-UN member entities not participating in the IMF, although the Palestinian Authority currently receives IMF technical assistance.

In the Great Depression of the 1930s, economic activity in the major industrial nations slumped. Ricardian comparative advantage economics states that all countries gain from trade without restrictions[158]. It is noteworthy to mention that, although the "size of the pie" is enhanced according to this theory of free trade, improving all industries, when distributional concerns are taken into account, there are always industries that lose out even as others benefit in any given country. World trade declined sharply, as did employment and living standards in many countries.

As World War II came to a close, the leading allied countries considered various plans to restore order to international monetary relations, and at the Bretton Woods conference the IMF emerged. The founding members drafted a charter (or Articles of Agreement) of an international institution to oversee the international monetary system and to promote both the elimination of exchange restrictions relating to trade in goods and services, and the stability of exchange rates. The IMF came into existence on December 27, 1945, when the first 29 countries signed its

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[158] Gilpin R. The Political Economy of International Relations. Princeton University Press. New Jersey. 1987

Articles of Agreement[159]. The statutory purposes of the IMF today are the same as when they were formulated in 1944.

From the end of World War II until the late-1970s, the capitalist world experienced unprecedented growth in real incomes. Since then, the integration of China and Eastern and Central Europe into the capitalist system has added substantially to the growth of the system. Within the capitalist system, the benefits of growth have not flowed equally to all (either within or among nations) but overall there has been an increase in prosperity that contrasts starkly with the conditions within capitalist countries during the interwar period. The lack of a recurring global depression is likely due to improvements in the conduct of international economic policies that have encouraged the growth of international trade and helped smooth the economic cycle of boom and bust.

In the decades since World War II, apart from rising prosperity, the world economy and monetary system have undergone other major changes that have increased the importance and relevance of the purposes served by the IMF, but that has also required the IMF to adapt and reform. Rapid advances in technology and communications have contributed to the increasing international integration of markets and to closer linkages among national economies. As a result, financial crises, when they erupt, now tend to spread more rapidly among countries.

The IMF's influence in the global economy steadily increased as it accumulated more members. The number of IMF member countries has more than

[159] Cohen B. J. The Triad and the Unholy Trinity in Frieden J.A. and Lake D.A. *International Political Economy: Perspectives on Global Power and Wealth*. St. Martin's. Boston. 2000

quadrupled from the 44 states involved in its establishment, reflecting in particular the attainment of political independence by many developing countries and more recently the collapse of the Soviet bloc. The expansion of the IMF's membership, together with the changes in the world economy, have required the IMF to adapt in a variety of ways to continue serving its purposes effectively.

During April 2007 Ecuador announced its intention to withdraw from the IMF, followed by Venezuela which made this step public on April 30, 2007. As of June 2007, both countries have continued their membership status.

3.4 THE ROLE OF IMF IN THE ECONOMIC LIBERALISATION IN UGANDA 1986-2006

3.4.0 INRODUCTION

The IMF came into being as a product of mutual Anglo-American agreements of 1941 and the Brettonwoods conference of 1944. The IMF was primarily established to maintain stable exchange rates and world capital mobility through short term stabilization of countries experiencing problems of balance of trade. Immediately after being established, and especially in the 1950s, the IMF had little influence because it was overshadowed by the USA reconstruction aid to Europe channeled through the Marshall Plan. Infact IMF made its first loan in 1956 to Britain.

In the 1970s exchange rates became unstable. This was occasioned by mainly two factors. One was the fact that the rich countries started to float their currencies.

Secondly private banks started lending to poor countries. This second factor especially meant that the poor countries were now able to borrow heavily. It also meant that the steady economic growth that the poor countries had been experiencing started to stagger. By 1982 this situation led to the beginning of the debt crisis of the third world.

This situation gave IMF increasing influence in the economies of the third world countries. For example, the lending by IMF to the third world economies grew fourfold. It is important to note that this lending started to shift into long term lending, with devastating major policy based strings. The IMF claimed that the only way to have short term loans repaid was to subject the economy of a particular poor country debtor to extended conditional long term loans. The IMF invented new terms in furtherance of the fulfillment of the conditionalities; such terms as the extended fund facility, the structural adjustment facility and the systemic transformation facility. The IMF, unilaterally without allowing views from the debtor countries, imposed such conditionalities as cutting government spending which had the effect of reducing services, like health, for the poor. The IMF also imposed free market economic liberalization. This meant tariff reductions, higher interest rates, less restriction of foreign investment, deregulation of labour and widespread privatization.

Fiscal austerity, privatization and market liberalization were usually the three pillars of IMF policies in the 1980s and 1990s[160]. These mainly arose out of the Latin American crisis. In the 1980s governments in Latin America often ran huge

[160] The SAPRIN Report. Structural Adjustment: The Policy Roots of Economic Crisis, Poverty and Inequality

deficits. Losses in inefficient government enterprises contributed to those losses. Insulated from competition by protectionist policies inefficient firms forced customers to pay high prices. Loose monetary policy led to inflation running out of control. For example, in Argentina inflation was 200% or higher. Sustained growth is not possible with hyperinflation. Some level of fiscal discipline is required.

Most countries would be better off with governments focusing on providing essential services rather than running enterprises and so privatization makes sense. When trade liberalization, the lowering of tariffs and elimination of other protectionist measures, is done in the right way and at the right pace, so that new jobs are created as inefficient jobs are destroyed, there can be significant gains. These policies when pushed too far too fast and to the exclusion of other policies may actually become problems in themselves and the desired goals missed. In order to see the logic behind this statement an examination of privatization of four concerns (SAIMCO-Soroti Agricultural Implements Manufacturing Company, NYTIL-Nyanza Textiles Industries Limited, Uganda Airlines and UCB-Uganda Commercial Bank) as well as liberalization and debureaucratisation in Uganda will suffice.

3.4.1 PRIVATISATION

Governments, especially in developing countries, all too often spend too much energy doing things they should not do. This distracts them from what they should be doing. By and large governments have little business running businesses. They usually make a mess of it. Competitive private enterprises can perform such functions more efficiently. This is the argument for privatization; converting state enterprises and firms into private ones.

Uganda like most African countries at independence found itself in a situation where there was no private sector to speak of. Thus government got into business, partly so as to provide employment and meet its social responsibility especially as fruits accruing from 'uhuru'. But partly also as the culture of patronage set in. Government got involved in running business. More than 95% of all hotels in Uganda were owned and run by government[161]. More than 70% of all industries were government owned, or at least government held the majority shares[162]. Government got involved in marketing of produce through produce marketing boards. The most important produce marketing boards were the Coffee Marketing Board (CMB) to market coffee and the Lint Marketing Board (LMB) to market lint cotton[163]. But almost all agricultural products, such as tea, tobacco etc were sold through produce marketing boards.

SAIMCO was established in 1983 in Soroti, Teso region in eastern Uganda mainly to provide agricultural implements and tools such as the ox-plough, wheel barrows, hoes and axes. Teso is a flat open savannah area. The soil is light loamy to sandy and the ox-plough is the ideal mode of opening and tilling land. The ox-plough is also ideal and appropriate because the Iteso are also cattle keepers. The ox-plough was introduced during the colonial administration but popularized in the early 1960s. As a result of the ox-plough farmers could open more land (in comparison to if they used the hand hoe). Consequently for a long time Teso

[161] GOU Ministry of Industry, Trade and Tourism Annual Report, 2000
[162] Ibid
[163] GOU Ministry of Co-operatives Annual Report 1993

became the food basket of Uganda, producing millet, groundnuts, potatoes and cassava. Teso was also the main cotton producing region. The people of Teso prospered and were able to send their children to school. By the late 1970s Teso had one of the highest literacy rates in the country.[164]

Following the political disturbances in the 1970s and 1980s SAIMCO like other facilities in the country suffered from mismanagement and became a candidate for divesture in the late 1990s. Early in 2001 following the advice of IMF, SAIMCO was advertised for divesture. Early in 2003 Patel and Company Limited bought SAIMCO for US $1.6 million. It is interesting to note that at the time of divesture there was equipment worth US $ 2million still in crates for the rehabilitation of SAIMCO. Soon after purchase Patel and Company Ltd cut the workforce from 130 people to 30 arguing that it was not profitable to maintain such a blotted workforce. Nine months later Patel and Company Ltd decided to decamp. They started stripping the factory and moving the machines and equipment to Rwanda. The government was helpless. It could not stop Patel and Company Ltd because there was no regulatory framework in place through which it could do so. In the process equipment worth US $ 2 million was lost. Employment was lost. But more importantly the services SAIMCO had provided were lost.

Another factory that was divested was NYTIL (Nyanza Textile Industries Limited). NYTIL was established in early 1960s and located at Jinja at the source of the Nile. NYTIL was a textile factory manufacturing cotton cloth. The yarn for the fabric was from cotton grown mainly in the eastern and northern parts of the country. NYTIL employed 1,200 people. But due to mismanagement and

[164] GOU Ministry of Culture Annual Report 1975

corruption, by the early 1990s it was threatened with closure. And so it became a target for divesture because it was a drain on the government coffers. In 2000 NYTIL was put up for divesture and bought by Nyanza Textiles Company for only US $6 million when the equipment was reputed to be worth US $11 million. The argument was that this was obsolete equipment and the buyers would have to invest heavily in new and modern equipment. By 2001 Nyanza Textiles in a restructuring move intended to make the factory profitable reduced the work force to nearly 300 people. Government was to pay the terminal benefits of the 800 or so retrenched workers. In 2003 Nyanza Textiles almost stopped production at Jinja. It was rumoured it started moving some of the equipment to Rwanda where it also owned a textile factory. Thus NYTIL was stripped so that the Rwanda concern would have no competition.

Uganda Commercial Bank (UCB) was established in early 1960s. And for quite some time was the main commercial bank in country controlling close to 75% of the banking sector in the country[165] and provided banking services to the ordinary citizens because it had a branch network covering the whole country. Because of mainly corruption and other exigencies the bank threatened to go under by 1989. Government had to pay close to US $9 million annually to keep it afloat. Because of this drain on the tax payer government was advised to divest the UCB.

The privatization unit of the Ministry of Finance was central in privatization exercise. There was a long drawn out divesture exercise in which UCB initially went to a Malaysian consortium. But when it turned out this was just a front for some government officials the exercise was halted and started all over again.

[165] Bank of Uganda Annual Report 1986.

Eventually it was bought by Stanbic Bank. Immediately after purchase Stanbic reduced the branch network from 168 branches to 80 branches thus laying off more than half the original workforce whom government was to pay terminal benefits for. It is curious also that whereas divesture included physical assets like buildings, soon after however, Stanbic sold off especially the Headquarters of the former UCB at a give away price to a businessman in Kampala. Stanbic argued that its core business was banking not property management. It is also noteworthy that Stanbic had been one of the competitors of UCB. By buying UCB Stanbic was now in more than a monopoly position in the banking business in Uganda.

Uganda Airlines was established as the national flag carrier. It is true the airline was bedeviled by mismanagement and corruption.[166] If these could be dealt with the airline could be salvaged and made solvent. This has been demonstrated by the story of Kenya Airways. Because of its insolvency Uganda Airlines became a candidate for divesture which was done in 2000. It is curious that to hasten the divesture the very lucrative routes of the airline were sold. In the process of privatization Uganda Airlines was broken into separate concerns. The air route section and aircraft were separated from the very lucrative cargo handling services. The cargo handling services were given to a company called ENHAS (Entebbe Cargo Handling Services). ENHAS is owned by top Uganda government officials.

3.4.2 LIBERALISATION

Liberalization, the removal of government interference in financial markets, capital markets and of barriers to trade, has many dimensions. Even IMF now

[166] Parliament of Uganda Report on the Privatization of Uganda Airlines,1999

seems to acknowledge that liberalization, particularly of capital and financial markets, if pushed too far can contribute to financial crisis and wreak havoc on the economy of especially a poor country like Uganda. It is argued this is what happened in the 1990s in most of the developing countries[167] The one aspect of liberalization that does have widespread support, at least among the elites in the advanced industrial countries, is trade liberalization. But a closer look at how it has worked out in the developing countries serves to illustrate why it is opposed there.

Trade liberalization is supposed to enhance a country's income by forcing resources to move from less productive uses to more productive uses.[168] But moving resources from low productivity uses to zero productivity does not enrich a country. This is what usually happens under IMF programs. As inefficient industries close down under pressure from international competitions jobs are easily destroyed. This is often the immediate impact of trade liberalization. The IMF has made matters worse because its austerity programs often also entail high interest rates, upwards of 20%. And when this happens, job and enterprise creation becomes an impossibility even in a good economic environment, let alone the weak economic conditions found in the poor countries.

Over the past two decades, fundamental structural change in the world economy has been realized on account of increasing globalization of financial markets and issues relating to the movement of capital among countries have become central in the international monetary system. This increased integration has been fostered by the relaxation of capital controls and broader financial

[167] Stiglitz J. Opct
[168] Ibid

liberalization in most countries as well as by new telecommunications and computer technologies that have facilitated the cross-border transfer of funds.

For Uganda, the move onto a fully liberalized capital account was realized in July 1997. It is then that Uganda, among other things, allowed free flow of capital between Uganda and the rest of the world, permitted both residents and non-residents to hold foreign exchange denominated accounts in the domestic banking system and permitted residents to hold foreign exchange denominated accounts and instruments outside the country. Liberalization of the capital account was carried out as part and parcel of a series of stabilisation and reform polices that have been undertaken since 1987.

Prior to liberalization, parallel markets accounted for a significant proportion of economic transaction. More than half of the country's main export, coffee, was for instance being smuggled to Kenya. On the other hand agents engaged in arbitraging between the official and parallel markets not only in financial assets and foreign exchange, but also in goods. This resulted into efficiency losses for the economy. In this context, the idea of liberalization was to remove such distortions in the economy. Important to note is that even prior to adoption of liberalization policies, full enforcement of the existing controls was not possible. The country therefore had a *de facto* open current and capital account and by the time government announced liberalization, it was a way of formalising what already existed. The distortions that characterized the period of controls resulted from the failure by the authorities to fully enforce the administrative provisions and efforts of the private sector to circumvent these controls through creation of parallel markets.

Judging from such efficiency losses, the control model had failed as early as the 1980s. Therefore, the debate gradually moved from the choice of regime to the appropriate sequencing and speed of the reform process.

In 1987-1992, a more gradual approach to the liberalization process was pursued as opposed to the big-bang liberalization process in the post-1992 period when most of the stakeholders in the economy broadly embraced the reform process. It was during the later period when both the current and capital accounts of the balance of payments were liberalized.

Uganda has since 1987 been pursuing policies aimed at stabilizing and changing the structure of the economy with financial support from the World Bank, IMF, and other multilateral and bilateral donors. For this reason the ERP (Economic Recovery Program) focused on macroeconomic stability, liberalization of the foreign exchange system, trade, prices, and marketing systems, improving the incentive structure and business climate to promote savings mobilization and investment, and rehabilitating the country's economic, social and institutional infrastructure. As earlier alluded to, prior to 1992, there was lack of consensus on strategy for revival of the economy, which slowed the speed of implementing policies contained in the ERP. However, following the resurgence of instability in early 1992, government adopted a big-bang approach resulting in accelerated implementation of both stabilization and structural reform policies[169]. The exchange and trade regime was fully liberalized, price controls were abolished (except for utilities and petroleum products), and a cash-budget approach was introduced in the management of government expenditure.

[169] GOU Cabinet Minute 47/ 92 of 1992.

The foreign exchange system had been significantly liberalized in 1990 with the introduction of foreign exchange bureaus to allocate non-coffee foreign exchange receipts to a variety of uses according to market demand. This was further strengthened with the introduction of a weekly foreign exchange auction to allocate resources to strategic industries. However, the economy was still fragile and highly vulnerable to external shocks. Savings and investment remained very low (1 per cent and 11 per cent of GDP respectively), and inflation was still high and uncertain to encourage long term business and other initiatives needed for sustained economic development. More importantly, the financial sector had major weaknesses and the inefficiencies associated with it contributed significantly to macroeconomic instability.

In order to address these problems, government implemented a financial sector reform program. The reform aimed at the removal of interest rate controls, reducing barriers for the entry of new private banks into the system, restricting the direct role of government in the allocation of financial resources including crop financing and divestiture of the government's ownership in commercial banking. This process was complemented by parallel measures to strengthen bank supervision and foster financial discipline through new legislation and regulations, and policies to improve the efficiency and profitability of financial institutions.

These measures preceded capital account liberalization of July 1997, to ensure that the financial sector was strong enough to counter any shocks arising out of any capital surges. Achievement of macro-economic stabilisation objective was followed with second generation reforms to eliminate any bottlenecks to constraining supply response to the stable macroeconomic environment. It was certain that if the latter were not achieved, problems of macroeconomic instability would re-emerge. Consequently, over the period 1995-97, much of the internal debate focused on the following issues; inability to effectively enforce the capital controls, the need to attract resources for investment to sustain high growth rates since the private savings rate of 1% as share of GDP was low even for an investment rate of 11% of GDP, the objective of supporting private sector led growth, with privatization, as one of the means to achieve this, and the possibility of designing an exit strategy, in case things did not go well.

It was basically on the above issues that considerations for capital account de-regulations were hatched. Economic literature has it that the key objective for capital controls is generally to retain domestic savings and insulate the domestic economy from external shocks. In fact, theoretical and empirical research still indicates that capital account liberalization can increase the vulnerability of financial markets to instability. However, abstaining from the controversial issues of sequencing of the identifiable policies related to its implementation, capital account liberalization is generally accepted. This also coincides with the realisation by most developing countries' policy makers that not only are there no savings to retain but that open capital account would facilitate the flow of urgently needed resources from the external surplus to deficit units within the country.

The capital account liberalization in Uganda was hence justified on having the savings investment gap closed in order to promote sustainable long-term growth. By 1997, Uganda had completed 10 years of consistent implementation of stabilization and reform polices. The fruits were evident in the positive growth averaging above 7 per cent and the low and stable inflation.

The challenge facing government then was how to sustain the high levels of growth and hence enhance the per capita income. The objective of higher rates of growth requires higher levels of investment. As a strategy, government increased its fiscal deficit to finance infrastructure, with the support of external aid resources.

The aim was to raise the rate of return in private sector investment through improved infrastructure and institutions. On the other hand, while government needed to raise investment, the existing domestic savings would not sustain such investment. Consequently, external financing, including capital flows, was expected to fill the existing saving-investment gap.

Uganda, like many other African countries, still relied primarily on Official Development Aid (ODA) flows to close the savings-investment gap. The opening up of the capital account provided incentive for attracting additional private sector savings from external sources which were needed for augmenting domestic private savings. Such flows could be in the form of portfolio or foreign direct investment. The former seeks higher short-term returns in domestic money markets while the latter includes the flow of resources to expand capacity and technological transfer. However, it is also recognized that it is difficult to attract capital to developing countries without an exit strategy and it is the ease of entry and exit of flows under a liberal capital account which causes volatility in flows.

One of the key macroeconomic preconditions in the opening of the capital account was fiscal reform that significantly reduced the fiscal deficit and ensured financing of the remaining deficit in a non-inflationary manner. Sustaining an open capital account would mean that the inflation tax could not be used as an important source of revenue. Furthermore, in order to minimize costs associated with large capital surges, monetary policy ought to be managed in such a way that interest rates and exchange rates could be broadly consistent with underlying fundamentals and market conditions. Domestic interest rates on "traded" financial instruments had to be comparable to those prevailing in international financial markets. Short-term inflows, in particular, are highly sensitive to macroeconomic policy reversals or failures. Countries that establish prudent macroeconomic, financial and fiscal policies stand to obtain the greatest efficiency and risk-diversification benefits from an open capital account.

From the outset of the adjustment program in 1987, price stability had been one of the major macro-economic objectives. Consequently, intervention strategy has taken into account domestic liquidity considerations that would otherwise be inflationary and has also been mindful of the competitiveness of Uganda's exports. The converse is also true in that, attempts to stem depreciation pressures through intervention on the sale side and the accompanying monetary tightening results in higher interest rates, and may subsequently contract output. Concerns related to the conflict between the inflation and exchange rate objectives exists.

Anti-inflation polices to remove internal imbalances were adopted in 1987 and were mainly directed at aligning aggregate demand with real output. These were mainly achieved through a combination of prudent monetary expansion and restrained government spending. On the other hand, the adjustment process was also aimed at addressing supply constraints.

Consequently, inflation that was recorded at 250% in 1987 came down to 30% in 1992, then to 10% in 1995 and has been contained at below 10% since. In 1999/2000, inflation was 5%. The low inflation combined with the gradual financial sector reform policies has created confidence in the banking system.

Part of the success in controlling inflation is attributable to prudent fiscal management during the post 1992 period. The infancy of the financial system, did not only mean that there were few instruments as authorities moved from the direct control to indirect monetary management, but also that effectiveness of monetary policy was constrained. Therefore, since there was limited potency for monetary policy, flexibility in fiscal policy was supposed to respond to volatile movements in the foreign exchange market, unrealized revenue performance and shortfalls in the external budgetary support.

Notable examples of this flexibility was the surrendering of the treasury bill instrument to the monetary authorities, the imposition of a coffee stabilization tax during the 1994-95 coffee price boom and expenditure cuts whenever there were shortfalls in programmed revenues as was the case in 1998/99. The concern over the impact of these actions on the fiscal programs was outweighed by the benefits that were to arise from a stable macroeconomic environment.

Several measures aimed at improving the efficiency of the tax administration and tax policy reforms have been undertaken in order to enhance revenue performance. In this effort, the introduction of value added tax (VAT) in 1996 was followed by reforms in the Income Tax Act in 1997, streamlining exemptions and introduction of accelerated depreciation allowances for investments in plant, machinery and equipment. It is on account of these measures that revenue performance increased from the low ratio to GDP of 4.5 per cent in 1986/87 to 7.2 per cent in 1990/91 to the current levels of 12 per cent.

On the exchange rate and trade policy reform front, government was more than committed to conform to the obligation of Article VIII of the IMF agreement prohibiting imposition of restrictions on current account transactions. Consequently, in July 1990, the authorities legalised the buying and selling of foreign currencies in the foreign exchange bureaus at a market determined rate. Further reforms in the financing of international trade were implemented in January 1992 following government's replacement of Open General License (OGL) and Special Import Program (SIP) with the weekly foreign exchange auction of donor Import Support Funds. What is important to note here is that the donor aid flows provided the needed foreign exchange for the private sector weekly foreign exchange auction, hence boosting private sector confidence. Finally in 1993, the auction and the surrender requirements were abolished, and replaced with a unified foreign exchange system with the commercial banks and foreign exchange bureaus as the key institutions on the market. In addition, in July 1997, the capital account of the balance of payments was opened up in an attempt to increase private capital inflows.

In addition to freeing interest rates and credit allocation, liberalization of the financial system also allowed freer entry of institutions into the system, which saw a fast expansion of the banking and non-banking sector after 1994. However, the lack of an effective exit strategy for insolvent institutions, segmentation within the system that limited competition, asymmetrical information and lack of capacity to supervise a liberalized system posed major constraints to the development of the financial sector. Indeed, the high spread between the deposit and lending rates is symptomatic of the structural problems within the banking system.

Maintaining capital account convertibility requires strengthening the prudential supervision and regulation of financial institutions, especially in the area of foreign exchange risk exposure. To this end, both the Financial Institutions (FIS) and Bank of Uganda (BOU) Statutes were revised in 1993[170], to give the Central Bank autonomy in conducting monetary policy, supervision and regulation of all financial institutions. This was to ensure that against the background of a liberalized capital account, the financial system in particular and the economy in general, could withstand the effects of external shocks. There was need to carefully formulate financial policies that would establish more flexible interest rates, restructure and recapitalize domestic financial institutions, and more clearly define the scope of the protection offered by the official safety net that underpins the domestic financial systems. The FIS (1993) provided for enhanced capital adequacy requirements for all financial institutions and strengthened prudential supervision which are necessary to offset some of the moral hazard problems created by the existence of an official safety net and thereby reduce the need for official assistance.

Furthermore, banks are required to document all capital inflows and outflows and file periodic reports thereof to the Bank of Uganda for statistical purposes. The

[170] Hansard of Parliament of Uganda (then called NRC-National Resistance Council),1993

Foreign Exchange Statute (2000)[171] contains details concerning capital account transactions. In light of the expectations that the liberalization of capital account may result in increased foreign exchange transactions and the risks inherent in most types of foreign exchange dealings, banks were required to establish their own systems, controls and limits to enable them manage the risks. As a guideline, the computation of overnight exposure limits for all banks as a ratio of core capital was set at 25% in addition to adoption of internationally accepted accounting principles and disclosure norms.

Uganda being a heavily indebted poor country, debt reduction operations were important for improving her perceived creditworthiness and for facilitating renewed access to international financial markets. This would also help reduce the borrowing costs faced by her residents. This would also ensure the credibility of the reform process and the country's credit rating. Debt restructuring was also needed to ease long-run foreign exchange constraint and therefore enhance the sustainability of foreign exchange inflows. The major stages of the debt restructuring included; Uganda formulating a Debt Strategy in 1991[172] that accompanied earlier efforts to restructure debt through rescheduling and debt forgiveness and hence was among the first countries to qualify for each of the advances in Paris Club terms – Toronto, London and Naples. In 1993, Uganda received a commercial debt reduction through debt buybacks and debt swaps that were funded by IDA (International Development Agency) and other co-financing. On account of the fact that multilateral debt accounted for 72% of Uganda's debt stock, a Multilateral Debt Fund (MDF)

[171] Hansard 6th Parliament of Uganda,2000
[172] GOU Ministry of Finance and Economic Planning Position(Cabinet) Paper 347/91

designed and run by Uganda, was created during the July 1995 Consultative Group meeting financed by external grants. By November 1995, the MDF had succeeded in mobilizing resources to a tune of US $ 75 million to service multilateral debt.

In April 1998, Uganda became the first country eligible for the Highly Indebted Poor Countries (HIPC) Debt Initiative and later in March 2000 qualified for the Enhanced HIPC Initiative. Key implications of these facilities are a substantial reduction in Uganda's debt stock and debt service burden. The HIPC initiative approved in 1998 was expected to save an average of approximately US $ 37 million per year over the next 10 years, US $ 22 million per year during 2010-2019, and US $ 3.5 million per year during 2020-2038. In addition, the Enhanced HIPC is expected to provide an additional saving of US $ 50 million per year over the next 26 years. This also translates into a reduction in the Debt-to-GDP ratio from 28% to 11% in NPV over the next 10 years; while on the other hand, the debt service–to-government expenditure ratio will decline from 12% to 5%[173]. Aggregated, total HIPC assistance now amounting to US $ 2.0 billion would relieve Uganda between two thirds and three quarters of its debt service.

3.4.3 DEBUREAUCRATIZATION

In order to appreciate the role of debureaucratization, or smaller government, in the liberalization of economy in Uganda the military, the health and education sectors will be examined.

Uganda has had a turbulent military history right from the time the country attained independence when the military was called the Uganda Army. When the

[173] GOU Ministry of Finance and Economic Planning Report to Parliament, 1998.

Amin government was overthrown in 1979 the Uganda Army was dispersed and a new establishment, the Uganda National Liberation Army (UNLA) put in its place. In 1986 when NRM came to power UNLA was replaced by NRA (National Resistance Army which was in turn renamed UPDF (Uganda People's Defence Forces) when the 1995 new constitution came into being.

Upon acceding to the IMF conditionalities in 1987, the military was targeted for downsizing. In 1987 the NRA stood at a strength of 110,000 personnel and this was considered too large for a country as small as Uganda. However the actual exercise of reducing the strength did not commence until early 1992 when 63,000 were retrenched.[174] It is interesting to note that about this time there was a noticeable increase in the activities of LRA (Lord's Resistance Army) rendering northern Uganda the most unsafe region of the country. It is estimated that in the period 1992 to 1995, LRA abducted over 10,000 people, burnt 4,562 huts and killed more than 3,000 villagers in the north alone.[175]

In 1992 the Uganda government introduced cost sharing in health. This meant that individuals had to pay some share of the cost of provision of health. This was extended to the rural areas. In 1996 in the heat of election fever, this was suspended but early in 1997 was re-introduced, though confined only to provision of medical services in grades A and B wards in hospitals. At the same time as introduction of cost sharing government put a freeze on recruitment of new medical staff. This was on top of inadequate actual funds available for health care provision to the extent that most hospital facilities lacked drugs.

[174] Uganda Veterans' Board Report, 1995
[175] UPDF Chieftaincy of Military Intelligence Report,1996

Uganda has always had 7-4-2-3(5) education system; seven years of primary school, four of lower secondary, two in upper secondary, and ranging between three to five in the university, depending on the field of study. From independence the first seven years were paid for by the individuals. The next four years were also paid for by the individual but often government had a bursary system in place thus the individual only paid a portion. Education from A-level upto end of university was paid for by government. This drastically changed in 1988 when individuals started paying their way through A-level as well as university because government sponsorship was removed. In Makerere, in 1995, there were student riots upon abolition of government sponsorship.

In 1997 as a result of a campaign pledge in 1996 government started implementing free primary education. This had the immediate effect of increasing enrollment which jumped from 2.5 million pupils in 1992 to 7.2 million in 1998. Whereas the enrollment increased no new classrooms were built neither were more teachers recruited. Cases of pupils studying under trees and one teacher handling a class of 140 pupils instead of the recommended 40 were not uncommon[176]. Thus the question of quality of education became an issue.

[176] Internal Security Organisation Report, 2000.

CHAPTER FOUR: Analysis of the effects of IMF policies in Uganda

4.0 INTRODUCTION

This chapter examines the socio-economic effects of the policies of privatization, liberalization and debureaucratisation. The gist of the findings is that these policies have challenged the traditional workings of the Ugandan state and consequently the state has had to adapt itself to changed environment. However, inspite of these challenges the Ugandan state is still the principle provider of security and social services. Its continued stance as the chief provider of especially security, health and education in the rural country side remains paramount.

What is the role of the State in a globalizing economy? How is globalization affecting the role and functioning of the State? Have the reforms aimed at reducing the role of government and reshaping State bureaucracy in many developing countries helped them to seize the benefits of globalization? What are the responses that States, as well as regional and inter-governmental organizations have provided and can provide for the future in order to cope with the many challenges globalization is posing?

Much discussion and debate in today's policy fora are being devoted to the theme of globalization and its impact on the State. Scholars and policy makers have expressed concern regarding the role of the nation- State in the new millennium, and its capacity to adapt to and manage effectively rapid change as well as to respond to the many challenges of economic and social interdependence.

In particular, two issues are being increasingly addressed: whether globalization is weakening the role of the State and whether it will eventually lead to the end of State sovereignty.

The lifting of trade barriers, liberalization of world capital markets, and swift technological progress especially in the fields of information technology, transportation and telecommunications, have vastly increased and accelerated the movement of people, information, commodities and capital. Correspondingly, they have also broadened the range of issues which spill over the borders of nation-States requiring international norms.

Since its birth, the State has guaranteed internal and external security; underpinned the law; funded national welfare systems; provided the structures for popular representation; instituted public accountability; and built the framework for economic and social activities. During the last century, the responsibilities of the State have expanded in all these areas. "The need to supply collective public goods, to manage externalities and to provide for minority needs will persist even in a world of expanded globalization".[177] Now with the advent of globalization to what extent is the state still able to fulfill what is expected of it? Is the Ugandan state providing to its citizens what is expected of it?

[177] Jones, Barry R J. The World Turned upside down? Globalization and the Future of the State. St Martin's Press. New York. 2000

4.1 EFFECTS OF LIBERALISATION

The process of financial liberalization in Uganda included the removal of interest rate controls, reduced barriers for the entry of new private banks into the system, restricting the direct role of Government in the allocation of financial resources including crop financing and divestiture of the Governments ownership in commercial banks. This process was complemented by parallel measures to strengthen bank supervision and foster financial discipline through new legislation and regulations, and policies to improve the efficiency and profitability of financial institutions. It is important to note that this liberalization did not include the capital account of the balance of payments.

The liberalization process of the Ugandan financial system has been gradual and it is useful to distinguish the major phrases;

Phase I – 1987-1991: In this phase the focus was on macroeconomic measures to stabilize the economy, but the measures also included some steps to lay the groundwork for financial sector liberalization. The financial sector a lso benefited indirectly through reduction in inflation which saw a shift towards positive real interest rates required to stimulate financial savings. The first significant steps towards financial liberalization were taken in July 1988 when the interest rates were raised by 10 percentage points.

During 1989, authorities decided to adjust nominal interest rates in line with inflation to maintain positive real interest rates. Related reforms pertaining to the foreign exchange market were also instituted simultaneously to improve financial intermediation.

Phase II – 1992-1994: The key liberalization measures were introduced in 1992, but controls on both interest rates and credit allocation were removed in several steps over a two year period. In 1992, the removal of interest rate controls affected Treasury bill (TB) rates as the government switched from ad hoc issues to a market-based auction for determination of interest rates. From then, the key bank interest rates were closely linked to attempts to restructure UCB for about 3 years. The government put UCB up for sale on an "as is" basis and sold 49% of its shareholding to a private strategic partner who was also given management control. Other measures included a major program to upgrade legal and regulatory framework to enhance market discipline and competition among the private sector banks.

Between 1995 and 1998, while the rates seem to follow a similar trend, significant margins between the lending and the other rates have persisted. This thus raises the question as to whether there have been any efficiency gains derived from liberalization of the interest rates.

Total savings in the banking system have maintained an upward trend over the years. As a share of GDP, deposits increased from 3.4 per cent to 8.29 per cent between 1988 and 1997. The rate of growth in the post liberalization period is however, much faster at 10.33 per cent per annum compared to the average of 6.07 per cent per annum in the pre-liberalization years, 1988 to 1992. Furthermore, the contribution of the non-bank private sector to financial savings has been increasing as confidence in the banking system improves (TableA).

At the same time, however, the habit by urban households to siphon some of the savings into real estate investments and holdings of foreign exchange for wealth and speculative motives still exists even in the post-liberalization period. This is illustrated by the fast growth in real estate and foreign exchange deposits following the liberalization of the current account. Moreover, because of the limited access to financial services, the asset composition of the rural households is to a large extent determined by local economic activities in their area of residence; savings are in form of commodity stocks, livestock and land. This in turn is reflected in the magnitude of the non-monetary sector which contributes to a loss of efficiency in the economy.[178] While the limited awareness of the general public about financial savings has hindered its growth, structural problems within the financial system like in-accessibility of services cannot be exonerated.

Linked to the above developments, the structure of deposits has also changed. During the period of high inflation and other distortions in the economy, demand deposits, on average, accounted for 70 per cent of total deposits. This has however changed in favor of interest earning medium and long-term deposits. To that effect, the share of savings and time deposits in total deposits has increased from 16.8 per cent recorded in 1988 to the current level of 49 per cent.

The developments outlined above are not inconsistent with the hypothesis that the emergence of positive real interest rates have pulled some savings into the formal financial sector[179]. However, the level of financial savings of 8.3 per cent of GDP, remains low and compares poorly with those of other countries at similar

[178] Kasekende L and Ating-Ego. Impact of Liberalisation on Key Markets in Sub-Saharan Africa: The Case of Uganda. *Journal of International Development.* 1998
[179]SAPRIN Report. 2004

level of development. In Kenya and Tanzania for instance, financial savings in 1997 were recorded at 38.9 per cent and 13.6 per cent of GDP respectively.

Increased financial saving (or financial deepening) is not viewed as an end in and of itself. The hypothesis is that financial savings are intermediated by the banking sector towards real investment with beneficial effects for the economy. The direct evidence on investment and the role of intermediation is mixed. However, this is based on an assessment of data on investment levels from 1988 to 1994-a period which largely encompasses the pre- or early phases of liberalization. This data reveals that Uganda achieved a high rate of economic growth with relatively little investment in productive enterprises and whatever investment that took place was funded by resources mobilized from abroad. Total investment expenditures over this period averaged 12 percent of GDP, of which estimated private investment was about half that level. As mentioned above, domestic (financial) savings have been increasing but have been at relatively low levels. This seriously limits the scope and need for financial intermediation to convert domestically mobilized resources into investment. The bulk of investment financing in the 1988-94 period came from foreign savings. Public investment was largely financed by donors' grants and loans. Private investment has been assisted by the emergence, in the 1990s, of a strong inflow of private transfers from abroad which was estimated to exceed $300 million per annum in 1994.

Uganda has now displayed robust economic growth for more than a decade. It is relatively easy for an economy such as Uganda was in 1988, to achieve short term gains in output even with an unstable macroeconomic environment and a seriously impaired financial sector. However, such gains are likely to be based on existing capacity; to rely little if at all on new investment and to emphasize traditional forms of economic activity rather than the diversification and modernization associated with a more robust economy.

Hence the gains in output that Uganda experienced in the period from 1988-1992, could not have been sustained. The fact that the pace of growth has been sustained and has been accompanied by new investment and a diversification of the economy suggests that the government has been successful in bringing about a significant transformation of the economy.

Macroeconomic indicators reveal that Uganda has been successful at achieving and sustaining macro-economic stability. While GDP growth has averaged 7% in the last 10 years, inflation has fallen dramatically from 250% in 1988 and has come down to single digit figures in the past few years. At the same time, there has been a reduction in the external disequilibrium; the current account deficit has declined from 16.5% of GDP in 1993-1994 to 8.8% in 1997-1998. Uganda has also remained largely unaffected by the contagion effects of the recent global financial crisis(in South East Asia).

One clear demonstration of the impact of financial sector reforms can be seen in the increase of the ratio of money in supply to GDP. This ratio which was around 6% in 1991, has now almost doubled-and reached 11% by June 1998. This increase in monetary depth reflects enhanced confidence in financial instruments due to both the financial liberalization and a more stable macroeconomic environment. This higher level, while still low by comparison to other sub-Saharan African countries, will significantly help to reduce the impacts of fiscal deficits and monetary expansion.

In the wake of the liberalization measures implemented by the Government, there has been a substantive improvement in the liquidity positions of the public sector banks which were previously running large overdrafts at the central bank. UCB and COOP (Co-operative Bank) combined had an average liquidity asset ratio (liquid assets/total assets) of -0.5 per cent in the period June 1988-1992. This ratio averaged 46.3 per cent in the period July 1996 to 1998, partially on account of recapitalization of these public banks. These numbers show the profound effect that the change in the rules of the games had on the behavior of public sector banks, and unrestrained credit expansion.

The performance of the banking system, which accounts for more than 95 per cent of the total assets of the formal financial sector, shows many of the characteristics of a market which is segmented and where effective competition is constrained. The pre-liberalization banking system, with 8 institutions, represented an oligopolistic market structure. There were basically two segments in the pre-liberalization era; the publicly controlled ('state-owned') banks and the subsidiaries of foreign banks (the "ex-colonial" banks) though in the majority and were partially owned by government, had to follow guidelines defined by their head offices abroad. Group 1 (the state-owned) banks had deficient capital, suffered from liquidity and management problems and were, at the time the sector was liberalized, undergoing restructuring programs at the behest of the Government. The ex-colonial (Group 2) banks, on the other hand, did not face these difficulties, and were subject to internal regulations and strict management controls from their head offices.

Table A: *Evolution of Market Shares in the Pre- and Post-Liberalization Periods*

	June88 –June 92		July 92 – June 96		July 96 – June 98	
	Deposits	Assets	Deposits	Assets	Deposits	Assets
Group 1	54.0	56.4	49.6	43.4	35.3	31.4
Group 2	39.8	38.4	36.0	41.3	33.0	38.4
Group 3	1.4	1.5	2.8	2.9	5.6	5.3
Group 4	4.8	3.7	11.6	12.4	26.1	24.9

Source: Bank of Uganda, Research Department Records

Following the decision by the Government in 1992 to open up the market to competition, the number of banks increased and, with it, the level of competition in the market for banking services at least in the major cities. One indicator of increased competition triggered off in the banking system is revealed in Table A which shows the loss of market shares by both Group 1 and Group 2 banks to new entrants; Groups 3 and 4. Group 3 ('prudent') represents new entrants (domestic and foreign) that were generally conservative in their pricing and expansion plans. Group 4 ('aggressive'), on the other hand, represents a set of competitive banks which were aggressive in their policies to capture market share.

A comparison of Tables A and B reveals that banks were able to compete with each other more effectively for deposits. As shown in Figure 5, the losses and gains in the share of deposits broadly correspond to their pricing: the lower the interest rate paid, relative to the market, the greater the loss in share and vice versa.

Table B: *Group Analysis of Interest Rates in the Post Liberalization Period*

	Time Deposit Rates			Lending rates			Spreads		
	Jun94	Jun96	Jun98	Jun94	Jun96	Jun98	Jun94	Jun96	Jun98
Group 1	9.9	6.0	7.0	15.2	15.6	16.2	5.3	9.6	9.2
Group 2	6.8	9.5	9.8	12.7	16.4	12.6	5.9	6.9	2.8
Group 3	4.1	6.8	11.9	33.0	25.0	17.2	28.2	17.1	5.3
Group 4	9.6	9.6	13.3	20.5	24.9	25.1	10.9	14.6	11.8
Bank-wide	8.60	8.03	9.96	15.19	18.24	17.22	6.60	10.20	7.26

Source: Bank of Uganda, Research Department Records

In the wake of financial sector liberalization and complementary reform measures introduced, there has been a major transformation in the structure and performance of the financial system and a significant improvement in the confidence in domestic financial instruments.

There are many dimensions in which the positive impact of interest rate liberalization and associated measures can be seen: Monetary depth, as measured by the ratio of money supply to GDP, while it still remains low by African and developing country standards, has almost doubled; as have total deposits as a share of GDP. The structure of deposits has also changed and the share of time and savings deposits in total deposits has jumped from 17 percent to almost 50 percent. An assessment of the available evidence also supports the view that financial sector liberalization has contributed to macroeconomic stability and the high rate of economic growth by increasing financial savings and monetary depth, enhancing financial discipline, and shifting the responsibility for crop financing from the Government to the commercial banks.

At the sector level, there has been a significant decline in the incidence of nonperforming assets. Associated with this improvement in the culture of honoring financial contracts, there has been a substantial reduction in the role of the state in allocating and intermediating financial savings and in its equity holding in commercial banks. Policy changes have also contributed to a significant improvement in the competitive environment. While UCB remains a major player, the level of concentration in the banking system has fallen substantially, a large number of new private banks have entered the market, and there has been a leveling of the playing field between state-owned and private sector banks. Last, the standards of bank supervision and transparency in the banking system have improved substantially, as has the confidence of the authorities to intervene and expeditiously address the incidence of insolvent or illiquid banks.

At the same time liberalization has imposed certain costs on the economy. First of all the initial conditions and the sequencing of the reforms have resulted in a costly adjustment process. The financial sector was liberalized before prudential supervision and regulations had been adequately strengthened. As a consequence, unsound banks were allowed to enter the financial system and their shortcomings were not expeditiously addressed. Their presence increased the cost of intermediation and led eventually to costly bailouts by the central bank.

Second, the presence of asymmetric information and the absence of institutions (such as adequate accounting standards, credit information agencies) which could help alleviate this problem constrained effective competition, resulting in higher margins and interest rates with attendant economic costs (including the adverse impact on growth).

Interest rates, in this environment, appeared to be determined not by the costs facing the most efficient supplier but instead by the most inefficient ones; a complete contradiction of competitive behavior.

There is also evidence that in the post liberalization period, micro enterprises and farmers in small rural communities found it more difficult to access services provided by the formal financial system. The gap in the provision of financial services is being filled increasingly by the informal sector.

Finally, liberalization in Uganda has involved the transfer of quasi-rents from the Government and well heeled borrowers (who have often been able to avoid repayment) to depositors and banks. This transfer has been facilitated by the availability of foreign aid to the Government to cover its budget deficit.

4.2 EFFECTS OF PRIVATISATION

Privatization, that is, the transfer of ownership rights from the public to the private sector, is one of the main events of the economic and financial history of the post-war period.

The milestones of privatization history can be sketched briefly as follows. One of the first privatizations in modern times was undertaken by the Adenauer Government in the Federal Republic of Germany. In 1961, the German government launched a policy of denationalization of the economy and sold a majority stake in

Volkswagen through a public offering, mainly earmarked for small investors. This was followed by the sale of Veba shares in 1965. Both offers were well received initially but, at the first stock market slump, the government was forced to bail out investors, and reversed the stated policy. Other failed attempts occurred in Chile and Ireland at the beginning of the 1970s.

The story picks up in 1979 in the United Kingdom under Mrs Margaret Thatcher's Conservative government, which, indeed, coined the term 'privatization' in place of the less attractive 'denationalization'[180]. Interestingly, privatization had not been one of the prominent themes of the electoral campaign that brought the Conservatives to victory. Nevertheless, the Thatcher government's policy state owned enterprises (SOEs) disposal left a lasting mark on the economic history of the twentieth century.

At the beginning, the programme met with skepticism of economists, the media, and commentators in general, so much so that the opposition Labour Party promised to return to public ownership the assets privatized if it returned to power. Within a few years, thanks to the success of many privatizations, the Conservatives obtained a wide political support which allowed them to accomplish the process. At the end of the fourth Conservative legislature in 1977, virtually all SOEs were sold out, with their value accounting for a marginal share of GDP.[181]

During the 1990s the privatization policy became a fundamental element of global economic orthodoxy, spreading out in developed, emerging, and less developed countries.

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[180] SAPRIN Report,2004
[181] World Bank,1995

The rationale for a privatization policy can be found in recent economic literature but it can also be traced back to Adam Smith (1776-1871). Smith observed that 'characters do not exist who are more distant than the sovereign and the entrepreneur', in that people are more generous with the resources of others than their own, and that public administration could lead to an inefficient use assets because public employees do not have a direct interest in the economic performance of their own actions.[182]

According to Smith, the sale of public property (which at that time was land) also had another effect; revenue could be allocated to reduce public debt, and lower interest charges, alleviate public finances in greater measure than the ownership of land. With privatization therefore, efficiency is increased. Stated in terms of modern contract theory, this occurs because ownership rights are not neutral but affect the profitability of companies.

As often happens, simple intuitions have the ring of truth. After twenty years of modern experience, Adam Smith's intuition has been amply confirmed. Thanks to the transfer of ownership rights, privatized companies have greatly improved their efficiency. And the countries that have privatized have reduced their public debts and deficits.

The big privatization cycle of the 1990s is now over. After the peak in 1999, global revenues have fallen sharply at an average annual rate of 46%, reaching a value of US $44 billion in 2001. The data for 2002 and 2003 confirmed this negative trend. Similar figures date back to the late 1980s when Thatcher's

[182] Smith Adam. Op ct

privatization reached its climax, but the rest of the world was still standing on the sidelines.

Privatization now seems exhausted, especially in Europe, the continent most involved in the phenomenon. Why is this so? Are Adam Smith's lessons about private property no longer valid, or is the process shrinking simply because governments do not have any more property to sell or because sales in times of bad economic outlook are more difficult?

In Uganda privatization has meant that poor parents have had to meet more and more the cost of social services. Whereas there is still universal immunization poor parents must meet the cost of treatment as government hospitals are almost always without drugs. Whereas there is now universal primary and secondary education, the question of quality means the parents must send their children to private institutions for quality education. Moreover at tertiary levels government responsibility is limited to provision of facilities.

It can therefore be said that government capacity to meet its social responsibility has been curtailed.

CHAPTER FIVE: Conclusions and Recommendations

5.1 INTRODUCTION

This study concludes that whereas globalization presents challenges, it at the same time offers opportunities. The social contract between the state and its citizens remains generally intact. Inspite of the challenges, the role of the state in Uganda as the chief provider of security and social services remains, though dented by its reduced capacity. For example, reduction in size of the military has prolonged the insurgency in the north. Reduced capacity of the state, in terms of financial outlay vis-à-vis requirements, has forced introduction of cost sharing in provision of health even in rural areas.

5.2 CONCLUSION

Managing the public sector in today's environment of constant change, particularly in view of globalization, has become an increasingly demanding challenge for national decision makers, policy advisors, service delivery managers and civil servants at large.

The functions and role of the State have been transformed substantially. The general configuration of its responsibilities has changed and this has introduced important modifications both in the policy arena and in the State's requirements for high-level skills, qualitatively and quantitatively. Overall, the course of change points to a shift of focus away from hands-on management and the direct production of services and goods towards strategic planning with a view to the establishment and maintenance, refinement and reform of an enabling framework for private enterprise and individual initiative.

A parallel shift has moved the State's centre of gravity and with it the locus of power. Decentralization, debureaucratization and deregulation are adding to the importance not only of local government, but also of non-state actors on whom significant functions are devolved or outsourced. At the same time, a range of tasks and policy decisions, traditionally handled by national bureaucracies in their respective capitals, is being increasingly transposed to an inter-governmental or supranational level as a result of increased flows between countries of goods, capital, labour and information. Increasingly, the State is called upon to act as "linking pin" of processes of planning, consultation, negotiation and decision making involving diverse actors, State and non-state, at different levels of governance. The State is the hub of activities connecting multiple partners and stakeholders from very varied fields, regions, cultures, occupations, professions and interests.

It has also become apparent that the benefits of globalization have been so far uneven. Experience suggests that one of the main causes of the crises plaguing developing countries and the inability of some of them to integrate in the world economy is state capacity deficit.

Globalization is certainly presenting many opportunities, including foreign direct investment, trade, and access to information technology. However, only countries that have in place an effective public administration, solid political and economic institutions, adequate social policies and a committed leadership can ensure that all sectors of society benefit from greater integration into the world economy. In order to make full use of the opportunities provided by globalization, developing countries need, among other things, to reinvest in their public sector and enhance their capacity for policy analysis, formulation and implementation.

Arguably, what Uganda needs most in order to enable people to enjoy the benefits of globalization is to focus on strengthening institutions, develop human resources capacity, and achieve technological adequacy with a view to capturing the economic gains which globalization may bring and to mitigating its social costs. States with robust and far-reaching public sector activities are those which have best succeeded in achieving both goals.

In the case of Uganda the state's capacity to provide security, and law and order has been limited by its incapacity. This is partly why for example; the insurgency in the northern part of the country has dragged on for nearly twenty years now. The country's ability to acquire requisite equipment for the task was limited by its own incapacity as well as the cap imposed upon its defence expenditure by the IMF. As for provision of social services, like education and health, government still provides education in the form of free primary and secondary education as well as paying salaries of teachers. However, a significant number of private run and owned institutions also provide education. For example, out of the 11 or so universities in Uganda, seven are privately owned and run. At the university level government role is getting limited to regulation.

Government also provides medical care in the form of universal immunization but treatment is being offered more and more by private facilities. Just as cost sharing in most medical facilities is becoming a feature. The resultant effect is the resurgence of such controllable diseases as malaria.

In the case of Uganda therefore the 'social contract' does not seem to be under threat as the government's role in the provision of an enabling environment is still central. In the rural areas government is still the chief provider of social services such as education and health. Security is still almost entirely provided by the government.

5.3 RECOMMENDATIONS

The Ugandan experience suggests the following policy implications.

A gradual phased liberalization can help reduce the possible adverse effects of financial sector liberalization on other sectors of the economy. While real interest rates and margins were high, Uganda has attained both low inflation and high growth over the post-liberalization period. Skilful co-ordination of monetary and fiscal policy can help the economy going through liberalization to overcome weaknesses in the financial markets. This is true even in the event of external shocks. For instance during the coffee boom of 1994/95, the Ugandan authorities were able to use the fiscal instrument to sterilize the large foreign exchange inflows without the re-emergence of excess demand and inflation.

The optimal timing and sequencing of financial sector liberalization cannot be generalized: the Uganda experience suggests that there is a trade-off between the gains from early liberalization which could facilitate macro-stabilization and the advantages of waiting for effective regulatory framework and macro-stability to be in place to avoid risks of excessive credit expansion, imprudent behavior and associated bank distress.

To reduce the costs of liberalization, more attention needs to be paid to improve the flow of information in the market, the exit of distressed banks, and measures to improve efficiency by avoiding over-banking. The Ugandan banking system has suffered under the reforms as is evidenced by the incidence of distress in the system and the trend of profitability especially post liberalization. Financial liberalization can have adverse effects on the domestic financial system especially when reforms are not preceded by the introduction of an effective regulatory framework to ensure quality at entry and expedite the exit of insolvent banks. To avoid an excess number of banks, the Government, should also consider raising the minimum capital requirements.

Even under imperfect market conditions which constrain competition, liberalization can, however, still increase economic efficiency through improved allocation of resources.

Regulators need to be supported by strong and modern laws so as to take appropriate action and to facilitate orderly workouts of insolvencies and loan foreclosures. In addition to these laws however, accountability of the regulators to the public would not only make regulators responsible for their action but also strengthen their actions by making them more transparent.

Some of the benefits of liberalization of the financial sector may be constrained by resistance from those who may be adversely affected by the process.

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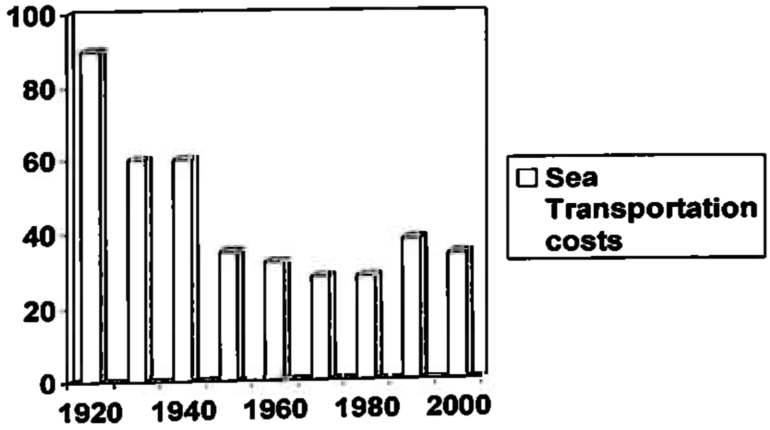
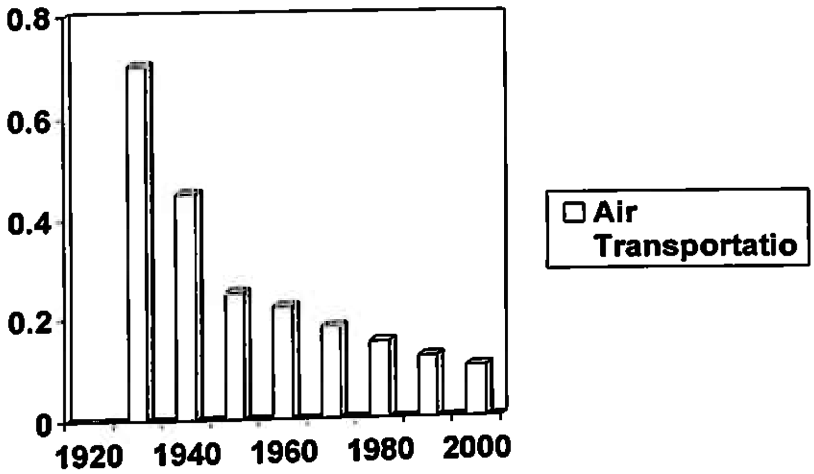
APPENDIX

Graph 1: Declining Sea Transportation Costs Since 1920 in US $ (Average Cost of Freight and Port Charges per ton)



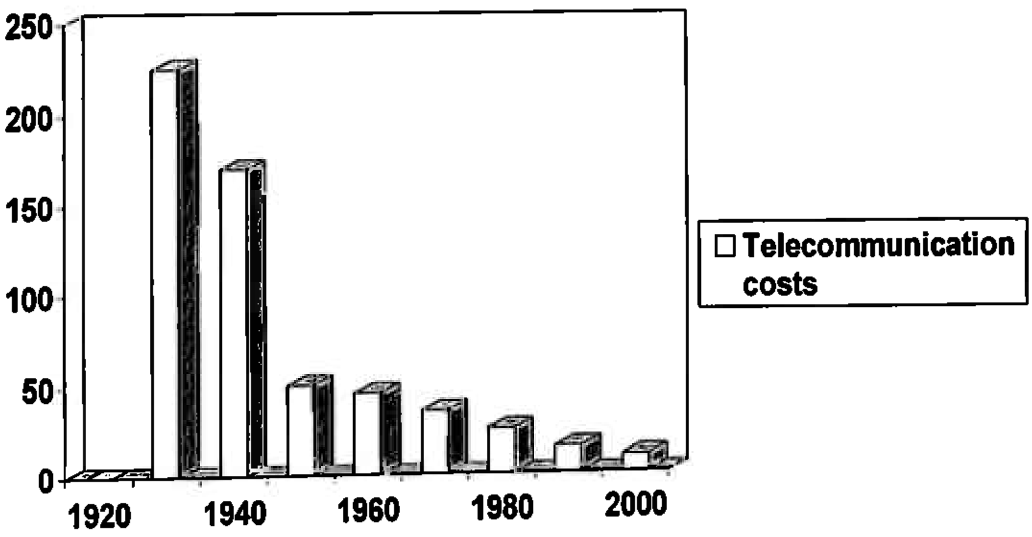
Source: IMF, 1997

Graph 2: Declining Air Transportation Costs Since 1930 in US $ (Average Revenue per passenger mile



Source : IMF. 1997

Graph 3: Declining Tele-Communications Costs Since 1930 in US $ (3 Minutes New York/ London)



Source: IMF, 1997