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EAST AFRICA'S INDUSTRIAL DEVELOPMENT IN THE CONTEXT OF GLOBALIZATION

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1.0 Introduction

The performance of East Africa's industrial sector both in terms of growth and structural change has been poor relative to other regions. Industry in the region has remained more dominated by traditional and technologically simple consumer goods. Primary commodity exports account for around 80% of total export earnings. In spite of the dismal performance in terms of economic development in Africa in general and East Africa in particular, debates during the 1980s have not given adequate attention to the role of industry (Riddel, 1990). In some cases, industry has been identified as having been responsible for much of the waste of resources and a cure has been sought in diverting resources from industry to other sectors such as agriculture. The tendency to give less attention to industry is rather paradoxical for at least two reasons. First, the literature on economic development ascribes a high degree of dynamism to industry, a perception that has not proved wrong. Second, industry has been instrumental to the generation and diffusion of technology, which is an important source of dynamism and competitiveness in an economy. The neglect of the role of industry amounts to the omission of a major source of technological dynamism in the development of East Africa. What is needed now is to address the industrialization problem in the context of globalization.

At the time when the economies of East and South East Asia were positioning themselves to exploit the opportunities stemming from the quickening pace of globalization, East Africa remained behind, locked into a north-south pattern of trade, heavily dependent on exports of raw and semi-processed materials and slow to create competitive advantages depending instead on traditional comparative advantage derived from raw materials and abundant unskilled labor. East Africa's heavily dependence on primary commodity exports is evidence of low level of human resource development and limited technological capability to take advantage of emerging trade and investment opportunities. The key question now is how can East African economies tap into the emerging opportunities of globalization through trade, information and knowledge, technology and investments in order to give impetus to their industrial transformation.

This paper addresses the challenge of East Africa's industrial development in the context of globalization. Sections one reviews the structure and performance of the industrial sector in the region. Section two focuses on major constraints to industrialization and in the last section key challenges of competitiveness facing East African's industrial sector for successful global integration are outlined.

2.0 Current Situation of the Industrial Sector in East Africa

The industrial sector in East Africa is still seen as a vital part of the economies with a potential to contribute to economic growth, employment and development. Rapid industrialization can play a pivotal role in generating high productivity manufacturing jobs and therefore facilitate poverty reduction. However, industrial development in the region has been less dynamic than expected against the background of successful Structural Adjustment Programmes.

The industry in the three Partner States is still strongly oriented towards the domestic markets, except for Kenya, where export orientation has increased. Agro-processing industries play a leading role in all of the three countries. Foreign direct investment (FDI) has increased substantially in the 1990's. The inflow of FDI was 153 million US$ in Kenya, 510 million US$ in Tanzania and 569 million US$ in Uganda and a substantial yet unrecorded part of it went into the industrial sector.[1] Compared with other regions of Africa, the competitive position of East Africa currently is still low. The Africa Competitiveness Report 1998 ranked East Africa in the bottom half of the 23 African countries it analyzed. Between rank 1 (Mauritius) and rank 23 (Angola), Kenya ranks 13, Uganda 14 and Tanzania 16.[2]

The different levels of industrial development in the region are obvious and have been debated extensively. With a contribution of 1.165 billion US$ (13.3% of GDP) in 1998, Kenya's industrial sector is the most developed in the region. However, it has not been able to increase its share of GDP in the last few years (EAC, 2000). The share dropped slightly from 13.5% in 1995 to 13.3% in 1998. Kenya's industrial production is higher than the aggregated production of Uganda and Tanzania. Due to its diversified and relatively large manufacturing sector, exports of manufactured goods from Kenya to its neighbors are about seven times higher than its imports from these countries. Although the dependency on imports from Kenya is mostly seen as a negative factor, it can also be seen positively whereby, Ugandan and Tanzanian customers are able to buy cheaper and without long delays for transportation from a neighbor instead of countries in other parts of the world. The manufacturing sector in Uganda was able to increase its contribution to GDP from 7.1% to 9.0% in the same period in 1998. In Tanzania, the manufacturing sector contributed 7.9% to GDP in 1995 and 8.4% in 1998, which corresponded to 0.497 billion US$ in 1998 (EAC, 2000).

[1] IMF: Development Finance Report 1999, Washington 1999
[2] World Economic Forum: Africa Competitiveness Report 1998, Washington 1998

Apart from the disparities between partner states, the different levels of development within each state should also be addressed. In each state, certain areas that are preferred as a location by industry exist. Industrial activity concentrates around the large urban centers such as Nairobi and Mombasa in Kenya, Kampala and Jinja in Uganda and Dar es Salaam and Arusha in Tanzania. These centres of industrial activity offer a number of benefits for business start-ups and investors and therefore are preferred as compared to other parts of the country. It is therefore rather difficult to counterbalance the tendency of higher growth in existing centers and lower growth in districts at a distance from these centers.

3.0 Constraints to Industrialization in the Region

Can East Africa create successful manufacturing firms? This is a key question for policy makers. What policies are needed? What do firms from other countries that have been successfully (e.g. Mauritius) have that East African firms do not. East African manufacturing firms have been facing many constraints. Due to these constraints, the development of the sector has been greatly affected. Some of the major ones are:

Infrastructure Constraints

Constraints identified in the literature (Semboja and Kweka, 1997, Xavier 1997 and EAC, 2000) as being related to primary infrastructure include, among others; poor road network, inefficient and inadequate communication network, inadequate, unreliable and costly power and water supplies and lack of waste disposal facilities. Supportive infrastructure is an important pre-requisite for successful industrialization. Expensive, sporadic and unreliable transport and communications are a serious impediment to industrial growth. High transport costs, poor infrastructure and constant power and water interruptions raise the costs of doing business and compound the problem of lack of information.

Access to Investment Finance

Because of the general credit limitations in financial institutions, especially the banking sector, manufacturing firms face problems of inadequate investment and working capital. Manufacturing firms have very limited access to formal long-term credit due to a weak and non-competitive financial system. It is still too high a cost (due to high interest rates), too complex financial system, lengthy loan application process and too short maturity for the specific case of bank loans. In the absence of substitute informal domestic credit sources, many firms are severely constrained in their ability to invest in new equipment or machinery, and retained earnings or the entrepreneur's savings thus remain basically the only solution to finance such investments.

Poor Market Potential

For a long time East African industries were operating in a domestic market, which was highly protected and had suppressed consumer choices. However, the situation has changed and industries are currently facing marketing challenges. Like many Sub-Saharan African countries, East African industries are faced by the following major marketing challenges:

- *Greater Competition*. With liberalization and increased private sector participation, firms operate in a competitive market environment, consisting essentially of other domestic producers and imports. In some cases, market-demand has been complicated by problems of unfair competition from imports (e.g. tax and dumping).

- *Small Market Size*. The size of the domestic markets for industrial goods is relatively limited. Furthermore, demand for industry goods has been constrained by low levels of income.

- *Marketing Skills*. Many domestic suppliers find it difficult to penetrate both domestic and global markets. In many cases, the local managerial cadre lacks appropriate marketing skills to break into the prevailing competitive market.

Weak Institutional and Business Supporting Framework

Existing technological and business supporting institutions to offer technological advice and innovation in their areas of competence to the manufacturing sector to enable a sustainable growth of the sector are weak. These institutions, some of which are R & D institutions have a major objective of designing and manufacturing machinery and equipment for agriculture and appropriate technologies for rural, medium and small-scale industrial enterprises. While private R&D firms are virtually non-existent, there is low level of interaction between these other organizations and manufacturing firms. Links among these industrial R & D institutions are seemingly weak. Where these links do exist, they are usually ad hoc in nature, normally driven by necessity and often dictated by prevailing circumstances rather than inherent technology strategy and/or deliberate plans. The link between R & D institutions and the private manufacturing sector is also notably weak. Many of these organizations are under institutional reforms, moving from their reliance of government funding to independent, self-financing and autonomous organizations. The institutional framework also suffers from lack of capacity and skills to service the private sector and slow functioning and decision making which greatly affects the performance of the private sector.

Human Resource Constraints

On average, East Africa's industrial sector is characterized by relatively poor quality of the labor force manifested by inadequate technical and managerial skills and a general lack of entrepreneurial cadre exposed to advanced industrial culture (EAC, 2000). The group of entrepreneurs in the region is still small in size and inexperienced in modern industrial management. The human resource constraints have been confined to problems related with availability and cost of skilled labour in the manufacturing activities. More specifically lack of skilled labor, management and lack of training are the key human resource constraints in the East African industrial sector.

Inadequate Legal, Regulatory and Judiciary System

The legal framework regulating the sector is not comprehensive and is partly outdated. A World Bank study (1997) on institutional constraint suggests that firms in a number of developing countries feel that regulatory obstacles to doing business are more burdensome than their counterparts in OECD countries (Brunett et al, 1997). Other studies in Tanzania (ESRF-CTI, 2000 and Wangwe et al, 1998) have shown that the inability of the existing legal, regulatory, and judicial institutions to reduce the transaction costs and, in many instances, their tendency to raise such costs, may explain the poor manufacturing performance despite more than a decade of structural adjustment efforts. The existing regulatory framework is ineffective in catering for their needs in terms of licensing, registration, sales, contractual relations, credit, security, property rights, and dispute settlement. The new environment with many actors calls for a greater capacity on the part of public institutions to regulate various actors. This has yet to be built. Legislation in force in the areas of incorporation, contracting and contract enforcement, banking, insurance, employment, property rights (including intellectual property rights), environment, dispute resolution, among others, may have been more of an impediment than a facilitator of market exchanges.

4.0 Challenges Ahead

At the beginning of a new century, East Africa faces serious challenges to catch up with the rest of the world since global rules for trade and standards of industrial production are changing. The region's weak starting position, unlike other developing regions, could inhibit its ability to leap frog the stages of structural transformation. East Africa's failure to penetrate international markets for manufactured goods highlights the region's vulnerability to globalization. If industrial growth is not export-led, it runs the risk of being constrained by sluggish domestic markets. It is in this context that efforts must be taken in managing globalization through increased competitiveness.

Conceptual Issue on Competitiveness

One of the predominant features of globalization is that the new economic structure has created a highly competitive global economic environment. Competitiveness can be broadly defined as the ability of a country's industries to meet test of international competition (Wignaraja, 1999). Thus, losses or gains in competitiveness can be gauged in terms of manufactured export performance. Within the context of industrial sector development, competitiveness is essentially a three-tier concept. It could be comparative advantage at the national level, competitiveness at industry level or at enterprise/firm level.

National Level Competitiveness

At the national level, initial conditions (such as country size, natural resource endowment and geographical location) matter, but are not readily subject to policy influence. However, it is the role of the state to create the appropriate enabling environment within which enterprises in the industrial sector can build competitive advantage through factors that are subject to policy influence. Macro-economic conditions are fundamental to maintaining such competitiveness. No developing country can expect to compete internationally if it pursues bad macro-economic policies such as allowing its budget deficit to spiral, its inflation rate to accelerate and its real effective exchange rate to appreciate unchecked. Similarly it needs to avoid frequent changes in the direction of government policy with no apparent reason in order to elicit a private sector investment response. It will be enormously difficult, if not impossible for even the most efficient firms to be globally competitive in an uncompetitive national economic environment characterized by high taxes, rampant inflation, high real interest rates, an overvalued exchange rate and a weak infrastructure and institutions.

Industry Level Competitiveness

Groups of enterprises in an industry need to work collectively to improve conditions in the industry (e.g. industry associations such as CTI, TCCIA, textile manufacturers associations e.t.c.). These should join forces to address industry-wide problems and challenges, collectively negotiate and put pressure on government and collectively make investments, which benefit the respective industries.

Enterprise/Firm Level Competitiveness

The enterprises or firms are the ones taking the financial risks by investing their equity and borrowed capital and ensuring that profits are made through effective management of the production process. When a conducive environment has been created, doing productive investments will then be up to the entrepreneurs. Ultimately it is the enterprises that decide which field comparative advantages exist and not governments or research institutions. Thus firms should build internal capacities to compete in terms of productivity, quality and innovativeness (e.g. rate of new product introduction). They should accumulate human and physical capital and ensure a superior economic and financial performance in terms of market position, profitability and cash flow position.

All types of advantages (comparative at the national level and competitive at the industry and enterprise levels) are dynamic and change over time. Countries and/or firms move up and down the ranking of competitiveness reflecting the success and failure of governments and/or firms in enhancing competitiveness. Economic success stories among the developing countries (e.g. Mauritius) have been those, which “created” comparative advantage at the national level, rather than relying on resource- driven growth, which exploits inherited advantage. Successful firms have also been those, which took advantage of national competitiveness and increased competitiveness at enterprise level. In this respect, the main task for East Africa’s industrial sector is to develop a framework in which enterprises operating within it, can expand their competitiveness.

The competitiveness challenges that lie ahead have distinct but overlapping agendas for the governments, private sector organizations and firms or enterprises. These are discussed below.

Agenda for the Government

In the last decade, the governments of the East African states have followed a market oriented economic policy. Governments withdrew from direct involvement in production activities and increasingly concentrated on the core activities of the public sector. However it is wrong to withdraw from the economy totally. The new role of the governments in industrial development is to act as promoters and facilitators, regulators, service providers and coordinators.

- As promoters and facilitators, the objective should be to promote industrial development by creating conducive economic environments. The components of this role include: provision of the necessary infrastructure (e.g. roads, power, water), promoting exports and investments, facilitating business start-ups and access to necessary inputs and eliminating constraints.

- As regulators, the objective should be to ensure fair rules in industrial development. Components of this role include: pursuing appropriate macro-economic policies, competition policy, trade policy, legal framework, governance, safety standards (environmental and industrial), property rights and peace and security.

- As service providers the objective should be to provide those services that are not provided by private sector organizations or companies in a cost effective and efficient way. Components of this role include: economic statistics, information on laws and legal issues, licensing and standardization.

- As coordinators, the objective should be to co-ordinate all activities in industrial development between different levels and groups involved like the private sector organizations, enterprises, donor institutions, international and regional organizations. Thus governments should set up and maintain a constant communication structure, work out national and regional industrial development programmes, ensure effective donor co-ordination and co-ordinate industrial development with partner states, EAC, SADC and COMESA.

Agenda for Private Sector Organizations

Private sector organizations should play an active role in industrial development. As key representatives of the enterprises, they should participate in constant dialogue, interaction and negotiations. With increasing budget constraints, governments are no longer able to provide comprehensive scope of support services to the private sector. Thus, private sector organizations should explore ways of offering various types of services in addition to the lobbying and advocacy role. Some of the activities they should undertake include:

- Interacting with governments on improving of the business environment.
- Continue representing the interests of the private sector to governments.
- Provide business services in the fields of information and training.
- Assist enterprises in increasing competitiveness.

- Promote linkages at national, regional and international levels.
- Undertake business and export promotion through organizing national, regional and international trade fairs.

Agenda for the Enterprises/Firms

The enterprises or firms are the ones taking the financial risks by investing their equity and borrowed capital and ensuring that profits are made through effective management of the production process. When a conducive environment has been created, doing productive investments will then be up to the entrepreneurs. Ultimately it is the enterprises that decide which field comparative advantages exist and not governments or research institutions. Competitive firm are expected to be characterized by:

- Best practice frontier in terms of productivity, quality and innovativeness (e.g. rate of new product introduction).
- Accumulated human and physical capital endowments as well as intangibles.
- A superior economic and financial performance in terms of market position, profitability and cash flow position.

Some of the more critical components for industrial development under the different agenda are discussed below.

Appropriate Policies

Economies that have made the most progress in recent years, and profited the most from recent trends have an appropriate combination of policies with three main objectives: (i) achieving and preserving macroeconomic stability; (ii) promoting openness to trade and capital flows; (iii) and limiting government intervention to areas of genuine market failure and to the provision of the necessary social and economic infrastructure. More importantly, no one set of policies is a sufficient condition for success. Indeed, experience shows that poor policies in one area can obstruct progress, even if policies in other areas are good. The three objectives of policies complement and reinforce each other. Macroeconomic stability, embodied in low inflation, appropriate real exchange rates and a prudent fiscal stance, is essential for expanding domestic activity, and is a precondition for benefiting from and sustaining private capital flows.

Openness, in the resolute pursuit of policies to rationalize and liberalize the exchange and trade regimes, is vital in international competition. This forces the economy to fully exploit its comparative advantage through trade. Finally the primary role of Governments should be the creation of an enabling environment that encourages foreign and domestic investment, and of a solid infrastructure to support an expanding economy. Economists generally agree that an outward-oriented regime is better associated with improved export competitiveness than an inward-oriented one. This trade regime is superior because it induces better resource allocation according to comparative advantage; the realization of economies of scale; access to new technologies; imported inputs and markets; and investments in new technologies due to competitive pressure. Import liberalization and export promotion are complementary to achieve this regime. The government must also implement policies that eliminate the structural weaknesses that would be exposed by the heightened international competition. Not surprisingly, these elements are generally central to the policy dialogue between the International Monetary Fund and its members.

Capacity Building

The rapid changes in market and technological conditions pose a great challenge for manufacturing industry transformation. Top priority should be on building the capacity for industrial competitiveness. Human resource development through restructured education, training and entrepreneurship to meet the needs of the industry. The traditional labour-intensive industries are losing market share to the fast growing skills, information and knowledge intensive industries. As industry upgrades, investments in industry specific vocational training and tertiary-level technical skills (particularly engineering and information technology) become necessary for new activities. Equally important are investments by firms in formal employee training to tailor-make skills for industry. The countries risk to being locked into a slow growth path of traditional industries if technology is not upgraded. Labour quality rather than labour costs is increasingly what counts.

Priority of Agro-based SMEs

East African region is largely an agricultural economy. Efforts must be made to capitalize on this and develop from there. In order to develop industry beyond "enclaves" in a few urban centers, focus on agro-based small and medium industries capitalizing on the dynamic synergies between industrial and agricultural development is necessary. This approach should effectively address poverty, unemployment or underemployment and food insecurity. Factors, which have proved to explain the dynamism of SMEs in recent years, need to be made the driving forces of this development. Three key factors are identified as driving forces. (i) internal configuration of enterprises must take advantage of efficient organizational and production technology; (ii) the economic and social context in which the SMEs will function must reflect a competitive environment and broad benefits to society; and (iii) linkages to other enterprises must attract deliberate focus.

There is need for giving support to rural industry as a means of generating rural non-farm employment and income. The development of rural non-farm activities should be able to generate further farm income through various linkages. The potential of rural industries for employment, income generation and export growth lies in the labour intensive production and use of local resource while continuously upgrading and improving organizational and production technologies.

Reviving Financing for Productive Sectors

In reality, shifting from a system of financial repression to a liberalized or reformed financial system involves many institutional and organizational changes. The government should support this process in the following areas:

- Deliberately creating space for development finance. Emphasis should be placed on diversifying financial instruments and products for financing productive investments of all scales (micro, small, medium and large).

- Efforts should be made to tap into the international development finance institutions. These have the experience and expertise to screen, evaluate and implement viable projects. With international institutions involvement in East Africa projects, the domestic capital resource constraint is bypassed.

- Improving financial policies, forging linkages with informal institutions, improving interest rate policies, evolving new financial instruments, and deepening and diversifying financial intermediation.

Promoting Research and Development

Very low and in some cases declining productivity is the fundamental problem that has undermined the ability of manufacturing enterprises in Tanzania to withstand heightened import competition and break into export markets. Emphasis should therefore be placed on the manufacturing sector moving into more technological and skills intensive activities. Currently there is practically no R&D in most enterprises. While formal R&D may not be important at the low technological level, its upgrading and deepening (particularly in striking more local linkages) may be greatly promoted if some research capability existed. Moreover, as industry moves into more complex technologies, an

R&D capability becomes essential to absorb foreign technologies in R&D over the longer term, and to start building the base of skills needed (Lall and Wangwe, 1998).

Removing Infrastructure Bottlenecks

East Africa's long-term industrial growth and competitiveness is greatly impeded by its poor infrastructure capacity. Relieving these constraints should be a priority for government's development expenditure. Constraints identified as being related to infrastructure include among others, poor roads and networks, inefficient and inadequate communication networks, inadequate and unreliable power and water supplies, and lack of waste disposal facilities. The poor state of infrastructure affects the input output markets and distribution networks in the regions and rural areas where the large population resides. In the urban areas, infrastructure is somewhat better and accessibility is possible. However in order to enhance output in the whole region, emphasis should be put on infrastructure development projects at a regional level.

Promoting Sub-Regional Integration and Industrial Cooperation

The volume of intra-regional trade and the degree of industrial complementation do not suggest a big success in sub-regional co-operation despite efforts undertaken for decades. The reason for the hitherto limited success in this direction are ascribed to similar resource endowments across countries in a given sub-region. But this is changing at the turn of the century due to the fact that knowledge, skills and absorptive capacity of innovation technologies are increasingly driving the process of industrialization. Countries can belong to more than one trading bloc (e.g. COMESA, SADC, and EAC). Any regional grouping should take cognizance and envisage complimenting other existing regional co-operation agreements and arrangements with a view to realize faster economic development. At the global level, regional groupings should also develop partnerships with international bodies, bilateral and other regional blocs such as the European Union (EU). The driving force should be strengthening of networks, tapping opportunities as they emerge and generating resources to support implementation of programs.

Regional integration should enable economies to produce at lower unit costs for a larger regional market. Thus, integration is embraced essentially as a means of widening market size and thus allowing the benefits of greater specialization and economies of scale to be realized. In this sense, import substitution in the context of larger regional markets could generate greater competition within the region and thus induce higher levels of productivity. Compared with global liberalization, regional integration could be regarded as a more viable source of the benefits of economies of scale than the (even larger) world market because of anticipated problems of market access and the presumed higher transaction costs of producing for the world market.

Improving Information and Communication Technology

Information and communication are essential to private sector economic competitiveness. Availability and quality of access to information and communications technology services is increasingly important in development, particularly private sector development. For the private sector, being plugged in to information and communications systems and networks is essential to economic competitiveness. On the economic competitiveness front, no country including its private sector can afford to be without efficient, reliable, cheap communications. For East Africa, private sector competitiveness will increasingly depend on the pace of development in the information and communications sector and should be seen as one of the areas for cost saving. Most small and medium enterprises in the region cannot afford the high cost of information and communication, given the fact that most of then operate on a very low financial resource base. Developments in the information and communications sector are introducing new dimensions and shifts in economic transactions. For instance, the use of electronic commerce to facilitate trade transactions illustrates the ease with which business transactions can take place though electronic means and the level of opportunities for accessing global markets. Countries have to face up to these realities of the global economic environment.

Institutional Arrangements

Institutional arrangements for synchronizing regional programs with national programs and commitments are necessary. Since priorities at the national and regional levels are expected to be harmonized, institutional arrangements for harmonizing and co-ordinating the formulation and implementation of decisions at regional and national levels should be strengthened. They should be given capacity in terms of human and financial resources. In addition, institutional mechanisms for managing inter-sectoral and crosscutting issues should also be strengthened.

Regional Peace and Security

Economic prosperity in the region can only be achieved if there is stability in the region. Thus one of the fundamental issue which is often taken for granted is the maintenance and preservation of regional peace and stability. Peace and security is a pre-condition and indeed a starting point for regional economic integration and development.

Enhance the Role and Capacity of Government Support:

- Identification and facilitation of the pursuit of dynamic comparative advantages with a view to attaining an optimal industrial structure which is competitive.

- Industrial policy must be supportive of investments in enterprise level capabilities.

- Ensure long-term growth of domestic demand. A large domestic market, assisted by some degree of protection, could facilitate generation of high profits which could provide conditions for high rates of investments, learning by doing and improving product quality. Selective trade protection will be needed to promote industries, which have dynamic competitive advantages. This should be accompanied with benchmarks to ensure that competitiveness is attained over a given time.

- Facilitate the acquisition of foreign technology either through facilitating FDI, licensing and other means of channeling foreign technology to promote competitiveness in economic activities in the country.

- Facilitate exporting.

- Pursuit of general industrial support policies such as human resource development policies, fiscal and financial incentives for investment, public investment programmes, incentives for R&D.

- Indigenous technological development will need to be promoted through applied R&D in enterprises, regional and district centers and other R&D institutions. In particular there is need to institute firm-level policies such as R & D support.

- Support for Small and Micro Enterprises (SMEs) and their linkages to larger industries.

- Regional policies will need to be formulated towards promotion of investments, development of infrastructure and the establishment of industrial complexes, which can benefit from localization and conglomeration economies.

- Promote government - business relationship.

5.0 Concluding Remarks

Globalization is unlikely to be reversed, and East Africa's failure to penetrate international markets for manufactured goods highlights the region's vulnerability to globalization. The challenge for the region's industrial sector going global is primarily a matter of competitiveness. Currently, most of the industries are not competitive at international prices. Although competitiveness ultimately originates at the enterprise level, the role of economic and industrial policy aimed at fostering competitiveness is crucial for improving infrastructure, reducing transaction costs and enhancing governance, skills and technological upgrading. Governments can help nurture comparative advantage by creating an enabling environment for manufacturing firms to make investments in the right capabilities. Enterprise level competitiveness is at least partially dependent on national level comparative advantage.

Globalization should imply new directions in industrial policy options. Policies should increasingly change focus to foster the start up and growth of new firms, enhance research and development, improve dissemination of technology, knowledge and information, build linkages between local and foreign investors. Focus should also be on helping firms find, assess and penetrate export markets, upgrade skills and technology and stimulate collective efficiency of small and medium enterprises through clustering.

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