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THE UNINTENDED INDUSTRIAL POLICY BENEFITS OF COVID-19 IN AFRICA

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Introduction

This chapter examines a seemingly heretical subject matter, that is, the unintended beneficial impact of the otherwise disruptive novel coronavirus (SARS-CoV-2) and the disease it causes code-named COVID-19 (e.g. Ssali 2020). First detected in Wuhan, China in December 2019, COVID-19 was declared a "Public Health Emergency of International Concern" on 30 January 2020 and reclassified as a pandemic on 11 March 2020 (WHO 2020). That COVID-19 knows no social, political, gender, or racial boundaries is no longer debatable (WHO 2020). What has escaped scholarly scrutiny is the positive albeit the unintended beneficial impacts of COVID-19 (Baldwin and Eiichi 2020). Are there verifiable industrial policy dividends of COVID-19?

This question is important for two distinctive reasons – one theoretical and the other pragmatic. Theoretically, free-market fundamentalism – which has dominated national and global political economies for 40 years – associates globalisation with the sovereignty of private capital over sovereign states (Bhagwati 2004). Globalisation arguably signifies the supremacy of economic liberalism over economic nationalism. It signifies the death of country-specific industrial policies that are theoretically faulted for undermining the market's allocative efficiency and promoting patronage politics (Kelsall et al. 2010).

Pragmatically, however, COVID-19 appears to have induced the resurrection of economic nationalism and its nationalistic operational tool, that is, industrial policy, in defiance of market fundamentalism. New industrial policies blossomed in the USA under Donald Trump's economic war against China (Wei 2019; Denmark and Abraham 2020; Selmi 2020). Joe Biden, who succeeded Trump as president, has upheld Trumpian economic policies under the "Made in America" nationalistic policies (The White House 2021). The new nationalistic industrial policies are also evident in China in its retaliatory policies against the USA and the UK (which succumbed to US political pressure to ban Huawei 5G equipment from the UK by the end of 2020). Huawei was faulted for being a Chinese company, not for lacking competitive capabilities. COVID-19 has also triggered vaccine nationalism – what Condoleezza Rice (2008) would call the primacy of the national interest over "the interest of an illusory international community" (Nye 2002; Vasilyeva 2021).

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This chapter focuses on Mauritius and Uganda against the backdrop of industrial policy resurrection in the world's two largest economies – China and the USA. The aim is to understand the role of COVID-19 in inducing state elites to adopt country-specific industrial policies (in defiance of the globalisation orthodoxy). To discern positivity in the negativity-infested ecosystem is not to discount the existential threat posed by COVID-19. Indeed, COVID-19 disrupted the governance systems of all countries. It disrupted ways of doing business and travelling. Powerful airlines and world-class companies were crippled. Only the adaptive digital corporations (e.g., Google and Huawei) have a fighting chance, thanks to their ability to leverage digital spaces. Notwithstanding these negativities, is COVID-19 associated with any observable industrial policy benefits?

To inquire into the COVID-induced industrial policies is not to claim that pre-COVID Mauritius or Uganda had no industrial policies (Uganda NDPIII 2020; UNIDO 2020). Nor does this chapter allege a clinical cause-effect relationship between the COVID-19 pandemic and industrial policy. Rather, I examine the contribution of, not the attribution to, COVID-19 (given the absence of complete baseline and longitudinal data on the "novel" (or "new") coronavirus).

This chapter argues that COVID-19 has been impactful on industrial policies. The empirical specification of the causal pathways is undoubtedly constrained by data insufficiency on COVID-19. However, the pandemic has clearly triggered the resurrection of the welfare state in virtually all countries. The aim is to provide state-coordinated stimulus spending to feed vulnerable citizens, provide ventilators, sanitisers, and other pharmaceuticals, and support priority industries. Stimulus spending, it appears, is a significant justification for the new industrial policies whose object is productivity enhancement, wealth expansion, and transformative development. The goal is to boost the state's revenue base and increase the capacity of duty bearers to meet citizens' rising demands.

The existential threat associated with COVID-19 has had an added advantage. It has privileged economic nationalism over market fundamentalism and activated a wave of deglobalisation, that is, the relative decline of neoliberal globalisation (see Bello, 2005; Finbarr 2018). The pandemic has also silenced neoliberal state elites (in the ministries of finance, the central bank, and statehouses) and incentivised elite commitment to industrialisation. The goal is to rebalance imports versus exports, promote local manufacturing of essential products (like face masks), create decent jobs for citizens, and, in a word, assert the legitimacy of the state.

Information for this writeup was collected via website visits, critical review of the literature, rapid evidence analysis via document reviews (of WHO policy briefs, official planning documents, and presidential policy statements), and key informant interviews. Official data (from UNCTAD and Uganda National Planning Authority) were used to assess whether or, to what degree, COVID-19 has induced the resurrection of state-guided industrial policies.

The rest of the chapter is organised as follows. The following section lends conceptual clarity to the new (or "smart") industrial policies. This is followed by an outline of the global context of the new industrial policies (in the USA and China); a summary of the COVID-induced industrial policies in Mauritius and Uganda; and a conclusion.

Conceptualising resurging industrial policy

In the heydays of market fundamentalism (between the 1980s and 1990s) industrial policies were pejoratively conceptualised as spaces used by state elites to dispense patronage, reward regime allies, and use public resources to lubricate the accumulative interests of powerful crony capitalists (Bates 1989; Kelsall et al. 2010). Several cross-industry econometric studies

that regress an economic performance measure, such as productivity, on state support indicators generally reached negative conclusions on subsidies (Lee 1996; World Bank 2020). These econometric studies suffered from misspecification. As Rodrik (2019, p. 1) notes, "when government intervention is not random and responds in second-best fashion to real market failures, the theory suggests the correlation at the industry level between intervention and performance should be negative." This is what the studies found but misattributed it to the failure of state policies.

Today, political economy theorists and practitioners across the ideological divide appear to have converged on a more positive conceptualisation of industrial policy. Industrial transformation and productivity enhancement policies are increasingly seen as development-enhancing, thanks to the resurrection of industrial policies in the USA and other powerful political economies (The White House 2001). Industrial policy now refers to government choices, preferences, or decisions whose object is to shift a country's productive activity from backward, agrarian, or artisanal work to progressively higher-productivity, factory-based, machine-driven (or digitalised) value-added activities. The accent is on the creation or strengthening of higher productivity sectors (Kozul-Wright in UNCTAD 2020). The goal is to serve the national interest, for example, by fending off harmful external competition, expanding the domestic revenue base of the state, and creating decent jobs (The White House 2001; UNCTAD 2020, p. 7). The underlying logic is simple: "market forces, left alone, cannot drive the process of structural transformation and sustain economic growth; rather, they risk specialisation in low productivity and low-value-adding economic activities" (Kozul-Wright in UNCTAD 2020, p. 1).

Theorists and practitioners also seem to agree on the wide scope of industrial policy (Wade 1990). According to Chang (2002), today's successful industrialisers used nationalistic policies. These included, but were not limited to, subsidisation of priority industries, infant industry protection, regulation of imports, and generous use of R&D (research and development) grants to support strategic industries. Industrial policy often involved the use of state-owned enterprises or "private" companies in promoting the national interest. Typical examples are Toyota in Japan, Boeing in the USA, Samsung in Korea, and Huawei in China – hence, the notion of Japan, Inc., America, Inc., Korea, Inc., and China, Inc.

The literature on the political economy of industrial policy suggests that tension often exists between generic and targeted policies. As Wade (1990) shows, generic policies are, by definition, general. Industry-specific policies are "targeted." The former policies operate at the macroeconomy, the latter at the sectoral level. Generic policies and industry-specific policies also differ in their operational latitude. The former policies are "horizontal"; and the latter "vertical" (Wade 1990, pp. 233–4). Horizontal policies affect all firms without discrimination. Vertical policies prioritise high value-added or strategic industries (such as iron and steel) over processing industries (which are characterised by cosmetic value addition).

But this is not all. Generic policies are embedded in the ideology of market fundamentalism, targeted industrial policies, in the theory of state-guided capitalist development (Amsden 1989). Generic policies pride in not "picking winners"; industry-specific policies pride in creating – not just "picking" – winners. One camp believes that winners are created by the market unfettered by state activism; the other contends that winners are historically created by economic *etatisme* (statism) comparable to the economic nationalism of the USA under the economic guidance of Alexander Hamilton, or of 17th century France under the guidance of Jean-Baptiste Colbert (Kiiza 2008).

By extension, generic policies are bent on kicking the state out of the economy; industry-specific policies, on routinising state coordination of industrial investments. Generic

policies seek to liberate the economy from state interference; manufacturing policies seek to regularise state guidance of industrial manufacturing. The object of generic policies in compliance with the so-called "global best practices" represented by market fundamentalism. The object of industry-specific policies is to deepen a country's manufacturing capabilities.

Global context: hello, smart industrial policies?

The tension between generic and sector-specific policies has given way to a new conversation on smart policies in the global political economy. Such industrial policies are of five distinctive categories. First is free-trade policy, as exhibited via today's ubiquitous free-trade agreements (FTAs) and the pro-market WTO rules. Trending as "trade" policies, these policies are the smart industrial policies of advanced capitalist countries. For one thing, they seek to strengthen the manufacturing capabilities of industrialised countries. For another thing, the WTO rules, which push for economic openness, the "national" treatment of foreign investors, "transparency" in government procurement, and non-discrimination between local and foreign companies, were entrenched in the WTO space by advanced industrial economies (Khor 2010). The aim of such industrial policies camouflaged as "trade" policies was to preferentially promote advanced economies' national interests. Banking on their mature and competitive companies, advanced countries have adopted policies of neoliberal economics. The dominant tool is no longer protectionism; it is trade liberalisation (Tandon 2010). The outcome is not trade as a global public good. It is the consolidation of Western companies' capabilities at the expense of weaker economies that may suffer deindustrialisation (Khor 2010; Tandon 2010).

The second category of smart policies is skills-development-as-industrial policy. Skills development is smart precisely because it empowers citizens with high-quality STEM capabilities (science, technology, engineering, and mathematics disciplines), backed by the rapid expansion into the new terrain of robotics engineering, artificial intelligence, data science, and the internet of things. Also known as soft investments, such smart industrial policies seek to promote inclusive development. They seek to boost the local content of the citizenry – as opposed to expatriates – in manufacturing value chains.

The third class of smart industrial policies are massive, publicly financed investments in hard infrastructure – viz world-class roads, railways, clean energy, development banks, ICT, and industrial parks. Like the first two above, these infrastructural investments are never treated as "industrial policies" in the orthodox literature. Yet, they promote manufacturing by uprooting the obstacles to industrialisation. They practically lower the cost of doing business and promote industrial transformation from low- to high-productivity sectors (World Bank 2020). An example of hard infrastructure investments is China's industrial policy (Lardy and Fairbank 1987). Beginning with the Deng Xiaoping reforms of 1978, China created Special Economic Zones (SEZs) to attract foreign capital (by exempting them from taxes and regulations). The experiment was so successful that different varieties of SEZs) were subsequently established – open coastal cities, export processing zones, science parks, and high-tech industry development zones (Miller 2020). Additionally, China has massively invested in roads and railways, R&D research facilities, and ICT infrastructure. These have had a magnetic effect on FDI inflows and domestic industrialisation.

The fourth category of smart industrial policies is procurement-as-industrial policy. Conventionally classified as a "commercial" policy, procurement has become a unique tool of industrial policy. A classic example is the Buy American Act (BAA) of 1933, which obligates the US government to prefer US-made products, not foreign manufactures, in its purchases.

The Act orders the federal government to prioritise American bidders for contracts worth more than $10,000, provided (a) at least 50% of their products are home-made and (b) domestic companies are no more than 6% more expensive than the cheapest foreign alternative.

For reasons of path dependency, different US leaders have invoked the Buy American Act – or variations thereof (Hotakainen 2011; Smil 2013). The American Recovery and Reinvestment Act (ARRA), 2009, signed into law by President Obama, is a case in point. Initially estimated to cost $787 billion but later revised to $831 billion (for the period 2009–19), the ARRA financed a wide spectrum of smart industrial policies, particularly public works, clean energy, and R&D infrastructure. Massive taxpayers' monies were also used to rescue strategic companies (such as General Motors), which were deemed too big to fail. Obama's ARRA has a protectionist *Buy American* provision legislating that any public works funded by the stimulus package must use only iron, steel, and other products manufactured in the USA.

Trump's administration followed in this tradition under the *America First* brand of economic nationalism, beginning – on 22 January 2018 – with a bruising trade war against China's solar cells, washing machines, and, later, steel and aluminium (Denmark and Abraham 2020). President Joe Biden has upheld Trumpian economic nationalism (Edelberg and Sheiner. 2021). Biden's protectionist Executive Order dated 25 January 2021 obligates US federal agencies to spend $600 billion of the annual federal procurement budget preferentially on American goods made by Americans, with American-made parts (The Economist, 26 January 2021). Ironically, America's nationalistic industrial policies contradict the Agreement on Government Procurement (GPA), a plurilateral agreement under the WTO's auspices, which advocates for "non-discrimination" in the procurement of goods and services by member states.

The fifth category of smart industrial policy is a trade war. War as an industrial policy instrument is traceable to the history of economic mercantilism (Viner 1948; Kiiza 2008; Tandon 2010; Bown 2019). As already hinted, on 22 January 2018, Trump launched a trade war against China by imposing tariffs on Chinese manufactures (Boylan et al., 2021). On 1 April 2018, China responded with punitive tariffs on 128 US products. The USA pushed the trade war to the most successful "China, Inc." sector, that is, high-tech manufacturing. Huawei, which has perfected 5G technological capabilities ahead of most Western powers, was particularly targeted. For US policy strategists, such a hegemonic company must be fought by all means – trade diplomacy, punitive tariffs, propaganda, or even military might. Thus, in May 2019, Trump banned US companies from working with Huawei, which was allegedly stealing US intellectual property (Paletta et al. 2019). In June 2019, the USA targeted five supercomputing companies – Chengdu Haiguang Integrated Circuit, Chengdu Haiguang Microelectronics Technology, Higon, Sugon, and the Wuxi Jiangnan Institute of Computing Technology – allegedly because they were using their technology to aid China's military (Shepardson 2019).

Chen et al. (2020) contend that "the trade war is not, in fact, about trade but technological [and industrial] dominance." While the US economy has been struggling since the COVID-19 outbreak, China's GDP growth averaged 2.3% in 2020 (UNCTAD 2020), making China the only major economy to avoid a contraction in 2020. In 2019, China overtook the USA as the largest international patent application source and extended its lead in 2020. According to Fage (2021), "China filed 68,720 applications last year while the United States filed 59,230." China's impressive performance is partly attributed to the "initial conditions" before the outbreak of COVID-19. It was the world's largest PPE manufacturer, accounted for 50% of the world's supply of surgical masks and was the only country capable

of mass-producing clinical gowns. As Western countries struggled with COVID-19, China imposed restrictions on exports of critical medical supplies, such as face masks and medical nitrile gloves (until Chinese companies upgraded their manufacturing capabilities).

Between January and March 2020, the price of surgical masks increased sixfold, the price of N95 respirators trebled, and the price of surgical gowns doubled (WHO 2020). China responded by boosting manufacturing capability with military-style rigour, effectively raising their daily pre-COVID output of 20 million masks to 110 million surgical masks per day. According to Aikman and Chan (2020), China's manufacturers, including BYD, Foxconn, Guangzhou Automobile Group Co., and SAIC-GM-Wuling, built makeshift assembly lines to step up the manufacture of masks and disinfectants. Companies like J.D. Logistics deployed robots for the delivery of supplies. China's carmaker SGMW – a joint venture between USA's General Motors and two Chinese partners – repurposed their value chains. In February 2020, their vehicle interior textiles supplier was caused to begin supplying medical-grade textiles for manufacturing face masks (Miller 2020).

To what degree have the smart industrial policy trajectories in Mauritius and Uganda approximated the theory and practice documented herein?

COVID-induced industrial policies in Mauritius

Mauritius reported its first COVID-19 case on 18 March 2020 and had, by 20 February 2021, registered 619 cases, 588 recoveries, and 10 deaths (WHO 2021). Mauritius embarked on several initiatives to minimise the impact of COVID-19 and promote industrial policy – bans on public gatherings; a curfew; closure of schools, universities, churches/mosques, and shopping malls; a stay-at-home order for public and private employees (except essential staff); and increased testing (IMF 2021). Since 26 April 2020, there have been no cases of domestic transmission. The reopening of the economy started in May 2020.

In the realm of smart industrial policy, Mauritius has embarked on several initiatives. With effect from October 2020, human capital has been treated as an industrial policy tool. Skills development is emphasised, focusing on STEM disciplines, which are central to the transformation of Mauritius into a high-tech manufacturing economy (UNCTAD 2020, p. 45). Efforts have also been made to attract graduates into manufacturing. This follows UNCTAD's (2020) firm visits, which recorded a "wide range of technical career opportunities … and yet positions are either not being filled or are only being filled after major concessions are made in respect of the education and/or experience level of applicants." To retain expatriates, all labour contracts expiring in 2020 have been extended through December 2021. Mauritius also launched a new, one-year (renewable) visa known as Premium Travel Visa. A Wage Assistance Scheme was created to support those rendered jobless by the lockdown. A Self-Employed Assistance Scheme served a comparable goal for informal sector workers.

Second, to increase Mauritian manufactures' domestic content, the Human Resource Development Council (HRDC) was directed to raise its training and reskilling intake by 9,000 people. The aim was to increase citizens' employability in manufacturing, agro-industry, renewable energy, and the circular economy. Beneficiaries are paid monthly stipends of Rs 10,200 over a six-month training period. A unique programme for SMEs titled the Employment Support Scheme was also designed. About 11,000 employees will be supported with a monthly payment of Rs 10,200 per person. These investments in local human capital are meant to progressively replace expatriates with local skills.

Third, several monetary and macro-financial policies have been adopted (IMF 2021). For example, the Bank of Mauritius (BoM) reduced the key repo (or repurchase) rate, that is,

the interest rate at which the central bank lends short-term money to commercial banks to control inflation. The key repo rate was reduced from 3.35% to 2.85% on 10 March 2020, followed by a further reduction to 1.85% on 16 April 2020. On 23 March 2020, the bank directed commercial banks to give a six-month moratorium on capital repayment for business loans and a comparable moratorium on household loans. The bank took up interest payments for households in the lowest income bracket. A particular dollarised credit line (initially $300 million, extended to $500 million) was put in place to cover firms whose earnings are dollar-denominated. On 07 September 2020, the BoM announced the extension to 31 December 2020 of the moratoriums granted to economic actors (including small and medium enterprises), households, and individuals under its COVID-19 Support Programme. On 02 December 2020, these measures were further extended to 30 June 2021.

Fourth, Mauritius reactivated its culture of using domestic developmentalist institutions as tools of new industrial policy. The State Investment Corporation raised Rs 4 billion for equity investments in troubled firms, including SMEs. The Development Bank of Mauritius provided Rs 200 million as concessional credit for distressed firms. An interviewee from the prime minister's office confirmed that taxpayers' monies were used to rescue enterprises that were "too Mauritian to fail" (Phone Interviews, January 2021). Specifically, Rs 9 billion was withdrawn from the National Resilience Fund and given to Air Mauritius.

Fifth, on 15 May 2020, parliament amended the BoM Act as part of the COVID Bill. Under the amendment, the Mauritius Investment Corporation (MIC) was established as a Special Purpose Vehicle to mitigate the disruptive impact of COVID-19. Bank of Mauritius announced that it would invest $2 billion in MIC for this purpose. The MIC was directed to prioritise investments in the pharmaceutical and blue economy as new strategic sectors (Phone Interviews January 2021).

Sixth, Mauritius is investing in soft infrastructure for high-value manufacturing. Such infrastructure includes modern ICTs, value-chain certification, and the enforcement of technical operating standards. Institutions for effective oversight, accreditations, and the enforcement of rules of origin are also being implemented (UNCTAD 2020).

Seventh, state elites are progressively upgrading physical infrastructure. According to UNCTAD, most firms "operate in ageing industrial estates, with sub-standard logistics linkages that depend on a seaport that is deemed inefficient and expensive" (2020, p. 46): Mauritius is styling up by upgrading industrial estates with clean energy, advanced water treatment facilities, and efficient transport systems.

The above smart industrial policies should upgrade Mauritian human skills, increase the domestic content of previously imported products, and transform Mauritian exports into high-value manufactures (with substantial Mauritian content). The policies also target to deepen value chains that are too Mauritian to be outsourced. Mauritius is using the COVID-19 crisis as an "excuse" for hastening its transition into a digital economy, thanks to the rise of the Fourth Industrial Revolution.

Smart industrial policy in Uganda?

In Uganda, the pre-COVID era, particularly the 1990s–2000s, was characterised by the imperialism of free-market fundamentalism. Emphasis was placed on the allocative efficiency of the market "unfettered" by strategic state guidance. The resurrection of state capacity occasioned by COVID-19 has sent the armchair economic theorists on leave. The crisis has demonstrated that a capable state (in a regulatory and/or developmental sense) is necessary for ameliorating developmental crises (such as COVID-19). Uganda registered its

first COVID-19 case on 21 March 2020 and had, by 20 February 2021, registered 40,395 COVID infections, with 15,008 recoveries and 334 deaths (WHO 2021).

However, before Uganda's "Patient Zero," the president declared several anti-COVID Stalinist measures, which were perhaps tougher than those of democratic Mauritius. All schools and universities were closed, and 15 million children sent home. Churches, synagogues, and mosques were locked up. A draconian total lockdown was imposed on 18 March 2020 and executed by the military, para-military, and police officers without any legal instrument (Interviews with Kampala Lord Mayor 2020). International flights except the cargo planes were cancelled (Museveni 2020). The state enforced handwashing in the hitherto chaotic fruit markets. Comparable restrictions were imposed on the supposedly ungovernable taxis and boda-boda cyclists.

In Uganda, as in Mauritius, COVID-19 is associated with the resurrection of the welfare state and nationalistic industrial policies whose object is to generate the wealth needed to finance welfare programmes. For example, the state offered food subsidies to roughly 1.8 million urban poor people in Kampala, Wakiso, and Mukono districts. Most of Uganda's total population of 45 million were left out. According to M.P. Ssemujju Nganda, the then Opposition Chief Whip, parliament gave the Executive "59 billion shillings to distribute food relief to vulnerable people…during the first 14 days of lockdown" (Phone Interviews January 2021).

Interviewees have faulted Uganda's food subsidies for being tokenistic. Each beneficiary received only three kilograms of dry beans and six kilograms of maise flour for a lockdown that was eased after 60 days and further relaxed after a cumulative 95 days (Interviews May 2020). That "there was a systemic failure in the targeting of the rightful beneficiaries, with some of the food stolen by corrupt officials" is not debatable (Phone Interviews, NGO Forum, May 2020).

What is relevant here is simple – the resurrection of the welfare state (and the associated industrial policies). The authorities used US$1.3 million from the Contingency Fund in FY2019/20 to finance the Ministry of Health Preparedness and Response Plan. On 6 May 2020, Uganda secured US$491.5 million in emergency financing from the IMF under the Rapid Credit Facility. Of this, 30% was budget support and 70% for "boosting international reserves" IMF style. On 29 June 2020, the World Bank also approved US$300 million budget support under the Uganda COVID-19 Economic Crisis and Recovery Policy. Budget support has two country-specific problems. It is vulnerable to theft by state elites (Kelsall et al. 2010). Moreover, donor funds stress an already high debt/GDP ratio (currently 41%), worsening interest repayments that siphon off 11.58% of the 2019/20 budget to pay Uganda's "friendly" donors. Agriculture, which employs 69% of Ugandans, was allocated only 3.75% of the budget. Smart industrial policies would trump budget support as a source of sustainable financing.

Five smart industrial policies are worth documenting in Uganda's case. First is hard infrastructure (as a tool of industrial policy). In orthodox economics, dogmatic state officials block significant infrastructure investments, arguing that the costs involved dwarfed the return on investment. Uganda's huge infrastructure deficits became a disincentive for industrial manufacturing. For example, only 26% of Uganda's 45 million people are currently on the national electricity grid. By the mid-2000s, and especially after the 2011 elections, elite preferences had tilted in favour of roads and energy infrastructure. Elites' interest in infrastructure predates COVID-19. The effect of the pandemic has been to galvanise elite commitment to the Works and Transport Sector. This sector received 16.10% of Uganda's 2018/19 budget of Ugx29.2 trillion and 16.57% of an even larger 2020/21 budget of Ugx45 trillion. The state has maintained its high budgetary allocations to hard infrastructure due to its significance as a new industrial policy tool.

The second smart industrial policy initiative is institution-building. To provide concessional loans for key industries, the Uganda Development Corporation (UDC) has been recapitalised to the tune of a Ugx100 billion. The Uganda Development Bank (UDB) has received an even larger allocation of Ugx1 trillion. To cater for the micro, small, and medium enterprises (MSMEs), the Microfinance Support Centre has also been recapitalised. Additionally, the government is boosting funding for the Uganda Industrial Research Institute in the 2020/21 budget. In theory, these funding arrangements have opened up a new chapter of state-backed, affordable credit. In practice, the loans are inaccessible to the MSMEs, which account for over 90% of private firms in Uganda (MoTIC 2020).

The third variant of smart industrial policy is the investment in industrial parks, 22 of which have been gazetted. Like the EPZs of China, these parks attract foreign capital by offering free land, tax holidays, and subsidised energy. For example, Liao Shen Industrial Park was set up at Kapeeka near Kampala in June 2015 on a 640-acre piece of land. The industries in the park include Yahe International Investment Company (a maize factory), Ho and Mu Fruit Factory, and Goodwill (U) Ceramic Company which employs 2000 semi-skilled Ugandans, with a capacity of 40,000 square metres of tiles per day (Masinde 2020). The factory, which started in April 2018 with an investment capital of $30 million, saves Uganda $35 million that would have been spent on imported tiles.

Fourthly, Uganda is accelerating import substitution industrialisation under the Buy Ugandan, Build Uganda (BUBU) policy. This policy upholds older institutional arrangements such as the Public Procurement and Disposal of Public Assets (PPDA) regulations, which operationalised the PPDA Act, 2013. Under these regulations, the government is obligated to give local industries preferential treatment when procuring goods or services. The effect of COVID-19 was to provide a sense of urgency to these nationalistic industrial policies.

Important as they are, the preceding policies pale compared to the presidential directives on new industrial policies. In his State of the Nation Address of 4 June 2020, Museveni distinguished between the "vulnerable economy" and the "real economy." The vulnerable economy (which failed the CIVID-stress test) is the economy of leisure, pleasure, and luxurious consumption. Sectors of the luxurious economy include tourism, entertainment, bars, nightclubs, and luxurious imports (of perfumes, wines, and other parasitic products to the national economy). The real economy arguably "deals with nine (9) basic human needs" – food, clothing, shelter, medicine, security, physical infrastructure, health infrastructure, education, and, surprisingly, spirituality. Incentivised by the COVID-induced need to locally produce what was hitherto imported, the Uganda government is pushing for a structural shift from luxurious imports to the importation of capital goods; from parasitic foreign products to local industrial products; from dispensable sectors to indispensable domestic manufactures (MoTIC Interviews, January 2021). Table 54.1 summarises criteria that have been developed by Uganda's National Planning Authority (NPA) for smart industrial policy.

A critical analysis informed the selection of these criteria of Uganda's imports. Between 2010 and 2019, Uganda's imports increased by 66.2% and stood at US$6,186.14 million in 2019. Uganda's top ten imports account for 60% of the total import bill. They include petroleum and related products, vehicles, iron and steel, medical and pharmaceutical products, plastics, industrial machinery, electrical machinery, and paper. Service imports account for 30% of the import bill, with four accounting for 90% of the total services bill. The breakdown is as follows: transport (55%), business services (24%), travel (7%), construction (4%), and others (10%). Thus, Uganda's COVID-induced industrial policy has ten key investment priorities (see Table 54.2).

Table 54.1 The ten-point criteria for smart industrial policy in Uganda

• Highly imported; foreign exchange lost	• Essential commodity or service
• Existing domestic production capacity	• Job creation potential
• Domestic raw materials	• Multi-sectoral linkages
• Needed technology	• Relatively low capital requirements
• Strategic importance	• On-going government investment

Source: NPA, Import Substitution Action Plan, 2020/21–2022/25.

Table 54.2 Priorities for Uganda's new industrial policy

• Petroleum and petroleum products	• Vegetable fats and oils
• Iron and Steel	• Textiles
• Medical and pharmaceuticals	• Sugars to feed industry, e.g. medicines
• Cereals (food and industrial inputs)	• Salt for domestic use and animals
• Plastics (chemicals industry)	• Fertilisers

Source: NPA, Import Substitution Action Plan, 2020/21–2022/25.

The Import Substitution Action Plan of the NPA has specified, on an item-by-item basis, the actions that will be taken for the priority sectors. The costs involved and whether funding will come from the public sector or private investors are also itemised. Never, in neoliberal Uganda (the 1980s to date), has the country ever developed such a detailed industrial policy agenda. A key beneficial impact of COVID-19, it would seem, is its ability to teach state elites that an import-dependent economy is unsustainable. The solution lies in smart industrial policies.

The coevolution of pro-development elite preferences and new pharmaceutical industries is worth noting. In March 2020 (when the lockdown commenced), Uganda had only two sanitiser-making factories – Saraya East Africa Limited and the Luwero Industries. By June 2020, 107 factories were established. Before COVID-19, no factory was making masks in Uganda. When a global shortage was reported, the government directed factories such as NYTIL to make masks. In response, 61 factories applied to manufacture masks, but only 10 were certified. When the global demand for PPEs outstripped supply, the government directed local factories, including Mulwana, to produce PPEs. These industrialists "have risen to the occasion and... are producing the PPEs" (Museveni 2020).

What raises anxiety is that most privileged industries are already beneficiaries of generous government incentives (such as tax holidays or land grants). Second, most of them are foreign-owned. No clear policy has been developed to guarantee technology transfer into the domestic political economy. Moreover, companies such as NYTIL won lucrative government contracts to manufacture face masks without competitive bidding. This has raised concerns over crony capitalism.

Conclusion

This chapter has documented the unintended industrial policy dividends of COVID-19. It has demonstrated the primacy of states, rather than markets, as the mitigators of existential threats. States have rediscovered state capacity to replace the pre-crisis era's expendable imports with indispensable priorities (such as locally manufactured face masks). However, the chapter cautions against simplistic cause-effect analytical claims. In both Mauritius and

Uganda, the new industrial policies were not necessarily birthed by COVID-19. The crisis simply catalysed elite commitment to industrial policy by (a) stifling resistance to reform and (b) creating a raison d'etre for resource commitments to new industrial policies given the COVID-induced existential threat. Even then, COVID-19 has deepened an already existing culture of value-added manufacturing in Mauritius. In Uganda's case, the new industrial policies are mediated through deep-seated patronage politics. The pandemic has not uprooted corruption; it has only subjected patronage politics to larger developmental goals (thanks to the ageing and sickly ruling elite who can no longer board planes to get overseas medical treatment). The emerging conclusion seems clear. COVID-19 has had positive albeit unintended beneficial impacts in both Mauritius and Uganda. The pandemic has created an opportunity for liberating the state from market fundamentalism and reactivating smart industrial policy. This lends credence to Albeit Einstein's theoretical proposition: in every crisis lies great opportunity.

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