Industrial Growth and Policy in Zambia: Lessons from South Korea

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Abstract
This paper discusses the divergence in industrial growth for two countries Zambia and South Korea and tries to draw lessons from South Korea for Zambia's industrial policy and strategies that leads to industrial transformation and job creation. The conceptual framework argues that South Korea having evolved into a developmental state was fundamental to its transformation to an industrial state while Zambia failed to advance beyond the development state status.

Keywords: Industrial policy, youth unemployment, industrial growth, state ownership, agribusiness and employment creation

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1. Introduction

Industrial policy is not a new concept in developing countries in Sub-Saharan Africa (SSA). During the 1960s these countries undertook rapid industrialization mainly via import substitution policies with strong State intervention. But by the end of the 1970s and early 1980s, there was an interruption in the industrialization process following the adoption of the Washington Consensus policies of the World Bank and IMF. These policies restricted State intervention and argued for free markets. There is however evidence from some developing countries in Asia and Latin America who have managed to stimulate economic development with industrial policy. This has pushed industrial policy back at the centre of the agenda in developing countries in SSA. Theoretically there is good ground to argue that industrial policy plays an important role in the economic development of a country. There is also evidence from countries where industrial policy has played this role.

Zambia has seen robust growth and increased Foreign Direct Investment (FDI) inflows over the past decade. In contrast, manufacturing output has collapsed, and employment creation has been sluggish. Manufacturing value-added as a percentage of Gross Domestic Product (GDP) grew from 9% in 1965-1970, to 21.6% in 1977-1993 and collapsed to 9.2% in the 1994-2013 period. Unemployment has remained high. It averaged 15% over the past two decades (World Bank, 2014). New jobs are only being created in the informal sector. In 2014, this comprised 89.3 % of total employment. Youth unemployment has remained high. This was 26 % in 2014 (World Bank, 2014). The large and growing youthful population continues to pose serious socio-economic challenges. There is need to boost industrial growth and create jobs to absorb the increasing number of youths that will be seeking employment. The creation of high-quality jobs for the youth requires innovative industrial policy by policymakers.

Innovative industrial policy has the potential to contribute to employment creation. However, the lack of diversification of the economy has discouraged the development of other sectors like manufacturing and services. These are labor intensive and have the potential to create new job opportunities. Industrial policies that support a range of activities increase the potential for structural transformation and job creation (Rodrik, 2010). This is exhibited by the decline of low-productivity agriculture and low value added extractive activities and an increase in manufacturing and high-productivity services sectors.

The purpose of this paper is to draw insights from South Korea on industrial policy that led to industrial transformation and job creation. It looks at an industrial policy that focuses on job creation and the role of the State. The rest of the paper is as follows. In Section 2 we look at the conceptual framework. We look at employment and industrial growth in section 3 and 4 respectively. We have an overview of industrial policy in section 5. We draw comparative lessons in section 6. Finally, we conclude the paper in section 7.

2. Conceptual Framework

Sixty years ago, Zambia and South Korea where at the same level of development with Zambia slightly better off in terms of GDP per capita. However, South Korea has been able to transform itself into an industrial state while Zambia is still struggling in the ethos of sluggish industrial growth, extreme poverty and inequality. South Korea

emerged from a low-income agrarian economy with a per-capita income (US$87), lower than that of Zambia (US$500) in 1962 to an industrialized economy within two decades. It grew rapidly between 1962 and 1980 (World Bank 1993; Kim, 1985). By 1996, it had joined the Organization for Economic Corporation and Development (OECD).

South Korea achieved its industrialisation when it evolved into a developmental state while Zambia failed to advance beyond the development state status (Seshamani & Ndhlovu, 2016). There are two aspects of a development state. The state must have developmental structures and a development role (Vu, 2007; Routley, 2012; Mkandawire,2001; Mkandawire, 2019). The developmental structure consists of a stable, cohesive bureaucracy, and effective coercive institutions. The State must further exhibit developmental roles that would prioritize pro-growth policies. Policies that would lead to the growth and re-structuring of industry (Vu, 2007). This would allow for dynamic industrial policies to emerge.

Our argument is that, South Korea evolved in to a full development state with developmental structures and the state playing a development role. On the other hand, Zambia had developmental structures but failed to nurture development roles. The lack of development roles made it difficult for Zambia to develop a dynamic industrial policy thus got stuck in traditional import substitution activities for the growth process. In other ways, the State in Zambia succeeded in building developmental structures but failed to embrace pro-growth policies. The constellation of forces and interests that prevented the emergence of pro-growth policies in Zambia should be a subject of intense research.

The developmental role of the State in South Korea nurtured a dynamic industrial policy. A role that managed to produce pro-growth policies in respect of youth unemployment, the design of sector policies and institutions and agribusiness. Pro-growth policies could only emerge under conditions of a full-blown developmental state. Industrial policy are a set of measures that promote structural change. These are tailored to the peculiarities of the country and transforms it from primary to value added and diversified production. Experience from South Korea show that industrial policy is important for structural transformation. This is despite failed industrialization attempts in Sub- Saharan Africa.

Broadly, "industrial policies refer to restructuring policies in favour of more dynamic activities, regardless of whether those are located within industry or manufacturing per se" (Timmer, et al., 2012). Industrial policies must not only concentrate at exploiting a country's comparative advantage but support activities that will stimulate development and create new jobs (Rodrik, 2010). In South Korea, the State provided incentives, import protection and promoted industries that had a high growth potential. This gave the private sector the incentive to start new industries. Admittedly some of these industries grew and some failed. However, structural change was accelerated towards more productive and dynamic activities in the economy (Altenburg, 2011). This was the basis of industrial growth. The emergence of a dynamic industrial sector that generates jobs and enhances backward and forward linkages in the economy.

The United Nations Economic Commission for Africa (UNECA) has argued for a dynamic industrial policy in African economies (UNECA, 2014). The role of the State

herein is important. It is to nudge the private sector to generate industrial growth (Kim, 1985).

To enable dynamic growth to emerge, industrial policies must be designed to meet three core principles (Rodrik, 2010). These are: first, a state of the mind rather than outlines of objectives. This suggests an interactive policy formulation process between the State and private businesses to create "social capital" conducive to investment. The embedment of the State in the private sector is essential for sharing ideas necessary for the State to improve its policy interventions for the private sector to flourish (Ndulo, 2015). The interaction helps in identifying the requisite state interventions that largely depend on the level of development and nature of the industry. For this to succeed requires active policies that provide incentives, direction and coordination within policy makers, the private sector and between them.

Second, policies should be anchored on special incentives that have well defined access rules and output indicators (Rodrik, 2010). This should provide a combination of incentives and compulsion. Incentive systems for new investors must be temporal and optional. Failure to meet objectives must attract punishment. The intensity of such carrots and sticks could differ across industry and overtime. Several incentives ranging from tax holidays, subsidies and trade-based incentives could be given. Third, an industrial policy cultivates a favourable environment for growth and development benefiting the entire society as opposed to a few privileged bureaucrats (Rodrik, 2010). This requires an accountable and transparent process of implementing industrial policy. These three core principles underpinned the pro-growth policies in South Korea. Consequently, industrial policy was able to nurture specific pro-growth policies which addressed key constraints that were inhibiting industrial growth: youth unemployment, the design of sectoral policies and institutions and the problems of agribusiness.

On the other hand, although, the State in Zambia pursued policies and strategies to foster industrial growth over the years, it had a poor record of nurturing and developing specific and viable strategies to realize the opportunities inherent in the key constraints that were inhibiting industrial growth. Youth unemployment is a serious problem in Zambia. A sustainable industrial policy should foster sustainable youth jobs. How did South Korea approach the problem of youth unemployment? What different mechanisms were used to create sustainable jobs? How did the youth get the right skills for industry and avoid a skills mismatch? Zambia faced challenges on the design of sectoral policies and institutions to foster private sector growth. The State identified key sectors for growth. It has, however, failed to realize opportunities inherent in the identified sectors. This is either because of the lack of viable strategies or lack of institutional capacity and political will. How did South Korea support specific sectors of the economy? How was State support linked to industrial growth and job creation? What mechanisms were used to reduce rent seeking, weakened governance, government failures and corruption?

The interface between agriculture and agro-based industries is important for real growth. It is labor-intensive and has strong linkages in the economy (UNIDO, 2012). One sector that can promote the interface is the agribusiness sector. This can create employment and generate incomes along the value chain from the primary producer to the consumer (GRZ, 2006). Therefore, understanding barriers to agribusiness and what South Korea did to overcome them is important.

3. Employment in Zambia

The Zambian economy suffers from a severe unemployment problem manifested by limited employment opportunities in the formal sector and a burgeoning informal sector. Formal sector employment has risen by 257.5% since independence in 1964. This is against the backdrop of a rise in the total population of 280.6 % (CSO, 2013). Inevitably, there has been a sharp rise in the labor force and its participation rate over time. This scenario suggests that employment has not risen enough to keep pace with the rise in the labor force—there has been increased unemployment over time. Most new jobs are in the informal sector. These are temporal and of a poorer quality than formal sector jobs. To understand the employment situation over time, we analyze it in terms of four discernible episodes since independence (Chansa, et al., 2016).

In the first episode, 1964-1984, employment increased by 37% boosted by robust growth. The State implemented an import substitution industrialization (ISI) programme (Seidman, 1974; Ndulo, 1979; Fincham, 1980). This saw many jobs created in state-owned enterprises (SOE). However, as the ISI programme faltered, the jobs began to disappear (Ndulo, 1979; Fincham, 1980). The second episode, 1985-1992, saw a sharp spike in employment levels as the State tried to reboot the ISI programme through initiatives such as "growth from own resources" (Kayizzi-Mugerwa, 1990). This implied using domestic resources to resolve the faltering economic growth. During the third episode, 1993-2003, the State implemented economic reforms, initially hesitantly but later hastily. This saw many SOEs close down with widespread job losses. There was a brief period, 2000- 2003, characterized with declining employment and rising GDP growth. One possible explanation for this was the revival of the mining sector as copper prices surged (Chansa, et al., 2016). This drove GDP growth. Employment in the mines was rising but declining in other sectors, particularly services. Employment data shows that over this period employment in the mining sector increased by 39 % while that for construction and services declined by 75% and 21% respectively. Thus, overall employment declined despite the rise in GDP.

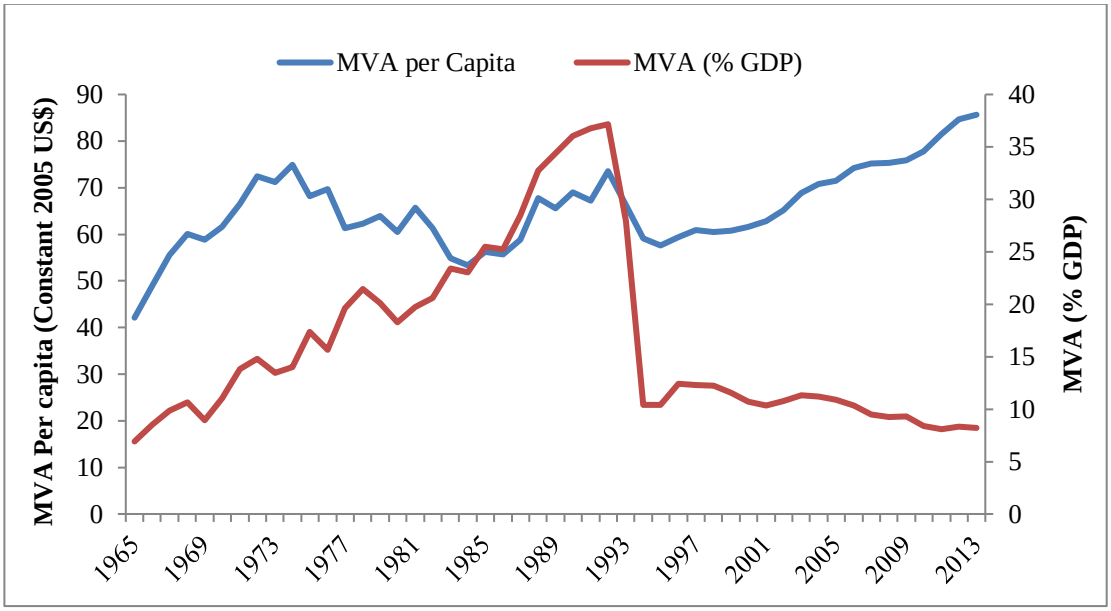
The fourth episode, 2004 – 2012, exhibited an overall rise of 74% in employment. This impressive rise coincided with the return to robust growth with real GDP growth at 6.9 %. The mining sector drove the growth. The rebounding of copper prices reversed the fortunes of the sector with economy-wide spillover effects. When we decompose employment by sector, we notice that employment has largely been driven by the services sector (Chansa, et al., 2016). For instance, between 1985 and 2014, employment grew in all sectors of the economy. The sectors that exhibited strong growth are electricity, wholesale and retail trade, and finance (Chansa, et al., 2016). In most other sectors, employment contracted. Construction experienced the largest contraction at 51.6 %, followed by transport at 36.2% and manufacturing at 24.8%.

It is notable that manufacturing contributed 14.2% to total employment during the 1985-1989 period. Services and agriculture contributed larger shares at 29.8% and 15% respectively. In 2014, the share of manufacturing in total employment dropped drastically to 8.1 %. Since then, it has been overtaken by wholesale and retail trade. The trend shows that the contribution of manufacturing to total employment has declined gradually over the period. This decline is partly explained by the failure of the ISI programme alluded to above and further elaborated below.

4. Performance of the Industrial Sector

The performance of manufacturing echoes the trends above. The MVA as a percentage of GDP rose steadily between 1964 and 1992. It then fell sharply due to the collapse of the ISI programme and the consequent closure of many firms. This is shown in Figure 1.[1] Both output per capita and as a percentage of GDP shrunk. It was much more pronounced as a percentage of GDP. While MVA contracted by 68.5 % in the 1992-1994 period, GDP expanded by 12.6 %. MVA per worker has been on an upward trend since 2000. This is exhibited in Figure 2. This suggests that average productivity of manufacturing labor has steadily grown.

Figure 1: MVA per Capita and MVA as a percentage of GDP in Zambia: 1965-2013

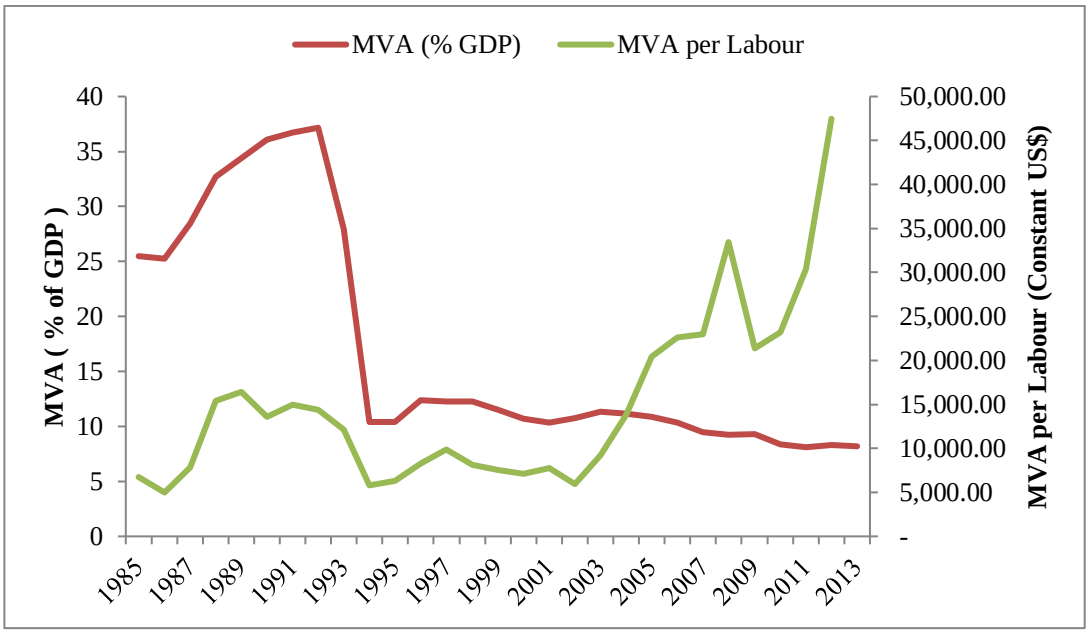


Source: ***World Bank World Development Indicators***

However, the two trends seem to be moving in divergent directions since 1995. While MVA per capita returned to its upward trend, MVA as a percentage of GDP continued to decline. One possible explanation for this is that while MVA has grown modestly since 1995, this growth has been far outweighed by GDP growth. This caused the ratio to keep declining. Thus, the performance of the industrial sector has not kept pace with the performance of the overall economy.

[1]The manufacturing sector is composed of the following sub-sectors: food, beverages and tobacco; textile, and leather industries; wood and wood products; paper and paper products; chemicals, rubber and plastic products; non-metallic mineral products; basic metal products and fabricated metal products.

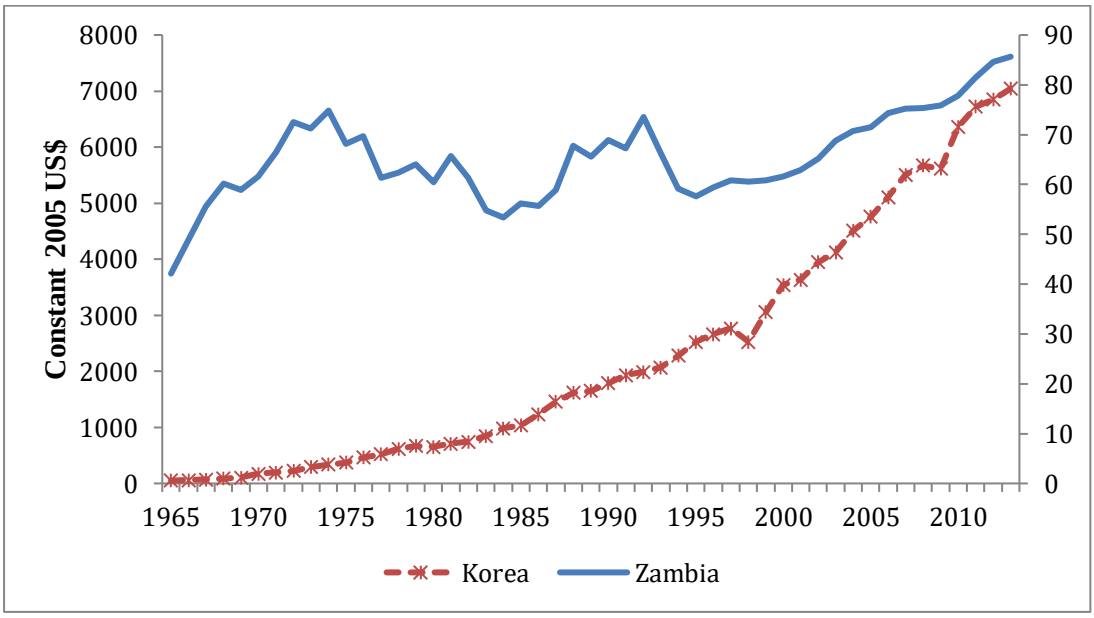
Figure 2: MVA per Capita and MVA as a percentage of GDP in Zambia: 1965-2012



Source: ***World Bank World Development Indicators and CSO Data***

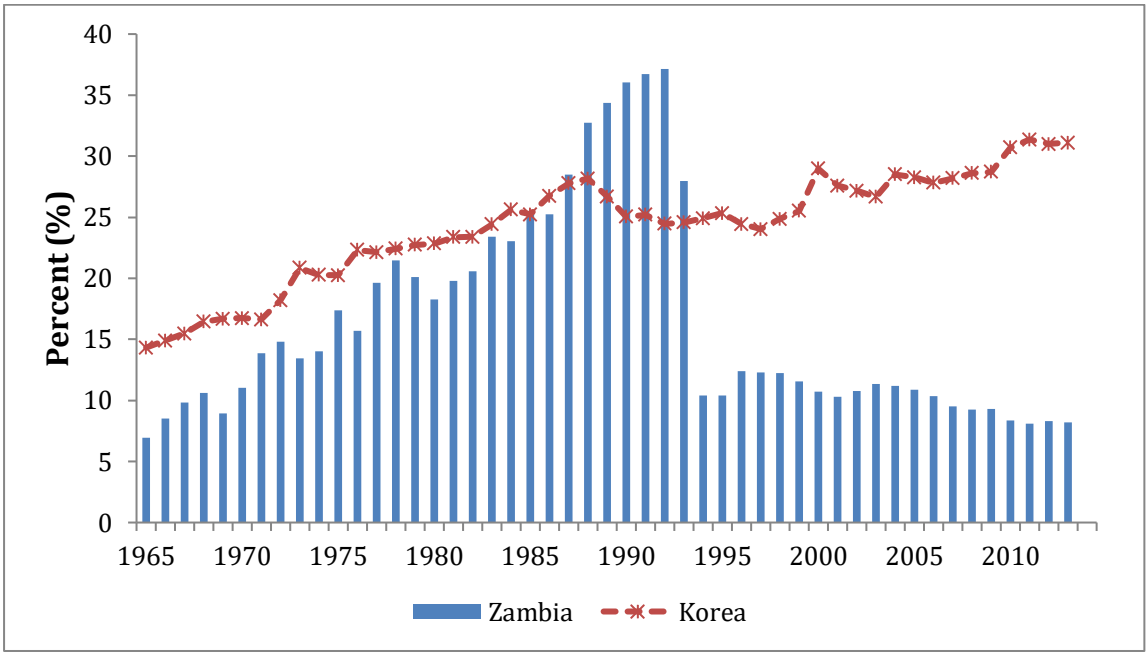
The poor performance of the industrial sector is even more apparent when we compare with South Korea. This is shown in Figures 3 and 4. Zambia's MVA is stuck in the lower echelons while that of South Korea seems to be growing.

Figure 3: MVA Per Capita for South Korea and Zambia: 1965 - 2012



In South Korea, MVA as a percentage of GDP has grown continuously. This is shown in figure 3. The growth has been based on productivity gains and strong economic performance. In Zambia, this seems to have intermittently grown during the 1980s. This was due to increased manufacturing output under ISI and contraction of GDP. Thus, Zambia's MVA exhibited larger shares of GDP in the 1986-1993 period. However, this trend reversed after 1995 following the collapse of many SOEs.

Figure 4: MVA Contribution to GDP for South Korea and Zambia: 1965-2012



Source: World Bank World Development Indicators

Industrial output in Zambia is dominated by the food, beverages and tobacco sectors. These contributed 67.6 % of manufacturing GDP over the 1994-2012 period. The remaining sectors contributed less than 35 % of GDP. The fact that this structure has persisted over a number of years illustrates the fact that the efforts to diversify manufacturing output has been met with little success. Over the same period, the share of the textiles sector in total manufacturing has declined from 13% in the early 1990s to less than 1 % in 2011 (Chansa, et al., 2016).

5. Industrial Policy in Zambia

Zambia has oscillated with policy reforms over time. Economic policies were liberal in the immediate period after independence. They turned inward- looking in the early 1970s. They turned to a virtually free market orientation in the early 1990s. In line with these changes, the country's industrial policies have varied from liberal, to state-led and back to liberal policies. The State initiated major policy reforms in 1968, These were reversed in 1991. We review the country's industrial policies since 1964 under three phases. The first phase highlights the initial industrial policies between 1964 and 1968. This is followed by an overview of the second phase between 1968 and 1991. We conclude with the discussion of the post-1991 phase.

5.1.The Initial Phase: 1964-1968

Zambia inherited a strong economy (Baldwin, 1965). It was one of the most prosperous in Africa with an average annual per-capita income of US$500 (World Bank, 2014). However, despite the strong economy, the human capital situation was desperate. There were less than a hundred university graduates and less than a thousand secondary school graduates (O'Brien, 1982). Public infrastructure was largely limited to urban areas mainly around mining towns. The economy was dominated by an industrial

enclave focused on foreign-owned copper mining, on which the high income was based[2] (Baldwin, 1965).

The manufacturing sector was small and foreign-owned. Industrial policy neglected the promotion of domestic industry. Virtually all manufactured products were imported from abroad (Musonda & Christopher, 1999; Mudenda, 2009; Hawkins,1991). To address this disparate situation, the United National Independence Party (UNIP) administration implemented the Transitional Development Plan (TDP) to accelerate development, create employment and diversify the economy away from copper (Central Planning Office, 1965). The promotion of industrial growth was a means of diversifying the economy. Industrial policy remained relatively market-oriented. The State extended loans to the private sector through the Industrial Development Corporation (INDECO). Between 1964 and 1968, INDECO expanded its loan portfolio to private firms from about K2 million in 1964 to K16 million in 1967. However, Zambian entrepreneurs were scarce and marginalized. Few had the skills, capital and experience necessary to establish successful businesses (Craig, 1999; World Bank, 1984).

The First National Development Plan (FNDP), 1966-1971, pursued objectives that emphasized the diversification of the economy, import substitution, increased employment and the reduction of inherited income inequalities between the rural and urban sectors. Resources were pushed into education, social welfare and infrastructure. However, there was a worrisome perception of exploitation by foreign entrepreneurs in the business sector. This lead to a change in the strategy of how to organize the private sector. This was justified in the official "humanism ideology", a socialist-oriented policy that focused on group ownership, redistributing income and wealth rather than growth (Makgetla, 1986; Hawkins, 1991).

5.2. The Second Phase: 1969-1991

In the late 1960s, the State was dissatisfied with the limited participation of indigenous Zambians in economic activities. The foreign owned firms re-invested little and externalized all their dividends. The experience of the few SOEs under INDECO was positive. This provided an incentive for the State to take controlling interests in existing private firms. Thus, through the Mulungushi and Matero Reforms, the State pursued public ownership of several major companies (Turok, 1979; Craig, 1999; Makgetla, 1986; Hawkins, 1991). The main thrust was to promote industrial growth through state investment and state participation. This would foster economy-wide linkages (Musonda & Christopher, 1999; Craig, 1999). The strategy initially targeted consumer goods such as food and beverages, wood and wood products, textiles and wearing apparel. In subsequent years, large scale state investments were made in sectors such as automobile assembly, chemicals and mineral products.

Under the Mulungushi Reforms, the State acquired 51% shares in several manufacturing firms. New SOEs were established. A number of firms were established in remote regions to promote rural industrialisation even if, at times, they did not make economic sense. By the mid-1970s. state involvement extended to areas as diverse as agriculture, mining, banking and finance, retail trade and tourism. Some estimates suggest that by 1991, government dominance in economic activities stood at 75% (Fundanga & Mwaba, 1994)

[2] The mines were mainly financed by capital from America and United Kingdom.

Furthermore, the State intensified its regulation of the private sector. SOEs were mandated to produce important and strategic goods. A Prices and Incomes Commission was established to control prices. Foreign-owned wholesale and retail businesses were often restricted to specific geographical locations. FDI in key sectors required government approval and licensing. The licenses stipulated conditions such as size, location and products that firms could produce (World Bank, 1984; Bhagavan, 1978).

The earlier period (1969 – 1975) of the second phase coincided with relatively high copper prices. This enabled the State to invest in industry. The initial investments spurred rapid industrial growth in consumer goods. By 1975, a relatively large share of industrial output came from heavy industries such as chemicals, mineral products, metal industries and motor vehicle assembly. Manufacturing GDP grew at an average of 11% per annum. The share in GDP increased from 6% in 1964 to 18% in 1975. SOEs contributed over 54% of the manufacturing GDP (Makgetla, 1986; World Bank, 1984; Hawkins 1991). Industrial growth during this period was spurred by increased consumer demand resulting from the State expansionary policies (Chansa, et al., 2016). The trade sanctions on Rhodesia, following its Unilateral Declaration of Independence (UDI), created effective protection to domestic industry. The import deficit stimulated domestic production to meet domestic demand (Ndulo, 2015; World Bank, 1984).

To support industrial growth the State designed a complex trade policy regime. This comprised of a mix of high and cascading tariffs (ranging from 0 % for capital goods to 150% for final consumer goods) and an import licensing system with quantitative restrictions. These policies led to the expansion of the industrial base, which was ranked third in Sub-Saharan Africa at the time (Faroutan, 1993). The growth of SOEs was associated with rapid increases in formal employment. Between 1969 and 1975, formal employment in SOEs increased at an average of 12 % per annum (World Bank, 1984). In 1975, the SOEs contributed over 50% of manufacturing employment. However, this employment trend stagnated as the economic crisis set in after the mid-1970s. It picked up in the mid-1980s.

The industrial growth had inherent weaknesses that constrained its sustained growth (Seshamani, 1994; Hawkins, 1991). First, most capital investments by SOE were import-intensive. Many industries, such as, chemicals and automobile assembly were very import intensive. They used foreign technology with limited adaptability to local conditions. This generated limited linkage in the domestic economy.

The shortage of local skilled and educated workers was a major problem. The shortage was worse at the operational and managerial levels. The companies had to rely on expatriates to manage the SOEs. With the economic crisis after 1975, SOEs could not attract and retain skilled personnel from abroad (World Bank, 1984). Most SOEs remained inefficient. They relied on State budget support and on cross-subsidization of loss making companies by profitable ones through a complex organization of holding companies. This created complacency which affected performance. The situation exacerbated in the mid-1970s, when the economy experienced adverse shocks from falling copper prices and rising import prices (Makgetla,1986; Musonda & Christopher, 1999).

Furthermore, the economic crisis reduced government revenue. The contribution of copper to state revenues fell drastically from about 51% in the period immediately after

independence to an average of 10 % between 1982 and 1991. The contribution to GDP fell from 36 % to under 15% (Musonda & Christopher, 1999). This made it difficult to sustain the loss-making firms from state revenues. Furthermore, foreign exchange shortages and the rise in import prices reduced the economy's capacity to import by almost 50% in the mid-1980s. This affected the importation of spare parts and inputs in the private sector and adversely affected capacity utilization. Worse still, the economic crisis generated an insurmountable deficit in the balance of payments. This deficit was exacerbated by Zambia's landlocked location which contributed to high transport costs (Craig, 1999; Seshamani, 1994; Hawkins 1991).

To resolve the foreign exchange shortages, the State centralized the allocation of foreign exchange. Priority was given to SOEs. This made most SOEs complacent in their pursuit of efficiency and profits (Seshamani, 1994). The consequent overvaluation of the Kwacha fostered cheaper imports of intermediate inputs and consumer goods. This effectively served as a tax that reduced the competitiveness of exports in the international market. Despite the poor performance of SOEs after 1975, the State was only concerned with maintaining employment levels. It vetoed any closures that would result in large scale redundancies. The inefficient SOEs were supported by the State to maintain employment even in difficult times. Consequently, GDP per worker in SOEs fell by an average of 14 % between 1975 and the mid-1980s (World Bank, 1984).

The poor performance was exacerbated by direct and indirect political interventions. This was done through the State and the ruling party's participation on various boards that determined investment projects[3]. For example, the industries established in remote regions were without consideration of trade costs and internal market access. This limited the competitiveness of these products in international markets. Nevertheless, the private sector remained important. It remained strong in sectors where the State did not crowd it out, although it remained constrained by the dominance of the SOEs. It had to bear similar costs as the SOEs such as low external competitiveness due to the overvalued exchange rate. It had little support from the State. The private sector was heavily taxed to support the public sector. It had far less access to foreign exchange than SOEs. Often the private businesses survived and received incentives on personal contacts with State agencies or assistance from business groups such as the Chambers of Commerce and Industry. There was no proper structure for state-private sector dialogue (Hawkins, 1991). There were no clear procedures for the private firms to access incentives.

In the early 1970s the State neglected the promotion of small and medium scale enterprises (SME). There was an effort to correct this deficiency in the 1981 SME Act. Thereafter, there was a discernible effort to support small firms in the private sector. This would boast incomes and employment (Chansa, et al., 2016). Therefore, between 1968 and the late 1980s, the State crowded out the private sector rather than complement it through the resolution of market failures and coordination of markets. Three major adverse shocks undermined the strategy. First, the deterioration of the terms of trade as result of the fall in copper prices and rise in oil prices made it difficult for the State to generate enough resources to sustain SOEs. Second, the economy suffered as a result of liberation conflicts among neighbors. The conflicts increased trade costs. Finally, the State response to the crises was to maintain consumption at

[3]Although efforts to depoliticise boards and management of SOEs were made in the 1980s, political interventions through State appointments to key positions remained rampant.

the expense of investment. It delayed adjustment and used external borrowing to resolve the crises. This resulted in the deterioration of the economic disequilibrium such as large budget deficits, unsustainable external debt, shortages of foreign exchange and inflationary pressures.

To mitigate the disequilibria, the State resorted to increased controls and regulations such as foreign exchange and price controls. It was hesitant to adjust and reform the economy. Industrial policy remained highly politicized and was not accompanied by any complementary policies such as technical skills training for industrial upgrading. The shortage of skilled labor contributed to the weak performance of the industrial sector. The business environment remained antagonistic to private investors. These received little support from the State. There was no meaningful structure for state-private sector dialogue.

5.3.The Third Phase: 1991 and thereafter

After several reform policy reversals, the State in 1989 started to implement reforms. A new industrial policy to promote the private sector was promulgated. Institutional arrangements were made to privatize almost all the SOEs. This period coincided with the re-introduction of multiparty elections in 1991 which saw a change in the administration of the State from UNIP to the Movement of Multiparty Democracy (MMD). The MMD pushed the reform agenda. This was swift and far reaching. They removed price controls to restore economic efficiency and growth in the economy. Controls on interest rates and prices were dismantled. Domestic and foreign trade was liberalised. The practice of industrial policy witnessed a drastic change (White, 1997). Industrial growth was now to be pursued through a market driven and outward-oriented strategy. Industrial licensing (except for essential registration) for all levels of private investment was eliminated. The privatization of SOEs was emphasized. The State committed itself to privatising over 200 SOEs. Many in wholesale and retail trade, tourism, manufacturing and mining sectors were privatised [4]. Budget support to loss making enterprises was withdrawn.

The 1994 industrial policy concretized the new stance. This was revised in 2010 and 2015 albeit, with little differences. The objective was to support firms that maximized the use of domestic inputs and fostered linkages within and without the manufacturing sector. The industrial sector was to contribute to the diversification of the economy through value added exports. FDI was to be encouraged to stimulate exports and induce innovation and technological transfer into the economy. Several sectors were identified as growth sectors; food and beverages, engineering products, wood products, leather, textiles and clothing (Chansa, et al., 2016).

To nurture industrial growth, the State pushed for a conducive environment. Thus, not only was trade liberalized, but capital and current accounts were opened. The tariff structure was rationalized and simplified. Several incentives such as tax holidays and low tariffs on imported capital equipment and raw materials were introduced. This was, however, done in an ad-hoc manner.

[4] The process of privatisation involves the dismantling of the corporate structures through which enterprises were held in the state sector and the development of these within the private sector. The business community that preferred privatisation was well represented in the MMD government, this made it easier to accept such radical changes.

In 2005, another industrial strategy was initiated. This focused on establishing multi-facility economic zones (MFEZ). The purpose was to make the industrial sector competitive through increased domestic and foreign investment in manufacturing for exports. The investors in the MFEZ are provided with complementary physical infrastructure, customs and tax incentives as a way of fostering industrial growth (Chansa, et al., 2016). Unlike the experience from South Korea, where the MFEZs are built on demand from the private sector, in Zambia these seem to be driven by a political agenda. There is very little involvement of the private sector. Furthermore, the zones lack a coordinated supply of complementary services such as trained manpower, power supply, and established infrastructure (Chansa, et al., 2016).

The State also established a state-owned credit institution, the Citizens Economic Empowerment Commission (CEEC), to foster the growth of locally owned SMEs. The Industrial Development Corporation (IDC) was also re-established in 2014 as a holding company of all SOEs. Its objective is to secure investment funds and promote industrial growth. The governance structure of IDC does not drastically deviate from the initial INDECO board. The board comprises influential political figures. Among them are three cabinet ministers, the Secretary to the Treasury and the Permanent Secretary at the MCTI (all appointed by the Republican President). There are some members from the private sector. The President chairs the board.

6. Comparative Lessons from South Korea

We look at industrial growth and the role the State played in promoting industrial growth in South Korea. How did the state resolve the constraints restraining industrial growth - youth unemployment, the design of sector policies and institutions and the agribusiness sector?

6.1.Industrial Policy in South Korea

Growth in South Korea was accompanied with structural change. Primary agricultural output declined from 40% of GDP in 1962 to 18 % in 1980. Manufacturing output rose from 15.1 % to 30% of GDP. Similarly, the composition of manufacturing output changed from light manufactures, such as textiles and plywood, to capital and technology intensive products such as computers and automobiles (Yang, et al., 2006; Kim, 1991).

Industrial policies were in three phases: Import Substitution (IS),1954 -1960; export strategy, 1961-1979; and the post 1980 phase (Kim, 1985; Westphal, 1990). In the first phase, the State pursued an IS strategy. This focused on making the country self-reliant, generating employment and improving the balance of payments. It built physical and human capital infrastructure. This served as a basis for subsequent industrial development. It developed labor-intensive activities such as construction of irrigation facilities, dams, road networks and other transport and energy infrastructure. These led to the development of industries producing inputs such as cement and chemical fertilizers. Low wages was the primary source of competitive advantage. Throughout this period, the IS strategy contributed about twice as much as export expansion to GDP growth (Zysman & Doherty, 1995).

The first phase was disrupted in 1961 following a change of administration through a military coup by General. Park Chung-hee. The second phase introduced an export-

oriented strategy aimed at transforming the country into an industrial economy. An Economic Planning Board (EPB) was established to coordinate the development process. The Board, chaired by the Deputy Prime Minister, served as a super Ministry mandated with national development planning, national budget and management of FDI. The Deputy Prime Minister also chaired the Economic Ministers' Council and reported directly to the President. This ensured effective coordination of planning activities. The Board employed technically qualified individuals. These had access and support from other ministries and academic institutions.

Industrial policy was anchored in the development plans that sought to achieve competitive advantage in export markets. Five-year National Development Plans (NDPs) were developed with appropriate industrial policies aimed at creating dynamic comparative advantage. Although, the early plans overlapped, the policy strategies and investment sectors changed focus in each plan. The major focus was on exports, heavy and chemical industries, manufactured exports and private sector led development (Chansa, et al., 2016).

The first plan (1962-66) focused on consumer goods. It invested in low skilled labor-intensive products such as plywood, wigs, textiles, garments, footwear, and processed foods. For most of the 1960s up to early 1970s, the production and export of these products boomed. However, because of increased regional competition and rising wages- due to excessive demand for low skilled labor, these industries began to lose competitiveness in the global market in the early 1970s. To maintain competitiveness, the strategy gradually gave way to more complex manufactures. These ranged from spare parts to assembly of standard goods supplied to foreign firms.

The second plan (1967-1971) shifted competitiveness to heavier industries. Building on the first plan, industrial policy focused on exporting intermediate inputs. It incentivized investments in heavy industries; petrochemicals, nonferrous metals, steel and shipbuilding. These grew rapidly with ready markets in Japan and Western countries. By the early 1970s, over a third of the output from these sectors was exported. Along with the learning by doing and development of the skill-intensive capital goods sector, the third plan (1972-1976) diversified exports and kept the country competitive in the global markets. More investment was directed at producing skill intensive spare parts and components. This continued to be the focus during the fourth plan (1976 -1981).

By the early 1980s, these industries could produce complete consumer products such as colour televisions, microwave ovens, video tape recorders, stereo sets and digital watches and more sophisticated durables such as electronics, automobiles and machinery. Within two decades, 1960 to 1980, South Korea acquired increased diversity in its exports and sophistication in industrial capability. Currently, the country is a key exporter of skill and technology intensive products. This success stemmed from a private sector led strategy that benefitted from careful extensive state intervention. This was done through policies that promoted competitiveness and supported specific sectors. The policy instruments ranged from macroeconomic policies to sector specific interventions. In the post 1980 period, the fifth plan (1982-1986) shifted the focus to achieving macroeconomic stability. The subsequent plans sought to create an economy with sustainable social welfare programmes. The State called back the role of policy targeting in the operation of preferential policy loans and interest rates (Heo, 2001).

The experience of South Korea is interesting. It hinged on State support to selected industries. At the plan formulation stage, the strategic needs of identified sectors were analyzed for consistency. The levels of private sector investment, complementary services and incentives to induce implementation were estimated. For example, when the National Electronics Promotion law was passed in 1969, the State established suitable industrial parks with required infrastructure (such as Kumi and Masan). It required institutes such as the South Korea Institute of Electronics Technology and the Electronics Association of South Korea to do research and adapt technology.

Design of Sector Policies and Institutions

Industrial policy focused on the transformation of the composition of output and comparative advantage of exports. The industrial structure was upgraded from labor-intensive light manufacturing to heavy and sophisticated industrial products (Haivie & Lee, 2003; World Bank, 1993). The State intervened selectively in markets to influence the allocation of resources among industrial activities. It promoted private sector industrial growth in selected sectors. The interventions ranged from licensing to provision of "policy loans". It enforced ceilings on borrowing rates to increase profits and retained earnings for private investors (Westphal, 1990; Heo, 2001). Other incentives included tax exemptions, faster capital depreciation rates, differential pricing, quantitative restrictions of imports of goods and capital. These were given to sectors deemed strategic. They radically differed over the development plans (Chansa, et al., 2016).

The incentive system was insulated from rent-seeking and disruptive behavior in direct and indirect ways. Directly, it organized institutions and enforced rules to discourage cheating and corruption. (Chansa, et al., 2016). To benefit, the beneficiaries had to meet performance indicators such as international competitiveness, domestic content requirements and targeted levels of exports. Indirectly, the State established the assurance of wealth-sharing mechanisms. This reduced the potential gain to interest groups and individuals involved in policy making and implementation since income from the fruit of growth had already been assured (Kim, 1985; Heo, 2001; World Bank, 1993).

The State established export incentives and moderate but variable protection of the domestic sector. Incentives included export credits, reduced corporate taxes, direct financing, tariff exemptions and duty-free import of intermediate inputs for exporters, and insurance guarantees against trade risks (Kim, 1991; Adelman, 1999; Lall, 1994). Reserve funds for targeted export promotion were set up.

Comparative advantage was promoted through the assimilation of imported technology. Large conglomerates known as Chaebols were used as principal agents of industrialisation and export of technologically sophisticated products. These imported trained scientists and engineers from abroad who facilitated technological transfer. The Chaebols combined production and overseas marketing to expand markets. Firms that received support but failed to meet targets were denied further access to incentives. In most cases they were sanctioned even by imprisonment. This approach of picking winners promoted investments in new products with high potential for technological spill overs (Kim, 1991; Kim, 1985; UNCTAD, 2015).

The State began to support SMEs in the early 1980s. These had earlier been neglected, despite their important role in supplying components and semi-finished goods to large firms, as a major source of employment and on the job training to recent graduates, and as a vehicle for rural industrialisation. The SMEs were provided with technical and management extension services (Chansa et al., 2016), financial support for training managers, access to cheaper credit and collective monopoly for some products such as leather products, towels and toys (Haivie & Lee, 2003; Kim, 1985; Westphal, 1990).

SOEs were set up to accomplish tasks that were deemed risky by the private sector, especially in sectors that sustained the industrial infrastructure. For example, the State invested in steel manufacturing (Chansa, et al., 2016), the banking sector and power generation. The SOEs were supervised and controlled by specialized development banks. These accounted for about 40 % of total domestic investment between 1963 and 1978. In some instances, once such industries became viable and profitable, they were privatized (Kim, 1991) as corporates who were given financial support and protection. These became large conglomerates. Having attained extensive industrialization, the State sold its shares in the banking sector to private citizens. Ceilings were set on shares to be held by single purchasers. This was to reduce monopolistic behavior. The success of the privatization process was achieved through strong state intervention in credit allocation by public commercial banks. The process resulted in the large-scale transfer of monopolistic government assets to private South Korean citizens (Kim, et al., 1994).

Industrial growth was financed through investing in special vehicle banks such as the Korean Development Bank and the Technology Development Corporation. These were sources of cheaper investment loans and research and development support to the private sector (UNCTAD, 2015; UNCTAD, 1994; Hong, 1980). Initially, the State supported Research and Development (R&D) through the establishment of infrastructure for scientific and technological institutions. This gradually shifted towards incentivizing firms to build their own training, vocational education and R&D facilities. This was essential for the promotion of technology-related industries in line with dynamic comparative advantage (Hong, 1980).

State-Private Sector Dialogue

The State was embedded in the private sector. It created a business-friendly environment. It made deliberate efforts to tackle coordination problems. It created institutions and mechanisms that reassured industry players that they would benefit from growth. Agencies staffed with competent and trusted technocrats were insulated from political interference. They served as contact between businesses and the State. Export targets were set by industry associations in concert with the State. Performance reviews through trade promotion conferences chaired by the President served as part of the tight monitoring system. Firms that failed to meet targets were punished through withdrawal of incentives. Sometimes imprisonment (Kanchoochat, 2015). The State established institutions that promoted exports such as the Korean Trade Promotions Corporation. These promoted Korean products through international trade fairs and the creation of new export markets. To underpin the support, the State pursued its policies on education and training in coordination with its industrial policies to create dynamic industrial growth. State intervention relied on consultations between the State and the private sector. This strategy benefited from earlier collaboration with Japan. The creation of Chebols followed the logic of the Japanese Keiretsu business groups

(Kasahara, 2013). This process was enhanced by large inflows of Japanese aid and FDI. This aided in replicating the Japanese development pattern in South Korea. South Korea benefited from readily available markets for its products. Initially spare parts were made with the assistance of the USA or USA trained scientists. These were made for USA firms (World Bank, 1993). This assured firms of a readily available market and enabled them to extend the production chain to final products.

Employment Creation and the State

Industrial policies fostered growth and diversified employment away from agriculture. Labor- intensive and low-skill manufacturing industries were established- wigs, textiles and plywood. This increased labor demand in the industrial sector and saw a rise in the flow of labor from the informal to the formal sector.

Between the 1960s and late 1980s, industrial policies focused on the supply-side, especially education and vocational training. These supported upgrading in education instead of merely increasing literacy rates through universal primary education and secondary education (Kim, 1991; World Bank, 1993). The education system focused on specific industrial goals and upgrading the abilities of the workers through training and vocational education. There was close collaboration among the Ministry of Education, Department of Industry, the EPB and private sector associations. Enterprise training was subsidized to foster human capital accumulation and labor productivity. The State successfully expanded the education system in tandem with the industrial human resources needs.

Industrial policy focused on job creation. This stimulated the demand for workers across industries and increased employment. Initially, wages remained low across industries. These only increased in response to market and productivity gains. Increased real wages lagged behind productivity gains. This made firms profitable (Kim, 1991). The labor markets were dynamic sustained by increased labor demand and supply of highly educated youth labor (ILO, 2012; Kim, 1991). The structure of the education system provided appropriate formal and vocational education. This made the school-to-job transition easy for inexperienced workers to adapt to the skill requirements of the growing industry.

When real growth stagnated during the 1990s the State devised counter-measures against potential largescale unemployment. It devised the Employment Insurance System in 1995. This provided institutional support to those who were unemployed (Chansa, et al., 2016). The youth unemployment problem became evident after the 1997 Asian Financial crisis when large companies went bankrupt and workers lost jobs. SMEs suffered massive lay-offs (ILO, 2012; Dao, et al., 2014). Unemployment was exacerbated by the continued increase in the number of young graduates from colleges[5]. For most of the period leading up to 2008, youth unemployment oscillated around 9% (Dao, et al., 2014).

The State, in collaboration with the Federation of Korean Trade Unions, the employers and citizens groups devised strategies to tackle youth unemployment that emerged after the 1997 and 2008 financial crises. These included increased public expenditure and employment support services. The later included jobseeker support, a Vocational Skills

[5]However, youth unemployment rate is relatively lower than is that of other OECD countries

Development Accounting system and upgrades in Work-Net information (ILO, 2012; Dao, et al., 2014).

Agriculture and Agri- business

Industrial growth was anchored on prudent agricultural policies. During the first phase (1954-1961), the State invested in agricultural programmes. These included irrigation systems, land reform, education and development of high yielding seed varieties. This increased agricultural productivity. It provided a predictable and conducive environment for new technologies and crop varieties to emerge. Farmers had a chance to realize multiple harvests. This increased output and rural incomes. The State could use the rural economy to pursue growth and equity in a complementary rather than a competitive manner.

The increased agricultural output was a basis for agricultural processing industries; textiles, food and beverages and wood products. These became leading export sectors. The dynamism of the agriculture sector and export-push contributed to the rapid rise in the demand for labor and skill-intensity of labor demand (Kim, 1991).

Increased productivity made food cheap for both urban and rural poor. Low food prices helped firms to keep wages low amid increasing productivity in the industrial sector. This strategy transformed the economy. The contribution of agriculture to GDP fell from an average of 40 % in the period 1962-1966 to 13.5% in the 1980s and 2.5% in 2010. Its contribution to employment declined from an average of 63% in early 1960s to 6.4% in 2010. For most of the period, while the green revolution and increased productivity ensured food security, the State protected the sector through import-substitution (Kim, 1985)

7. Lessons for Zambia

What are the specific lessons for Zambia? What are some of the plausible reasons for the divergence in industrial growth between Zambia and South Korea during the past sixty years? We discuss the lessons and the effect geographical location, human capital and the picking of winners and losers contributed to the divergent industrial growth patterns between the two countries.

The design of industrial policy in South Korea was an interactive process between the State and the private sector. Ideas were shared for new policies and identification of requisite state interventions. Incentives had well defined access rules and output indicators. An accountable and transparent institutional arrangement was set up to implement industrial policy. How did industrial policy resolve the major constraints inhibiting growth: youth unemployment, the design of sector policies and institutions and the support to the agribusiness sector?

i. Youth Unemployment

South Korea used different mechanisms at different times to resolve youth unemployment. It ensured that youth acquired right skills and avoided a skills mismatch. It designed strategies that overcame labor demand barriers and fostered comprehensive skills training. The youth are endowed with lower levels of tacit knowledge or know-how compared to adults. This implies that they tend to have lower

productivity than adults. This perceived lower productivity discourages firms from hiring them. In order to encourage firms to hire the youth, they have to be compensated. The State negotiated for lower wages because food was cheap and subsidized firms that employed the youth.

The State conducted skills surveys and implemented comprehensive skills training. The training initiatives involved the private sector. The State ensured that formal training was linked to vocational training and that the education system focused on specific industrial goals. It encouraged on-the-job training, upgrading of skills of workers and state-supported enterprise training programmes.

ii. Sector Policies and Strategies

There are important lessons from the pursuit of sector policies. We discuss these in respect of six major lessons learnt: the need to identify sectors to support; their co-ordination and monitoring; the opening up of new sectors; the framework for supporting SMEs; R & D investment; and the lack of institutional capacity.

There was need to identify sectors to support. Comparative advantage was the guiding principle. This required one to identify sectors to support. The argument is that in the context of a finite resource envelope, concentrating resources in a few sectors with growth potential will have a much larger impact on the economy and employment creation than otherwise.

Thus, the State gave incentives to firms in selected sectors. It set performance targets and penalties for failure to meet the targets. This instilled discipline and seriousness in the beneficiaries and deterred abuse. This experience suggests that by focusing on the economy's comparative advantage, the State can inadvertently foster labor-intensive growth that creates jobs. Sectors with comparative advantage that were labor intensive were supported. It created dynamic comparative advantage to remain competitive in the global market. It fostered a flexible labor market that provided for flexible and differentiated minimum wages. This made it easy for firms to hire workers in line with their productivity. The State promoted SMEs that were labor intensive as a conduit for the high technology industries.

Once sectors are selected they need to be coordinated and monitored. A strategy that allows for coordination and continued monitoring of supported sectors must be devised. This ensures efficiency in the implementation of the support, makes it possible for early detection of potential problems with the support process and allows for adjustments to be made. In South Korea, business councils discussed support to firms openly and transparently. Targets were publicly announced, and all the participants were expected to meet these targets.

Which new sectors do you open? Evidence from South Korea demonstrates that these were sectors where the chances of setting up a successful company by the private sector were low for a variety of reasons such as lack of expert know-how, uncertainty about markets, lack of infrastructure etc. In such cases, setting up a company for the first, second or third time may not result in a profitable venture. In other words, the rate of failure is high. In such cases, it requires someone prepared to persevere in the face of many unsuccessful attempts. Faced with such high rates of failure, the private firms are unwilling move in. In South Korea the State, in partnership with private firms, opened

new sectors. It exited as the firms became viable. Such investments were made in high capital-intensive sectors, where the private sector could not enter such as the steel industry and banking institutions. The State did not seek to replace the private sector but to complement it.

Access to credit is a major constraint facing SMEs. These are viewed as high risk clients. Financial institutions only deal with them if they are able to charge higher interest rates. This inevitably reduces the ability of SMEs to access credit. South Korea created a framework to support SMEs both technically and financially. It enabled SMEs to borrow at lower interest rates from commercial banks. It provided technical assistance through extension services and a subsidized loan application process. The State sought to provide an enabling environment to ensure that small firms survived and hence contributed to long term job creation.

Investment in R& D is critical for industrial growth. But it is costly. One needs a clear funding strategy. The State must foster experimentation, learning by doing, research and development, accumulation of tacit knowledge, innovation, technology adoption and adaptation. There are two possible approaches in organizing R&D efforts. One can focus on new inventions and technologies or one can undertake and adapt already established technologies. South Korea focused on new inventions and technologies. It established and funded research and scientific centers for R&D for new products and technologies. It sought to attract FDI in high technology sectors such as ICT. It emphasized the assimilation of imported technology and the development of own products.

What do you do in situations where there is a lack of institutional capacity? In this case the State should find mechanisms of learning from other countries. South Korea had already an existing pool of human capital. However, the State still sent people to learn from other countries like Japan and the USA.

iii. Development of the Agribusiness Sector.

How does the State identify potential agribusiness sectors? What are the main barriers to sector's growth? Which specific policies allowed South Korea to overcome these barriers? Here, there are two important lessons: the identification of potential sectors and the monitoring of incentives. The identification of potential sectors was done within the framework of comparative advantage. There was coordination between the State and the private sector in the identification process. During the initial stages of industrialization, the State ensured that agriculture produced enough food and inputs to manufacturing industries.

Secondly, barriers to agribusiness were identified. These included the access to credit and finance, lack of infrastructure such as transport and storage, lack of human capital, insecure policy environment, low mechanization and poor co-ordination. The State intervened to overcome these barriers. For instance, subsidies were provided to improve access to credit, improve irrigation systems and soil recovery. Investment in human capital was pursued in agribusiness sectors. Subsidies were provided to small scale farmers that improved their productive, managerial and entrepreneurship capabilities. The State ensured that the incentives were having the desired effect. Equally important, there was political commitment at the highest level to move the sector forward.

iv. Divergence of Industrial Growth

What are the plausible reasons that could have accentuated the divergence in industrial growth between the two countries? First, it seems that a major divergence between Zambia and South Korea occurred with the transition away from import substitution driven growth. Whereas South Korea was able to successfully shift to an export-oriented economy, a combination of factors limited Zambia's industrial competitiveness on the global market.

One of the reasons for the divergence is South Korea's progression along the manufacturing value chain from initial capital goods to value added goods. This was in accordance with the "flying geese" model (Korhonen, 1994; Lin, 2011). South Korea, it can be argued, followed the footsteps of other industry driven countries in the region. This strategy both eliminated direct competition for exports and enhanced regional linkages for the development of production techniques and technology. On the other hand, there does not seem to be an equivalent regional effect for Zambia. It seems as if Zambia, alongside many other African countries, did not deeply progress along the value chain and instead competed against each other in manufacturing the same types of goods.

Furthermore, the physical locations of Zambia and South Korea ought to have played a role in terms of capturing gains from trade. Whereas South Korea is located near the past and present economic powerhouses of the former Soviet Union, China, and Japan, Zambia had no equivalent in the region or African continent. The issue of distance, for trade, was further exacerbated by the fact that Zambia is landlocked and faced sanctions to port usage throughout its history.

Human capital development could also have been a major reason for divergence between Zambian and South Korean economies. It is true that South Korea did have a head start in focusing on education during its import substitution period, and it is also true that South Korean society has a more advanced education system in general. However, a full explanation for the difference in human capital levels between the two countries may encompass additional factors.

Perhaps an answer lies with the nature of FDI. FDI in Zambia was often externally, rather than internally, focused. Indigenous labor and technology was not trained to the level of competency, but rather mere functionality for control by external management. Although political pressures subsequently motivated the State to take a command role in the economy, its emphasis on reducing unemployment traded off with the goal of efficiency. The target was to maintain, rather than further train workers to be more effective. FDI in South Korea, on the other hand, seemed to be more nuanced and came attached with many side-benefits such as education and vocational training.

The State in Zambia and South Korea intervened in the sectoral make-ups and directions of their economies. Zambia took a broader approach with propping up SOEs, while South Korea took a narrower approach in designating target industries destined for success. The consequences made it known that while many SOEs were often burdens upon the fiscal budget and highly inefficient, South Korea was more accurate in choosing the right industries to support. South Korea also had a more flexible toolkit in supporting industries, whereas Zambia was limited to base protection measures such as tariffs and subsidies. This intervention often did more harm than good.

However, beyond differences in the two countries' deployed apparatuses for determining "winners" and "losers", the State in Zambia was quite volatile and unpredictable. Examples such as suddenly liberalizing the economy and increasing privatization of firms, as per IMF/World Bank conditionalities, may have had a detrimental effect on firms. Aside, political pressures may have also changed the nature of support toward firms from time to time. This begs the question – to what degree is it that Zambia picked the wrong "winners", and to what degree is it that Zambia did not support their "winners" enough?

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