

# GOVERNMENT POLICY TOWARDS PRIVATE INDUSTRY IN THE SUDAN

Dr. Mohammed Hashim Awad,

*University of Khartoum.*

## I. INTRODUCTION

Industrialization has become one of the main economic objectives of almost every developing country in the world. In many Latin American, African and Asian countries the need for broadening and diversifying the national economies, for solving chronic balance of payment problems, and for reducing urban unemployment and rural underemployment has induced governments to embark upon ambitious industrialization programmes. Inevitably, there is a strong preference for import-substituting and/or export-boosting industries, especially those which employ a large labour force per unit of capital and utilise locally produced raw materials. Various incentives are offered to those who wish to invest in such industries. For instance, they receive cheap infrastructural services such as transport and power, loans at reduced interest rates, and free technical assistance. They also obtain generous concessions in the form of various tax exemptions, subsidies and guarantees, and they are given various assurances against unlawful confiscations and unwarranted discrimination.<sup>1</sup>

The success with which governments met in their attempts to accelerate and guide industrial investment has varied from country to country. But, on the whole, it seems that although it has often been possible to achieve an increased rate of capital formation in industry, it has not been always possible to channel investments into the types of industries which are regarded as ideal from the national point of view. In many cases, this failure has been caused by the fact that the methods used by the planners for promoting the types of industries which they had in mind were ill-chosen. This can be inferred at least from the experience of the Sudan in this field. The present article relates and analyses in some detail this instructive experience.

We must, however, stress that we shall not be concerned here with the pros and cons of induced industrialization in the underdeveloped countries, or with the decision of the Government to promote certain types of industries and not others. All that interests in this article is the consistency of the promotional measures taken by the authorities in order to attract investors to specific fields of industrial activity with this same objective.

## II. MEANS AND ENDS

### 1. Statutory Tests and Concessions :

In 1955 the Sudan Government announced its "policy towards the encouragement of local and foreign capital in the field of industry". The announcement was the beginning of active state support for the efforts of private investors, and it was followed in 1956 by the promulgation of the Approved Enterprises (Concessions) Act, which created the machinery for the implementation of the new industrial policy and laid down the procedures by which state assistance can be obtained. The Ten Year Plan for Economic and Social Development (1961/62 — 1970/71) opened a new phase in the promotion of industrial activity in the country for it allocated the sum of £.76.3 million (13 % of the total gross fixed investment) to manufacturing industries. A comparable sum was also earmarked for the development of various infrastructural services which are essential for the growth of industry. In 1962 the Industrial Bank of the Sudan was established in order to provide medium- and long-term finance to private industries. Five years later, the Organisation and Promotion of Industrial Investment Act 1967 was passed in order to augment the assistance offered to private industry and to place it under stricter control from the centre. Also, a specialised ministry, the Ministry of Industry and Mining, was created in order to plan and regulate industrial activity.

From the start, it was clear that the state intended to be selective in its support for industrial expansion, for all its policy statements and industrial laws contained a number of criteria (sometimes called 'tests' or 'conditions') by which the industrial enterprises which deserve state assistance are determined. However, these criteria were changed more than once. When the

1955 policy statement proposed to leave the task of scrutinising the applications for state assistance to an appointed Advisory Committee, it was suggested that the Committee should follow "any criteria which it considered appropriate".<sup>2</sup> But it was also proposed that the Committee could apply the following tests :

(i) It (the industrial enterprise seeking assistance from the state) must be beneficial to the public interest.

(ii) It must have a favourable prospect of successful development.

(iii) Its function must not already be adequately covered within the country.

(iv) Initial assistance is shown to be necessary.

(v) Adequate capital and efficient management will be available<sup>3</sup>.

These criteria were reproduced in the 1956 Act except for the fourth one which was dropped. Later, the third criterion was also omitted from the Act of 1967, but this Act introduced other criteria which gave the public interest test contained in the statement of 1955 and the Act of 1956 a somewhat precise meaning. The 1967 Act replaced the public interest test by the following criteria : —

The Enterprise must (i) be of defence or strategic importance; (ii) utilise local raw materials or encourage the production thereof; (iii) employ directly or indirectly a large number of Sudanese employees and train them to replace foreigners serving in the Enterprise; (iv) make a partial or full import substitute or assist partially or fully in exportation and the saving of reasonable sums of foreign exchange; (v) assist in the establishment of new industries in the Sudan; (vi) assist in increasing the national income.<sup>4</sup>

In order to qualify for state assistance, the Enterprise was expected to pass any of these tests. Special emphasis was laid on the third test, which, significantly, was never mentioned in the documents of 1955 and 1956.

The facilities and concessions offered by the state to the industrialists also underwent several changes. The policy statement of 1955 listed a number of concessions for which the industrialists could apply, and it stressed that the list was informative rather than exhaustive. Specifically mentioned were the following concessions : depreciation to be allowed at double the normal rates; the first 5 % of profits to be exempted from the Business Profits Tax and the remainder to be taxed at half the standard rates for periods varying from two to five years according to the amount of capital employed in the enterprise; any loss occurring during the tax relief period to be treated as if it was incurred in the last year of this period; all dividends paid during the relief period to be exempted from taxation; import duties on raw materials to be reduced; finished goods to be moved on Sudan Railways at preferential rates; assured government orders to be given for prescribed periods; facilities are to be given for the entry of qualified foreign employees; information and expert advice to be offered through state agencies; protective duties imposed on competitive articles from abroad.<sup>6</sup>

All these concessions were reproduced (or alluded to) in the Approved Enterprises (Concessions) Act 1956, except for the exemption of dividends from taxes, which was completely omitted.<sup>7</sup> The remaining concessions were all retained in the Industrial Investment Act of 1967, but most of them were modified and made far more generous than before. For example, depreciation was allowed to be calculated in some cases at three times the usual rate. Also, all the profits of the enterprise are to be exempted for five years from the Business Profits Tax, and if it employs a capital of one million pounds or more the profits are to be taxed for another period of five years at half the standard rates. The Minister of Industry also could, with the consent of the Minister of Finance and Economics, restrict Government purchases to the product of a local industry even if its price exceeded that of a similar imported product by up to 15 % at the required point of delivery. The Act also contained some exemptions which were not specifically mentioned before in the statutes but were often granted to private industries. They include the imposition of a total or a partial ban on competitive imports, the exemption of machinery and spare parts from custom duties,

the reduction of rates on the electricity consumed by the enterprise, and the allocation of suitable plots of land at nominal prices.<sup>8</sup>

When we add to them the facilities of cheap medium- and long-term loans from the Industrial Bank (currently at 8½ and 9½ per cent p.a., respectively), the list of the concessions granted by the Government to private industry seems very generous.

## 2. State Assistance in Practice :

There have been numerous complaints from some industrialists<sup>9</sup> about the manner in which state assistance is provided under the Acts of 1956 and 1967. The crux of these complaints is that most of the statutory concessions are seldom granted, and that in many cases the concessions which are actually given are interrupted for no convincing reason. In particular, the local manufacturers complain that they rarely receive the security of assured government orders or continuous ban on competitive imports. There are also complaints about the lack of certain facilities, which have not been included in any of the official documents on industry. One of these is that the Government refuses to grant adequate payment facilities to the industries which it supplies with raw materials (such as cotton, cotton-seed or wheat); another is that the Sudan Railways do not give priority in shipment to the products of local industry.

Undoubtedly, many of these complaints are well founded, but it is quite wrong to infer from this, as many observers have, that state assistance to private industry is non-existent or is found only on paper. The truth is that the bulk of the concessions mentioned in the Acts of 1956 and 1967 have been automatically granted to every enterprise which came to be classified as an "approved enterprise". Almost every approved enterprise enjoys the following concessions : a plot of land at the reserve price; electric power at reduced rates; total exemption from the custom duties on machinery and the Business Profits Tax for five years; reduced import duties on imported raw materials; preferential transport rates; permission to calculate depreciation at two or three times the usual rate. The two concessions which are, understandably, conferred only in certain cases are the prohibition of competitive imports and the restriction of go-

vernement purchases to the products of local industries. Complaints from the local manufacturers have centred largely on these two concessions.

The prohibition of competitive imports is, naturally, the dream of every owner of an import-substituting industry. In the Sudan the vast majority of approved enterprises enjoy a partial protection from foreign competition, this protection being given in the form of quota restrictions or high tariffs on imported substitutes. Total prohibition of substitute imports is relatively rare. The reason for this is that the local manufacturers seldom cater for all tastes and income classes, and therefore import quotas of varying sizes have to be allowed in order to meet the demand which local industry is unable to satisfy. Sometimes, small import quotas are licensed so as to force the local manufacturers to maintain or improve the quality of their products. But, unfortunately, this policy lends itself to abuse as many manufacturers have discovered to their utter dismay. Importers were often able to exert strong pressure on the authorities in order to sanction unduly large quotas. Consequently, many local manufacturers were unable to maintain their prices, particularly when some of the foreign suppliers seized the opportunity to practice their dumping policies in the Sudanese market. However, genuine cases of hardship inflicted in this manner are few, and those who have genuinely suffered from inadequate protection include very few beside the manufacturers of textiles, cement, confectionery, pressed wood, and plastic sandals. In all these cases, the hardship was only temporary and protection was fully restored soon after their complaints had been voiced in public.

The complaint that private Sudanese industry does not receive sufficient orders from Government departments is true but misleading. Government orders from locally manufactured products are limited, but this is because apart from some foodstuffs, building materials, cloth and stationery, there are very few local manufactures which interest the public sector in this country. In some cases, foreign manufactures are preferred to local ones because of the inferior quality of the latter, or because of their excessive prices.

The main complaint which the industrialists have against the Industrial Bank is that it does not extend short-term loans, for which they have to turn to the commercial banks. But since these banks, which often suffer from over-liquidity, have been steadily increasing their loans to industry, the cause of this complaint must be something other than inadequate credit facilities. In fact, the local manufacturers are demanding that the Industrial Bank should advance short-term loans because they wish to pay a lower interest rate than the one which they pay to the commercial banks, which charge 9 % (and sometimes 10% ) per annum. If the Industrial Bank begins to advance short-term loans to private industry, it will have to charge less than the 8 1/2 % which it charges on its medium-term loans.

In our opinion, the industrialists are on a far more solid ground when they direct their criticism to other aspects of the Bank's lending policy. For instance, they can claim with great justification that the capital of the Bank, which has yet to reach the authorised limit of LS.3 million, is too small. During the first five years of its life, which roughly coincided with the first half of the Ten Year Plan, its total advances did not exceed LS.1.6m. at a time when industrial investment was expected to reach about LS.26 million. The Bank further limited the impact of its loans on industry by shifting its facilities to medium-size enterprises away from small-size ones, and by lending too much to each enterprise. Nearly 54 % of the loans went to 13 large enterprises, each receiving more than LS.40,000, while 36 small enterprises obtained less than 7 % of the total advances, the share of each being less than LS.5,000. The average contribution of the Bank in the costs of the projects which it financed was 48%, which is not far below the maximum of 60% which is specified in its Act.<sup>10</sup>

It thus seems that the local manufacturers have some genuine complaints about the manner in which state assistance is extended to them. But the defects in state assistance do not justify the exaggerated claims that this assistance is imaginary.

### **3. Defects in the Industrial Policy :**

The policy of the Sudan Government seems to suffer from some fundamental weaknesses which has led to various undesi-

able developments in the country's industrial sector. One of the least understandable aspects of this policy is the abandonment of the principle that state assistance shall be given only in the cases where «initial assistance is shown to be necessary». This principle which was embodied in the 1955 policy statement was omitted from the Acts of 1956 and 1967. No reason has been given for this omission. Thus, between 1956 and 1967 state assistance was given to every enterprise which successfully applied for classification as an approved enterprise. From 1967 onwards the Ministry of Industry became the sole licensing body for most industries, and the assistance provided by the 1967 Act became available to every licensed enterprise.

The decision to extend assistance to every enterprise irrespective of whether it needed this assistance or not is hard to explain. The only possible explanation is that the state wants to divert more resources to industry than the current marginal efficiency of capital in this and other sectors will permit. If this is the real reason, it remains to be proved that the diversion of national resources to industry is in the public interest.

Another weakness of the industrial policy in the Sudan is the practice of piecemeal examination of the applications for assistance which the Ministry receives from industrial enterprises. Each application is examined separately and in the order in which it is received. If the applicant enterprise convinces the Ministry that it can pass any one of the tests specified in the Act, it is given all the assistance available under the Act. Thus, there is no preferential treatment for an enterprise which satisfies a large number of requirements. All the enterprises receive the same assistance, the first one to get it being the first one to apply for it. Consequently, the first industries to be established are not necessarily the most desirable from the national point of view. In fact, the investors will be attracted to those industries whose structure permits them to make the most out of the concessions granted by the state.

The results might have been different if state assistance was distributed in proportion to the contribution made by each enterprise to the national economy. This contribution can be roughly measured by the number of tests which the enterprise passes,

and how well it passes each test separately. The same result would have been achieved if, instead of scrutinising and accepting or refusing each application for assistance separately, all the applications received within a specific year were grouped and arranged according to their social desirability before the assistance is distributed among them. If the assistance is limited and the manufactures have to compete for it there will be a move towards the industries which serve the national interest best. Unfortunately, the relative desirability of the industries from the national point of view is not taken into account; nor is there a clear limit for the amount of assistance offered to industry during the year. In fact, the implication seems to be that all industries deserve maximum aid, and that there shall be no limit to the resources put at the disposal of the manufacturers.

Another weakness in the policy adopted by the state towards private industry in the Sudan is the tendency for greater dependence by industry on state assistance. It is noticeable, for instance, that the Acts of 1956 and 1967 allow enterprises which have already been operating profitably to obtain aid from the state so long as they satisfy any of the conditions mentioned in these Acts. Also, when additional concessions became available to industry under the 1967 Act, the enterprises which had already received concessions under the 1956 Act became also automatically entitled to the new concessions. Besides, most of the concessions granted to industries are offered on a continuous basis and are not limited to the early years of the industry's life or to the pioneer firms. State assistance in the form of relief from custom duties on machinery and raw materials, cheap electricity and transport rates, protective tariffs and quota restrictions, and cheap loans for expansion are all granted for an indefinite period of time. New enterprises established in well-trodden fields are given the same privileges as the pioneer ones "in order to enable them to compete with them on an equal footing".<sup>11</sup> The result is that some of the enterprises which have been established in the inter-war period without state assistance are still regarded as infant and have received an increasing number of concessions. These enterprises include a number of soap, oil, cheese and salt factories.

It appears, however, that the authorities may have little choice in this matter. Having sanctioned the commitment of considerable amounts of scarce resources in industries whose ability to survive without state assistance they have not ascertained in advance, the authorities find themselves obliged to continue to help these industries so long as the benefits of continuing the help exceed the costs. The manufacturers themselves are aware of this and they often exploit the inability of the state to assess their real dependence on its assistance as well as its fear of swelling the numbers of the unemployed to demand far more aid than they really need.

All these defects in the policy towards private industry in the Sudan are bound to produce industries which are very different from what the policy-makers were hoping to establish as suggested by the tests which these industries are expected to pass. In the next part of this article we shall try to demonstrate that in many cases the actual results produced by this policy have been the very opposite of what has been anticipated.

### III. THE RESULTS

#### 1. Import Substitution :

Nearly all the industries in the Sudan are of the import-substituting type, and this is, perhaps, no less the result of the type of assistance which the state offers to the manufacturers than it is the inevitable product of the early stage of industrial development through which the Sudan is passing. The experience of most of the industrial countries suggests that production for the home market is an essential step before production for foreign markets begins. When applying for assistance, manufacturers usually state that exportation is their ultimate goal. Many of them seem to believe genuinely that by producing first for the home market they can learn enough to enable them to enter the world markets. The edible oil industry is a good example of a Sudanese industry which first became established in the local market and then began to export a growing surplus to other countries. There were other industries which had some success in the markets of some neighbouring countries, which, unfortunately, did not last for long. One of these was the match industry which used

to export some of its surplus to Ethiopia and Central Africa; but this industry lost most of its foreign customers due to the establishment of match industries in the neighbouring countries or to the deterioration of the diplomatic relations with these countries in recent years. Undoubtedly, this and other industries will be in a better position to export their surplus production if the Government succeeds in concluding trade agreements, similar to those concluded with Lebanon and Syria, which permit Sudanese manufactures to enter the markets of the other countries on a preferential basis. Gaining access to the markets of other developing countries through bilateral agreement may induce our industrialists to establish essentially export-oriented industries .

At present, the investors are clearly inclined to establish import-substituting industries, and one of the main reasons for this is the type of concessions which the state is offering them. It is evident that the concessions which are desired most by the manufacturers — including tariff and physical control of importation and assured Government orders — can be granted only to the industries which produce for the local market. The manufacturer who produces for a protected local market and has a long-term contract to supply the Government enjoys market security and feels immune from any external pressure for improving the quality of his product or reducing his costs of production. If he produces for a foreign market, he is likely to lose all these advantages, particularly since the Government does not grant any special subsidies to the exporters of manufactured goods. The only export subsidy we know of is the one which the Government used to pay to the Sudan Salt Company in order to enable it to export common salt to East Africa at reasonable prices. But this subsidy was stopped years ago and the result was the loss of this foreign market to other Middle Eastern competitors.

It cannot be said that export-oriented industries are inherently superior to import-substituting industries, but their prospects of expanding are generally believed to be better than those of the latter since they are not equally constrained by the growth rate of the local market. Besides, the competition which they meet in the world markets from similar industries in other

countries forces them to improve their performance and, in the long run, ensures that the industries which take root in the country are those in which it enjoys a clear comparative advantage over other countries. The sums of foreign exchange which such export-oriented industries earn are likely to be greater in the long run than those which import-substituting industries save.

## 2. Declining Competition :

The authorities have often stated that « monopoly is not allowed ( in industry ), and that the field of activity for a particular industry is not considered to be ( fully ) covered until enough factories go into production and satisfy the market requirements »<sup>12</sup>. In spite of such statements, monopoly is quite widespread in the industrial sector of this country. Indeed, it appears to be spreading even further and, far from working to suppress it, the Government seems to be assisting its growth whether intentionally or not. Perhaps, this is partly inevitable in a country like the Sudan where the local market, which is either narrow or divided, is often too small for the output of the optimum industrial unit, or even that of the unit with the minimum technical size. Consequently, there are numerous « natural » monopolies which cannot be easily eliminated. However, it appears that very often producers are inclined to use large units which they operate at below capacity ( in spite of the availability of units of smaller sizes ) because of the scale economies involved are substantial, notwithstanding the diseconomies of excess capacity, but also because the existence of surplus capacity can help to convince the licensing body that the field of activity concerned is sufficiently covered. Excess capacity can be maintained indefinitely by raising prices as demand increases. Industries which consist of several firms can agree to create excess capacity in this manner in order to convince the authorities to block potential competition. Thus, monopoly is ( paradoxically ) encouraged by the rule that new licenses will not be stopped unless the field for which applications are received is adequately covered by the existing firms.

The Sudan Glass Factory and the refinery installed by Shell and British Petroleum at Port Sudan are examples of industrial enterprises which seem to be fully protected, at least for the time being, from potential competition by their ability

to meet the requirements of the national market while working well below capacity. Similarly, the ice manufacturers in the Three Towns are now quite immune from new competitors after having installed far greater capacity than is needed in order to meet the local demand for ice at the going prices; the municipal authorities have long declared this field fully covered, and a cartel has been operating openly in this industry since 1965. In some cases — for instance, the match industry — the declaration that the field is adequately covered by the existing firms has led to the amalgamation of the firms of the industry and the creation of a unified monopoly. In the fields where local production had to be supplemented by imports, there has been a tendency for the local manufacturers and the importers to merge together in order to monopolise the market : this occurred in both the cigarette and paint industries. Unlike the monopolies which appeared in the fields which were declared to be fully covered by the existing firms, this latter type of monopoly is not the result of state intervention in industrial activity. Indeed, this type owes its existence to the failure of the state to intervene when the time came for it to honour its promise to preserve competition wherever it was threatened with extinction.

The Act of 1967 does not contain the condition that in order to get a license the applicant must find a field which is not already covered fully by the existing firms. This omission may be the result of the criticism that this condition can lead to inefficiency and monopoly in the industries where it is invoked since it denies entry to new firms which seek to introduce newer and more up-to-date techniques of production. Nevertheless, licenses are still denied to those who wish to enter certain fields on the grounds that these fields are fully covered. At present no new firms are allowed to establish soap, macaroni, and shoe factories or mechanical bakeries. Besides, the special tax concessions given to firms employing a capital of one million pounds or more must encourage the growth of large firms in industries with narrow markets, thereby causing the emergence of several single-firm monopolies .

### 3. Capital-intensity in Industry :

A survey<sup>13</sup> of 55 industrial enterprises in Khartoum area has revealed that a gross fixed investment of £. 16.6 million

has led to the employment of about 10,350 persons<sup>14</sup> Also, the figures published by the Department of Statistics indicate that the investment of £. 16.5 million during the period 1955/56 to 1960/61 was responsible for the employment of some 10,200 persons. By comparison, we find that the investment of £. 44 million in the Managil Extension ( of the Gezira Scheme ) has created work for about 40,000 tenants and more than 250,000 seasonal labourers<sup>15</sup>. Similarly, an estimated investment of £. 30 million in the private cotton estates is said to have led to the absorption of nearly 38,000 permanent farmers and 200,000 seasonal labourers<sup>16</sup>. This indicates that in the Sudan, as in many other countries, industry is far more capital-intensive than agriculture.

The Sudan also resembles most other developing countries in having a tendency to adopt more and more capital-intensive techniques of production. This becomes apparent when we follow Baer and Hervé<sup>17</sup>. in comparing the rate of growth of industrial output with that of industrial employment. Industrial production rose from £. 2.5 million in 1955/56 to £. 7.6 million in 1962/63, while the industrial labour force rose from 9,505 to 21,690<sup>18</sup>. In other words, an increase of 204% in industrial production was coupled with an increase of only 128% in the industrial labour force. This is, no doubt, the product of a natural increase in labour efficiency, but it is also due to an increasing use of capital-intensive techniques of production. This becomes more apparent when we compare the earlier part of this period ( 1955/56 - 1962/63 ) with its latter part. Allowing for a time-lag of half a year between the time when the money is invested and the time of employing the labour force, we notice that the investment of £. 7.8 million in industry between 1955/56 and 1959/60 was responsible for swelling the numbers of persons employed in industry by 4,093 in the period mid-56 to mid-60 while an investment of £. 23.7 million during the period 1960/61 - 1962/63 led to the employment of 8,092 persons between mid-61 and mid-63<sup>19</sup>. Thus, although the sums invested during the latter period were 204% more than during the earlier one, employment was only 98% higher. This indicates that the techniques of production were more capital-intensive during the latter period.

This increasing employment of capital-intensive techniques in industry is in direct conflict with the wishes of the Govern-

ment as expressed in various policy statements and legal documents. In fact, the same dilemma is faced by almost all the governments in the underdeveloped countries, for manufacturers are everywhere interested in the most efficient techniques irrespective of whether they are labour or capital-intensive, and for various reasons the techniques with the highest ratio of output to costs happen to be mostly capital-intensive. Quite often, this type of techniques are the latest and can produce the best qualities of output so that, even if available, labour-intensive methods of production are unable to compete with them. Shortages of spare parts and trained operators may militate against the use of the older labour-intensive techniques. But in many cases, capital-intensive machinery are the only type of machinery available, and this is hardly surprising since they are mostly devised in ( and for ) developed countries where labour tends to be scarcer than capital.

There are, however, some local factors which reinforce the tendency created by the above-mentioned forces for the increasing use of capital-intensive techniques in developing countries. There is, for instance, the cheap medium — and long — term credit offered by the Industrial Bank to the manufacturers. The loans of this institution, as well as those of the International Finance Corporation and the Agency for International Development, are utilised in purchasing capital goods, and they tend to be cheaper than the loans obtained by the industries from the commercial banks in order to finance the payment of wages and other short-term obligations. Hence the tendency to substitute machinery for labour. This is clearly indicated by the fact that the industrial enterprises financed by the Industrial Bank are generally less labour-intensive than other industries. Remembering that the investment of £. 16.6 million in 55 industries ( some of which received finance from the Bank ) has led to the employment of 10,350 persons, with an average investment of £. 1,600 per head approximately, we notice the relatively higher ratio of capital investment to labour in the industries financed by the Bank. Until the end of 1967, the Industrial Bank had given loans totalling £. 1.7 million to 76 industries with an aggregate gross investment of £. 3.5 million. These industries were expected to employ a total of 1,953 persons<sup>20</sup>. i.e. at the rate of about £. 1,800 per person. These figures clearly show that

the industrial enterprises which receive cheap medium — and long — term loans from the Industrial Bank are generally more capital-intensive than the remaining enterprises .

Among the other possible causes of the marked preference shown by the Sudanese manufacturers for capital-intensive techniques are the apparent overvaluation of the Sudanese pound, fear of facing a large body of workers assembled under one roof, and the various concessions which reduce the costs of buying and installing machinery. All these and similar factors seem to be the reason for the apparent failure of the manufacturing industries to absorb a large labour force.

#### 4. Use of Local Raw Materials :

The fifty-five enterprises mentioned above were reported to have used in 1967 imported raw materials worth £. 6.2 million compared with the equivalent of £. 3.2 million of locally produced raw materials. In fact, if we exclude the two main textile factories from our sample, the values of imported and local raw materials will fall to £. 6.1 million and £. 1.2 million, respectively. Thus, it is clear that, in spite of the desire expressed by the authorities that local industry shall depend largely on locally produced raw materials, Sudanese industry is heavily dependent on imported materials. This is, undoubtedly, the result of the drastic cuts in the custom duties on imported raw materials. The reduction of these duties to no more than 10% (ad valorem) is particularly favourable to the producers of luxury goods on which the duties paid are exceptionally high. Numerous assembly industries have emerged which are completely dependent on the advantages of duty cuts of this kind. Most of them «manufacture luxuries» such as refrigerators, air coolers, perfumes and sherry. Some of the industries which produce necessities are also assembly industries, and they include the manufacturing of matches and various chemical products. Like all assembly industries, their contribution to the national product is negligible.

Several other factors are responsible for the dependence of Sudanese industry on imported raw materials. One of them is the refusal of the Government to consider the storage and financial problems which it causes to the industries which buy raw materials from the public sector by its insistence that they

should receive their supplies all in one lot and pay promptly for it. For example, textile manufacturers, cotton-seed crushers and wheat millers often complain that they are neither allowed to import raw materials nor given the delivery and payment concessions which foreign suppliers are prepared to grant them. Because of their weaker financial position, the private local suppliers of these manufacturers are even less prepared than the state to offer such delivery and payment facilities. Problems of this kind must help to divert investments to fields where locally produced raw materials are not needed.

#### IV. CONCLUSIONS

In conclusion, it can be said that there is a marked difference between the general pattern of industrial activity as it exists today and the one envisaged by the Government. This difference is largely due to the inability of the Government to use its assistance effectively in guiding private investment to the fields which are considered ideal from the national point of view. In fact, the very nature of the assistance offered and the manner in which it has been administered are among the main reasons for the deviation of the realised industrial pattern from the envisaged one. The result is a collection of import-substituting industries, which are becoming increasingly dependent on state assistance. Their structure is becoming increasingly monopolistic and their dependence on capital-intensive machinery and imported raw materials is growing.

If the Government wishes to change this structure it has to do several things. It must be less generous and more discriminate in offering protection and assistance to the manufacturers, and it must set time limits to the concessions which it grants to them. Industrialists must be made to compete for state assistance, which should be given to the enterprises which satisfy most of the conditions set in the 1967 Act, and not only any of them. The basic criterion by which the eligibility of an enterprise for state assistance is determined must be its ability to contribute ( directly and indirectly ) to the national income, and not merely its profitability : quite often, this profitability is a pure gift from the state as is often the case with assembly industries using imported goods. Last, and by no means least, the Government must modify the concessions which it grants

to private industry in such a way that they cease to encourage the growth of monopoly and the use of capital-intensive techniques and imported raw materials. But it must also be clearly understood that these measures must be treated as supplementary to state planning and direction of industrial investment in the private sector, and must never be regarded as substitutes for them.

### Bibliographical Notes

- 1) For a detailed examination of the measures taken by some developing countries in order to promote industrial investment see, for instance, the United Nations Department of Economic and Social Affairs, Processes and Problems of Industrialization in Underdeveloped Countries. ST/ECA/29 ( New York : United Nations, 1955 ); P. Teichert, Economic Policy Revolution and Industrialization in Latin America ( Mississippi University of Mississippi, 1959 ); A. F. Ewing, Industry in Africa ( London : Oxford University Press, 1968 ).
- 2) Republic of Sudan, Government Policy Towards the Encouragement of Local and Foreign Capital in the Field of Industry and its Attitude Towards Foreign Capital in General ( Khartoum : Ministry of Commerce, Industry and Supply, 1956 ), hereafter cited as Sudan, Government Policy p. 2.
- 3) Ibid.
- 4) Op. cit., p. 6.
- 5) Republic of Sudan, The Organization and Promotion of Industrial Investment Act 1967 ( Khartoum : Ministry of Industry and Mining, 1967 ), hereafter cited as Sudan, Investment Act, pp. 3 - 4.
- 6) Sudan, Government Policy, pp. 3 - 4.
- 7) Ibid, pp. 6 - 7.
- 8) Sudan, Investment Act, pp. 4 - 7.
- 9) Mohammed A. El Salamabi, « Difficulties Facing Industry in the Sudan », October 21st, Special Economic Issue of 21/10/67, and « Suwar wa Ibar », El Rai El A'm, issues of 6/12/64 and 14/3/65. Also, Ahmed Izz El Arab, « Industrial Production in the Sudan and its Environment », Two Generations of Sudanese Political Parties ( Beirut El Hayat Corporation, 1967 ), pp. 48 - 51.
- 10) Republic of the Sudan, Annual Report of the Board of Directors of the Industrial Bank of the Sudan for the Year Ended 31/12/67 ( Khartoum : Industrial Bank of Sudan, 1968 ), tables 7 and 8, pp. 36 - 39. ( Cited hereafter as Sudan, Industrial Bank ).
- 11) Ministry of Industry and Mining, Agenda for the Second Meeting of the Advisory Committee for the Promotion of Industry held on 17/9/68 ( mimeographed ), pp. 30 and 35.
- 12) « Classification of Projects as Approved Enterprises », Journal of Commerce and Industry, published by the Ministry of Commerce, Industry and Supply, vol. lli, nos. 31 - 33 ( combined ), p. 28.

- 13) Abdalla A. Abdalla and Fareed O. Medani, A Survey of Some Industrial Enterprises — Report Prepared for the Industrial Bank of Sudan in 1968.
- 14) Republic of Sudan, National Income of the Sudan in 1961/62 ( Khartoum : Department of Statistics, 1964 ), tables 1.6 and 2.2, pp. 46 and 59. ( Cited hereafter as Sudan, National Income ).
- 15) Republic of Sudan, the Ten Year Plan for Economic and Social Development ( 1961/62 — 1970/71 ), pp. 85 - 89.
- 16) Sa'ad Aboul Ela, « The Role of Private Agricultural Schemes in Agricultural Development in the Sudan », **October 21st**, op. cit.
- 17) W. Baer and M. Hervé, « Employment and Industrialization in Developing Countries », **Quarterly Journal of Economics**, **LXXX** (February 1966 ), No. 1, pp. 88 - 107.
- 18) Sudan, National Income, tables 2.2 and 3.2, pp. 59 and 69.
- 19) Ibid.
- 20) Sudan, Industrial Bank, table 3, p. 31.