CHAPTER 1

INTRODUCTION

1.1 Background

Although local financial resources are always preferred in carrying out development obligations in the Third World, the application of official development finance or financial aid has been of great importance to the same region. This has been the case especially when the local resources have not been adequate to facilitate various developmental projects in many developing countries.

The transfer of resources, skills and knowledge between nations, and in particular, between rich and poor nations, on a large scale is a post Second World War phenomenon (Leng, 1983). After the Second World War, America extended both financial and technical aid to reconstruct Europe. In addition, America's aid to Europe aimed at taming the Russian influence (Browne, 1997). Even after the successful implementation of the Marshall Plan in Europe, America's Cold War related aid initiatives continued. These initiatives were later widened to include countries in different regions which were prone to the communist ideology. For example, " in the mid-1950s when the United States' share among the various donors was approximately 60% of the total flow of net official resources, 75% of the aid commitments of the United States was directed at
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winning and supporting allies on the southern circumference of the communist Bloc, namely: South Vietnam, South Korea, Taiwan, Turkey, India, Pakistan and a few other Asian states" (Leng, 1983: 1).

To counteract America's Cold War threats, the Russians also embarked on a serious aid extension programme to her allies. This came in 1956 when the Russian Prime Minister, Khruschev, proclaimed that, "developing countries had no need to go begging to their former oppressors," the West, "for aid." (Browne, 1997: 8).

In addition to strategic or security consideration, the initial aid programmes were motivated by historical linkage - colonial relations. Countries like Britain, France, Belgium, Portugal, Italy and Germany extended financial and technical assistance to their former colonies (Browne, 1997).

It should be noted, however, that the language of "development assistance" or "development aid" became more used in the 1960s, a period which constituted the First United Nations Development Decade. During that period, the UN strongly urged developed countries to increase their financial and technical aid to the newly independent developing countries. Since that time, external aid has continued to be an important component of the Third World's development programmes.
Hence, this study is intended to explore the contribution of development finance towards the construction and development of roads in two developing countries, one is located in East Asia, a region which has been identified with rapid economic growth, and the other one is located in the Sub Saharan Africa, a region which has been associated with sluggish economic growth (World Bank's East Asian Miracle, 1993; World Development Report, 1994). The two countries are as follows:

a) Malaysia.

Malaysia occupies a central position within the area commonly known as South-East Asia, being part of both the Asian land mass and of the island world of Malay Archipelago. It consists of Peninsular and East Malaysia and is separated by the South China Sea about 450 miles at its narrowest point (see Figure 1).

In addition, Malaysia occupies an area of 329,746 square kilometers. Peninsular Malaysia has a total area of 131,585 square kilometers, while Sabah and Sarawak, constituting East Malaysia, each has 73,711 square kilometers and 124,450 square kilometers respectively.
Peninsular Malaysia was colonised by Britain and achieved her independence in 1957. Sabah, Sarawak and Singapore which were also under the British rule joined Peninsular Malaysia in 1963 to form the present day Malaysia. However, Singapore seceded in 1965 to become a separate independent country.

Presently, Malaysia is being administered under a federal system with thirteen states. These are; Johor, Kedah, Kelantan, Melaka, Negeri Sembilan, Pahang, Perak, Perlis, Pulau Pinang, Sabah, Sarawak, Selangor and Terengganu. Each state has a state leader who also heads a state government. In addition, the states enjoy some degree of autonomy from the Federal Government.

Malaysia also has a constitutional monarch. The king is the head of state and appoints the ministers on advice from the Prime Minister. The Prime Minister is the head of the cabinet and since independence Malaysia has had four Prime Ministers. The present Prime Minister is Dr. Mahathir Mohamad. Dr. Mahathir has ruled Malaysia since 1981 and during his leadership, Malaysia has registered remarkable economic progress. This has been possible due to the successful implementation of an export oriented industrialisation strategy (Jomo, 1996).

Since independence, Malaysia has largely been politically stable although it was affected by the 1969 racial riots and the communist insurgency. The racial riots were caused by economic imbalance which existed between the Malays
(native Malaysians) and the Chinese immigrants. This forced the government to launch the New Economic Policy (NEP) in 1970.

The NEP aimed at eradicating poverty among all Malaysians and removing the identification of race by economic functions. The NEP also encouraged the native Malays to participate in the formal economic sector especially through affirmative measures. Some authors have attributed Malaysia's recent economic success to the successful implementation of the New Economic Policy. For example, Pramanik (1994) strongly argues that the NEP has helped to reduce the income gap which existed between the Chinese and Malays.

At the microeconomic level, the incidence of poverty in Malaysia decreased from 49.3% to 39.6%, 18.4% and 15% in 1970, 1976, 1984 and 1990 respectively (Malaysia Plans 1986-95). In addition, Malaysia has been transformed from an agro-based economy into an industrial economy. The share of agriculture on the total employment reduced from 67.6% in 1960 to 55.6%, 39.6% and 30.3% in 1970, 1980 and 1990 respectively, while that of the manufacturing sector increased from 15.8% in 1984 to 25.5% in 1995 (Second Industrial Master Plan, 1996-2005).

Of recent, various development plans have been instituted by the government with an aim of making Malaysia a fully developed nation. One of such plans is the "VISION 2020" whose major aim is to transform Malaysia into a fully developed
country by the year 2020. However, in 1997, Malaysia was badly hit by the Asian financial crisis. The national currency rapidly depreciated and this prompted the government to institute the controversial selective capital controls (Jomo, 1998). Fortunately, the controls have largely managed to arrest the situation and the economy is gradually recovering. This recovery, is reflected in Malaysia's net international reserves which increased from US$21.7 billion in 1997 to US$26.2 billion and US$30.9 billion in 1998 and 1999 respectively (Bank Negara Malaysia Annual Report, 1999).

b) Uganda

Uganda is a landlocked country in the upper basin of the river Nile astride the equator, bounded by the Sudan in the north, Kenya on the east, Tanzania, lake Victoria and Rwanda in the south and Zaire on the west (see Figure 2). The total area of Uganda is 236,000 square kilometers, about the size of the United Kingdom, of which about one seventh is swamps and lakes and most of the remainder is plateau about 1,700 metres above sea level.

Like Malaysia, Uganda was colonised by Britain and gained independence in 1962. During the early years of independence, Uganda was one of the most prosperous countries in the Sub Saharan Africa. It had good infrastructure and her economy was in good shape. In 1961, the Ugandan government together
Figure 2: Map of Uganda

Source: The World Factbook 1997
with that of Britain invited a delegation from the International Bank for Reconstruction and Development (IBRD) to help in assessing the country's economic potential. The IBRD Mission's Report (1962) came up with various recommendations which were incorporated into Uganda's first comprehensive development plan (1961/62-1965/66). The plan was successfully implemented and the country's economy greatly expanded.

However, in 1966, the country faced some political problems which emanated from the conflicts that existed between the President (also king of Buganda) and the Prime Minister. The source of the conflicts was the "lost counties" which were given to Buganda as a reward for helping the British to defeat Bunyoro kingdom which was resisting colonialism.

At the time of independence, the position of the "lost counties" was not clear: whether they still belonged to Buganda kingdom or were part of Bunyoro kingdom. To settle the matter, the Prime Minister, Milton Obote, was in favour of holding a referendum while the President, Edward Muteesa, opposed it.

Using his executive powers, Obote approved the holding of a referendum on the issue and chaos ensued. Obote abrogated Uganda's constitution and suspended monarchical leadership. He later launched a new constitution in 1967 and proclaimed himself President of Uganda (Kivejinja, 1995).
However, in 1971, Obote was overthrown by Idi Amin through a military coup. After assuming power, Amin suspended political party activities and the parliament. In 1972, he expelled all Asians who held British passports. Some of the expelled Asians managed key sectors of Uganda’s economy and later the country faced manpower problems. In addition, Uganda’s economy gradually declined and many western countries isolated Amin’s regime. In 1979, a combined force of both Tanzanian troops and exiled Ugandans attacked Uganda and overthrew Amin’s regime.

During the nine years of Amin’s regime, the country’s economy greatly deteriorated. The entire road network of Uganda was almost reduced to small tracks due to lack of regular maintenance. Even after Amin was overthrown, Uganda did not regain political stability.

In 1981, however, a new government under Milton Obote assumed office after winning an election. But a group of young men who were led by Yoweri Museveni dismissed the results and waged a war against Obote’s government. The war ended in 1986 after the defeat of Obote’s government.

When Yoweri Museveni assumed power in 1986, his main task was to rehabilitate the country which had been devastated by the civil war. In 1988, Museveni's
government came up with an economic recovery programme which was fairly implemented with the external support.

Between 1988-1995, Uganda’s economy registered some good progress with an average annual GDP growth rate of 6%. In 1996 Uganda had one of the fastest growing economies in the world with an annual GDP growth rate of 8%.

Despite its recent good economic performance, Uganda is still one of the poorest and heavily indebted countries in the world, with per capita GNP of $330 (1997). The country’s economy is dominated by agriculture with coffee, tobacco, tea and cotton being grown as cash crops.

Politically, Uganda is governed under a "Movement System" with no political party activities and candidates vying for political positions stand as individuals and not in groups (political parties) during elections. Both presidential and parliamentary elections are held every five years. In addition, Uganda is divided into forty-five districts with each district enjoying some degree of autonomy from the central government. The districts are headed by district chairmen who are directly elected by the people.
1.2 Significance of the study

One of the contribution of this research study is that it is confined to the post-independence period of both Malaysia and Uganda, and on one sector of transport, roads, with less researched information. Even the available research data which was gathered by both "government" and "non-government" entities was not focused, inconclusive and need to be updated.

In Malaysia, "government" studies which have been conducted on transport includes; various national development plans (1960-2000), Annual Reports of the Ministry of Transport, Public Works Department and the Malaysian Highway Authority. The "non-government" research constitutes the 1967 United Nations Development Programme's General Transport Survey in Peninsular Malaysia, the 1972/73 Asian Development Bank's Southeast Asian Regional Transport Survey, Leng Loh's thesis on the role of the World Bank's technical assistance to Malaysia (1983) and Leinbach and Chai's study on East Asia (1989). Once again these studies were not focused on roads and did not assess the contribution of development finance to road development in Malaysia. If they did, they were inconclusive and need to be updated.

In Uganda, quite a few studies have been conducted on transport and like Malaysia, these studies did not either touch road development, development finance, less focused or were inconclusive and need to be updated. Some of

Another contribution of this study will be to provide another source of information to government planners, policy makers and administrators to make informed decisions.

It is also hoped that this research will stimulate further research studies not only on roads and development finance but also on the possibility of financing transport programmes using government and private resources.

1.3 Objectives of the study

The overall aim of the study is to explore the contribution of the official foreign development finance towards road development in Malaysia and Uganda in the period 1960-1999.

However, the specific objectives of the study are:

a) to investigate the general background of road building programmes in both Malaysia and Uganda in the period 1960-1999;
b) to provide a thorough and detailed description about the contribution of foreign development finance in Malaysia and Uganda;

c) to compare and contrast the contribution of foreign development finance between the two countries;

d) to find out whether any of the two countries has succeeded in utilising foreign development finance to develop her road network and whether its success can offer lessons to the failing country;

e) to find out road administrative structures in both Malaysia and Uganda;

f) to find out related problems faced in road development and suggest some remedial measures.

1.4 Scope of the study

The study is intended to explore the contribution of official bilateral and multilateral development finance towards Malaysia and Uganda's road development programmes in the period 1960-1999. Emphasis has also been placed on the role of the World Bank, its affiliate, International Development Association (IDA) and regional multilateral financial institutions like the Asian Development Bank (ADB), that is, in the case of Malaysia, the African Development Bank and Islamic Development Bank for Uganda's case. The contribution of the United Nations agencies and other regional bodies like the European Union has also been explored.
On the bilateral front, government to government financial assistance (bilateral official development assistance-ODA) has also been explored. The study also traces the origins of the concepts of development and development finance. The role of transport and indeed roads towards development has also been tackled in the study.

1.5 Research methodology

This study has been conducted using both qualitative and quantitative methods. Qualitatively, data has been presented in words and simple statements while quantitative data has been presented in figures, tables and diagrams for easy analysis. The research materials have been gathered from a number of sources including both primary and secondary sources.

As data on the study is limited, special efforts were made to gather data from government documents on road development programmes in both Malaysia and Uganda like the national development plans, annual ministerial reports, news papers and journals. In the case of the World Bank, information about its financial support to Malaysia and Uganda has been gathered from the Bank’s annual reports. The same applies to the Asian Development Bank, African Development Bank and the Islamic Development Bank.
In addition, various reports which were published by the British colonial government regarding its financial support to the two countries, the Colombo Plan aid efforts and OECD/DAC initiatives have been surveyed.

Furthermore, various volumes of different authors in relation to the development process of Malaysia and Uganda have been used. In-depth interviews have also been applied in seeking opinions and views from government officers, planners and intellectuals.

An interdisciplinary approach has been applied linking road development with environmental, economic and social imperatives of both countries.

1.6 Limitations of the study

This research has had some limitations. One of such limitations is the accessibility to documents regarding external financial assistance to both Malaysia and Uganda. Because of the historical nature of the study some documents could not be traced. This has been the case with assistance which was extended to both countries during the colonial days and the early days of independence. In addition, the political turmoil which disrupted the civil administration in Uganda led to the misplacement or loss of some information.
Another limitation is the ongoing road projects especially in Uganda where foreign development finance still constitutes a bigger proportion of the country's development programmes.

In the case of Malaysia, the 1997 Asian financial crisis affected some road projects although the country had already terminated the use of external development finance towards her road programmes.

1.7 Organisation of the study

Chapter one shall constitute the background, objectives of the study, scope, methodology, limitations and organisation of the study.

Chapter two explores the development theory. It traces the origins of the concept of development and changing perceptions about it, touches on the dependency approach, the concept of development finance, role of transport towards development, the comparative advantage of roads and evolution of roads in both Malaysia and Uganda.

Chapter three shall constitute the interaction of development finance and road development in Malaysia and Uganda in the period 1960-1999 and other policies related to road development.
Chapter four forms a comparative analysis between Malaysia and Uganda. The comparison is focusing on bilateral and multilateral finance received, benefits and failures from it, level of road development, economic structures and current policies towards road development.

Chapter five shall constitute the present challenges and future strategies towards road development in both Malaysia and Uganda. It also touches on sustainable transport development and future development strategies.

Chapter six constitutes the conclusion of the study. It begins with a general overview of the study, then the main findings of the study, lessons for Uganda from the Malaysian experience, a final conclusion and suggestions for further research.