China-Africa Economic Relations: The Case of Uganda

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I. A Review of Cooperation Arrangements Between China and Uganda

China and Uganda have a long diplomatic history dating as far back as the post independence era. During the period of 1962-1985, bilateral relations between the two countries remained steady in spite of the regime changes in Uganda. However, the two countries saw relatively few high-level exchanges with each other during the time. In 1971, at the 26th General Assembly of the United Nations (UN), Uganda voted in favor of the resolution on the restoration of China's lawful seat in the world body. Bilateral relations between the two countries entered a new stage of development after the National Resistance Movement came to power in 1986, with bilateral co-operation expanding and mutual high-level exchanges increasing. Uganda backed China's stance for two times at the sessions of the UN Human Rights Commission in 1996 and 1997. In 2000, Uganda supported the bill put forward by China on the maintaining and observing of the Anti-Ballistic Missile Treaty in the UN.

Since 1962, the established projects which China has helped Uganda to set up include the Kibimba (now Tilda) and Doho Rice Schemes, the Kampala Ice Plant, methane-generating pits, the Foodstuff Porcelain Research Center and the Mandela National Stadium. China has also provided Uganda with dump trucks, porcelain research equipment and other small-scale processing equipment and necessary accessories. Chinese companies began the construction and service business in Uganda in 1987, mainly covering housing projects, road and bridge construction. Currently, there are 10 Chinese companies running that kind of business in Uganda, including Sichuan International Economic and Technical Cooperation Co Ltd and Jiangsu International Economic and Technical Cooperation Co Ltd (ug2@mofcom.gov.cn).

China and Uganda established trade relations in 1960. In 2005, the trade volume between the two countries came to US$99.37 million, among which China's export was US$79.37 million, and import US$20 million (UBOS, 2006). China's main exports to Uganda are mechanical and electrical appliances, textiles, garments, pharmaceuticals, porcelain and enamel products, and footwear. China's imports from Uganda are coffee and plastics. The economic and trade cooperation between China and Uganda has become more and more diversified. Based on the good foundation, China is to take further measures to increase the import of Ugandan products.

China and Uganda have carried out various kinds of cultural exchanges and cooperation since the establishment of diplomatic relations. The two countries signed a cultural cooperation agreement in June 1985. In August 1999, China and Uganda signed the 2000-2002 Implementation Program of the Agreement on the Cultural Cooperation between China and Uganda. Since 1959, China has altogether received 313 Ugandan students. By the end of 2004, there were 41 Ugandan students studying in China. Since 1983, China has already sent 11 medical teams to Uganda. By the end of 2004 there were eight Chinese medical personnel working in Uganda (ug2@mofcom.gov.cn).

Ban Café, a Ugandan Company signed a contract with a Chinese company to set up a coffee shop in Beijing. Both sides agreed that if the initial cooperation was successful, they would set up joint-ventures to undertake both coffee production and processing in Uganda. China's technology in some fields is suitable for Uganda's conditions for instance in agriculture machinery can serve very well Uganda's agricultural sector. Within the framework of the Sino-Africa Cooperation Forum, China has exempted the tariff on certain commodities to 25 underdeveloped African countries Uganda inclusive. Implying the Ugandan products like coffee can access the Chinese market tax free.

The relations between Uganda and China have involved a wide array of stakeholders. Each of these categories act in the best interests of the economy they represent. In the public and private sector, the Uganda Investment Authority (UIA) is the governing body whose main role is to offer investment opportunities and facilitation and after care for both local and foreign investors. In addition, UIA identifies and markets Uganda's competitive advantage in order to attract investment in priority sectors and they also identify priority sources (countries) of investment. In the aid department, the Government of Uganda through the Ministry of Finance, Planning and Economic Development (MFPED) sources and manage aid inflows from China. With regard to trade, the Ministry of Tourism, Trade and Industry (MTTI) works hand in hand with Uganda Exports Promotions Board (UEPB) to protect and source new opportunities for Uganda's exports and imports in terms of quality control, prices and trade agreements/ arrangements. The Ministry of Health (MOH) helps in outsourcing the best medical services like brain surgeons, heart surgeons and other critical disease experts and equipment from China.

Several subsidiary actors have played a key role in the China-Uganda relations as they are either recipients or donors and these include: the academia through Ministry of Education and Sports (MES) and MOH have managed to obtain grants from the Chinese government for their research activities, training and exchange programs, access to cheap equipment from China such as scholastic materials, computers. There has been limited brain drain in this sector but mainly the academia has been the main beneficiaries.

The representative of local producers and contractors in Uganda is the Uganda Manufacturers Association (UMA). Here, the relations have mainly affected the manufacturers in the production sector. They have generated increased competition for the local market and local contracts that is competing for contracts in sectors such as power, infrastructure, ICT, construction and as a result, some local producers and contractors are being driven from the market. There have been both positive and negative impacts of these relations. Unemployment has occurred for the major skilled jobs for the locals. Local producers dealing in value added raw materials have had major losses and those dealing in no value added raw materials have gained. In terms of prices, since most of China's materials/ goods are of a lower price compared to the locally produced ones. There has been a preference for the Chinese raw materials for the local producers as they are cheaper to obtain. There has also been technology transfer or spill over effects from which Uganda has largely benefited. The learning by exporting and increased access to Chinese markets has enabled most local producers who export to gain. Also the service industry has gained from the relations like the hotel owners and real estate dealers.

Local business associations which are active mainly include Kampala City Traders Association (KACITA) which represents majority of small businesses in Kampala. It is important to note that China deals in all types of products giving it a competitive advantage yet; the local businesses in Uganda are more specific, mainly dealing in already manufactured goods leaving them with nothing to fall back given their limited specialty. To a greater extent the locals have lost in this regard mainly due to the wider cheaper products which China offers. China is able to offer a product range to all the businesses depending on the amount of income one is willing to inject into their operations which Uganda does not.

Civil Society Organizations (CSOs) and Non Governmental Organizations (NGOs) have had a very limited role in these relations. The CSOs and NGOs in China are more active in their country. China does not participate nor feature in these Organizations in Uganda. China's interests have been in building and strengthening economic relations in Uganda and not in civil society, human rights and funding of the NGOs hence civil society have not benefited at all.

Even though the Chinese government has strong and active labour unions, it does not offer support to Uganda in this regard. In Uganda, the Labour laws though specifically spelled out are weak and to some extent the labour unions are not active.

The paper is organized as follows: part I, which is the introductory section, highlights the relations between Uganda and China. This section throws light on the stakeholders involved including aspects on how each of them is benefiting or loosing in the process. This is followed by investment in part II. Trade relations are discussed in part III while aid is covered in part IV. The conclusions and way forward form the final section of the paper in part V.

II. Investment

China's commercial footprint in Uganda was first visible in 1991 when mostly small-scale entrepreneurs opened restaurants and health clinics. This presence had increased by 1996 as Chinese entrepreneurs moved into other sectors such as import-export, construction, and small-scale industry in cotton ginnery, textiles, footwear and mineral water. In 2006, the Government of Uganda presented a document to the visiting Chinese Premier Wen Jiabao outlining priority investment opportunities in the following areas: transport, energy, mineral development, textiles, fruit processing, and tourism.

Because of the receptiveness of the Chinese investors in Uganda, The Chinese Government has committed itself to developing Uganda's ICT infrastructure and has expressed serious interest in oil exploration. At the 2006 Forum of China-Africa Co-operation (FOCAC) summit, the Chinese Government committed and went ahead to provide two x-ray scanners for shipping containers reportedly valued at around US$5 million and motor vehicles for use by the Uganda Revenue Authority URA; approximately US$ 250,000 for anti-malarial drugs; US$ 100,000 and computers to the Mulago Infectious Diseases Institute; construction of an Agricultural Demonstration Centre and a rural primary school; construction of a government office complex; and technical support to enhance Ugandan national television and radio broadcasting.

According to the Uganda Investment Authority (UIA) list, China was ranked among the top ten countries that have invested in Uganda from 1991 to June 2007(PSIS, 2007). As a result China is now among the priority countries UIA has earmarked for investment promotion. In recognition of these achievements, the Uganda Mission in Beijing scooped the 2004/5 UIA award for the best Embassy of the Year. Currently, over two hundred large Chinese firms are involved in various activities in Uganda including agro processing, manufacturing, energy, tourism, mineral exploration and construction (UIA, 2007).

Relations between Uganda and China have been growing as a result of Uganda importing directly from China to a tune of 150 million US dollars, (Xinhua News Agency, 2006).

The Chinese Government is encouraging and supporting Chinese enterprises' investment and business in Uganda, and is providing preferential loans and buyer credits to the Chinese entrepreneurs interested in investing in Uganda. The Chinese Government is on the otherhand exploring new channels and new ways for promoting investment cooperation with Uganda, and has formulated and improved relevant policies, provided guidance and service and offered convenience. Furthermore, the Chinese Premier has also emcouraged Ugandan entrepreneurs to invest in China as a way of closing the trade gap. The Chinese Government will continue to negotiate, conclude and implement the Agreement on Bilateral Facilitation and Protection of Investment and the Agreement on Avoidance of Double Taxation with African Countries.

With respect to infrastructure the Chinese Government has stepped up China-Uganda cooperation in transportation, telecommunications, water conservancy, electricity and other types of infrastructure. An example of the Chinese construction of the Ugandan national stadium(in the late 1990s), and currently is the Dokolo- Lira road by China Chongqing International Construction Corporation (CICO) that will vigorously encourage Chinese enterprises to participate in the building of infrastructure in Uganda, scale up their contracts, and gradually establish multilateral and bilateral mechanisms on contractual projects. Efforts are being made to strengthen technology and management cooperation, focusing on the capacity-building of Ugandans.

Chinese investment in Uganda is limited with the exception of telecommunications. Chinese companies are engaged in two large-scale projects in this sector which illustrate the importance China attaches to Uganda. It also provides an example of how Chinese investments can be embroiled in domestic power struggles.

On foreign investment in Uganda, Uganda is a promising country to attract more investors who target Uganda as their investment location because of the ideal investment climate(political and economic stability, ready market, investment incentives among other reasons). Official statistics show that since 1991 nearly 200 enterprises have committed over 2 billion U.S. dollars in actual investment in Uganda's agro-processing, manufacturing, energy, tourism, mining sectors and many others. Uganda is also committed to seeing the growing trade between the two countries and more investment injected by Chinese companies (PSIS, 2007). The two countries are working on the mechanisms to reduce the trade imbalance by encouraging more Chinese investment in the manufacturing sector, (Xinhua News Agency, 2006).

According to the Director at the Chinese consulate in Uganda, China is intending to further promote its agricultural cooperation and exchanges with African nations at various levels, through multiple channels and in various forms. Focus will be laid on the cooperation in land development, agricultural plantation, breeding technologies, food security, agricultural machinery and the processing of agricultural and side-line products. China will intensify cooperation in agricultural technology, organize training courses of practical agricultural technologies, carry out experimental and demonstrative agricultural technology projects in Uganda and speed up the formulation of the Agricultural Cooperation Program, (Director, Political department, Chinese consulate in Uganda, September, 2007). Also along those lines the Ban Cafe Company signed a contract with a Chinese company to set up a coffee shop in Beijing in a joint venture to undertake both coffee production and processing in Uganda.

The Chinese Government facilitates information sharing and cooperation with Uganda in resources areas. It encourages and supports competent Chinese enterprises to cooperate with Uganda in various ways on the basis of the principle of mutual benefit and common development, to develop and exploit rationally their resources, with a view of helping Uganda translate their advantages in resources to competitive strength, and realize sustainable development in the countries and the continent as a whole. The Ugandan minister remarked that Uganda could benefit a lot if it could attract one million tourists per year from china since the Chinese menu is wide, so if we are to get the Chinese to invest in hotels; our peasants would grow to supply these hotels such that Chinese tourists would be as comfortable as back home especially in forth coming Common Wealth Heads of Government Meeting this year in which some 10000 delegates would rush in the country (Xinhua News Agency, 2006).

From the cultural cooperation point of view, the Ugandan minister further remarked that Uganda was welcoming China whole heartedly to invest. He also encouraged more Chinese to pick interest in visiting Uganda as this would boost not only tourism but their investment decisions as well. The president of Uganda in a televised speech announced the first motorcycle assembling factory invested by a Chinese company in Uganda. He also expressed the Chinese investors who had expressed interest in the automobiles (Xinhua News Agency, 2006).

Table 1: Computation of China's % Share of Foreign Direct Investment by Sector (1991- June 2007)

sector	China(No. of firms)	Total Chinese sectoral investment (US$)	Total FDI (firms)	Total planned sectoral employment	%ge of FDI	China share as a % of the total planned investment
Agriculture, hunting, forestry and fishing	4	7,103,200	259	236	1.54	4.56
Manufacturing	85	98,906,000	1289	6253	6.59	63.48
Mining and quarrying	2	4,673,000	62	655	3.23	3.00
Transport, telecommunication and storage	3	5,091,000	269	225	1.12	3.27
Electricity, gas and water	2	20,000,000	46	142	4.35	12.84
Wholesale & retail trade, catering & accommodation services	6	3,433,000	289	556	2.08	2.20
Community, social and personal services	1	210,000	103	20	0.97	0.13
Construction	12	8,802,000	205	2166	5.85	5.65
Financing, insurance, real estate, tourism and business services	3	7,598,000	505	341	0.59	4.88
Total	**118**	**155816200**	**3027**	**10594**	**26.32**	**100**

Source: Uganda Investment Authority: Annual Summary of Totals for Licensed Chinese Investments (various years).

From Table 1, note the following;

- The percentage of FDI is the ratio of Chinese investment (firms) in Uganda and the total FDIs in Uganda in that sector.
- Chinese share as a percentage of the total planned investment is the computed ratio of Chinese sectoral investment to the total Chinese sectoral investment in US dollars.

Generally, the Chinese investment is 26 percent of the overall foreign direct investment that we have in Uganda. Encouraging is the growing number of Chinese investors being 118 investors. With respect to ownership, the officer in charge of the Chinese desk in the Uganda Investment Authority when interviewed said that most of the Chinese firms are privately owned and the ones that had a joint venture which is between Uganda and Chinese firms, were in the construction, transport, communication and storage sector.

Explanation of the table shows that manufacturing is the sector where most Chinese firms are investing a lot (63.48 percent), followed by electricity, gas and water (12.84 percent) and least investing in the community, social and personal services (0.13 percent). This explains why the Chinese ambassador was calling on more Chinese investors to invest in that sector, especially in the preparations of the forth coming common wealth heads of government meeting that is due in November, 2007 and also in order to boost the industrial sector. The only way to boost this sector was to invest in hotels that serve Chinese foods, and this has an advantage of having a wide menu.

Box 1: Opinions on Chinese firms and interests

According to a discussion with the Chinese second secretary in charge of economic and commercial affairs in Uganda (August, 2007), the main Chinese promoters of investment in the different sectors that he mentioned are, Phenix logistics, Sichuan International Economic and Technical Cooperation, Jiangsu International Economic and Technical cooperation, Hwang Sung, CICO, Dong Fang among other Chinese firms as key players in the different sectors, but referred to the UIA center for further information on the big players who also expressed confidentiality in giving out the names of the main Chinese promoters in the different sectors.

With respect to the major beneficiaries, the UIA executive director, said that Uganda stands to gain from Chinese investors and this is supported by the 10594 persons that are employed by these firms, whether these Ugandans are employed on the scale of unskilled, semi-skilled or even highly skilled, couldn't be established. She also further addressed a major complaint by Ugandans during the PSIS (2007) launch, where most Ugandans had complained of these firms employing Chinese if at all Ugandans are not left out, that it was just a rumor because it doesn't make business sense employing Chinese, because of the associated costs of travel, housing among other costs, even if a section of the business community were not satisfied with what the UIA boss had said.

During the PSIS (2007) launch, it was expressed in the plenary session that China's growing industries and its businessmen demand new energy and raw material suppliers; its exporters want markets; its diplomats require support in international organizations; and its propaganda still seeks support from allies to advance Chinese interests and, when necessary, to counter the US, where that leaves Uganda as a beneficiary or a looser is yet to be depends on who is discussing the issue.

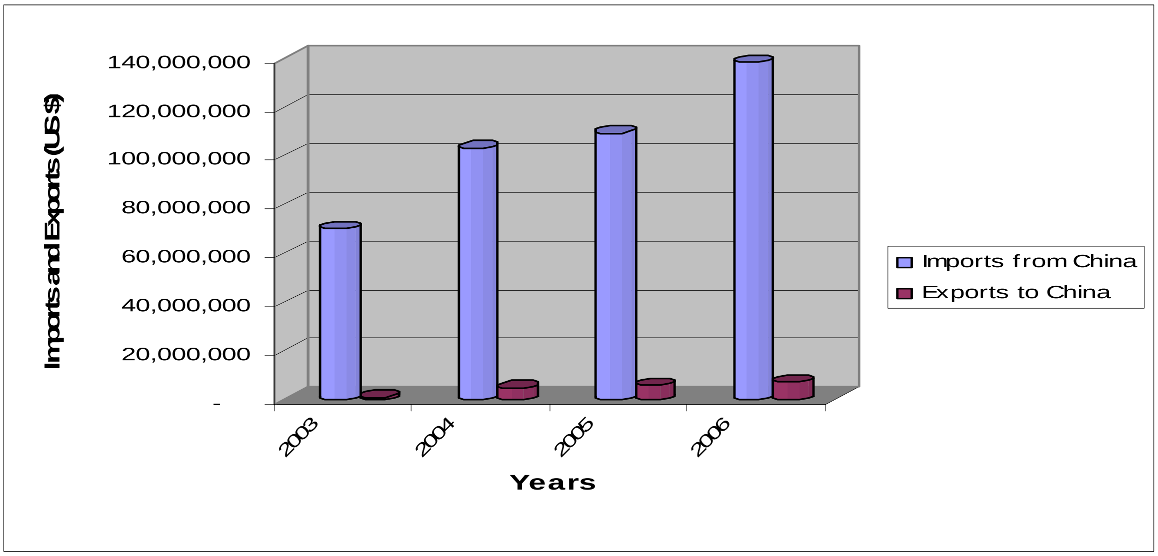
Many Ugandan business people that were interviewed believe that Chinese goods are unfairly undercutting them. A case of this is in the garments (manufacturing sector) faced by cheap Chinese garments in Uganda, (Kaplinsky, 2006). Based on interviews with the representatives of the business community, complaints came up of not only the cheaper commodities from China but also the quality being either low or poor in the different sectors. Some of the buildings Chinese firms have built in Africa are already crumbling, leading to fears about whether much of the new Chinese-built infrastructure will stand the test of time a case that was quoted was the Mandela National stadium (Uganda) which is already in bad shape that world football governing body is considering to have it suspended to host some football teams in the forthcoming world cup of 2010 (New Vision, 18th, September, 2007).

However, as Chinese foreign minister Li Zhaoxing, in a statement said that more Chinese companies were still interested in investing in Uganda and that given that steady progress had been made in the two countries' cooperation in agriculture, water conservancy, telecommunication and infrastructure, Ugandan government had to address the issue of power crisis in the country. He also expressed his interest in seeing most of the products of Chinese investors in Uganda being exported to China. Also in conclusion, as Chinese prime minister Wen Jiabao put it, "as a permanent member of the UN security council, China would always stand side by side with developing countries in Africa generally and Uganda in particular.

III. Trade Overview between China and Uganda

Uganda's traditional export crops which include coffee, cotton, and tea, have not faired well although they were beginning to improve in 2004 as a result of improved export prices. Non-traditional goods, such as fish, cut flowers, and vanilla, now form a large percentage of Ugandan exports. Major Chinese exports to Uganda included foot wear, food and animal products, electrical machinery, used clothing, telecommunications equipment, medical equipment and medicines.

Figure1: Trade Flows in Values US$ of Total Imports and Exports Between China and Uganda



Source: Uganda Bureau of Statistics, 2007

From Figure 1, it can clearly be seen that Uganda imports more than it exports to China and over time say from the 1990s, there has been a surge in the volumes of imports from China compared to the exports. Imports to Uganda from China have grown in size from US $70,247,728 in 2003 to US$ 138,259,851 in 2006 and exports from Uganda to China have also increased from US$ 818,835 in 2003 to US$ 6,889,894 in 2006. Further more, Uganda's total imports from China constituted 2.7 percent share of the total imports into the Ugandan economy where as Uganda's total exports to China were 0.09 percent of Uganda's total exports. Thus, the magnitude of imports to exports with China is very big.

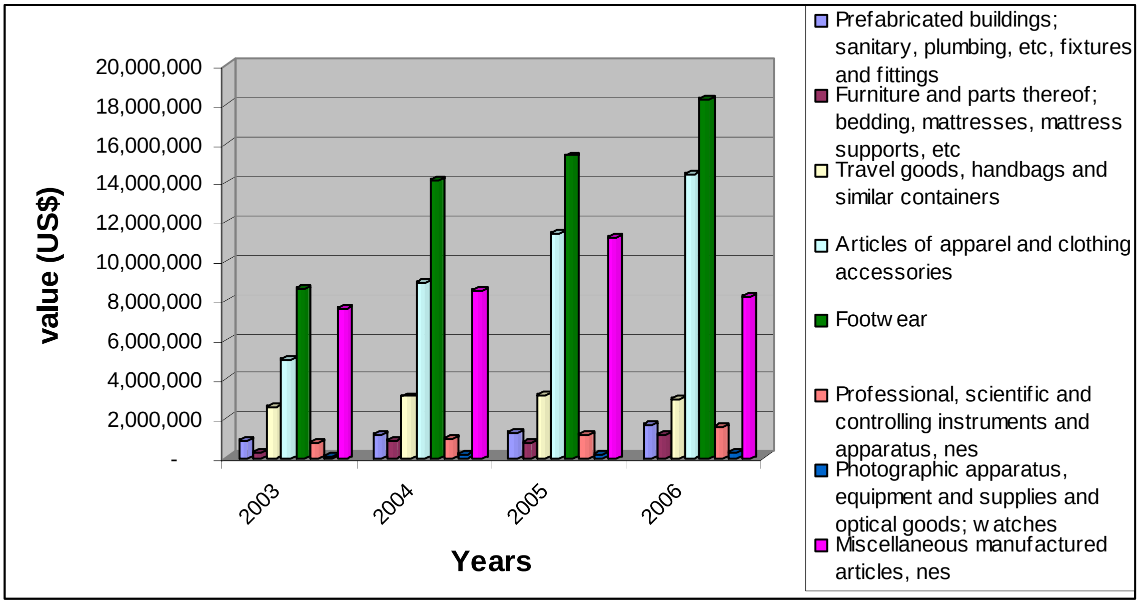
Table 2: China's % Share of Exports to Uganda by Commodity Groups-2006

Commodity Groups	Value (US$)	Total (US$)	China share as % of total
Food & Live animals	680,215.77	232,946,929.4	0.29
Beverages & Tobacco	12,199.23	17,352,911.84	0.07
Crude materials except food/fuel	882,902.44	47,506,944.35	1.86
Mining	30,722.74	533,015,068.1	0.01
-solid minerals	0	0	0
-oil and gas	30,722.74	533,015,068.1	0.01
-other minerals	0	0	0
Animal/Vegetable oil/Fat/Wax	13,920	89,696,947.18	0.02
Chemical Products	12,077,077.34	337,535,302	3.58
Manufactured goods	33,748,124.67	430,358,782.1	7.84
Machinery, Transport &Other equipment	42,422,879.51	662,830,789.9	6.40
Other Manufactured products	48,391,809.39	186,942,337.7	25.89

Source: Uganda Bureau of Statistics, 2007

In 2006, China's exports to Uganda continued to rise where mining had the smallest share of 0.01 percent followed by animal/ vegetable oil/ fat and wax and other manufactured goods having the highest share of 25.9 percent (Table 2). The increase in exports of manufactured goods to Uganda has created a challenge for the Ugandan manufacturers to adversely improve on their goods quality in order for them to be competitive with their trading partners and hence stay in the market. There has been a growing decline in the importation of crude materials except food/fuel by Uganda from China from a high 2.8 percent in 2003 to1.9 in 2006, though the magnitude is marginal. This decline has been attributed to the decline in value of crude fertilizers and minerals (excluding coal, petrol, precious stones) which is the biggest contributor to the category.

Figure 2: Composition of other Manufacturing Products by Value (US$), 2003-2006



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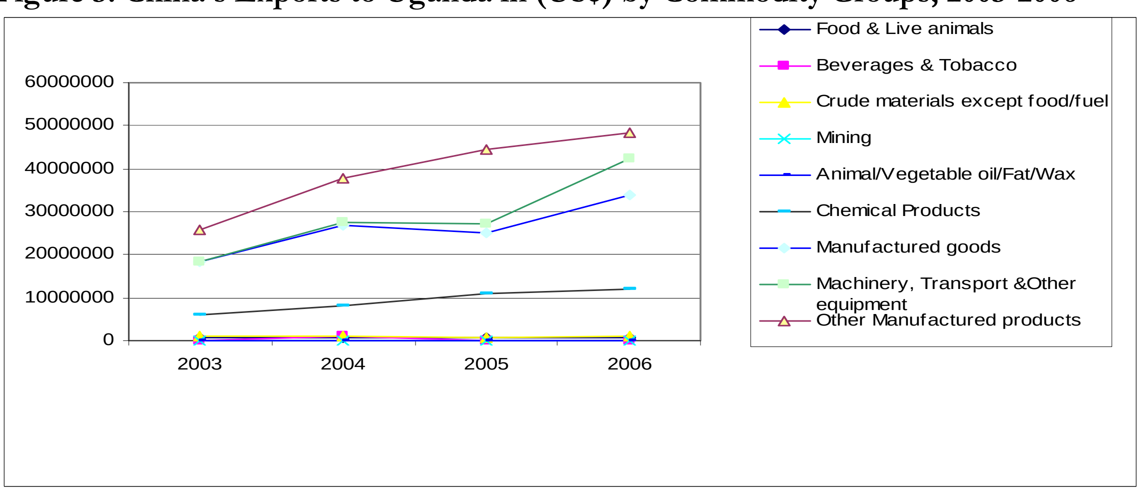
Source: Uganda Bureau of Statistics, 2007

From Figure 2 above, Uganda imported from China mainly manufactured goods, machinery, transport and other equipment, chemical products and other manufactured products. Other manufactured goods had the highest share of 25.9 percent in 2006 from 19.8 percent in 2003 of which footwear and articles of apparel and clothing and miscellaneous manufactured articles were the biggest contributor to this share.

Figure 3: China's Exports to Uganda in (US$) by Commodity Groups, 2003-2006



Source: Uganda Bureau of Statistics, 2007

Figure 3 illustrates that on the over all, the growth in imports from China have been growing steadily since 2003. But the magnitudes of shares have been in mainly other manufactured products, manufactured goods, chemical products, and machinery, transport and other equipment. This can be seen from the growth trends in these commodity groups over time (Figure 3). This growth has been partly been attributed to the ease in getting visas to China from the Chinese embassy and also partly from the relaxed trading policies China has in place in case of imports originating from there.

The top ten exports of China to Uganda have been: foot wear, articles of apparel and clothing accessories, manufacturers of metal, textile, telecommunication and sound recording/reproducing apparatus, machinery specialized for particular industries, non-metallic minerals manufacturers, road vehicles (including cushion vehicles), electrical machinery apparatus and appliances and miscellaneous manufactured products.

From Figure3 above, Ministry of Trade, Tourism and Industry (MTTI), Ministry of Health, Ministry of Transport has been the main beneficiaries from China's imports into Uganda. The Farmers involved in beverages and tobacco production, food and live animals (Ministry of Agriculture, Animal Industry and Fisheries) and those involved in the production of crude materials (raw materials) i.e. the manufacturers have been the main losers in this trade scenario. Other beneficiaries include Uganda Investment Authority (UIA), Uganda National Farmers Federation (UNFFE), Uganda National Agro-inputs Dealers Association (UNADA), Uganda Revenue Authority (URA) and Uganda National Bureau of Standards (UNBS), and Kampala City Traders Association (KACITA) can be categorized as losers from the cheap influx of Chinese goods in the Ugandan market. If UNBS is to implement stringent quality control measures, then the Ugandan economy is most likely to loose its trading partners like China who can trade else where they more flexible.

With regard to China's Imports from Uganda, in 2006, manufactured goods and crude materials except food/fuels were the largest contributors to Uganda's exports to China with 13.9 percent and 8.1 percent share of the Uganda's total exports. In the manufactured goods category, textile yarn and fabrics contributed the largest value of US$ 216,057 and metalliferous ores and metal scrap contributed a high value of US$ 3,376,712 in the crude materials category (Table 3). Whereas, there was a surprising trend in the chemical products of a 0.0 percent share as China didn't don't import any chemical products from Uganda in 2006. The same was recorded in the beverages and tobacco category which never exported any commodities to China in 2006 in particular. The 0 percent share in the importation of chemicals from Uganda should act as a gap to be filled by maybe China investing in the Chemical Industry in Uganda.

Table 3: China's % Share of Imports from Uganda by Commodity Groups-2006

Commodity Groups	Value (US$)	Total (US$)	China share as % of total
Food & Live animals	1,109,278	396,477,667	0.28
Beverages & Tobacco	0	0	0
Crude materials except food/fuel	4,810,007	59,101,159	8.14
Mining	0	0	0
Animal/Vegetable oil/Fat/Wax	0	0	0
Chemical Products	0	0	0
Manufactured goods	936,712.2	6,721,169	13.94
Machinery, Transport &Other equipment	4,329.94	57,751,894	0.01
Other Manufactured products	29,566.85	8,138,302	0.36

Source: Uganda Bureau of Statistics, 2007

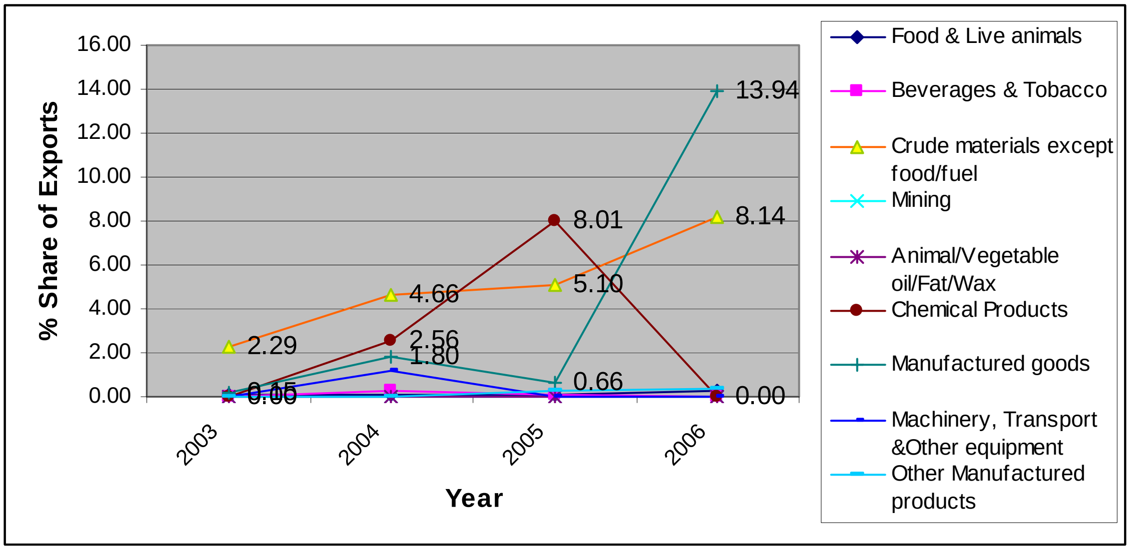
In looking at the general trend in performance of each commodity from the period 2003-2006 the Table 4 and Figure 4 below illustrates this clearly.

Table 4: Uganda's Exports by Value (US$) to China by Commodity Groups, 2003-2006

Commodity Groups	2003	2004	2005	2006
Food & Live animals	291,933	330,460	80,090	1109278.22
Beverages & Tobacco	-	93,083	7,570	0
Crude materials except food/fuel	507,348	4168128.76	5383499.41	4810007.2
Mining	0	0	0	0
-solid minerals	0	0	0	0
-oil and gas	0	0	0	0
-other minerals (electricity Current)	0	0	0	0
Animal/Vegetable oil/Fat/Wax	-	-	-	-
Chemical Products	0	53,176	163778.51	0
Manufactured goods	19554.18	72569.66	52148.36	936712.21
Machinery, Transport &Other equipment	-	22,008	557	4329.94
Other Manufactured products	-	1,754	21,441	29566.85

Source: Uganda Bureau of Statistics, Statistical Abstract, 2007

Figure 4: Uganda's % Share of Exports to China by Commodity Group, 2003-2006



Source: Uganda Bureau of Statistics, Statistical Abstract, 2007

From Table 4 and Figure 4 above, Uganda's exports to China mainly comprised of manufactured goods, crude materials except food/fuel and in the chemical products in 2005. There has been steady growth in the crude materials category over the years. The sharp fall in the chemical products was a result of the zero percent exportation of the chemicals to China.

The peak in exports in 2004 in particular for almost all commodity categories was due to the increase in exports of textile fibres (other than wool) of US$ 3,834,051, fish, crustaceans and mollusces (US$279,282), and among others leather, hides, skin and furskins, electrical machinery and travel handbags.

From the data, the top ten imports of China from Uganda are: preparations of fish, crustaceans and mollusks, coffee, tea, cocoa, spices and others, raw hides, skin and furskins, oil-seeds and oleaginous fruits, cork and wood, textile fibres (other than wool tops) and wastes, metalliferous ores and metal scrap, leather and dressed furskins, textile yarn, fabrics, made-up articles and related products and lastly, furniture and parts thereof; bedding, mattresses, mattress support.

The increases in exports to China have had a significant effect on the Ugandan economy. It has led to; higher/more income especially for traders involved in manufactured goods , improvement in international trade, attracted foreign investment. Also it has promoted

Ugandan product (branding) for the goods on high demand like coffee, enlightened group involved in exports like the case of manufacturing industries, created more job opportunities, organized farmers have acquired practices thus reduced risk of damage before and after farm gate and also borrowed experience from other countries.

Mostly, it's the farmers' involved in cotton production (textile), fish sector, hides and skin who have largely benefited from China's importation of Ugandan commodities. China mainly imports raw materials from Uganda compared to manufactured goods. Uganda Exports Promotion Board (UEPB) has been the key stake holder in Uganda's improvement in export volumes together with Ministry of Tourism, Trade and Industry (MTTI), Ministry of Agriculture Animal Industry and Fisheries (MAAIF). The manufacturing sector, chemical production sector and other manufactured goods have been the main losers in these terms of trade and among others Uganda Investment Authority (UIA), Uganda National Farmers Federation (UNFFE), Uganda National Agro-inputs Dealers Association (UNADA), Uganda Revenue Authority (URA), Uganda National Bureau of Standards (UNBS), Kampala City Traders Association (KACITA).

In an interview with a Uganda Exports Promotion Board official, September 2007, he explained that cobalt, ores and concentrates are some of the major goods Ugandan exports to China. Due to the preferential, duty free/ quota free trade agreements given to LDCs and generic reasons where the problem is more internal than external, demand by China can not be met by the Ugandan economy. Chinese prefer to import raw materials to supplement their already existing ones in addition to import from other countries as well. The Chinese say that local prices of goods are much lower in China and more expensive in Uganda hence they import less from Uganda. The terms of trade in place, proximity of the raw materials and the cheap Chinese prices are the key elements favouring Chinese goods into Uganda compared to the locally made goods.

Due to market distortions, and the high costs of shipping our merchandise to China, Uganda can not compete with China. Thus most Ugandan traders find it much cheaper to bring in goods from China which are cheaper than those at home. Generally, the inability to produce certain products limits our engagement with China mainly the raw materials.

The barriers to doing business generally in Uganda include difficulty accessing finance, continued high levels of corruption, high land purchasing costs, air and rail transportation costs, poor infrastructure (including transportation, power, and water), inefficient government services especially in the immigration department, customs department, land registry and lack of consistency between government policies and practices.

Box 2: Traders Views of Chinese Firms

Through interviews with both formal and informal traders in Uganda, as well as traveling deep into the market in Kampala, to gain a preliminary glimpse into ways in which formal and informal traders see Uganda-China relations as well as their attitude about the fact that Ugandan government officials seem to be insensitive to their concerns. "The subject matter of Uganda-China relations is a very sensitive, but very important issue," according, Kampala City Traders' Association (KACITA) Publicity Secretary.

He explained that trade between China and Uganda has led to the dumping of substandard goods and merchandise, thus cheating the Ugandan traders. Specifically, the Chinese have taken advantage of and exploited Ugandans by the negative manipulation of the price mechanism. This has occurred because the Chinese have taken advantage of "unscrupulous, illiterate and docile Ugandan traders going to China in search of cheap consumable marketable items, where Uganda's heavy taxation tariff on imports carries less or no impact on profitability". Further to the point, the Chinese traders, who are "more knowledgeable and negatively shrewd in the assortment of cheap un-qualitative goods coming from China, have aggressively but negatively out-done Ugandans at the expense of sound economy, which is vitally supported and propped up by the indigenous business practitioners, whose rate of capital repatriation, is almost zero,".

KACITA representative stressed that the Ugandan government has allowed the Chinese "Aliens" to under cut local Ugandans out of business and allows Chinese capital repatriation to be almost 100 percent. KACITA charges the government with being more interested in attracting foreign investors than in implementing economic programs and policies that would build the capacity of local indigenous Ugandans. To this extent, they charge the government with giving away the management of the economy to the aliens, thus possibly creating future social, economic, and political problems.

Unemployment is the third major issue raised by KACITA. Specifically, they are concerned that given Uganda's most pressing issue of unemployment, the government is seemingly not concerned with this growing problem. During interviews with KACITA officials, concerns were raised that the Chinese government is allowed to import into the country as many skilled and unskilled workers as they want, thus preventing indigenous Ugandans from employment opportunities

The competition between Ugandan and Chinese traders is so serious that it even has an impact on the toilet paper industry. The Chinese make their toilet paper rolls look thick by having a loose tension on the roll. "Ugandans use 100 percent wood-free paper and the Chinese are using recycled or sugar and pulp paper. They are doing 150 sheet rolls instead of the required 250 sheets" (Interview with a local trader, 2007).

The trader noted that Africans go to China and request cheap products to be made specifically for the African market. So when you go to China you will find products that are made for sub-Saharan Africa (except South Africa whose products are of better quality and located in a different area), the United States, Europe, and Asia. The trader gave the following example of how Africa is making China a beast. A Ugandan trader will go to China and tell a Chinese cell phone company they want them to make a phone they can sell in Uganda for say 40,000 shillings (approximately US$25). The Chinese company designs it to look like a Nokia cell phone. A special symbol, which is hard to see, is put on the phone to prevent Nokia from suing the company. The phone is put on the market in Uganda and it sells for 40,000 shillings. Since it looks like a Nokia phone, people buy it thinking they are actually getting such a phone. The phone might actually work for four months. Since it is not a Nokia, the consumer has no power to demand a replacement.

Another example given by this same trader is that an excellent quality textile (e.g., dress, suit) might be imported into the country from the US or the UK. The local trader then takes this good quality product to China and has it reproduced very cheaply and it enters the Ugandan market. However, because it is of such poor quality, the product does not last long.

This conflicted relationship between the Chinese and Ugandan traders can be seen in other areas. For example, members of KACITA argue that while it is almost impossible to get a visa to travel to the US or Europe to purchase merchandise, in the case of the Chinese, they allow Ugandan formal and informal traders unfettered access to travel to China. In fact, the Chinese will give one a visa for just showing you have money to buy goods. Also, the Chinese, unlike the Indians in Uganda, are known for giving financial loans to traders.

There are perceptions among Ugandan traders that government policy favors imports and traders from other countries, more specifically China. In particular, they believe that they are favored with respect to taxes etc. We believe this is not correct, instead it emanated from the fact that the Chinese are more competitive and have lower production costs. In addition, the quality of most products from China is of low quality which makes the goods cheaper. There is also the general preference for imports which makes the situation even worse. These present challenges that need to be addresses to help increase demand for locally produced goods. These have implications for employment and the overall economic performance.

Finally, in regard to the general performance in trade by the Chinese economy and the African continent, by 2005, China alone had more than tripled its exports and imports compared to the African continent as a whole. Trade in Africa has grown at a very slow pace compared to only one Asian country-China (Table 5). And China is currently trading competitively (almost at per) with other donors (developed countries) (UNCTAD, Statistical Handbook, 2006).

Table 5: Structure of China and Africa Exports and Imports in Millions of US$

	Africa			China		
	Exports	Imports	Trade Bal.	Exports	Imports	Trade Bal.
1995	115068	110396	4672	145672	230441	-84769
2000	127705	157539	-29834	207436	412472	-205036
2005	240623	311792	-71169	574616	1049359	-474743

Sources: UNCTAD Secretariat calculations based on UNDESA Statistics Division's Data

IV AID

China has substantially stepped up its aid, which it provides to Uganda in the form of technical assistance, with an emphasis on training in Chinese institutions; grants; interest-free loans; preferential loans that have an interest subsidy; and debt relief. However, since China is not a member of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD), which reports on members' international aid, it does not provide details about the level and terms of its own aid to other countries—so data and information with regard to types, purposes, conditions, including the extent to which is assistance is tied are rather sketchy. This was according to the interviews with officials in the Aid Liaison Department of the Ministry of Finance Planning and Economic Development.

Uganda like most developing countries has a large proportion of her development efforts based on external assistance. This comes in various categories which include project support, food aid and budget support. The consequence of over reliance on external support has been the allocation of donor inflows based on donor interests especially where such assistance is provided as uncoordinated budget support. This instead inhibits the country's development efforts.

China's contribution to Uganda has been growing over time and it has been mainly directed to infrastructural development, technical cooperation and business related activities. However, most of this assistance is not specific; hence government has the leverage to appropriate it to sectors where it deems it fit. Aid takes the form of technical assistance, budget support, emergency relief assistance and investment technical assistance. From the data which was collected, the sectors which have greatly benefited are transport; business related services, manufacturing, and agriculture whereas telecommunications, mineral exploration has not realized the benefits from the eternal assistance extended by China to Uganda (Table 6). Government officials reported that some of the aid to Uganda is mostly provided in kind, by Chinese companies, and tends to be on a turnkey basis, mostly with Chinese inputs, including labor.

Table 6: China's Share of Aid by Recipient Sector

	China	Total	China share as a % of total
Agriculture	4,759,054	39,328,257	1.2%
Manufacturing	617,072	24,460,574	2.5%
Mining			
• Solid minerals		24,475,791	0%
• Oil and gas		125,558	0%
• Other minerals	-	-	-
Transport	1,372,916	37,972,801	3.6%
Electricity and water		24,551,807	0%
Telecommunications		1,742,474	0%
Other business services	12,932,118	17,997,916	71.9%
Total	**19,681,160**	**170,655,178**	**11.5%**

Source: Aid Liaison Dept, MFPED

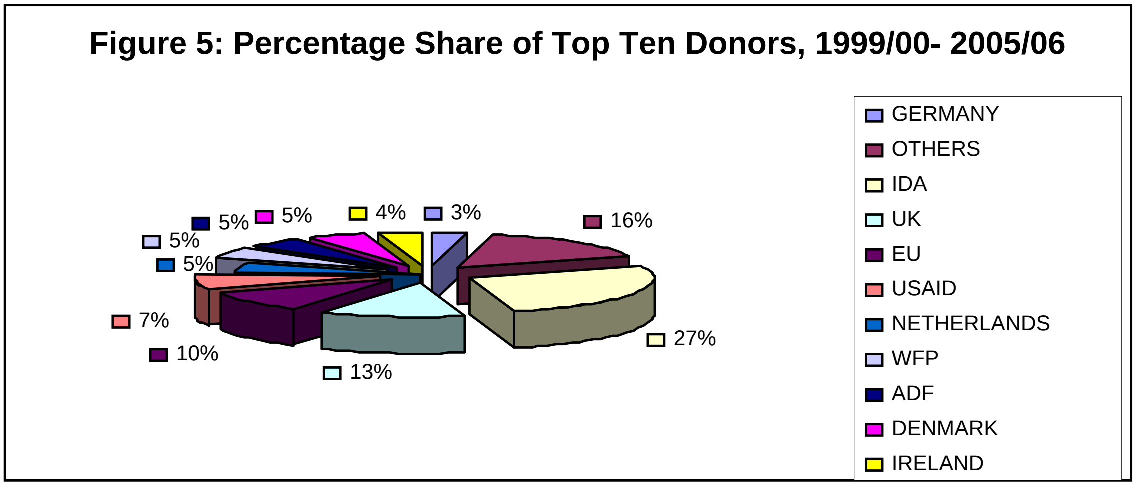
Part of Chinese Aid to the country has taken the form of technical assistance and investment technical assistance in projects of economic and social infrastructure nature such as roads and hospitals; the productive sector, notably agriculture (Kibimba (now Tilda) and Doha rice schemes); and other construction projects, such as government buildings (the Ministry of Foreign Affairs, the proposed construction of the President's Office) and sports stadium (Mandela National Stadium). It should be noted at this point that whereas other development projects from China are bid wins (such as the construction of the Nakivubo drainage channel, the Jinja- Kamuli road, and Jinja-Kampala road among others); Aid to Uganda has also taken a similar form as has been highlighted in the cases above.

In 2007 China waived Uganda's US$17 million debt and promised to boost bilateral economic ties. The agreements which were signed between China's assistant minister for commerce, Fu Ziying and Uganda's finance minister Ezra Suruma included a protocol on the US$17 million debt cancellation, an agreement to provide a grant of US$ 6.8 million and a letter of exchange for the construction of a government office block (New Vision News paper 2007).

Furthermore, Chinese aid has no political conditions attached (other than support for the "one China" policy), and emphasizes that partners are on an equal footing by stressing South-South cooperation. The concessionality of loans varies widely. Some large loans and credit lines have not been fully concessional, although they are on more favorable terms than the market. To highlight these trends, the Uganda Industrial Research Institute (UIRI) was set up in 2001 under a cooperation program between Uganda and China. The institute has been producing technical personnel for Uganda's light industry. According to institute statistics, 690 technical personnel have been trained since then. It also helped to push forward Uganda's industrial technologies.

The program also extended to community groups and small scale enterprises, and students from universities and colleges. Beginning from the latter half of the year 2001, UIRI started to test and determine raw materials and products for the local manufacturers like meat processing plants, soft drinks plant, dairy corporations, and pharmaceutical factory, helping them to control quality of products. According to the African Human Resources Development Fund set up by the Chinese government, the institute was projected to train specialized talents from African countries between 2004 and 2006. Hence, the institute has become one of the strongest equipped industrial research institutes on the African continent. The UIRI aims at pioneering in industrialization, adaptation and popularization of advanced technologies, training of personnel for research institutes and enterprises, driving progress of the national industry.

However, whereas Uganda and China have had relations since independence, a summary of external assistance by donor for the period 1999-2006 indicates that China is not among the top ten donors to Uganda. The review period indicates that the World Bank through the International Development association (IDA) window ranks number one followed by the United Kingdom, the European Union, USAID, Netherlands, World Food Programme, The African Development Bank, Denmark, Ireland, and Germany (Development Cooperation Report, 2005).



Source: Aid Liaison Dept, MFPED

Given the unprecedented increase in Aid in flows from China, there is need for support to be laid out transparently to other donors and development partners, including those that are locally present. This will help not only in the harmonization of activities but also the integration with economic policies to underpin macroeconomic stability.

To preserve fiscal and external sustainability, the volume and terms of loans should be compatible with the low-income country debt sustainability framework of the IMF and the World Bank. Assistance should also be aligned with national priorities of the recipient countries, as formulated in the Poverty Eradication Action Plan (PEAP) - Uganda's PRSP.

Finally, the provision of turnkey projects using mainly Chinese labor has its pros and cons. It may offer particular benefits with short-term limitations to Uganda's implementation and absorption capacity and appears to ensure timely delivery of capital stock that expands the supply response of the domestic economy. However, it likely scores lower in terms of creating local employment, enabling effective technology transfer, and ensuring the sustainability of projects.

V Summary, Conclusions and Policy implications for Uganda

Given this support from China, how should Uganda like other African countries react? The country needs additional resources in order to improve the livelihood of the masses. Rising trade and direct investment could create employment opportunities and facilitate the transfer of technology. But in order to make the most of the opportunities provided by China, Uganda and the African continent in general should also strengthen their own policies relating to both trade and aid use.

Trade & Investment

Uganda should continue strengthening intraregional trade and division of labor. This can be done through negotiating preferential market access arrangements which would enable products to enter various countries either duty free or quota free or any other. Arrangements such as AGOA, the current ACP-EU EPA being negotiated, SADC, EAC and COMESA would provide an opportunity for Uganda which doesn't belong to some to gain access through its partners to trade in its goods and services. Nevertheless, Uganda on the other hand should endeavor to make investments to ensure that they can meet the demand which can accrue as a result of successful negotiations. This would help keep costs low and competitiveness high and make the most of access to shipping. Improved infrastructure and streamlining border and customs procedures would also help. Moving up the value chain based on her traditional exports, in particular in agriculture and raw materials, and diversification in new "dynamic" products such as fish, cut flowers, cocoa and vanilla would increase export values and help to better exploit her trade relations with China in addition to preferential access to the European Union and the United States.

The bulk of Uganda's exports go to Kenya, Sudan, Congo, Rwanda, Tanzania and Burundi. It is important to note that all these countries are members of the EAC apart from Sudan. This clearly illustrates how regional integration can enhance trade. A number of commodities going to Juba (Southern Sudan), Rwanda and Burundi go through Uganda, due to its proximity to their trading centres. The bulk of agricultural produce imported into Uganda such as coffee beans, and hides and skins are destined for export. This scenario represents opportunities for re-exports of goods sourced from neighboring countries and imported into the country for further processing and export, and also for goods in transit to the neighboring countries. Uganda is blessed with good climate which is conducive for farming in agricultural products such as fruits and vegetables even flowers.

In so doing, Uganda would benefit from cooperation with her Chinese partners in overcoming market entry hurdles such as technical and quality standards, given their experience in entering Western markets. The scope for seeking out partnerships with Chinese firms is significant. However, Uganda will need to ensure a level playing field for all foreign investors in order to maximize investment from abroad.

Finally, the various interviews with the different players in the trade sector have helped throw light on why imports from China have continued to grow over time. This posses a daunting task for Ugandan government to review its terms of trade and in protecting the traders and the consumers from a raw deal. The desire by the Ugandan economy to reduce the trade gap seems to be unattainable in the near future. Eliminating stringent barriers to trade; streamlining customs procedures including issues of trade facilitation, transport infrastructure development, trade credit facilities and improving market information systems. Regional trade policies should look into such issues of strategic importance.

AID

Aid flows from China should be laid out transparently to other donors and development partners, including those that are locally present. This will help not only the harmonization of activities but also the integration with economic policies to underpin macroeconomic stability.

Finally, the volume and terms of loans should be compatible with the low-income country debt sustainability framework of the IMF and the World Bank. Assistance should also be aligned with national priorities as formulated in the Poverty Eradication Action Plan (PEAP).

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