Research

The Economic Benefits and Costs of The China- Uganda Relationship

Arafa Mutimba Nakijoba*
Shanghai University

*Corresponding author
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Abstract: This paper examines the economic benefits and costs of the relationship between China and Uganda which originates from Uganda’s post-independence period of 1962. The mutual Uganda–China relations are developing at a steady pace, from the onset of formal diplomatic ties especially after 1986 when president Museveni rose to power. Its varied parts embody historical links, diplomatic relations, multilateral co-operation, trade and investment, and public media engagement. At an equivalent time, there are differences between the two countries that continue to shape ties and distinguish them from China’s relations with other African countries.

Uganda is a diversified economy endowed with abundant resources not yet exploited which many foreign investors have had an eye on. China is seen as a key competitor in sectors Uganda views as strategic, as well as being an investor in resources. China has become an influential player in Uganda’s economy and development. This trend has brought opportunities and challenges to both economies, which share a similar global vision. This has made the two emerging countries to work towards closer strategic co-operation that takes account of the structure of bilateral economic ties, domestic diversity and overlapping interests.

Key words: Trade, development, Investment, imports and exports, foreign direct investments, growth

Introduction

Since Uganda’s post-independence era in 1962, Uganda and China have had long diplomatic relations like when bilateral relations between the two countries remained steady in spite of the regime changes in Uganda in the period of 1962-1986. China was one of the first countries to recognize the independence of Uganda and soon established an embassy in the country.
Since then, the two countries continued to cooperate though on relatively few high-level exchanges. In 1971, at the twenty sixth General Assembly of the international organization (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 2 times at the sessions of the United Nations Human Rights Commission in 1996 and 1997. In 2000, African country supported the bill advocate by China on the maintaining and observant of the Anti-Ballistic Missile accord within the United Nations.

China's involvement with Uganda in particular has been based on principles of mutual benefit, respect, equality, non-intervention and assistance without looking like the "big brothers", as many big powers had done in Africa. Historically, the China-Uganda relationship has been characterized by soft power, which is the ability of a country to attract and co-opt rather than coerce, use force or given money as a persuasion. China aims to build good will and portrays itself as a friend to Africa especially Uganda. Its strategy is area specific, that is, it focuses on less developed countries. So, to promote itself as a big power in the world, China engages in both big, and also small-scale economic enterprises in the continent of Africa.

Although some locals say that China is undermining the local enterprises which has led to conflict, to a greater extent its so far successful in its soft power initiatives and has created an image of itself as an economic power. China’s economic engagement with Uganda is beneficial to the local economy beyond resource revenues and improved infrastructure. Investments stimulate the economy and create employment opportunities. In 2017, the Chinese Ambassador to Uganda Zheng Zhu Qiang made this revelation while addressing hundreds of Chinese living in Uganda during celebrations for the then upcoming Chinese New Year (2018) in the capital Kampala and said that both China and Uganda maintained good momentum of development in various fields such as economic cooperation, trade and investment, culture, educational exchange and government assistance.

This relationship which stems from 1962 has to date (2019) yielded benefits for the two countries. Several projects have been constructed in Uganda under the financial hand of Exim bank which was valued at $100 million in assets with over 180 employees which greatly adds to...
the economy (state House Uganda, 2019). This paper therefore aims to reveal the benefits of Uganda from the mutual relationship between china and Uganda.

**Analysis of Chinas investment projects in Uganda**

Infrastructure like roads and power dams; Uganda has benefited from China’s investment in form of loans including concessional loans of as low as 2 per cent interest rate. It is through these loans that construction of major infrastructural projects such as Karuma hydropower dam, Isimba hydropower dam and Entebbe express high is under way and prevision of infrastructure for exploitation of oil from the Albertine region. Chinese investment in Uganda is significant. In September 2013 China National Offshore Oil Corporation (CNOOC) for $2 billion won the right to develop Uganda’s Kingfisher field, which holds an estimated 196 million barrels of recoverable oil. The Chinese have conjointly invested with $3.7 billion in infrastructure to link Rwanda, Uganda and Kenya with a rail line for export through Mombasa. China is also financing 85 percent of two hydroelectric projects in Uganda, worth $1.4 billion and $556 billion respectively. Construction work for each is awarded to Chinese firms.

Additionally, Uganda National Roads Authority (UNRA) together with Chinese contractors have joined and constructed a lot of infrastructure like the express high way to the airport in the country since transportation is one of the main problems the country faces today. The investments were stated owned (SOE), but recently, there has been a surge of the Privately-Owned Enterprises (POE) with Chinese heavily involved in four sectors, whole sellers, construction companies, import and retail trade and manufacturing companies. SOEs dominate the construction sector import, the bank and energy companies.

Promotion of agriculture production and education; The two countries signed a two-year agreement price $2.5m to support small-scale farmers in Uganda. The agreement marks the second section of a partnership that was established in 2012 to form coaching and technical recommendation accessible to the Ugandan agriculture sector. The agreement also includes developing crop, horticultural, livestock and aquaculture production, as well as introducing new technologies like renewable energy, agro-machinery and improved water harvesting and irrigation methods. In addition, Chinese experts will offer training, guidance and technical advice available to the local farming communities and Ugandan agriculture sector.
To attain agriculture development and training, 31 Chinese collaborators, including seven experts and 24 technicians were sent to Uganda since 2012 and they already introduced 17 new crop varieties such as hybrid rice, foxtail millet and maize. They have so far provided technical assistance in the fields of crop production, aquaculture, horticulture, livestock and agribusiness. Demonstrations and comparative tests as well, the Chinese millets have a shorter maturity period, making it easier to avoid Uganda’s dry season. Results additionally showed that introduced styles of hybrid rice yielded a lot of above native varieties. The new technologies and varieties introduced by the team are showing fast results with improved food crops, and accrued financial gain for farmers. In specific, commercial enterprise has enjoyed important progress, with the project having a direct impact on improving the trade cooperation in the agriculture sector between China and Uganda.

Provision of employment thereby reducing the unemployment problem of Uganda; Chinese projects have provided jobs to many previously unemployed Ugandans. One such project is that the construction of associate degree freeway in African nation that links the country’s capital national capital to Entebbe International landing field. China Communications Construction Company (CCCC), employing over 2,000 youths, is spearheading the project. In northern Uganda, one of the Chinese construction firms are constructing a $1.4b underground hydro power plant, the very first of its kind in Africa. At this project starting from unskilled, semi-skilled and skilled levels, over 4,000 youths have been employed.

Another hydropower construction project funded by the Chinese is also ongoing in the central part of Uganda providing hundreds of jobs to the youth. Many youths acknowledge that even when the Chinese are long gone, they will have gained skills to sustain their lives and families. Most of those youths have at some purpose born out of college for lack of fees however with these comes they hope to travel back to high school when saving enough money. World Bank figures put Uganda as one of the youngest and most rapidly growing populations in the world. About fifty-three of Uganda’s population is younger than fifteen years, which is above Sub-Saharan Africa’s average of 43.2%.

Analysis of Import and Export Trade between Uganda and China
The 2018 Statistics from the ministry of trade in Uganda revealed that China is the first largest trading partner with Uganda seconded by India. This implies that majority of the goods in Uganda are imported from China. In 2018 alone, Uganda’s imports from China were valued at US$ 1 billion while Uganda’s exports to China US$32.21 million. Despite the imbalance in trade $828.5 million. This has created an alternative source of goods for Ugandan traders since Uganda is a developing country with less of manufactured goods and hence needed a trading partner with a cheaper source of goods which china has provided.

Figure 1: Uganda's Exports and Imports to China (2007-2018)

From the chart above, it can be established that exports of Uganda to China have been growing all the way from US$14,407,000 in 2007 to US$ 32,210,000 in 2018. All this has been achieved because of the mutual relationship between the two countries. In the same period, the imports from china have been growing greatly from US$274,000,000 in 2007 to US$ 1 billion in 2018.

In terms contribution to domestic growth in trade, 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 no inheritable practices therefore reduced risk of injury before and when farm gate and conjointly borrowed expertise from different countries.

Mostly, it’s the farmers’ concerned 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 manufacture goods. Uganda Exports Promotion Board (UEPB) has been the key stakeholder in Uganda’s improvement in exports volumes together with Ministry of Tourism, Trade and Industry (MTTI), etc.

Due to the advantageous, duty free/ quota trade agreements given to LDCs and generic reasons whereby the matter is a lot of internal than external, demand by China cannot be met by the Ugandan economy. Chinese value more highly to import raw materials to supplement their already existing ones additionally to import from different countries moreover. The Chinese say that native costs of products are a lot lower in China and costlier in (Uganda, African nation) thus 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 favoring Chinese goods into Uganda compared to the locally made goods.

Due to market distortions, and the high costs of shipping our merchandise to China, difficulty in accessing finance, continued high levels of corruption, high land purchasing costs, poor infrastructure and many more, Uganda cannot compete with China. Thus, most Ugandan traders realize it less expensive to herald merchandise from China, which are cheaper than those at home.

However, the trade relationship between China and Uganda is not only milk and Honey, the increasing imbalance of trade between China and Uganda is a challenge to Uganda as the country spends more foreign exchange in acquiring foreign goods which increase inflation and worsened the price of the Uganda shilling on the world market. This is due to the fact that Uganda has to spend more dollars on acquiring external goods making the dollar expensive yet Uganda earns less on exports as indicated in figure 1. Therefore, if Uganda is to increase its earnings from exports, there is need to add value to the goods being exported.
As Uganda-China relations grow stronger, concerns about mutual benefits become more pronounced. To reduce the trade imbalance between Uganda and China, Uganda needs to increase its exports to China. Similarly, the government of Uganda needs to strategically attract Chinese investors who produce consumer goods that are suited to the consumption needs of Ugandans if imports of consumer goods from China such as shoes, clothes and food products are to be checked.

**Analysis of China’s Foreign direct investments to Uganda**

Uganda being a low developing country, it needs a brother like China who can come in to sponsor some of the development in Uganda so as to encourage more development. stemming from the long mutual relationship between Uganda and China, there has been an increasing trend of FDI flows to Uganda from China in a bid to encourage development. The chart below demonstrates this trend.

*Figure 2: Chart showing the trend in FDI (in US$ millions) to Uganda since 2007 to 2018*

This trend graph demonstrates that whereas while the FDI to Uganda were low between 2007 to 2009. There was increasing trend which was altered from 2011 to 2014 and since then, this relationship has improved and more FDIs have been growing which has greatly helped to improve Uganda’s growth economically. The sectors which have greatly benefited are transport; business related services, manufacturing, and agriculture while telecommunications, mineral exploration has not realized the benefits from the eternal assistance extended by China to Uganda.
Chinese aid has no political conditions hooked up (other than support for the "one China" policy), and emphasizes that partners are on an equal footing by stressing South-South cooperation. The Uganda Industrial Research Institute (UIRI) was set up in 2001 under a cooperation program between Uganda and China. The institute has been manufacturing technical personnel for Uganda's lightweight business. According to institute statistics, 690 technical personnel have been trained since then. It conjointly helped to cannonball along Uganda's industrial technologies.

However, FDI have an invisible hand that carries consequences to developing countries like Uganda. Thus, over reliance on external support has been the allocation of donor inflows supported donor interests particularly wherever such help is provided as uncoordinated budget support, which inhibits the country’s development efforts.

Albeit, 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).

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 facilitate not solely within the harmonization of activities however conjointly the combination with economic policies to underpin economics stability.

The provision of galore comes exploitation chiefly Chinese labor has its professionals and cons. It may offer particular benefits with short-term limitations to Uganda’s implementation and absorption capacity but also its likely scores lower in terms of creating local employment, enabling effective technology transfer, and ensuring the sustainability of projects.

Given this support from China, Uganda still needs additional resources in order to improve the livelihood of the masses. The rising trade and direct investment are creating employment
opportunities and facilitating 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.

**CONCLUSION:**

China’s economic engagement with Uganda is beneficial to the local economy beyond resource revenues and improved infrastructure. Investments stimulate the economy and create employment opportunities. However, it is important that the Ugandan government is proactive in maximizing the benefits of foreign investments for the local economy and society. It should dare to be more assertive, yet careful to design appropriate policies that maximize the potential benefits.

These findings from Uganda have relevance to other countries in Africa. There are both benefits and harm caused by Chinese companies in Africa. By proactively formulating policies, African governments can maximize the benefits of the presence of Chinese companies and reduce the harm to their economies and thereby their citizens ‘social and economic welfare. The Ugandan governments should seek to balance the benefits of foreign trade and investment to their local economies with support for domestic businesses and industries.

To increase Uganda’s benefits from Chinese and other foreign investments, Uganda should include a requirement in the contracts of foreign investors, at least the larger state-owned companies, to prioritize sourcing of locally available goods and services. Uganda should also include, in its investment guidelines, a requirement for foreign investors to recruit specified proportions of Ugandans at managerial and non-managerial levels to work in their firms.

To improve investment practices among Chinese and other foreign investors, the Uganda Investment Authority should improve investment monitoring and deliberately reach out to investors to share relevant information on recommended investment practices and to guide them to invest sustainably. If all the investment projects from China are thoughtfully screened for their benefits, Uganda will surely move in the same direction with China and mutual benefits will be achieved in the Uganda-China relations.

**References**


### Appendices

Table 1: showing the imports and exports between Uganda and china (2007-2018)

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports US$</th>
<th>Exports US$</th>
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<tbody>
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<td>274,000,000</td>
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<td>622,000,000</td>
<td>37,982,000</td>
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<td>2014</td>
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<td>2015</td>
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<tr>
<td>2017</td>
<td>986,000,000</td>
<td>30,119,000</td>
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Table 2: showing China's FDI contribution to Uganda (2007-2018)

<table>
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<th>Year</th>
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</tr>
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<tr>
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<td>2017</td>
<td>290</td>
</tr>
<tr>
<td>2018</td>
<td>607</td>
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Acknowledgement
Not mentioned.

Conflicts of Interest
There are no conflicts to declare.

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