

PRESS BRIEF

Governor's Lecture Series – Dr David Dollar Bank of Uganda and International Growth Centre How Uganda can benefit from the economic rise of China

When historians look back at this period they will identify one of the most important events as China's emergence as one of the largest economies in the world. Since the mid-1970s, the Chinese economy has been transformed through export-led industrialisation and its growth has had a profound effect across the globe. In particular, China's demand for raw materials has supported an economic boom, through higher commodity prices, in many developing countries, including many in Africa. Although Uganda does not export many primary commodities, such as oil and iron, directly to China, the overall growth in Africa has meant that there were numerous positive spill-over effects for the Ugandan economy as well.

However, China's growth model is now changing. It has built excess capacity in its capital stock and it will take some time to work through this. This has meant that China's private investment has slowed down significantly. Although China's consumption levels are still high, this is mostly focused on services and will no longer result in the high demand for energy or primary commodities.

This investment slow-down has meant that China has become an important capital exporter. Additionally, the changing demographics have resulted in a smaller working population and rising wages. The result of this is that value chains, especially those that are labour intensive, are starting to migrate out of China. To date, African economies have had relatively little involvement in global value chains. This is, therefore, a prime opportunity to benefit from this shift to try and attract some of these value chains and jobs to Uganda.

Given that China's demand for primary commodities is declining, it is likely that the growth in Chinese investments in Africa will be largely through small and medium enterprises. A further trend has been the increase in external financing for infrastructure, such as for the Karuma Dam and the Kampala-Entebbe Expressway. In taking on more of this financing, there is a need for the government to enforce quality control and safeguard mechanisms to ensure that the infrastructure built is of high standard, as this is needed to ensure that the infrastructure will contribute to growth and not affect its debt sustainability. There are also best-practice examples that can be taken directly from the Chinese experience, as they built their own infrastructure and priced it very rationally to enable it to generate revenue. This resulted in China having the highest number of toll roads in the world, for example. Additionally, it will be important to ensure that investments in Uganda, through the Chinese and others, can generate jobs and ensure that skills transfer to Ugandans.

China is already having a significant effect on Africa and the bottom line is that this is positive. It will continue to be a key development partner for countries across the continent. Uganda needs to harness this opportunity and attract investments, through ensuring that it has a conducive investment environment, among other things. This will be key to guiding the economic rise of China to support Uganda's structural transformation. However, there

are also challenges and these will require the Government of Uganda to manage this relationship accordingly.