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Seeking Independence a Second Time: FDI in Uganda’s Development

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Seeking Independence a Second Time: FDI in Uganda's Development

Halle Jones

School for International Training

Uganda: Global Development Studies Spring 2022

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ABSTRACT

This paper aims to examine the characteristics of foreign direct investment in Uganda and its impacts on development. The paper will look at the current neoliberal paradigm in the international political economy and its role in the developing world.

A practicum-based internship with the Southern and Eastern Africa Trade Information and Negotiations Institute Uganda (SEATINI) guided independent research and provided information through interviews with various organizations and government ministries.

This paper found that neoliberal policies limit development opportunities of FDI. Examples of successful economic growth in various countries provide significant evidence of the importance of government intervention and strategic development plans. Uganda's current investment framework, however, often favors foreign investors and lacks policies that help to translate FDI to the country's development goals.

The role of international organizations such as the IMF and World Bank also plays a significant role in the current investment regime. Uganda, as well as other developing countries, has a limited policy space due to the narrative that the developed world has imposed.

Furthermore, FDI has great potential for Uganda's development, but there is a need for both domestic and international policy reform to promote equitable economic growth and sustainable development.

ACRONYMS

AfCFTA - African Continental Free Trade Area

BoU - Bank of Uganda

BIT - Bilateral Investment Treaties

CRISEA - Competing Regional Integrations in Southeast Asia

EIA - Environmental Impact Assessment

ERP - Economic Recovery Plan

FDI - Foreign Direct Investment

FIPA - Foreign Investments Protection Act

FTA - Free Trade Area

GDP GR - Gross Domestic Product Growth Rate

HRIA - Human Rights/ Social Impact Assessment

IGC - International Growth Centre

IIA - International Investment Agreement

IPE - International Political Economy

MDC - More Developed Country

MNE - Multinational Enterprise

NRM - National Resistance Movement

PEAP - Poverty Eradication Plan

SEZ - Special Economic Zone

SAP - Structural Adjustment Program

TNC - Transnational Corporation

TRIM - Trade Related Investment Measure

UIC - Uganda Investment Code

UNCTAD - United Nations Conference on Trade and Development

WTO - World Trade Organization

EIAs - Environmental Impact Assessments

CHAPTER ONE

INTRODUCTION

1.0 Introduction

In the developing world, where domestic capital is often insufficient for independent economic growth, foreign direct investment (FDI) is integral. It is argued that foreign investors provide resources needed in developing countries that would otherwise struggle to obtain. Sir Leon Brittan (1995), a former British commissioner of the European Union, states that FDI is "a source of extra capital, a contribution to a healthy external balance, a basis for increased productivity, additional employment, effective competition, rational production, technology transfer, and a source of managerial knowhow." These parameters have since formed the promises often attached to FDIs.

However, FDI has many limitations that inhibit a country's development. To increase employment, reduce inequality, and improve its standard of living, the country requires a strong central government that is able to regulate FDIs in public interest and in line with her set national development objectives. Nevertheless, in a bid to attract FDIs, developing countries have often put in place neoliberal policies which seek to limit state involvement in regulation of FDIs. This demonstrates the power that transnational corporations (TNCs) have over developing economies because it is their interests that must be catered to. In this, developing countries remain economically dependent on more developed countries (MDCs). So, while the developing world must integrate into the international political economy (IPE) to access essential capital, the current system of Investment Governance restricts their autonomy and, thus, their development.

These characteristics of the IPE are crucial in understanding FDI in Uganda. Despite becoming politically independent from the British government, Uganda was forced to adapt to new patterns of globalization and, instead, became economically dependent on its former colonial master and

other MDCs. In the mid-1950s, prices of Uganda's primary exports (coffee and cotton) declined faster than production could compensate for, resulting in decreased revenue and increased budget deficits. Though Uganda wished to invest in national development and raising living standards, the economy relied on financial assistance from the British and the World Bank. These foreing influences consisted of financial conservatism which limited social services and export-driven capitalism (Roes, 2009). Dependency continues, largely in the form of FDI and its governance. Uganda development initiatives remain limited by the nature of the current investment policy framework. SEATINI (2017) states that, "the Uganda Investment Code Act (2000) and its proposed amendment (Investment Code Bill, 2017) do not provide for human rights protection. Instead, they provide for investor rights at the expense of people's economic, social and cultural rights." Because foreign projects make up USD 1.493 billion out of the USD 2.861 billion total investment in Uganda (SEATINI 2016), policies like placing a minimum wage and establishing working condition standards can limit the power that investors have on the population's living standards. However, the current investment framework lacks such policies as institutions like the World Bank and other investors continue to demand limited state involvement, placing barriers to development and, consequently, economic independence.

1.1 Background

After Uganda's independence in 1962, the government began putting in place mechanisms to attract FDIs to replace funding previously provided by the British government. In order to promote industrialization, the government utilized a multitude of methods, including the Uganda Development Corporation (UDC), Uganda Industrial Act 1963, and Foreign Investment (Protection) Act 1964. The government intended to limit the state's involvement and ownership of FDI but moved towards nationalization. Because the economy was dominated by a few British-

Asians, The Common Man's Charter (CMC) of 1968 and the Nakivubo Pronouncement (NP) of 1970 were employed to give more economic control to the Ugandan government. The increased power of the state, though, was disfavored by foreing investors. In addition to nationalization, political conflict greatly impacted the investment climate (Obwona, 1999).

The 'Economic War' of 1972, during the rule of the military government under Idi Amin, Amin expelled the British-Asians and expropriated businesses of foreign investors. FDI was also technically outlawed, as investors were required to be naturalized as a Ugandan. Despite attempting to regain control over the economy, "the country lacked foreign exchange and creditworthiness" which "led to price hikes" and the "eventual collapse of the industrial and commercial sectors." As a result, the government recognized the importance of FDI and attempted to resolve its issues through the 1977 Foreign Investment Decree by implementing exemptions from import duties and sales taxes. However, investors remained hesitant due to Amin's unpredictability, and his policies had a lasting impact on the investment climate (Obwona, 1999).

In 1986, the NRM came to power, beginning a new phase of FDI in Uganda. In 1991, the Uganda Investment Code established the Uganda Investment Authority (UIA), replacing the 1964 FIPA and 1977 Foreign Investment Decree to rebuild the foreing investment climate. Economic forms were implemented by the new government and supported by the IMF and World Bank. The structural adjustment program (SAP), which was suspended during the, was revived by introducing the Economic Recovery Plan (ERP) in 1987 and the Poverty Eradication Plan (PEAP) in 1997 for its implementation. The PEAP introduced reforms to improve government expenditure efficiency, control inflation, and increase international trade (Wakyereza, 2017). Due to these policy reforms in the NRM Era, "FDI increased from USD 30 million in 1985 to USD 1,146.13 in 2014,

representing a USD 359.08 million annual FDI inflow, growing at 20.11% per annum" (Wakyereza).

Though FDI has contributed to economic growth in the country, Wakyereza (2017) found that "Uganda has experienced declining GDPGR with wide fluctuations." GDPGR increased from -3.31 percent per annum in 1985 to 11.52 percent per annum in 1995. It then declined to 3.27 percent per annum in 2013, though it increased to 4.51 percent per annum in 2014 (World Bank)This study also indicates the constraints to translating FDI to development. Employment of the labor force has been declining which also contributes to continued poverty. Though Wakyereza recognizes the importance of FDI in economic growth in Uganda, he also notes the need for policy reforms in order for the country to benefit more from foriegn investment. For increased sustainable development, Uganda needs to improve its absorption capacity for foreign capital by supporting disadvantaged households in generating income and growing entrepreneurial skills. Moreover, FDI has potential for continued economic growth, but pro-development policies are essential for Uganda to improve the lives of its citizens as it moves towards a middle-income economy.

1.2 Problem Statement

The global investment policy landscape has been evolving, with countries pushing for reforming of International Investment Agreements (IIAs), including the adoption of UN Guiding Principles on Business and Human Rights, the intensified discussions on Investment Facilitation at the World Trade Organization (WTO) and, at the continental level, the African Continental Free Trade Area (AfCFTA) is negotiating a Protocol on Investment for Sustainable Development (UNCTAD 2021). All of these, in theory, aim to promote a liberal investment regime that encourages FDI

while limiting state regulation. The problem with this changing landscape is that it is consolidating the powers of FDIs while constraining those of states to regulate.

The liberal nature of investment agreements and policy frameworks perpetuated by institutions like the World Bank and IMF have led to a global economic system that limits the power of the developing world to be independent of foreign interests. In Uganda, increased neo-liberalization and privatization to promote FDI have inhibited the translation of FDI into sustainable development. Despite growing FDI, economic inequality and living standards have not improved proportionally. Moreover, there is a need for both domestic and global policy reform to promote equitable trade and FDI.

1.3 Objectives

1. To identify recent trends in and characteristics of FDI in Uganda and their causes and implications for development
2. To identify the main actors and policies, domestic and global, that shape FDI in Uganda
    a. To understand the power dynamics surrounding investment governance
3. To propose solutions in reforming global policy to promote sustainable development

1.4 Significance

FDI provides an essential way for Uganda to promote economic growth and sustainable development. However, global powers and the demand for neoliberalization restrict the country's ability to develop and move towards a middle-income economy. Countries like Malaysia and Thailand have developed significantly more than Uganda, though they were in similar positions in the 1970s. CRISEA (2020) explains the debate between the neoliberal and developmental state as competing models in southeast Asia. Though many researchers point to the region's openness and

limited barriers to investment, many countries in the area benefitted from a strong state to control trade unions and financial institutions (CRISEA). Understanding the larger discourse within the global political economy would explain Uganda's position and its challenges in promoting development through FDI.

1.5 Justification

While there has been research on the topic before, many reports are not up-to-date, especially after the pandemic. Much of the research also focuses on Uganda's domestic policy. While domestic policy is important in understanding FDI and development, exploring the relationship between Uganda, developed countries, and international organizations could provide additional insight into possible solutions to further development. Because developed countries and multinationals hold much of the power in the global political economy, understanding their influence and detrimental policies could incite change from the larger forces themselves.

CHAPTER TWO

LITERATURE REVIEW

2.0 Theoretical Framework

Economists have long debated the effects of FDI on developing countries, and many theories continue to be conflicting. Many agree that FDI provides many benefits and contributes to significant economic growth. Because developing countries need increased access to capital, FDI is an important resource for growing economies. FDI also has other potential macroeconomic effects, including increased employment, improved technology, and diffusion of knowledge and skills into the workforce.

Compared to other forms of international financial flows, FDI seems relatively stable. Net FDI flows to developing countries increased from USD 169 billion in 1997 to an average of USD 172 billion per year between 1998 and 2002, despite the period of financial turmoil (Chang 2008). The stability of FDI, however, is not consistent for all countries. An open capital market allows for FDI to be quickly liquidated and shipped out. For example, "As even an IMF publication points out, the foreign subsidiary can use its assets to borrow from domestic banks, change the money into foreign currency and send the money out; or the parent company may recall the intra-company loan it has lent to the subsidiary (this counts as FDI)" (Chang 2008).

FDI also creates the opportunity for "transfer pricing" by TNCs. TNC subsidiaries in different countries may overcharge or undercharge each other to maximize profits in the countries with the lowest corporate tax rates. For instance, "A Christian Aid report documents cases of underpriced exports like TV antennas from China at $0.40 apiece, rocket launchers from Bolivia at $40 and US bulldozers at $528, and overpriced imports such as German hacksaw blades at $5,485 each,

Japanese tweezers at $4,896, and French wrenches at $1,089 "(Chang 2008). This problem has become even more severe with an increase in tax havens to the point where companies can shift most of their profits. The firms often argue that the host countries already benefit from their generation of taxable income. This claim ignores how firms need the resources provided by the host country's government with taxpayers' money. As a result, the TNCs benefit from the host country's resources for which its citizens pay.

In regards to productivity impacts, the evidence for spill-over effects from FDI remains largely ambiguous. Even the IMF stated that "[d]espite the theoretical presumption that, of the different types of [capital] inflows, FDI has the strongest benefits, it has not proven easy to document these benefits" (Chang 2008). One reason for this is the different productivity impacts between types of FDI. Greenfield investment occurs when a foreign company or individual establishes a business in another country as a subsidiary. The business starts from scratch— all facilities such as factory premises, offices, and stores are new. Though startup costs are high, this gives investors more flexibility in setting up the facilities according to its needs. The investor also controls the placement of finances and hiring of employees more than it would through other forms of investment. For instance, brownfield investment occurs when a business utilizes a pre-existing facility, saving on startup costs and time. The company can either lease the existing facility or acquire it through a merger and acquisition deal (M&A). Ha-Joon Chang (2008) argues that there is no guarantee of any added production facilities or productive capabilities. Brownfield investors can buy a company that is undervalued in the market, continue running it in the same manner, and sell it to a suitable buyer. Some of these investors even actively destroy the company's productive capabilities through "asset stripping."

FDI also creates an opportunity for “spill-over effects” by improving managerial techniques, teaching skills to local workers, and buying from local producers, but these effects are not guaranteed. A TNC can set up an “enclave” facility to import inputs and only engage locals in simple assembly. Even when they do occur, the effects are often “relatively insignificant in magnitude" (Chang 2008). Performance requirements imposed by governments can increase spillover effects by ensuring that the investor creates a certain level of positive impact on the local community.

2.2 Conceptual Framework

FDI-International Political Economy (IPE)-Based Theories

IPE provides an explanation of how resources are distributed through power structures that incorporate individuals, the state, international organizations, civil society, and MNEs (Balaam & Veseth 2008). It explains the relationship between the state, market, and community and their interconnectedness in the global economy. FDI trends, therefore, can be understood as a result of the conditions of the IPE at the time. Uganda, for example, had limited FDI in the 1970s due to its unstable political climate and attempts to enforce state-led investment policies. This also reflects the influence of the IPE, as investing countries have their own political motivations and economic incentives.

IPE theories can also provide a way to understand the more general power dynamics between MDCs and LDCs. These theories examine a country’s political and economic position in the world and argue it as the main reason for its performance and development.

Dependency Theory and World System Theory

Dependency theory and its close relative, World System Theory, emphasize the role of *external*

relationships in the developmental process. It focused on individual nations and their roles as suppliers of raw materials, cheap labor, and markets for expensive manufactured goods from industrialized countries. The unequal exchange relationship between developed and developing countries is viewed as contributing to underdevelopment.

Dependency continues, largely through FDI and neoliberal policies. The developing, or peripheral, countries weaken their states and limit regulation to attract investors. While these investments are crucial for emerging economies, development requires a strong state that can advocate for its own country's needs rather than cater to the demands of wealthy nations.

The Neoclassical Growth Hypothesis

The neoclassical growth model is based on a neoclassical production function which considers factor inputs and technical change (also called the residual) as the *only* determinants of growth in output. The fundamental understanding of the neoclassical growth model is that it is not possible to sustain long-term growth without technological progress due to the principle of diminishing marginal productivity.

The Endogenous Growth Hypothesis

The endogenous growth model emerged due to a lack of response by the neoclassical theory about the reason for the different rates of economic growth among countries that have the same technological level.

It challenged the neoclassical model by emphasizing the role of endogenous factors, which focuses on the potential factors that can influence economic growth through technology. These factors include extra investment in human capital stock, R&D, ICT and technological adoption activities) as the main engines of economic growth.

CHAPTER THREE

METHODOLOGY

5.0 Research Approach

SEATINI guided my research by recommending appropriate contacts for potential interviews and assisted in setting up those interviews. They also recommended books on the topic, useful websites for relevant data and policies, and several of their own reports regarding FDI.

SEATINI is an NGO that aims to build negotiation and trade capacity for East African LDCs such as Uganda. SEATINI engages third-world negotiators and helps them understand trade agreements (global and regional), while also developing alternative policies to help LDCs. They advocate for state-led trade policies over the current neoliberal paradigm.

5.1 Interviews

During the ISP period, I independently conducted a total of 7 interviews with the following organizations: SEATINI Uganda, UIA (Kampala Industrial Business Park (Namanve)), UFZA, EPRC, Akina Mama wa Afrika, Office of the President-Cabinet Secretariat, and the Ministry of Trade, Industry and Cooperatives. In these interviews, I learned the roles of these organizations, discussed some of the opinions of the respondents, and received some reports and useful data.

5.2 Literature and Document Review

Ha-Joon Chang's *Bad Samaritans* and *Kicking Away the Ladder*, recommended by SEATINI and other professors, were the books I found most relevant and useful in understanding the context for the research. Using historical and modern examples, they demonstrate the dominant discourse perpetuated by wealthy nations. I also read policies such as the Investment Code Act and the Free Zone Act and reports published by UNCTAD, the BoU and IGC. With the use of online databases, I also found relevant research conducted regarding FDI.

CHAPTER FOUR

FINDINGS

4.1 The Case for Neoliberalism

4.1.1 The Global Narrative

Neo-liberal economics is a modern form of liberal economics that originated in the 18th century with Adam Smith. Liberal economists supported the notion that government intervention reduced competition and reduced economic efficiency. Neo-liberal economists are different in that they support "forms of monopoly (such as patents or the central bank's monopoly over the issue of bank notes) and political democracy" (Chang 2008). The new regime, however, continues the enthusiasm for the free market.

In the 1960s, neoliberalism emerged and has dominated economic discourse since the 1980s. It has been extensively promoted in the developing world ever since, including its agenda of deregulation, privatization, and opening up of international trade and investment. The governments of the rich countries allied to push this agenda by forming what Ha-Joon Chang (2008) deems as the "Unholy Trinity," which includes the IMF, World Bank, and WTO. The IMF and the World Bank, for example, have offered loans to developing countries but have attached conditions that the recipient countries adopt neo-liberal policies.

The argument for neoliberalism is defended through a specific history of globalization and development. Chang (2008) identifies the "official history" of globalization in the following way:

> Britain adopted free-market and free trade policies in the 18th century, well ahead of other countries. By the middle of the 19th century, the superiority of these policies became so obvious, thanks to Britain's spectacular economic success, that other countries started

> liberalizing their trade and deregulating their domestic economies. This liberal world order, perfected around 1870 under British hegemony, was based on: laissez-faire industrial policies at home; low barriers to the international flows of goods, capital and labour; and macroeconomic stability, both nationally and internationally, guaranteed by the principles of sound money (low inflation) and balanced budgets. A period of unprecedented prosperity followed.

This version of history argues that the success of global economic growth is a result of extensive liberalization. This picture that advocates of neoliberalism depicts is highly misleading, as it ignores fundamental accounts of strategic plans and government interventions that were essential for the development of rich countries.

4.1.2 How Rich Countries Developed

In the first segment of globalization, between 1870 and 1913, the British hegemony developed a seemingly free and liberalized trade regime. Chang (2008) argues that this "free movement of goods, people, and money…was made possible, in large part, by military might, rather than market forces." He cites an important example of the Opium War in which the British government declared war on China, resulting in Britain's colonization of Hong Kong to control its tariffs. To make up for the trade deficit, Britain exported opium from India, despite it being illegal in China, not to mention destructive and inhumane to get a population addicted to narcotics. This is a prime example of how "free trade" was often a result of forced compliance with a stronger hegemony. Countries like Great Britain often gained from this practice because of its deliberate forceful nature, rather than natural market forces.

4.1.3 Neoliberalism in Development

The official history often cites the "miracle" of East Asian development through its abandonment of protectionism and interventionism and its embrace of neoliberalism. However, Latin America and Africa have not seen the same success rates despite more thorough implementation of neoliberal programs. Additionally, economists often argue that we should focus on the creation of wealth first, which has resulted in extreme income inequality. Some may insist that this is the only way to continue growth, but growth has slowed down significantly.

The "miracle" of East Asia is also the result of extensive government strategy and intervention. Korea's government, for example promoted certain new industries through tariff protection, subsidies, and marketing services. To promote steel, an area where the private sector was lagging behind, the government established the state-owned enterprise of POSCO. As a result of such interventions, Korea was able to promote exports of simple garments and cheap electronics. This allowed for increased earnings of hard currencies, which were used to invest in advanced technologies for more difficult industries until they could compete internationally without government support. Similarly, Taiwan implemented strategic state intervention but focused more on state-owned enterprises and was more open to foreign investors than Korea. Singapore, while relying heavily on foreign investment, used considerable subsidies to attract specific industries, especially through government investment in infrastructure and education. It also has one of the largest state-owned enterprise sectors in the world, "including the Housing Development Board, which supplies 85% of all housing (almost all land is owned by the government)." (Chang 2008).

4.2 The Case for Neoliberal Policies in Uganda

4.2.1 The Current Policies

Uganda Investment Code, 1991 (Amended 2019)

The Uganda Investment Code is the primary policy framework for investment in Uganda. On January 25th 1991, the Code described how investments would be promoted and managed by establishing the Uganda Investment Authority (UIA). The Code was revised in 2000 due to criticism of its favoritism towards foreign investors over domestic ones (SEATINI 2016). The most recent amendment was introduced in 2019 to modernize the Code, align it with the Constitution, and "redefine the functions of the [Uganda Investment] Authority" and make it a "one-stop-centre for coordination, promotion, facilitation, monitoring, and evaluation of investment and investors" (GoU 2019). Though the Code has made improvements in some areas, criticism continues regarding the effectiveness of its policies.

First, the Code has failed to specify coordination measures between the UIA and other government institutions such as the Ministry of Trade, Industry and Cooperatives (MTIC), the Ministry of Agriculture (MAAIF), and the Ministry of Lands (SEATINI 2016). The latest act now mandates cooperation with other government ministries, departments, and agencies. However, there is no mandate for these other institutions to cooperate with the UIA. Within the legislation of other agencies, there are also no mandates for compliance and/or coordination with the UIA (Okot 2020).

Secondly, the Code requires foreign investors to register through the UIA, which will issue an investment certificate. The requirements for registration (sections 16 and 17) include satisfying the minimum investment capital (though the amount is not specified), a certificate of registration of the business, an environmental impact assessment (EIA) certificate, the projected number of

employees, and a license issued by the sector in which the investor wishes to operate. (GoU 2019). SEATINI (2019) notes the lack of a required human rights/social impact assessment (HRIA); and, while the investment plan is clearly defined, there is no criteria for approval of the plan which could otherwise ensure its contribution to Uganda's development.

The Code also attempts to clarify an incentive regime that promotes investment and social and economic transformation. While there is no section for performance requirements for investors, incentives are awarded to investors who qualify. Different qualifications promote the government's goals, which can aid the country's development. The 2019 amendment (section 12) lists some of these qualifications, including engagement in any of the priority areas listed in Schedule 2 of the act; exporting at least 80% of the goods produced; substituting 30% of the value of imported producers; having 70% of the raw materials used be locally sourced; or introducing or upgrading technology. Schedule 2 includes 26 priority areas and does not restrict foreign investors to any specific sectors or reserve any sectors solely for domestic investment.

Moreover, the Code continues to lack important regulations and guidelines. The UIA's role in facilitating and monitoring land acquisition for investors was somewhat introduced under section 10(1)(e) in 2019, but there is no guideline on how this should be implemented. SEATINI argues that the policy should clearly identify the responsibility of the UIA "to acquire, develop, and manage serviced land for investment in accordance with the Constitution and Land Act of Uganda" (2019). Specifying that investors must comply with current land policies prevents land grabbing and protects rights holders. However, the new definition of "foreign" provided in the Code is inconsistent with the definition of the Land Act's definition of "noncitizen." The Code, under the interpretation section, establishes any citizen of an EAC Partner State as a natural person, meaning businesses from the EAC are considered domestic and not foreign. The Land Act, on the other

hand, “noncitizens” include members of the EAC and must acquire a lease, which can only be granted for up to 99 years (Okot 2020).

Other policies absent from the Code include performance requirements and a clause for due diligence. These provisions can provide opportunities for the UIA to encourage development goals. Forms of due diligence could prevent investors from exploiting Ugandan citizens by identifying businesses with harmful practices and requiring their compliance with environmental and labor laws. Transparency of investors is currently limited, which indicates a need for a thorough investigation of investors before they can receive an investment certificate. The Code also does not address any forms of human rights, such as gender and cultural rights. Performance requirements, as well as HRIAs, could restrict discrimination, improve work conditions, and promote the overall welfare of Ugandan citizens.

Uganda Free Zones Act, 2014

The objective for the adoption of Free Zones in the country is to create “an enabling environment aimed at enhancing economic growth and development of export-oriented manufacturing in priority sectors of the economy" (UFZA 2020). In establishing the Uganda Free Zones Authority, they are mandated to “develop, manage, market, maintain, supervise, and control Free Zones” for the purpose of “creating opportunities for export-oriented investment and job creation.” The Free Zones Act (2014) defines a free zone as a “designated area where goods introduced are generally regarded, so far as import duties are concerned, as being outside the Customs territory.” Free zones are Customs-controlled, meaning they are regulated by acts of the Parliament of Uganda and the EAC Customs Management Act and Regulations, but they are not subject to import and export duties. Free Zones include “Export Processing Zones (EPZs), Free Port Zones (FPZs), and Special

Economic Zones (SEZs)." It is important to note, however, that the term SEZ has been used to denote a specific zone model, characterized by its large size, but can also denote any zone open to investors. François Bost (2019) proposed that the latter definition be adopted for greater terminology harmonization and improved communication for investors and policymakers. With this definition, free zones are a subtype of SEZs that specifically offer reduced or removed custom duties, which is inconsistent with the UFZA terminology.

Another goal of free zones created by the UFZA is to create jobs and increase exports, but the IGC (2020) argues that these objectives are insufficient for effective industrialization. To achieve Uganda's economic development goals, the UFZA should define specific objectives with their appropriate policies. For example, building a zone to attract agribusinesses "by providing infrastructure to source more easily from local producers" can increase production of value-added agricultural exports (IGC).

Policies should also focus on identifying the obstacles to investment and their spill-over effects by removing the barriers that reduce the potential for private sector development. The IGC found, through cross-country evidence, that fiscal incentives and tax exemptions are not effective in attracting investment or improving SEZ performance, despite this being the strategy of current politics. Instead, many countries emphasize the importance of the business climate in generating investments, exports, and employment. To do this, the UFZA should aim to improve basic infrastructure (water and electricity), trade-related infrastructure (roads, ports, and logistical services), and effective business administration and regulation.

Bilateral Investment Treaties (BITs)

BITs are international agreements to aid private investment through enforcing common standards. They do so by indicating conditions for investor admissions and standards that protect investors,

guaranteed compensation in case of expropriation, and methods for settling disputes. Uganda has negotiated and signed a total of 15 BITs, including those with the Netherlands, the United Kingdom, China, and South Africa (SEATINI 2016).

BITs attract investment by offering additional protection for investors. However, BITs do not contain measures for human rights or environmental protection; rather, they demand extensive liberalization and limit the government's sovereignty and ability to protect the environment and society.

4.2.1 The Current Narrative

In reviewing the policies above, it is clear that Uganda's current political framework promotes the neoliberal paradigm in order to attract FDI. In interviews with an officer in the Ministry of Trade, Industry and Cooperatives and with a member of the Office of the President-Cabinet Secretariat, they both advocated for policies that focus on generating investment through limited government intervention. Rather than implementing policies to improve FDI's contribution to inclusive growth and the development goals of the country, these policies often favor foreign investors and have limited measures to advocate for Ugandan citizens.

This narrative is not entirely baseless. Many studies have found a strong correlation between FDI and economic growth in Uganda. In a dissertation submitted to Kampala International University (2019), Keinadid Mohamed Abdiasis concluded the following:

> The results indicated that foreign direct investments were highly affecting economic growth of Uganda for the period of the study. The study concludes that 46 increasing foreign direct investments can enhance the economic growth for Uganda positively

> meaning that the higher the FDI the higher the economic growth. It is with conclusion that FDI is a fundamental factor for the growth of Uganda.

However, arguments solely based on these findings are highly misleading and ignore many other characteristics of FDI. In the same study, Abdiasis found that "the effects of FDI are contingent on the absorptive capability of host countries." He recommends that Uganda implement entry, locating, and operating procedures to improve the country's business climate and increase the spill-over effects of FDI. Additionally, excessive emphasis on economic growth can often be detrimental to the improvement of human rights and general welfare. While Uganda's GDP may be growing, living conditions and human development may be unnecessarily sacrificed.

4.2.2 Policy Space

Though there are many improvements to be made in Uganda's investment framework, there is also a need for an improved international investment regime. The WTO, IMF, and World Bank play a significant role in how policies are determined in both the developed and developing world. Rewriting global policies to promote inclusive growth can largely increase the policy space that developing countries, such as Uganda, have to promote investment that works best for their needs. Currently, performance requirements are rarely included in BITs and FTAs, as they are designed to conform to the WTO Trade Related Investment Measures (TRIMs), which actually prohibit certain performance requirements. The United States BIT model (2012) even prohibits performance requirements. Such restrivie models deteriorate the policy space of Uganda to focus on the industries that will best promote its development and design policies to strengthen its position as an exporter.

CHAPTER FIVE

CONCLUSIONS

5.0 Conclusions

The current neoliberal regime that dominates the global economy prevents inclusive, pro-development growth by limiting the power of the state. Development requires a strong government so it can promote the needs of its citizens and realize its own goals.

Uganda's current investment framework promotes excessive liberalization and often heavily favors foreign investors. Uganda should improve its investment framework to emphasize the government's responsibility in protecting the rights of its citizens and promoting inclusive development.

While the World Bank provides recommendations for investment policies, there is a need for international FDI policy that protects developing countries. Developing countries, like Uganda, need increased policy space to promote specific industries. Additionally, international agreements that specifically address investment could limit poor working conditions and environmental damage.

5.1 Recommendations for Further Study

Further research should investigate how to change international and domestic investment policies. What can be done to promote an investment regime that is beneficial for the developing world? The current state of the international political economy, where the elite control much of the world's systems, often seems daunting and even impossible to alter. However, the developing world has seen a lot of progress in different ways. Bringing attention to the issue of investment policies and neoliberalism is the next step in continuing this progression.

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