

# Status and trends in Chinese investments that impact forestland use in Uganda

## Uganda



Credit: James Mayers

### Status and trends of China-linked forest sector investments, enterprises and trade

Chinese investments in Uganda's forestry sector began less than a decade ago. These investments are in tree growing and processing, mainly for export to countries such as China, Democratic Republic of Congo, Rwanda, Burundi and South Sudan. Major trees grown include Hoop pine and Macadamia, while pine and eucalyptus trees are the major trees processed. Investors obtain tree seedlings mainly from the National Forestry Authority, private tree nurseries and through import from neighbouring countries such as Kenya.

Currently, all the Chinese investments in Uganda's forestry sector are privately owned and acquire capital from other non-forestry enterprises under the same ownership in China and Uganda, or from local commercial banks. Unlike Chinese investments in other sectors, the majority of the Chinese investments in Uganda's forestry sector are located outside Kampala. Over the past two years, there has been a rapid growth in the number of Chinese investors in Uganda's forestry sector, especially those manufacturing plywood. While the majority of these investors claim to be motivated by the high profit margins, lower competition compared to other trading businesses, and the fact that Uganda is favourable for growing or obtaining the trees, cheap labour, adequate land, and demand for forest products, anecdotal evidence suggests that recent Chinese investments are aiming to supply plywood and timber to big infrastructure projects in Uganda such as the Karuma dam project, which is contracted to China's Sinohydro Corporation. However, it is also evident that some Chinese forest sector investors face difficulties in obtaining land, competition with fellow Chinese enterprises, and poor relations with Government.

Unfortunately, some Chinese investors in Uganda's forestry sector appear to be engaged in questionable forestry practices such as illegal harvesting of trees and importing raw materials from neighboring countries such as Democratic Republic of Congo and exporting the forestry products as Ugandan products. In addition, there are reports of Chinese investors paying below-market prices to their tree out-growers and hiding measurements and quality specifications for forest products sold to them by the out-growers. This has led to some commercial tree growers abandoning tree growing for supply to these Chinese investors. The huge Chinese market for forest products is also pointed to be some as a driver of illegal logging in Uganda.

### Why it is important

Interactions between Ugandan and Chinese political leaders emphasise expanding engagement that will open up new opportunities for investment and business, and the current political environment in Uganda is favourable to deepening such political cooperation. Whilst Uganda's politicians and technocrats at the highest levels continue to send out open invitations for Chinese investment in Uganda, issues of both positive and negative impact on forests and livelihoods are beginning to be raised.

### Key statistics

**Over 300 Chinese businesses** in various sectors are licensed in Uganda.

**Imports from China were worth US\$622 million** and exports to China US\$38 million in 2013.

**6 Chinese enterprises currently manufacture forest products** like plywood, up from 1 in 2013.

There is 1 large agriculture project **owned by a private Chinese company in Uganda.**

640 acres of forest land **was allocated in by Government in 2015 to Chinese investors** for an agro-processing industrial park.

Between 2012 and 2015, **Government contracted some 8 Chinese companies** in mining, energy and roads sectors with partial funding from Chinese banks.

## Non-forestry sector investments that affect land use and local livelihoods

There is a growing interest in the Government of Uganda to engage Chinese enterprises in the construction of hydropower dams, roads, agro-processing and mining. Over the past three years, for example, Chinese companies have been contracted as follows: at least three companies to mine oil, copper and phosphates; at least three companies to construct hydropower dams; and at least two companies to construct roads, including the Kampala-Entebbe expressway which directly links Kampala to Uganda's only international airport at Entebbe. Most of these arrangements are partly financed by either Exim Bank of China or the China Development Bank. The Uganda National Roads Authority observes that the Chinese contractors are typically technically competitive, their bids are always financially competitive compared to bidders from other parts of the world, their equipment is relatively cheap compared to equipment from other parts of the world, and there is usually technology transfer from China to Uganda in the arrangement.

In the agriculture sector, Hanhe farm was the only operational privately-owned Chinese agriculture project in Uganda as of 2012. Since 2012, agricultural experts and technicians from China have been involved in various technical assistance projects and delegations from China's agricultural provinces such as Sichuan are also beginning to visit Uganda in search of potential business and investment opportunities. The majority of these potential Chinese agricultural investors appear to be motivated by the Ugandan Government's willingness to provide substantial areas of fertile land. The Government is currently assisting Chinese investors with several land acquisitions and has already allocated 640 acres of land to Chinese investors, at no cost, for the establishment of an agricultural industrial park which will focus on agro-processing for tea and fruits, among others.

However, the majority of these potential agricultural investors from China are yet to initiate investments.

## Policy and investment frameworks that affect Chinese-linked investments

The rise of actual and potential Chinese-linked investments in Ugandan land use can largely be explained by the changing policy environment. Uganda's first administration after independence in 1962 was market-oriented and pluralistic. However, by 1969 the Government, under the leadership of Milton Obote, was moving to the left. It published and adopted the Common Man's Charter which represented a major policy shift by declaring a "move-to-the-left" and by 1971, when the Obote regime was overthrown in a military coup, the government was clearly tending towards leftist radicalism in domestic policy. However, in the nearly 30 year period since President Museveni came to power in 1986, a steady "move to the right" can be seen. Public policy has been driven by a combination of the President's adventurous pan-Africanism abroad and cautious pro-market pragmatism in domestic policy. Observers sometimes note that President Museveni detests Western imperialism but loves Western capitalism.

## Cooperation initiatives with China of relevance to forest issues

In 2007, Uganda's Industrial Research Institute (previously built and equipped through a grant from the Chinese Government) partnered with the China Bamboo Research Centre to develop a production line for bamboo toothpicks. A Ugandan investor is now engaged in commercial bamboo tooth pick production in Kabale District. In May, 2015, Yibin city of Sichuan province and Greater Masaka signed a memorandum of understanding for the establishment of the above-described 640-acre agricultural industrial park site in Masaka District, which hosts two legally established forest areas.

## Looking ahead

In summary, there are few significant direct Chinese investments in the forestry sector in Uganda although evidence suggests that interest is developing in the fast-growing Chinese business community. Impacts from Chinese investments in forestland use may increase through such forestry sub-sector investments or with forest loss or degradation from agriculture and infrastructure projects such as dams. China-related cross border trade could also have increasing implications for the governance of forestry resources in Uganda.

The scope of activities of Chinese investors remains poorly understood in Uganda. Information remains anecdotal although mandated agencies such as the Uganda Investment Authority and the National Forestry Authority are increasingly becoming interested in understanding the current trends. This project's further research in critical areas of forestry, agriculture, energy infrastructure, road construction and mining is likely to be well received.

*Uganda will offer most of its infrastructure projects to Chinese companies because they can be repaid from future oil revenue, unlike Western businesses that expect advance payment.*

### Statement from the Office of the Prime Minister, Uganda

*Government does not understand us, they see us as people who just take away trees from Uganda and yet we invest in Ugandan farmers and give them money. I do not see any specific role that Government can play in the success of my business.*

### A Chinese investor in Uganda's forestry sector

## Find out more

The China-Africa Forest Governance project is a multi-country project that seeks to improve forest governance, by promoting sustainable and pro-poor Chinese trade and investment in Africa's forest. Through research, dialogue and joint action with partners in China, Cameroon, Democratic Republic of Congo, Mozambique and Uganda, the project contributes towards improved policy and investment practice in China and Africa, in ways that foster good stewardship of forest resources and benefit local communities.

Find out more about our work on China-Africa Forest Governance project at <http://www.iiied.org/china-africa-forest-governance-project>



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