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<tr>
<td>AGOA</td>
<td>African Growth and Opportunities Act</td>
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<td>BOU</td>
<td>Bank of Uganda</td>
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<td>COMESA</td>
<td>Common Market for Eastern and South Africa</td>
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<td>EPZs</td>
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<td>FDI</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HIPC-</td>
<td>Heavily Indebted Poor Countries</td>
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<td>IPAs</td>
<td>Investment Promotion Agencies</td>
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<td>MIGA</td>
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<td>MoFPED</td>
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<td>UIA</td>
<td>Uganda Investment Authority</td>
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<td>UMA</td>
<td>Uganda Manufacturers’ Association</td>
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UNCTAD – United Nations Conference for Trade and Development

UN – United Nations

UNIDO – United Nations Industrial Development Organization

Ushs – Ugandan shillings
ABSTRACT

This study develops an analytical framework for investigating Government of Uganda’s support for Foreign Direct Investment (FDI) development paradigm. It compares macroeconomic and institutional incentives in attracting FDI and institutional weaknesses. This study also discusses the nature of FDI, benefits of FDI in terms of its spillovers, and strategic issues and policies for managing stakeholders in the economy.

While Ugandan government maintains the view that improving on policy environment will attract FDI to address the country’s development challenges, this study found out that, progress in policy environment (fiscal incentives, political stability, and good regulation) does not automatically lead to changes in the host’s degree of attracting FDI unless it is aided by economic fundamentals like the availability of natural resources, market size and growth. Uganda has stagnated for the last 9 years with no improvement in terms of attracting more FDI. As shown in the finding, fiscal incentives influence FDI locational decisions in Uganda, but are not the most important factors however remain necessary evils to remedy poor microeconomic variables.

In spite of government’s success on achieving macro reforms to attract FDI, institutional weaknesses undermine its efforts. Foreign investors pay bribes to access public sector provided utilities. FDI relatively concentrates in one region which is inconsistent with a balanced development thesis. A move towards defining property rights causes unpopularity of FDI. Government always relies on a crisis strategy rather than a deliberate strategy to manage the different groups of stakeholders and other constraints in the economy.

This study’s conclusion is that FDI alone is not a necessary condition for economic development unless it is complemented by host policies to increase the absorptive capacity of its spillovers.
PREFACE

This study investigates government position on the importance of using FDI to address the country’s development challenges. It is an exploratory and analytical study in which data and concepts were developed to explain the emerging issues and best-practiced policies. Analysis of documents and follow-up of business news on FDI constituted the qualitative methodology, though quantitative for macro and micro levels. Relevant data was collected from both internal and external sources. Internal sources were from Uganda Investment Authority, Ministry of Finance, Planning and Economic Development; Ministry of Tourism, Trade and Industry; Privatization Unit, Private Sector Foundation Uganda; and Bank of Uganda. External sources were from United Nations Conferences for Trade and Development, World Bank and United Nations Industrial Development Organization. All these organizations have great interests in FDI as an alternative development paradigm in developing host economies. Because the quality of the information varies across reports, this study utilizes data at disaggregate levels.

This Thesis is organized into seven chapters. Chapter one includes the Methodological Background that defines the problem statement, research question and investigative questions and study scope. Chapter two covers Theoretical and Literature Review on FDI and Development in Host Economies including theories explaining FDI, Macroeconomic and institutional incentives, basic characteristics of FDI enterprises, benefits from FDI spillovers, and policy options for managing FDI desirability in host economies.
Chapter three covers discussions on FDI in Uganda’s economy. The theoretical underpinnings and research findings are discussed concurrently. It evaluates the importance of macroeconomic and institutional incentives in attracting FDI in Uganda. Macroeconomic reforms discussed include fiscal incentives, monetary and trade policies and political stability. While other factors discussed include the return of Asian investors, privatization programs, the creation of an Investment Promotion Agency, the medium term competitive strategy, the big push strategy and regional initiatives. Last in this chapter, are comparisons of constrains between foreign and domestic manufacturing firms in Uganda.

Chapter four covers basic characteristics of FDI enterprises in Uganda’s economy with a special emphasis on sectoral orientation, country of origin, entry mode choices, and regional distribution of TNCs. Emphasis is focused on relating the characteristics to the need of the economy to overcome its development challenges.

Chapter five is based on FDI spillovers. These are export development and market access, linkages, technological spillovers, human capital development, enterprise development and restructuring, and inducing competition. Chapter six discusses urgent policy measures that Uganda has to address if they are to minimize the cost of doing business by TNCs and retain capital already attracted into the economy. Chapter seven gives recommendations and conclusion.