

**A Study Of The Marketing Strategy For FDI In East
Africa In The Light of Regional Integration**

By

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To God, I am eternally grateful

ABBREVIATIONS

COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
EAAIPA	East African Association of Investment Promotion Agencies
EABC	East African Business Council
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
IGAD	Inter Governmental Authority on Development
IPA	Investment Promotion Agency
REC	Regional Economic Community
SADC	South African Development Community
SME	Small and Medium Enterprises
TNCs	Trans National Companies
UIA	Uganda Investment Authority
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
WB	World Bank
MIGA	Multilateral Investment Guarantee Agency

Abstract

This study analyses the effectiveness of the investment promotion strategy in the East African Community (EAC) as well as the effects of integration on the marketing strategy. It seeks to determine whether there is a strategic marketing strategy in place to promote the EAC as a bloc and its effectiveness as opposed to individual country marketing.

Following a literature review on the subject and a survey that was carried out via questionnaires among the EAC business community, as well as public and private investment related officials, the study concluded that there is a 'loose' mechanism in place to market the EAC as a bloc. There is an effective marketing strategy on paper that cannot be implemented due to lack of prioritizing community funding to this venture. However, even with an effective strategy in place, the underlying challenge that needs to be addressed for the strategy to bear fruit is the development of infrastructure.

The findings from the literature review concluded that marketing a regional economic community (REC) is complex since individual members are in competition for FDI. Integrating does not necessarily make a region competitive because FDI may not uniformly be attracted across the region, rendering some areas in the REC more developed than others..

The survey, which largely tried to establish the effectiveness of the marketing strategy in the region, considered the respondents opinions as well as secondary data from reputable international sources to capture what was taking place in reality. The findings concluded that there is a need to urgently implement a sector based marketing strategy. Using global examples, a sector based strategy which leads to specialization, economies of scale and the development of clusters, will attract FDI to the EAC, develop local investment, create jobs and ultimately, achieve the most important goal of each of the five member states of the EAC – to eradicate poverty and industrialize the economy.

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Chapter 1 – Introduction

1.1: Background to the Research

The ‘Joint Export and Investment Promotion Strategies for the East African Community 2006 – 2010’ published in July 2006, (pg 27) details that “IPAs have been undertaking foreign based investment promotion activities to attract investors to their respective countries. While the process should continue, an effort could be made to bring in the regional perspective so that where one country is doing its normal foreign promotion campaign; it can also market the opportunities of the other member states”. This research intends to identify strategic viable opportunities for this purpose.

An observation of the FDI trends from data provided by UNCTAD shows varying levels of FDI inflows. However, this may not be attributed only to integration effects because there are other underlying economic, political and social effects. Published researches and academic paper presentations highlighting integration experiences in Europe will be studied to provide more input into effective strategies to increase FDI inflow.

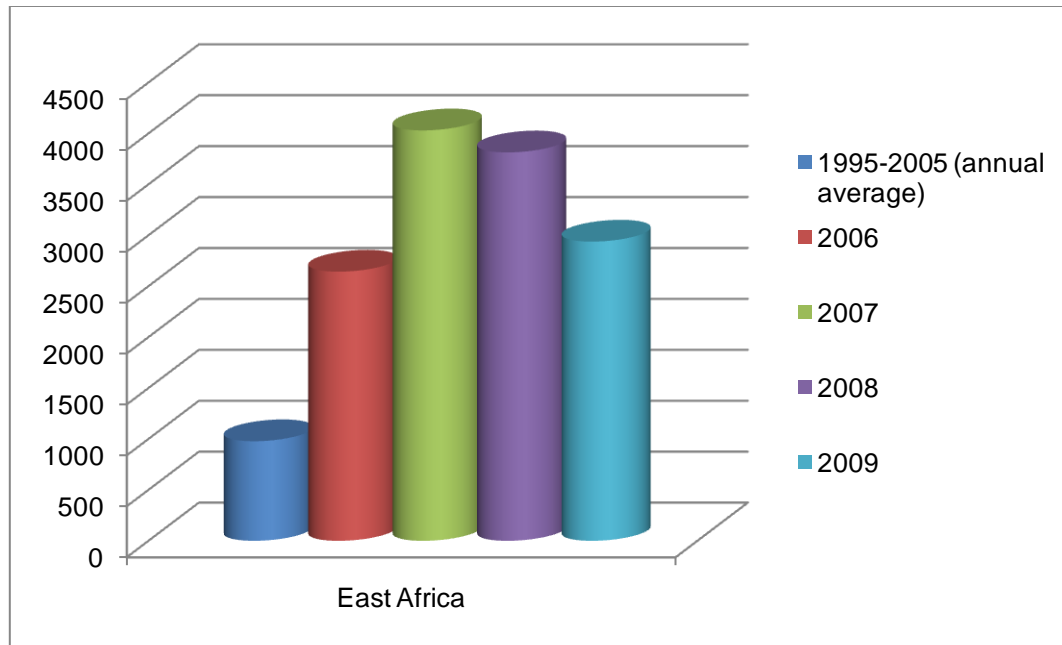
The table below gives an overview on the FDI trends in the last four years from 2006 to 2009. Averages are detailed since 1995-2005 (the years when the integration process was revived)

Table1: FDI overview in the EAC

FOREIGN DIRECT INVESTMENT OVERVIEW (1995 - 2009) in Millions of dollars					
COUNTRY / REGION	1995-2005 (annual average)	2006	2007	2008	2009
East Africa	978	2,643	4,030	3,814	2,938
Kenya	38	51	729	96	141
Uganda	179	644	733	787	799
Tanzania	309	597	647	679	645
Rwanda	7	31	82	103	119
Burundi	1	0	1	14	10

Source: UNCTAD World Investment Report (2010)

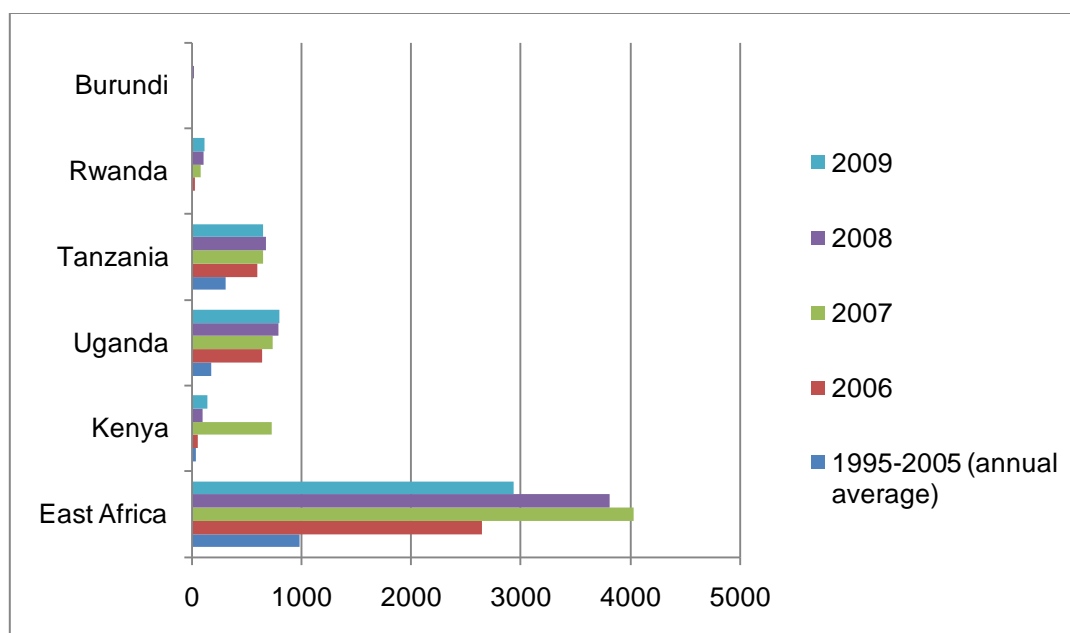
Graph 1: EAC Foreign Direct Investment Trends



Graph derived from Table 1

Petersheim (2009) gives an invaluable insight into the economic integration dynamics and the effects. The recent Economic Partnership Agreements (EPAs) negotiations and outcomes are proof that emerging markets in Africa are becoming increasingly important economically and politically to the international FDI market. Velde and Bezemer (2004) examined the relationship between regional integration and FDI in developing countries and concluded that there is a growing consensus that regional integration leads to further FDI, however, empirical literature seems to offer little guidance on whether different regions are more successful in attracting FDI and the reasons for the success. This research aims to suggest that laying emphasis on particular sectors basing on the comparative advantages within the member states is crucial for the success of FDI attraction. In relation to this, trade trends in the EAC seem to be on the increase since the establishment of the Customs Union in the community. Trade in EA has grown by 20% since the commencement of the Customs Union in January 2005 (The New Vision)

Graph 2: EAC Member States Performance in Attracting FDI



Derived from Table 1

According to Brenton et al (1999:95), cited in Kubny, Molders, and Nunnenkamp (2008), “recent evidence suggests that regional economic integration provides an important stimulus not only to trade, but also to FDI”. ‘However’ states Kubny et al, ‘it also appears that high expectations have often not been met’. Ye Yati et al (2003) puts forward the argument that “most probably, both FDI and the Regional Integration Agreements (RIAs) are too diverse to allow for generalized verdicts regarding the effects of RIAs on FDI inflows to member states”. The paper concludes that the country specifics as opposed to regional attributes play a big role in attracting investment. It is therefore important to focus on what the individual countries have to offer and amalgamate the strengths to deliver sellable opportunities. Ye Yati et al (2003) strongly suggest that ‘the effects on FDI between member countries will clearly depend on the nature of FDI’. It is imperative therefore for the EAC region to determine what kind of FDI enhances its mission to improve the quality of the citizens’ lives through increased competitiveness, value added production, trade and investment. FDI which creates significant levels of employment and adds value to the

natural resources is critical. This forms the basis for the intention of the research to focus on the marketing of strategically determined sectors.

Ye Yati et al (2003) pursues the issue of national interests regarding regional investment promotion.

‘The case for aggressive competition in incentives is not as clear as the availability of cheap labour. It makes sense for governments to offer incentives to potential investors in order to lure them into their territory. Provided there are economies of scale, eliminating trade barriers will induce firms to produce in just one location within the bloc and serve the extended market from the location’

The research to be undertaken aims to establish which investments are better suited to particular locations within the region and which will at the same time support mutual benefit between the countries involved i.e. balanced economic growth and development.

According to Bloomstrom and Kokko (1997) most researches in the area of regional integration and FDI have focused on the impact of the RIAs and FDI flows. In the conclusion of their paper, they suggest “further research to consider welfare effects in closer detail and to also take into account factors that determine production location [e.g. natural resource endowment] rather than ownership issues alone”. They also state that “regarding the empirical cases, the discussion has focused on entire countries, [while] individual sectors and industries have seldom been addressed....more detailed sectoral studies are clearly called for”. It is on this basis that this research is proposed. Brainard (1993) cited in Tayyebi and Hortamani advances a different argument that “multinational activity is driven not by factor endowment differences, but by a trade off between proximity and concentration advantages”. It is earlier approaches (Helpman, 1984, Helpman and Krugman, 1985), also cited in the same report, ‘who sought to explain the presence of MNCs as the result of differences in factor

endowment'. The proposed research hopes to establish that the two approaches can be used to lay successful strategies to take advantage of the integration processes to attract 'quality' FDI; FDI that enhances the objectives of the integration.

1.2: Significance of the Research

The EAC is composed of five (5) countries; Uganda, Kenya, Tanzania, Rwanda and Burundi. The countries are small and unattractive markets on their own. Investors need, among other things; a significant market, sizeable trained or trainable labour, and infrastructure that promote viable investment. The answer to East Africa's problem was regional integration for a bigger market and more resources.

Each member state in the EAC has an Investment Promotion Agency (IPA) mandated to promote, facilitate, and monitor FDI in their respective countries. As the EAC progresses into various stages of integration, the challenge weighs very heavily on the national IPAs to attract investment to both their country and the region. In the face of competition for FDI, the practicality of pulling resources to promote the EAC bloc is difficult. Recent FDI trends from individual IPA and UNCTAD reports seem to indicate that companies locate investment due to first national rather than regional considerations. The research seeks to establish a 'middle' approach for successful attraction of FDI. It is hoped that the approach may suggest a solution to the increasingly aggressive competition for FDI among the member states in similar sectors and incentive regimes.

The EAC Secretariat has developed a 'Draft Roadmap towards Effective Promotion of Investments in the EAC (February 2008)', in which it emphasizes a focused approach on identified sectors of the regional economy to act as selected pillars of growth (pg 6). It states that 'the immediate challenge to be overcome is the preparation of well packaged

and sellable investment proposals, particularly focusing on regional projects'. Nine sectors that should be prioritized and packaged into investment proposals have been identified. However, the draft highlights the key challenges to concretize the proposals, as "mobilization of financial resources for packaging the projects and securing of consensus of the partner states on determining the priority sectors of regional character for which investment promotion will be focused upon". The research will focus on two sectors; agri business and tourism due to their wide coverage in the region that would support the formation of clusters and promote value addition projects, which is in tandem with the mission of the EAC – 'to widen and deepen economic, political, social, and cultural integration in order to improve the quality of life of the people of East Africa (EA) through increased competitiveness, value added production, trade, and investment".

This research sets out to establish which sectors can be marketed as a regional product, as well as the challenges and effects of economic integration on the efforts to attract FDI and FDI inflows.

The outcomes of the research, which are hoped to be suggested improvements in the marketing strategy of EA and viable investment proposals in two strategic regional sectors, will be shared voluntarily with the EAC Secretariat and the member state IPAs in a bid to provide a starting point for the development of sellable regional sectoral investment profiles at no cost. Further research into the topic at a later stage, will assist the regional institutions (EABC, EAC Legislative Assembly, EAAIPA, and the Ministry of Finance officials in each of the member states, in adopting a meaningful regional marketing strategy, as well as focusing on the development of sectors in which the individual countries have a comparative advantage. The sectoral emphasis would under pin the national marketing strategies.

1.3: Overall Aim and Objectives of the Study

1.3.1: Aim

The research aims to introduce a marketing strategy for FDI attraction to the EAC region based on sectors to provide for equitable economic development across the region

1.3.2: Objectives

- Analyze the effectiveness of the current marketing strategy for attraction of FDI to the EAC in the light of regional integration
- Identify strategic sectors within the EAC region that can be packaged for promotion to the FDI market in order for the investments to support balanced economic growth and development among the member states even as the region integrates.

Chapter 2 – FDI Competitiveness of National Regions: The Theoretical and Empirical Background of Economic Integration and its Impact on FDI Attraction and Competition

2.1: Introduction

According to Tussie & Cohen (Biersteker, 1998) cited by Julef Linda (2009), 'market forces are driving new arrangements and creating new forms of competition among States. One of the ways in which States can improve their informal 'bargaining power' is to consolidate their regional arrangements.'

Feils and Rahman (2006) carried out a study to examine the impact of regional integration of the three NAFTA countries (Canada, Mexico, and USA) on inward FDI for the entire region as well as for each member state. They examined the annual change in inward FDI stock between 1981 and 2001 (20 year period), by using cross sectional time series regression models to test their hypothesis. In my opinion, their scope of study and thorough method of analysis yielded dependable results that agree with Ethier (1998), cited in the introduction of their paper (Regional Economic Integration and Foreign Direct investment: The Case of NAFTA), who submits that 'Countries compete for FDI, and regional economic integration may provide them with additional location-specific advantages that serve to attract it. However, not all countries in the integrated region may benefit to the same degree (Dunning 1997, Either 1998). Feils and Rahman (2006) conclude that 'in fact some countries may lose FDI to other partner countries in the regional integration pact'. This is the basis for this research into the economic integration of the East African Community (Uganda, Kenya, Tanzania, Rwanda and Burundi), the impact on competition for FDI and the marketing strategy to realistically sell the region.

Nations within a region may be equally endowed with natural resources but some may lack the competitive advantage to harness them. Comparative advantage does not necessarily attract FDI unless the country has been able to exploit them. Cho and Moon (2000) made a fundamental statement which they concluded from their study of Michael Porter's 'diamond model' explaining Competitiveness Theory. They assert that, 'national wealth is not set by factor endowments, but created by **strategic choices**'. This is the conclusion that underpins this research into the EAC's competitiveness and how it can be strategically exploited to enhance balanced regional development.

2.2: Regional Competitiveness

Joong-Wan Cho¹, in a paper titled 'FDI: Determinants, trends in Flows and Promotion Policies', while concluding on the implications for regional action and cooperation, states that 'concerns have arisen that competition to attract FDI will intensify among member countries, especially the type of FDI that bring major benefits to recipient economies by enhancing their export competitiveness or by providing linkages with domestic enterprises'. Each of the member countries in the EAC has a National Development Plan in place according to their levels of development. The IPAs will target FDI that aligns with the national strategy for economic development. Though at different levels of development, all the member states are LDCs in dire need of FDI to boost industrialization and create employment. This leads to intense competition among member states of a region which should be cooperating to market the region for investment. However, Blomstrom and Kokko (1997), concluded from their research on Regional Integration and FDI, that 'the most positive impact on FDI has occurred when regional

¹ Economic Affairs Officer, Investment and Enterprise Development Section, Trade and INVESTMENT Division, Economic and Social Commission for Asia and the Pacific

integration agreements have coincided with domestic liberalization and macroeconomic stabilization in the member countries’.

2.2.1: Definition of Region

According to Boudevill (in Vanhove, 1999), there are two types of region: Uniform or homogenous regions and Nodal or polarized regions. The former are identified on the base of certain common characteristics e.g. physical, economic or social. The later are identified by not so much the similarities between places but rather by the interaction and dependence between big and small places (sometimes called poles). The economic interaction in the East African Community (EAC) exhibits both types of interaction. At all the borders between the EAC countries, the member states share similar ethnic groups of people, physical features i.e. mountains, lakes, and unique animals e.g. the mountain gorilla found in South western Uganda, eastern Rwanda, and North DR Congo. The economies of the member states are intertwined due to their locations. Uganda, Rwanda, and Burundi are landlocked. Economic activity in their urban areas and cities depends on access to external markets through Kenya to and from the port of Mombasa, as well as Tanzania, to and from the ports of Zanzibar and Dar-es-salaam.

2.2.2: Definition of Competitiveness

According to Prof. Garelli (2008), Competitiveness is how a nation (region) manages the totality of its resources and competencies to increase the prosperity of its people.

Feurer and Chaharbaghi (1994) define competitiveness as ‘being relative not absolute Competitiveness can only be sustained if an appropriate

balance is maintained between these factors which can be of a limiting nature’.

Iryna Brykova (2007) submits that ‘competitive advantages are the underlying basis for competitiveness of any economic player’. In her study, which is an extensive and thorough analysis of the theoretical foundations of regional competitiveness, she identifies the key determinants that ensure the international competitiveness of national regions to include: clusters; human assets; enterprises and degree of development of local networks; innovations and regional innovative systems; quality of administration and institutional structure of a region; industrial structure (type) of a region; regional infrastructure; investment attractiveness and nature of FDI in a region. Brykova concludes that the determination of the factors of local dynamics is the underlying basis for the design of an effective strategy of enhancing a region’s competitiveness. She proposes the creation of a ‘Regional Competitiveness Hat’, as proposed by the experts of European Commission. The cylinder, with several layers indicates that the ‘formation of regional competitiveness is dynamic and evolutionary; not a static process’. During this research, the cylinder was found ‘to be practical value to identify factors of regional competitiveness, adequate manufacturing specialization, and level of development, thereby serving as a theoretical foundation for designing government strategies of building up the competitiveness of national regions’. It was proposed for the Ukraine, and it is the considered view of this researcher that the same cylinder can be effectively applied in the research at hand to establish practical strategies of enhancing the EAC’s competitiveness.

2.3: Economic Integration and Effect of FDI

Most of the studies on regional economic integration and its effect on FDI lay emphasis on the level of development of the member states and the

similarity of their resource endowments, i.e. comparative advantage. Feils and Rahman (2006) examined the impact of NAFTA on FDI into the region and on the individual member countries. The results of their study showed that “the differentials in the location specific advantages (lower production costs, general education, quality of labour, infrastructure etc of each country may very well affect the distribution of FDI among member states”

Yeyati, Stein, Daude (2006), paper on ‘the FTAA and the Location of FDI’, used the gravity model² by inputting data on bilateral FDI stocks from OECD International Direct Investment Statistics. The data range covered FDI from 20 source (OECD) countries to 60 host countries, from 1982 to 1999 (17 years). Despite the fact that the study did not cover developing countries, the conclusions from the study depict the current situation in the EAC. Yeyati et al (2006), pg 19, ‘the FDI gains of RIAs are unlikely to be distributed evenly, and the gains may be smaller for countries that have factor endowments similar to those of the source countries and are relatively closed to international trade’.

When trade barriers are eliminated, firms will be induced to make strategic choices, which may entail locating production in one area within the bloc and serve the extended market from the location. Yeyati et al (2006) says, competition among countries for FDI may become intense and suggests that members of RIAs may benefit from coordinating their incentive schemes. This is a fallacy because, a member country will not be attractive to FDI or competitive if its systems are not in place to harness the resource endowments and factors of production however much the incentive regime is in line with the region. A holistic approach to ensuring attraction for FDI is vital. It is this approach, that the research seeks to establish by studying the current investment promotion strategy(ies) in place and whether they are

² The gravity model presumes that bilateral FDI stocks are related positively to the product of the GDPs of the economies and negatively to the distance between them. Other variables typically added are whether the countries have a common border, common language, colonial link, etc

strategic in wooing the right FDI and spread relatively evenly throughout the East African Community region.

Yeyati, et al (2002) cited in Yeyati et al (2006) state that 'countries that present a more attractive overall package to foreign investors are likely to gain more FDI from the formation of RIAs. This begs the question of how to make a country attractive to foreign investors'. The core question of the research at hand, is how to make the EAC attractive to FDI.

2.4: Attracting FDI – Competitiveness and Investment Promotion

According to Jinkang Zhang (2005), 'the factors that create the investment climate in one country and determine its attractiveness for FDI are numerous and complex. There are large number of literatures examining the determinants and constraints of FDI inflows [and these include] country's political and economic stability, geographic location, market size, membership and status in regional integration, legislation, infrastructure and telecommunications, availability of skilled labour, fiscal incentives, and FDI promotion.

Information is a key element in influencing the location decision of a company. Information will most usually be sought from internationally reputed sources like the World Bank, etc. The table below shows the global ranking of doing business for each member state of the EAC. An annual ranking carried out by the World Bank.

Table 2: Doing Business Ranking

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Employing Workers	Register Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Close Project
Rwanda	67	11	90	30	38	61	27	59	170	40	183
Kenya	95	124	34	78	125	4	93	164	147	126	79
Uganda	112	129	84	7	149	113	132	66	145	116	53
Tanzania	131	120	178	131	145	87	93	120	108	31	113
Burundi	176	130	172	88	118	167	154	116	175	172	183

With the coming into force of the Common Market, it is expected that there will be an increase in the ease of doing business and the laws governing business, as well as incentives will be harmonized. This will make the EAC more competitive and attractive for more FDI.

Table 3: The 2010 Index of Economic Freedom

Economic Freedom in Sub-Saharan Africa Countries

World Rank	Region Rank	Country	Overall Score	Change from 2009	Business Freedom	Trade Freedom	Fiscal Freedom	Government Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
12	1	Mauritius	76.3	2.0	82.2	85.6	92.5	83.4	71.2	85.0	70.0	60.0	55.0	78.5
28	2	Botswana	70.3	0.6	70.5	73.9	74.1	67.1	68.8	80.0	70.0	70.0	58.0	70.8
69	3	Madagascar	63.2	1.1	71.9	73.2	87.3	88.8	75.4	60.0	50.0	45.0	34.0	46.9
72	4	South Africa	62.8	-1.0	73.0	76.0	69.1	76.8	70.2	45.0	60.0	50.0	49.0	59.0
76	5	Uganda	62.2	-1.3	57.0	72.1	80.5	85.5	78.1	45.0	60.0	30.0	26.0	88.1
77	6	Namibia	62.2	-0.2	73.3	87.8	68.3	69.5	71.0	50.0	40.0	30.0	45.0	87.2
78	7	Cape Verde	61.8	0.5	63.3	65.5	65.6	65.3	74.5	60.0	60.0	65.0	51.0	48.1
87	8	Ghana	60.2	2.1	56.8	65.3	83.5	58.9	65.9	65.0	60.0	50.0	39.0	57.4
90	9	Burkina Faso	59.4	-0.1	60.0	71.3	80.4	80.0	73.0	50.0	50.0	30.0	35.0	64.4
93	10	Rwanda	59.1	4.9	74.5	67.4	77.1	75.6	66.9	40.0	40.0	30.0	30.0	89.2
97	11	Tanzania	58.3	0.0	45.5	70.5	80.3	82.6	70.8	65.0	50.0	30.0	30.0	58.4
100	12	Zambia	58.0	1.4	66.4	79.9	72.4	82.6	63.3	50.0	50.0	30.0	28.0	57.0
101	13	Kenya	57.5	-1.2	63.4	67.9	78.1	83.1	72.7	45.0	50.0	30.0	21.0	63.7
102	14	Swaziland	57.4	-1.7	67.2	74.9	63.1	55.5	68.8	55.0	40.0	45.0	36.0	68.4
106	15	Nigeria	56.8	1.7	53.2	67.2	84.4	64.7	75.4	40.0	40.0	30.0	27.0	85.7

Source: 2010 Index of Economic Freedom

J. Zhang (2005) concludes that ‘there is no simple ‘one for all’ and ‘one for always’ policy framework for every developing country, which has different

comparative advantage and in a different stage of development'. A strategy is therefore needed for this complex situation. Zhang suggests, and I agree, that a 'targeted investment promotion strategy can play a powerful economic development role as it influences not only the attractiveness of a location for inward investment, but also the benefits accruing to the local economy'. Zhang's paper lays emphasis on attracting the 'right FDI' as opposed to the current practice of generic investment promotion using the argument that the EAC economies are developing and can therefore not afford to focus on some sectors at the expense of the others.

Most governments depend on Investment Promotion Agencies to compete globally for critical foreign investment and the development benefits it brings (*Investment Climate IN PRACTICE* series, No. 6, Investment Policy and Promotion, Pg 1). In the EAC, each of the five member countries has an IPA with the mandate of promoting, facilitating and monitoring investment in the country. In 2000, the IPAs came together to form the East African Association of Investment Promotion Agencies (EAAIPA).

Dr. Valerie Engammare (2009) says 'several countries within a region may also join forces to attract investment. However, such cooperation may be limited in scope to information exchanges or joint training or joint promotion activities'. There is also the unavoidable risk of 'counterproductive competition' as the individual IPAs struggle to find the right balance between regionally coordinated promotion strategies that are in sync with the national strategy, and competition for FDI to their countries. Clearly there is a need to establish a realistic promotion strategy that benefits the regional members equitably.

The 'Draft Roadmap towards Effective Promotion of Investments in the EAC' (2008), Page 3, paints the scenario for a more focused and intensive promotion for FDI that will achieve the goals of regional integration and development, by stating

‘Competition for investment resources is highly intense as there are over 170 IPAs worldwide going for the same resources while Africa receives about 2% of all FDI inflows. Competition among sub Saharan African countries to attract FDI has degenerated into incentive based rivalries that have not been well calibrated. Hence, in many cases unwieldy competition has resulted in the attraction of investments whose impact on the economies has at best been marginal.’

As the region seeks to integrate deeper, and as the IPAs seek to coordinate promotional activities, it is difficult to measure the impact of the current regionally coordinated promotional efforts in the EAC. Dr. V. Engammare, continues to explore this gap that would enable one to evaluate the effectiveness of such efforts, by stating that ‘little empirical research has been done on the concrete impact of IPAs in the attraction of FDI The decision to invest results from a whole range of factors, and the IPA may be one factor among the many’.

Information is a major factor which plays a vital role in the decision of a potential investor to invest in a location. IPAs are aware of the need to provide comprehensive up to date information on the location and its business opportunities. For this to be valuable there is a need to prioritize:

1. Research
2. Develop products
3. Carry out Investor Targeting

Nations within a region, like the EAC may be endowed with natural resources and each may have a comparative advantage in a particular sector. However, the comparative advantage will not necessarily attract the much needed FDI unless the resources are exploited in a way that produces the desired end results (FDI, employment, economic growth and development). In order to exploit the resources for regional benefit,

specialization of industry and human resource would need to be borne out of research; Regional projects would have to be developed; and the regional coordinated investment promotion activities would need to take on a sectoral focus and carry out investor targeting.

2.5: Strategic Marketing

J. Zhang (2005) asserts that '[marketing] strategies are evolving against the back ground of a changing global environment for FDI, including increasing competition for FDI. More and more countries are adapting a focused approach to investment promotion..... The goal is to attract FDI that maximizes the advantages of a given location and contributes to the carefully defined development objectives (WIR 2002).' The EAC is still in the process of establishing the sectors that can do this effectively, hence this research.

In the same paper, 'Targeted Foreign Direct Investment Promotion Strategy', Zhang (2005) argues that 'competitive positioning and sector/activity/region targeting is a complex process and requires: a detailed knowledge of industry sector and trends, cluster development, FDI trends, company strategy, typical projects requirements and parameters and best practice IPA activities.' This reiterates the need for research, product development and investor targeting – areas which are not given budgetary priority in most [if not all] of the EAC member states.

Zhang's study concludes that an integrated promotion approach to marketing is important - One that combines marketing, company targeting and product development. For this to take place, Zhang suggests that IPAs need to be sufficiently independent from government, giving the agency greater credibility with investors and flexibility. They need a significant degree of autonomy and sufficient resources to achieve results in a competitive, commercial environment. At the same time IPAs need

excellent links with government and the private sector and a direct influence on policy. In the context of the EAC, the integrated promotion approach would need to be explored under different circumstances. All the IPAs are under either the Ministry of Finance, Trade, or Foreign Affairs. Currently, the situation of autonomy is not foreseen in the near future.

Once a realistic marketing strategy is in place, the individual member states within the region would do well to commit to it by empowering their IPAs financially and politically, as well providing an enabling business environment that backs the promotional efforts of the IPAs. D.J. Feils and M. Rahman (2007) assert that ‘Nations that are interested in attracting FDI need to focus on improving their location-specific advantages with respect to the FDI motivations of MNCs.’ The improvement of the regulatory climate, investor targeting and product development are bound to increase FDI inflows. However, caution should be taken to attract quality FDI i.e. FDI that creates the required jobs, exploits the resources in a sustainable manner, and processes them to earn the country reasonable value. In today’s highly competitive globalised economy, the IPAs need a saleable product.

2.5.1: Product Development

‘In developing a well – considered list of priority sectors, IPAs need to determine what the country [region] has to offer new foreign companies and the benefits the country hopes to realize from their investments’. *Investment Climate in Practice*, No. 6, (Sept 2009). The EAC Secretariat has put together a strategy for investment promotion and identifying priority cooperation sectors for joint promotion. However, there are no well structured sectoral proposals for joint promotion. This is only realistic if the benefits of the projects are going to be experienced in a regionally balanced manner. However, identifying the products and marketing is important but

this alone may not bring in the FDI if the regional regulatory climate concerning investment i.e trade, investment, and labour policies, are not harmonized. Porter (2008) advises that in addition to this 'a trade and infrastructure strategy needs to be established between neighbouring trading partners, as proximity and similarity of needs are crucial to expanding and accessing regional markets'. Cho offers that clusters will achieve this end – countries that want to attract high quality FDI and benefit from it need to develop differentiated and efficient clusters that offer real and identifiable locational advantages to international investors and eventually become brand names recognizable to any national or international investor seeking this particular configuration of advantages e.g. Bangalore in India has such a brand name for the development of software'. Caution is also given that the 'development of a locational brand name is difficult, costly and takes time'.

Some of the member states have gone ahead and pursued national brands. Those that have not are in the early stages of developing one. Combining these to get a regional brand is ideal, but will take time. In the interim, the region should focus on what it has to offer and create investment opportunities out of it as well a conducive environment for the potential investors to take advantage of the opportunity. Michael Porter, a renowned economist, who has already been quoted in this text, has advanced some business strategies that have been argued to make both businesses and the host location competitive.

2.5.2: Cluster Development

The term industry cluster, also known as a business cluster, competitive cluster, or Porterian cluster, was introduced and the term popularized Michael Porter in *The Competitive Advantage of Nations* (1990) (Wikipedia).

A cluster is a geographic concentration of businesses, organizations, and institutions that are interrelated in a particular field. They share common interests and in many ways complement each other.

I. Brykova (2007) cites Michael Porter's submission that 'a country (region) gains substantial benefits when it concentrates resources at the most efficient enterprises (requiring the cheapest factors of production) and exports its products to the world markets'. Other economists agree but caution that this development could bring about unbalanced economic development, with some countries attracting more FDI than others. Blomstrom and Kokko (1997) 'investment can be expected to cluster to those parts of the integrated region where the investment environment is most favourable, and some countries may therefore be left with less FDI than before'. This is a situation the EAC needs to guard against even as the region makes the conscious effort to develop clusters that increase the competitiveness of companies and the location.

2.5.3: Value Added Products and Value Chains

Developing a regional product for investment based on the comparative and competitive advantages beyond national borders can be quite a challenge. The investment in a product, its production, and distribution, should be in line with the economic development plans of the country /ies and be viable for the investor. The bottom reason for any investor to locate is to maximize profits. The EAC therefore needs to come up with projects that can satisfy both needs. Michael Porter's Value Chain Analysis provides a strategy through which this can be done.

The term 'Value Chain' was used by Michael Porter in his book "Competitive Advantage: Creating and Sustaining Superior Performance," Recklies (2001). Recklies defines the Value Chain Analysis strategy as 'the activities within and around an organization, and relates them to an analysis

of the competitive strength of the organization.....Porter argues that the ability to perform particular activities and manage the linkage between these activities is a source of competitive advantage'. The IPAs need to develop projects targeted to this competitive advantage. This underscores the need to invest in R&D to identify and develop sectoral opportunities where the region will earn higher value (value added products) and where the investor will make the most profits.

However, this should not be done at the expense of local investment, as it is one of the attractions of FDI. A thriving local private sector is testimony to an enabling business climate and source of backward and forward linkages for the MNCs when they locate.

2.6: SME Development

An argument is advanced in SOMO Paper (November 2008) that attention should be refocused from attracting foreign investment to the promotion of national and regional sustainable investments that achieve poverty eradication, to assessing how sustainability and poverty eradication can be better achieved by national or regional investment rather than foreign investment. However, the EAC economies are still developing and cannot afford to focus on one (indigenous private sector) at the expense of the other (foreign private sector). This research will also look into the status and strengthening to indigenous investment as an attraction marketing tool) to FDI.

Joong-Wan Cho, in the paper entitled FDI: Determinants, Trends in flows and Promotion Policies, agrees that 'strong local firms attract FDI; the entry of foreign affiliates, in turn, enhances the competitiveness and dynamism of the domestic enterprise sector. The strongest channel for diffusing skills, knowledge and technology from foreign affiliates is backward linkages with local firms'. This is the foundation for economic growth and development;

the major goal of economic integration. Cho also contends that 'regardless of the level at which FDI is promoted, the competitiveness of the domestic enterprise sector and a pool of skilled people are the keys to the product to be marketed'. E.L. Yeyati, E.Stein and C. Daude (2003) advance the argument that 'FDI may also generate negative spill overs. Domestic firms may be displaced by foreign firms or may find the cost of factors of production increasing as a result of foreign investment'.

Chapter 3: Research Methods and Methodology

3.1: Introduction

This chapter describes the methods used during the study and the research design chosen for this particular study on the marketing strategy for FDI in the EAC region. The research shall analyze the current strategy to determine the effectiveness of promoting the Regional Economic Community (REC) as a bloc and the challenges therein in order to contribute to the on-going efforts at establishing an effective promotional strategy to attract FDI for equitable economic growth across the region.

The study shall also seek to identify the strategic sector within the EAC region that can be packaged for promotion to the FDI markets.

The primary data collected through a survey carried out with the business community, EAC and IPA officials, as well as both private and public trade and investment officials, will be used to analyze the 'real' effectiveness of the current investment promotion activities undertaken to market the EAC as a bloc. The analysis will pave the way for the recommendation / s of a strategic marketing plan. The recommendation / s will be supported by empirical evidence.

3.2: Research Design and Data Collection

The research was more of qualitative. Information was gathered from primary and secondary data. Two methods were used:

1. Desk based data collection from on-line published researches on regional integration and FDI; East African Newspapers (East African Business Week) and The East African; Authoritative reports on RECs and FDI i.e. World Investment Reports by UNCTAD and the

World Bank; and EAC and East African Business Council (EABC) reports

2. Primary data was collected through questionnaires administered to a survey group of eighty (80) individuals. The questionnaire, which is available in Appendix 1, was set according to the aims and objectives of the research.

3.2.1: The Survey

The questionnaires were focused on establishing the effectiveness of the regional investment promotion mechanism in place and the priority sectors in order to determine the comparative advantages that the region could capitalize on in selling the community as an investment location.

Emphasis was placed on the current strategy, as well as individual opinions and recommendations on what should be done to boost the region's competitiveness. The respondents were drawn from the heads and investment promotion staff of the IPAs (Uganda Investment Authority, Kenya Investment Authority, Tanzania Investment Centre, Zanzibar Investment Promotion Agency, Rwanda Development Board, and the Ministry of trade, Industry and Tourism of Burundi), the Ministries of East African Community Affairs in Uganda and Kenya, and the business community.

3.2.2: Sample size

The questionnaire was administered via e-mail to 30 potential respondents and 50 were administered face to face during the 3rd East African Investment Conference, the 2nd EU Africa Infrastructure Conference Preparatory Workshop in September 2010, and East African private sector business people who walked into Uganda Investment Authority (UIA) for

assistance. Permission was always first sought from the selected business people and any other potential respondent. The distribution and return of questionnaires took a period of seven (7) months, from April 2010 to September 2010.

The aim of this kind of survey was to establish what promotional mechanism was in place in the EAC and to capture the opinions of both seasoned professionals in the field of investment promotion and the private sector who experience the pros and cons of the promotional and economic activities in the ‘real world’ of business. Information on strategy together with proposed interventions (e.g sectoral or regulatory) is useful for the development of an effective promotional strategy. Below is a tabular representation of the distribution of the questionnaires and the outcome.

Table 4: Tabular Representation of the Survey Population and outcome

EIGHTY (80) QUESTIONNAIRES DISTRIBUTED			
CATEGORY	NUMBER	RETURNED	NO RESPONSE
Trade & Investment Officials	30	26	4
EAC Officials(Secretariat and MEACA staff)	10	6	4
Private Business People	30	18	12
Business consultants	10	8	2
TOTAL	80	58	22

The questionnaire was the most suitable instrument to use in gathering the needed information and data because the cost incurred was negligible. If one had to travel across borders for the interviews it would have been costly and the research did not have a big budget to expend. The questionnaire also enabled the respondents to think through their responses because they could fill them in at their own convenience, as opposed to the face to face interview that sometimes does not give

sufficient time to the respondent to adequately put into words their idea or response to the question put to them.

3.2.3: Analysis Procedure

According to Miles and Huberman (1994), interviews must be coded in order to facilitate later analysis of data and ensure both accuracy and relevancy of the analysis.

The information from the returned questionnaires was entered in epidata, after which it was transported to Statistical Package for Social Scientists (SPSS) for analysis. The analyzed data was then transferred to excel for tabular and graphical representation.

Descriptive codes were developed to categorize the responses from the open ended questions which allowed respondents to provide their own opinions. The descriptive codes are available in Appendix 3 for clarification on the research conclusions were arrived at.

The analytical data is presented in chapter four (4) using tables and graphs in order to make the research findings clearer and give the reader a sense of validity. Chapter five (5) discusses the findings, as the research gains conclusions from both this data and the past researches summarized in Chapter 2 (Literature Review).

Chapter 4: Presentation of Survey Findings

Each of the IPAs in the EAC carries out their individual investment promotion in the bid to attract quality (job creating and technology transfer) FDI. During the Outward Missions, which according to the survey respondents is the most effective means of promotion, mention is made of the EAC bloc as a viable market and region with opportunities. There is no central promotional facility for the EAC bloc. The IPAs have formed an association of East African Investment Promotion Agencies (EAAIPA), whose main aim is to cooperate on promotional activities. There is no financial commitment to fund this association since all the IPAs have barely enough funds to fund their own activities. This makes the cooperation 'loose' and not as effective as the members require. An integrated strategic promotion drive therefore, has been difficult in the light of lack of funding to establish a focused strategy or the unique selling aspects of the region.

The survey findings, from which the statements above are attributed, are presented in this chapter from subjects closely associated with trade and investment activities. Eighty (80) were targeted, however 58 (72.5%) responded.

4.1: The Survey Population

Table 5: Occupational Fields for the Respondents in the Survey

	Frequency	Percent (%)
Trade and investment Official	28	48.3
East African community official	10	17.2
Private business	12	20.7
Business consultant	8	13.8
Total	58	100.0

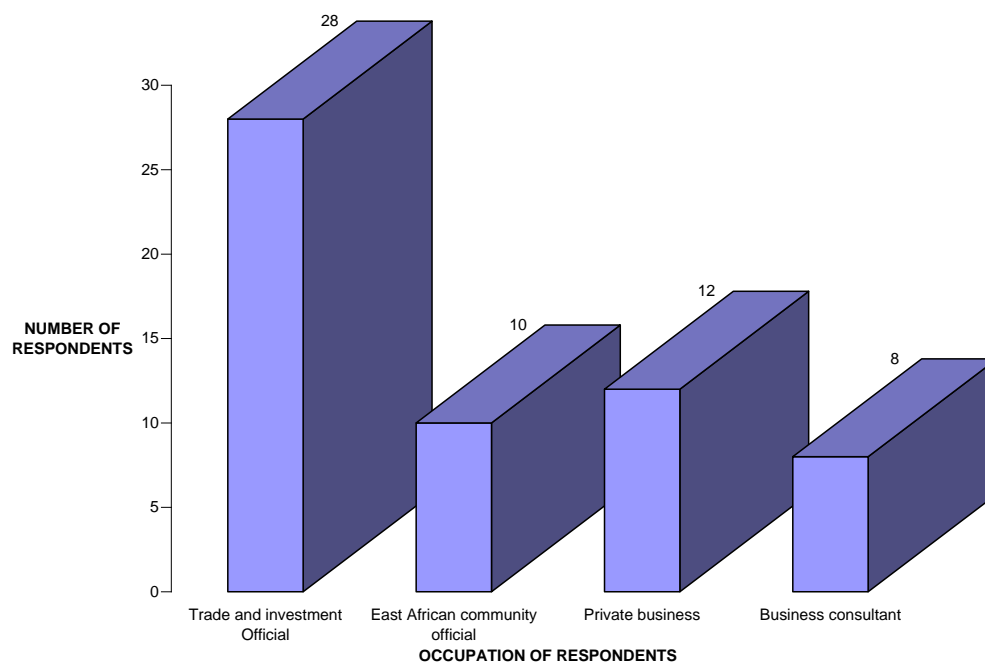
Table 6: Country Representation of the Survey Respondents

	KENYA	UGANDA	TANZANIA	RWANDA	BURUNDI	TOTAL
Trade and Investment Official	6	12	5 ¹	4	1 ²	28
East African Community Official	3	6	0	1	0	10
Private Business	3	5	3	1	0	12
Business Consultant	2	5	0	1	0	8

¹ Includes one official from the Zanzibar Investment Promotion Agency (Zanzibar)

² Out of the 10 questionnaires e-mailed / handed to Burundi subjects, only one was able to respond due to language barrier (Burundi is French speaking)

Graph 3: Occupation of the Respondents



4.2: Investment Promotion Mechanism and Integration

Most of the respondents state that there is a mechanism in place to promote the EAC

Table 7: Status of Response as To Whether There Is an Investment Promotion Mechanism to Promote the EAC

	Frequency	Percent (%)
YES	39	66.7
NO	3	5.3
NOT SURE	8	14.0
NO RESPONSE	8	14.0
TOTAL	58	100.0

Pie Chart 1: Graphical Representation of Responses towards Existence of an EAC Investment Promotion Mechanism

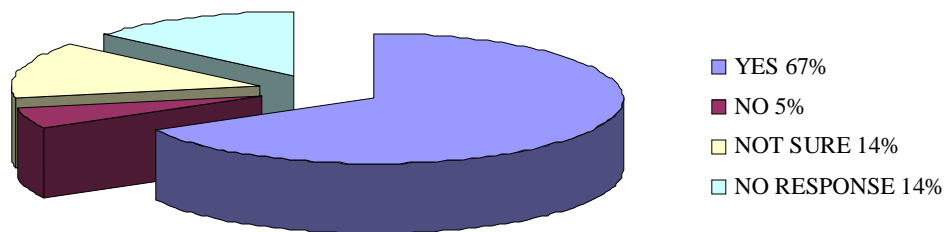


Table 8: The Effect of Regional Integration on Investment Promotion and Competitiveness of Member States to Attract FDI to the Region

		There is a mechanism for promoting investment in EAC		
		YES	NO	NOT SURE
EAC will boost the competitiveness of member states to attract FDI	Strongly agree	14	2	3
	Agree	23	1	4
	Strongly Disagree	0	0	1
	Disagree	1	0	0

There is a general perception that the integration will boost the EAC's competitiveness. However, most of the private sector business people were not sure or not aware of the existence of the promotional mechanism in place to promote the EAC, signaling that the IPAs, together with the East African Business Council should probably broaden their reach as far as information is concerned. Ignorance of the mechanism may also indicate that the tools in place are not effective.

Pie Chart 2: Representation of Responses towards the Effect of integration on EAC Competitiveness and the existence of a Marketing Strategy

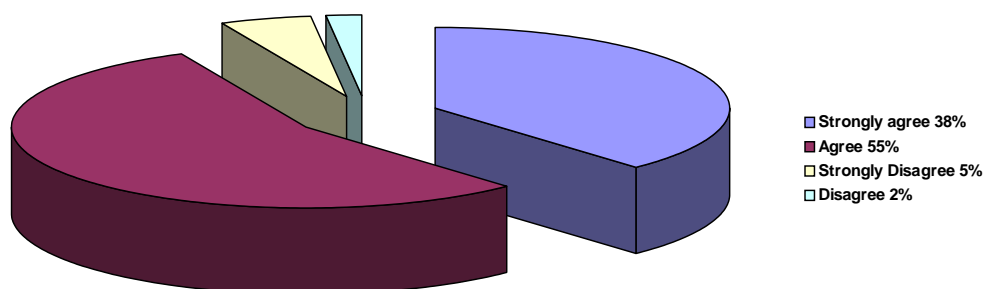


Table 9: Mechanism for promoting investment opportunities in EAC

MECHANISM	Frequency	Percent
Annual EAC Investment Conference	30	51.7
Outward Missions	4	6.9
Constant Dialogue	2	3.4
EAC Private Sector Involvement	4	6.9
Total	40	69.0
No Response	18	31.0
Total	58	100.0

The activities outlined above were the responses to question no. 13 that required the respondent to detail the mechanism that they say was in place by their institution / IPA in cooperation with their regional counterparts to promote the EAC as a viable bloc for FDI . The question was only meant for the IPA, EAC and East African Affairs public officials.

Table 10: Success of Different Promotion Methods in Attracting FDI

	Target e-mail	Web site Promo	Outward Missions	Cold Calling	% Total
Strongly agree with the Promotion Method (%)	26%	29%	42%	3%	100

Question no. 5, inquired about the proven success of the different marketing approaches and provided for 5 responses i.e. strongly agree, agree, strongly disagree, disagree, and not sure. The outward missions were considered to be the most effective.

Graph 4: Representation of Successfulness of Different Marketing Approaches In Attracting FDI

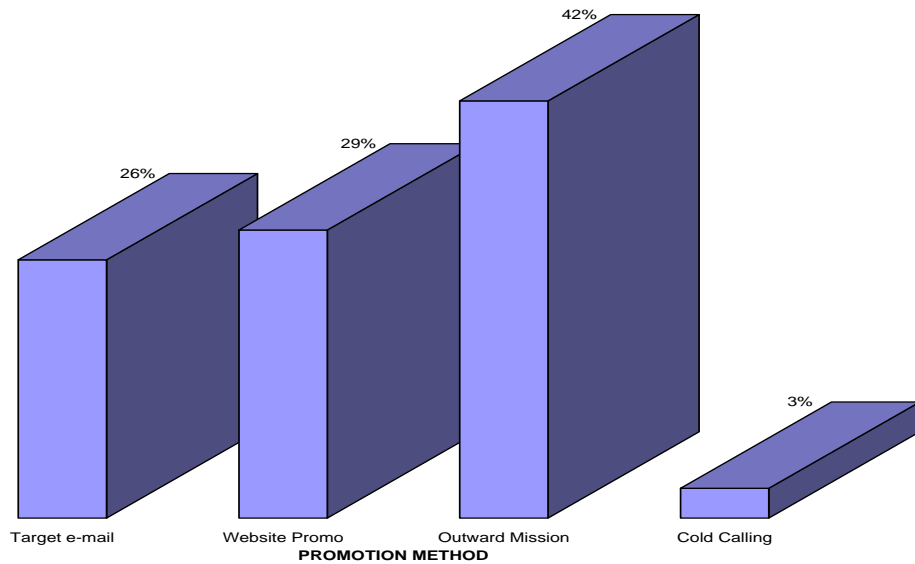


Table 11: Source of FDI to Your Country

SOURCE	Frequency	Percent
United Kingdom	23	39.7
India	2	3.4
China	10	17.2
Pakistan	4	6.9
Others	5	8.6
Total	44	75.9
No Response	14	24.1
Total	58	100.0

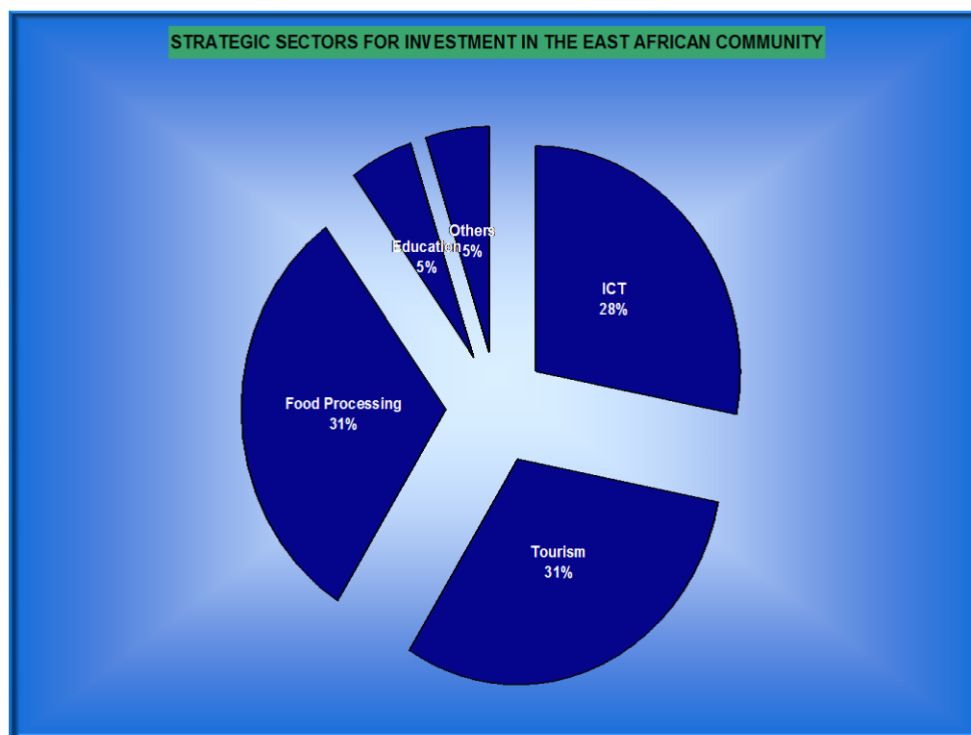
Respondents were asked to list the top three (3) country sources of FDI to their country. The frequency of the number one (1) country was captured as shown in the table above. This establishes where the promotional efforts are or should be, as well enables one to map out a targeted promotional strategy.

4.3: Strategic Plan for Investment Promotion

Table 12: Most Viable Sector for Investment in the EAC

	Frequency	Percent
ICT	16	27.6
Tourism	18	31.0
Food Processing	18	31.0
Education	3	5.2
Others	3	5.2
Total	58	100.0

Pie Chart 3: Representation of the Most Viable Regional Sector



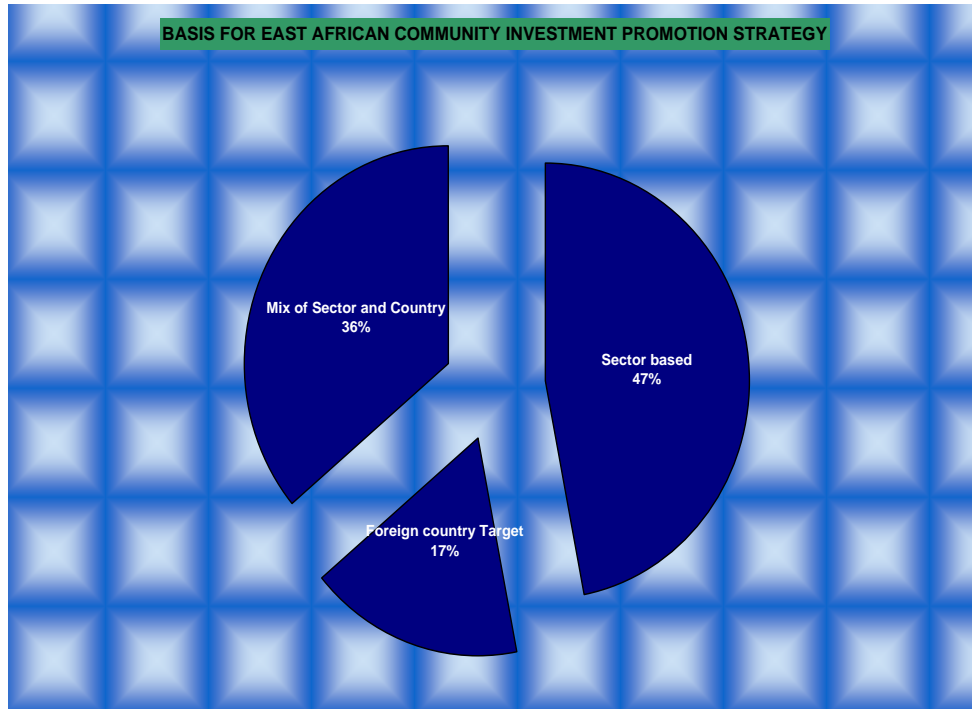
Note: Others include; Financial Services, Real Estate, Floriculture, Transport and Logistics, Mining and Oil.

Table 13: Proposed Basis for EAC Investment Promotion Strategy

SECTOR	Frequency	Percent
Sector based	27	46.6
Foreign country Target	10	17.2
Mix of Sector and Country	21	36.2
Total	58	100.0

A sector based promotional strategy was perceived to be the most strategic to attract FDI

Pie Chart 4: Representation of Table Above



Respondents were asked in Question 6 to give reasons as to why they proposed the above basis for an investment promotion strategy. Their responses are tabulated in the following table.

Table 14: Explanation for Preferred Basis of Investment Promotional Strategy

	Frequency	Percent
Existing foreign Markets	10	17.2
Regional growth from Sector grow	13	22.4
Viable sectors attract Investors	23	39.7
Double maximization of benefits from mixed strategy	10	17.2
No explanation	2	3.4
Total	58	100.0

Respondents were asked in Question seven (7), what could be done to strengthen the current investment promotion efforts of the EAC IPAs. The largest percentage of them proposed that the EAC should structure regional projects for FDI. The other responses were also captured in the table below

Table 15: Strengthening current efforts by IPAs in EAC

	Frequency	Percent
Market EAC Projects as one	36	62.1
Harmonize Investment Procedures	6	10.3
Evaluate Investment Incentives	5	8.6
Self Marketing by EAC Countries	3	5.2
Increased Advertisement	1	1.7
Budget support	3	5.2
Target Productive Sectors	2	3.4
Involve EAC Private Sector	2	3.4
Total	58	100.0

The survey tried to capture the perceptions on what makes the EAC competitive among all the RECs within which it is located since the member states have overlapping membership in IGAD, COMESA, the Great Lakes, and SADC. The responses were meant to assist the research in determining the competitiveness of the EAC and the comparative advantage it may have over the other RECs in the region in order to capitalize on these when developing a marketing strategy. The responses were coded under eight (8) descriptions according to the responses given.

Table 16: Reasons as to why FDI would choose to locate in the EAC

	Frequency	Percent
Good business Environment	17	29.3
Tourism Potentialities	6	10.3
Oil and Gas discoveries	2	3.4
Large Market	8	13.8
Strategic geographical site	5	8.6
Cheap and Skilled labour	1	1.7
Stable Political atmosphere	10	17.2
Customs Union Implementation	2	3.4
No Response	7	12.1
Total	58	100.0

The challenges faced in promoting the EAC as a single bloc for FDI as opposed to an individual country are listed in the following table. Respondents were asked to list the three (3) main challenges. These were coded according to the descriptions outlined

Table 17: Challenges faced in promoting the EAC vs Your Country as an Investment Location

CHALLENGES FACED	Frequency	Percent
Inadequate funds	18	31.0
Inadequate spirit of Unity	5	8.6
Competition among member states	6	10.3
Inadequate infrastructure	6	10.3
Administrative barriers	4	6.9
Different economic development	7	12.1
Different political ideologies	7	12.1
Insufficient investment knowledge	2	3.4
Differences in resources	3	5.2
Total	58	100.0

4.4: Summary

This chapter has presented the survey findings. The following chapter will discuss their implications. However, even from the presentation, one can confirm the validity of the research proposition. There is a need for a strategic plan for investment promotion within the EAC. Factor endowments alone are not enough (Cho and Moon, 2000), and if there is no deliberate effort to package the EAC opportunities, some member countries may lose out altogether, with FDI being channeled to particular members. This will lead to unbalanced economic growth within the region. The very problem that the EAC was created to counter.

The following chapter discusses the findings of the survey as well as some of the secondary data.

Chapter 5: Discussion on Findings

5.1: Introduction

The information gathered from the survey and the literature that this research was able to review, support the research proposition that national / regional wealth is not achieved by natural endowments, but is , according to Cho and Moon (2000), created by strategic choices. The EAC is a complex REC comprising overlapping membership.

In order to attract FDI to the EAC, there is an urgent need to look beyond the comparative advantage/s of the region as a selling point, and pursue a realistic regional investment promotion strategy. A study of the current marketing mechanism in the EAC in comparison with the mechanism in other RECs like the EU, particularly Centrope, and the theories developed in past literature by scholars on the subject of integration and FDI, confirms that marketing a region by individual member states is difficult due to increased competition for FDI. A sector based strategy therefore; focusing on the development needs of the member states will go a long way in ensuring equitable FDI location in the region. This kind of marketing strategy however needs to be founded on a number of political, social and economic fundamentals as evidenced from a number of opinions in the survey.

The three questions that can be posed at this point are:

1. The majority of the respondents affirm that there is a regional marketing strategy in place, but how effective is it?
2. How can the EAC be made attractive as a whole (become competitive)?
3. Which sectors can be packaged as 'truly' regional sectors?

These three questions will guide the discussion in this chapter whose aim is to ultimately contribute to the ongoing efforts of determining the most strategic marketing mechanism for attracting and sustaining FDI in the EAC. The chapter is divided into three sections.

Section one, analyses the status of the current investment promotion strategy and offers some mechanisms that could enhance what is in place. Section two, focuses on the strategic plan for investment promotion that would make the EAC increase its competitiveness using examples gleaned from the literature review and other reading material gathered during the research. The third section offers conclusions to the discussion in the preceding sections.

5.2: Status of the Investment Promotion Strategy in the EAC

In 2000, the three IPAs of Uganda, Kenya, and Tanzania, formed the East African Association of Investment Promotion Agencies (EAAIPA), which has since been joined by Rwanda and Burundi. Together they identified agriculture, tourism and ICT as the priority sectors in which the region had comparative advantage and began to individually advocate for enabling policy reforms to ease setting up investments in those areas in order to make the investment in the sector attractive.

Though the sectors were labeled 'regional', investment promotion was and still is largely carried out individually and on about two occasions a year a regional outward mission will be carried to a target country. This situation confirms Dr. Valerie Engammare (2009)'s deduction that 'several countries within a region may join forces to attract investment. However, such cooperation may be limited in scope to information exchanges or joint training or joint promotion activities'

Most of the respondents stated that there was a marketing strategy in place. However, when asked to detail the strategy, the responses detailed the promotional activities carried out in cooperation, for instance; Outward business missions, where the East African delegation travels to a target country to market the opportunities at business forums, seminars, and trade and investment fairs; Investor conferences - the EAC holds one annually; Inward missions – where a foreign business delegation will make a business trip covering the region; and public private sector dialogue. Though these activities do achieve some results, they should not be construed to mean a ‘mechanism’. Activities are included in mechanism or ‘system’. The research submits that the system is what is missing in the current strategy and suggests that the EAC could adopt any of the following three strategic mechanisms that have been adopted elsewhere with promise of positive results.

i. Centrope in the European Union (EU)

During the preparations for the EU enlargement and in the face of increasing regional competition, regional development agencies in the Vienna region (wwFf, Vienna – ecoplus, Lower Austria – Wibag, Burgenland – Austrian Business Agency) began together with agencies in the neighbouring southern Bohemia, Southern Moravia, and western Hungary, to profile and market the region as whole in the framework of the Interreg III Project: FDI in Centrope (Interreg IIIA Project Concept Paper, centrope / EU). The project ran for two years from July 2005 to June 2007.

Under the project, basic economic data was collected, the developments analyzed with experts and economic policy interventions identified. The provision of missing information on selected business sectors and other relevant FDI factors for the entire region was made priority. Zhang (2005) ‘Competitive positioning and sector/activity/region targeting is a complex process and requires: a detailed knowledge of industry sector

and trends, cluster development, FDI trends, company strategy, typical projects requirements and parameters and best practice IPA activities.’

Sector data bases were purposed to be shared across the region. Jointly developed marketing instruments were prepared and produced, as well the establishment of a joint website. A Centrope brand was developed and there were efforts to centralize at one location, the regional network activities within and outside the Centrope region i.e. other European regions.

In order to make regional marketing a reality, a dedicated Regional Investment Agency (RIA) may need to be formed i.e EAC RIA. COMESA has one such agency the COMESA RIA. Each of the IPAs could second investment promotion and research staff to the regional body. This would allow the IPA to focus more on the implementation of FDI plans, have access to update regional and country data to promote the region and country opportunities in a more structured way, follow up on target companies and FDI markets, and most importantly, strengthen aftercare services. Joong - Wan Cho (n.d) rates investment facilitation and after care services as an increasingly important component of investment promotion as can be a significant source of FDI through re-investment and satisfied retained investors attracting more FDI to the location. Currently the aftercare services, though a core function of the IPA among the IPAs in the EAC, are not given the priority they deserve. This is evident from interviews with the private sector who say that the IPA is effective in the initial stages of an investment, implying that little assistance is availed later. However, IPAs do not have control over a number of the regulatory issues that beset investors.

ii. China

According to Jinkang Zhang (2005), getting the relationship right between national and regional IPAs is of particular importance to China.

Even in the midst of intense competition for FDI among the region's IPAs, there should be a clear understanding of the type of national projects being aimed at so that when a lead comes there is a clear rationale which region is best suited for it. This kind of coordination is only possible if there is sufficient knowledge of the investment trends and what is beneficial to the economy.

The survey established that there is a general perception that the kind of FDI received in the EAC does not quite match the investment needs. Most of the member states are agro economies but the sector is the most underdeveloped as far as technology is concerned.

According to the WIR 2001, FDI in China had experienced changes over the last two decades at the time. FDI in the 1980s was mainly in the labour intensive industries, the early 1990s witnessed the change in trend to capital intensive industries, and then to tech – intensive industries since late 1990s. To date, FDI is moving into the hi-tech innovative industry. Through all these changes there were structured / deliberate attempts to attract the right kind of FDI i.e for the labour intensive era, more preferential treatments were aimed at attracting export oriented enterprises. The EAC however, has been caught up in an intermediary era where there is a lot of global pressure to compete for FDI in the current trends at the expense of some traditional settings that need effort to transform.

The EAC may need to take a step back and critically analyze where real development is needed and focus both government development funds and FDI towards those areas, while providing for the current FDI needs. The sectors of the economy need to be given a chance to evolve just like China and the other developed nations. The IPAs need to take the lead in identifying the sectors, their status and develop viable investment opportunities.

iii. Vietnam

Mai The Cuong (MBA) was invited to present a marketing approach to FDI attraction at the Vietnam Development Forum in August 2004. The self assessment list from the government ran like the one that was captured from this research. Some of the problems that led to an ineffective promotion strategy included;

- The master plan for attracting FDI was lacking
- List of projects calling for investment did not meet the need and interest of investors (insufficient / lack of relevant information)
- Lack of updated on line material
- Lack of budget for promotion activities
- Different incentives from different provincial authorities (all the member state of the EAC still have individual domestic laws which run concurrently with the Customs Union laws)
- Unclear positioning statement (there has been no branding effort for the EAC, each country is the process of developing its own brand)
- Ineffective promotion strategy and communication programme

Mai's advice to the Vietnam government was to focus on five (5) strategic marketing variables. The following would work for the EAC as well. This section will pick the first variable for purposes of discussion. The first variable was the product. The research confirmed EAAIPA's findings that the most viable regional sectors were agro processing, tourism and ICT. The EAC IPAs need to go beyond promoting them generally to research on the relevant regional and global data concerning these, develop sellable projects that will attract funding, investment and the much needed jobs. The business environment and policy issues within these sectors need to be harnessed to make the investment climate conducive for the sectors to thrive.

The three mechanisms outlined above would be literally ‘shot down’ because of lack the need for funds to implement them. However, the initial stages of formulating the mechanism do not need funds. What is also needed before the funds can materialize is the political will at regional level. The IPAs need to embark on the formulation of a strategic mechanism and lobby the governments through the regional institutions and individually to make them happen. A number of respondents rightly stated that different political ideologies and lack of united political will are a major challenge to the regional promotional efforts of the EAC.

5.3: Strategic Plan for Investment Promotion

The research analysed the ‘draft roadmap towards effective promotion of investments in the EAC’ produced by the EAC Secretariat. The strategies suggested were more of passive i.e. image building, identifying policy advocacy interventions, etc. The pro active strategy of packaging investment proposals in some sectors fell short of determining which sectors were regionally critical from the list of nine. A regional consensus has since been agreed by the EAAIPA and supported by a broad cross section of respondents in this research survey, that the priority sectors are agro processing, tourism and ICT. In order for these sectors to attract FDI; the following strategies could be adopted;

i. Value Chain Analysis

Using the value chain analysis strategic agri business sub sectors can be packaged for investment to enhance agricultural transformation and benefit a wider spectrum of the region. A value chain ‘describes the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformations and the input of various

producer services), to delivery to the final consumer and final disposal after use' (Kaplinsky and Morris, 2000). An opportunity in the fruit processing sector (fruit concentrate extraction) could combine farming, harvesting, and semi processing of the fruit in Uganda for onward further extraction, packaging and distribution in Kenya which borders the coast.

ii. FDI regional projects

Cooperation is already under way at identifying and formulating industrial projects of mutual interest. What has not been undertaken is the 'feasibility studies and formulation of bankable project proposals. An efficient infrastructure is the backbone of any economy. For FDI to flourish, the transport and energy infrastructure needs to be efficient. This is not the case in the EAC. Three of the member states are landlocked and the internal transport system under developed. Master plans for the development of infrastructure have been developed in the structure of public private partnership proposals. However, these can be further packaged into manageable investment proposals so that FDI together with local investment can take them up. This would solve the infrastructural problems one step at a time. The survey also established from the IPA respondents that there was a need to formulate regional sector projects with all the relevant investor information i.e. up to date data information on the sector, the technological and market potential, national laws and regulations, costs, availability of labour and other inputs, as well as potential partner experiences' (UNCTAD: Economic Development in Africa Report 2009) . Funding needs to be prioritized to see these studies to fruition

iii. Enhancement of the SME

The EAC IPAs should focus their services on the enhancement of the SMEs. The Ugandan IPA is already doing this through the establishment of a department wholly dedicated to SME investment issues and has partnered with other institutions to support a business linkage programme which coordinates the efforts at improving the service delivery from the SMEs with the established TNCs in the country. The survey established that one of the attractions for FDI is viability in the sector. A thriving SME makes a sector viable because the services and inputs needed for an industry can be provided at a lower cost at the point of production. IPAs therefore ignore the SMEs at their own peril. According to UNCTAD 1998b cited in Joon-Wan Cho (n.d), strong local firms attract FDI and the FDI in turn enhances competitiveness and dynamism of the SME sector. He further suggests that foreign SMEs should be targeted for investment. They are more likely than the big TNCs to transfer appropriate technology to developing countries and have more flexible local arrangements by using subcontracting to a greater extent. The EAC IPAs have a tendency of focusing on the attraction of big TNCs.

iv. Research and Development

The importance of gathering, processing and distributing quality trade and investment related information cannot be over emphasized. The regional IPAs need to put in some deliberate effort at establishing a mechanism through which such information can be prepared so as to enable access to it at any time. In the earlier pages of this report, this research advocated for a research unit created at a centralized regional IPA. The Joint Export and Investment Promotion Strategy for the EAC highlights research and development as a strategy, but only suggests

capacity building in the area. The kind of national, regional and global information that could be processed by this unit would not only benefit the IPAs but the potential investors worldwide who should be able to access the facility directly as well. It is imperative that the research and development facility be set up as a matter of priority.

v. Specialization

The research calls for priority sector targeting. With the hind knowledge of the different comparative advantages enjoyed by the different member states of the EAC and the different levels of economic development, specialization would enhance the competitiveness of the different areas within the region. According to Michael E. Porter (2000) the central issue in becoming globally competitive is how to create the conditions for rapid and sustained productivity growth in a particular industry.

A good example has been that of Singapore, which has emerged to be one of Asia's prominent biotech centres. Despite its small size, many key biotech players have been attracted by its strong regulatory infrastructure, sound intellectual property protection, skilled workforce, and cutting edge research. Well known scientists such as Dr Alan Colman, famous for his work on cloning Dolly the sheep, have relocated to work in Singapore's growing biotech community (FDI Magazine 2003). The EAC should begin to consider creating industry clusters within the region e.g. Uganda – an agro processing and petro chemical industry hub, Kenya – a manufacturing and tourist hub, Tanzania – a mining industry hub, Rwanda – a cultural tourism and a geo thermal energy hub, and Burundi - a horticultural production hub, among others.

5.4: Conclusions

The major objectives of this research were to establish how effective the investment promotion strategy of the EAC was in the light of regional integration and to identify which sectors within the region could be packaged as regional projects that could attract the right FDI to support equitable economic growth and development among the member states

The deductions have been made from mainly people's perceptions, experiences and attitudes as well as comparisons with past researches in the area of FDI and regional integration. The results of this research are therefore not very scientific, but can be relied upon since the population of the survey was selected according to relevance to the topic and expertise in the area.

The research hypothesis which has been supported by published authentic researches has served the purpose of an unbiased evaluation of the current marketing mechanism, an activity which is hardly done. The research has also contributed to the ideas for a proactive investment promotion strategy that takes a sector based approach.

5.4.1: Limitations of the Research

1. One of the objectives of the research was to carry out a feasibility study of the viable sectors identified by the survey. This was not done due to insufficient time and resources to carry out such extensive studies.
2. The population sample should have been bigger and more representative regionally to achieve scientific data.
3. The research was unable to get representative information from one of the partner states (Burundi) because of a language barrier. The official language is French, which the researcher was not fluent in.

Only one out of the ten (10) subjects targeted in Burundi was able to respond.

5.4.2: Further areas for Research

1. There is still a need to carry out feasibility studies in the priority sectors of the EAC and the EAC Secretariat lacks the funds to do so. This is why the research proposes the creation of a regional investment agency with the two core functions of Research and Development and Information Dissemination, funded by the partner Ministries of Finance and EAC Affairs, with staff seconded from the EAC IPAs.

2. This particular research was more like a self evaluation of the IPAs and EAC institutions on the effectiveness of the marketing of the region for FDI. A lot of research has been done on investor perceptions asking them about the regulatory climate and what attracted them to locate in the region. Focus has not been put on **how** they were attracted to invest in the EAC.

A survey focusing how, from 2000 when EAAIPA was formed to 2010, would further evaluate the effectiveness of the marketing strategy in place. Hearing from the recipients of the strategy would enable a clearer understanding on how effective the investment promotion is.

APPENDICES

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APPENDIX 3: RESEARCH QUESTIONNAIRE

A STUDY OF THE MARKETING STRATEGY FOR FDI IN EAST AFRICA IN THE LIGHT OF REGIONAL INTEGRATION: A FOCUS ON STRATEGIC SECTORS & PROMOTION MECHANISM

Research Questionnaire

Dear Respondent,

Thank you for accepting to participate in this survey, which is intended to hopefully contribute positively to the on-going efforts at establishing practical investment promotion strategies for the East African Community (EAC) even as the economic bloc moves towards full integration. This particular survey is in partial fulfillment of a MSc Investment Promotion and Economic Development.



Sheila K Mugyenzi

Senior Investment Executive

Uganda Investment Authority

Guidelines for filling in the questionnaire

Please 'fill' the choice boxes with a dark colour, answer the rest as requested, save, and then mail the filled questionnaire back to me at skarungi@ugandainvest.com

Thanks again

Respondent data

1. Please indicate where your occupation is best described

Trade & Investment Government Official

East African Community Official

Private Business

Business Consultant

2. Please indicate your country of origin

Tanzania Uganda Kenya Rwanda

Burundi

Status of EAC Competitiveness

3. The revival of the East African Community will boost the competitiveness of the member countries more than increase competition among the member states in the drive to attract Foreign Direct Investment (FDI)

Strongly agree agree no opinion strongly disagree

Disagree

4. Which 3 sectors among those listed below, would you consider as most viable for investment in the EAC? *Please indicate your suggestion using numerals 1,2,3 against the sectors in descending order of viability (write in the box provided if filling hard copy or write numeral in brackets at the end of the chosen sector if filling in via the computer)*

Information Communication Technology

Tourism

Agriculture and agribusiness ie. Food processing

Education

Financial services

Real Estate

Floriculture

Transport and Logistics

Mining and oil

Investment Promotion Strategy

5. What do you suggest would be the best basis for an EAC investment promotion strategy to attract and sustain investment in the region?

- Sector based strategy
- Foreign country target strategy
- A mix of the sector and country target strategy
- The basis option does not matter

6. Please give an explanation for your choice in (5) above

7. In your opinion, what can be done to strengthen the current efforts among the Investment Promotion Agencies within the EAC to market the economic bloc as the preferred investment destination in Africa?

8. What would you think are the (3) main challenges encountered in promoting the East African region vs your country as an investment location

This section is intended for Investment Promotion Agencies, the EAC Secretariat officials and Government officials only

9. The EAC is surrounded by other economic blocs like the SADC, Great Lakes region, COMESA, etc. Please give two reasons as to why FDI would choose to locate in the EAC over the other options.

10. Please list the top three (3) country sources of FDI to your country

11. The following promotion methods have proved to be successful in attracting FDI to the country. *Please indicate your opinion by filling or ticking the relevant box.*

a) Target e-mail: strongly agree agree disagree

Strongly disagree not sure

b) Website promo: strongly agree agree disagree

Strongly disagree not sure

c) Outward Mission: strongly agree agree disagree

Strongly disagree not sure

d) Cold calling: strongly agree agree disagree

Strongly disagree not sure

12. Has your institution / organization established a mechanism for promoting investment opportunities in cooperation with counterparts in the EAC?

Yes No Not sure I don't know

13.If your answer was 'Yes' in no. 12 above, please detail the mechanism in the space provided below.

This section is intended for Private Sector Persons only

11. If you needed to expand your investment or set up a new investment within East Africa, which institution / organization would you approach for information?

- Business Consultant (home based)

- Business Consultant (target country based)

- Business Consultant (International)

- Investment Promotion Agency (target country based)

- Regional Agency

- Ministry of Trade / Commerce

Embassy (target country)

Website

I sincerely appreciate the time you have taken to fill in this questionnaire. If you would like the research report to be shared with you, please write your e-mail address in the space provided below.

E-mail: _____

Date of submission of questionnaire: _____

APPENDIX 4: CODE DESCRIPTIONS FOR THE OPEN ENDED QUESTIONS

QN 6: 1 "Existing foreign Markets"

- 2 "Regional growth from Sector grow"
- 3 "Viable sectors attract Investors"
- 4 "Double maximization of benefits"

QN 7: 1 "Market EAC Projects as one"

- 2 "Harmonize Investment Procedures"
- 3 "Uprising Investment Incentives"
- 4 "Self Marketing by EAC Countries"
- 5 "Increased Advertisement"
- 6 "Budget support"
- 7 "Target Productive Sectors"
- 8 "Involve EAC Private Sector"
- 9 "Staff Capacity buildup"

QN 8: 1 "Inadequate Funds"

- 2 "Inadequate spirit of Unity"
- 3 "Competition among member states"
- 4 "Inadequate Infrastructure"
- 5 "Administrative Barriers" corruption, embezzlement, bureaucracy, power tariffs
- 6 "Different Economic development"
- 7 "Different Political Ideologies"
- 8 "Insufficient Investment Knowledge"

QN 9: 1 "Good business Environment"

2 "Tourism Potentialities"

3 "Oil and Gas discoveries"

4 "Large Market"

5 "Strategic geographical site"

6 "Cheap and Skilled labour"

7 "Stable Political atmosphere"

8 "Customs Union Implementation"

9 "More Multilateral Agreements"

QN 10: 1 "United Kingdom"

2 India

3 Kenya

4 China

5 Libya

6 Pakistan

7 Others Germany, Saudi Arabia

QN13: 1 "Annual EAC Investment Conference"

2 "Outward Missions"

3 "Inward Missions"

4 "Constant Dialogue"

5 "Sensitization Programmes"

6 "EAC Private Sector Involvement"

7 "Investment Promotion in EAC"

- QN 14: 1 "Business Consultant-Home"
- 2 "Business Consult-Target Country"
- 3 "Business Consult-International"
- 4 "IPA-Target Country"
- 5 "Regional Agency"
- 6 "Ministry of Trade/Commerce"
- 7 "Embassy-Target country"
- 8 Website
- 9 "All mentioned Institutions"

APPENDIX 5: DECLARATION

I declare that the work undertaken for this MSc Dissertation has been undertaken by myself and the final Dissertation produced by me. The work has not been submitted in part or in whole in regard to any other academic qualification.

Title of Dissertation:

A Study of the Marketing Strategy for FDI in East Africa In The Light of Regional Integration

Name: SHEILA KARUNGI MUGYENZI

Signature:



Date: 30th September 2010