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SCIENTIFIC REVIEW

Attractiveness of East African Community (EAC) for Foreign Direct Investment

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ABSTRACT *– The paper identifies competitive advantages and disadvantages of East African Community (EAC) as FDI location, observing EAC as a region, in spite of visible differences among the member countries. Despite the EAC's progress towards the development of a common market still existing restrictions on free movement of capital, services, and goods inhibit or make FDI and entry into the market unduly expensive. The identified competitive advantages of EAC as a location for FDI are the following: fast economic growth, relatively low general government debt, low cost of labor, geographical proximity to regional and international markets, and high share of young people involved in primary education. The most prominent weaknesses inhibiting more FDI inflows in EAC are: small domestic market with low per capita income, low share of exports in GDP, high country risk, slow progress in structural and institutional reforms, underdeveloped infrastructure, high administrative barriers, inefficient government bureaucracy, low secondary and tertiary education enrolment, high level of corruption, and poor implementation of laws. The papaer concludes that the main policy message arising from theoretical findings and empirical evidence suggest that the best way for EAC to attract more FDI in the future is to: to speed up their EAC integration processes, to strengthen the structural and institutional reforms, to accelerate the legal and regulatory reforms, necesary for the improvement of the rule of law, reduction of corruption, and elimination of addministrative barriers. Any specific FDI policies are only of a secondary importance.*

KEY WORDS*: FDI, location criteria, EAC, regional integration, attractiveness*

Introduction

The East African Community (EAC) is a regional intergovernmental organization which comprises five Eastern African countries, including Republics of Kenya, Uganda, the United Republic of Tanzania, Republic of Burundi and Republic of Rwanda [2].

The EAC was originally established in 1967 but collapsed in 1977, the main reasons contributing to its collapse being lack of strong political will, the continued disproportionate sharing of benefits of the Community among the Partner States due to their differences in

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[2] The countries included in this analysis: Republics of Kenya, Uganda, the United Republic of Tanzania, Republic of Burundi and Republic of Rwanda will be referred to as East African Community or EAC.

their levels of development and lack of adequate policies to address this situation. In addition, the private sector and civil society did not have adequate participation in the co-operation activities. Upon the dissolution of the East African Community the said countries signed in 1984 the East African Community Mediation Agreement, for the division of the assets and liabilities of the former EACH. This Agreement however contained the basis for further regional cooperation, as it provided for the establishment of a Permanent Tripartite Commission for co-operation between Kenya, Uganda and Tanzania to be responsible for the co-ordination of economic, social, cultural, security and political issues among the said countries, In addition a Declaration was made by the Heads of State of the said countries for closer East African Co-operation. In 1997, the Heads of State of the said countries after reviewing the progress made by the Tripartite Commission directed it to embark on negotiations for the upgrading of the Agreement establishing the Tripartite Commission into a Treaty (EAC, 2009, and Davoodi, 2012).

These negotiations resulted in the signing of the Treaty for Establishment of the East African Community in 1999 entering into force in 2000 following its ratification by the original three Partner States – Kenya, Tanzania and Uganda. Rwanda and Burundi acceded to the EAC in 2007. According to the treaty, the Community is established with the objective to develop policies and programmes aimed at widening and deepening co-operation among the Partner States in political, economic, social and cultural fields, research and technology, defense, security and legal and judicial affairs.

In implementing the Treaty, the EAC countries established a Customs Union in 2005 and a Common Market in 2010. The next phase of integration will see the establishment of a Monetary Union and ultimately a Political Federation of the East African States (World Bank. 2014a).

The EAC has a population of 153, 1 million, and a relatively low level of development, with total GDP based on purchasing power parity (PPP) at USD 232.5 billion. The regional GDP per capita at PPP is USD 1516, or only 43.1% of the African average. Size, population and level of economic development vary within these countries. With its 79.6 million inhabitants, Kenya is the most populated country in the region, and the country with the highest GDP per capita at PPP in region, amounting to USD 1796 in 2013. It is followed by Tanzania and Uganda, which are the countries of a similar size and with slightly lower GDP per capita. The two smallest countries in the region, Burundi and Rwanda, of respectively 5.3 and 14.1 million inhabitants, are also the the poorest countries in the region, with GDP per capita at PPP of only USD 521 and USD 1201 (See Table 1). However, EAC countries witnessed relatively high growth rates in the period 2005-2013, averaging 6.1%, compared to African average of 5.4%. The region is expected to continue its growth in the next three years, as the regional GDP growth in that period (2014-2016) is projected at 6.6% (IMF, 2014).

Table 1. Basic Indicators, 2013

	Population (thousands)	GDP based on PPP valuation (US $ Million)	GDP per Capita (PPP valuation, $)	Annual real GDP growth (average over 2005-2013)
Burundi	10 163	5 297	521	4.1
Kenya	44 354	79 664	1 796	4.8
Rwanda	11 777	14 142	1 201	8.2
Tanzania	49 253	77 834	1 580	6.9
Uganda	37 579	55 605	1 480	6.7
EAC	153 126	232 543	1 516	6.1
Africa	1108 966	3827 029	3 520	5.4
EAC to Africa ratio	13.8	6.1	43.1	114.0

Source: African Economic Outlook 2014

In more than a decade now, there has been significant progress in the implementation of the EAC Treaty and the integration process. However, significant challenges remain, some of which were partly the cause of the collapse of the EAC in 1977, which impacts on people's skepticism about the success of political integration. The challenge is to ensure that all member states are clear about the benefits of regional integration and more importantly that they do benefit. The member states are still at a different level of development - the ones with a rapid productivity growth (Rwanda, Tanzania and Uganda) as opposed to Burundi that shows a slower growth. Kenya has also still to meet its full potential as a leader for regional growth. While the customs union and common market implementation have progressed, there is still a long way to go, in particular having in mind that nontariff trade barriers remain between EAC member states. Finally, the successful implementation of a monetary union will depend on how successfully the customs union and common market have been implemented as well as the level of harmonization of the financial policies of the member states (World Bank, 2014a).

Economic theory suggests that economic integration increases FDI inflows in the region because: (i) size of the market increases what leads to the replacement of exports with FDI; (ii) MNCs reorganize their investments in the region due to new configuration of location advantages (new structure of costs, benefits, economies of scale) among member countries; (iii) new investment opportunities arising from the restructuring of activities between countries, sectors and firms triggered by economic integration (Dunning, 1993). Due to this correlation, we will focus in this paper on the attractiveness of the EAC for FDI.

Foreign direct investment (FDI) in the East African Community (EAC)

Developing countries have increasingly come to see foreign direct investment (FDI) as a source of economic development and modernization, income growth and employment. The size, structure and stability of flows of FDI, are generally recognised as a potentially important source of economic growth (see, for instance, Billington, 1999; Bevan and Estrin, 2000; Dunning and Lundan, 2008). FDI represents an addition to domestic accumulation, meaning an increase of production capabilities and, consequently, of employment (Buckley et al. 2002). FDI also results in the inflow of new knowledge and technology (Buckley et al. 2002), with positive spillover effects on the rest of the economy (Lucas, 1993; Borensztein et al. 1998). Foreign investors may also open new markets and transfer knowledge.

The inflow of FDI in EAC countries was almost negligible during the 1990s. Their growth started in in the early 2000s, when their average annual inflows almost tripled, amounting to 623 million USD. In the last 10 years FDI inflows registred almost permanent growth, as impact of the world economic crisis on the FDI inflows to this region was minimal. The region reached a pre crisis level of FDI in 2010, continuing its growth, and culminating in 2013 with USD 3650 million. FDI in EAC were growing faster that FDI in Africa as a whole, increasing their share in Africa's FDI stock from 3.1% in 2001 to 3.8% in 2013 (Table 2).

The vast mayority of FDI in EAC region were in Tanzania and Uganda, amounting on average to 87% of total EAC FDI inflows. Kenya, the strongest economy in the region, is substantially lagging behind these two countries. Only in 2007, as a result of the privatization of telecomunication sector, the FDI amountred to USD 729 million, a level which they have failed to achieve over the next few years (Table 2).

Table 2. Inflows of FDI inflows in EAC countries in 1990-2013 (in million USD)

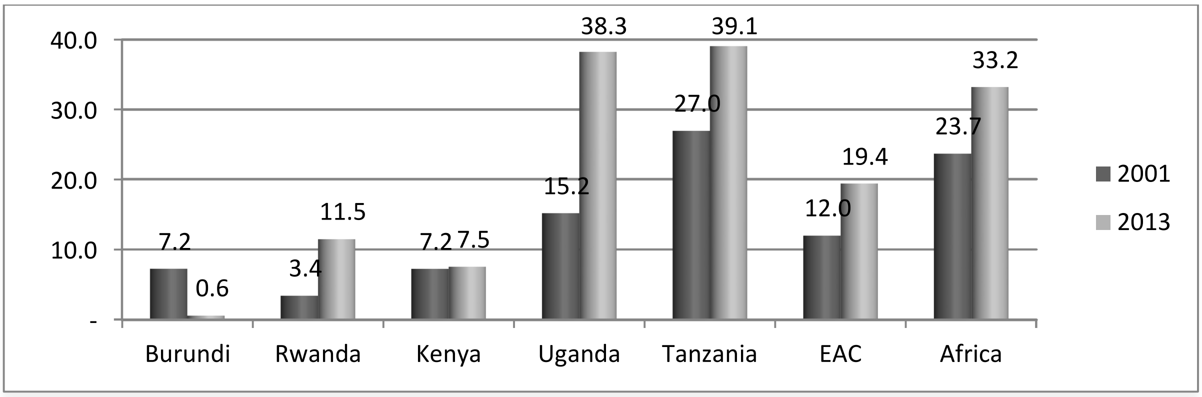
	1990-99	2000-2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Burundi	1	2	1	0	1	4	0	1	3	1	7
Rwanda	4	8	14	31	82	103	119	42	106	160	111
Kenya	21	54	21	51	729	96	115	178	335	259	514
Uganda	80	203	380	644	792	729	842	544	894	1205	1146
Tanzania	121	355	936	403	582	1383	953	1813	1229	1706	1872
EAC	226	623	1351	1129	2186	2315	2028	2578	2568	3330	3650
Africa	6746	15920	31018	35720	51364	59276	56043	47034	48021	55180	57239
EAC to Africa ratio (%)	3.4	3.9	4.4	3.2	4.3	3.9	3.6	5.5	5.3	6.0	6.4

Source: UNCTAD database

Increased FDI inflows in EAC countries since 2001 resulted in the increase of inward FDI stock to GDP ratio from average 12.9% in 2001, to 19.4% in 2013. Comparison to FDI penetration in/to Africa, however, shows that there is still a room to increase FDI in EAC. Namely, average inward FDI stock to GDP ratio in EAC was 19.4% in 2013, compared to the African level of 33.2% (see Figure 1). However, the FDI inward stock as a percentage of gross domestic product in 2013 in Tanzania and Uganda, the two EAC countries, that attracted the vast majority of EAC's FDI, amounted respectively to 39.1 and 38.3%, exceeding the African average of 33.2%.

Increased FDI inflows to EAC countries since 2001 resulted in the increase of inward FDI stock to GDP ratio from 12% in 2001 to 19.4% in 2013. In spite of EAC's faster growth of FDI stock as a percentage of gross domestic product than in Africa, it is still lagging behind the African average. If we observe the individual countries in the region, the differences among them are huge, as the FDI stock to GDP ratio in Kenya, the strongest economy in the region, amounted to only 7.2% in 2001, retaining almost the same level until 2013. Uganda and Tanzania extensively exceed the regional average, while this ratio in the least developed Burundi was only 0.6 in 2013 (Figure 1).

Figure 1. FDI inward stock as a percentage of gross domestic product, 2001 and 2013



Source: UNCTAD database

Determinants of EAC attractiveness as FDI location

According to Dunning (1993) host country determinants for attracting FDI are: (i) main economic (structural and market) determinants/factors, (ii) regulatory-policy framework determinants/factors and (iii) business facilitation.

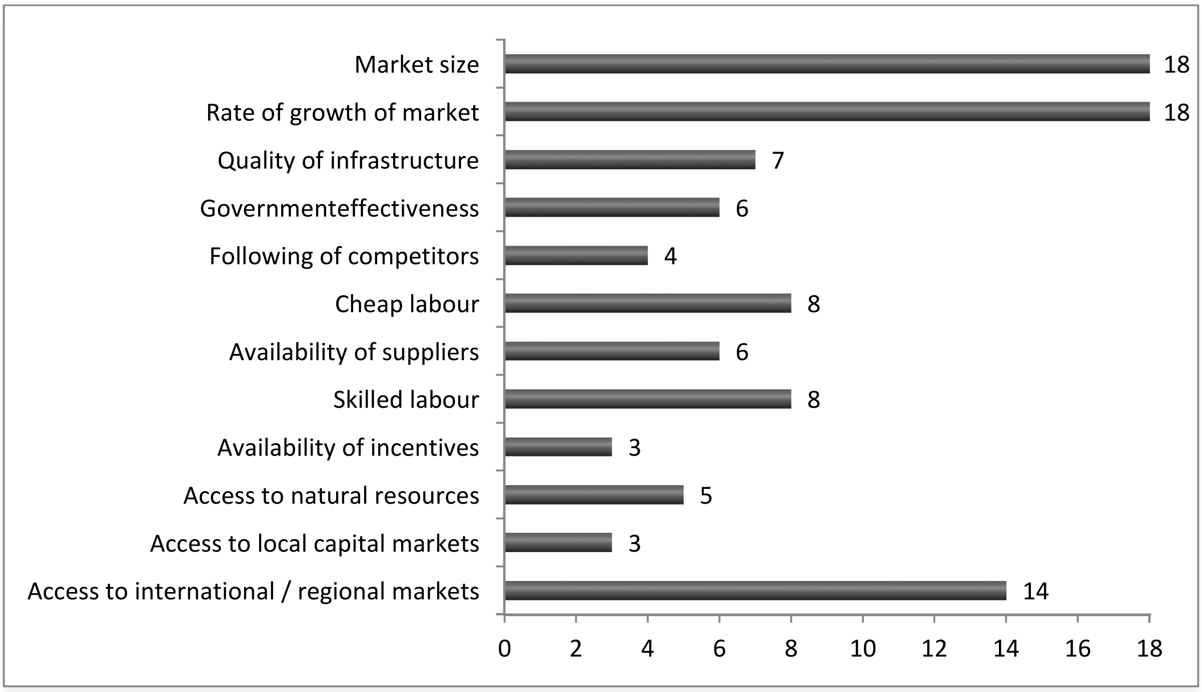
Empirical analyses of foreign investors' motivation and of location specific factors of FDI show that *main economic factors* represent the basic reason/motive of foreign investors for investing in a particular country (i) market characteristics (market size and per capita income, market growth, access to regional and global markets etc.), and (ii) availability / quality / costs of factors of production (labor, raw materials and other inputs, technological, innovatory and other created assets, physical infrastructure etc.). *General regulatory and policy framework determinants/factors*, which define investment climate in its broadest sense, include elements such as: (i) economic, political and social stability, (ii) privatization policy, (iii) trade regime and policy, (iv) tax rates and tax structure, (v) labor market (vi) product markets regulations and policies, etc. Only if these (the above mentioned) basic preconditions are in place, specific FDI regimes and policies can become relevant for attracting foreign investors (see, for instance, Dunning, 1993; UNCTAD, 1998; Business International, Creditanstalt, 1992; A.T. Kearney, 1998; Meyer, 1998; Rojec, Redek and Kostevc, 2007 etc.).

Analyses of various international institutions, which assess countries' attractiveness for inward FDI are more or less based on the above theoretical concept.

- Market access is by far the most important location determinant (50% of answers, see Graph 1). "Market size" (18%) favours large countries, while "market growth rate" (18%) gives priority to dynamically growing economies. Criteria "access to international and regional markets" (14%) is in favour of small and medium sized countries offering access to large regional markets.

- Availability and costs of labour ara also frequently mentioned by the surveyed MNEs (16%). Here, we have two aspects. The first is access to skilled labour (8%), and the other is low labour costs (8%).
- Technical quality of business environment relates to the quality of infrastructure (7% for world average), availability of suppliers (6%) and access to domestic capital markets (3%). All these criteria are in favour of more developed countries as FDI location.
- As far as legal and administrative environment is concerned, the survey cleary shows that incentives play a more or less marginal role (3% in the case of world average). In general, foreign investors seem to be more sensitive to governmment efficiency (6% in world average).
- Acess to natural resources and following of the competitors seem to be less important determinants of FDI inflows (see Figure 2).

Figure 2. Location criteria for FDI; world average, 2008-2010 (% of answers of surveyed MNEs)



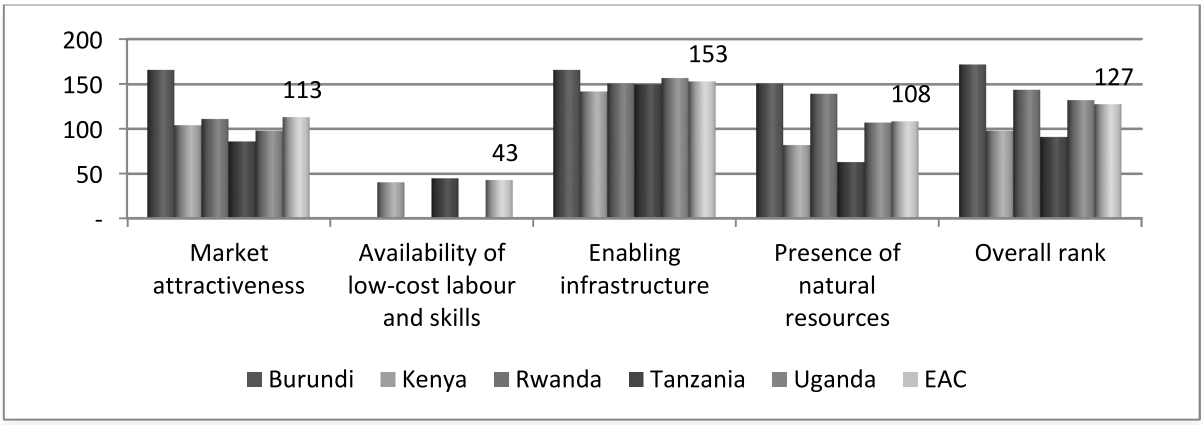
Source: UNCTAD WIR WIPS 2008-2010.

Based on the above factors that determine a country's attractiveness for FDI, in this section we provide empirical data for assessing EAC as a region as well as individual countries' attractiveness for FDI, i.e. advantages and disadvantages of EAC countries as investment locations.

In doing that, we use the following sources: UNCTAD Inward FDI Potential Index, WEF Global Competitiveness Report, World Bank Ease of Doing Business rankings, andWorld Bank Worldwide Governance Indicators, which are relevant for the estimation of locational competitiveness for FDI.

Further on we provide a more detailed evaluation of FDI locational competitiveness of the EAC as a region and individual EAC countries as far as main economic determinats (Figure 3, Table 3,4 and 5), regulatory framework (Table 6) and business climate and promotion of entrepreneurship (Table 7) is concerned.

Figure 3. EAC Country rankings by Inward FDI Potential Index[3], 2011



Source: UNCTAD (www.unctad.org/fdistatistics).

Note 1: The Inward FDI Potential Index 2011 rank is out of 177 countries. The lower the rank number, the better.

In Figure 3 and Tables 3, 4 and 5, **main economic (structural) determinants**, which are relevant for a countriy's FDI locational attractiveness, are classified into three groups:

- market size and market growth (market-seeking FDI),
- availability of resource / factors of production (resource/asset-seeking FDI), and
- costs of resources / factors of production and productivity (efficiency-seeking FDI).

Some of the conclusions that can be drawn from this data are:

Market size and standard of living (GDP p.c.) in EAC are not attractive for foreign investors, due to low regional lewel of GDP p.c. However, the growth of EAC market (GDP growth) is a potential advantage for attracting market-seeking FDI, due to the fast regional growth. Access to regional and global markets may be attractive for foreign investors, as all the countries are members of EAC and all of them except Tanzania are members of COMESA. In addition, An interim Economic Partnership Agreement with the EU was signed

[3] The Inward FDI Potential Index is based on several quantifiable factors: This index is thus constructed as the unweighted average of the normalized values of 12 variables: GDP per capita, the rate of GDP growth over the previous 10 years, the share of exports in GDP, average number of telephone lines per 1,000 inhabitants, commercial energy use per capita, the share of R&D spending in GDP, the share of tertiary students in the population, country risk, the world market share in exports of natural resources, the world market share of imports of parts and components for automobiles and electronic products, the world market share of exports of services, and the share of world FDI inward stock.

in 2007[4]. The EU and the East African Community are also committed to concluding a comprehensive Economic Partnership Agreement. All the member states of the EAC are part of the Africal Growth and Opportunity Act (AGOA), a trade preference program enacted in 2000 that is at the center of U.S.-African engagement on trade and investment[5].

Table 3. Main economic (structural) determinants of FDI relevant for market-seeking FDI

	Burundi	Kenya	Rwanda	Tanzania	Uganda	EAC
Inward FDI Potential Index: Market attractiveness (UNCTAD, 2012) among 177 countries	166	104	111	86	98	113
Rate of GDP growth (%, average 2005-2013)	4.1	4.8	7.7	6.9	6.7	6.0
GDP per capita (US$, average 2009-2013)	303	864	569	572	497	561
PPP GDP per capita (US$, average 2009-2013)	740	2104	1308	1580	1288	1404
Share of exports in GDP (% , 2013)	9	28	17	28	23	21

[1] *Inward FDI potential index, Source: UNCTAD (www.unctad.org/fdistatistics). Rank 2011: The lower the rank number the better. 177 countries have been included in 2011 ranking.*

[2] *Source: World Bank database: http://data.worldbank.org*

EAC countries can be considered as attractive for some types of ***resource/asset-seeking and efficiency-seeking FDI.*** Potential advantages for ***resource/asset-seeking*** attracting this type of FDI is the availability of low-cost labour, and to some extent the presence of natural resources (espetially in Tanzania, Kenya and Uganda) (Table 4 and Figure 3. There is a perspective of significant growth of FDI inflow in EAC countries in the forthcoming years, influenced by the FDI in the energy sector due to recent Ugandan and Kenyan oil discoveries, and new gas finds off the coast of Tanzania (PwC, 2014).

Underdeveloped infrastructure can be considered as one of the most problematic barriers for foreign investors to invest in the EAC region. According to the WEF GCI, Quality of overall infrastructure is poor, and ranks 97th among 144 countries. The only exception is well developed sector of mobile telecomunication. Quality of electricity supply is the most problematic factor, as the EAC as a region ranks 112th among 144 countries (Table 4 and Figure 3). Only According to the WEF GCI data, scores and rankings for Rwanda and Kenya

[4] An interim Economic Partnership Agreement with the EU includes: (i) duty and quota-free access for East African Community imports to the EU, (ii) a gradual removal of duties and quotas over a period of 25 years, (iii) special agreements on co-operation in the area of sustainable fishing, (iv) new and extended rules of origin for farming, fishing and clothing and (v) rules for settling trade disputes.

[5] By providing duty-free entry into the United States for almost all African products, AGOA has helped expand and diversify African exports to the United States, while at the same time fostering an improved business environment in many African countries through eligibility requirements. In August 2012, legislation was enacted to extend AGOA's important third country fabric provision to 2015.

are well above the regional average. According to the WEF survey with foreign investors, infrastructure is aslo identified as one of the most problematic barriers to FDI in EAC (Figure 4).

Table 4. Main economic (structural) determinants of FDI relevant for resource/asset-seeking FDI

	Burundi	Kenya	Rwanda	Tanzania	Uganda	EAC
DETERMINANTS OF FDI RELEVANT FOR RESOURCE/ASSET-SEEKING FDI						
1. INFRASTRUCTURE						
Enabling infrastructure, among 183 countries) Inward FDI Potential Index, 2011 UNCTAD	166	142	151	150	157	153
Average number of telephone lines per 100 inhabitants (2004)	0.2	0.5	0.4	0.3	0.6	0.4
Mobile telephone subscriptions per 100 inhabitants (2014)	25	71	57	56	44	51
WEF GCI: 2nd pillar: Infrastructure ranks						
2.01 Quality of overall infrastructure (WEF GCI 2014-2015) ranks among 144 countries	131	65	68	117	104	97
2.02 Quality of roads	101	59	46	112	105	85
2.03 Quality of railroad infrastructure	n.a.	71	n.a.	88	101	87
2.07 Quality of electricity supply	132	95	92	125	114	112
2. LABOUR AND SKILLS						
Availability of low-cost labour and skills, Inward FDI Potential Index, 2011 UNCTAD	n.a.	40	n.a.	45	n.a.	43
WEF GCI 5th pillar: Higher education and training						
A. Quantity of education, scores						
5.01 Secondary education enrollment rate	28.5	60.1	31.8	35	27.6	37
5.02 Tertiary education enrollment rate	3.2	4	7.2	3.9	9.1	5
A. Quantity of education ranks						
5.01 Secondary education enrollment rate	137	113	134	132	138	131
5.02 Tertiary education enrollment rate	136	133	124	134	118	129
B. Quality of education: ranks						
5.03 Quality of the educational system	133	30	50	109	78	80
5.04 Quality of math and science education	100	76	71	137	117	100
5.05 Quality of management schools	138	44	99	126	96	101
5.06 Internet access in schools	142	79	70	124	116	106
C. Training, ranks						
5.07 Local availability of specialized research and training services	138	32	96	109	98	95
5.08 Extent of staff training	137	34	55	116	110	90
3. NATURAL RESOURCES						
Presence of natural resources, Inward FDI Potential Index, 2011 UNCTAD (among 177 countries)	151	82	139	63	107	108

[1] *Inward FDI potential index, Source: UNCTAD (*www.unctad.org/fdistatistics*). Rank 2011: The lower the rank number the better. 177 countries have been included in 2011 ranking.*

[2] *Mobile telephone subscriptions per 100 inhabitants , Average number of telephone lines per 100 inhabitants and Tertiary education enrollment rate, Source: World Bank database:* http://data.worldbank.org

[3] *WEF GCI, Source: World Economic Forum (WEF): The Global Competitiveness Report 2014-2015,.*

Among innovation and sophistication factors, the region as a whole can not be considered as competitive. However, there are huge diferences among the countries in the region. Kenya and Rwanda have higher scores compared to the regional average, almost in all the sub-indices (Table 5).

Table 5. Determinants of FDI relevant for efficiency-seeking FDI

	Burundi	Kenya	Rwanda	Tanzania	Uganda	EAC
9th pillar: Technological readiness ranks						
9.03 FDI and technology transfer	140	59	25	99	56	76
9.04 Internet users	142	85	125	133	110	119
9.05 Broadband Internet subscriptions	142	124	137	128	126	131
9.06 Internet bandwidth	95	53	103	111	121	97
11th pillar: Business sophistication						
A. Network and supporting industries						
11.02 Local supplier quality ranks	135	47	96	112	129	104
B. Sophistication of enterprise operations and strategies- ranks						
11.04 Nature of competitive advantage	122	51	65	108	121	93
11.05 Value chain breadth	136	36	71	102	93	88
11.06 Control of international distribution	135	40	67	119	100	92
11.07 Production process sophistication	140	55	102	111	115	105
11.08 Extent of marketing	142	59	125	117	119	112
12th pillar: Innovation - ranks						
12.01 Capacity for innovation	140	33	86	102	90	90
12.02 Quality of scientific research institutions	134	42	72	80	78	81
12.03 Company spending on R&D	137	28	94	86	97	88
12.04 University-industry collaboration in R&D	122	37	64	83	62	74
Share of R&D spending in GDP (%, 2010)	0.14	0.98	n.a.	0.52	0.56	0.27

WEF GCI, Source: World Economic Forum (WEF): The Global Competitiveness Report 2014-2015.

Main determinants of the r**egulatory and policy framework** relevant for the locational competitiveness for FDI are given in Table 6, which clearly shows that the region is poorly performing with respect to quality of laws and rule of law (World Bank Worldwide Governance Indicators). Country risk can also be considered a disadvantage for investing in EAC. Ease of Doing Business according to the World Bank Doing Business is a serious disadvantage of EAC as a region (with the exception of Rwanda) as their average rank is 123 among 189 countries. (World Bank Ease of Doing Business 2015);

Table 6. Regulatory and Policy Framework determinants of FDI relevant for the locational competitiveness for FDI

	Burundi	**Kenya**	**Rwanda**	**Tanzania**	**Uganda**	**EAC**
Country risk rank among 185 countries Mar. 2011) EUROMONEY	181	102	163	112	113	134
Country risk score among 185 countries Mar. 2011)(EUROMONEY	8.4	38.7	18.4	36.4	35.8	27.5
WEF Global Competitiveness Index: 2014–2015						
1st pillar: Institutions						
1. Property rights						
1.02 Intellectual property protection	131	65	32	91	124	89
2. Ethics and corruption						
1.03 Diversion of public funds	129	83	19	91	134	91
4. State inefficiency						
1.09 Burden of government regulation	97	48	6	61	42	51
1.12 Transparency of government policymaking	131	58	8	111	80	78
3rd pillar: Macroeconomic stability						
3.04 General government debt, % of GDP	40	88	34	65	49	55
6th pillar: Goods market efficiency						
2. Foreign competition						
6.09 Prevalence of trade barriers	139	110	53	125	62	98
6.10 Trade tariffs, % duty	95	98	96	104	99	98
6.13 Burden of customs procedures	136	92	16	123	84	90
8th pillar: Financial market development						
A. Effectiveness						
8.04 Ease of access to loans	131	33	41	86	93	77
8.05 Venture capital availability	129	43	39	81	106	80
8.06 Investors protection						
B. Reliability and trust						
8.08 Legal rights index	113	1	29	43	43	46
Worldwide Governance Indicators 2013; World Bank						
Regulatory Quality	-0.87	-0.35	0.03	-0.34	-0.24	-0.35
Rule of Law	-1.06	-0.74	-0.15	-0.5	-0.36	-0.56
Control of corruption	-1.39	-1.06	0.65	-0.82	-1.05	-0.73

[1] *Country risk, Rank 2011: Source: EUROMONEY ECR. September 2010. http://www.euromoney.com , The lower the rank number the better. 185 countries have been included in 2011 ranking.*

[2] *WEF GCI, Source: World Economic Forum (WEF): The Global Competitiveness Report 2014-2015, Rank 2015: The lower the ranks number the better. 143 countries have been included in 2015 ranking.*

[3] *World Bank Worldwide Governance Indicators, Source: World Bank, Worldwide Governance Indicators; http://info.worldbank.org/governance/wgi., Score 20013: scores are on the scale from -2.5 (the worst) and +2.5 (the best).*

However, the advantages for investing in EAC include:

- Macroeconomic stability, especially government debt, as one of macroeconomic stability's sub-indicators (WEF Global Competitiveness Index).
- Several sub-indicators related to the quality of institutions, including Burden of government regulation and Transparency of government policymaking (WEF Global Competitiveness Index), and
- Reliability and trust: Legal rights index (WEF Global Competitiveness Index).

Selected factors of **business environment/entrepreneurship promotion**, which determine the attractiveness of a country for FDI are given in Table 7. There are very few potential advantages of EAC related to business environment/ entrepreneurship promotion, including Primary education enrollment rate (WEF Global Competitiveness Index)..

However, administrative barriers, including Starting a business and Closing a Business (World Bank Ease of Doing Business Rank), are serious impediments for investing in these countries. In addition, several sub indicators related to security, including Business costs of terrorism, Business costs of crime and violence and Organized crime (WEF Global Competitiveness Index), are also seriously affecting the atractivenes of the region for FDI.

Table 7. Business environment/promotion of entrepreneurship determinants from selected international assessments of competitiveness, relevant for the locational competitiveness for FDI

	Burundi	Kenya	Rwanda	Tanza-nia	Uganda	EAC
Ease of Doing Business Rank (World Bank 2015)						
Starting a Business	18	143	112	124	166	113
Closing a Business/Resolving insolvency	144	134	101	105	98	116
WEF Global Competitiveness Index: 2014–2015						
1st pillar: Institions						
Security						
1.13 Business costs of terrorism	106	135	37	99	131	102
1.14 Business costs of crime and violence	115	129	6	88	118	91
1.15 Organized crime	122	125	9	77	108	88
5th pillar: Health and primary education						
4.09 Quality of primary education	131	79	82	132	115	108
4.10 Primary education enrollment rate	70	125	16	38	100	70

[1] *World Bank Doing Business Ranking, Source: World Bank Doing Business Rankings; http://www.doingbusiness.org. , Rank 2015: The lower the rank number the better. 189 countries have been included in 2015 ranking.*

[2] *WEF GCI, Source: World Economic Forum (WEF): The Global Competitiveness Report 2014-2015. Rank 2015: The lower the rank number the better. 143 countries have been included in 2015 ranking.*

Conclusions and recommendations

In this paper we observed EAC as a region, in spite of visible diferences among the member countries, (with Kenya as the most developed country in the region, Uganda and Tanzania as the countries which attracted the vast majority of FDI, and Rwanda with the most attractive investment environment for FDI), as they all belong to the group of low-income countries. The EAC's progress towards the development of a common market in capital, services, and goods is of crucial importance for the improvement of the region's attractiveness for FDI. In spite of achieved progress in regional integration, still existing restrictions on free movement of capital, services, and goods inhibit or make FDI and entry into the market unduly expensive. Barriers which particularly impede FDI are: (i) legal restrictions on FDI, (ii) existence of non-tariff barriers in all member states, (iii) discriminatory measures towards foreign investors (taxes, limitations on acquiring or disposing of shares), (iv) nonharmonized FDI and trade laws and regulations among the EAC member States, which present barriers to cross-border trade and foreign direct investment into the region. Establishment of a fully functional EAC common market in capital, services, and goods is only one of the preconditions for the improvement of its attractiveness for FDI.

The main strengths of EAC relevant for attracting FDI are: (i) fast economic growth, (ii) relatively low general government debt (iii) relatively low cost of labor, (iv) geographical proximity to regional markets, and international markets (special agreements with EU, US, China and India), (vi) high share of young people involved in primary education.

The most prominent weaknesses inhibiting more FDI inflows in EAC are: (i) small domestic market, (even as a region), with low per capita income, (ii) relatively high country risk, (iii) slow progress in structural and institutional reforms (iv) low share of exports in GDP, (vi) poor supply of infrastructure, (vii) inefficient government bureaucracy, (viii) low secondary and tertiary education enrolment, (ix) low share of research and development in GDP, (x) high level of corruption, (xi) high administrative barriers, (xii) poor implementation of laws.

The main policy message arising from theoretical findings and empirical evidence suggest that the best way for EAC to attract more FDI in the future is to: (i) to speed up their EAC integration processes, (ii) to strengthen the structural and institutional reforms, (iii) to accelerate the legal and regulatory reforms, which will positivly influence the rule of law, and will reduce the level of corruption, and will eliminate a huge number of addministrative barriers. Any specific FDI policies are only of a secondary importance.

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Atraktivnost Istočno afričke zajednice (EAZ) za strane direktne investicije

REZIME *– Ovaj rad identifikuje komparativne prednosti i nedostatke Istočno afričke zajednice kao lokacije za strane direktne investicije (SDI), posmatrajući EAZ kao region, uprkos činjenici da među zemljama članicama ovog regiona postoje značajne razlike. I pored ostvarenog napretka ka stvaranju zajedničkog tržišta, postojeća ograničenja slobodnom kretanju kapitala, usluga i robe, čine priliv SDI, kao i ulazak na ovo tržište, prekomerno skupim. Identifikovane komparativne prednosti EAZ kao lokacije za privlačenje SDI su sledeće: visoke stope ekonomskog rasta, relativno nizak javni dug, jeftina radna snaga, geografska pristupačnost regionalnim i medjunarodnim tržištima, kao i visok stepen uključenosti mladih u primarno obrazovanje. Nasuprot tome, najveće prepreke za privlačenje SDI u EAZ su: malo tržište sa niskim BDP-om po glavi stanovnika, nisko učešće izvoza u BDP-u, usporen napredak u sprovođenju strukturnih i institucionalnih reformni, nerazvijena infrastruktura, neefikasna administracija, nizak stepen uključenosti mladih u sekundarno i tercijerno obrazovanje, visok nivo korupcije, i nedovoljna primena zakona. Rad zaključuje da je najvažnija preporuka koja proizilazi iz teoretskih i empirijskih osnova, da je najbolji način da EAZ privuče više SDI u narednom periodu: da se ubrza intergacioni proces EAZ regiona, da se intenziviraju strukturne i institucionalne reforme, neophodne za unapredjenje vladavine prava, smanjenje korupcije i uklanjanje administrativnih barijera. Bilo koja vladina politika vezana za SDI je samo od sekundarnog značaja.*

KLJUČNE REČI*: SDI, lokacija, kriterijumi, EAZ, regionalna integracija, atraktivnost*

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