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MSc Programme in Urban Management and Development
Rotterdam, The Netherlands
September 2012

Thesis

Title: Territorial Competitiveness: Exploring City Competitiveness and Complementarity in East Africa - A Case of Nairobi City

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UMD 8

MASTER'S PROGRAMME IN URBAN MANAGEMENT AND DEVELOPMENT

(October 2011 – September 2012)

Title

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UMD 8 Report number:
Rotterdam, September 2012

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Executive Summary

The premise behind this research is, as Nairobi city continues to grow both in terms of population and importance not only in the East African region, but also continent wide, exploring the concepts of city competitiveness and complementarity is fundamental for steering urban economic growth and setting the stage for African cities to claim their place in the global city network system. Nairobi's macroeconomic conditions, corruption levels, security and other locational factors have contributed to a reduction in the value of foreign direct investments into the city.

By examining and identifying Nairobi's investment portfolio, key locational factors, regional competitors and key economic activities, the objective of this study is to capture any deficiencies that may exist and to offer policy and practical suggestions on how Nairobi can leverage its position as an attractive destination for investments. Strengthening her regional capacity to compete and finding ways to enhance complementarity and economic collaboration within the East African network is also fundamental. A thorough literature review covering urban networks, competitiveness, regionalism and co-opetion offer theoretical insight into how important the role of city-regions has become and a subsequent rise in the competitiveness of cities on a global level. Theoretically applying the above concepts to the Nairobi city, nuances and complexities are brought to light, with the hope that future research needs to be conducted on cities in the global south.

In order to understand the concept of city competitiveness in the context of Nairobi city, three main criteria were set. The first is investments by value, investment by number and lastly locational factors. The research methods include three elements: 1) statistics, 2) content analysis of key policy documents and 3) expert interviews with key pre-selected informants. Main findings of this study show that despite Nairobi's reduction in FDI inflows over the last ten years, its position in terms of number of investments still remains strong as compared to regional competitors in the EAC. However in terms of the value of inward FDI, Nairobi has lost out. A major reason for this loss is due to resource seeking investments in the energy and minerals sectors, directed to other cities/countries particularly Uganda and Tanzania. Holding all other factors constant expect investment by value, Nairobi's main competitors are Kampala and Dar-es-Salam.

A thorough content analysis on key country and EAC policy and strategy documents reveal that there is little mention of city competitiveness and complementarity, apart from the Nairobi Metro Strategy 2030 and the Kenya Vision 2030 documents. This highlights the lack of technical knowledge and awareness of national/local governments and key ministries on matters concerning city competitiveness. In as much as the East African Common Protocol identifies the need to work together in order to break down trade barriers, enhance intra trade and labor mobility within the region, the need for economic collaboration and complementarity is not fully and strongly addressed.

Expert interviews reveal that the lack of both organizing capacities and technical capacities in fundamental institutions contributes to Nairobi's loss of high-value investments to her neighboring cities (Kampala and Dar-es-Salaam). Main conclusions and recommendations are grouped into five major categories namely: 1) Economic diversification and Investment mapping, 2) Locational factors, 3) Institutional and organizing capacities, 4) City marketing and branding and 5) East African complementarity network. The overriding theme behind the mentioned five categories relies on leveraging existing organizing capacities and boosting technical capacities both on a national, local/county and policy level and economic diversification in order for a concerted effort to ensure that the right policies and interventions are set to ensure that Nairobi attracts high-value sustainable investments.

Keywords: *Nairobi; city competitiveness; foreign direct investments; complementarity; economic diversification*

Acknowledgements

First and foremost, I would like to thank the Lord all Mighty for his faithfulness, mercy and blessing throughout this one-year journey. I would like to express my deepest gratitude to my family for all their support and encouragement throughout the masters and the thesis process. I particularly want to thank my mentors Dr. Grace Ongile and Professor Winnie Mitullah for their support, encouragement and kind words. Further more, I would like to thank my supervisor Ronald Wall for his support, guidance and inspiration.

1.0 Introduction

1. 1 Background information

As the largest economy in Eastern Africa with a population of over 40 million inhabitants, Kenya has traditionally received the bulk of foreign direct investments compared to the other EAC countries. Kenya's relationship with FDI inflows began in the early 1970's. At that time, Kenya was a prime destination for investments and other forms of private capital. However, over the last decades, amounts of FDI have dwindled and instead diaspora remittances seem to have taken over as a major source of funds[1]. Kenya's macroeconomic conditions have been volatile especially since the 2007 post-election violence that affected the economic stability of the country. Albeit an impressive recovery, economic growth and development has been slow, particularly affected by weak macroeconomic conditions, political instability and corruption.

Main sources of FDI in the year 2010 were from Australia (KSH 16 billion), Israel (KSH 4 billion), UK (KSH 738 million) and India (KSH 434.3 million). Investments from China (KSH 530 million) in 2009 also contributed heavily to Kenya's investment portfolio. This trend is predicted to continue. However, total value of investments into Kenya (Nairobi) is dropping significantly. The table below highlights FDI inflows in USD from the period 2006-2009.

	2006	2007	2008	2009
FDI INFLOWS (US$ M)	10043	11578	9495	6712

Source: World Bank (2009)

Regional integration as a path to economic development and growth has been present in the African political and socio-economic discourse since the 1960's (AfDB, 2010). With the impending realization of the East African Community as an economic bloc, attracting investments will be fundamental for growth. However, the slow realization of the economic bloc has slowed down investor activity in the region. Furthermore, the implementation of regional policies has been slow and EAC member states have not been able to agree on some key policy matters that are fundamental for regional collaboration. Although the EAC trade agreement enacted in 2010 is a good starting point, results have been slow. The unit of analysis for this research is the city of Nairobi, arguably the capital of East Africa and the economic hub of the East African Community[2]. With an urban population of over 6 million people and growing (City Council of Nairobi, 2009), there is an array of economic opportunities to realize. Nairobi is the economic and administrative capital of Kenya, a transport hub for the

[1] Central Bank of Kenya http://www.centralbank.go.ke/ Accessed on 27th February 2012.
[2] The East African Community was established on 7th July 2000, by the ratification of the original three-partner states- Kenya, Uganda and Tanzania. The Republic of Rwanda and Republic of Burundi acceded to the EAC treaty and became full members with effect from 1st of July 2007. http://www.eac.int/about-eac.html

East African Region, has a sophisticated stock exchange, is host to numerous multilateral agencies and the recent boom in real estate and telecommunications sectors, adds to the list. On the other hand, Nairobi is host to one of the continents largest slums, *kibera.* Nairobi also battles with a myriad of security and petty criminal activities that impede daily business activities.

City competitiveness is increasingly becoming important for attracting investments especially foreign direct investments (FDI). Kenya's launch of the ambitious Vision 2030[3] is meant to boost and establish the country as a globally competitive country by the year 2030. This initiative should renew commitment to attract sustainable foreign direct investments. Under the new constitutional dispensation, the new county system will see forty-seven (47) autonomous regions take control of their cities and economies. It is therefore imperative that city competitiveness be a key policy driver in order to leverage urban economic growth. The intricate symbiosis between the built environment, urban functions and economic flows, which is precisely packaged in the phrase, "form follows functions follows flow" (Wall, 2010), is critical for understanding the importance of cities as loci for economic competitiveness and attracting FDI. The Global Urban Competitiveness report (2011) ranked Nairobi city at 409, lower than Dar es Salam (402). Global rankings such as the global urban competitiveness report are important reference points for investors and firms, as they influence decisions on where to direct investments.

It is at this juncture that states within the East African Community need to re-assess their competitiveness and collaboration, not only as individual states, but also as nodes that function against the backdrop of a global network. For purposes of scope and depth, Nairobi's competitive performance will be analyzed in comparison with her direct competitors (cities) within the East African Network. The East African Network in this thesis consists of Dar es Salam, Kigali, and Kampala.

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[3] Kenya Vision 2030 is a blueprint document that maps out how the country will work at, 'creating a globally competitive and prosperous nation with a high quality of life'. http://www.vision2030.go.ke/ Accessed on 23rd February, 2012

1.2 Problem Statement

Despite the stable growth of GDP in Kenya and continuing FDI inflows albeit low in value, investors opt for cheaper investment destinations such as Uganda and Rwanda due to the fact that Nairobi is a high cost economy. Nairobi's capacity to effectively compete within the East African region and beyond is exacerbated by reduced inward investments, weak macroeconomic policies, corruption, weak institutional structures and security issues. Macroeconomic imbalances (See Annex 5) have led to economic distortions and structural constraints that make Nairobi a high cost economy in terms of risk thereby creating an uncertain environment for potential investors. Although Nairobi still offers great opportunities for investors, the reduction in FDI inflows is worrying.

Nairobi's locational factors have been one of the reasons leading to the diversion of investments from the city. Locational factors, is a concept based on Porter's framework - Porter's Diamond Model, Porter (2000). Locational factors are therefore the environmental conditions, local demand conditions, strategy, structure and rivalry conditions that attract firms. Nairobi's location factors have deteriorated over the years despite economic growth and numerous urban development plans. Rapid urbanization, weak macroeconomic policies, crime, corruption, lack of urban management, traffic, inadequate infrastructure, low quality of life are some of the numerous factors that may have contributed to the reduction of investments and instead a diversion to other cities mainly within the East African neighborhood and elsewhere in the continent. Institutions mandated to deal with investment promotion, country/city branding, service delivery and FDI strategy lack both organizing and technical capacities to provide technical assistance to both local and foreign investors. Numerous bureaucratic procedures and weak communication channels make it difficult for investors to access information on various investment opportunities.

Another fundamental problem not only for the city of Nairobi but more so for the East African region, is the lack of collaboration within economic sectors and activities. Due to the slow process of the East African integration, lack of synergy and integrated regional policies in the region and difference in economic structures, collaboration and complementarity has been difficult. Collaboration is key for coopetition and the success of regional development and indeed competition. Nairobi has recently taken up aggressive measures to establish itself as a regional hub for ICT and innovation. Plans for the first high-tech city in East Africa, named 'Konza Technology city' [4]are already underway. On the other hand, Rwanda a strong competitor within the region, is also undertaking aggressive measures to establish Kigali and Rwanda as the African ICT hub, The Economist (2011). Despite these ambitious efforts, the duplication of activities nullifies each countries competitive edge and the net benefits for both parties are lower at the end of the day.

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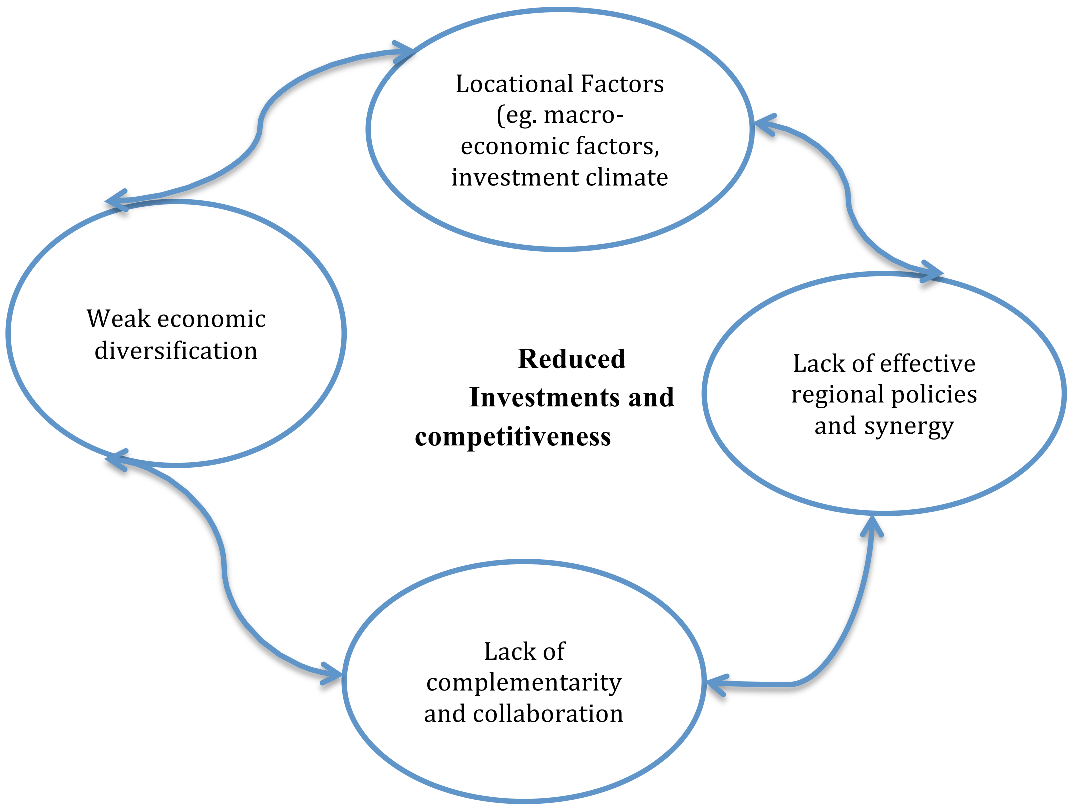
[4] http://www.konzacity.co.ke/ Accessed on 23rd February, 2012

FIGURE 1.2.1. CYCLICAL PROBLEM



1.3 Research objectives

By conducting a thorough examination of Nairobi's investment portfolios and locational factors vis a vis those of its competitors within the East African region, the aim is to capture any deficiencies that may exist and to offer policy and practical suggestions on how Nairobi can leverage its position as an attractive destination for investments, strengthen its regional capacity to compete and find ways to enhance complementarity and collaboration with other East African cities. The objectives of this research study are to:

- Examine Nairobi's investment portfolio against other East African cities
- Identify Nairobi's true and direct competitors and collaborators within the East African Network
- Identify which locational factors are most important for investors and for cities to improve on.
- Identify which economic activities have the most potential for complementarity in the region.

- Identify existing policies that can create an enabling environment for regional complementarity thereby enhancing co-opetition.

1.4 Provisional research questions and sub-questions.

Question 1: In what way can Nairobi city leverage its competitive performance and ensure complementarity within the East African network?

1. What are the current investment networks and portfolios of Nairobi City in comparison to other East African cities?
2. Who are Nairobi's competitors and collaborators in the East African Network?
3. What are the key industry sectors that can attract investors to Nairobi as compared to other East African cities?
4. What locational factors are determinant for investment to Nairobi?
5. What factors are contributing to the lack of complementarity within the East African Network?

1.5 Significance of the study

Amidst the ongoing implementation of the Kenya Vision 2030, and the impending integration of the East African Community, economic competitiveness and economic growth are fundamental. The Kenya Vision 2030[5], currently underway will succeed only if the country leverages its competitive stance and ensures synergy with the region. Furthermore, with the simultaneous implementation of a constitution that supports decentralization by devolution, competitiveness and collaboration provide critical options for jumpstarting urban economic growth within the new county system. It is therefore at this critical and pivotal moment for Kenya and the East African Community to address issues concerning both national and regional competition and complementarity. This thesis hopes to shed light on some key concepts, ideas and ways of thinking for the 21st century African city. With global investors increasingly eyeing Africa, it is time for the continent's cities to improve their position.

Furthermore this research hopes to shed light and contribute to policy and knowledge gaps in the field of African city networks, competiveness and regionalism and their relation to foreign direct investments. More importantly, the need for regional synergies, sound integrated policies and organizing capacities to maximize benefits and share costs for greater economic development and growth is emphasized. Taking into account the nuances and complexities that African cities may present, this thesis also

[5] Kenya Vision 2030 is a blueprint document that maps out how the country will work at, 'creating a globally competitive and prosperous nation with a high quality of life'. http://www.vision2030.go.ke/ Accessed on 23rd February, 2012

hopes to contribute to the existing theoretical knowledge on regionalism, complementarity and new paradigms such as coopetition to the ‘African’ perspective.

1.6 Scope and limitations

Due to the large geographical area of the East African region, it is impossible to gather all the required and necessary data to fully grasp the fundamental importance of regional competitiveness and complementarity. Taking into account the short allocated time for fieldwork research (one month), the amount of data collected is relatively limited. The thesis focuses on cities but due to the lack readily available city specific data, relying on country data is necessary. Using the capital cities as the unit of analysis proves to be the most efficient way of undertaking this research. Due to the concentration of administrative, social and economic activities in the capital cities under study, it is only just that references to other cities be made other capital cities within the EAC. However future research on competitiveness and collaboration of cities within a country will be necessary.

2.0 Theoretical Framework

2.1 Introduction

In order to highlight the linkages between urban development, regional integration and economic growth and development, this chapter will focus on three academic fields that are independent yet interlinked. Strategically beginning with the area of urban and city networks, to highlight the significant role of globalization in the integration of not only the global economy but the importance of city-regions as loci for the workings of capitalism. Critically looking at African cities and their role in the global system will shed light on the complexities of African urbanity and economics. Following after, is the conceptual analysis of territorial competitiveness and its relation to regional integration. Using the Southeast Asian integration experience as a channel for extrapolating onto the East African integration process is fundamental for understanding the symbiotic relationship between regionalism and economic development. Drawing on the various schools of thought within the urban competitiveness academic domain, the complexities of cities and the roles they play in the global economy become more apparent. Lastly, this chapter briefly looks at complementarity or coopetition as the other side of the competitiveness coin. By drawing on existing theories, the linkages between city networks and competitiveness and complementarity are sharpened.

2.2 Urban Networks

Cities have become the stage in which the actors of capitalism showcase their agency. Friedman (1986) congratulates the seminal work undertaken by Manuel Castells and David Harvey on linking the city's process to industrial capitalism. Mobility of capital and labor, technology and innovation, international trade and investment flows manifest themselves in cities. Alderson and Beckfield (2004) note that the era of globalization has renewed great interest in cities as fundamental economic and social spaces in the world system. Early on, Saskia Sassen (1991) viewed the city as loci for advanced producer service firms in banking and finance, accountancy, insurance undertake their activities, contributing to the critical defining feature of the world city formation. Following such a development, the 'world city' has evolved to function as 'basing point' and 'command control centers for the global flow of capital, (Friedman, 1986; Sassen 1991, 1994; Onyebueke 2010).

Rondinelli et al (1998) note that there are some key global trends affecting urban economic development namely international trade, mobility of factors of production, knowledge-based industries and critical role of market size. In their analysis of these trends, they argue that cities are striving to develop industrial clusters as a core for economic development. More importantly he argues that international cooperation and competition is intensifying amongst firms and cities due to global capitalism and integration of the global economy. Sassen (2005) emphatically argues even though globalization contains a "dispersal and centralization' effects, agglomeration still takes place in cities. She further asserts the fact business networks will eventually lead to thriving of cities due to agglomeration economics. Following the same line of thought, Boix and Trullen (2007) argue that regional and urban economic development according to the generative growth approach depends on the growth of cities that form a system. This emphasizes the importance of city-networks and their interdependency on other cities for economic realization. In an attempt to analyze the world-city network, Pamreiter (2012) and the Globalization and World Cities Research Network (GAWC) used data from 100 global producer service firms to develop an "interlocking network model" to understand the intra-firm and inter-city flows that make up the world city network. What they found is that the world city network is much bigger than that of headquarter cities and only 20 cities are the base of the revenue from the Fortune Global 500 companies. Pamretiter (2012) comes to the conclusion that the power that global cities have, would lead to uneven development in the periphery cities. With the concentration of financial activities in certain cities as Saskia Sassen writes, what happens to those cities in the periphery? Sassen (2005) also notes that the understanding of globalization through the global city network brings forth questions of power and inequality.

In light of Sassen and Pamreiter's concerns of uneven development and unequal distribution of power and inequality in the world city network, Onyebueke (2010) tries to locate the place and function of African cities in the world city network, if at all. He argues that the lack of city-based data has been an obvious disadvantage for African cities. Van der Merwe (2004) notes that it is without doubt that African cities do take part in the global city network, albeit in a specific way. Van der Merwe argues that it may be that Africa's disadvantageous geography, colonial history, low level of urbanization, low management and sustainability capacity has affected the participation of cities in the global city network. Despite this bleak picture, Van der Merwe concludes his investigation by stating that there is hope in the Sub-Saharan city system. The place of African cities in the global city system is not a theoretical aspiration but can be backed up empirically. Onyebueke (2010) on the other hand argues that the position of African cities has been marginal and subsidiary. He further argues that the increasing importance of place marketing and image-building for cities poses great planning challenges for African cities. African cities must take into great consideration their socio-political and especially economic development in order to establish strong positions within the global city network

It is at this reckoning that the importance cities and their share of global corporate investments (networks) become fundamental for shaping urban development and a city's economic performance (Wall, 2010). The linkage between economic density and the development of cities can be accurately measured. Further more the economy of cities can be visualized spatially at different levels, Wall (2009). Early on, Rondinelli et al (1998) noted that Foreign Direct Investment (FDI) was increasingly becoming important for urban economic development. The positioning of cities within global urban networks is indeed crucial for attracting FDI. Urban networks are the inter linkages of flows of activities, knowledge, skill, resources and investments between cities that are multifaceted both in nature and scope M.J.Burger, G.A. van der Knaap and R.S.Wall (2011). Furthermore, Alderson and Beckfield (2004, p.812) claim, *"cities are situated in a 'system' and some cities as a result of the position that they occupy in this system- are better situated than others"*.

There are numerous factors that determine a city's position within a network. A cities production sector and its employment rate were fundamental traits for world cities during Friedmann's (1986) time. Friedman was right in thinking so, as this still holds true. Porter (1998) lists specialized economic sectors, investment flows and connectivity (Wall, 2009) as critical factors for cities are connected in the network. Anderson and Beckfield (2004) offer a rather sophisticated way of ascertaining the power and prestige in a world city system. They use three measures of centrality, 1) out degree (ties sent), 2) closeness (independent) and 3) betweenness (buffer city that brokers exchanges). Prestige is measured by in degree (ties received) centrality. Despite using the block modeling technique to ensure statistically significant results, Neal (2011) argues that it is difficult to measure centrality due to the numerous assumptions that are made. Instead he argues that there needs to be a robust set of tools and concepts that describe a city's relationship with the world city network in a valid manner. Neal (2011) further notes that the definitions of power in a city context differ from scholar to scholar, thus cautioning addressing the issue of power in cities. In his analysis he takes the approach that Dahl (1957) and Allen (1997) took, called the power of capacity. This is the ability of a city to dominate, control and circulate resources throughout the world city system. Taking into account Alderson and Beckfield's (2004) measures of centrality, Neal locates the power of cities and their function in the position that they take in the world city network.

Despite scholarly quest to understand what Friedman termed the 'World City Hypothesis', some scholars debate the concept of world cities. Taylor (2000 p.7) begins his analysis by stating that, "*World city research is strong in ideas but weak on evidence"*. He suggests that instead of using national data as proxies, what should be done is to find out information on the relations between cities. Taylor does not deny the fact there are indeed large cities that dominate the world economy, however he argues that this does not equate to a world city formation. Instead he concludes by stating that there are two major systemic networks. One being the commercial network linking firms in cities to one another and the other a diplomatic network linking governments to states in another.

The attempt and struggles by scholars to come up with a concrete theoretical packaging of urban and city networks, is clearly still an ongoing one. With the forces of economics and socio-political globalization shifting and changing, so must theory. It is without a doubt that what Friedman saw as the World City formation holds true, however the players in that system are indeed changing, while the former flag bearers of the formation are struggling to keep up.

2.3 Competitiveness

Scholars such as Peter Kresl (1986) and Ian Begg (1999) very early on began looking at urban economic issues through the lens of competitiveness. A skeptic of competitiveness, Krugman (1999:30), argues that the concept of competitiveness is a dangerous idea that is "skewing domestic policies and threatening the international economic system". Debunking Krugman's claims, Kitson et al (2004) argue that the competitiveness fad began in the 1990's, spearheaded by the Americans. They further claim that competitiveness also takes place at the region, urban and local scales, and is not only a macroeconomic phenomenon. Begg (1999) further adds that Krugman's 'distaste' for competitiveness inspired scholarly zeal to legitimize the concept.

Competitiveness is defined as the

"The ability of an (urban) economy to attract and maintain firms with a stable or rising market shares in an activity while maintaining or increasing standards of living for those who participate in it" (Strorper 1997 p.20).

Gordon (1999) explains that cities compete in various ways but mostly within product markets, foreign direct investments, hosting of high profile events and many more. It is key to note that there are competing definitions of urban competitiveness and it is difficult to accurately measure. The following paragraphs will shed light on these competing definitions and conceptual struggles in the discipline of urban competitiveness.

In the scholarship of competitiveness, there are various schools of thought that inform the definitions and understanding of urban competitiveness. These schools of thought are grouped into 1) single angle view (Porter 1990, Kitson 2005) and 2) comprehensive angle view (Lever and Turok 1999; Ni 2001, 2003; Dong-Sung Cho 2006). The single angle view is concerned with indicators such as the economic performance of a city and its living standards. The comprehensive angle view (more robust than the former) sheds light on various indicators such as innovation, external economy, human capital, environmental attractiveness and many other factors. Despite Kitson's (2005) subscription to the single angle view school of thought, he notes that indeed a consistent framework to theoretically and empirically analyze the concept of urban competitiveness is far from reach. However, both schools of thought take into account the fact that urban competitiveness of a city is a relative concept that can only be understood through comparison with another city.

In Michael Porter's (1990) seminal piece on the 'Competitive Advantage of Nations', he writes that competitive advantage takes place against a backdrop of localized processes. Scholars such as Ian Gordon (1995) and Ian Begg (1999) have applied Porter's line of thought and pioneered some of the ideas behind city competitiveness. Begg (1999:795) asserts the fact that competitiveness is "the path to economic nirvana". On the influences of urban or city competitiveness Begg (1999), writes that a city's capacity to compete is determined by the interplay of factors such as location, strengths and weaknesses of firms and other economic agents situated in a city. On the other hand, taking into account the richness of both disciplines (geography and economics) Boddy (1999) analytically relying heavily on work undertaken by Paul Krugman concludes that the advantages of urban agglomerations are shaped by preferences of individual firms. The importance of location is fundamental in shaping perceptions of whether a city is competitive or not.

Most research on competitiveness built on Porter's (1990) diamond model is indeed crucial for moving forward within this scholarly quest. Kresl (1995) like his counterpart Krugman, was also interested in how the urban economics of a city play out. He explicitly defines competitiveness in relation to urban economics. In an analysis of 24 American cities, Kresl and Singh (1999) note that the urban economic dynamics of a city are constantly changing reactively to global competitive forces. He therefore argues that in order for a city to be competitive it needs to be sensitive and reactive to global economic shifts that occur at the city/urban level. Furthermore, Kresl claims that the global integration of the global economy is a critical factor that will change the viability of American cities. This of course goes for all cities in the world. However, recent scholars such as Malecki (2002) and Lengyel (2004) argue that there is increasing importance for soft factors that influence urban competitiveness. Malecki defines soft factors as the social interactions that occur at a global, regional, and urban scale. Lengyel (2004) on the other hand lists quality of life, culture as soft or indirect factors of competitiveness. Staying on this comprehensive angle, Turok (2006) argues that urban competitiveness should incorporate the symbiotic concerns of economics and society. He claims that, "social cohesion improves economic performance" (p.2). A strong social fabric within an urban community will enable long-term economic success and economic performance, hence influencing the ability of the urban area to compete. Turok calls this ingenious linking of cohesion and competitiveness the 'New Conventional Wisdom'. It encapsulates the new thinking and contribution to the growth of cities in today's modern economies. The most notable connection between social conditions and economic performance can be seen through the labor market.

Turok's scholarly work paves the way for looking at the crucial relationship between urban competitiveness and locational factors. All scholars in the field of competitiveness more or less refer to certain conditions and/or factors that have an impact on the competitive edge of a city. Locational factors, is a concept based on Porter's framework; Porter's Diamond Model, Porter (2000). "*Locational factors are therefore the environmental conditions, local demand conditions, strategy, structure and rivalry conditions that attract firms"*. On the other hand, Begg (1999 p. 4) defines what Porter calls locational factors as the " interplay between the attributes of cities as locations and the strength and weaknesses of the firms and other economic agents active in them" Kresl (1995) groups the determinants for competitiveness into two groups. The first is economic determinants that include urban amenities, factors of production, location and the second is strategic determinants that include institutional strength and flexibility and governmental efficiency. On the other hand, Lengyel (2003) offers a much more holistic definition to include 'soft and 'indirect' factors which he calls 'success determinants' that includes quality of life.

The definition of locational factors is just as fluid as urban competitiveness. To emphasize the link between urban competitiveness and locational factors, scholars and academics have grouped locational factors under the umbrella of urban competitiveness. To mention a few, the list consists of, 1) dynamics and static factors, 2) macro-economic and micro-economic factors, 3) software and hardware factors, 4) mobile and fixed factors, 5) input and output factors, 6) structural and aggregate factors, 7) long-term and short term factors and many more. This expansive list of factors that influence the competitiveness of urban areas and cities can be traced back to the two domains (single angle view and comprehensive view) of theoretically defining and understanding the concept of urban competitiveness. Numerous scholars who claim that the definition is narrow and reductionist have challenged Porter's initial definition of locational factors. Drawing on Turok's (2006) 'New Conventional Wisdom', definitions of the conditions that influence urban competitiveness are changing. Traditional economic factors are increasingly being overshadowed by other 'soft' factors such as quality of life, environmental attractiveness etc. This however does not negate the fundamental importance of economic factors. Despite an attempt for the above definitions to outdo each other, they all work in unison argues Begg (1999).

Academic research on the link between urban competitiveness and attracting investments is gaining ground. Albeit, not a novel topic, it's significance is important. Begg (1999) notes that the competition between cities to attract investments has become fierce. Dollar et al (2004) study of 23 Chinese cities and their ability to improve city competitiveness through investment climate found that cities with a better investment climate (policies, infrastructure, economic success) were more competitive than those without the mentioned qualities, by firms. Due to the increasing integration of the global economy and the rise of global cities, Sassen (2004), the qualities of cities must fit into firms (investors) needs in order to attract investments.

Most theoretical and empirical analysis on urban competitiveness has been centered and focused on the global north. Not much information and data on other regions especially the African region with the exception of South Africa has been gathered. It is with great hope, that new research ventures into the global south to give a new perspective on African competitiveness. This is discussed next.

2.3.1 Sub-Saharan African cities: Competitiveness and Urban Networks

Freund (2007) argues that before the incorporation of the African continent into world-systems and economic networks, 'African' cities and towns were already in existence. It is with this claim that Freund suggests that Africa can be an ideal setting for comprehending the start of urbanization. On the other hand, Wall (2011) states that the recent processes of state building and capital cities in Sub-Saharan Africa contributes to their weak position in global connectivity characterized by incoming links and few outgoing links. Despite the reality of Wall's claim, Van der Merwe (2004) argues that research on African cities is scanty. He further notes that few African cities feature in classifications that exist. Van der Merwe attributes this to the hierarchical structure of globalization that has led to the exclusion of cities that are smeared with poverty and are powerless. Onyebueke (2010) notes that African cities are disadvantaged both in place and function in the global economy due to their marginally low connectivity. He further argues that these low rankings have major economic implications for not only city-regions but also for national and regional economies. However, Swilling et al (2003) argues that despite the hardships faced by African cities, a basic functionality remains.

Swilling et al (2003, p.233) claim that, "African cities live a precarious existence". Taking this into account, Simone (2001, p.16) argues that African cities have been subjected to substantial restructuring alongside "normative orientations of governance that have empathized decentralization of political authority". This, he believes has affected the decision making process thereby affecting the process of urban development as a whole. Jenkins and Wilkinson (2002) come up with a conceptual framework arguing for the need to have an institutional order that allows cities to function and compete within the global economy. Looking at two developing cities (Maputo and Cape town) they argue that relations between the state, society and the market are fundamental for urban development. Local economic development defined as "a process in which partnerships between local governments, community and civic groups and the private sector are established to manage existing resources to create jobs and stimulate the economy of a well- defined area" Helmising (2003 p. 69) can be a way to jumpstart city competitiveness for African cities. Helmising concludes, stating that global economic changes have changed the conditions for local economic development, and African cities need quickly adapt to these changes in order for urban development and urban economic growth.

2.4 Regionalism –Territorial Competitiveness

According to Baldwin and Venables (1995), modern theory on regional integration began in the 1950's, spearheaded by the scholarly work of Jacob Viner. Although Viner referred the process of regional integration as the 'customs union theory', it is very clear in the literature that regions are fundamental cites for economic activities. Scott and Storper (2003) note that current empirical debates about globalization have tried to answer the question of geographical foundations on development and growth. The concept of global city-region is built on the ideas of ‘world cities’ (Hall, 1966;Friedmann and Wolf, 1982;Sassen 1991; Scott et al 2003).

The era of globalization has brought forth new organizations consisting of territorial scales of economic activity, Scott et al (2003). They point out that these territorial scales consisting of regional blocs become institutional responses to the spillovers of national capitalism. Harrison (2007) notes that the new emergence of regionalism is coinciding with the resurgence of the territorial form known as the city. Scott’s (2001) claim that city-regions, seeming to be motors of the global economy touches on Harrison’s train of thought. Harrison further argues that city-based economies are shaping the development of the new capitalist world economy. This is taking place amidst intensifying debates on the rise of regional states of political-economic governance. Malecki (2004) sheds light on the fact that the discourse on competitiveness has given leeway for rivalry between regions in economic development and growth.

Porter (2003) in an attempt to add to the empirical literature on regionalism and economic growth argues that there are fundamental determinants for the economic performance of regions. In understanding the impact of regional integration on economic growth, Baldwin and Forslid (2000) argue that there is a theoretical underpinning that explains how location affects growth and growth affects location. They also note that traditional economic geography models tend to rely on the sale of goods over a distance. However, economic development and competitiveness can be evaluated through the lens of a nation, Porter (2003). Albeit appreciating this point of view, Porter insists that economics and competitiveness can also play out on a regional level. Rucinska and Rucinska (2007) view regional competitiveness from two angles. The first angle is the microeconomic view, where companies compete for market position, clients, higher profits and margins. The second angle is the macroeconomic view that defines the competitiveness of regions, nations and territories. Kitson et al (2004) also offers a similar explanation stating that measures of regional productivity can be derived from the competitiveness of firms (micro-economic), competitiveness of a county (macro-economic) and from the competitiveness of local economic systems (meso level).

Based on the above theoretical attempts to highlight the importance of regions, scholars such as Roberto Camagni (2002) have studied the concept of territorial competitiveness. From a theoretical standpoint, he argues that the concept of territorial competitiveness is sound, not only taking into account the ‘environmental’ tools it provides to firms, but also the fact that territories compete with one another to attract FDI and to establish for itself a productive role. Camagni states that regions do compete based on absolute advantage and not comparative advantage to attract firms, workers and other markets. Constantin (2006:85) relying on economic literature defines territorial competitiveness as “the actions undertaken by economic agents in a specific geographical area in order

to enhance the increase in living standards for the inhabitants of the respective territory”. Earlier definitions by Budd (1998) define territorial competitiveness as “self conscious strategies to guide local development with regard to the future economic role of a region taking into account the region’s competitors”. Lengyel (2009 p.1) notes that the increasing regionalization to interregional competition, which he defines as “ the competition of regions and cities for scarce resources” , is becoming more apparent. In a further attempt to shed light on the relationship between competitiveness and regionalism, Lengyel (2009) argues that increasing competition within the global economy shapes both the theory and practice of regional economic development.
On the other hand, Filo (2008) first defines a territory ‘as a socio-geographical unit marked by huge internal cohesion. He then warns against assuming that territorial competitiveness and regional competitiveness are synonyms. However, both concepts have received much theoretical exploration and grounding in academic and policy circles. Hence his argument, that the different meanings of the two concepts are the contribution to the approach. The dynamism and spatial character of territories leads to the overstepping of regional competitiveness. Adding onto this line of thought, Scott and Storper (2003) argue that regional concentrations of economic activity have an advantage, which they claim is purely dynamic. Lengyel (2002 p.336) offers a sophisticated conceptual framework of regional competitiveness, which he calls the pyramidal competitiveness. The pyramid diagrammatically highlights the characteristics determining competitiveness at a regional level.

Figure 2.4 – The Pyramid Model – Enhancing Regional Competitiveness

Lengyel (2002 p.329) defines regional competitiveness as “the per capita income in the region, whereby income is generated by a high level of labour productivity and a high level of employment. Scholars in this field have faced academic tribulations when it comes to measuring this concept of regional competitiveness. How can it be measured? What benchmarking and parameters are to be used? Lengyel’s diagram tries to answer this question, however Constantin (2006) argues that measures of competitiveness based on too many factors is not relevant. Instead, researchers, professional and organizations such as the World Economic Forum use various economics weights, formulas, and indexes to come up with standardized measures. Huggins and Izushi (2010) in an attempt to nail down regional benchmarking, draw up a typology that allows regional policy makers to monitor regional economic development. Apart from the above conceptual dilemma, Wilson (2008) of the Basque Institute of Competitiveness notes, that there have been many theoretical and empirical difficulties in pinning down the concept of territorial competitiveness. He therefore suggests that territorial competitiveness and regional policy should take into account other elements that are crucial for a territory's development.

Drawing on Lengyel's pyramidal model, academics and professionals have tired to understand the relationship between regional blocs composed of cities and foreign direct investments (FDI). Taking into account the fact that regions city-regions have stronger economics backbones, Velde and Bezemer (2004) argue that strong regional networks receive and attract more FDI than those that have weak networks. On the other hand, using the case of Mexico and in particular the North American Trade Agreement (NAFTA), Waldkirch (2002) found that there is no theoretical support for the effect of regional integration and the receiving of FDI. Even more striking is Sassen's (2005) finding that cities of strategic importance within the global economy tend to break away from their respective regions. This she says debunks the scholarship that has promoted the integration of regional and national economies.

2.4.1 Regional Integration: The South- East Asian experience (ASEAN Community)

The Association of Southeast Asian Nations (ASEAN) was established in 1967 with Indonesia, Malaysia, Philippines and Thailand as the founding members and is one of the world's most successful regional organizations. Tracing back to the inception of the ASEAN community, Crozier (2006) notes that the acceleration of economic growth was a key goal. Currently the ASEAN consists of 10 members, with a vision of becoming a highly economically integrated community by 2020, Knipping (2006). Hew (2007) claims that economic growth and success in the region was due to regional integration. Hew (2007) notes that in the 1970's, economic development strategies of the ASEAN community were driven by strategies that would favor inward FDI. Despite the Asian financial crisis in 1997, Hew (2007) argues that, if it were not for the regional cooperation and integration of the ASEAN members, recovery would not have taken place. On the other hand, warning for caution, Llyod (2007) argues that the ASEAN community has not completed the integration process. As a response to the financial crisis, the ASEAN community was triggered to seriously integrate and deepen their economies by establishing the ASEAN economic community (AEC) in 2003. Hew (2007), argues that China's increasing success has also been a compelling factor to the creation of the AEC that will see deeper economic integration. Mahani (2002) notes that investment into the ASEAN region reduced due to the relocation of capital to China especially in labor-intensive industries. To maintain a competitive investment climate, the ASEAN investment area (AIA) was established in order to liberalize investment policies in the region to attract more inward FDI.

Critically looking at the Asian Economic Community (AEC) and its policies, Soesastra (2005) argues that the end result should be a single market and production base that uses the diversity of the region as an opportunity for complementarity in business thereby making the region dynamically stronger. Taking into account the goals of the AEC, Plummer and Cheong (2008) note that attracting inward FDI is imperative for development strategies against the backdrop of the global economy. They also argue that further economic deepening of the region is fundamental for attracting FDI and leveraging competitiveness of the ASEAN community. Mizra and Giroud (2004) note with authority that the driving force for promoting and attracting FDI into the ASEAN community is fundamental for enhancing individual country competitiveness through cooperation. Hew (2007) argues that despite the different levels of economic development of the ASEAN member states, economic integration could revitalize economic growth.

2.5 Coopetition : Complementarity

The concept of coopetition came into limelight first in the fields of business and management studies. Scholars found that in order to gain competitive advantage, cooperation was necessary. Luo (2007) found that coopetition was originally coined in the 1980’s by Raymond Norad, who argued that in the context of global firms, multinationals engage in competitive-cooperative exchanges. Coopetition also referred to as complementarity and collaboration in the real business sense is defined as cooperating in order to have a bigger business pie while at the same time competing to divide it up, Luo (2004 p.9). He further adds that:

“*cooperating reflects the elements of mutual accommodation and collaboration, seeking joint payoffs and goal accomplishments from the independent activities or sources”* (p.9)

Luo (2004) goes on to state that coopetition in emerging economies where large multinationals fight for market share and business growth, it is better to be in a situation whereby in regions that share the same set of rule and regulations in order for business to move smoothly and fast. Cowell (2010) on the other hand finds that regions that have weak governments but strong regional identities and intentional polycentric development strategies may experience higher levels of complementarity or coopetition.

In order for complementarity and indeed coopetition, cities within a region need to compete. Scott et al (2001) find that under the auspices of globalization, various economic activities have become de-bordered to the point where you cannot pinpoint

the end of an economy. Therefore Luo (2004 p.16) claims that, "coopetition is underpinned by several economic and strategic reasons". Luo (2007) argues that cooperation ensures mutual gains by all parties involved. Dagnino and Rocco (2009) add that coopetition is crucial for certain sectors such as financial services, high-tech services and service industries. Dagnino and Rocco (2009) using an example of municipalities and provinces in Italy, describe how municipalities teamed up to fund different economic activities that would allow for collaboration and trade-off in terms of benefits. On the other hand Semlinger (2008) argues that cooperative networks confined to regional communities trade off on decisive decisions and instead remain risky. He further supports this stance by claiming that regional development is threatened by regional confinement.
Scholars, such as Michael Porter, stress the relationship between industrial clusters and competitiveness. Popescu (2010) also argues that the setting up of industrial clusters and regional clusters enhances the competitiveness of regions. He further argues that networks of specialization are necessary for regional cooperation and coopetition. On the same note, industrial clusters can lead to the trap of rigid specialization, which can be detrimental for regional economic stability. Coe et al (2004) find that after a re-conceptualization of the term regional development, the cooperation and competition of regions are connected in a complex way by virtue of the global production network. Using the example of two BMW plants in Germany and the other in Thailand, Coe et all argue the BMW venture in Thailand turned out to be more successful than in the German case due to supranational economic integration under the Asian Free Trade Agreement. This finding emphasizes the linkage between regional integration, competition and collaboration between economic sectors. Another example by Song (2003) using the port industry as his unit of analysis, argues that due globalization and the increasing competition within the port sectors, port companies in a particular area have had to collaborate with other ports in different areas to ensure maximum profit and various economic benefits in order to maintain their competitive edge.

Departing from the Christallerian pattern of nested hierarchy of centres and markets, Meijers (2007) writes that polycentric urban regions shed light on intercity relationships. These regions, that policy makers call urban networks, become "complementary and coherent cities" resulting in an "international competitive urban network" (p.6). The network model stresses horizontal relationships between cities that are have a relatively similar population and those that have a division of economic function. Complementarity takes place when different cities perform differing and mutual roles (urban functions) Hague and Kirk (2003). Camagni and Salone (1993) argue that cities are based on a system of flows and relationships between economic specialization and complementarity, division of labour and innovation. The relationship between competitiveness and co-opetition is emphasized by Pasquinelli's (2005) claim that regional areas can seek collaborations (complementarity) in order to be more competitive. In her research however, cooperation is not a business or economically linked concept but one that is informed by place management and branding. She further argues that single place cities that compete on their own for attracting investments and private capital funds do not succeed and must collaborate.

Docherty et al (2004) in an attempt to answer the question of why cities should collaborate, find that the intense competition for inward investments by urban areas and city –regions has prompted cities to specialize in economic areas that they are strong at. Due to this fierce competition, Docherty et al offer collaboration as a potential mechanism to ensure a competitive edge in the global economy. Increasing economic turbulence and the uncertainties of globalization is another reason why cities may want to collaborate in order to keep afloat. They further conclude that the quest for collaborative advantage is a strategic and long-term plan. Furthermore, they urge the implementation of collaborative programs to leverage economic competitiveness that is sector specific. For example Meijer (2006) writes that smaller cities operating in a network may partake in higher-order functions, relying not on local but regional support due to complementarity.

2.6 Conceptual framework

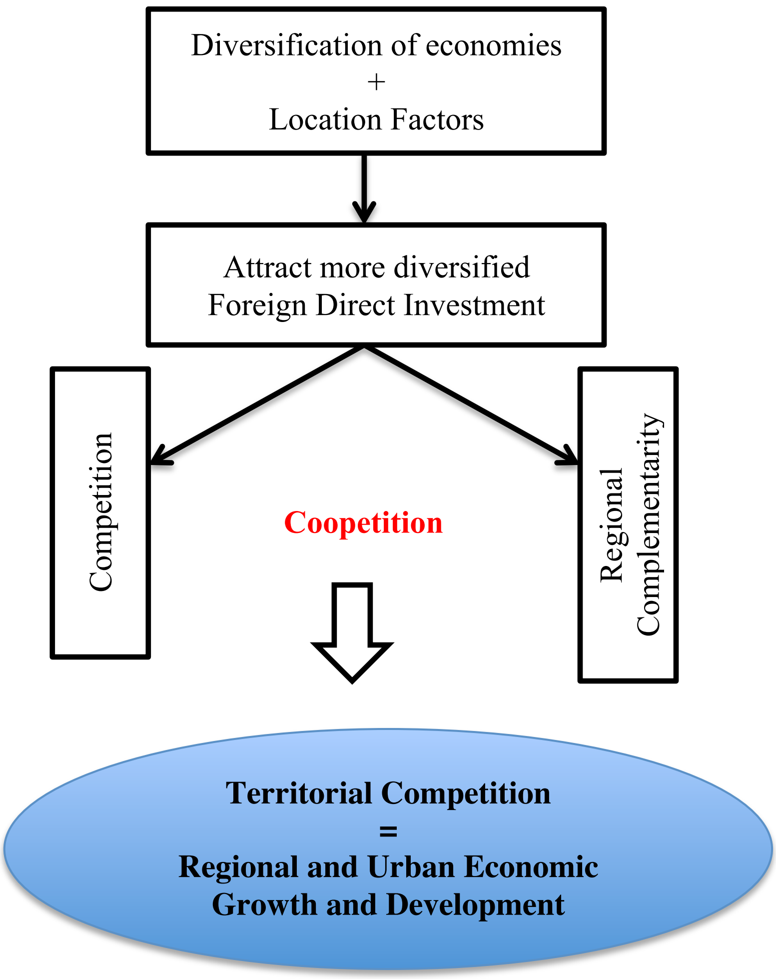


FIGURE 2.5- CONCEPTUAL FRAMEWORK

Most African economies are not very diversified, let alone urban economies, although this is changing. This lack of economic diversification has led to most of the investments directed to natural resources and commodities thereby eschewing other untapped opportunities. In order to attract more investments both in terms of number and value, African economies and indeed new and upcoming urban economies need to diversify their economies. The need for steering African economies towards high value activities in the service and manufacturing industries is fundamental. This leads to both economic growth and development. Most importantly it provides investors with options and opportunities to invest in sectors that have positive growth rates that will yield high returns both for the investor and the country, city and region. On the other hand the diversification of economies will demand that certain location factors particularly hard factors such as labor market efficiency, business sophistication etc., be met in order for certain economic activities to run smoothly. Therefore the relationship between diversification of an economy and certain location factors becomes important for attracting foreign direct investments.

Competitiveness and collaboration/complementarity work in symbiosis. A city is competitive insofar as it collaborates with another city (complementing economic activities based on similarities and dissimilarities) resulting in co-opetition thereby strengthening a city's competitive advantage. In order to attract investments into a city, the city needs to prove its competitive strength by diversifying its economy. This allows investors to have tap into various sectors and not only rely on resource seeking activities. Furthermore locational factors should meet industry needs. Once a city has established its competitiveness, they can then collaborate on various economic and urban functions with nearby cities in order for coopetitive gains thereby achieving successful regional complementarity. Therefore Nairobi's competitive strength is determinant on how competitive the East African region is and its ability to attract more high value inward investments. The relationship between city competitiveness and attracting investments is important. Investors will invest in competitive cities and competitive cities will attract investments.

3.0 Research Methodology

This chapter describes the methodological framework applied in this investigation. The preferred choice of certain methods and the rejection of others will shape the research process and have an effect on the overall findings of the investigation. Using a combination of various research techniques and data collection methods ensure that the research questions are backed up by empirical data supported by empirical methods that are both valid and reliable. Both quantitative and qualitative approaches form part of the methodological framework.

3.1 Quantitative Approach

Raw investment data from various sources such as FDIMarkets.com, and Ernst & Young investment database form the basis of the quantitative data. Much of the empirical data is derived from investment data that will then undergo statistical analysis. Criteria for measuring city competitiveness in this research are 1) investment by value, 2) investment by number and 3) locational factors. Using intricate statistical methods such as, locational quotient, network analysis, and regression analysis to analyze investment data and locational factors shed light on key correlations and statistical relationships that will be fundamental to answering the main research questions. Locational factors were collected from various investment boards and also using Southeast Asian data as a proxy. Due to similar trends found in South- East Asian cities (economies) extrapolation of locational factors for statistical analysis are applied. A well-balanced use of both primary and secondary data collection is applied.

Statistical Methods	
1. Investment data (value and number)	• Network analysis • Locational quotient
2. Locational factors	• Regression analysis

3.2 Qualitative Approach

Three qualitative techniques are used for this investigation. These are: 1) expert interviews 2) literature research and 3) content analysis. Expert interviews are a type of guideline-based interview, Flick (1995). Experts form part of a specific field of knowledge. The list of experts to be interviewed are determined the by the researcher's definition of an expert with obvious relevance to the subject matter to be investigated. The chosen experts have been greatly academically and professionally involved in the governance of Nairobi city, country investment boards, relevant members of East

African Secretariat and multi-lateral agencies. Merton (1972), describes experts as those who posses “ insider knowledge” whilst Spondrel (1979) views experts as those who have “specialized particular knowledge. The expert interviews are only a supporting element that shed light on the quantitative data collected.

Literature research consists of written material in English in the form of books, book chapters, academic journals obtained from Internet searches, newspapers and various online databases. Content analysis, originally a method used in communication research is used in this investigation. Krippendorff (2004) describes content analysis as “both a scientific tool and a research technique for making replicable and valid inferences from texts to the contexts of their use”. He further argues that contents analysis “provides new insights, increases a researcher’s understanding of a particular phenomena and/or inform practical action”.

Using a cocktail of research methodologies and techniques ensures that there is triangulation. Triangulation is defined as the use of at least two different methods consisting of both qualitative and quantitative methods to answer the same research questions. In this research, simultaneous triangulation is applied. This is whereby both quantitative and qualitative methods are used at the same time, and there is no interaction between the datasets during the data collection process. However, the two datasets compliment one another, Morse (1991). It is important to note that the short period allocated for fieldwork research (one month) does not allow for the collection of a great deal of data.

3.3 Revised research questions

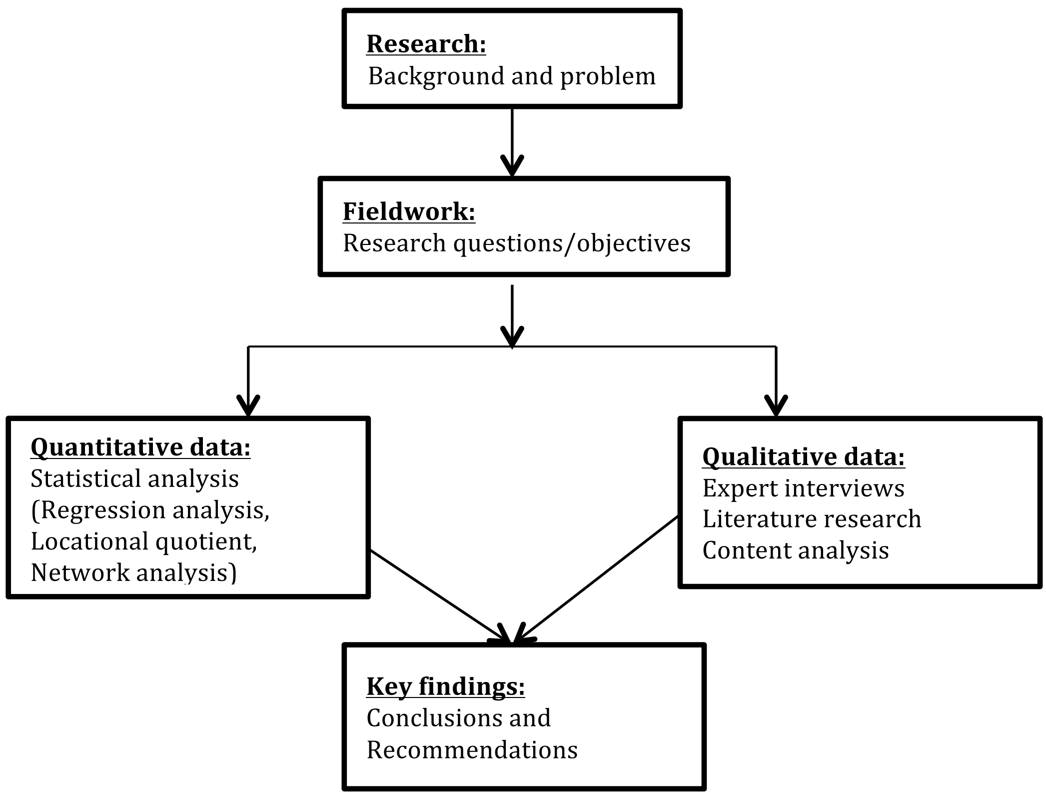
Question 1: In what way can Nairobi city leverage its competitive performance and ensure complementarity within the East African network?

1. What are the current investment networks and portfolios of Nairobi City in comparison to other East African cities?
2. Who are Nairobi’s competitors and collaborators in the East African Network?
3. What are the key industry sectors that can attract investors to Nairobi as compared to other East African cities?
4. What locational factors are determinant for investment to Nairobi?
5. What factors are contributing to the lack of complementarity within the East African Network?

3.4 Research approach and techniques

This research is an exploratory research that relies on both quantitative and qualitative data. Stebbin (2001) describes exploratory work as "brief, fleeting and preliminary giving way to the real thing". One of the research techniques to be employed in this thesis is the case study. Stake (1995) defines a case study as " the study of the particularity and complexity of a single case thereby understanding its activities within important circumstances". The case in this research is the city of Nairobi, insofar as it is the unit of analysis. Despite the fact that the case study is weak in external validity, on the other hand, this technique can be a source for generating new hypothesis. In order to critically examine Nairobi's competitiveness and collaboration of economic activities, it is necessary that key cities within the East African Network (direct competitors) act as comparative and contrasting reference points. This leverages understanding of Nairobi's competitiveness and the need for a complementarity network across the EAC. Using the various quantitative and qualitative methods mentioned above, the approach to the investigative process lies in the essence and theoretical justification of the research questions.

FIGURE 3-RESEARCH DESIGN



3.5 Operationalization of variable and Indicators

Question 1.	Indicators	Analysis
What are the current investment networks and portfolios of Nairobi City in comparison to other East African cities? Variables **-Country Investment Portfolio**	-Inward investment -Outward investments -Type of investments -Recipient sector	-Network Analysis

Question 2.	Indicators	Analysis
Who are the main competitors and collaborators of Nairobi? Variables **FDI Recipients**	-Amount of inward investments -Investment portfolios -Type of investments	-Location quotient -Network Analysis

Question 3.	Indicators	Analysis
What are the key sectors that can attract investors to Nairobi as compared to other East African cities? Variables **FDI Performance**	- GDP contribution of sector -Industry cluster investment	-Location quotient -Interviews

Question 4.	Indicators	Analysis
What locational factors are determinant for investment in Nairobi vis a vis East African cities? Variables **-Economic capital** **- Social capital** **-Political capital** **-Democratic capital**	-Investment number -Investment value	-Interviews -Regression analysis

Question 5.	Indicators	Analysis
What factors are contributing to the lack of complementarity within the East African Network? Variables **Regional synergies**	-Investment policies -Regional policies -Political variables -Economic factors -Trade factors	-Interviews -Content analysis

3.5.1 Sample size and selection

Expert interviews were carried out and as mentioned above it is up to the researcher to define who is an expert. The selection of the sample is purposive. Purposive sampling is a non-probability sampling technique defined as "selecting individuals as samples according to the purposes of the research as the research controls, with good evidence that the respondents are representative of the total population" Calmorin (2007). Taking into account the nature of the subject matter, the sample consists of the following experts:

Unit of Analysis	Sample to be selected
Kenya Investment Authority (Manager –Research & Planning)	1
Ministry of Nairobi Metropolitan Development (Permanent Secretary)	1
City Council of Nairobi (Assistant Director-Development Planning)	1
Kenya Vision 2030 (Director-General)	1
UN-HABITAT (Director-Urban Economic and Finance Unit)	1
International Firms	5

TABLE 1- INTERVIEW SAMPLE

The sample consists of 10 key informants. The informants are experts in the necessary fields and professions in the subject matter that this research is dealing with. The guidelines and steps that inform an expert interview are structured along key categories and thematic areas that concern the subject matter at hand. For confidentiality reasons, the firms interviewed will not be mentioned except for the sector/industry cluster they operate in.

3.5.2 Validity and Reliability

Validity and reliability are ensured by triangulation of data methods. Triangulation is defined as "the combination of methodologies in the study of the same phenomenon" Flick (2009). By using a cocktail of methodologies and techniques, I capitalize on the advantages of both qualitative and quantitative data in order to obtain a holistic and rich data set. Expert interviews were semi-structured based on key topics. This semi-structured nature of the interviews enhances reliability and strengthens validity. Tape recorders were used during the interview sessions, to ensure that important information is captured for re-use and reliability purposes.

3.5.3 Data collection methods

Current investment data from the Financial Times FDI markets.com (FDI Intelligence) and the Ernst and Young Investment database, inward investments both in terms of number, value and sectoral distribution was collected. City specific data was collected through the Central Bank of Kenya (CBK) and think tanks such as the Kenya Institute for Public Policy Research and Analysis (KIPPRA) and the City Council of Nairobi. Using the interview as research instrument, rich qualitative data was gathered in order compliment the quantitative data. Much of the qualitative data was collected during a one-month period of fieldwork in Nairobi, Kenya. Interviews and a thorough content analysis of regional policies (EAC policy documents), national investments policies, country vision documents such as Kenya's Vision 2030, Rwanda's Vision 2020 *Umerenge* Programme and other relevant documents were reviewed and analyzed categorically and according to key thematic areas.

3.5.4 Data analysis methods

Investment data, from all cities (countries) within the East African network were subjected to statistical analysis using SPSS (Statistical Package for Social Sciences). The location quotient shed analytical light on the raw investment data gathered. The statistical approaches highlight important relationships between Nairobi's locational factors and the types and amounts of investments, thereby setting the stage to draw conclusions on the kind of locational factors that are determinant for attracting investments. The data collected from interviews and content analysis were categorized into key thematic areas that were derived from the theoretical framework and the data gathered during fieldwork. The categorized data sets the analytical stage for drawing conclusions on the importance of regional integrated policies and investment polices to address the investment deficit facing Nairobi and the lack of complementarity and collaboration in the region. Qualitative data collected through interviews, was subjected to the Atlas.ti, thereby coding and categorizing the plethora of information generated in the interviews into key thematic areas.

4.0 Presentation and Data Analysis

4.1 Investment Portfolio

East African Communities	Burundi	Kenya	Rwanda	Tanzania	Uganda
Year					
2000	12	127	9	193	254
2001	-	50	9	224	229
2002	-	50	3	240	275
2003	-	82	5	248	283
2004	3	49	11	470	222
2005	1	21	8	473	258
2006	290	51	15	377	307
2007	1	728	67	600	368
2008	1	96	103	744	787
2009	10	141	119	645	799
2010	14	133	42	700	848

TABLE 2 - INVESTMENTS TRENDS (ERNST AND YOUNG AFRICA INVESTMENT DATABASE)
NB: Country data is used as a proxy; data should be extrapolated to the city level.

The above table shows the amount of Foreign Direct Investment (FDI) inflows in to the East African Region Member states for a period of 11 years.

- Investments into Kenya have been volatile throughout the years. Compared with neighboring member states particularly Uganda and Tanzania, it is clear that Kenya's FDI inflows have been dropping while the latter two have been increasing.
- The 84% difference in FDI inflows between Kenya and Tanzania highlights the drop in FDI inflows in to Kenya have dropped due to political instability and type of investments.
- Resource seeking investments (oil, gas and minerals) particularly in Uganda and Tanzania that began in the early 2000's boosted FDI inflows into those two countries.
- The decrease in FDI inflow to Kenya in the year 2008 is due to the 2007 post-election violence that slowed down the economy and led to investors pulling out on existing and planned projects.

4.1.1 Investment Trends

1) Kenya- Nairobi

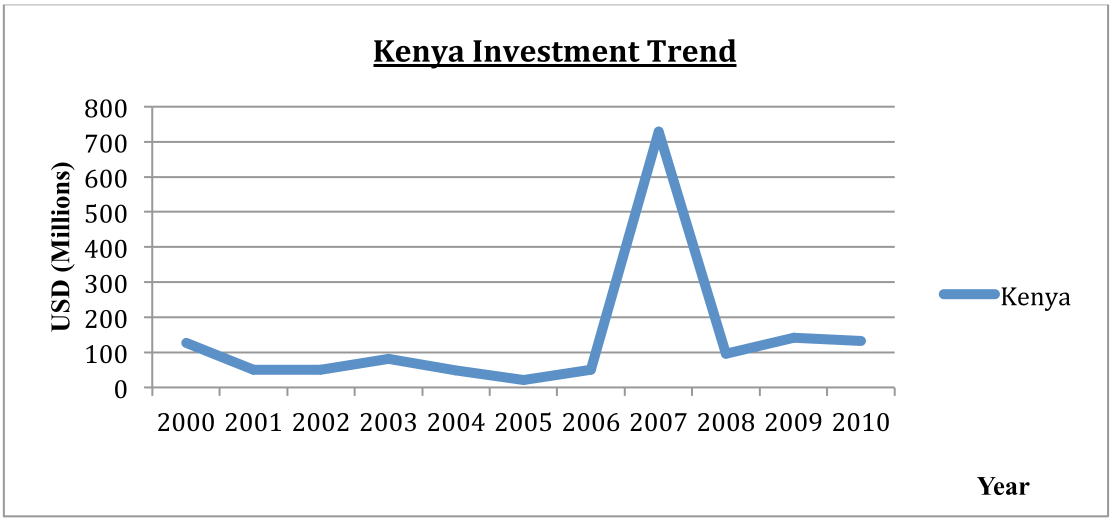


Chart 1: Kenya Investment Trend (Ernst and Young Africa Investment Database)

- The above graph shows how the value of FDI inflows have been relatively low taking into account the fact that Kenya and Nairobi city are the economic hub of the East African region.
- This trend of reduced investments is not only apparent in Kenya. The world economy due to the financial crisis in the years 2008/2009 suffered which lead to a global reduction of FDI inflows. Similar trends in Kenya show that nations/cities are nodes in a globally interconnected system.
- On the other hand, in the year 2007, there was a rise in foreign direct investment. This is due to investments in the energy, telecommunication and real estate boom at the time.
- As the graph shows, after 2007 there was a huge drop in FDI inflows thereafter. Despite significant Chinese investment in infrastructure and small businesses in the years 2008 -2012 in the East African region, investment inflows into Kenya and particularly Nairobi have remained low.

2) East African Investment Trends

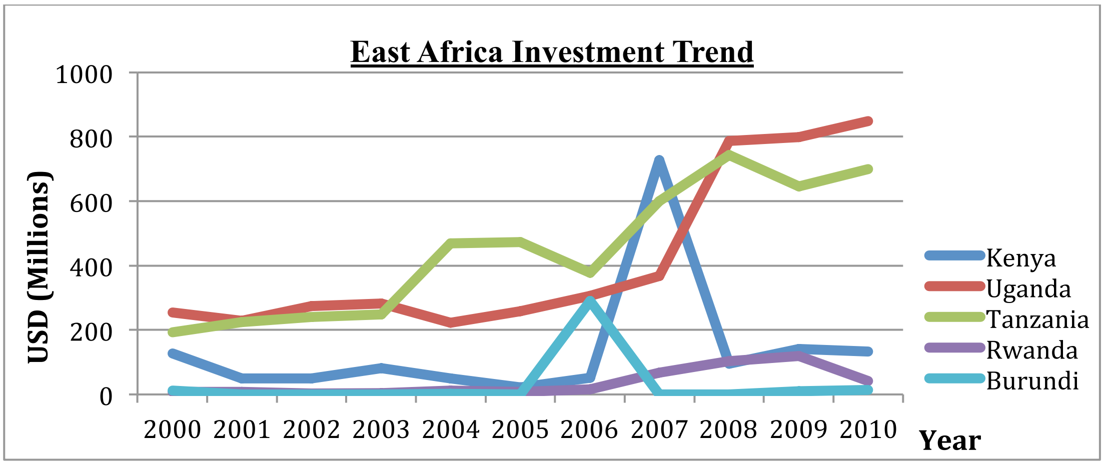


Chart 2: East African Investment Trend (Ernst and Young Africa Investment Database)

- The above comparison graph highlights Kenya's position with respect to the other East African countries. It is clear that Kenya's FDI inflow competitors are Tanzania and Uganda.
- Holding other factors constant apart from FDI inflows, Rwanda and Burundi are not direct competitors for Kenya.
- The peak in investments to Kenya in the years (2007-2008) is due to investments into the telecommunication, ICT& electronics and real estate and construction sectors.
- In the year 2010, Kenya received USD 715 (Million) less than Uganda and USD 567 (Million) less than Tanzania. These big gaps in FDI inflows are due to the following reasons:

  1) Type of investments: Uganda and Tanzania receives more resource seeking investments (energy, oil and gas) than Kenya.
  2) Political instability and macroeconomic stability in Kenya have affected the inflow of FDI
  3) Locational factors particularly economic factors -high-costs and macro-economic stability and bureaucratic procedures have further diverted investments away from Kenya

4.2 Network Diagrams

Using UCINET (network analysis software) and current investment data from FDI markets.com, diagrams were developed to show the flow of investments across the African continents. Investment networks are analyzed according to the both the number of investments and value of investments. The following diagrams highlight the complexity of investment networks both in terms of sending and receiving countries.

The city-to-city network below shows the investment network of African cities based on the **number** of investments that each city receives. The red nodes are the recipient cities, and the blue nodes are the investors. The diagram highlights key global cities such as London and Paris that are able to invest into cities in the periphery. The diagram also shows new cities such as Mumbai and Dubai are gaining financial muscles are now able to increase their out degree (investing) strength. Based on this network the cities of Johannesburg, Cairo, Lagos, Algiers, Accra and Nairobi are the top FDI recipients. The aforementioned cities are key FDI recipients in the continent. The diagram also highlights those recipient cities that are also able to invest into other cities, for example Nairobi and Johannesburg.

From this diagram Nairobi' in terms of investment by number, Nairobi ranks first in East Africa compared to Kampala, Tanzania and Kigali

Investment Network (No. Of Investments)	
Top Recipients	Johannesburg
	Lagos
	Cairo
	Algiers
	Nairobi
	Accra
Top Investors	London
	Paris
	Mumbai
	Dubai

TABLE 3- INVESTMENT: NUMBER OF INVESTMENTS

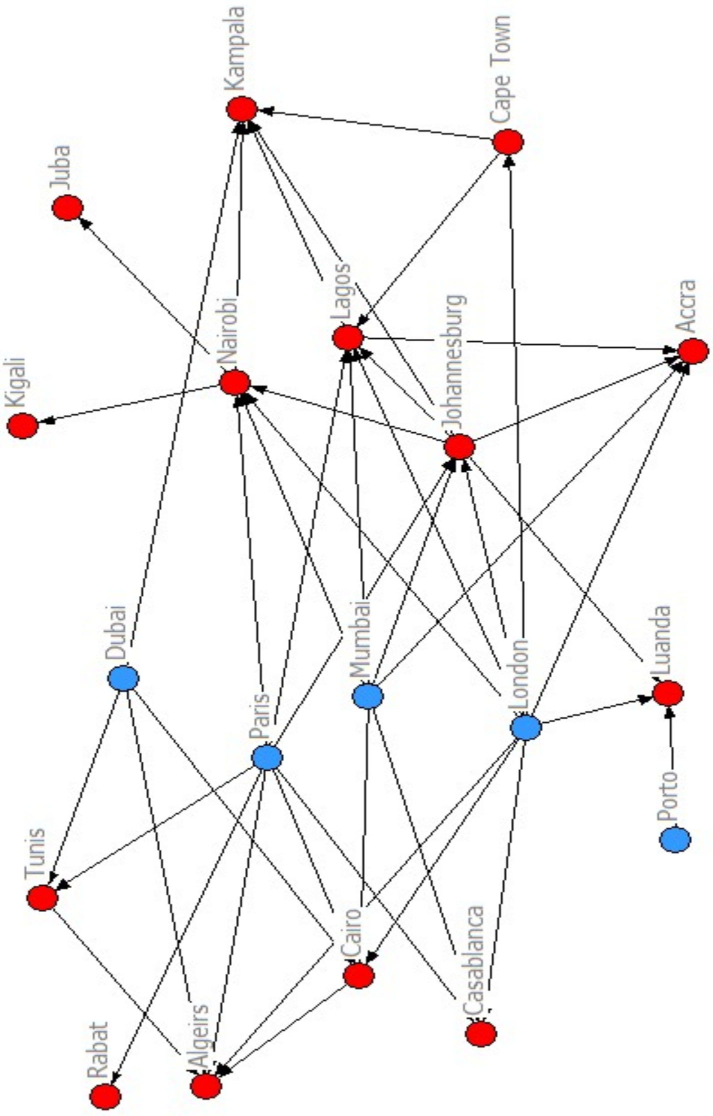


FIGURE 4.2.1 UCINET NETWORK MAP – AFRICA INVESTMENT BY NUMBER (FDI MARKETS.COM DATABASE)

The below diagram city-to-city network of investment by number shows the strength between recipients and investors. The bold and thick ties, represents a strong connection between the sending (investors) and receiving (recipient) cities. Some cities due to ex-colonial relations, linguistic and cultural similarity and other factors may have stronger ties in the form of investment cooperation and agreements. Most investments into the continent are resource-seeking investments. However countries and cities in the continent have been able to diversify their economies and open up opportunities that have attracted investors from various economic sectors and industry clusters.

Investment Strength and Ties	
Investors	**Recipients**
London	Johannesburg, Casablanca, Cape town, Cairo, Nairobi, Lagos
Paris	Algiers, Casablanca, Rabat, Nairobi
Mumbai	Johannesburg, Lagos, Accra
Porto	Luanda
Dubai	Cairo, Tunis
Nairobi	Kampala, Dar es Salaam, Juba, Kigali

TABLE 4 - INVESTMENT STRENGTH AND TIES

The network diagram below highlights the fact that cities in the periphery have some leverage by virtue of the fact that they can invest in other cities as well. In the case of Nairobi, the table and the network diagram show that it has strong out degree ties with East African cities such as Juba, Kampala and Kigali, highlighting its out degree (investing) strength. On the other, hand, Nairobi still remains a top recipient of FDI when analyzed against the continent. Other cities like Johannesburg also have strong outdegree ties enabling them to invest within their immediate region and beyond.

Nairobi's position in this network diagram highlights the fact that as an investment destination, it is still very significant. Being the economic hub of the East African region, it is not a surprise that it ranks highly as a top investment recipient destination at least in terms of number of investments.

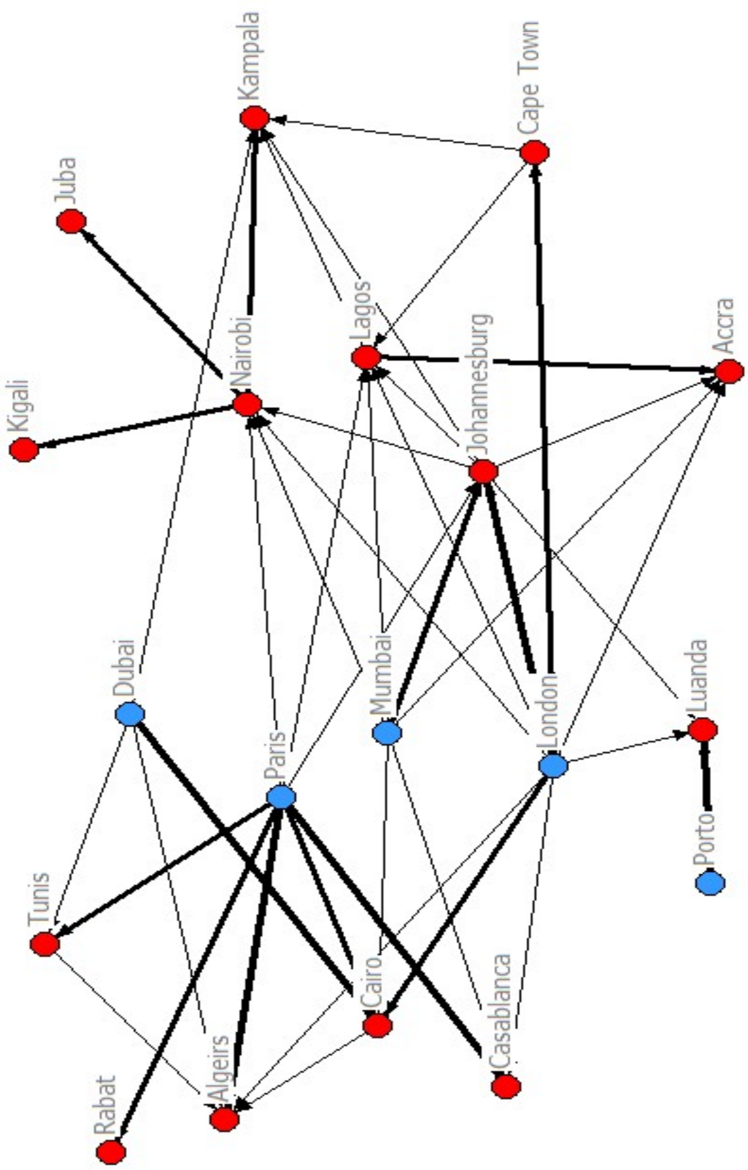


FIGURE 4.2.2 UCINET NETWORK MAP-AFRICAN INVESTMENT BY NUMBER (TIE STRENGTH) (FDI MARKETS.COM DATABASE)

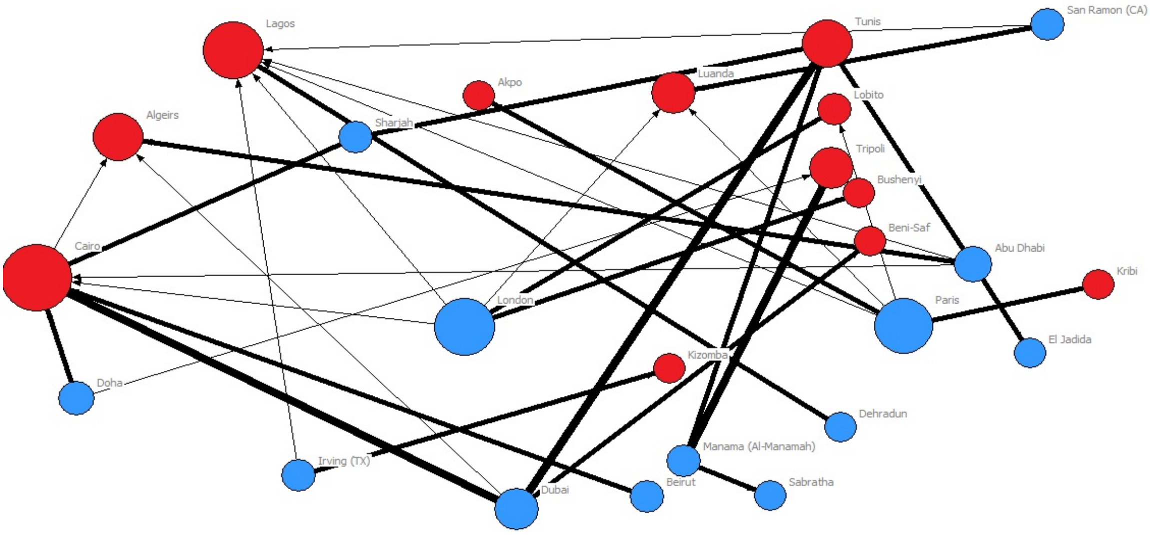


FIGURE 4.2.3 UCINET NETWORK MAP- AFRICA INVESTMENT BY VALUE AND IN-DEGREE CENTRALITY (FDI MARKETS.COM DATABASE)

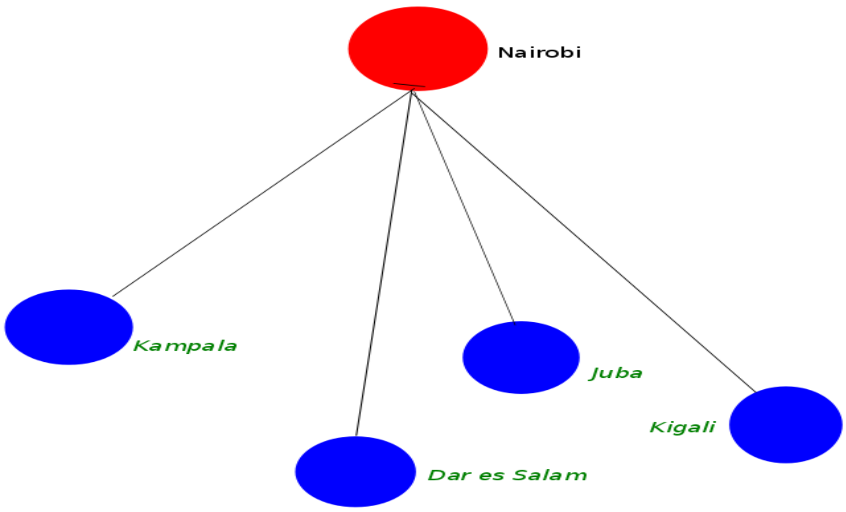
The above city-to-city network shows the distribution of investment by value. This diagram shows that only a few cities in Africa receive large amounts of investment **(by value).** In this network, top recipients identified by node size are 1) Cairo, 2) Lagos, 3) Algiers, 4) Tunis and 5) Luanda. The bold thick lines highlight the connection strength between sending and recipient cities. Nairobi does not feature in this network map, because the values of investment received are not significant when pinned against other cities.

Top Investment Recipients (Value)	
Recipient	**Investor**
1. Cairo	London, Dubai, Abu Dhabi, Doha, Sharja
2. Lagos	Dehardun, London, Irving, Paris, Abu Dhabi
3. Algiers	Abu Dhabi
4. Tunis	Dubai, Beirut
5. Tripoli	Beirut
6. Luanda	Paris, London, California

TABLE 5 - TOP INVESTMENT RECIPIENTS

Nairobi invests heavily in Dar es Salaam, Kigali, Juba, and Kampala, especially in the financial and banking sectors. Other major investments into the aforementioned cities are in the insurance sector, tourism, transportation, warehousing and storage and airline industry activities. Due to the fact that Nairobi is the economic hub of the East African region, it has relative financial muscle that enables it to invest in nearby cities (markets) that are lacking in various sectors that Nairobi are strong at. Despite Nairobi's drop in high value foreign direct investments, a vibrant domestic market provides Nairobi the opportunity to invest in neighboring markets thereby leveraging its out-degree strength. It is important to note that Nairobi, invests in the cities that are nearby and within the East African region.

FIGURE 4.2.4 NETWORK MAP- NAIROBI OUT-DEGREE STRENGTH (SOURCE- FDI MARKETS.COM DATABASE)



4.3 Location Quotient (LQ)

The location quotient is an economic analysis used to compare a local economy to a reference economy. In this research study, the location quotient has been used to compare total country/city investment to a reference investment to a particular sector. This type of analysis attempts to identify specializations in the local economy. Using a total of sixteen industry clusters, capital investment for industry cluster and total country investment (FDI Inflows), the results should highlight which industry cluster is most important for the city and which industry is most specialized in a particular city/country.

4.3.1 Interpreting the Location Quotient

The location quotient yields non-basic and basic results. Below is the description of how to interpret data produced by the location quotient.

LQ < 1.0	**Non Basic**	All investment is non-basic: A LQ less than zero suggests that investment is less than expected for a given industry.
LQ = 1.0	**Non Basic**	All investment is non-basic: A LQ equal to zero suggests that investment is exactly sufficient to meet the demand for a particular industry cluster
LQ > 1.0	**Basic**	A LQ greater than zero is evidence basic investment for a given industry cluster. Investment is greater than expected and this signifies that specialization should be in this particular industry cluster.

Formula: (Location Quotient)

$$\frac{\text{(Industry Cluster Investment/ Total Country/City Investment)}}{\text{(Total Industry Cluster Investment/Total Investments (all sectors)}}$$

Example: Food and Beverage industry cluster - Kenya

(545.92/ 10518.59)/ (1344.22/ 36375.04)

LQ = 1.404444574
1.4 (LQ >1.0)

This result being greater than zero means that investment in the food and beverage sector is basic and is greater than expected for that particular industry.

4.3.2 Results

Countries	Sector									
	Food &Beverage	ICT & Electronics	Financial Services	Consumer Goods	Transport Equipment	Professional Services	Transportation, Warehousing and Storage	Life Sciences	Creative Industries	Energy
Kenya	1.4	1.2	1.2	2.2	2.5	0.7	2.9	1.4	1.7	0.6
Uganda	0.8	0.9	0.7	0.7	0.3	0.9	0.2	0.2	0.2	1.3
Tanzania	1.3	0.3	0.7	0.2	0.7	2.7	0.5	2.4	0.0	0.6
Rwanda	0.5	1.0	2.4	0.0	0.6	0.0	0.0	2.0	4.3	1.0

Countries	Sector					
	Tourism	Retail Trade	Physical Sciences	Environmental Technologies	Construction	Wood, Apparel and Related Products
Kenya	0.4	0.8	1.8	2.1	0.4	0.1
Uganda	0.3	1.0	0.5	0.0	0.7	2.0
Tanzania	3.3	1.5	1.7	2.3	3.7	0.0
Rwanda	3.1	0.7	0.1	0.7	0.2	0.0

TABLE 6 - LOCATION QUOTIENT-EAST AFRICA
Source – FDI Markets.com database

4.3.3 Interpretation of Results

The above table shows the level of specialization of all East African member states across sixteen industry clusters. Nairobi, Kenya being the unit of analysis. The focus will be on Kenya's results. On the other hand, with respect to complementarity and collaboration, results of other countries will have to be analyzed and used as reference points. According to the location quotient table, the most specialized sectors in Nairobi/Kenya are:

Industry Cluster	Location Quotient
Transportation, Warehousing and Storage	2.9
Transport Equipment	2.5
Consumer Goods	2.2
Environmental Technologies	2.1
Physical Sciences	1.8
Creative Industries	1.7
Life Sciences	1.4
Food &Beverage	1.4
ICT & Electronics	1.2
Financial Services	1.2
Retail Trade	0.8
Professional Services	0.7
Energy	0.6
Tourism	0.4
Construction	0.4
Wood, Apparel and Related Products	0.1

TABLE 7 - LOCATION QUOTIENT -INTERPRETATION OF RESULTS

The results ranked in order show that Nairobi/Kenya is specialized in the following industry clusters or sectors: Transportation, Warehousing and Storage, transport equipment, consumer goods and environmental technologies despite amount of FDI inflows received in those particular sectors. This is an indication of which industries the city and the country should focus on, in order to specialize in those sectors thereby leveraging more capital investments and ensuring comparative advantage. Below is a graph highlighting the most specialized sectors in the city of Nairobi. The location quotient further highlights how diversified an economy based on specializations in various industry clusters. Industry specializations and a diversified economy is a good prerequisite for attracting diversified investments in various industries, thereby leading positive spillover effects particularly economic growth and development.

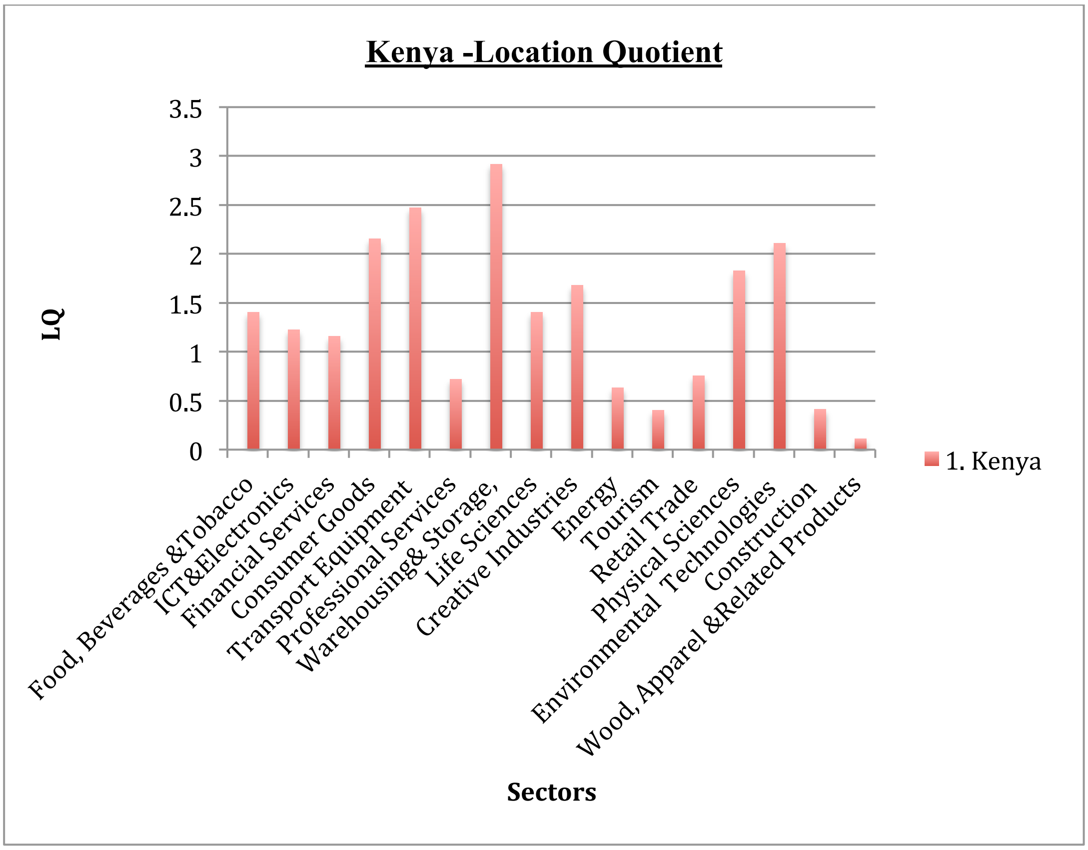


Chart 3- Kenya-Location Quotient
Source – FDI Markets.com database

The chart above is a summary of the location quotient results. Nairobi's most specialized industry is warehousing, storage. However on the other hand, the following chart (**Chart 4**) showing investments into the same cluster industries highlights that there is a mismatch between industry specialization and amount of investment to a particular industry cluster. It appears that there are both over and under investments in some industries. For example, (**Chart 4**) shows that investments into energy sector are the highest and the location quotient is low (0.6). On the other hand, the location quotient for warehousing, storage and transportation is high (2.9) compared to the low investment in the sector highlighting potential in the sector, which should be backed by more investments into the sector.

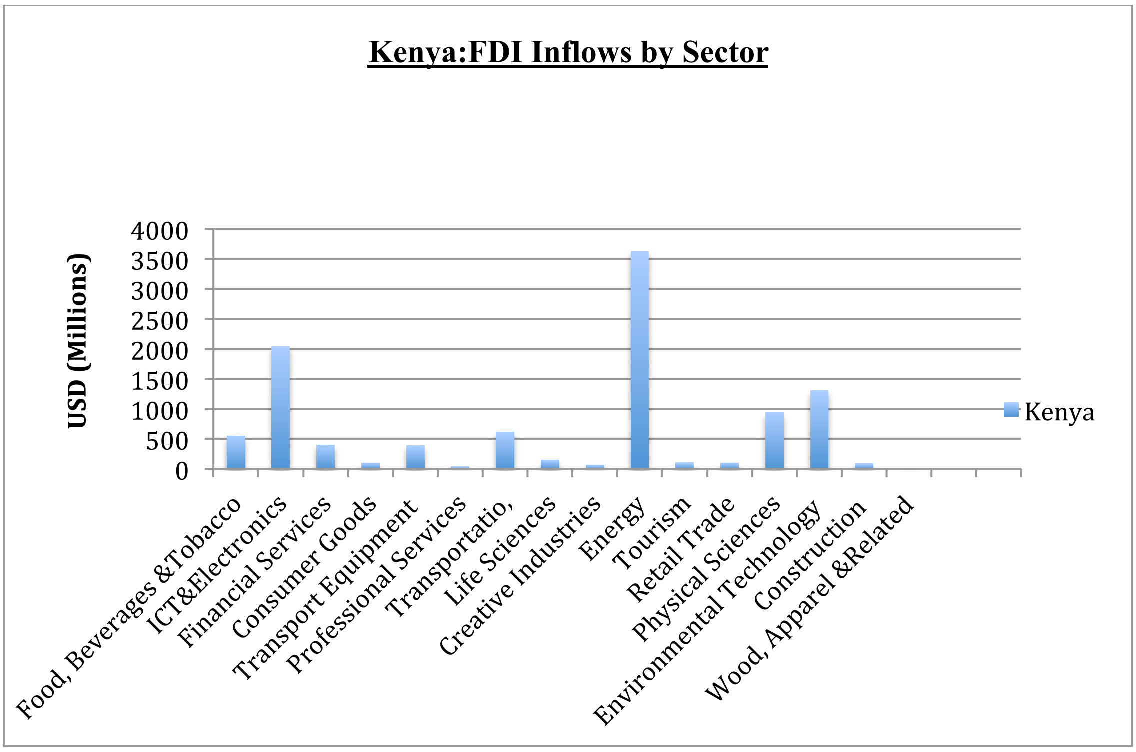


Chart 4-Kenya FDI Inflows by Sector
(Source – FDI Markets.com database)

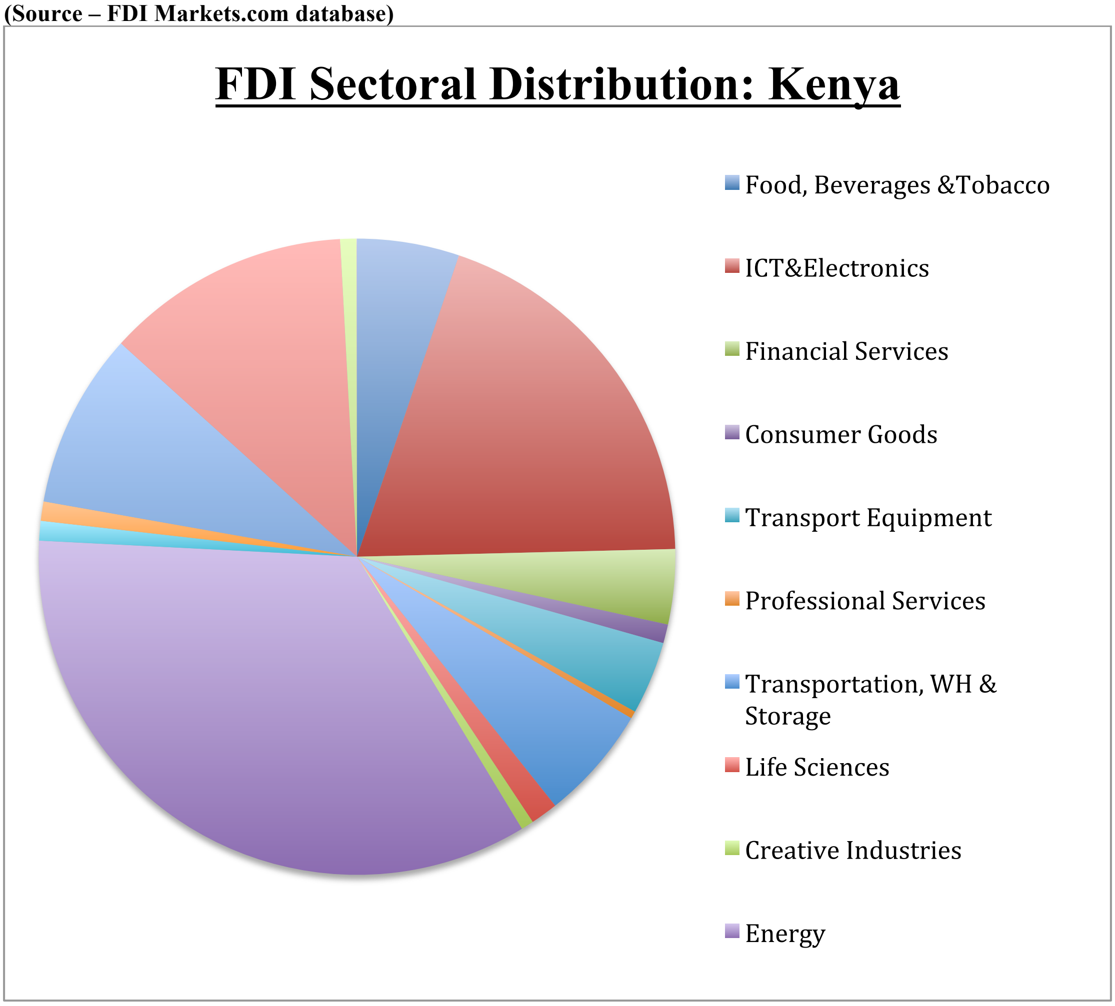


Chart 5 - FDI Sectoral distribution (Kenya)
(Source – FDI Markets.com database)

The above graph and pie chart based on FDI inflows alone shows that the energy sector receives the highest capital investment (34%) followed by ICT and electronics sector (19%). This graph viewed in isolation would suggest that there is specialization in the energy sector. However, the location quotient figure for the energy is 0.6 whilst the transportation, warehousing and storage sector that receives a lower amount of investments ranks the highest with 2.9 in the location quotient analysis. The above two graphs highlight the mismatch between the amount of capital investment received and specialization of activities within an industry cluster.

4.4 Main Competitors and Collaborators within the East African Network

The graph and table below displays Nairobi's competitors based on FDI sectoral inflows (by value) in terms of capital investment into sixteen selected industry clusters. The energy industry cluster receives the highest inward FDI, followed by ICT & electronics in the East African Region. There is no formal collaboration in economic activities between cities in the East African Community. However plans to collaborate various activities between the port in Dar Es Salaam, Tanzania and the Lamu Port in Kenya are underway. Due to weak regional synergies and lack of policies that inform cross border economic functions, there is very little economic collaboration within the East African Network.

Cities	Total FDI inflow (Yrs. 2000-2010) (USD Million)
Kampala	4630
Dar-Es-Salam	4914
Nairobi	**1528**

TABLE 8 - EAST AFRICA –TOTAL FDI INFLOWS
Source – FDI Markets.com database

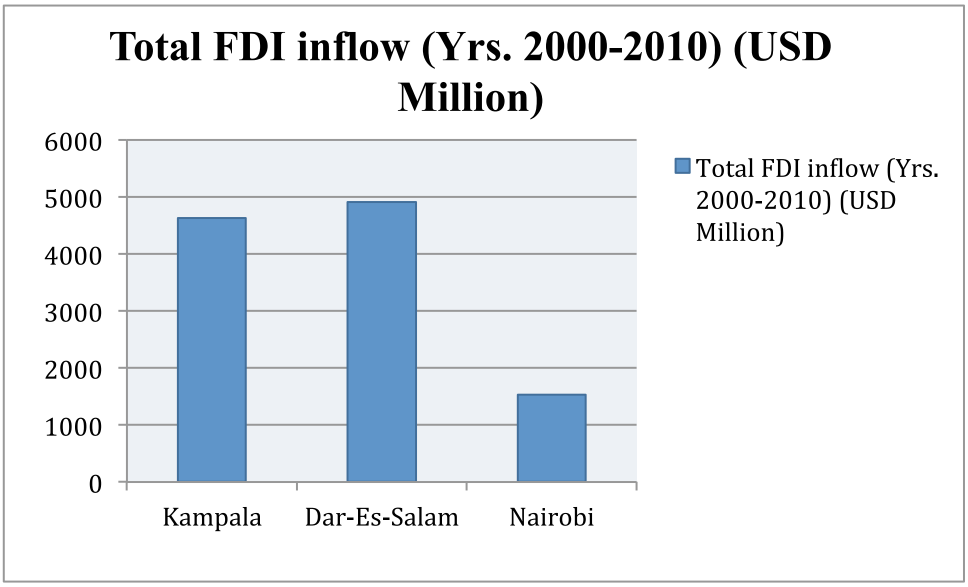


Chart 6 –Total FDI Inflow
Source – FDI Markets.com database

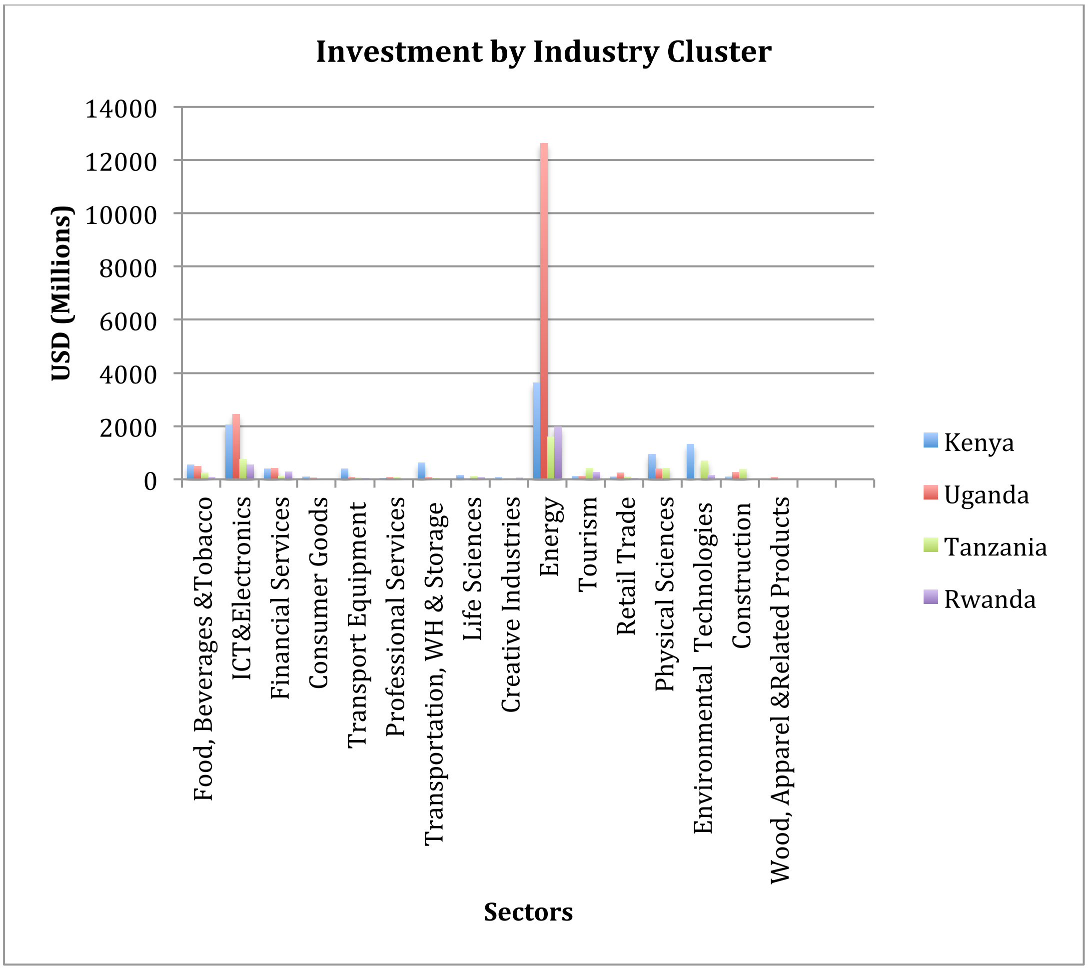


Chart 7: Investment by Industry Cluster
(Source – FDI Markets.com database)

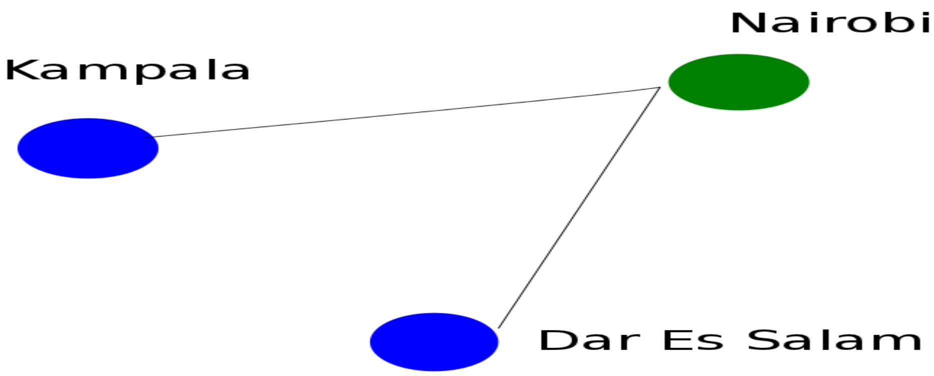


FIGURE 4.3. NAIROBI MAIN COMPETITORS
Source – FDI Markets.com database
NB: All factors held constant except FDI inflows

4.4.1 East-African Complementarity Network

The diagrams below show that despite some duplication of activities, there is potential for complementarity in the East African Network. Due to the fact that East African countries do not compete, the need for complementarity is imperative. The lack of competition and complementarity is also due to the fact that countries in the EAC have different economic structures. Furthermore the concepts of competitiveness and complementarity are fairly novel and need to be understood and applied first at the local level then the national level and regional level. The location quotient is used to analyze and describe industry specializations and hypothesize Nairobi's complementarity network using the radar diagrams. Those cities that are specialized in a certain industry cluster should complement another city that is not specialized in the same industry cluster to ensure differentiation in urban functions, but at the same time providing that particular function two or more locations ensuring coopetition. This analysis sheds light on duplication of activities and specializations across the region.

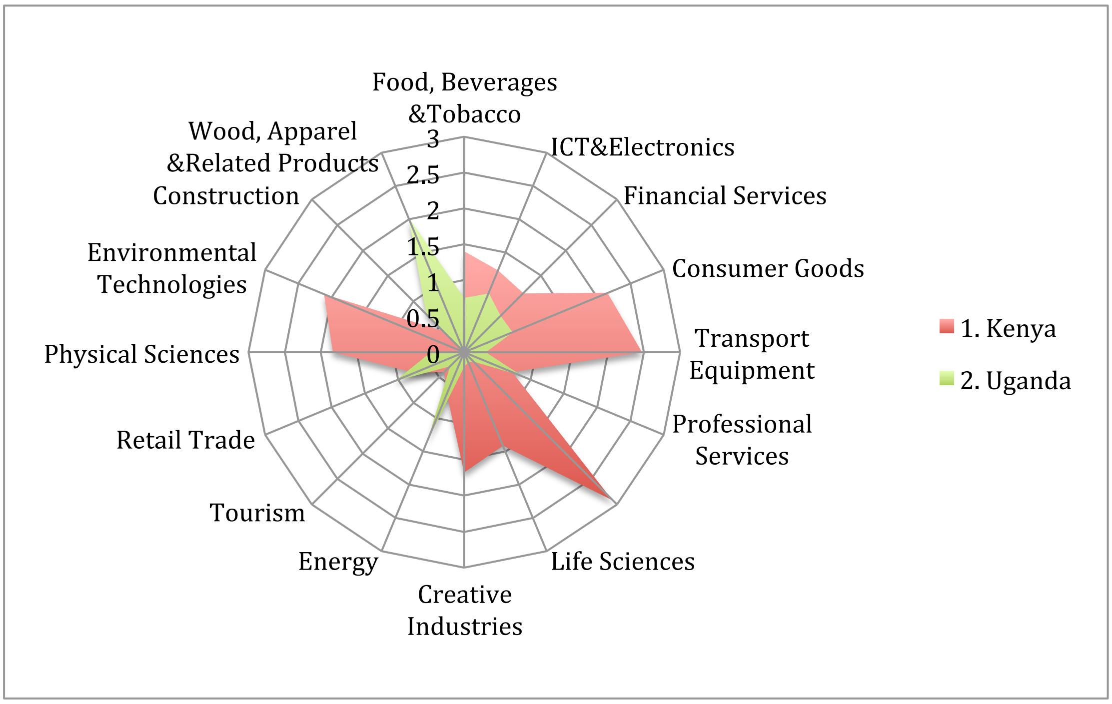


Chart 8 - Nairobi vs. Uganda
Source – FDI Markets.com database

- The above radar chart shows that Kenya is specialized in the Transportation, warehousing and storage, whilst Uganda scores almost zero in the same cluster.

- Transport equipment and environment technologies are other industry clusters that appear to be specialized functions in Nairobi; whilst in Kampala the score is almost zero.
- Kampala on the other hand is specialized in the wood, apparel and related products and energy sector (by virtue of heavy investment into the sector)>

Kenya (Nairobi) and Tanzania (Dar Es Salam)

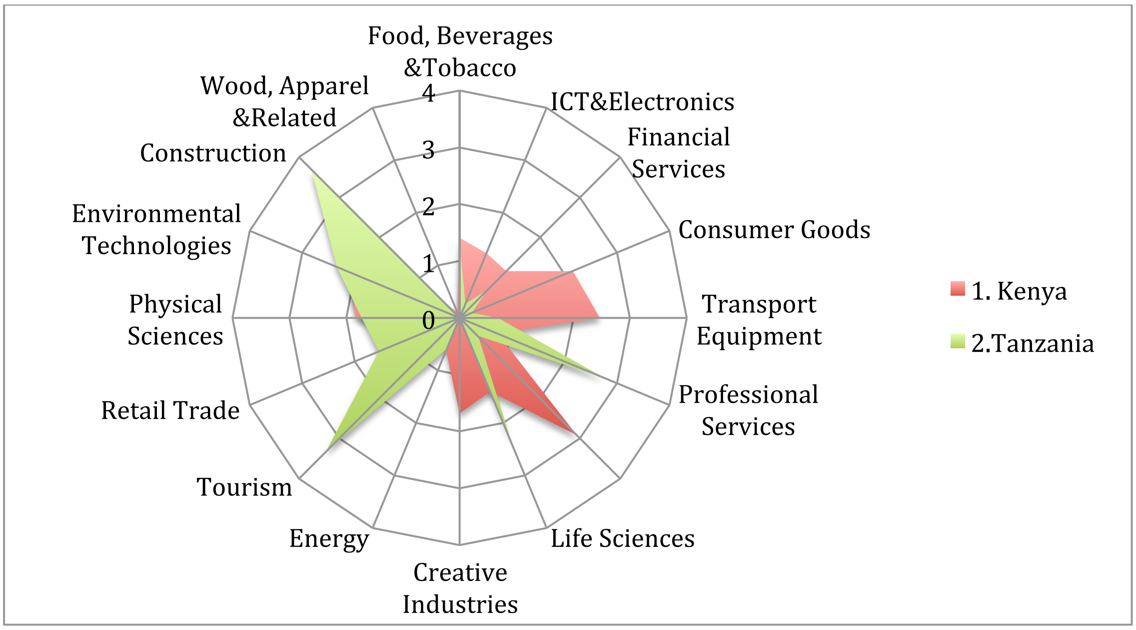


Chart 9 - Nairobi vs. Dar Es Salam
Source – FDI Markets.com database

- The above radar shows that compared against Dar es Salaam, Nairobi is specialized in Transportation, Warehousing and storage, transportation equipment and consumer goods, creative industries, ICT& electronics and financial services.
- On the other hand Dar es Salaam is specialized in construction, tourism, professional services. Dar es Salaam has comparative advantage in those mentioned sectors.

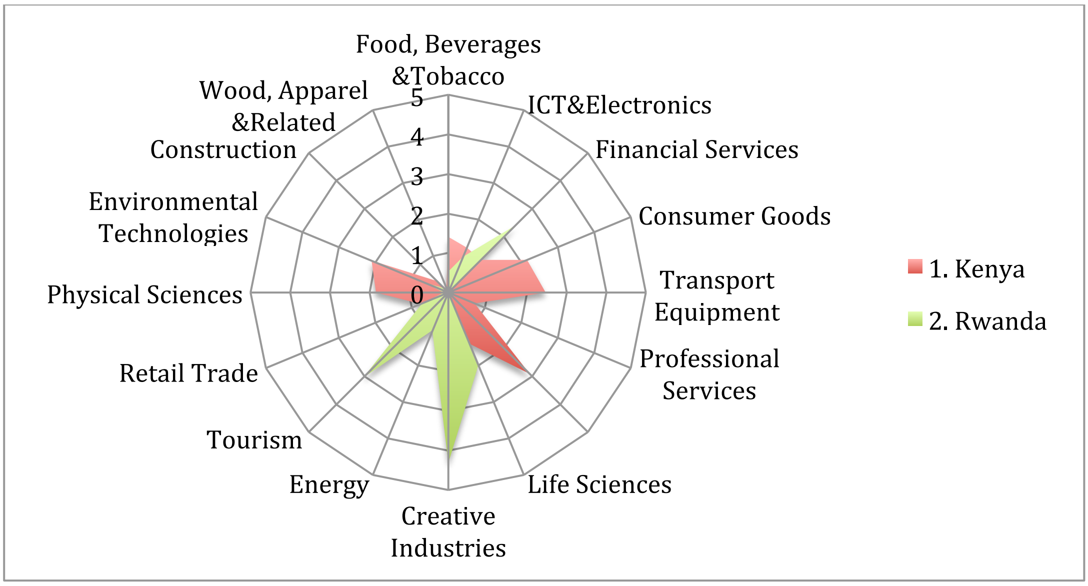


Chart 10 - Nairobi vs. Kigali
Source – FDI Markets.com database

- Compared against Kigali (Rwanda), Nairobi (Kenya) still has a comparative and competitive advantage in the transportation, warehousing and storage, transport equipment, consumer goods, environmental technologies, food, beverages and tobacco and the physical sciences clusters.
- Kigali is specialized in the creative industries, tourism and financial services sector.

The above radar diagrams show that when Nairobi (Kenya) is compared individually against other cities within the East African Network, specialization and comparative advantage in certain industry clusters change. This is based on the comparison city's industry cluster specialization and amount of investment received in that particular sector.

4.4.2 Industry Specialization in the East African Network

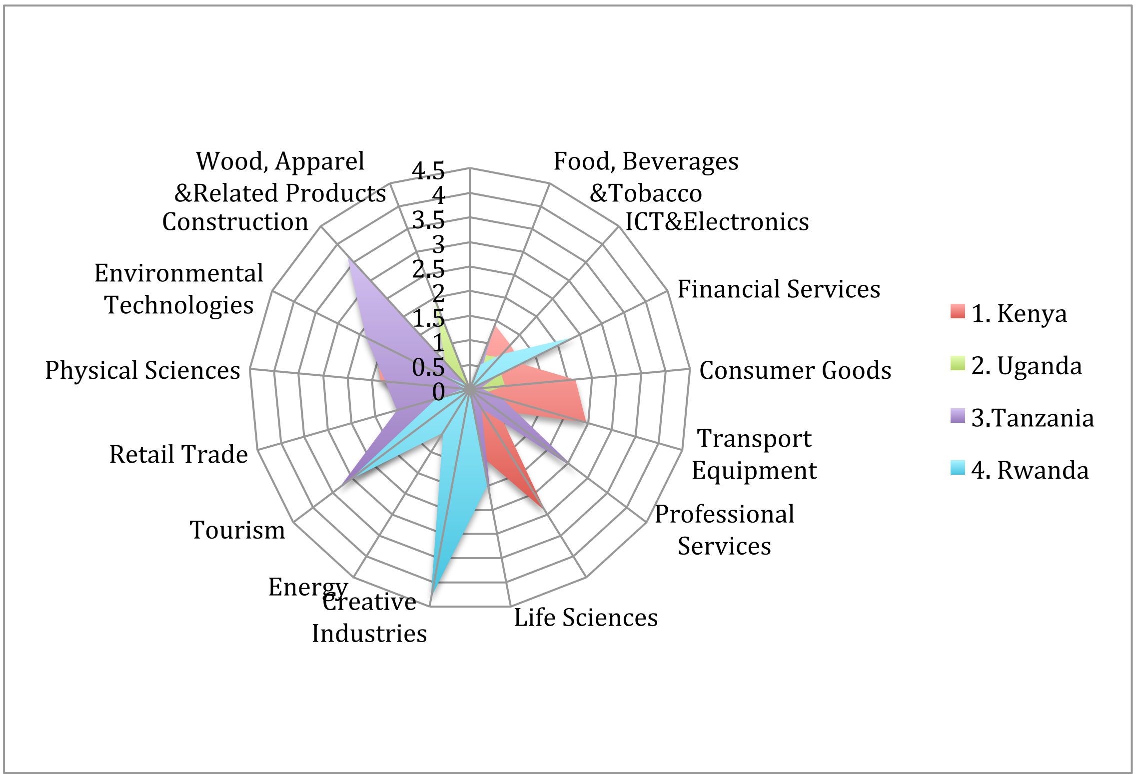


Chart 11- Industry Specialization in the East African Network
Source – FDI Markets.com database

City-Country	Industry Specialization
	These are the sectors that each city has a comparative advantage in.
Nairobi-Kenya	1. Transportation, warehousing and storage 2. Transport Equipment 3. Consumer Goods 4. Beverage Services
Dar-es –Salam- Tanzania	5. Construction 6. Tourism 7. Professional Services
Kampala-Uganda	8. Wood Apparel and related products
Kigali-Rwanda	9. Creative Industries 10. Financial Services 11. Tourism

TABLE 9- INDUSTRY SPECIALIZATION

4.5 Location Factors

There are numerous locational factors that determine or influence investor decisions. As noted in the problem statement unsatisfactory locational factors have been part of the reduction in investments into Nairobi. This section will analyze using regression analysis, which locational factors have strong correlations and are most significant and in attracting investments into Nairobi. In order to scientifically test the significance of location factors to FDI inflows, regression analysis using SPSS (Statistical Package for Social Sciences was applied.

A total of fifteen (15) location factors grouped into economic, social and environmental sub groups were selected. National level location factors data was collected from three sources: (Global Competitiveness Report 2011/2012, World Bank Indicators and the Human Development Index Report 2011). Due to lack of city-specific data for African cities, national level data is used and to extrapolate on to city data. Taking into account the fact that the types of investments into Africa are in the mineral and commodities sectors – located in rural areas, it is difficult to collect and collate city –specific data. Furthermore due missing data the environmental location factors had to be omitted from the regression model.

4.5.1 Setting up the Regression Model

1) Location factors data for a total of thirty-two (32) African countries were collected for 15 location factors ranging from macroeconomic environment to population size. (See annex 8)
2) In order to control for skewness (*heteroscedasticity*) of data only the FDI inflows and population size values were logged in order to maintain the same decimal values as the other values. All other values were not logged. Conducting a multi-collinearity test on each of the location factors (excluding the dependent variable: FDI inflows) ensures that the measure of variance of estimated regression coefficient is not inflated due to collinearity.
3) After the logging of data, the location factors were separated into four (4) groups (economic, social, environment and aggregated).
4) Taking into account the size of VIF measure the magnitude of multi-collinearity. If VIF is over 10, the location factor is not considered in the regression model.
5) After conducting a multi-collinearity test to weed out location factors that were too highly correlated, a simple correlation (including FDI inflows) to test the strength of the relationship between FDI inflows and location factors.
6) After conduction the correlation, a regression analysis was conducted both within the three groups and all together.

4.5.2 Results - Regression Model

Location Factor	Significance <0.05
Population Size	.000
Human Development Index (HDI)	.000
Labor Market efficiency	.033

Social variables particularly **population size, human development index**, were highly significant with a significance of .000. **Corruption** was slightly above the statistical significant level of 0.05, but it still came up as highly correlated. The human development index takes into account GDP of a country, life expectancy and education; therefore it is an aggregated location factor. On the other hand the economic variable that was significant is **labor market efficiency**. Out of seven (7) economic location factors only labor market efficient tested statistically significant. Due to missing values in environmental location factors group, it was omitted from the regression model. (**See Annex 8)**

Based on the type of investments going to Africa it is rational to argue that numerous location factors will not be of great importance or significance. Most high-value investments into the continent are resource seeking. Furthermore production and manufacturing of raw materials and commodities do not usually take place in the continent, however that is changing. This means that the presence of fundamental economic local factors is not required and demanded for by investors. This leads to complacency amongst relevant institutions in a country or city that have the mandate to ensure that a country or a city have the appropriate location factors in place. On the other hand investors need to ensure that the labor on the ground has sufficient technical capacities to carry out investment activities and that is one reason as to why labor market efficiency turns out to be statistically significant in the regression model. Economic location factors only matter when the type of investment is not resource seeking. When investors seek to set up in a country in either service or manufacturing and production activities certain economic location factors must be in place to ensure both low risk and satisfactory return on investment.

In this regression model (**See Annex 9**) social factors outweigh economic factors. The high significance of social location factors may be due to the fact that countries with vast natural resources and mineral have been volatile and tainted by wars and government coups. Stability especially with respect to social factors becomes important. The rhetoric in the donor community pushes for social stability including health, education and safety in order to ensure low risk. This is of particular importance to investors as the ideal situation would be to operate in a country that poses low risk socially and is safe. Safety, particularly in resource rich-war torn countries is fundamental for investors. The location factor, corruption produced a negative unstandardized coefficient suggesting that it has a negative effect in attracting FDI. It is important to note that the recent over-urbanization in African cities presents various complex challenges and the concept of location factors is novel. With African economies beginning to diversify their economies, different type of investors particularly in the production, manufacturing and service industries are beginning to realize there is more that resources in the region. It is with great hope that as this takes place that, African countries and cities will begin taking the concept of location factors seriously to ensure that 1) they attract investors 2) attract the right kind of investments and 3) steer urban economic growth.

4.6 Interview Analysis

Having conducted expert interviews in order to shed light on the quantitative data (investment data), the table below contains collapsed and thematically arranged data collected during the semi-structured interviews collected. The listed six (6) themes came up the most during the interviewing process. This aggregated data will help shed light on Nairobi's competitiveness, complementarity networks and locational factors with particular attention to the role of the local government, international firms and important institutions such as Kenya Investment Authority.

✔ One tick: Issue is mentioned but not of any great concern
✔✔ Two ticks: Issue is mentioned and of great concern

TABLE 11- INTERVIEW ANALYSIS (1)

	Government and Multilateral Institutions				
	City Council of Nairobi (CCN)	Ministry of Nairobi Metropolitan Development	Kenya Investment Authority	Kenya Vision 2030	UN-HABITAT
Themes / Issues					
1. Lack of technical capacity	✔✔	✔	✔✔	✔	✔
2.Organizing capacities	✔✔	✔✔	✔✔		✔
3.Lack of awareness	✔✔	✔	✔	✔	
4.Lack of coordination	✔✔	✔✔	✔✔	✔✔	✔
5.Locational factors	✔✔				
6. Funding	✔✔	✔✔	✔✔		✔✔
7. Implementation of new constitution	✔✔	✔✔		✔✔	

TABLE 12-INTERVIEW ANALYSIS (2)

	International Firms				
	Financial Sector	Environmental Technologies	Hotel and Tourism Sector	Energy Sector	ICT & Electronics
Themes					
1. Corruption	✔			✔✔	
2.Market size/opportunity	✔✔	✔✔	✔✔	✔✔	✔✔
3.Regional reach	✔✔	✔	✔✔	✔✔	✔✔
4.Labour force	✔✔	✔✔	✔✔	✔✔	✔
5.Regional hub	✔✔				✔✔
6. Existing infrastructure	✔✔	✔✔	✔✔	✔✔	✔✔
7. Bureaucracy	✔✔	✔✔	✔✔	✔✔	✔✔

The Ministry of Nairobi Metropolitan Development is particular aware that location factors specifically pertaining to urban qualities and some infrastructure facilities can be spearheaded by the ministry. However, the expert interviewed noted that in order to improve location factors in the city of Nairobi there needs to be a concerted effort by all ministries and government institutions/corporations to ensure that Nairobi is a suitable investment destination for investors. On the other hand the City Council of Nairobi note that their role has been limited by the Local Government Act Cap 68 under the Ministry of Local Government. Further issues particularly lack of sufficient funds, technical, organizing capacities and staff morale has been detrimental to the council's role in ensuring that Nairobi offers service to both locals and investors alike that are satisfactory.

International firms do take into account certain key location factors that are determinant to their investing destinations and also sector/industry needs and requirements. The most important location factor for all the firms interviewed was market size and opportunity. Setting up businesses in Kenya is driven by gaps and opportunities in the market place particularly for the environmental technologies and Hotel and Tourism sectors. Despite corruption and bureaucracy right from retrieving investment certificates, businesses licenses and permits, companies main concern is Return on Investment (ROI). The firms interviewed recognized the need to have complementarity within the East African region in order to make doing business easier. Setting up shop in Nairobi allows companies to tap into regional opportunities and therefore it is important there is a harmonization of business operations and trade policies.

Due to the fact that the concept of city competitiveness and complementarity are not mature in the African urban economic discourse, the overriding theme of the expert interviews is that city competitiveness requires both organizing and technical capacities. The new constitutional dispensation that supports devolution, and will see the setting up of forty-seven autonomous counties, the concepts of city competitiveness and particularly complementarity with lagging regions will be of fundamental importance. Most experts recognize that Nairobi is in a precarious position with respect to FDI inflows and are aware of the fact that Nairobi's neighbors have been receiving a larger portion of the monies. However, with the ongoing re-configuring of the Kenya Investment Authority and aggressive branding campaigns by Brand Kenya, Kenya hopes to re-brand itself and re-position itself carefully and strategically to woe the right type of investors and investments into the country not only for national growth and development but for urban and county development and growth.

4.7 Content Analysis

Analyzing key national documents such as investment laws, vision documents and various acts will assist in shedding light on what reasons or gaps in policies impede on the establishment of a complementarity in the East African Network of cities. The three key themes are important to this research are i) competitiveness, ii) complementarity and iii) regional investment policies. The documents were analyzed according to whether there was any mention of the above three concepts in the documents. Documents from other EAC member countries (Uganda, Tanzania and Rwanda) were analyzed to check for policies indicating any potential for complementarity or collaboration between economic sectors with other EAC cities/countries.

1) Kenya Vision 2030
2) Rwanda (*Umurenge*) Vision 2020
3) Kenya Investment Promotion Act (2004)
4) Uganda Investment Code Act (Cap.92)
5) Tanzania Investment Act (1997)
6) EAC Treaty (Chapter 12, Articles 79 and 80)
7) EAC Common Protocol
8) Nairobi Metro Strategy 2030*[6]

	Competitiveness	**Complementarity**	**Regional Investment Policies**
Kenya 1) *Kenya Investment Promotion Act (2004)* 2) *Kenya Vision 2030* 3) *Nairobi Metro Strategy 2030*	• The current investment act does not address competitivenes s • Kenya Vision 2030 is to ensure Kenya is a competitive country by the year 2030 • The Nairobi Metro Strategy draws out a plan to ensure that Nairobi is a competitive African metropolis by 2030 • Local	• The current investment act does not address complementarity	• No mention of regional investment policies

[6] The Nairobi Metro Strategy 2030 document outlines a well-drawn strategy that will establish Nairobi city as an African Metropolis by the year 2030. It specifically deals with city competitiveness.

	governments to be given more autonomy in city development.		
Uganda 1) *Uganda Investment Code Act (Cap.92)*	• The current investment act does not address competitiveness	• The current investment act does not address complementarity	• No mention of regional investment policies
Tanzania 1) *Tanzania Investment Act (1997*)	• The current investment act does not address competitiveness	• The current investment act does not address complementarity	• No mention of regional investment policies
Rwanda 1) *Rwanda (Umurenge) Vision 2020)*	• The current investment act does not address competitiveness • *Umurenge* Vision 2020 is a guideline	• The current investment act does not address complementarity	• Rwanda Vision 2020 urges for regional economic integration in the EAC region.
EAC 1) *EAC Common Protocol* 2) *EAC Treaty (Chapter 12, Articles 79 and 80)*	• EAC member states are currently working the with EAC secretariat to come up with a comprehensive plan to promote investment and industrial development in the region. • EAC Industrialization Policy and Strategy- adopted by all member states in 2011 to promote economic growth and development in the region. • The EAC Common Protocol market encourages movement of people and goods across the region. It particularly emphasizes intra-trade of goods and services across the region. • Article 44 Co-operation in Industrial Development states that member states should promote linkages among industries and economic sectors within the community. • No direct mention of competitiveness and complementarity		

TABLE 13: CONTENT ANALYSIS OF KEY POLICY DOCUMENTS

5.0 Conclusions and Recommendations

This section summarizes the findings of the study in line with the main research question: *In what way can Nairobi city leverage its competitive performance and ensure complementarity within the East African network?*
Following recommendations emerged through quantitative analysis of investment data and location factors. Semi-structured expert interviews and content analysis of key documents also contributed to recommendations made.

5.1 Conclusion

Taking into account the theoretical section on urban networks, it is important to note that cities thrive due to business activities and agglomeration economics. Nairobi has had a long history of investments into the region (that has boosted healthy business activities), hence the strong position in terms of number of investments- but because of recent high value resource-seeking investments directed to Tanzania and Uganda, the value of investments into Nairobi has been low. Investments into Nairobi have dropped, mainly because of two reasons. The first reason, being that the type of investments into the East African Region is mainly resource seeking particularly in the energy and minerals sector. Secondly, the value of investments into Nairobi has been lower as compared to the number of investments. However the number of investments into Nairobi is increasing, hence maintaining Nairobi's position as significant investment destination not only in East Africa but in the continent as well. Data collected shows that despite Nairobi's status as the economic hub of East Africa, high value investments are low. Her neighbors (Kampala and Dar es Salaam are receiving significantly higher value investments.

The location quotient results highlighting the level of specialization in various industry clusters show that economic diversification exists but it is still immature. The amount of investments into certain industries does match up to the level of specialization. For example, according to the location quotient, Nairobi is specialized in the Transportation, warehousing and storage, however investment into that industry is very low. On the other hand, investment into the energy sector is high compared to the specialization level of the industry. This shows that there is a mismatch between industry specialization and amount of investment activity in certain industries. According to both theory and research in city competitiveness and location factors, cities that meet firm and industry needs tend to be more competitive. Therefore there is a need for both investment promotions in sectors that have positive growth rates and that the city is specializing in. In order to attract investment into high value sectors in the service and manufacturing industries, cities need organizing and technical capacities to ensure certain location factors are met and can support investor activities.

Nairobi's main competitors in terms of investments value are Kampala and Dar-Es-Salam and this is due to resource seeking investments in Kampala and Dar-Es-Salam. Complementarity within the network of cities in the East African region is very little. Radar diagrams show that there is lack of complementarity within the East African network. There are some sectors where there is duplication of activities and some sectors that are ripe for collaboration that have not yet been tapped into. On the other hand, the location quotient calculations show that there is a mismatch between investments into a particular sectors and the level of specialization of that particular industry. This is particularly apparent for the energy sector, where most investments are exploratory. After a thorough interviews and content analysis of key national and regional policies, particularly the Kenya Vision 2030 and the East African Common Market Protocol, policies that support or inform collaboration between industries in the region are vague or do not exist. This explains the duplication of activities within similar industries in various cities. Nairobi is therefore loosing out on coopetitive gains where both comparative and competitive advantage can be gained particular in the financial sector and the transport, warehousing and storage sectors.

According to the theory on regionalism, city regions are stronger when they collaborate with each other, rather than functioning as individual nodes. The gaps in policies and lack of organizing capacities within the East African Secretariat, current member states and relevant institutions has played a big role in the lack of complementarity within the East African Region. Despite mention of linkages between East African industrial sectors in the East African Common Market protocol, there are no clear and coherent policies on complementarity pioneered by member states. There is also a gap in policy that does not address the need for strengthening urban networks within the East African region and regional investment guidelines or policies. According to theoretical literature, economic deepening of a region determines both competitiveness and FDI inflows. It is therefore imperative that policies across the region take into account the importance of sustainable economic integrations in order to make way for complementarity.

As noted in the literature, a city's capacity to compete is determined by multiple factors such as location, strength and weaknesses of firms and other economic agents. Scholars such as Saskia Sassen argue that due to the integration of the global economy, the quality of cities must fit into investor needs in order to attract investments. These needs are also know as 'location factors'. Despite theoretical debates on hard versus soft locational factors, the results show that the type of investment (resource-seeking, brownfield, greenfield) determines which locational factors will be of importance to an investor and FDI recipient. Out of fifteen (15) location factors only three (3) ***(population size, human development index and labor market efficiency)*** tested for significance and correlation with investment. Ranging from macroeconomic conditions, urban qualities, investment incentives, various location factors are necessary for investment. Traditionally investments into Africa have been resource-seeking investments hence do not require the presence of certain location factors. Most manufacturing and production does not take place in house therefore location factors become less of a concern for investors. However if the type of investment is not resource seeking then certain location factors become important and necessary. The lack of African location factors data is also a concern and may contribute the lack of significance amongst variables in the regression model. Another concern with the regression model is that the FDI inflow data used was aggregated over 10 years. This may have led to distortion of data. A better result can be achieved by averaging of data to ensure that values are not distorted. A further concern is the fact that city data was aggregated to national data; hence there may have been some distortion. This concern amplifies the fact that Kenya and more importantly the EAC requires a body that can collect and collate comparative data, both for planning, research and policy purposes.

The City Council of Nairobi lacks the technical and financial capacity to carry out city marketing and branding activities in order to woe investors. The lack of synergies between key institutions such as the Kenya Investment Authority, the Ministry of Nairobi Metropolitan Development and the City Council has ensured that a disorganized decentralized system remains hindering the realization of a so called 'one-stop shop' for investors looking to invest into the city. The above result highlights the need for a comprehensive approach to ensuring cities work on various location factors not in isolation but together. Most location factors inform each other. Therefore local governments, ministries and investment promotion agencies need to work together to ensure a profitable and robust investment climate.

5.2 Recommendations

Based on the above conclusions, analysis and presentation of data, the following recommendations are grouped into four sections namely i) Investment Mapping, ii) Location Factors, iii) Institutional and Organizing Capacities, iv) City Marketing and branding and v) East African Complementarity Network.

5.2.1 Economic Diversification and Investment Mapping

1. Based both on theory and the location quotient results, Nairobi city should diversify its economic activities to ensure that they attract a variety of investors.
2. Nairobi city should promote investments into high value activities particularly in the manufacturing and service industries.

3. Polices that foster both economic diversification and competitiveness and sustainable local enterprises should be formulated to ensure that relevant institutions have sound guidelines that will see the rise in both domestic and foreign direct investment.
4. The Kenya Investment Authority should have an investment mapping system, where investments into the city are collected and recorded for both research, project and policy-making purposes. This information should be shared with the City Council of Nairobi (CCN) and other relevant institutions.
5. Investments between cities in the East African network (region) should also be kept by the City Council of Nairobi (CCN), in order to track FDI inflows to establish both gaps in FDI inflows between competitor cities in the region.
6. The City Council of Nairobi needs to work with existing investment agencies and the Central Bank of Kenya in order to track investments that are specifically directed to the city for both research and planning purposes.

5.2.2 Locational Factors

1. Creating policies that not only focus on investment promotion but also on certain location factors such as labor market, education, enterprise development and many other can lead to positive FDI spillover effects.
2. All relevant institutions, particularly local government (CCN) should improve conditions (location factors) in order for potential investors to be reassured that their investment destinations have the requirements needed to function and operate with ease.
3. Cities should be able to collect data on location factors in order to observe trends and for planning purposes. The creation of an East African body that will oversee the collection of comprehensive comparative data should be established to ensure that data is available for use particularly for policy making.
4. Concrete urban development and regeneration plans should be developed to ensure that the city is able to satisfy a wide range of location factors in order to attract diverse investors from various sectors.

5.2.3 Institutional and Organizing Capacities

5. The City Council of Nairobi should set up a department that deals specifically with city competitiveness and attracting investments. This newly created department should not work in unison but should instead liaise and partner with other existing institutions such as the Kenya Investment Authority, Brand Kenya and the Ministry of the Nairobi Metropolitan Development.
6. Organizing capacities and synergies need to be strengthened between all key organizations that are linked to the governing of Nairobi City in order to ensure that there is a harmonized process for both foreign and local investors.

7. Capacity building and training is required in order to equip staff on the concepts of city competitiveness and complementarity in order to ensure that services rendered are of high quality ensuring a conducive environment for investors.
8. There needs to be a communication structure set up to ensure that all interlinked agencies and state corporations are working together ensuring that there is synergy making it easy for investors to obtain information and set up activities quickly and with ease.
9. The Kenya Investment Authority should update their website. Key information about the country, investment opportunities, contact information etc. should be readily available through the website.
10. A ‘one-stop shop’ procedure for obtaining investment information, investment certificates, business permits, operating licenses should be issued by the same institution or partner institutions operating with the same procedures.
11. Most fundamental is the application of the concept - city competitiveness in the new county system. As Kenya continues on the path of implementing the new constitution that supports devolution, counties will need to compete with each other in terms of economic growth and attracting investments, and this requires institutions that are equipped with both technical and organizing capacities.
12. In general, the economic policy environment should provide opportunities and incentives that leverage both productive and sustainable growth in cities.
13. It is crucial that current and relevant institutions think both in terms of interrelated scales. Firstly local, regional then globally. Cities are nodes that are part of a globally interconnected system. In order to be competitive, cities need to look beyond their borders and ensure that they have strong ties at all levels.

5.2.4 City Marketing and branding

14. The City Council of Nairobi, should set up a department within its current organogram that exclusively deals with the marketing and branding of Nairobi city as a prime investment destination within the network of East African cities.
15. Current existing organizations with a mandate to brand the country and establish image building such as Brand Kenya, should work in conjunction with the City Council of Nairobi to ensure that fundamental services are delivered with the utmost quality to ensure that image building and city marketing does not take place in a vacuum.
16. Investment promotion agencies particularly – Kenya Investment Authority and Brand Kenya should look to digital marketing and social media tools as a strategy to promote Nairobi as a key investment location. Furthermore, the City Council should also use new media particularly social media to communicate the city brand and image to a broader audience.

17. In line with the constitutional implementation of the county system, every county should have a city marketing and branding strategy based on what they can offer and their strengths.
18. Collaboration with the private sector is important as local governments can harness relationships with businesses that will allow them to work jointly in order to enhance the success of local businesses.

5.2.5 East African Complementarity Network

19. Based on the location quotient analysis, Nairobi city is particularly specialized in the transportation, warehousing and storage and transport equipment industry clusters. Therefore Nairobi can set up various economic activities within these sectors in the different cities within the network that are lacking or not specialized in those particular sectors.
20. The diagram below highlights in what sectors or industry clusters that Nairobi city could establish as specialized economic functions in cities within the East African network, in order to enhance complementarity and co-opetion, ensuring both a competitive edge and a comparative advantage.
21. Sectors where there is duplication of activities, such as the financial services sector particularly between Nairobi, Kampala and Kigali the sector can be unbundled into smaller niche components in order to specialize in a specific activity within the sector, thereby leveraging competitiveness within the industry cluster.
22. Regional investment policies and agreements should recognize the need and benefits of industry collaboration in the EAC region and therefore come up with policies that foster complementarity.

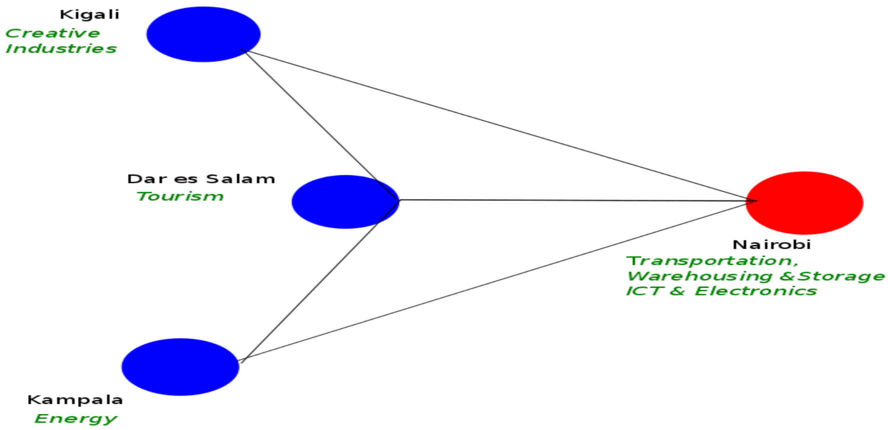
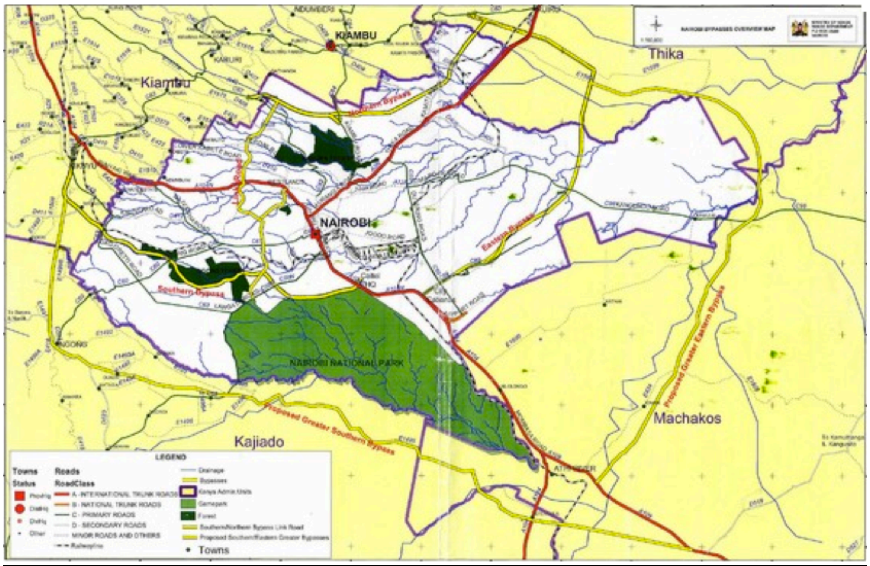


Figure 5.2 –East African Complementarity Network

Appendix 1: Map of Nairobi

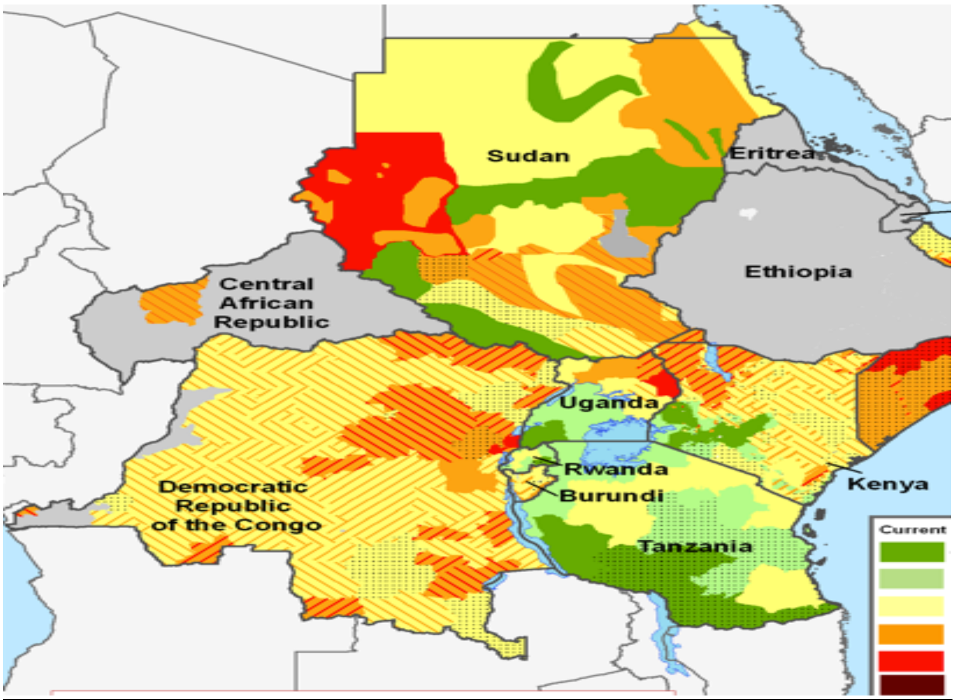


Source: Google Maps

Facts:

- Capital city of Kenya
- Economic, political and administrative hub
- Population: 3.3million (approx.)

Appendix 2: East African Map

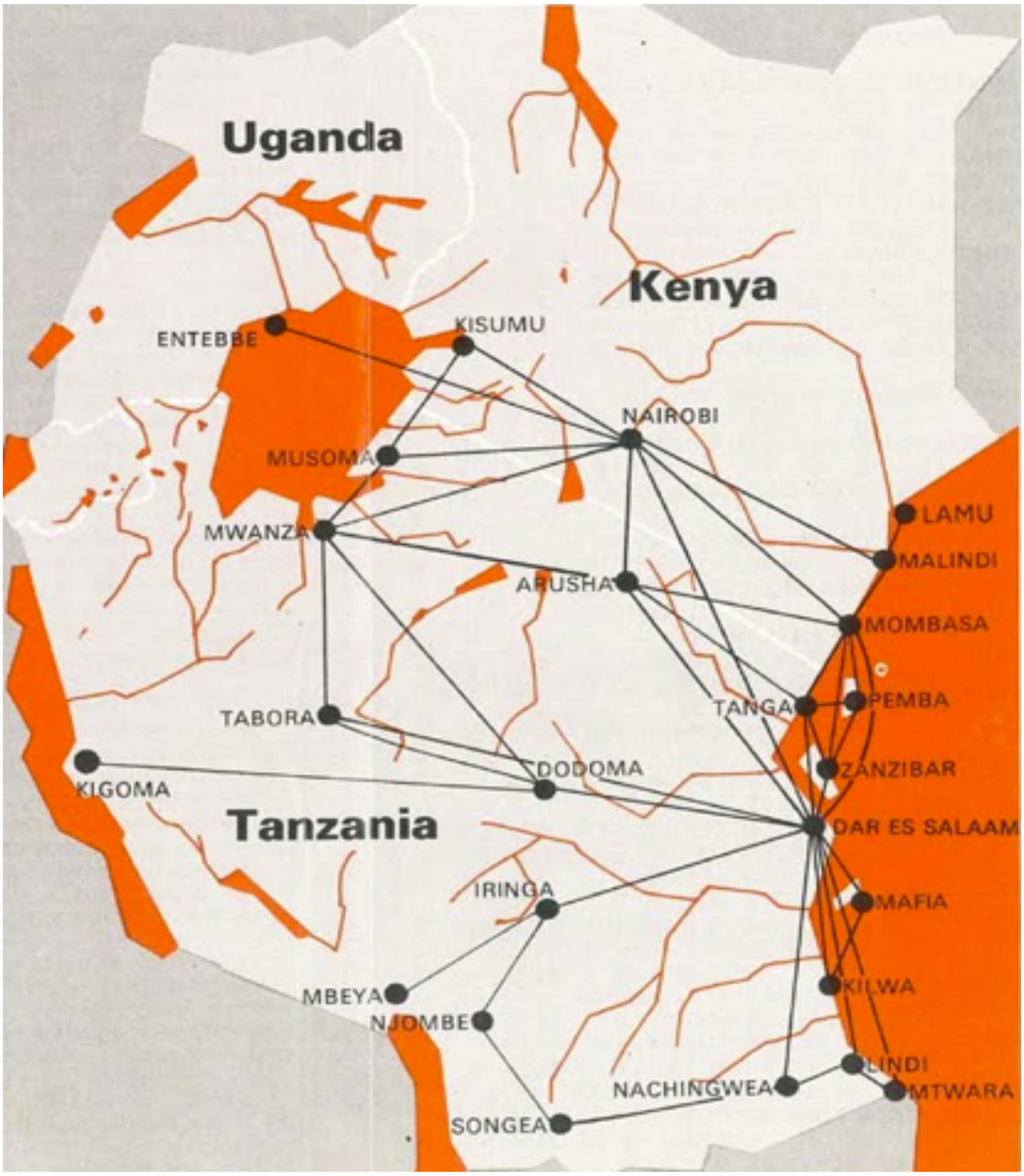


Source: Google Maps

Facts:

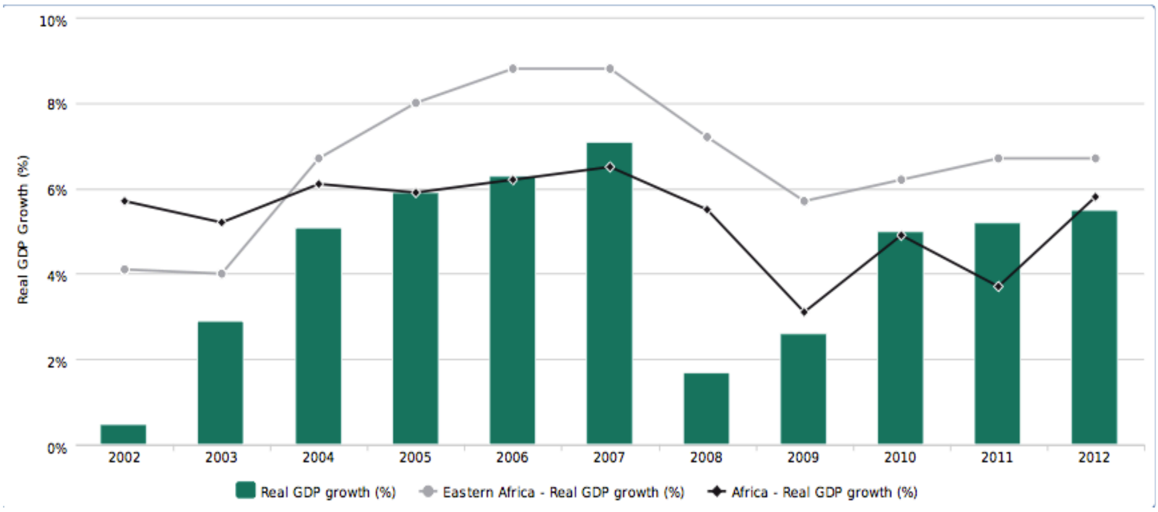
- East Africa Community (Kenya, Uganda, Tanzania, Rwanda and Burundi)
- Established in 1967
- Population: 133.1 million (approx.)
- GDP of region: $79.2 billion

Appendix 3: East African Network (Main Competitors)



Source: Google Maps

Appendix 4: Kenya - Real GDP growth rate



Source: African Economic Outlook 2012

Appendix 5: Macro Economic Indicators

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	2.6	5	5.3	5.5
CPI inflation	10.5	4.1	9.8	7.6
Budget balance % GDP	-5.4	-5.8	-6.8	-7.1
Current account % GDP	-5.3	-7.8	-8.5	-9.1

Source: African Economic Outlook 2012

Appendix 6: Interview Questions

1. **Local Government**
    - What is the City Council's role in ensuring that Nairobi City is a competitive destination for investments (FDI)?
    - Do you think attracting FDI will have significant impacts on Nairobi's economic growth?
    - To what extent do you think competitiveness plays a role in attracting investors?
    - What is the City Council currently doing to ensure an attractive environment for investments?
    - Does the City Council have the technical and financial capacity to market Nairobi as a competitive city?
    - What roles do you think the City Council of Nairobi should play with respect to city marketing?
    - What role does the City Council of Nairobi have with respect to the realization of the ongoing Kenya Vision 2030?
    - What are the key reasons affecting the City Council of Nairobi's capacity to engage in city marketing and branding?

2. **Private Sector Firms (Investors)**
    - Would you say that Nairobi is a competitive city? Why?
    - What were the determinants for your firm (Insert name) setting up in Nairobi?
    - What can Nairobi city improve on in order to further your firm's endeavors?
    - To what extent do you think competitiveness plays a role in attracting investors?
    - Which locational factors do you feel are most significant for investment decisions?
    - From a private sector point of view, what economic sectors are capable of attracting investment into Nairobi?
    - Does your (insert firm name) serve the Nairobi/Kenya or East Africa Market? If so, how important do you think collaboration between East African cities is for business?
    - Do you think that further economic integration of the EAC can have a positive impact, in cities in the East African region?

3. **National Agencies**
    - Would you say that Nairobi is a competitive city? Why?
    - What national programs exist to ensure Nairobi city is competitive in the East African Network of cities?
    - What are thee current organizing and technical capacities in government institutions responsible for improving the city and investment climate?
    - Is there cohesion between the different national agencies such as Brand Kenya, Kenya Investment Authority etc? If so, how do they all work to promote Nairobi as an Investment Destination?

- Do you think that collaboration in economic sectors with the other east African cities can improve Nairobi's competiveness and specialization capacity?
- What capital (s) (democratic, social, environmental, financial, technological) do you think Nairobi is stellar at? And which ones need improvement?
- How important is city competitiveness for achieving Kenya Vision 2030?
- As national agencies mandated to deal with city marketing and branding, what locational factors do you think Nairobi City lack/ and or need improvement in?

4. **EAC Secretariat**
   - Who are Nairobi's main competitors within the East African Regions and in Africa? Why?
   - Does natural resources play a major role in attracting investments? If so which countries in the region have benefited from this?
   - What role do you think a legitimate East African Community can play in regional competitiveness?
   - Why is there duplication of activities within the East African Cities?
   - What do cities in the East African Network need to do in order for complementarity?
   - Are there any regional policies or agreements that inform complementarity in economic sectors between member countries and indeed cities?
   - Do the existing EAC policies ensure that there is ease of doing business in the region?
   - How important is the Common Market Protocol in realizing regional competitiveness and collaboration/complementarity?

Annex 7: Aggregated Regression Model

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-3.969	5.163		-.769	.457	-15.218	7.280					
	Macroeconomic	.136	.573	.049	.238	.816	-1.112	1.385	-.079	.069	.029	.350	2.855
	Business Sophistication	.664	.739	.285	.899	.386	-.945	2.273	.066	.251	.110	.148	6.744
	Financial Market development	-1.600	1.204	-.427	-1.329	.209	-4.225	1.024	.132	-.358	-.162	.144	6.932
	Labor Market Efficiency	-.093	.729	-.024	-.127	.901	-1.681	1.495	-.253	-.037	-.016	.414	2.416
	Infrastructure	-.049	.989	-.020	-.049	.962	-2.204	2.107	.120	-.014	-.006	.091	11.009
	GDP Growth	.102	.089	.179	1.150	.273	-.092	.296	.143	.315	.141	.617	1.621
	Technological Readiness	1.953	1.267	.454	1.542	.149	-.807	4.713	.343	.407	.188	.172	5.802
	Corruption	-.124	.061	-.425	-2.027	.065	-.257	.009	-.088	-.505	-.248	.340	2.939
	Institutional Readiness	-1.527	.958	-.536	-1.594	.137	-3.614	.560	-.152	-.418	-.195	.132	7.576
	Population Size	.812	.223	.648	3.636	.003	.326	1.299	.466	.724	.444	.470	2.129
	Health and Primary Education	-.486	.407	-.229	-1.195	.255	-1.372	.400	.133	-.326	-.146	.406	2.461
	Human Development Index	11.770	4.809	.731	2.447	.031	1.292	22.249	.392	.577	.299	.167	5.970

Annex 8: Economic Regression Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	10.211	4.654		2.194	.038	.607	19.815					
	Macroeconomic	.546	.680	.178	.804	.429	-.856	1.949	.125	.162	.140	.616	1.624
	Business Sophistication	.146	.969	.058	.151	.881	-1.853	2.146	.252	.031	.026	.204	4.908
	Financial Market Development	.884	1.561	.229	.566	.577	-2.338	4.106	.308	.115	.099	.186	5.384
	Labor Market Efficiency	-1.848	.815	-.428	-2.267	.033	-3.530	-.166	-.383	-.420	-.395	.853	1.173
	Infrastructure	-.183	.843	-.073	-.217	.830	-1.923	1.557	.252	-.044	-.038	.271	3.696
	GDP Growth	.114	.130	.180	.882	.386	-.153	.382	.056	.177	.154	.725	1.380
	Technological Readiness	.159	.760	.055	.209	.836	-1.409	1.726	.172	.043	.036	.432	2.315

Annex 9: Social Regression Model

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-6.828	3.781		-1.806	.087	-14.743	1.086					
	Corruption	-.088	.041	-.302	-2.132	.046	-.175	-.002	-.088	-.439	-.250	.683	1.464
	Institutional Readiness	-.766	.442	-.269	-1.732	.099	-1.692	.160	-.152	-.369	-.203	.569	1.759
	Population Size	.952	.168	.760	5.667	.000	.600	1.304	.466	.793	.664	.764	1.310
	Health and Primary Education	-.683	.335	-.322	-2.035	.056	-1.384	.019	.133	-.423	-.238	.549	1.821
	Human Development Index	14.799	2.607	.919	5.677	.000	9.343	20.254	.392	.793	.665	.524	1.908

Annex 10: Location Factor Data

Country	FDI Inflows	Location Factors											
		Economic							Social				
		Macroeconomic environment (1-7)	Financial Market Development (1-7)	Business Sophistication (1-7)	Labour Market Efficiency (1-7)	Infrastructure (1-7)	GDP Growth(%)	Technological readiness	Corruption (1-20)	Institutional Readiness (1-7)	Population Size	Health and Primary Education (1-7)	Human Development Index (HDI)
Algeria	11.19	5.72	2.64	2.93	4.57	3.43	2.5	2.83	12	3.11	14.98	5.5	0.698
Angola	10.98	4.2	2.7	2.4	4	1.9	3.4	2.7	12	2.9	16.79	2.9	0.486
Benin	4.37	4.92	3.71	3.49	4.42	2.69	3.1	2.85	21.9	3.58	16.02	4.89	0.427
Botswana	8.71	4.6	4.44	3.49	4.55	3.48	5.1	3.12	6.6	4.87	14.52	4.46	0.633
Burkina Faso	7.62	4.3	3.15	2.86	4.27	2.12	4.2	2.59	19.3	3.58	16.65	3.46	
Burundi	4.88	3.93	2.29	2.68	4.82	2.17	4.2	2.73	24	2.7	15.96	4.2	
Cameroon	9.65	4.68	3.17	3.37	4.08	2.47	3.8	3.49	22	3.43	16.81	4.54	0.482
Chad	7.76	3.71	2.77	2.93	4.04	2	3.1	2.28	18	2.83	16.68	2.96	
Egypt	11.74	3.74	3.78	3.82	3.19	3.81	1.8	3.31	7.3	3.78	18.23	5.36	0.644
Ethiopia	8.70	5.13	3.27	3.09	4.36	2.64	7.3	2.43	8	4	18.26	4.5	0.363
Gambia	6.84	3.67	3.95	3.9	4.79	3.73	5	5.63		4.69	14.39	4.21	0.42
Ghana	10.30	3.49	4.16	3.51	4.25	2.84	14.4	2.97	10.8	3.96	17.03	4.29	0.541
Kenya	9.26	4.02	4.83	4.07	4.67	3.1	4.5	3.26	21.2	3.3	17.54	4.46	0.509
Lesotho	6.81	4.29	3.32	3	4.14	2.55	5.8	2.56	9.6	3.31	14.60		0.45
Madagascar	8.87	3.7	2.93	3.06	4.32	2.25	1	2.54	17.3	2.93	16.87	5.24	0.48
Malawi	7.31	4.28	3.98	3.54	4.56	2.27	4.5	2.7	5	4.05	16.55	4.13	0.4
Mali	7.17	4.77	3.04	3.06	3.79	2.78	2.7	2.69	16.3	3.36	16.58	3.44	0.359
Mauritania	8.24	4.45	2.61	2.93	3.99	2.49	4.8	2.51	9.2	3.14	15.08	4.03	0.453
Mauritius	8.38	4.64	4.49	4.27	3.71	4.33	4.1	3.76	11.4	4.54	14.07	5.81	0.728
Morocco	10.89	5.65	4.16	3.78	3.52	3.95	4.5	3.69	17.7	3.98	17.29	5.38	0.582
Mozambique	10.37	3.94	3.2	3.26	3.79	2.57	7.1	3.8	15.2	3.39	16.99	3.81	
Namibia	8.84	4.86	4.57	3.56	4.48	4.22	3.8	3.25	11.2	4.5	14.66	4.64	0.625
Nigeria	11.65	3.96	3.89	3.96	4.36	2.21	6.7	3.08	17.7	3.31	18.91	3.28	0.459
Rwanda	8.16	4.89	4.26	3.75	5.25	3.2	8.6	3.05	0.4	5.23	16.21	4.78	0.429
Senegal	8.99	4.5	3.59	3.72	4.02	2.57	2.6	3.45	14.4	3.7	16.36	4.46	0.459
South Africa	11.05	4.96	5.48	4.32	4.06	4.02	3.1	3.6	11.5	4.36	17.74	6.26	0.619
Swaziland	7.09	3.9	3.85	3.12	3.94	3.26	1.3	2.54	19.5	3.73	13.88	3.61	0.522
Tanzania	9.49	3.85	3.89	3.48	4.33	2.41	6.3	2.7	14.8	3.63	17.65	4.67	0.466
Tunisia	11.04	5.33	3.99	4.16	3.97	4.36	-1.8	3.82	7.1	4.54	16.18	6.09	
Uganda	9.76	3.87	4.12	3.33	4.44	2.49	6.7	3	20.2	3.5	17.36	4.33	0.446
Zambia	9.70	4.43	4.34	3.61	3.97	2.78	5.9	2.96	15.1	3.77	16.42	3.97	0.43
Zimbabwe	9.32	3.67	3.6	3.24	3.56	2.49	9.3	2.69	7.4	3.5	16.36	4.29	0.376

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