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**BUSINESS CLIMATE
REFORM**

**Role of (foreign direct) investment
in economic development**

LED & FDI & EG

and how it does work together

Dusan Kulka, May 2007

What does “LED” mean?

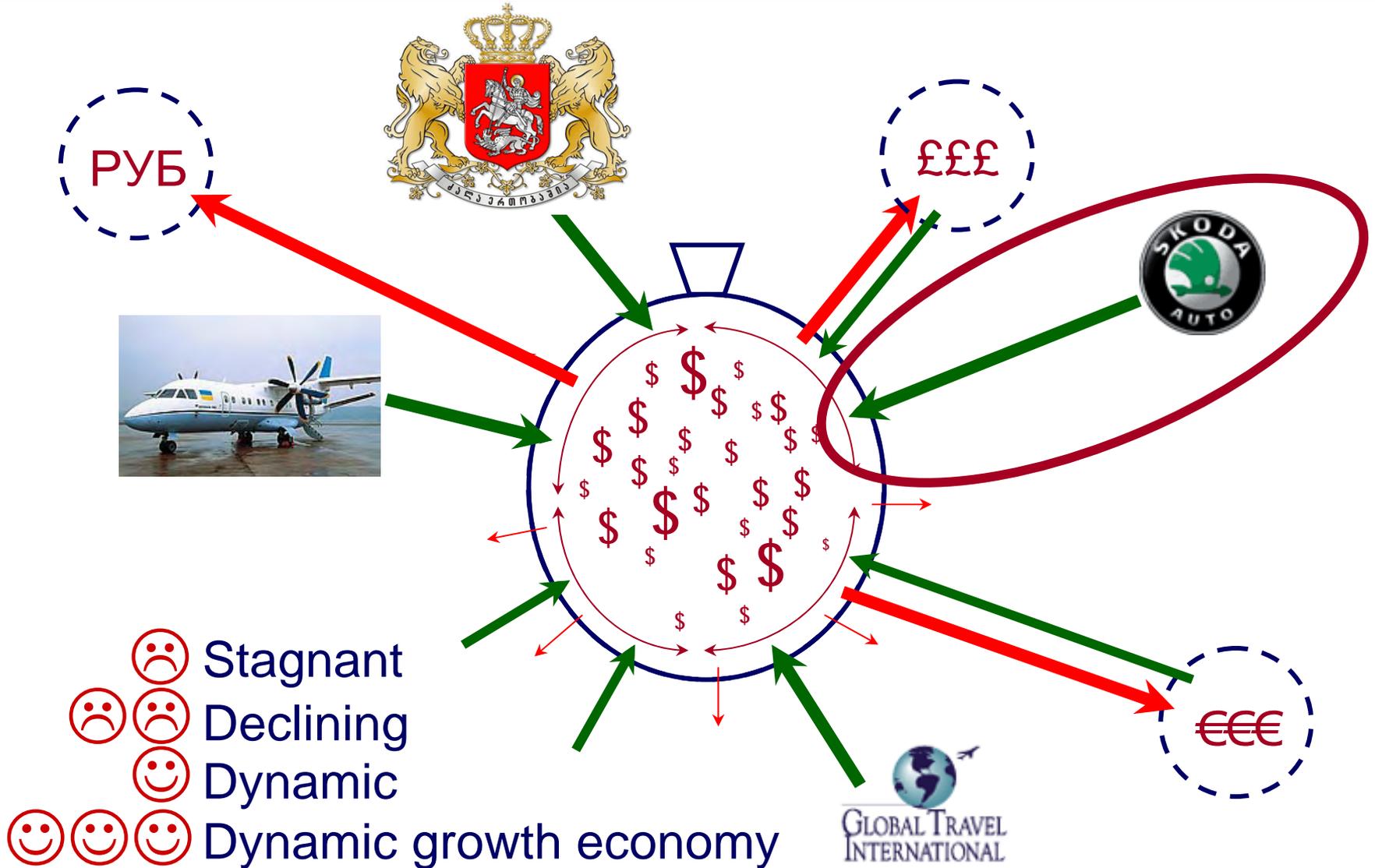
Opinion poll 1:

- **LED** - Czech word for „ice“
- **LED ZEPPELIN**
- **LED** - Local Economic Development

What is (local) economic development?

Jobs and Investments???

LED & Money & Assets flows



What is (local) economic development?

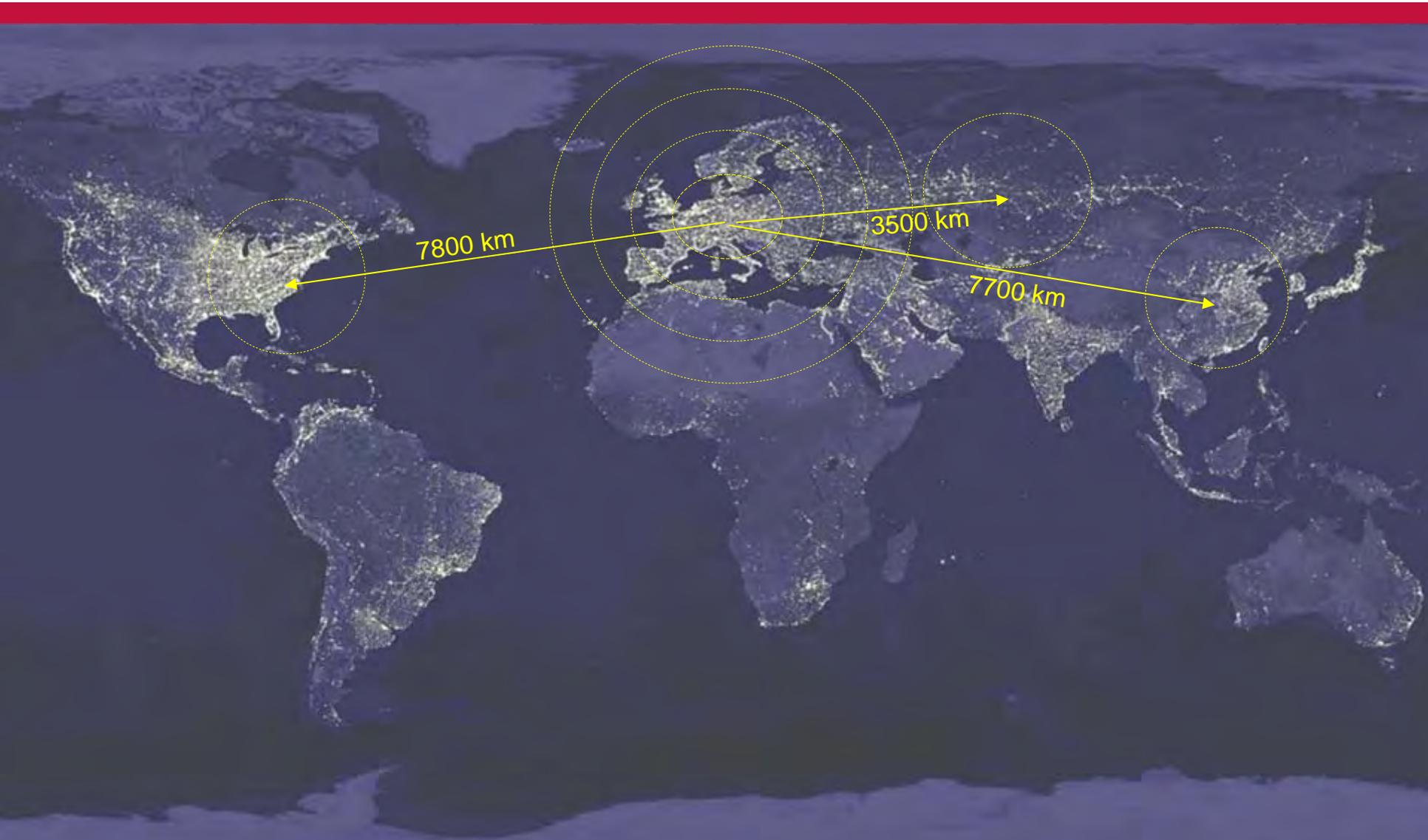
Local economic development is about local people working together to achieve sustainable economic growth that brings economic benefits and quality of life improvements for all in the community. *"Community" is here defined as a city, town, metropolitan area, or sub national region.*

Source: WorldBank

Local economic development (LED) is a focused activity of businesses, local governments and other local stakeholders to maximize economic resources in the community. LED increases wealth, number of job opportunities and quality of life for citizens.

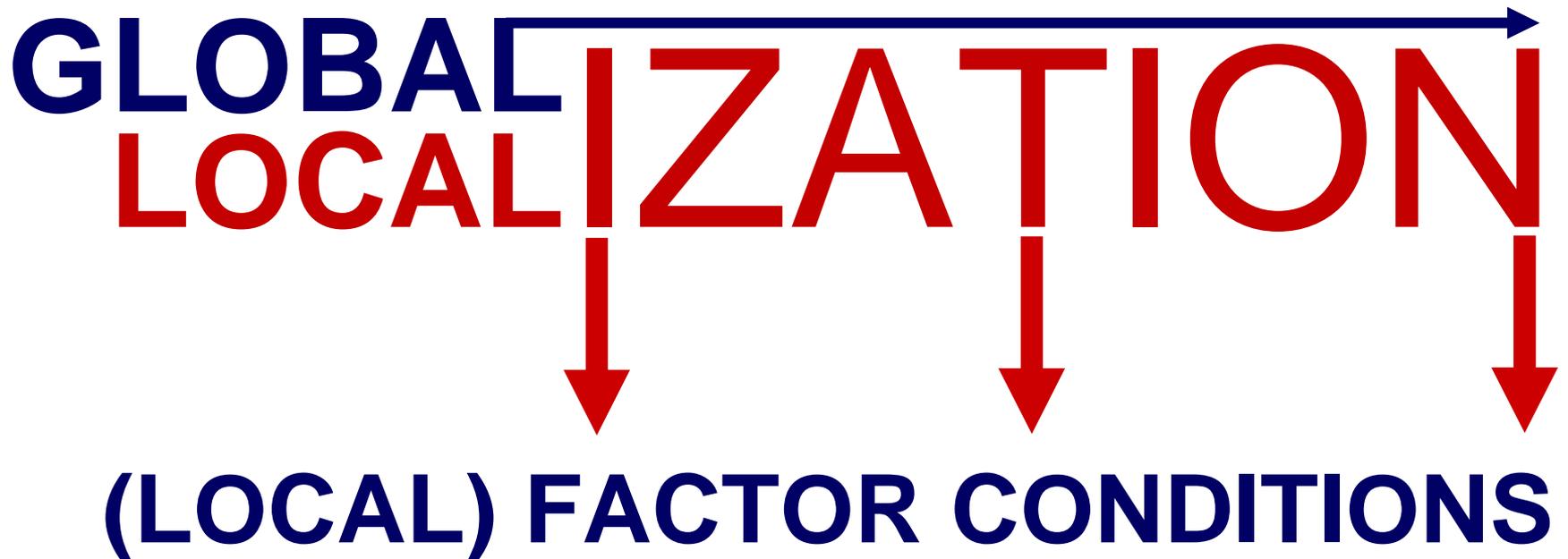
Source: Don T. Iannone, Cleveland State University

The world's changing ...



The world's changing ...

(Local) economic development takes place in an increasingly competitive environment driven by processes that work simultaneously in the global economy



Factor conditions

 **Capital**

 **Land**

 **Labor**

 ***Knowledge***

Location; Physical features; Price; Infrastructure; Availability; ...

Specialized skills; General skills; Attitudes; Cost; Availability; ...

Competitiveness & Productivity

- Various LED programs and projects are often implemented in highly competitive environment. Basically, there are two ways to succeed:
 - *Competitiveness based on lowest possible costs*
 - *Competitiveness based on increased productivity and high value added activities*
- In real life there is always combination of the above approaches depending on conditions and ambitions

What is (local) economic development?

Local Economic Development (LED) is

- A **process of strategic partnership**
- That helps boost the **trend growth rate in productivity** (a key economic objective) by
- Stimulating **investment** in new and existing businesses with **high growth potential**; and
- Creating **local factor conditions** capable of sustaining this growth over the economic long-run (hard / soft infrastructures); in short

**LOCAL ECONOMIC DEVELOPMENT HELPS TO
LAY THE MICROFOUNDATIONS OF NATIONAL
PROSPERITY**

FDI?



What does “FDI” mean?

Opinion poll 2:

- **FDI** - Fully Developed Individual
- **FDI** - Czech word for “slaveholder”
- **FDI** - Foreign Direct Investment

An economic development professional:

- Foreign direct investment is the **cross-border investment** made by **multinational enterprises** (MNEs) in overseas assets in which they wish to exercise a degree of **managerial control**.
- *Managerial control distinguishes FDI from other flows of international capital.*

Types of FDI / Modes of entry

- **Mergers & Acquisitions**
- **Greenfield**

- Resource / asset seeking
- Market-led
- Efficiency seeking
- *Knowledge seeking*

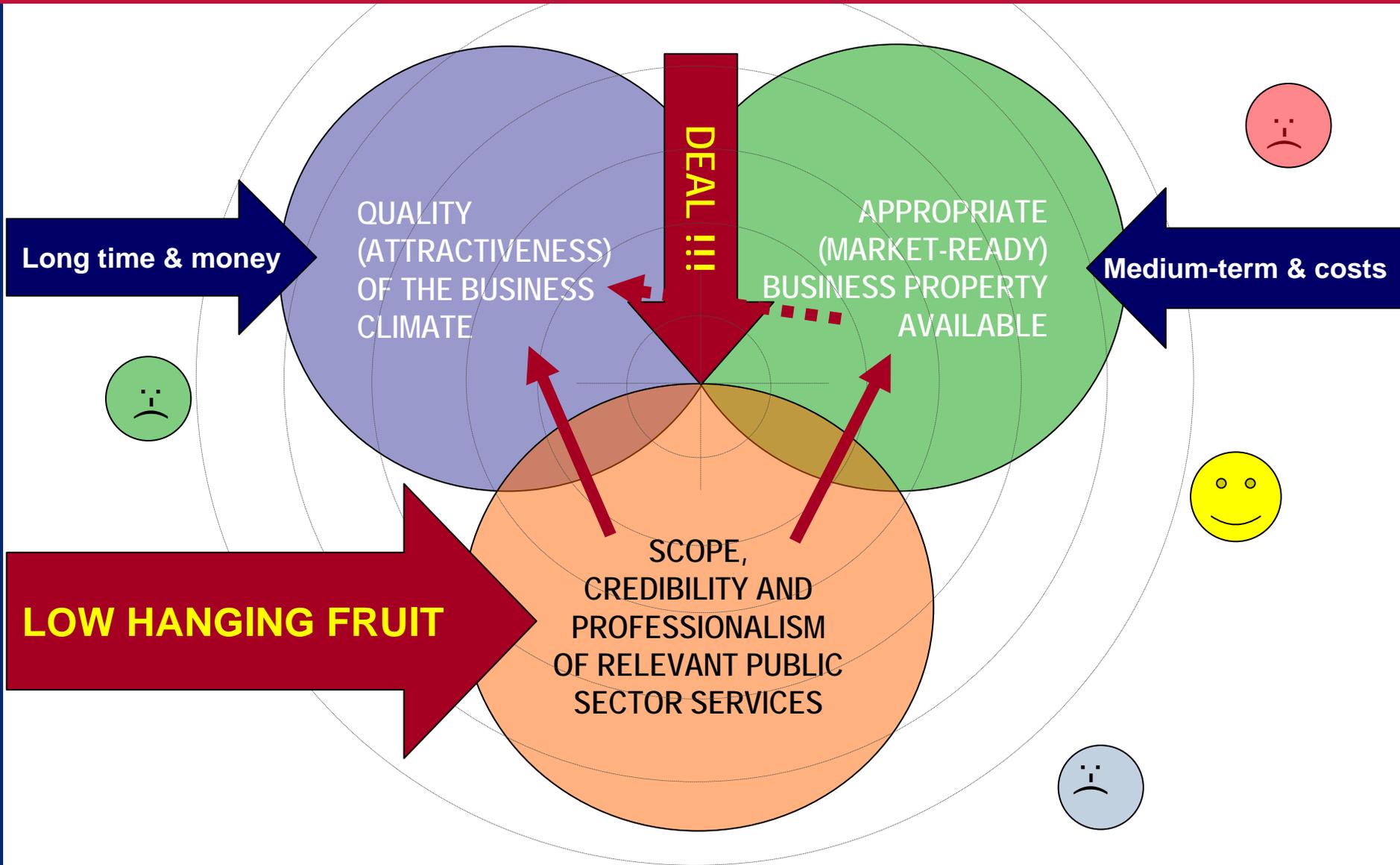
Couple of lessons learned in CEE region:

1. (Overall) investment attractiveness is heavily influenced by national legislation & government performance.
2. First significant investment activity has been / is mostly related to privatization of state owned enterprises.
3. Followed by “spontaneous” (mostly resource and market seeking) investments investigating emerging markets’ potentials / conditions.
4. If the balance of 1, 2 and 3 provides satisfying feedback, first larger greenfield investments start searching for convenient location in the region / specific country.
5. ***Manufacturers seeking efficiency*** represent vast majority of those FDI.

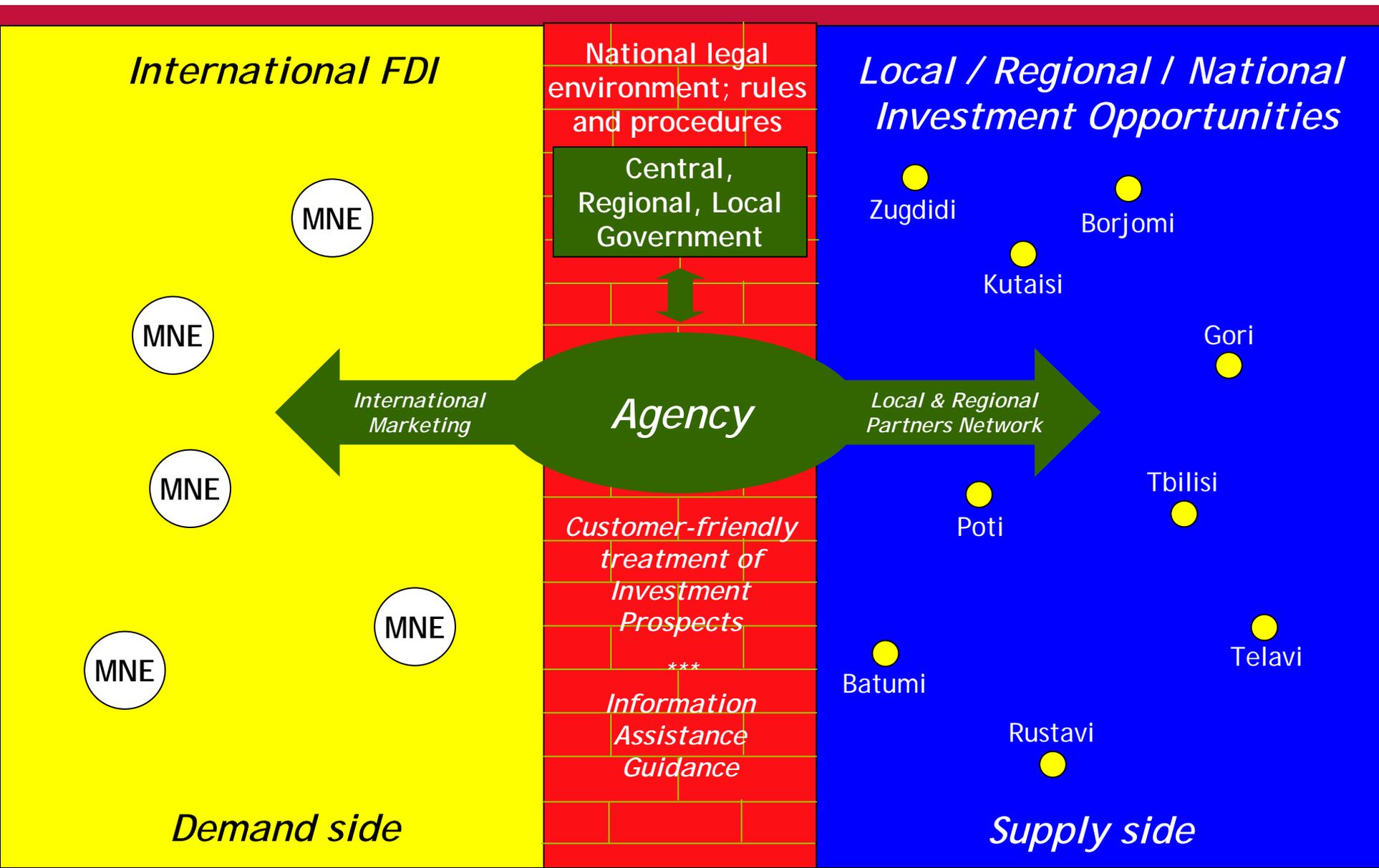
Impact of FDI - brief summary

- Additional capital inflow / multiplication effect
- Introduce new technologies
- New job opportunities / higher salaries
- Upgrade local workforce skills
- Transfer managerial skills
- Opportunities for local suppliers
- Provide access to new markets / increase exports
- Integrate local economies in international co-operations
- ... and many others ...

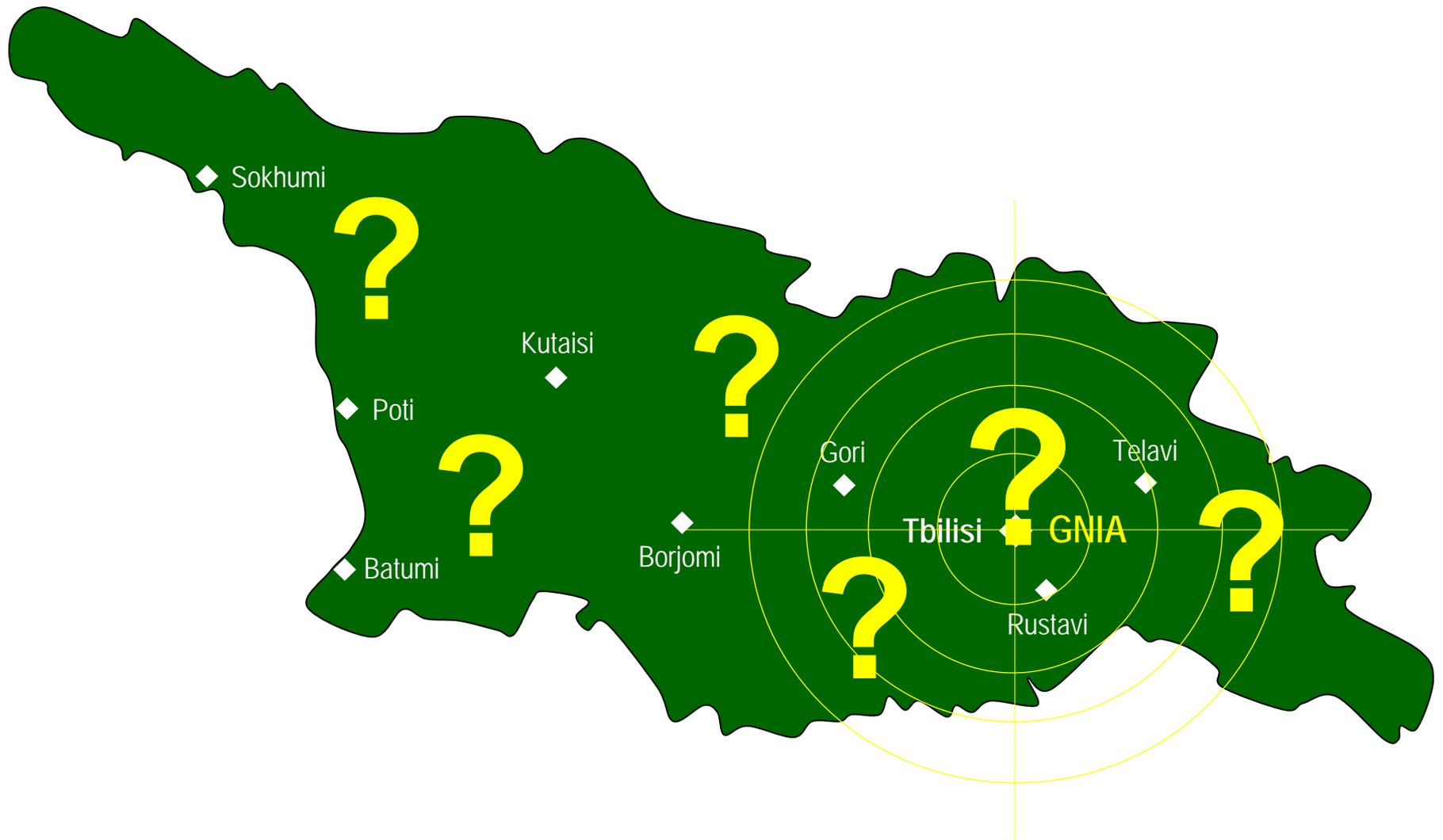
Your product for FDI



Role of IPA



A collaborative alliance



Q & A