

# DIFFERENCES IN CONCENTRATION OF FOREIGN DIRECT INVESTMENT IN RELATION TO POTENTIAL OF REGIONS IN THE CZECH REPUBLIC

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# THEORETICAL FRAMEWORK

The issue of location of transnational companies is mapped by many authors:

- Markusen (1994) points out that the prosperity of regions depends on strategies of big companies making decisions based on characteristics of regions on a global scale.
- Vernon (1966) explains why companies do not localise production by means of standard factor-cost or labour-cost analyses, however, it is much more complex. Production of a product will be transferred where the conditions for its production are the most convenient.
- According to the eclectic paradigm of foreign direct investment (Dunning, Narula, 1996), it is necessary to generate corresponding revenues from realisation of foreign investment to make business in a foreign economy worth it.

# THEORETICAL FRAMEWORK

- It still applies, however, that foreign direct investments are necessary for growth of the region's competitiveness in the Czech Republic.
- There is some competition among the regions influenced by the fact that the regions have a varied level of attractiveness for localising (Sucháček, 2013; Demel, Potužáková, 2012; Hlaváček, 2010), different conditions for spillover effects and a regionally diversified development potential (Viturka, 2014; Wokoun, Tvrdoň 2010; Žížalová, 2006).
- It is solely the direct relation between the influx of investment and regional development processes that the analytical part of the article focuses on.

# AIMS

- The aim of the article is to identify regional differences in concentration of foreign investment with relation to other key socio-economic indicators.
- Exists spatial differentiation in regionally specific types of the territories, e.g. urban versus rural regions ?
- Exists the influence of the geographical position at inflows of direct foreign investment into regions in the Czech Republic.

# METHODOLOGY

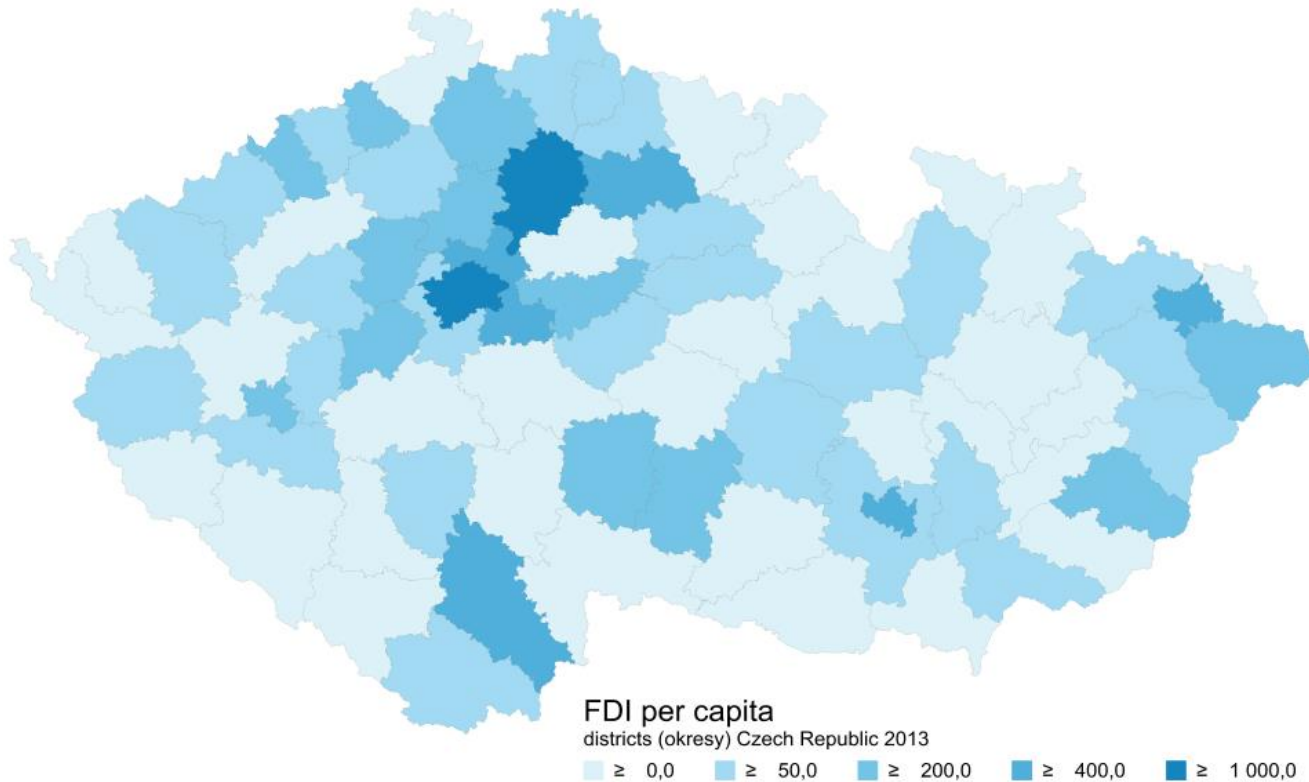
Indicator	code	period	Source
FDI per capita	FDIpc	2013	ČNB
Share of urban population (%)	SUrbRate	2013	ČSÚ
Unemployment rate (%)	UNEM	December 2013	ČSÚ
Economic Burden Index	IEZ	2013	ČSÚ
Share of employment at industry/employment total (%)	EIIND	2013	ČSÚ

To assess the differences between the concentration of foreign direct investment and regional development at the level of districts, there is possible to use selected indicators replacing the absence of data on gross domestic product, as this indicator is not published at the level of districts.

The first assessment criterion evaluated for relation was the rate of urbanisation at the level of districts, which maps the relation between concentration of foreign direct investment and the urban or rural character of the settlement. The conditions in the labour market are represented by the unemployment rate as of December 2013 and the Economic Burden Index.

The last indicator was the share of the number of people employed in the industry.

# RESULTS- *STOCK OF FOREIGN DIRECT INVESTMENT PER CAPITA (2013)*



- Urban districts in general in metropolitan areas show higher concentration of FDI.
- The level of districts is clearly dominated by the metropolitan region of Prague, with a remarkably higher concentration of direct foreign investment, and the district of Mladá Boleslav.
- The importance of the geographical position of the districts is connected with benefiting from closeness of large towns, which has higher agglomeration effects,
- a higher concentration of investment in the west.
- Except of region of Karlovy Vary, which have a very good geographical position, but with poor concentration of direct foreign investment.
- Localisation of foreign investment in structurally affected districts (MSK, UK) is also influenced by public politics and investment incentives providing a higher rate of government support for investment localised in those districts.

# RESULTS - *RELATION OF INDICATORS MONITORED ON THE BASIS OF THE CORRELATION MATRIX*

		FDIpc	IEZ	UNEM	SUrbRate	EIIND
FDIpc	Pearson Correlation	1	.032	-.295**	.272*	-.159
	Sig. (2-tailed)		.782	.009	.017	.168
	N	77	77	77	77	77
IEZ	Pearson Correlation	.032	1	-.492**	-.025	-.326**
	Sig. (2-tailed)	.782		.000	.829	.004
	N	77	77	77	77	77
UNEM	Pearson Correlation	-.295**	-.492**	1	.283*	.071
	Sig. (2-tailed)	.009	.000		.013	.539
	N	77	77	77	77	77
SUrbRate	Pearson Correlation	.272*	-.025	.283*	1	-.144
	Sig. (2-tailed)	.017	.829	.013		.213
	N	77	77	77	77	77
EIIND	Pearson Correlation	-.159	-.326**	.071	-.144	1
	Sig. (2-tailed)	.168	.004	.539	.213	
	N	77	77	77	77	77

-Results of the correlation matrix imply a statistically significant inversion relation between the concentration of foreign direct investment and the unemployment rate.

-regions with a higher concentration of foreign direct investment rather show a lower unemployment rate.

- The statistically significant relation shows positive relation to the level of urbanisation; urban regions have a higher concentration of foreign direct investment than rural regions. This can also be caused by the fact that urban regions show higher agglomeration effects, and their labour market and infrastructure including subcontractor relations are more developed.

# CONCLUSION

- In general, at the level of regions, in concentration of foreign direct investment, metropolitan regions dominate over the other regions.
- Foreign direct investment is concentrated in regions with a higher economic level or in more urbanised areas.
- These tendencies show long-term regional differences between the metropolitan areas and the remaining parts of the country, especially in relation to rural areas and peripheral territories.
- Other problem is with the poor presence of qualitative-oriented foreign direct investment with connection to innovation and research and RIS, functioning of technological centres and innovation business.
- For example, Ústí nad Labem district and Ústecký region have a relative higher concentration of FDI, but they are not developed well in these parameters in comparison to the other regions.



# CONCLUSION

- Based on regional differences in the level of the monitored indicators and the foreign investment influx to the Czech Republic, we cannot formulate clear conclusions concerning the success or failure of the economic transformation.
- Concentration of foreign direct investment could be seen as criterion pointing out the attractiveness of the region, especially in foreign investment with a higher added value.
- Foreign direct investment shows a problem, which is expected to grow negatively in the future, namely the growth of polarisation between urban regions and rural and peripheral regions on the other side with lack of agglomeration effects.

Thank you for your attention.