



XXI. MEZINÁRODNÍ KOLOKVIUM O REGIONÁLNÍCH VĚDÁCH. SBORNÍK PŘÍSPĚVKŮ.

21ST INTERNATIONAL COLLOQUIUM ON REGIONAL SCIENCES. CONFERENCE PROCEEDINGS

Place: Kurdějov (Czech Republic)
June 13-15, 2018

Publisher: Masarykova univerzita, Brno

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Vzor citace / Citation example:

AUTOR, A. Název článku. In Klímová, V., Žitek, V. (eds.) *XXI. mezinárodní kolokvium o regionálních vědách. Sborník příspěvků*. Brno: Masarykova univerzita, 2018. s. 1–5. ISBN 978-80-210-8969-3.

AUTHOR, A. Title of paper. In Klímová, V., Žitek, V. (eds.) *21st International Colloquium on Regional Sciences. Conference Proceedings*. Brno: Masarykova univerzita, 2018. pp. 1–5. ISBN 978-80-210-8969-3.

Publikace neprošla jazykovou úpravou. / Publication is not a subject of language check.

Za správnost obsahu a originalitu výzkumu zodpovídají autoři. / Authors are fully responsible for the content and originality of the articles.

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ISBN 978-80-210-8969-3

ISBN 978-80-210-8970-9 (online : pdf)

SPATIAL DIFFERENCES IN THE CONCENTRATION OF THE INVESTMENT INCENTIVES IN CZECHIA

Prostorové rozdíly v koncentraci investičních pobídek v Česku

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Annotation

The article focuses on analysis of provision of the public support in the form of the investment incentives in Czechia. The objective of the article is finding out how the system is used in practice, what the differences exists at the regional level with respect to provision of the investment incentives, and if operation of the system contributes only to reduction of the inter-regional differences, and meets the stabilization function of the regional policy. The analysis use data from the database of investment incentives by CzechInvest. The analysis showed that there are relatively big differences among the regions, the provision of the public support prefers the regions with structural handicap to a certain level only, the support is consumed also by the regions without development problems, as well as those being regarded as above-the-average developed ones.

Key words

investment incentives, regional policy, region, Czech Republic

Anotace

Článek je zaměřen na analýzu poskytování veřejné podpory ve formě investičních pobídek v České republice. Cílem článku je zjistit, jak se systém v praxi realizován a jaké rozdíly existují na úrovni regionů z hlediska poskytování investičních pobídek a jestli fungování tohoto systému přispívá pouze ke snížení meziregionálních rozdílů a naplňuje stabilizační funkci regionální politiky. V analýze se použila data z databáze investičních pobídek agentury CzechInvest. V rámci analýzy bylo zjištěno, že rozdíly mezi regiony jsou relativně velké, poskytování veřejné podpory preferuje strukturálně postižené regiony pouze částečně, podporu čerpají i ostatní regiony bez rozvojových problémů i regiony, které jsou považovány za nadprůměrně rozvinuté.

Klíčová slova

investiční pobídky, regionální politika, region, Česká republika

JEL classification: O25, R11

1. Introduction

A lot of factors play their role in decision-making of the investors as to where establish a new branch (Ginevicius, Simelyte, 2011); Jones and Wren (2006) name the market size, the infrastructure level, or the labour market (Kotíková, 2016). The market sizes and their growth potential attract the foreign companies (Hardy, Micek, Capik, 2011), who has already overgrown their domestic market and look for the expansion possibilities in order to further increase their sales or market shares. The political factors play their role in particular in less developed or transient economies (Hlaváček, Bal-Domaňska, 2016). As regards the legal conditions, of particular interest are the general conditions for running a business, the protection of investments, the laws and standards with impact on the business or the market transparency (Wokoun, Tvrdoň, 2010), or the tax conditions for which the investors monitor either the taxation rate or definition of the tax base (Damborský, Říhová, 2008).

The nation's investment incentives the state uses to influence the regional development processes are a specific area. The positive impacts of the investment incentives to support the underdeveloped regions are e.g. described by (Bondonio, Greenbaum 2006). The form of the investment incentive is then based on the level of the regional problems or character of the investment in the pipeline. According to Thomas (2007), an investment incentive can be generally defined as a benefit being provided by the governments in order to influence where an investment is located. The reason for granting thereof may be attraction of new investments or retaining of the existing installations. The investment incentives have successively become a common economic-political instrument in the developed and emerging countries; Hungary and Poland were the first countries in the Central and Eastern Europe offering them.

The state may influence the branch or region the firms should invest to through the incentive system. Their purpose is also attracting of the investors into the branches of the priority development of the economy and investments would be otherwise implemented abroad, had the incentive system not been existing (Šímanová, 2011). In Czechia, there are now supported three areas being the processing industry, the centres of strategic services, and the technological centres. The regions with the highest unemployment level are given the preferential treatment. According to Blomström, Kokko (2000), the investment incentives may play their role in the decision making to at least marginally, e.g. when the investor has available more or less identical alternatives for placement of his investment. In these cases the incentives may become the decisive factor for his investment decision.

The study by Deloitte (2010) reviews positively the impacts of the investment incentives for Czechia; the study monitors their impact on the labour market where the receivers of the incentive created 27% of the jobs alone, and 73% by the subcontractor companies. The fiscal impact of the investment incentives was another monitored factor. It has been found that state's income was multiple times higher than the investment incentives drawn. The average income between 2000 and 2008 achieved CZK 8.6 of the income for CZK 1 of the incentive. The final part of the study focused on assessment of the economic impacts. It could be assumed based thereon that the investment incentives contributed to the restructuralization of the Czech industry, which is also supported by that more than one half of the supported projects has been implemented in the automotive, electronic, and engineering industry. The other positive factors include the benefits of the know-how in the form of new technologies or management experience, contribution of the supported investment in creation of the added value, and their export on share (Deloitte, 2010).

On the contrary, the study (Schwarz et. al., 2007) criticises the investment incentives. According to the study, the support was most directed to the regions reporting the highest GDP per capita (Prague capital city and Central Bohemian Region) that contributed to even higher differences between the most and least developed regions. With respect to this, the new jobs created by the investment incentives did neither remove nor mitigate the differences in the unemployment level as the incentives headed to the lower-unemployment regions. In addition, the newly created job opportunities cause headhunting of the employees from other companies rather than decreasing of the unemployment level. Also in many cases, the costs for creation of 1 job were higher than those without any incentive received. In addition, the importance of the flowing effect is challenged, which is according to the study overestimated in connection with the investment incentives, the incentives are the instruments that deform the market as they produce better conditions for bigger investors at the expenses of small and medium sized enterprises.

The objective of the article is finding out how the system is used in practice, and what are the differences at the regional level with respect to provision of the investment incentives, and if operation of the system contributes only to reduction of the inter-regional differences, and meets the stabilization function of the regional policy in the support of the structurally impaired regions, and to what level the support is provided to other regions as well.

2. Data sources and methodology

The data for the analysis was obtained from the database maintained by CzechInvest, where the projects between 1998 and 2015 are analyzed. The data for the database is originating from successful investment projects submitted by the companies upon start of their projects. This paper uses information about the amount of the investments, their origin and placement, sector classification, number of newly created jobs, and the type of the subsidies used. Data about the supported projects for both foreign and domestic investors was analyzed. The other sections, where the supported projects are reviewed with respect to further criteria, contain only some selected investments from foreign companies.

3. Results of the analysis

Prague capital city has a specific position among the regions of Czechia, which is undoubtedly the biggest receiver of the foreign direct investments, but receives almost no investment incentives and therefore, the 13 remaining regions without Prague will be reviewed. The distribution of the supported investments in the territory of Czechia is highly uneven, which is evidenced by the fact that almost one half of the projects is located in the territory of three regions only. Undoubtedly, the Ústí Region received the most foreign projects supported by the investment incentives over the monitored period of time. The motives for implementation of an investment project in this region could be e.g. favourable geographic location near German border, the offer of pre-developed lands, industrial tradition, and higher investment incentives as well.

Tab. 1: The projects and jobs supported by the investment incentives between 1998 and 2015 by the regions

region	Investments (mil. CZK)		Job places		Investment per job places (mil. CZK)
	total	in %	total	in %	
Ústí	94 989	20,4	19 820	18,1	4,8
Moravian-Silesian	79 541	17,1	15 989	14,6	5,0
Central Bohemian	90 037	19,3	19 389	17,8	4,6
South Moravian	23 902	5,1	8 257	7,6	2,9
Plzeň	19 095	4,1	7 831	7,2	2,4
Olomouc	18 878	4,0	4 574	4,2	4,1
Liberec	24 098	5,2	4 304	3,9	5,6
Pardubice	25 980	5,6	11 007	10,1	2,4
Hradec Králové	19 263	4,1	6 398	5,9	3,0
South Bohemian	14 040	3,0	3 987	3,7	3,5
Vysočina	29 658	6,4	3 780	3,5	7,8
Zlín	14 289	3,1	2 043	1,9	7,0
Karlovy Vary	9 809	2,1	1 805	1,7	5,4
Prague	2 875	0,6	28	0,0	102,7
Total	466 453	100,0	109 212	100,0	4,3

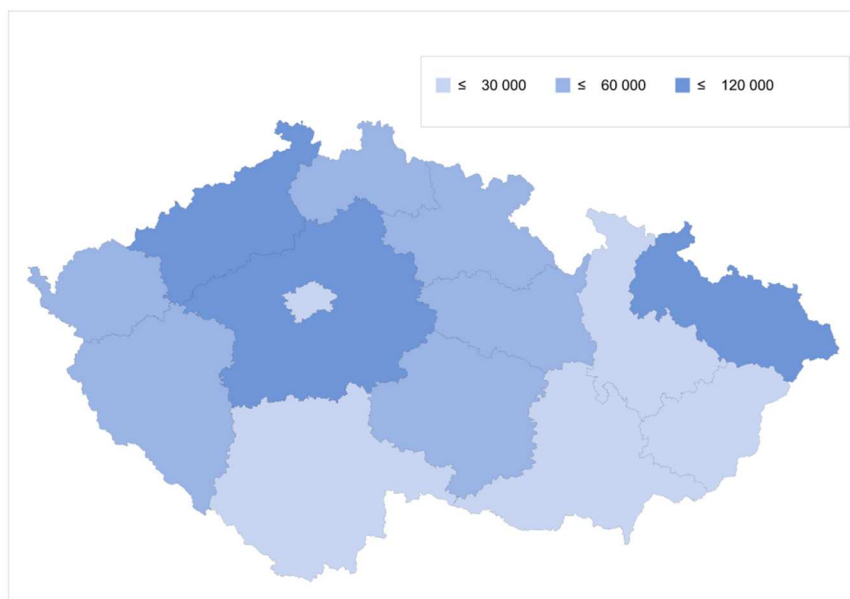
Source: own elaboration based on database of CzechInvest

Some of the factors could have the influence the decisions of the investors also in the second most successful region in attracting of the foreign projects being the Moravian-Silesian Region. Almost equal number of the investments was realized by the companies thanks to the incentives in the Central Bohemian Region, which is attractive for the investors with its closeness to Prague, developed infrastructure, or location of the automotive industry. On the contrary, the least attractive regions for the foreign companies included over the reviewed period the Karlovy Vary Region and Zlín Region, where only a few projects supported by the investment incentives were realized.

The highest volume of the investments supported by the investment incentives was reported in the Ústí Region with total amount of CZK 95 billion. The German companies invested most in this region because closeness to the German border is a big advantage for them. As far as the sector classification is concerned, the sector of transportation means was represented most followed by rubber making and plastic industry, where the highest supported investment by Nexen Tire amounting to CZK 23 billion was directed. Despite substantially lower number of the implemented projects, the foreign companies exceeded CZK 90 billion in the investments also in the Central Bohemia Region. Thanks to the location of Škoda Auto the highest share of the investments in this region focused on the automotive industry with the most origin from German companies. The most important supported project here was the joint investment of Toyota and PSA Peugeot Citroën in Kolín (CZK 23.5 billion). The triad of the most attractive regions for the foreign capital complements the Moravian-Silesian Region where projects amounting to CZK 80 billion were obtained thanks to the investment incentives. Here, Hyundai contributed most with its project amounting to CZK 35 billion. Especially thanks to this investment event, the largest amount of funds in this region was directed to the transport industry and came from the Korean investors. Thanks to these large projects, the most demanding capital projects in these three regions were realized when the

average value of the investment per project exceeded CZK 1 billion. In the Central Bohemian Region this indicator achieved value CZK 1.45 billion.

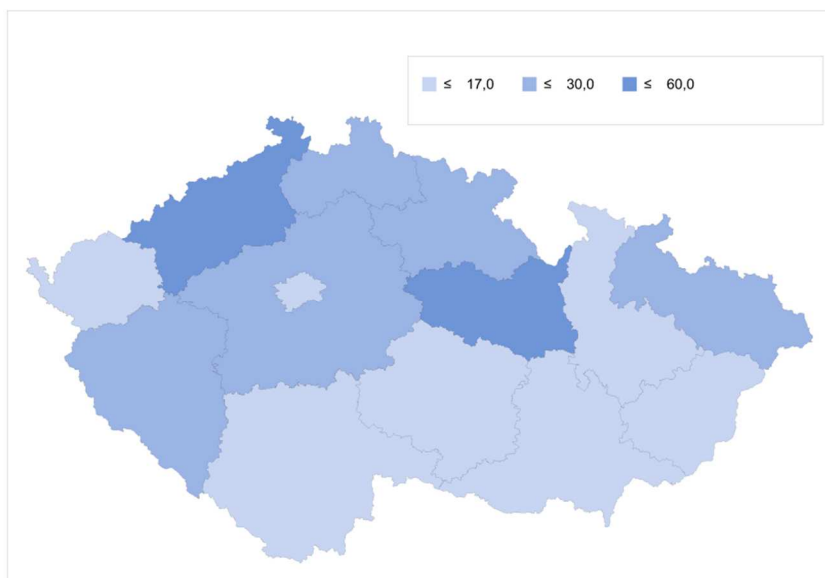
Fig. 1: The investments supported by the investment incentives per EA inhabitants in the regions in 1998-2015 (in CZK)



Source: own elaboration based on database of CzechInvest

When compared relatively, in average, the investments supported by the incentive system amounting to CZK 87.8 thousand per economically active inhabitant have been achieved. The comparisons of the regions reveal that the value of the foreign investments with the investment incentive is highest in the Ústí Region with almost CZK 240 thousand per one economically active inhabitant. The Central Bohemian Region follows with a huge margin behind the Ústí Region.

Fig. 2: The number of new jobs created per 1,000 economically active inhabitants in the regions



Source: own elaboration based on database of CzechInvest

On the contrary, the lowest level was reported in the South Moravian Region where the average amount of the investment supported by the investment incentives per economically active inhabitant was six times lower compared to the Ústí Region. One half of the total number of new job opportunities came from the investment incentive system in the territory of three regions. In the Ústí and Moravian-Silesian Region, which have long been facing high unemployment, the foreign companies have agreed to create 36,000 new jobs. Almost the same number

of new job opportunities as in the Ústí Region was created thanks to public support also in the Central Bohemian Region, which, on the other hand, is the region with the second lowest unemployment followed by Prague capital city. Only 3.5% of the total number of jobs originated in the two least attractive regions for foreign investors, i.e. in the Karlovy Vary Region and Zlín region. One reason for such a low value was that in these two regions, the foreign companies created the smallest operation units, with an average of 100 new jobs created per 1 implemented project. On the contrary, the largest foreign companies' operation units were established in the Pardubice Region, where each investment project averaged almost five times more new job opportunities. The high values of this region are due to the localization of large electronics and electrical engineering industry in the region.

In relative terms, the investment incentives-supported projects in Czechia created in average 21 jobs per 1,000 economically active inhabitants. The comparison of the regions show, that the Ústí Region achieved the highest values with 50 job opportunities per 1,000 economically active inhabitants. The Pardubice Region also achieved very high values, which tripled the nationwide average. Four more regions exceeded the nationwide average as well. Clearly the worst in this comparison was the Zlín Region, where the investment incentives created only 7 jobs per 1,000 economically active inhabitants.

Conclusion

The IP Investment Support System has been operating in Czechia for almost 20 years, during which it has undergone many changes. Following the example of the other Central European countries, the system for attracting investment was launched by Resolution No. 298 in 1998. A more integrated form of investment support system was approved by the Act on Investment Incentives in 2000. However, its shape had to successively adapt to the economic and legal development. These adjustments were mostly caused by European legislation. With the accession to the EU in 2004, Czechia had to incorporate European rules on the use of public support into law. In 2007 and 2015, the amendments to the Act on Investment Incentives were associated with a reduction in the level of public support.

As far as the distribution of the investment projects in Czechia is concerned, it can be considered to be very uneven. The wider offer of the investment incentives has contributed to the fact that the largest number of its projects were implemented by foreign companies in the two most problematic regions, namely in the Ústí Region and the Moravian-Silesian Region. The higher number of the projects was still directed in the Central Bohemian Region, which attracted investors, for example, due to its location and the automotive industry. Together, these three regions earned 57% of the foreign investments. On the contrary, the least attractive regions for the foreign investors were the Karlovy Vary Region and the Zlín Region. The average value of the supported investment per the economically active inhabitant for the whole Czechia amounted to CZK 88 thousand. The higher concentration of investment incentives, of course, cannot be considered as a criterion of attractiveness of the regions, as evidenced by the example of the South Moravian Region, where there were relatively less investment incentives were provided because the state focused more on the support of the other more problematic regions. On the other hand the fact that the system of public support is not intended only for the problem regions, is evidenced by e.g. the Karlovy Vary Region or the Zlín Region with the absolute and relative least jobs created (Novák, Vokoun, Stellner, Vochozka, 2016).

In conclusion it can be said that the investment incentives provided as a localization factor have only a limited role in the selection of the location by the investors. The factors such as market size, production costs, or geographical nearness of the markets or sources, are more important for the foreign investors, or large enterprises (Sucháček, Sed'a, Friedrich, Koutský, 2017). From the point of view of the regional policy, the investment incentives are more focused on mitigation of the growth of the regional differences in Czechia, and they also partly contribute to the growth of regions with higher competitiveness, as shown by example of the Central Bohemian Region. The next research on the investment incentives should focus on the qualitative aspects, how the value added of the companies drawing on the investment incentives is developing, or how is the position of the branch operations in the global production chain. The other opportunities to maintain the economic growth of the regions in Czechia are related to how productivity and business performance will grow.

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Acknowledgements

Project supported by grant within student grant competition at UJEP - Jan Evangelista University in Ústí nad Labem (UJEP-SGS-2018-45-003-2)