The development of FDI in the Czech Republic

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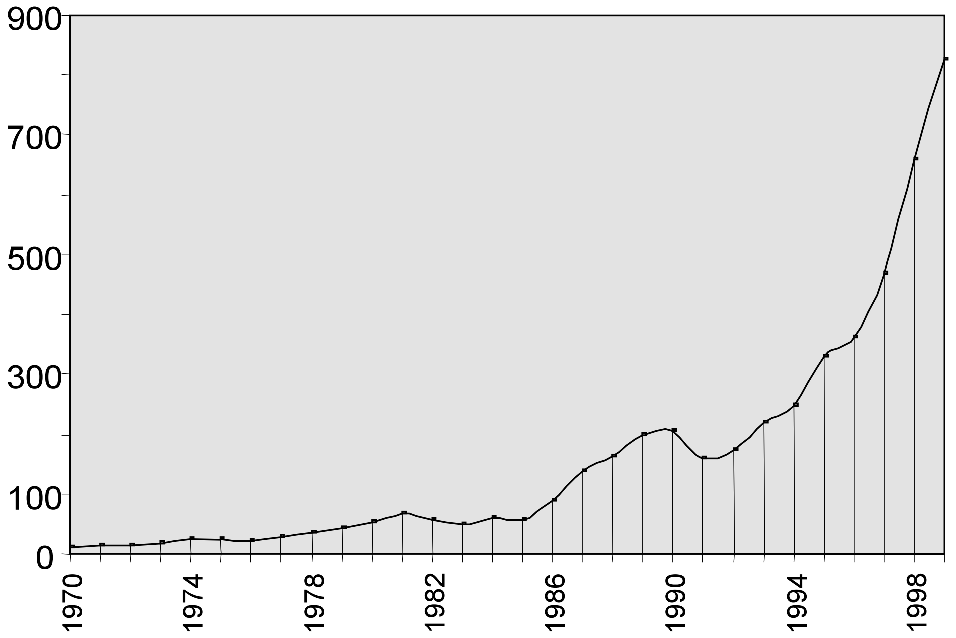
Topics to cover

- Introduction - importance of FDI
- The nature of attitudes towards FDI
- FDI in the Czech Republic
- Future development

Foreign direct investment as an engine of globalisation: some facts

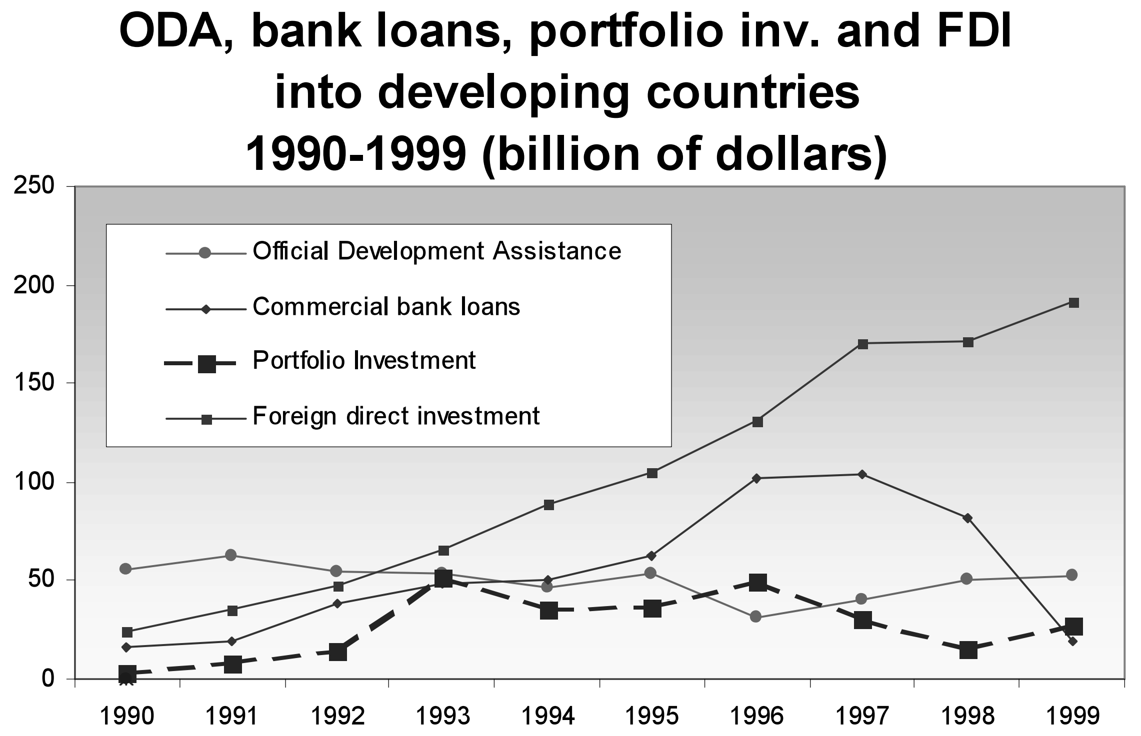
Development of global FDI flows, 1970-1999 (billion of dollars)



Source: UNCTAD FDI/TNC databa

- Dynamic increase in FDI flows (1999: $840 bill.)
- Number of TNCs in 1992: 36.660; in 1998: 59.902
- Employment in all TNCs: 34.4 million (1998)
- FDI flows grow faster than world exports or global GDP

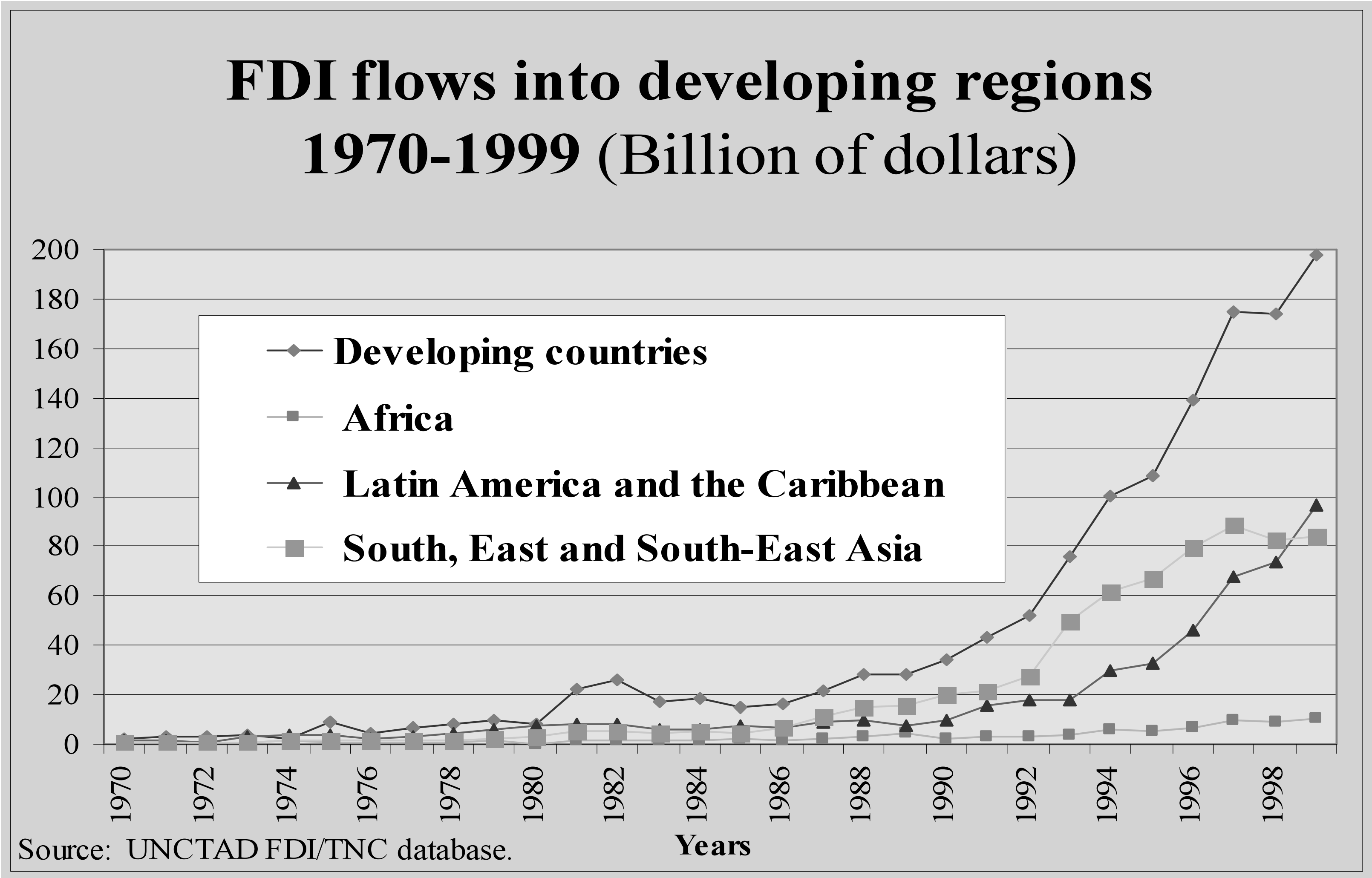
FDI into developing countries



Source: UNCTAD, based on Worldbank (2000), Global Development Finance.

- FDI most important source of external finance
- Since 1990, 30 countries abandoned CPE, 80 liberalized invest. regulations

FDI flows into developing regions



Who is going to involve in FDI?

OLI model by Dunning H. (1993, 1998, 2000)

ownership (O) specific advantages over competitors: portfolio of resources and capabilities (production management, organizational and marketing systém, innovatory capacity, human capital experience, finance) - **sustainable over time** (Peteraf, 1993)

Who is going to involve in FDI?

Internationalisation incentives (I) =
circumvent or exploit market failures (avoidance of costs of moral hazard, avoidance of cost of broken contracts and ensuing litigation, potential to engage practices - predatory pricing, ...

Who is going to involve in FDI?

Location (L) specific variables = spatial distribution of resource endowements, input prices, transportation and communication costs, incentives, societal and infrastructure provisions, cross-country differeces, existence/non-existence of artificial barriers

Who is going to involve in FDI?

Dunning (2000): „… foreign production undertaken by TNCs is determined by the interaction of the three sets of interdependent variables“.

Does the theory work? Yes, if...

Political and economic environments are „complementary“ assets, which are essential to the efficient use of the „core“ assets possessed by foreign investors.

Quality and availability is becoming an important determinant of the locational decisions of firms.

(obvious for advanced industrial countries)

The changing world of FDI (1)

In 1990´s FDI viewed as „good news“ after the 70´s and 80´s which were critical/hostile

Reasons for this „change of heart“:

- renewed faith of countries in market econ. (CEE & China, etc.)
- increasing globalization of economic activity/integration of international production/dynamic competitiveness

The changing world of FDI (2)

- „key ingredients“ - technology, intellectual capital, learning experience, organizational competence ➔ more mobile across borders and increasingly housed in TNC
- governments are modifying their attitudes (direct contribution vs wider impact)
- economic structures of major industrialized nations are converging

Improved competitive position through

- Political stability
- Liberalization and privatization
- Reduction of red-tape and corruption
- Strengthening of government institutions

  ➔ ***Capacity building in investment promotion***
- Improvement of the physical infrastructure

Improved competitive position through

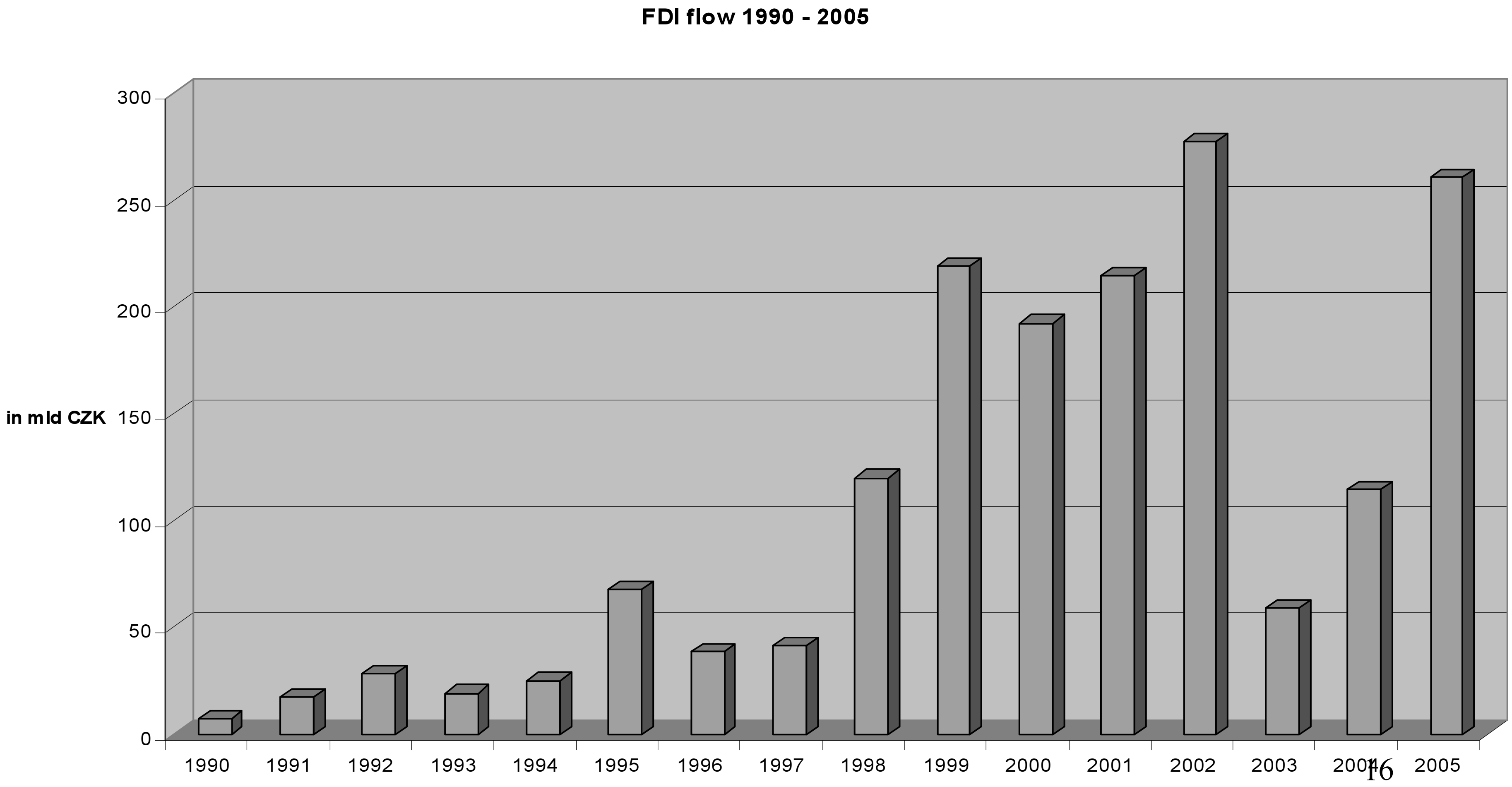
- Strengthening of the finance and banking sector
- Improvement of the domestic labour force
- Development of the local private sector
- A focused investment promotion strategy
  ➔ ***Investor targeting***
- Regional integration and international co-operation in investment promotion

GDP in the Czech Republic

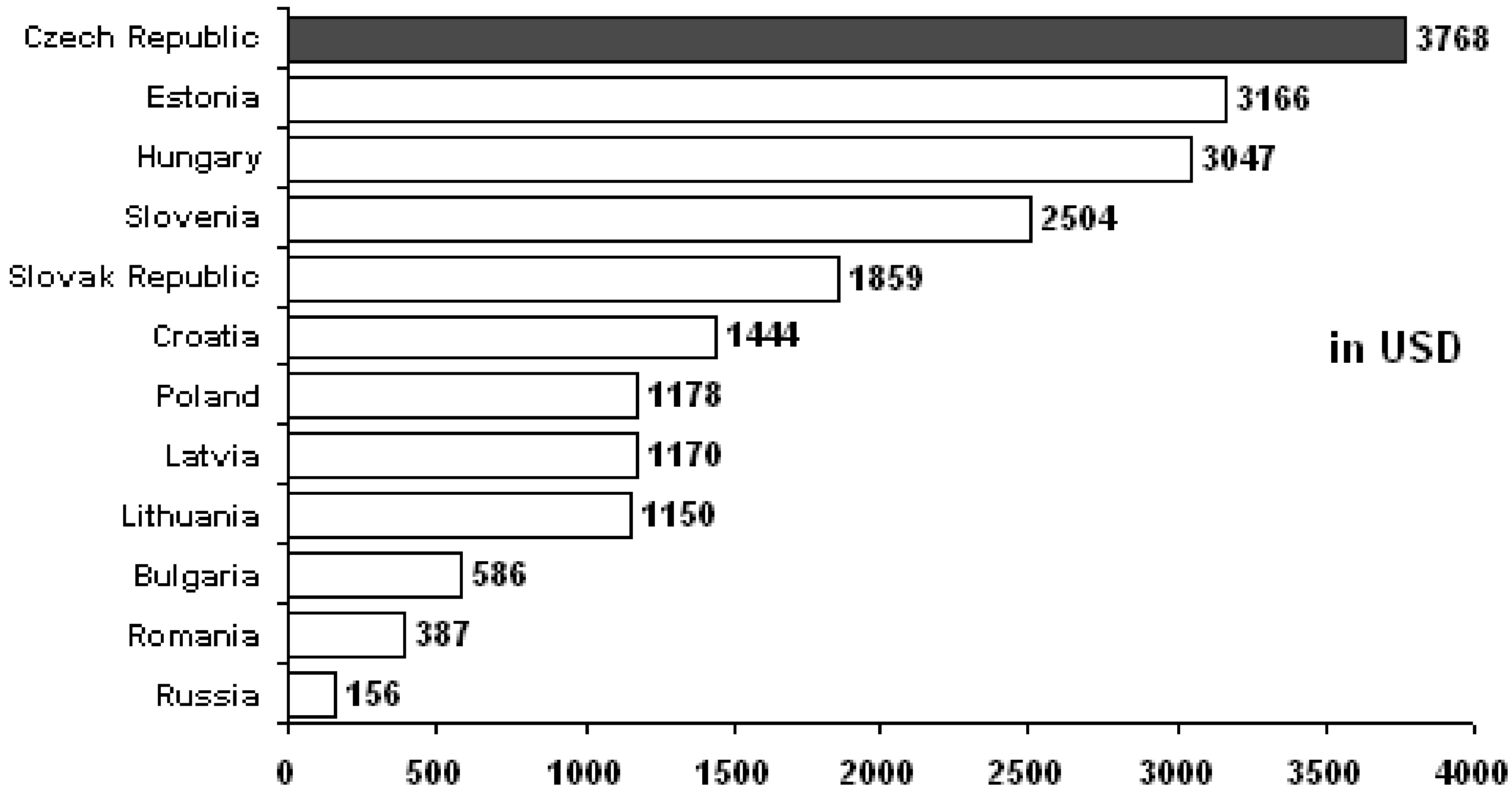
GDP SINCE 1996 (year-to-year change in GDP)									
Year	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
%	4,2	-0,7	-1,1	1,2	3,9	2,6	1,5	3,7	4,0

Growth: manufacturing, services, telecommunication, civil engineering, trade, transportation

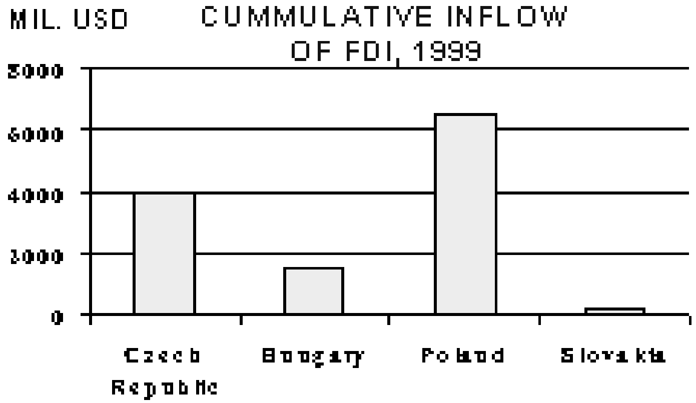
FDI in the Czech Republic

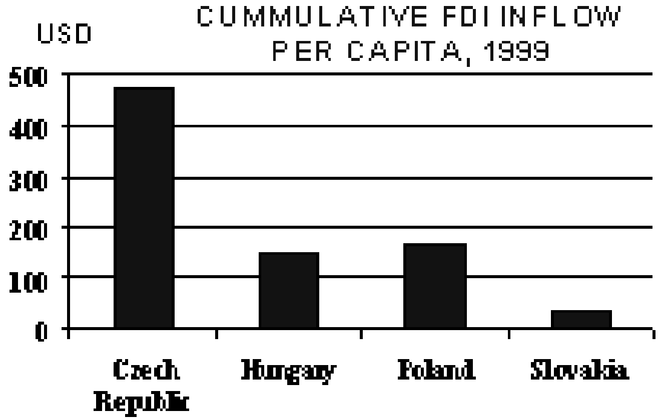


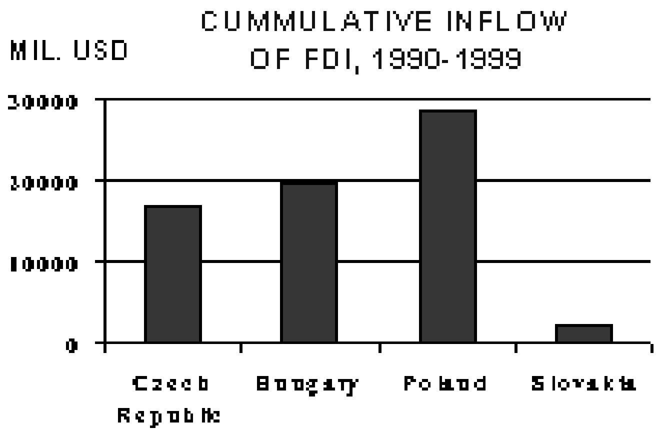
FDI in the Czech Republic

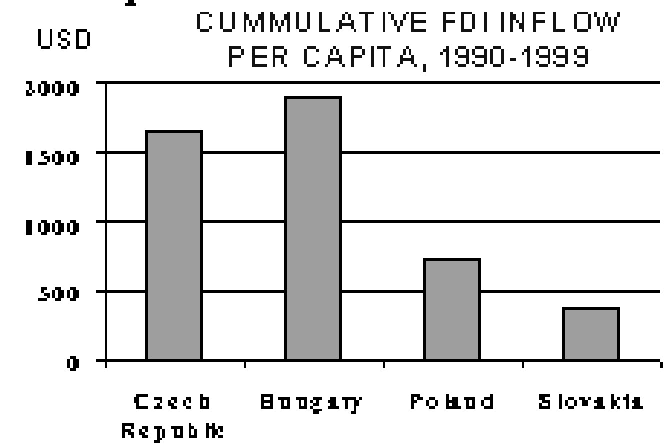


FDI data (CZ, H, PL, SI)

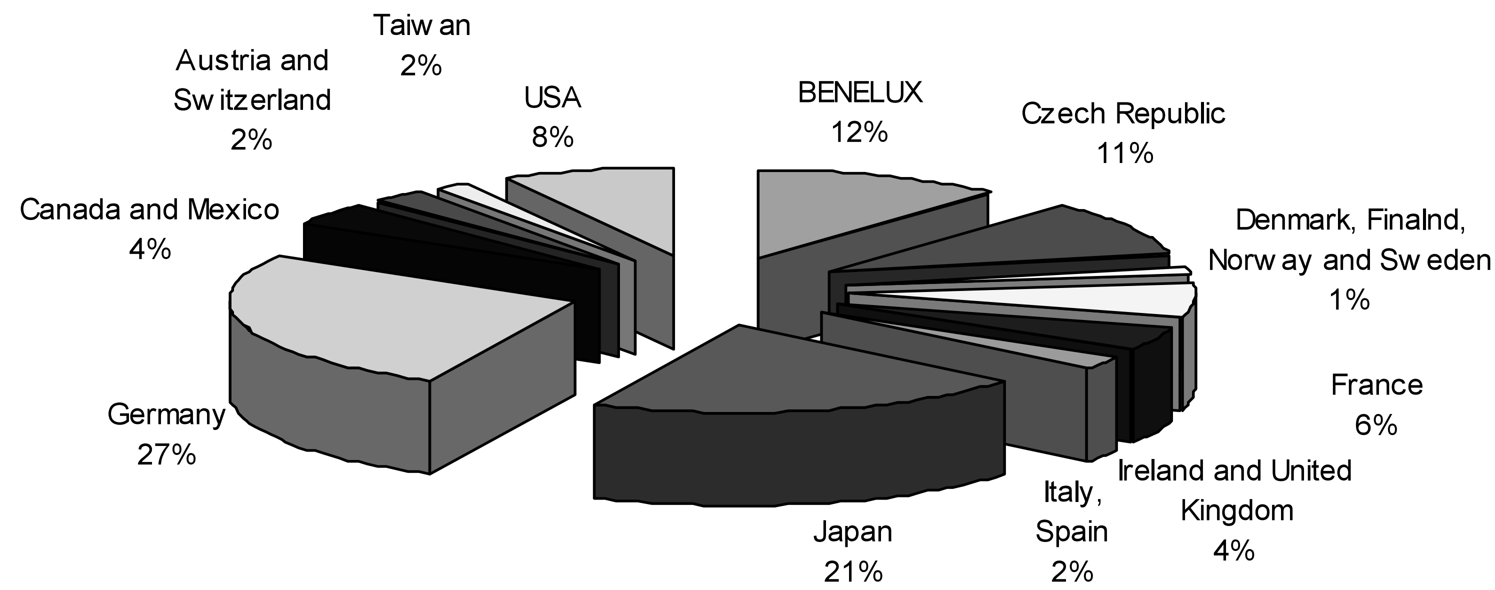




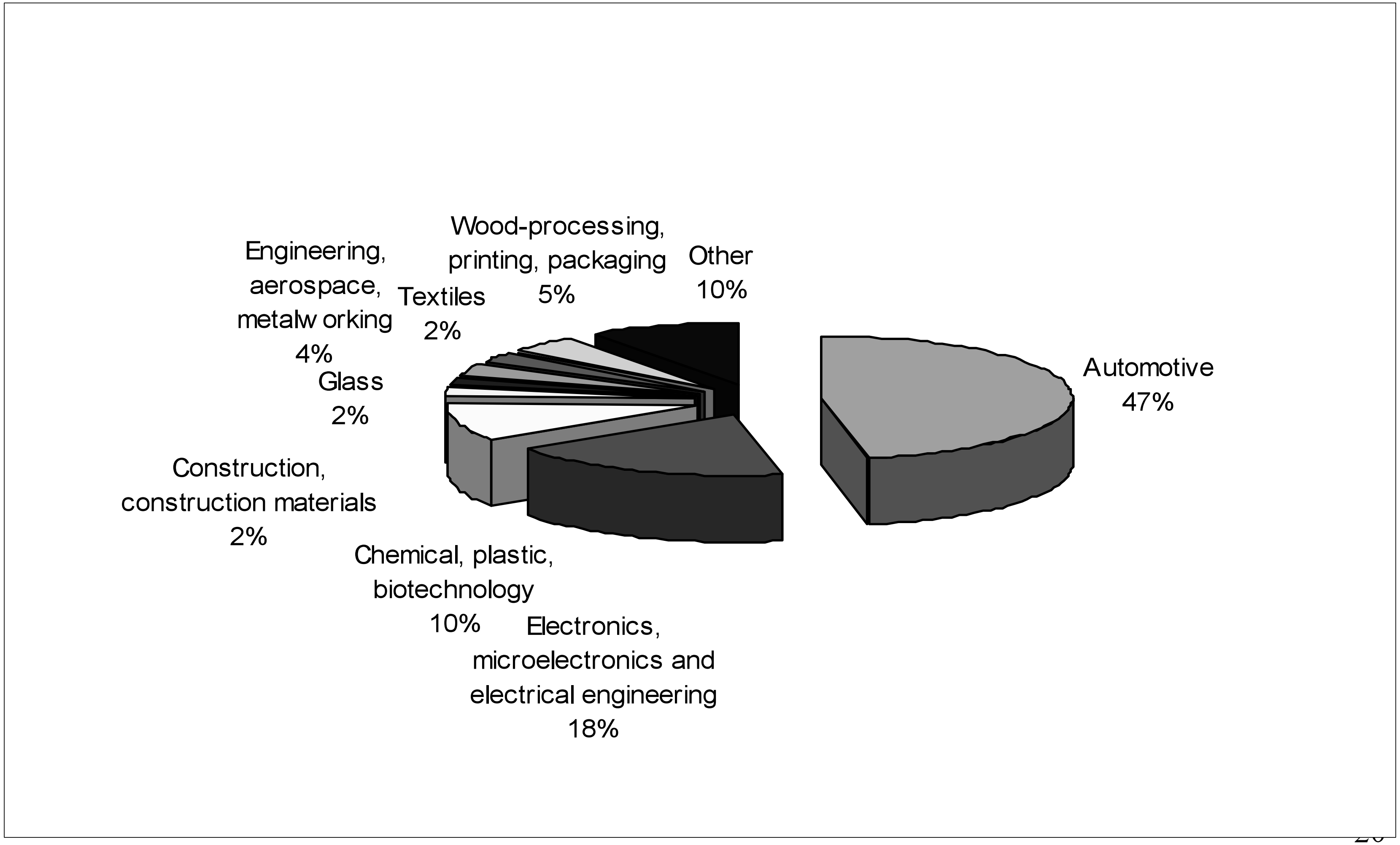




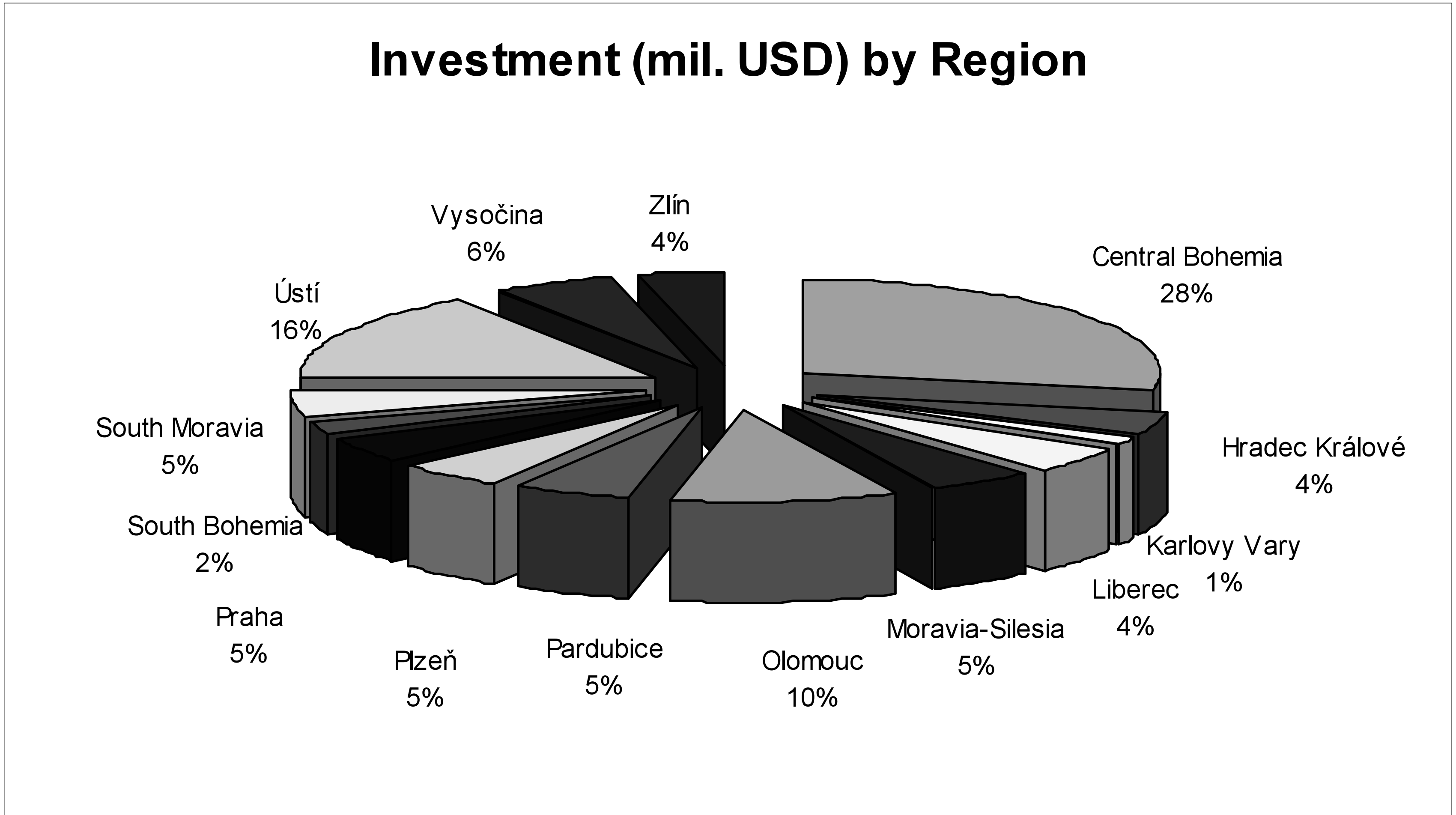
Investors divided by countries



Structure of FDI



Structure of FDI



The 1989 - 1997 development

No incentive schemes, only „good conditions“

"In the process …... the decision is based on price, business plan, sufficient financial funds a reliability of investors. I see no need to involve any unfair criteria while assessing ….. to make the decisions impartial“ (Mr. Vl. Dlouhý)

Special conditions negotiatied on an individual bases - Skoda to VW, Rakona to Procter and Gamble

The crucial role of the „human factor“ / “power of reference“ (Panasonic)

1998 and onwards development

Since April 1998 - Act on Investment Incentives

Clear investment incentives and eligibility criteria

Additional changes in 2002

Strategic service projects (customer contact centers, high-tech repair centers,…)

- high proportion of added value
- high proportion of skilled label
- closeness with IT & Telcom

Technology centers

- innovation centers close to manufacturing (changes to product, production facilities…)

Year 2003: on the way to Europe

- Treaty of Accession (Athens April 2003)
- Refferendum (June 2003), YES: 77,3%
- CZ joined EU on May 1, 2004
- almost 80% of Czech laws harmonized
- 100% of EU technical standards adopted
- investment incentives compliant with EU
- challenges? „brain drain" & SF (1,5 mld €)

Who do we have?

- The „BIG NAMES“ - Toyota, Philips LG Displays, Panasonic, Honeywell (however, we could have had others e.g. Mercedes Benz, etc.)
- The „MIDFIELDERS“
- The „COST SAVERS“

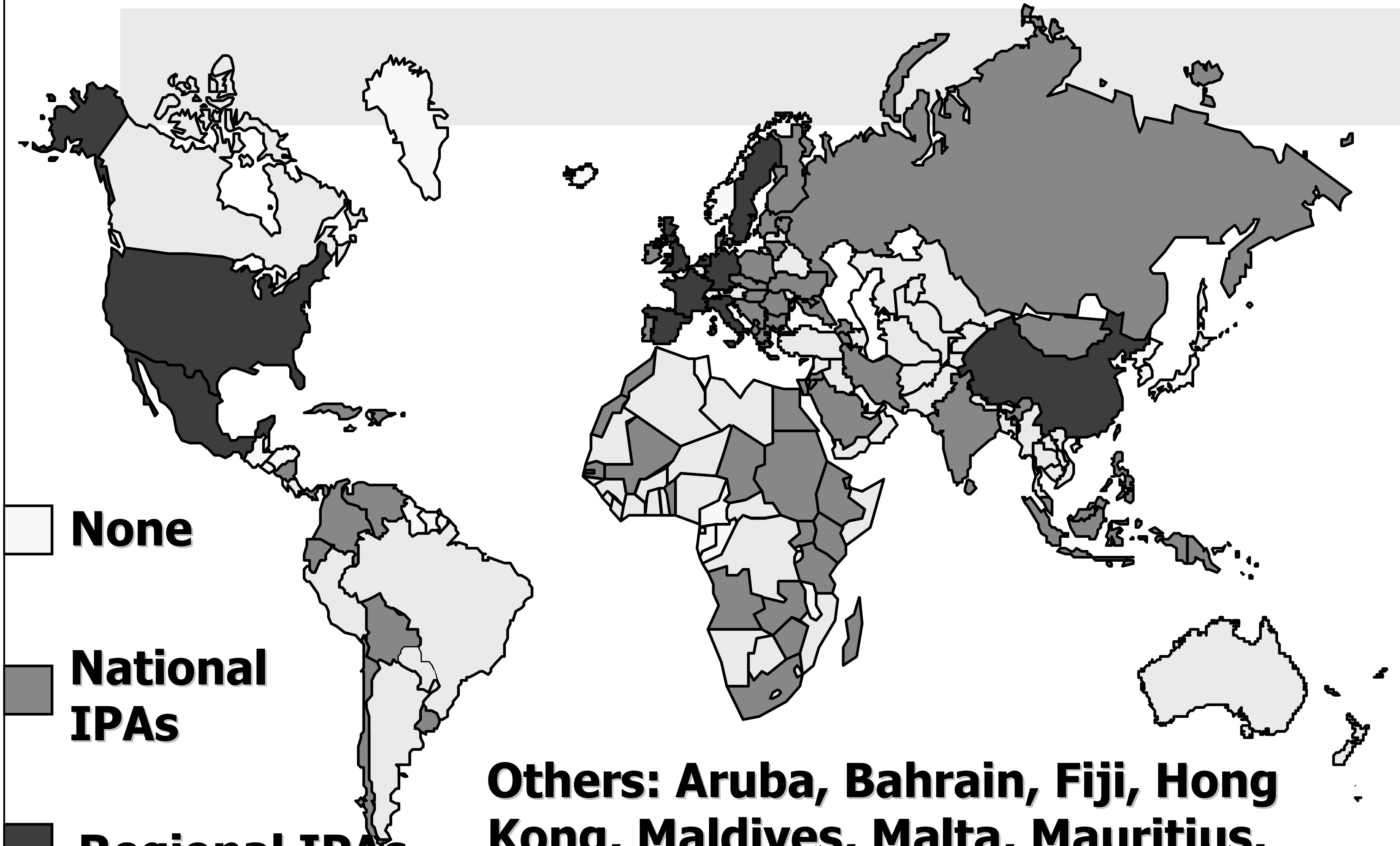
CzechInvest - a helping hand

	1993	1994	1995	1996	1997	1998	1999	2000	Total
Projects started	22	34	101	112	100	146	111	138	764
Projects completed	2	7	8	9	9	16	26	35	112
No. of jobs available	>70	>1392	>1323	>2295	>2007	>5717	>5280	>17831	>35915

Selected barriers

- Highway newtork not fully developed, some regions are not connected
- Lenghty administration & lots of paperwork
- Bill No. 326/1999 Coll. – long term residence
- living standards not yet on European level (schools teaching fully in English only in Prague)
- Drop in number of graduates with technical background (on all levels of education system), tight cooperation with technical universities

IPA world survey



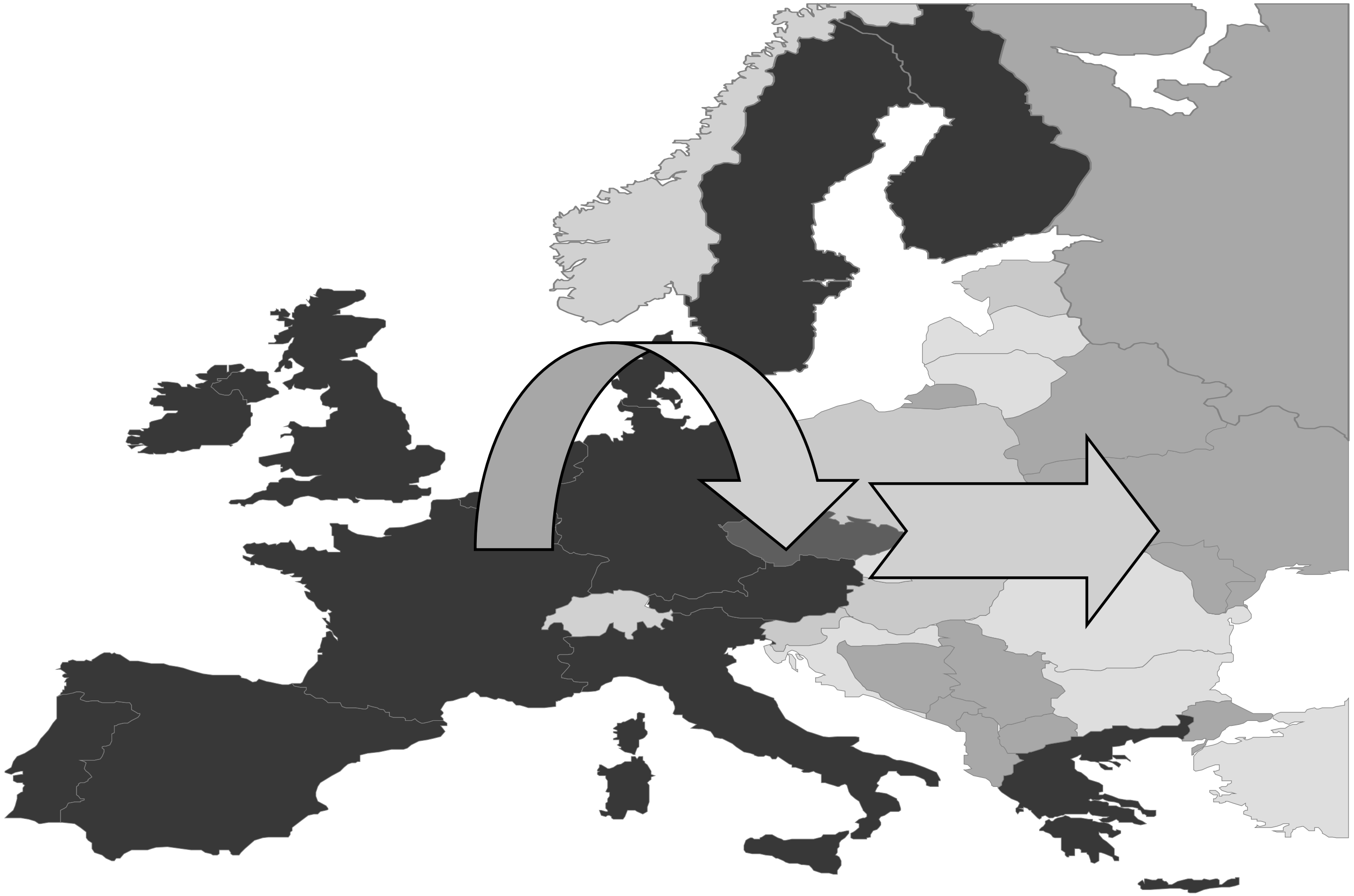
None

National IPAs

Regional IPAs

Others: Aruba, Bahrain, Fiji, Hong Kong, Maldives, Malta, Mauritius, Palestine, Palau, Vanuatu

Future trends



Future trends

RESOURCE SEEKING

MARKET SEEKING

EFFICIENCY SEEKING

STRATEGIC ASSET SEEKING

More info available at

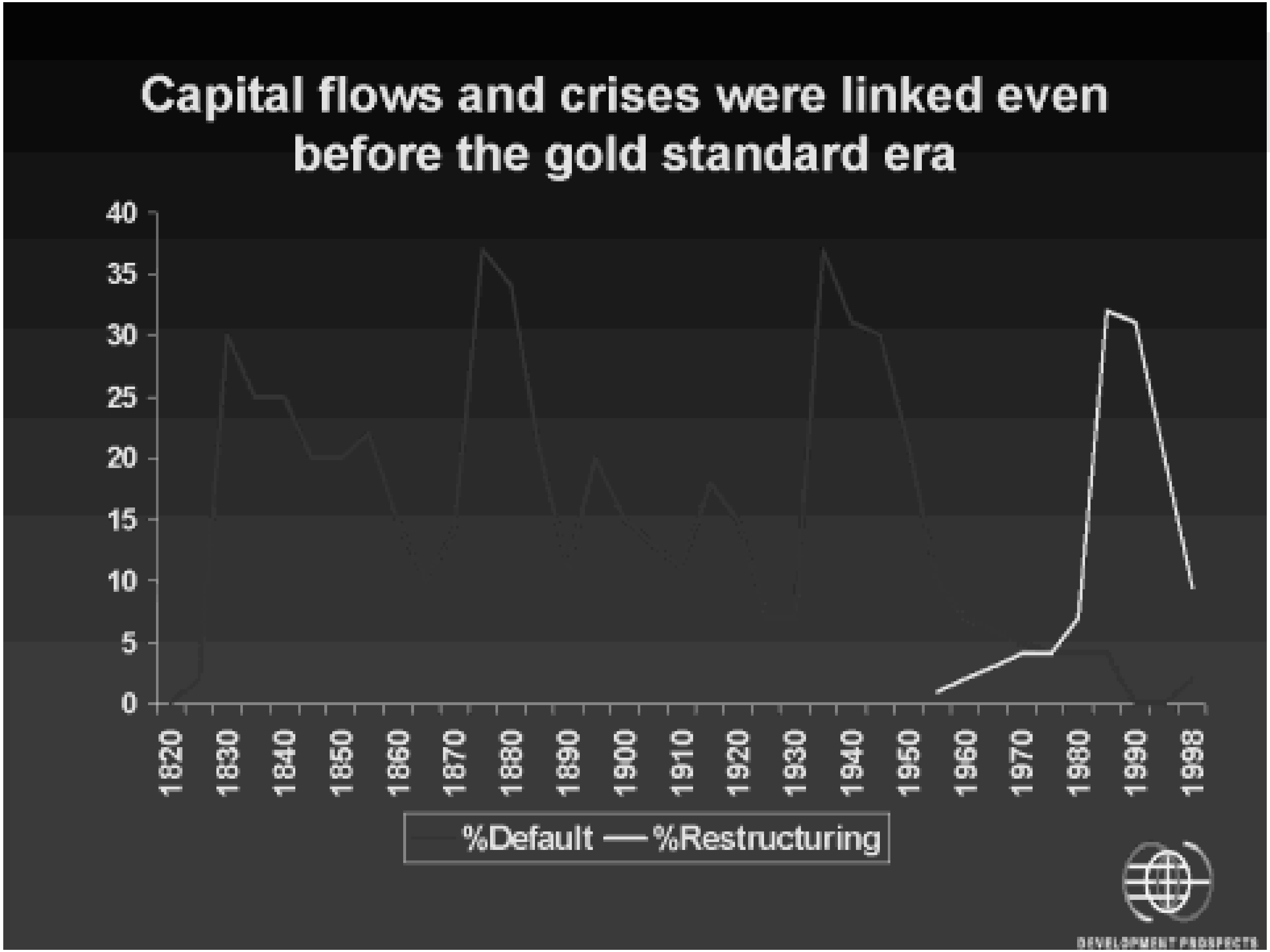
http://www.czechinvest.org
http://www.cnb.cz
http://www.unctad.org/wir

THANK YOU FOR YOUR ATTENTION

One hundred (and thirty) years of capital flows

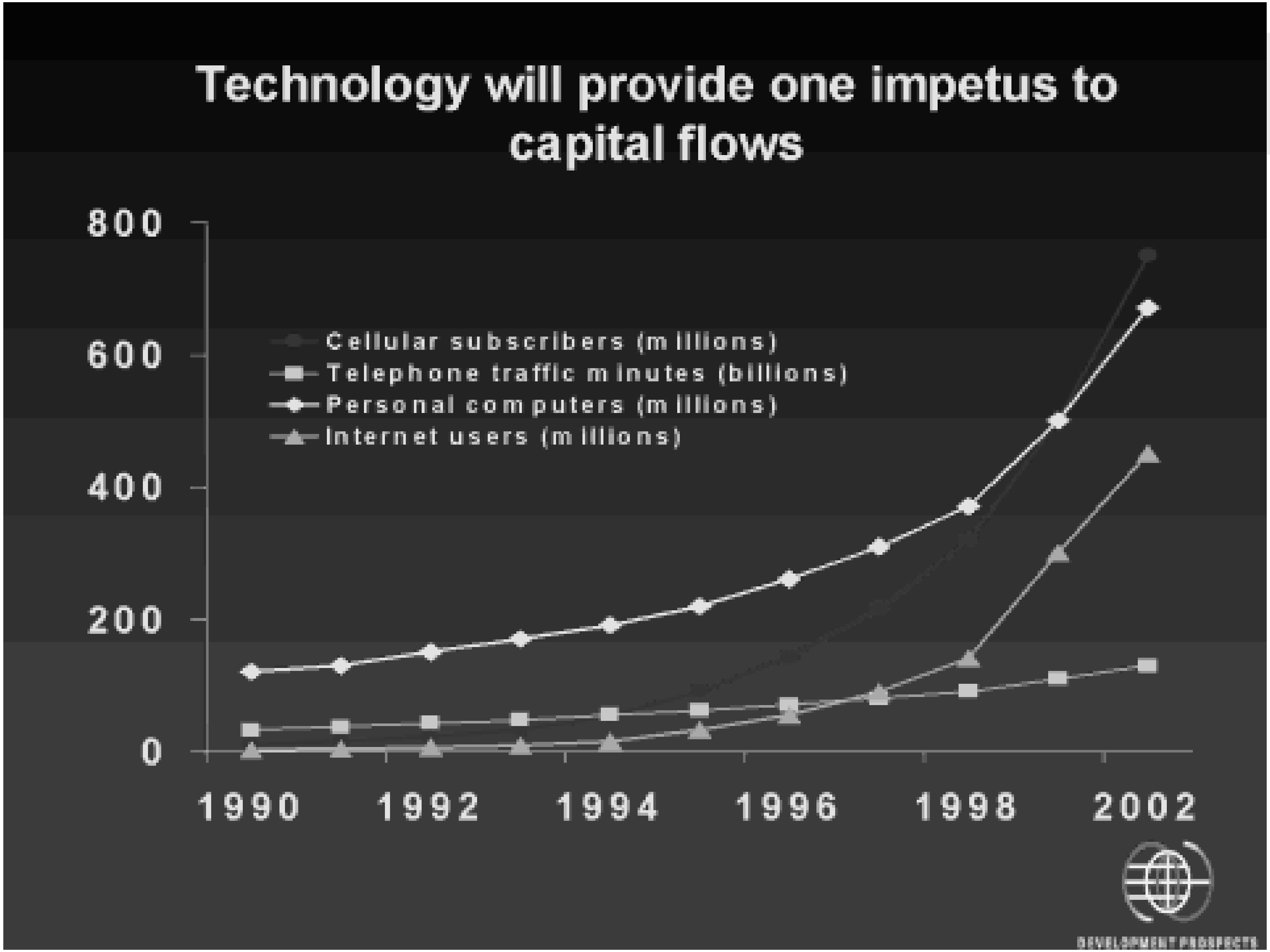
- The past 130 years have seen at least four surges in private capital flows to emerging markets:
  - 1870 to WW-I
  - Post-WW-I recovery to the Great Depression
  - 1973-1982
  - the 1990s

DEVELOPMENT PROSPECTS


Capital flows and crises were linked even before the gold standard era
40
35
30
25
20
15
10
5
0
1820
1830
1840
1850
1860
1870
1880
1890
1900
1910
1920
1930
1940
1950
1960
1970
1980
1990
1998
%Default
%Restructuring

Four messages from history

- Capital surges to emerging markets occur when communication is improving, growth and world trade is expanding, financial innovation is rapid, and the political climate is supportive.
- The capital flows boom of the 1990s was similar to earlier episodes in terms of its size; but was different in the variety of financial instruments used and the variety of recipients
- All past episodes of surges in capital flows to emerging markets have ended in severe international financial crises.
- The next decade may well see another capital boom to emerging markets, accompanied again by high volatility of capital flows and potential crises. Countries need to adopt better policies and safety nets for the poor.



Technology will provide one impetus to capital flows
800
600
400
200
0
Cellular subscribers (millions)
Telephone traffic minutes (billions)
Personal computers (millions)
Internet users (millions)
1990
1992
1994
1996
1998
2002