

⋮

The development of FDI in the Czech Republic

⋮



Michael Dolezal
guest lecturer
551@mail.muni.cz

Introduction



- International relations officer at CAFIA, Brno
- Responsible for developing international projects
- EU funded cooperation/bilateral agreements

Topics to cover

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

Definitions

- *Foreign direct investment (FDI)* is defined as a long term investment by a *foreign direct investor* in an enterprise resident in an economy other than that in which the foreign direct investor is based
- control - owning 10% or more

Definitions

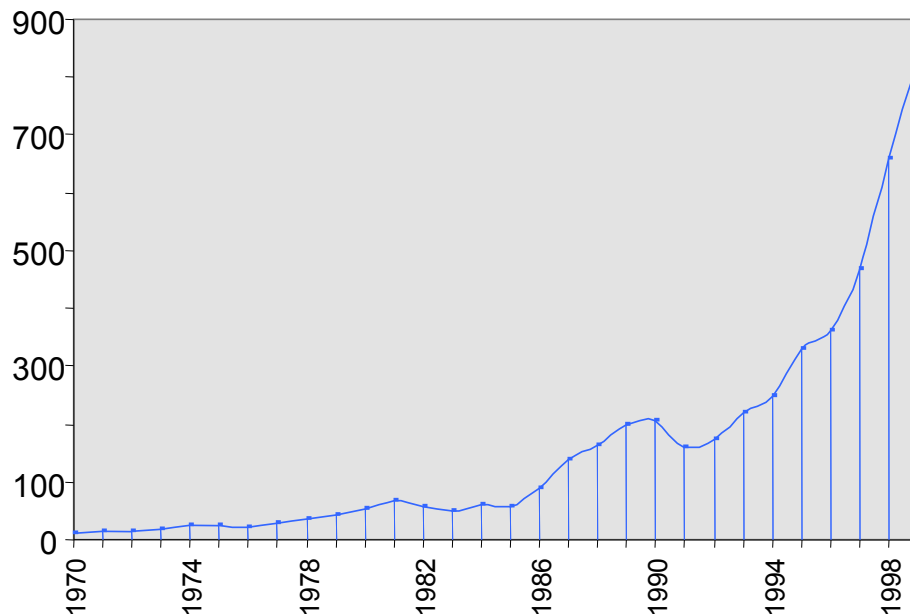
- *Multinational corporation (MNC)* is a corporation or enterprise that manages production establishments or delivers services in at least two countries.
- MNC = TNC

Definitions

- *Greenfield investment* - direct investment in new facilities or the expansion of existing facilities
- *Mergers and acquisitions* occur when a transfer of existing assets from local firms to foreign firms takes place,

Foreign direct investment as an engine of globalisation: some facts

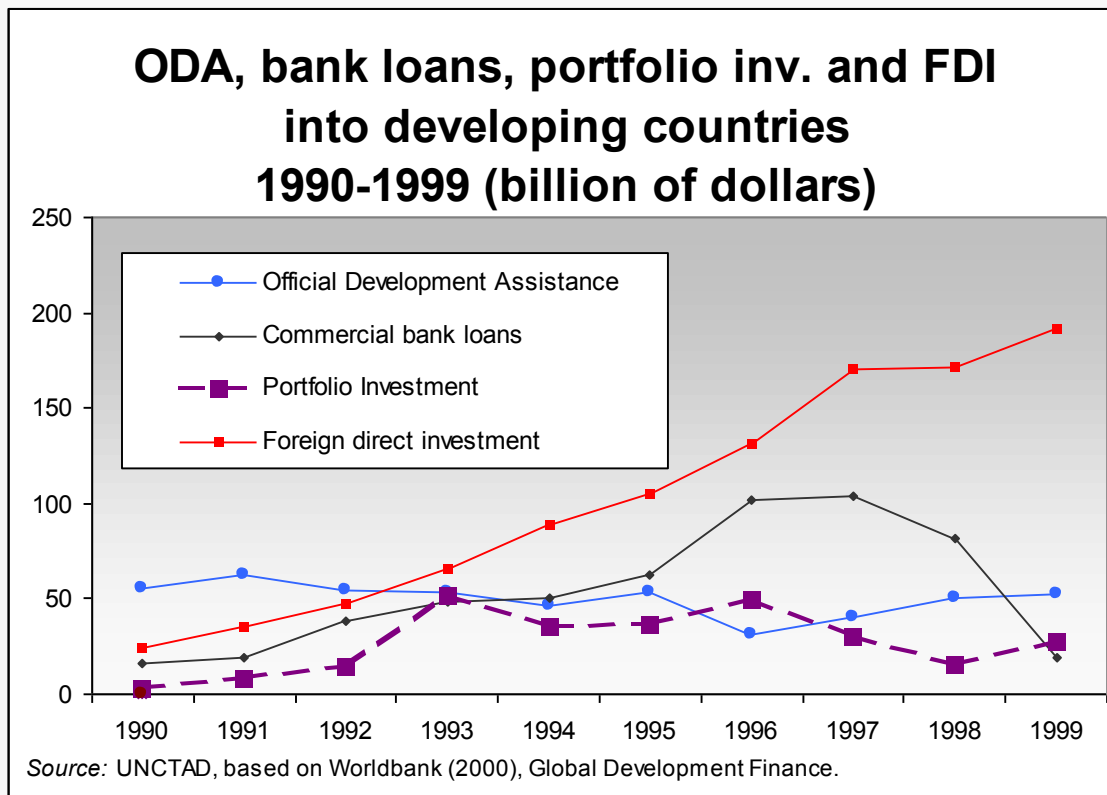
Development of global FDI flows, 1970-1999
(billion of dollars)



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

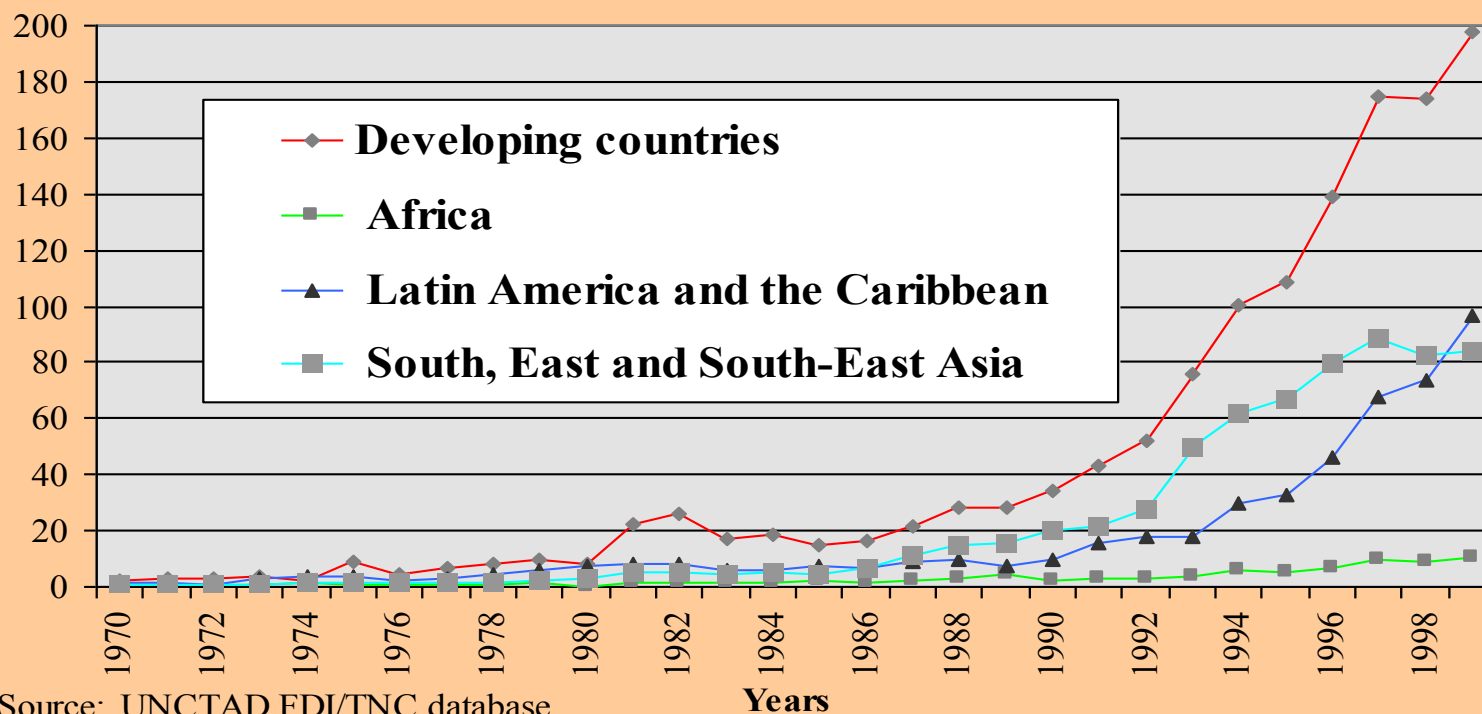
FDI into developing countries



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

FDI flows into developing regions

FDI flows into developing regions 1970-1999 (Billion of dollars)



Source: UNCTAD FDI/TNC database.

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)
- global production chains

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 (note: supported by EU {Interreg})



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

GDP in the Czech Republic

RŮST HDP V ROCE 2004

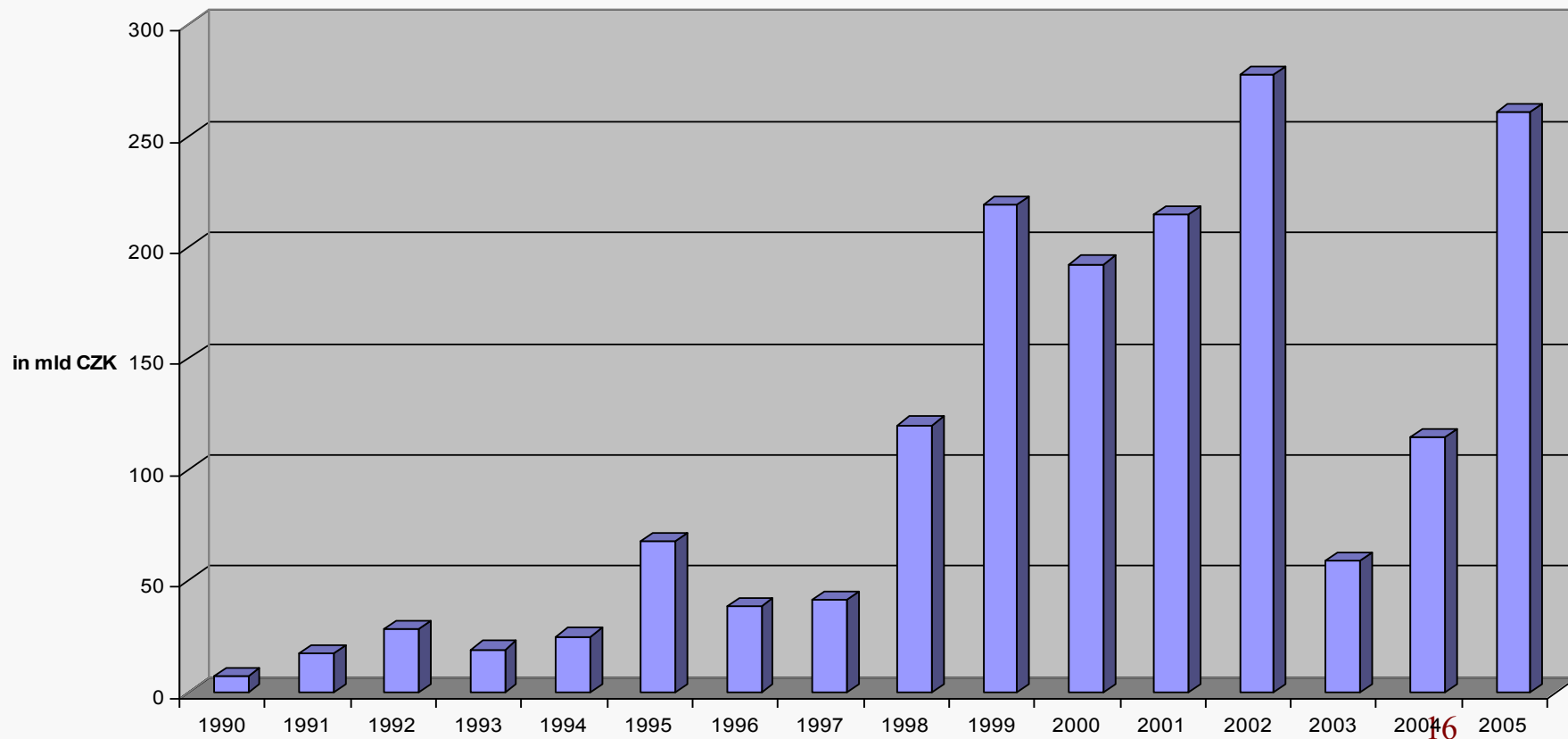
	Q1	Q2	Q3	Q4	Rok
Původní odhad	+4,0 %	+4,8 %	+4,9 %	+5,0 %	+4,7 %
Aktuální odhad	+3,6 %	+4,2 %	+4,3 %	+4,7 %	+4,2 %
Změna	-0,4	-0,6	-0,6	-0,3	-0,5

RŮST HDP V ROCE 2005

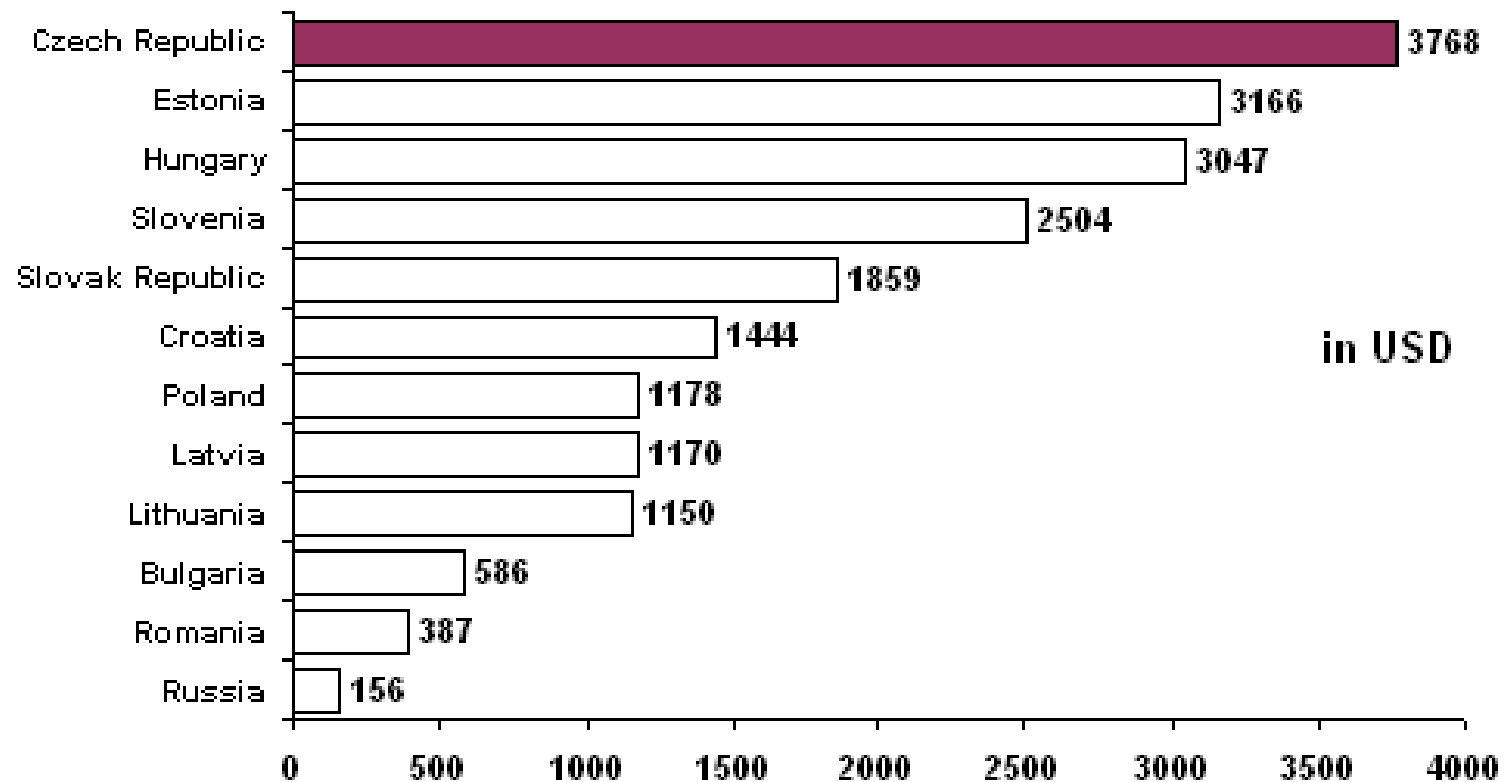
	Q1	Q2	Q3	Q4	Rok
Původní odhad	+5,3 %	+5,8 %	+5,8 %	+6,9 %	+6,0 %
Aktuální odhad	+5,4 %	+6,1 %	+5,9 %	+6,9 %	+6,1 %
Změna	+0,1	+0,3	+0,1	0,0	+0,1

FDI in the Czech Republic

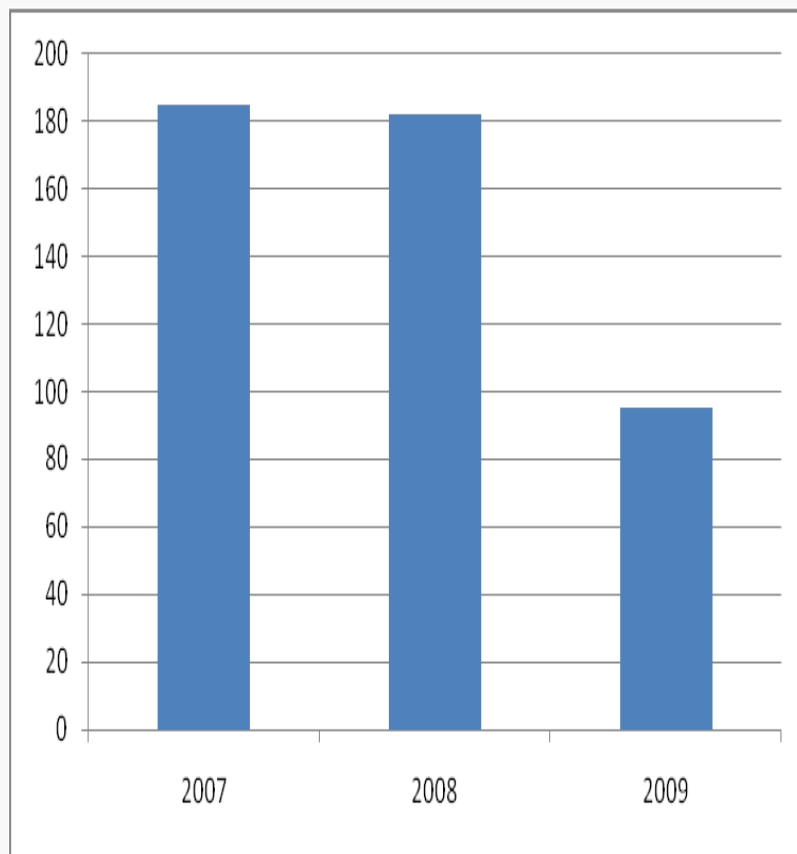
FDI flow 1990 - 2005



FDI in the Czech Republic

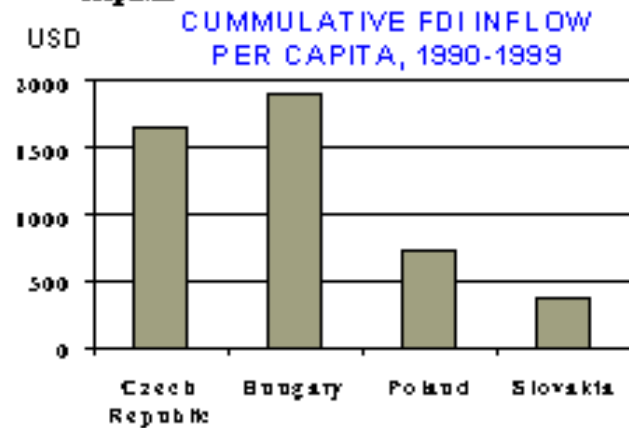
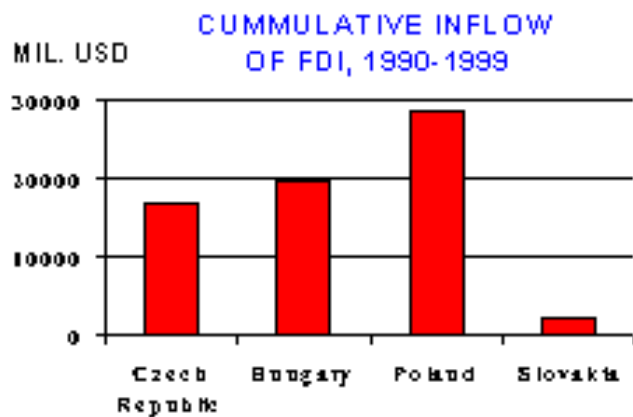
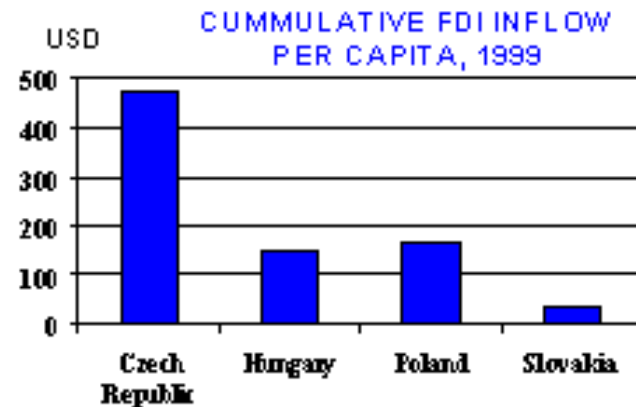
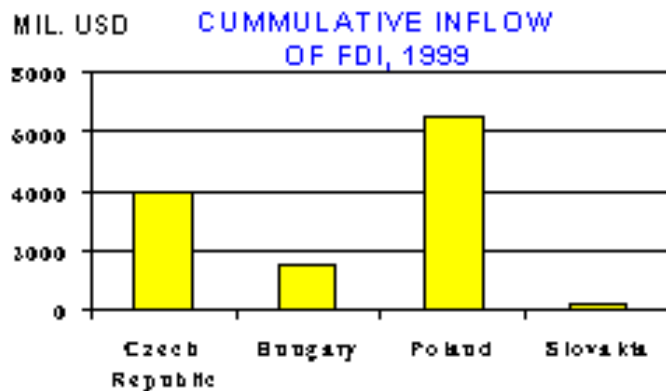


FDI in recent years

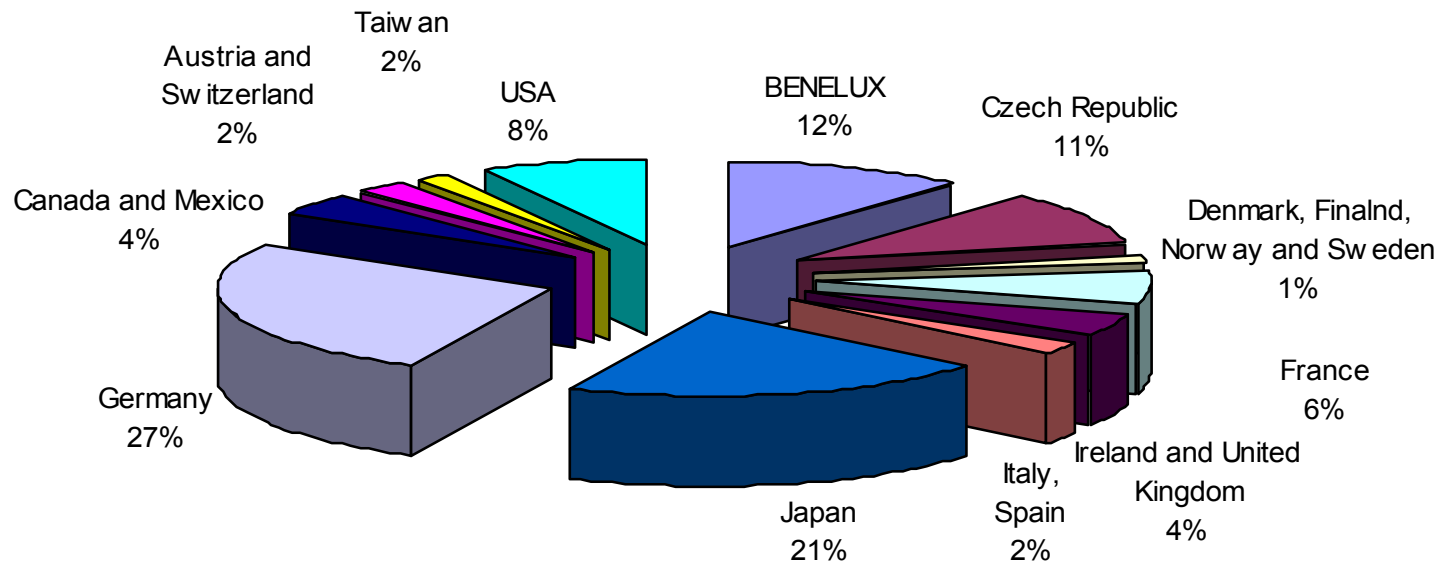


- in 2009 expected drop by -50% in FDI
- number of projects same but smaller in volume (=less money)
- export oriented country; HDP -4,9%
- global recovery expected in 2011

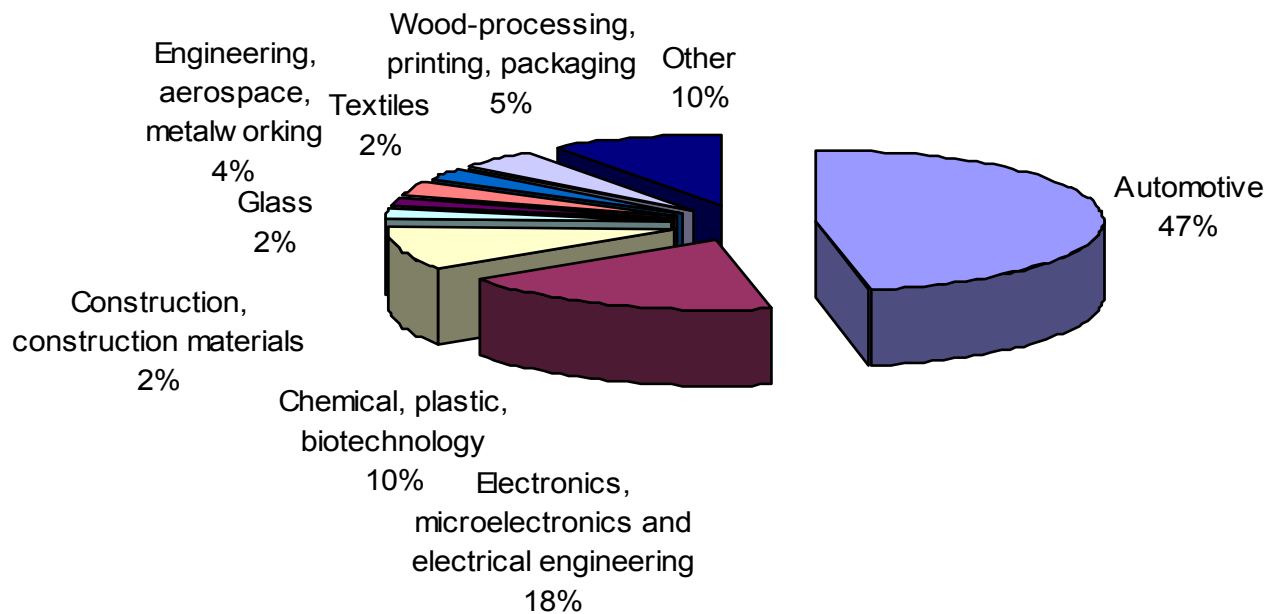
FDI data (CZ, H, PL, SI)



Investors divided by countries

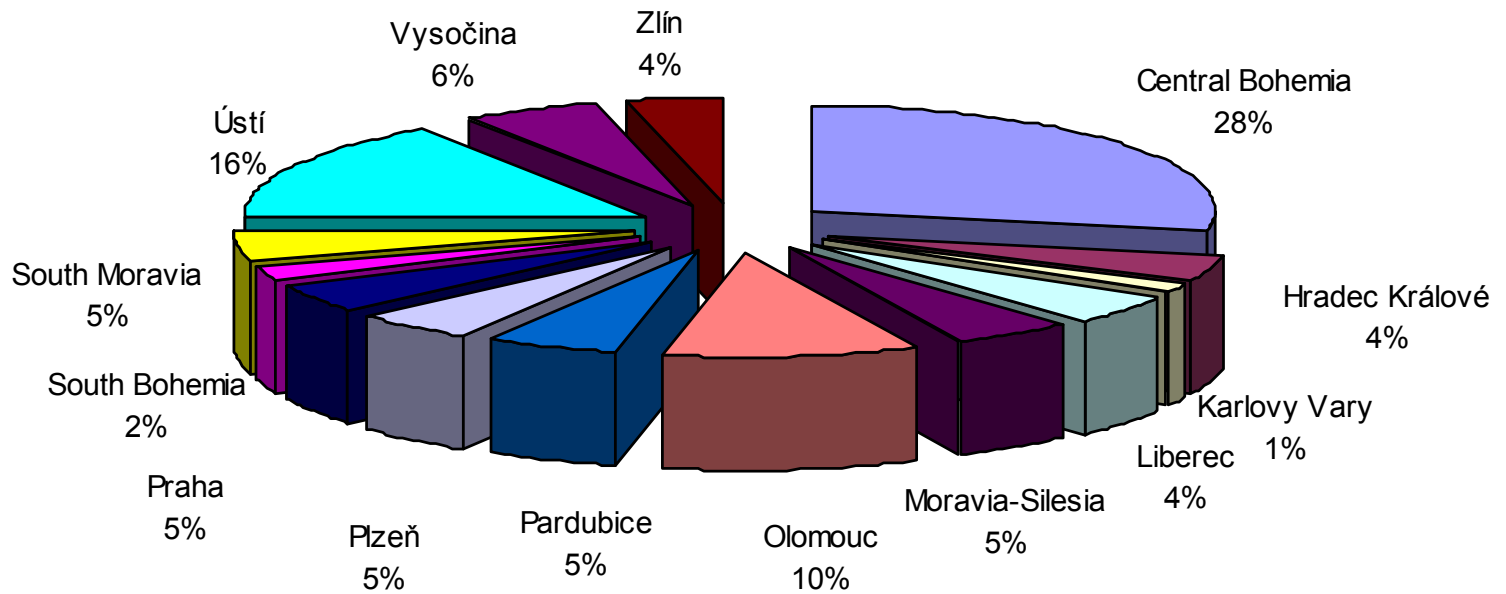


Structure of FDI



Structure of FDI

Investment (mil. USD) by Region



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 negotiated 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 – governmental decision

Since May 2000 - Act on Investment
Incentives (72/2000 Coll.)

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 & Telecom

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

- Advise and support new and existing entrepreneurs and foreign investors in CZ
- Worldwide representation in Europe, USA, southeast Asia and Japan
- Comprehensive services for investors
 - Full information service
 - Handling of investment incentives
 - Business properties identification
 - Supplier identification
 - After care services
- Business infrastructure development
- Acces to SF

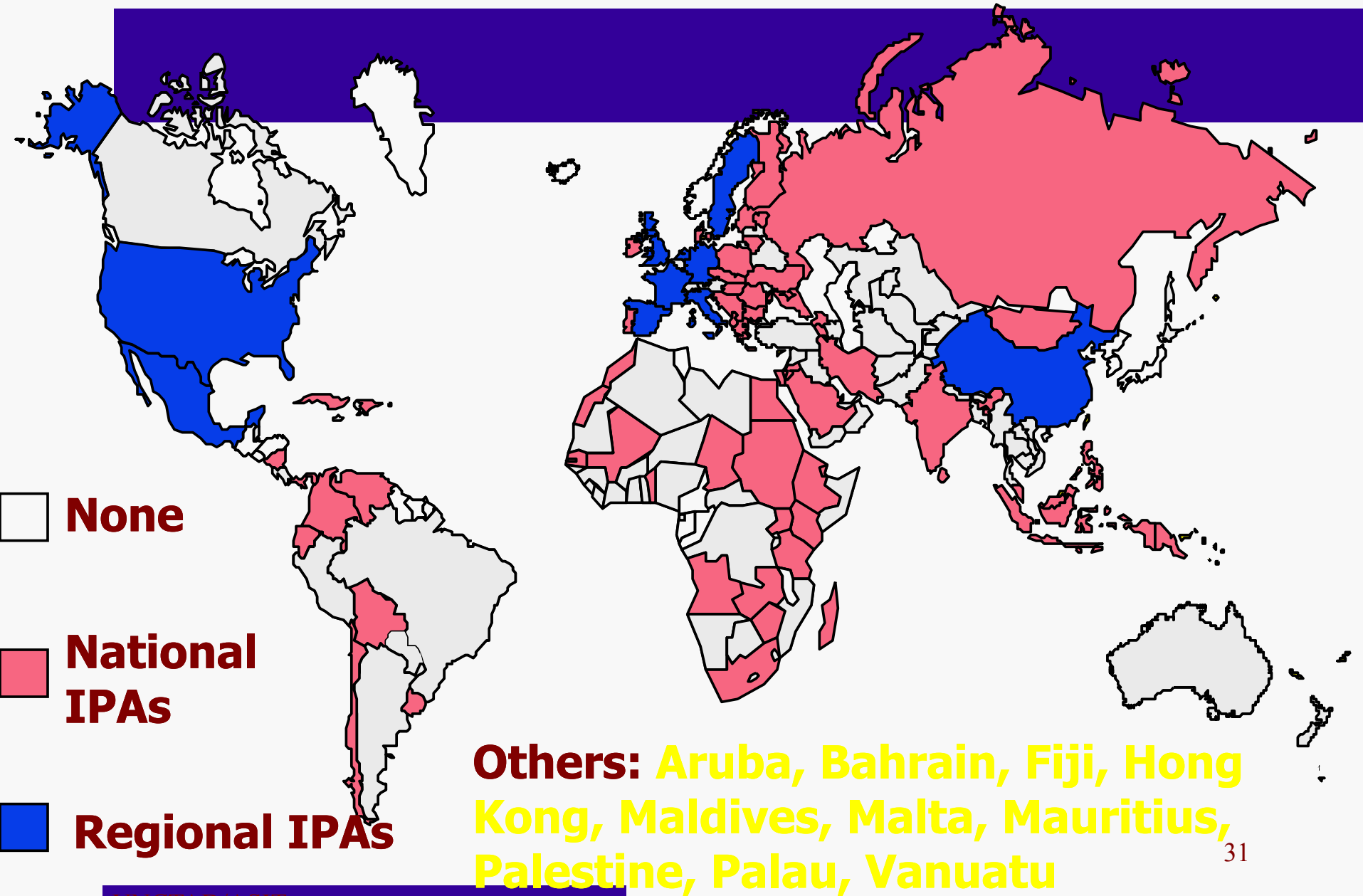
CzechInvest - record

- Since its establishment, CzechInvest assisted:
 - 771 investment projects
 - projects worth 551 bil. CZK
 - 153 000 jobs

Selected barriers

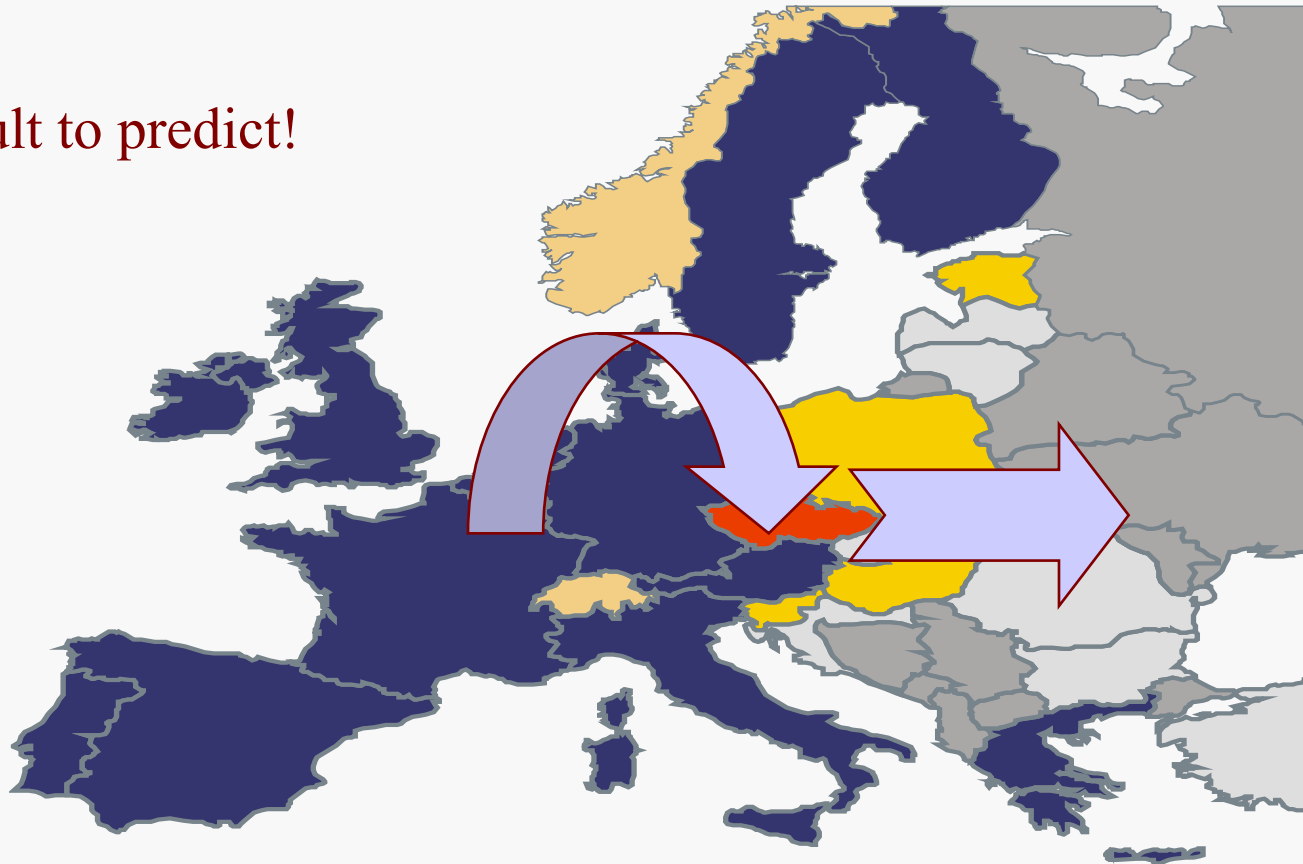
- Highway network not fully developed, some regions are not connected
- Lengthy administration & lots of paperwork
- Bill No. 326/1999 Coll. – long term residence
- living standards not yet on European level (schools teaching fully in English only in Prague)
- Drop in number of graduates with technical background (on all levels of education system), tight cooperation with technical universities
- Slow Euro introduction. In 201x?

IPA world survey



Future trends?

Difficult to predict!



Future trends



-
-
-

More info available at

<http://www.czechinvest.org>

<http://www.cnb.cz>

<http://www.unctad.org/wir>



**THANK YOU FOR
YOUR ATTENTION**

