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The development of FDI in the Czech Republic

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Michael Dolezal
guest lecturer
551@mail.muni.cz

Introduction



- Former graduate of ESF
- Project administrator at JCMM
- 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

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Definitions

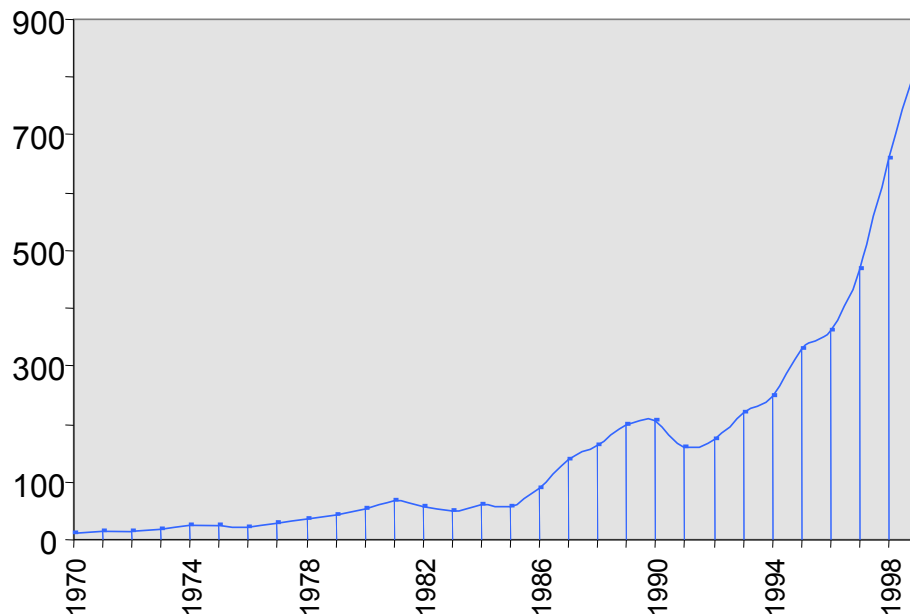
- *Greenfield investment* - direct investment in new facilities or the expansion of existing facilities
- *Mergers and acquisitions* occur when a transfer of existing assets from local firms to foreign firms takes place,

Why firms invest abroad?



Foreign direct investment as an engine of globalisation: some facts

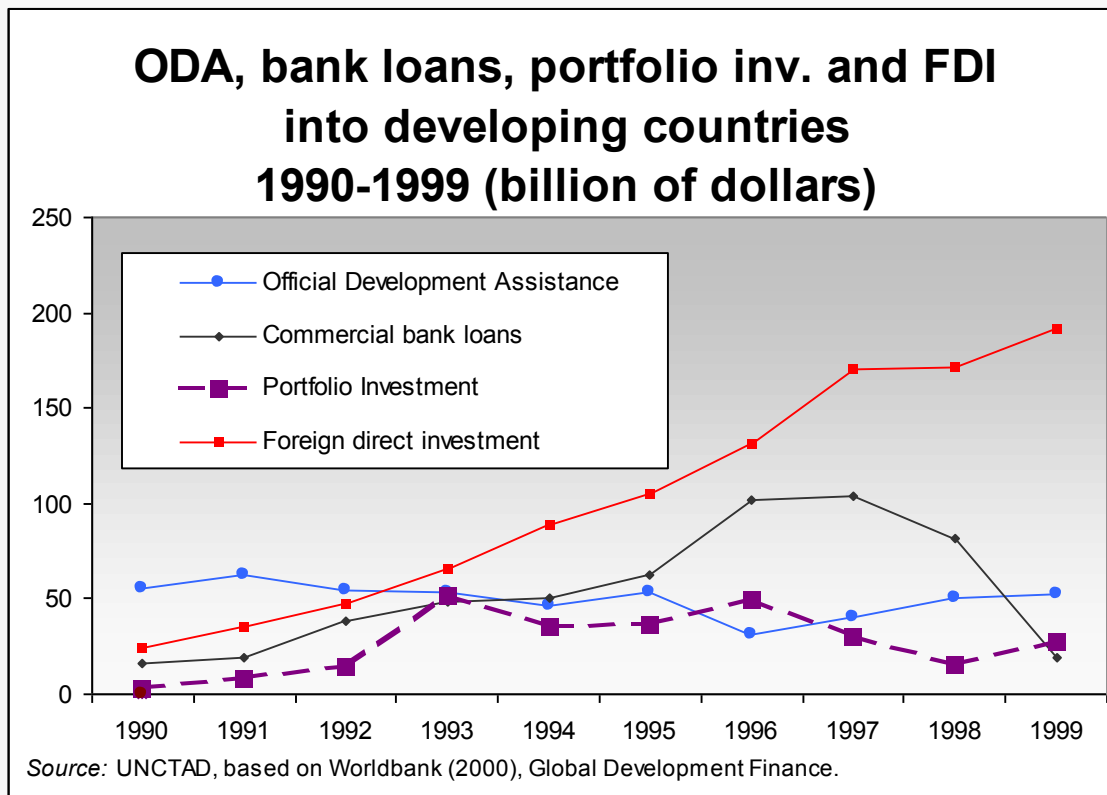
Development of global FDI flows, 1970-1999
(billion of dollars)



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

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
- Ford Motor Company has relationships with over 1,600 production suppliers operating at over 4,600 manufacturing sites



Improved competitive position through

- Political stability
- Liberalization and privatization
- Reduction of red-tape and corruption
- Improvement of the physical infrastructure
- Strengthening of government institutions
 - Inter-governmental arrangements (protection of investments: MIGA – 70 members incl. CZ)

Improved competitive position through

2008

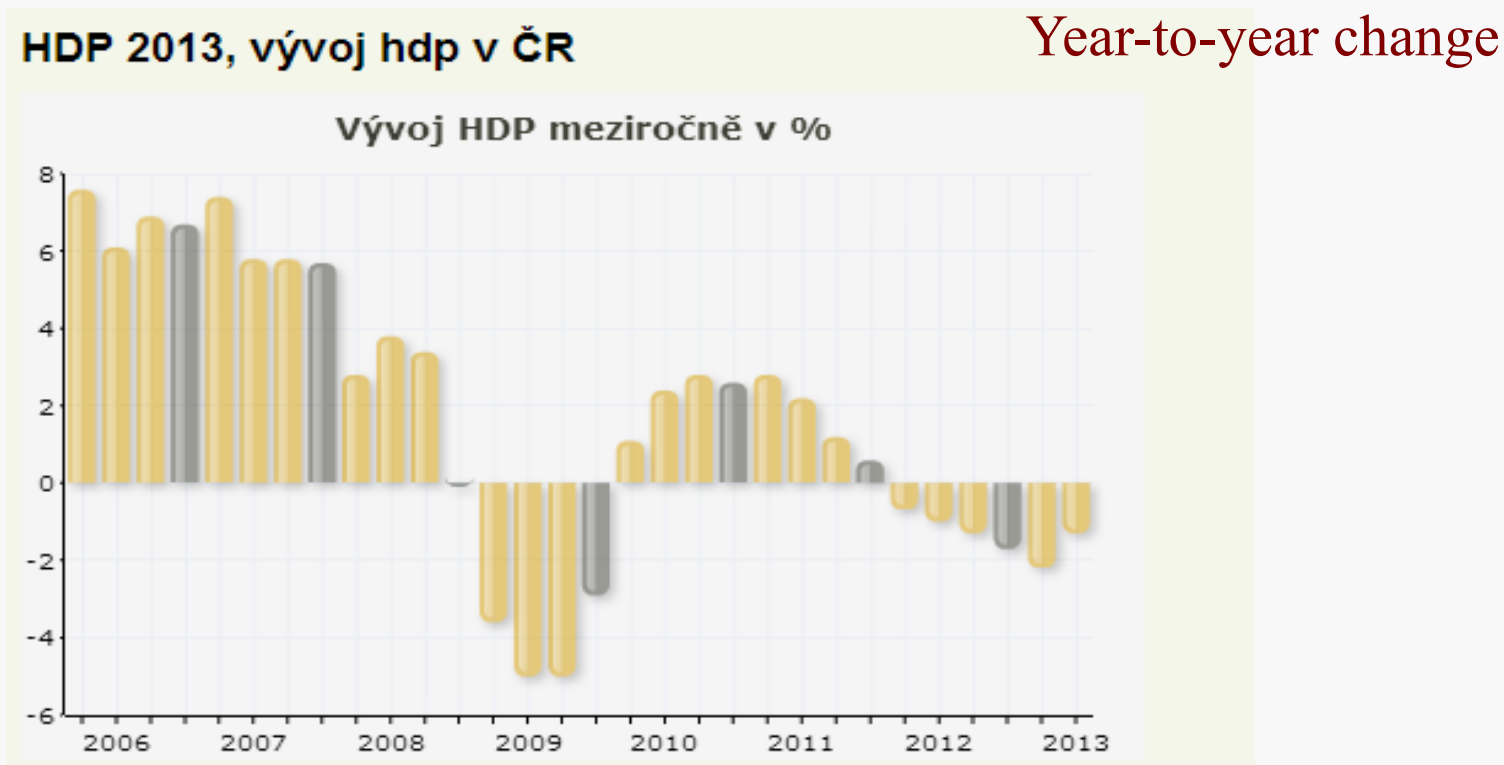
- Strengthening of the finance and banking sector
- Improvement of the domestic labour force
- Development of the local private sector
- A focused investment promotion strategy →

Investor targeting

- Regional integration and international co-operation (note: supported by EU {Interreg})



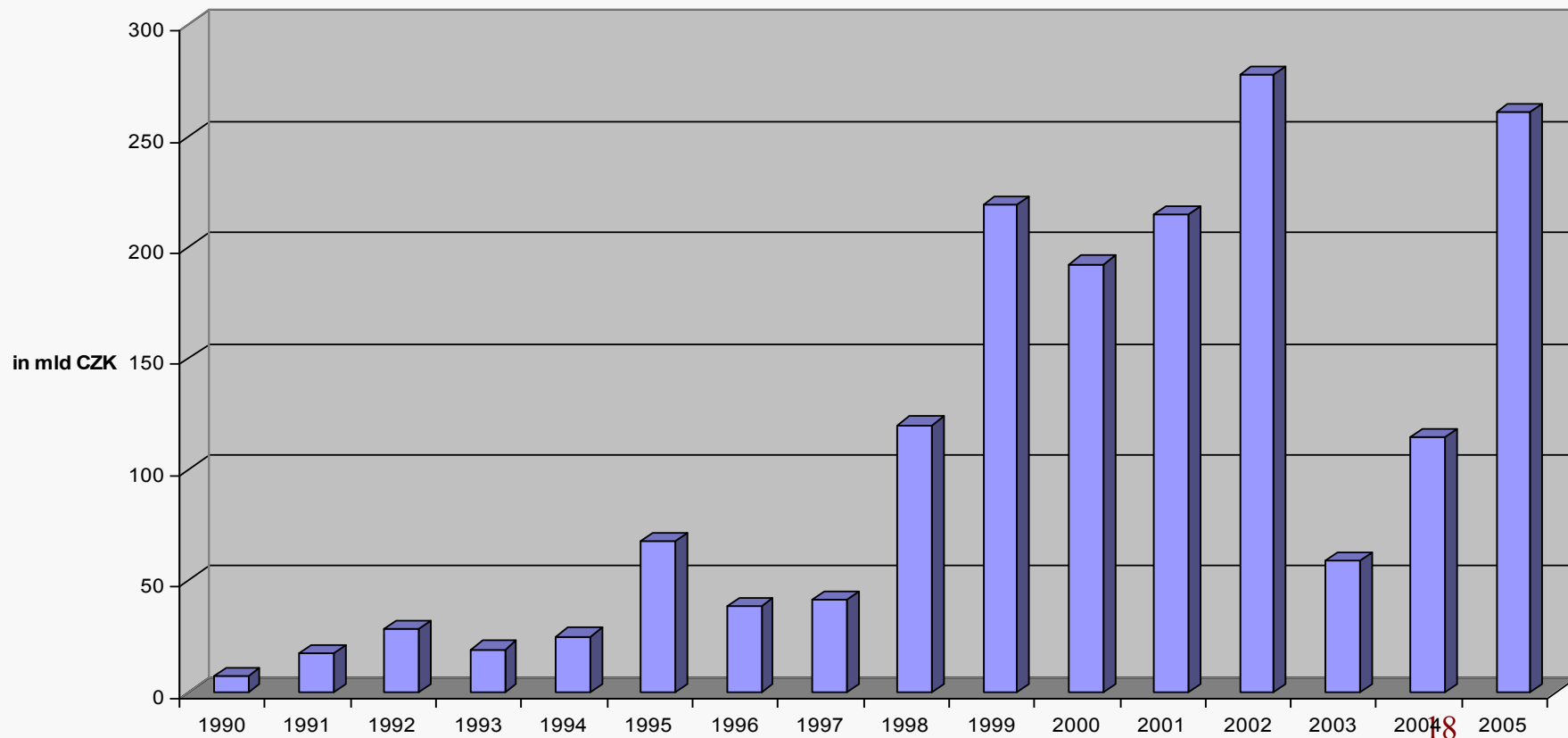
GDP in the Czech Republic



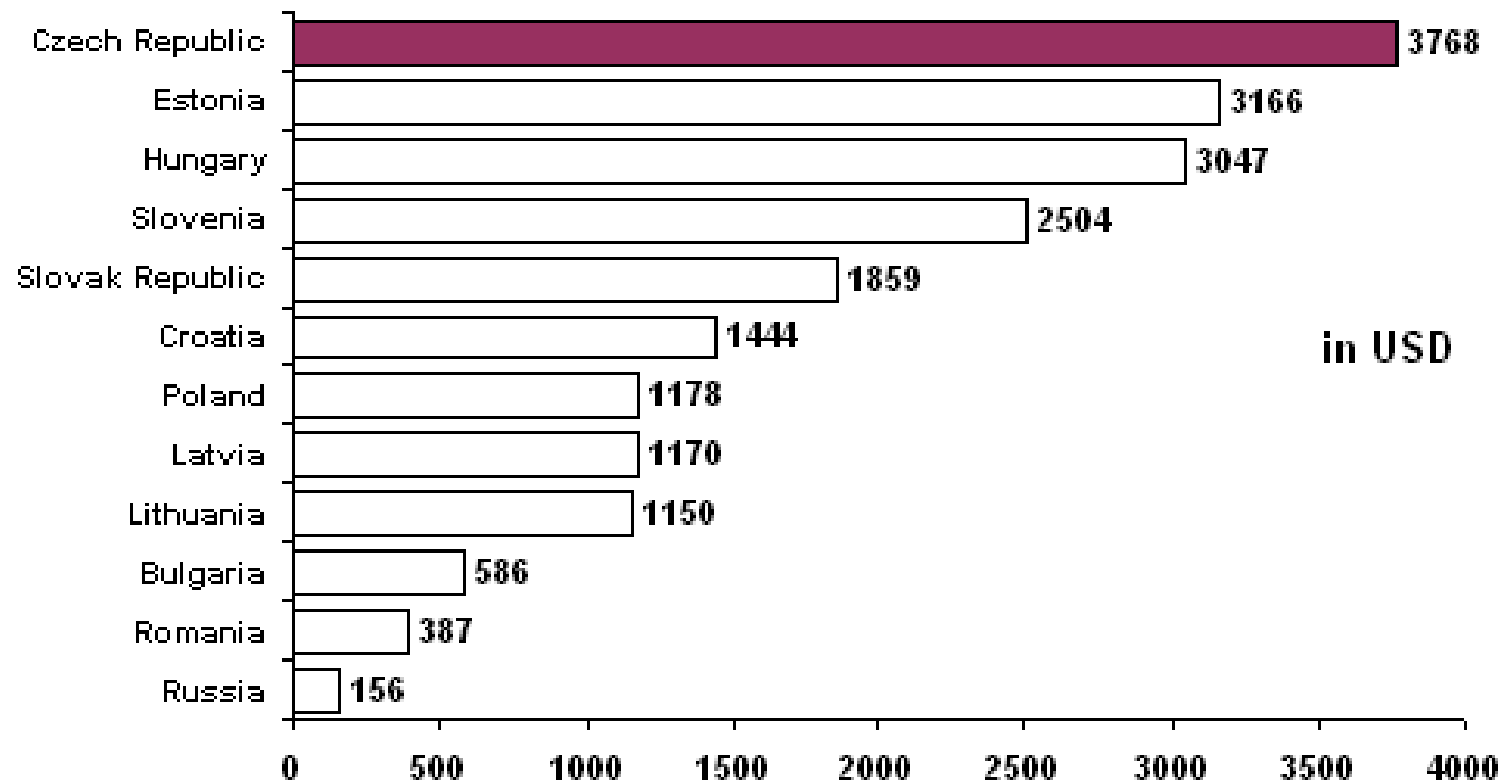
Growth: manufacturing, services, telecommunication, civil engineering, trade, transportation

FDI in the Czech Republic

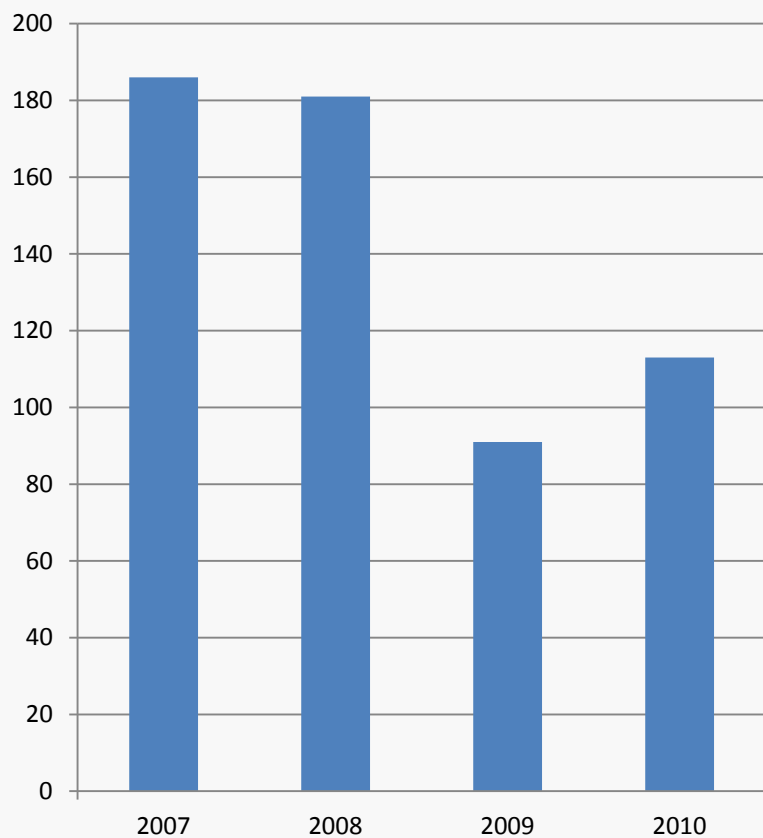
FDI flow 1990 - 2005



FDI in the Czech Republic

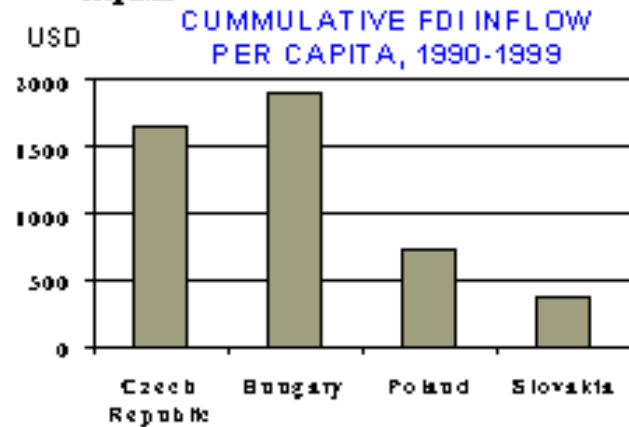
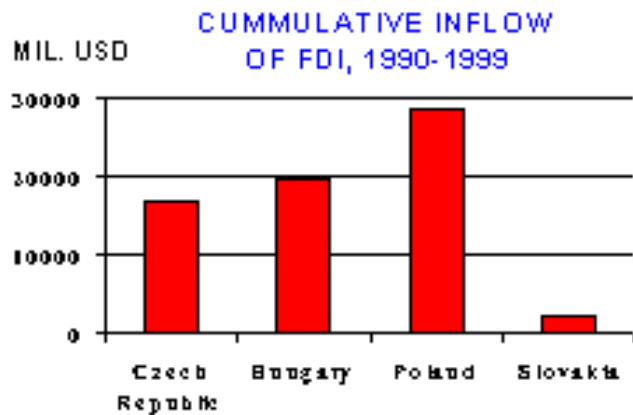
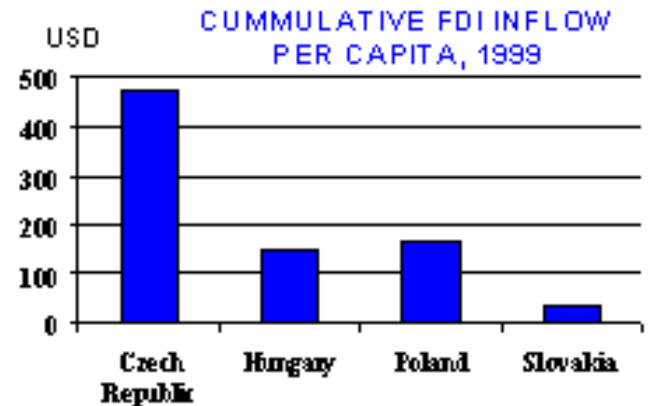
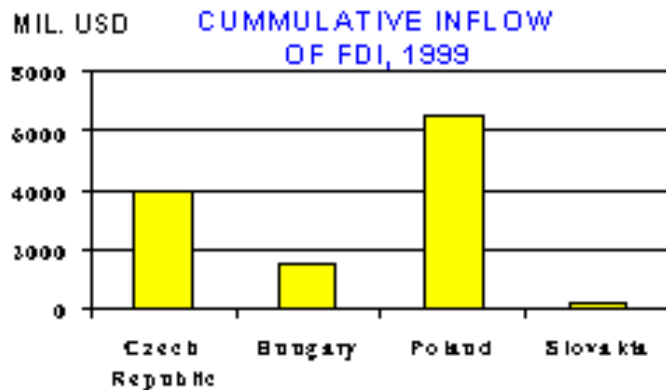


FDI in recent years

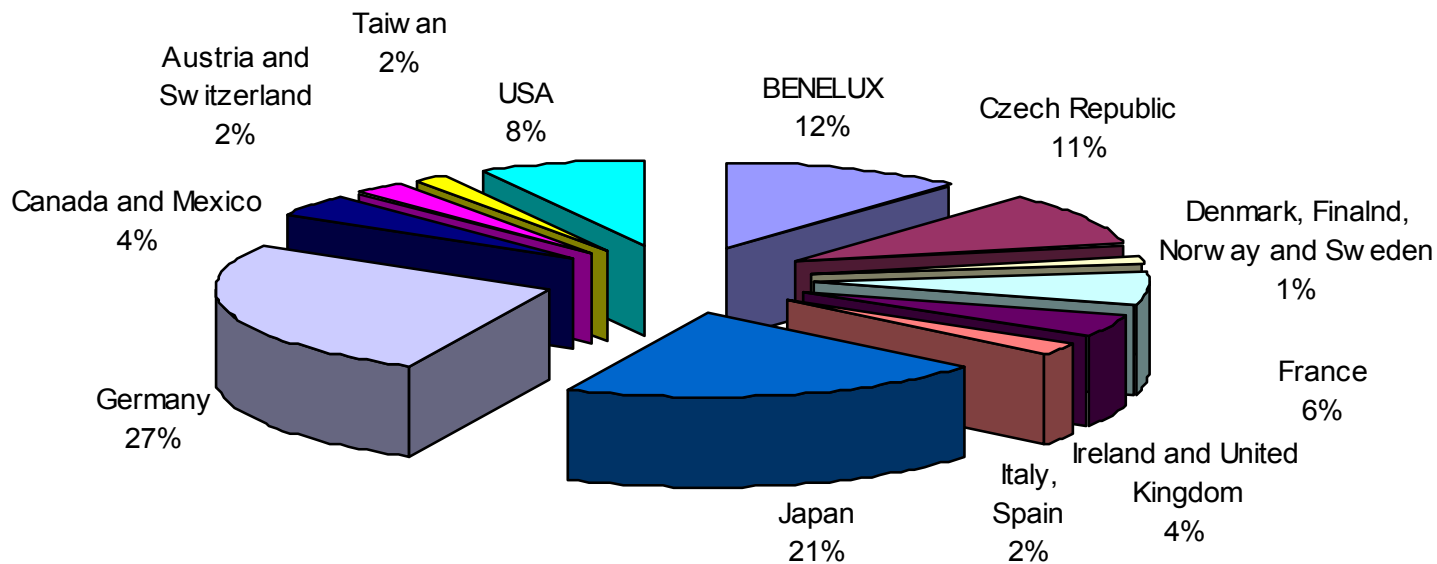


- in 2009 drop by -50% in FDI
- number of projects same but smaller in volume (=less money)
- export oriented country; HDP -4,9%
- global recovery very slow

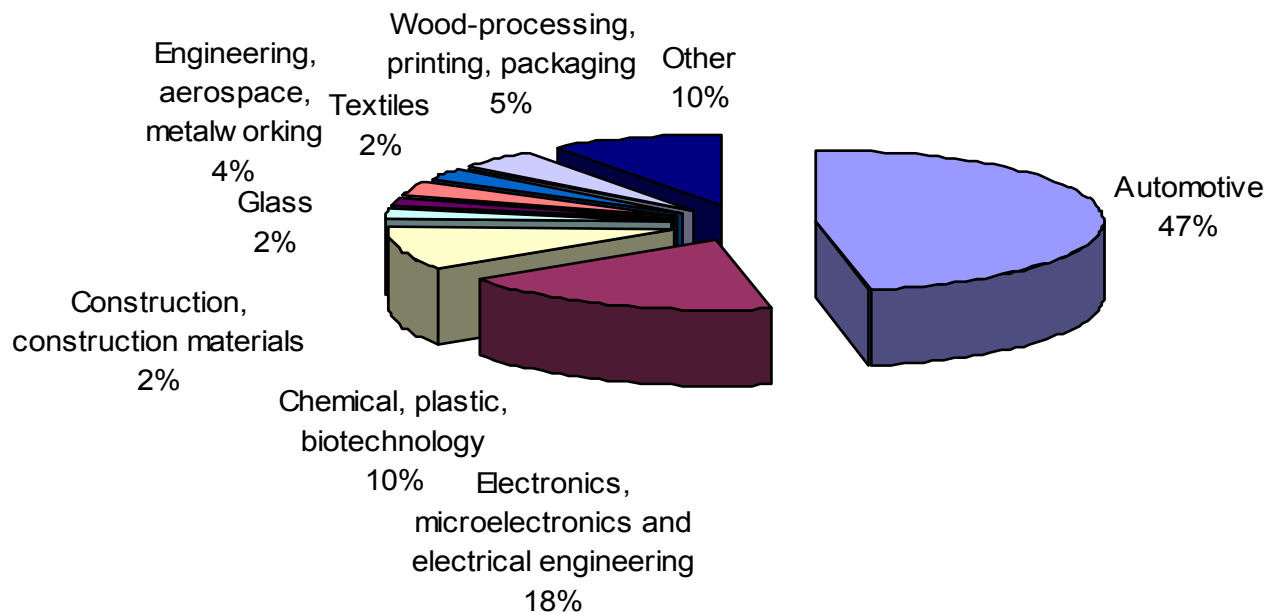
FDI data (CZ, H, PL, SI)



Investors divided by countries

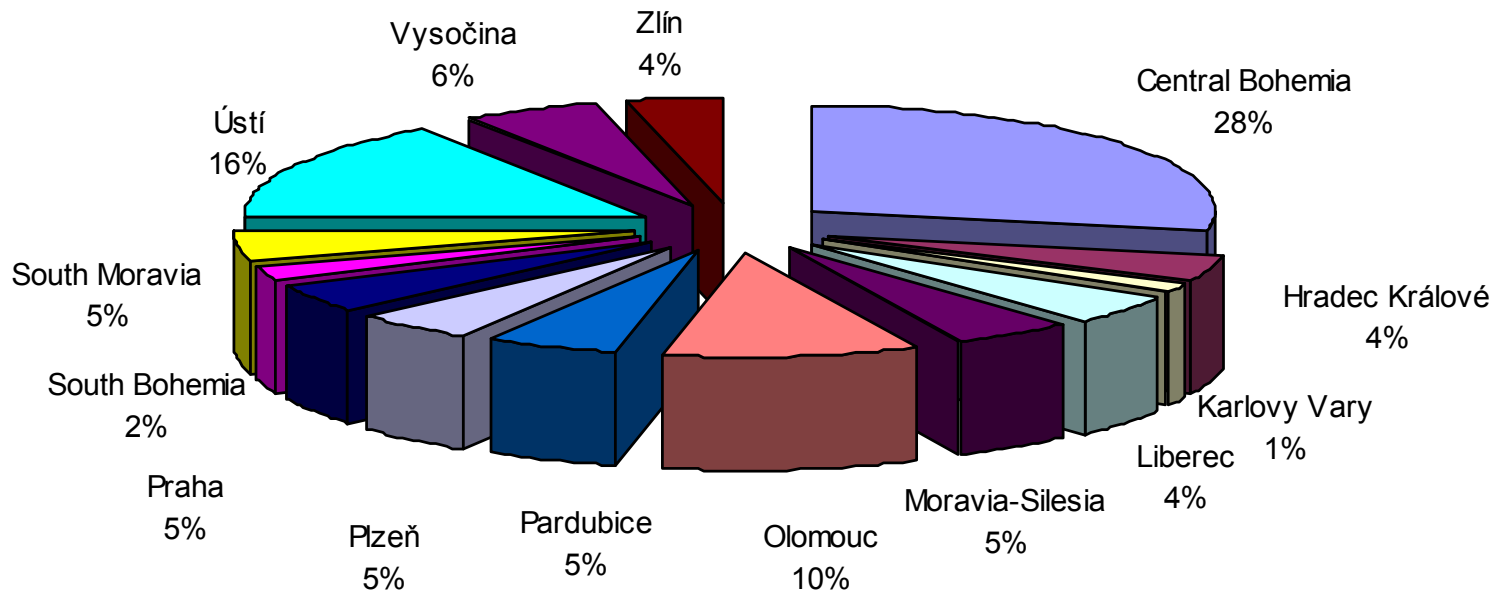


Structure of FDI



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

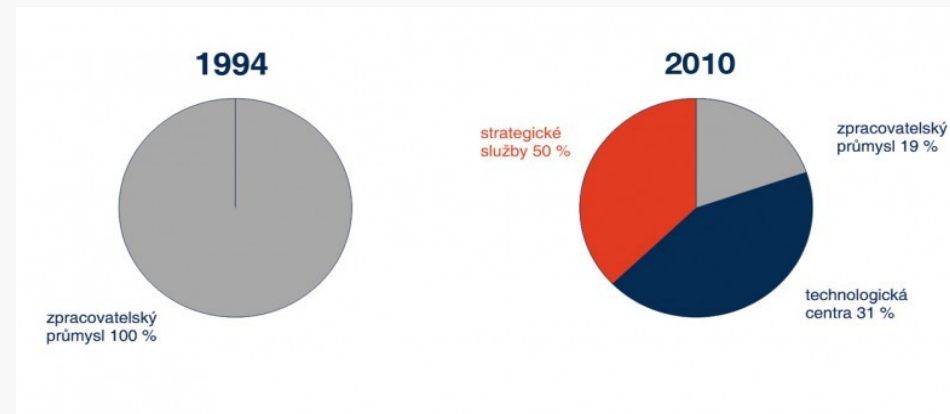
- innovation centers close to manufacturing (changes to product, production facilities...)

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“ & struct. funds

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

Recent evaluation by Czechinvest

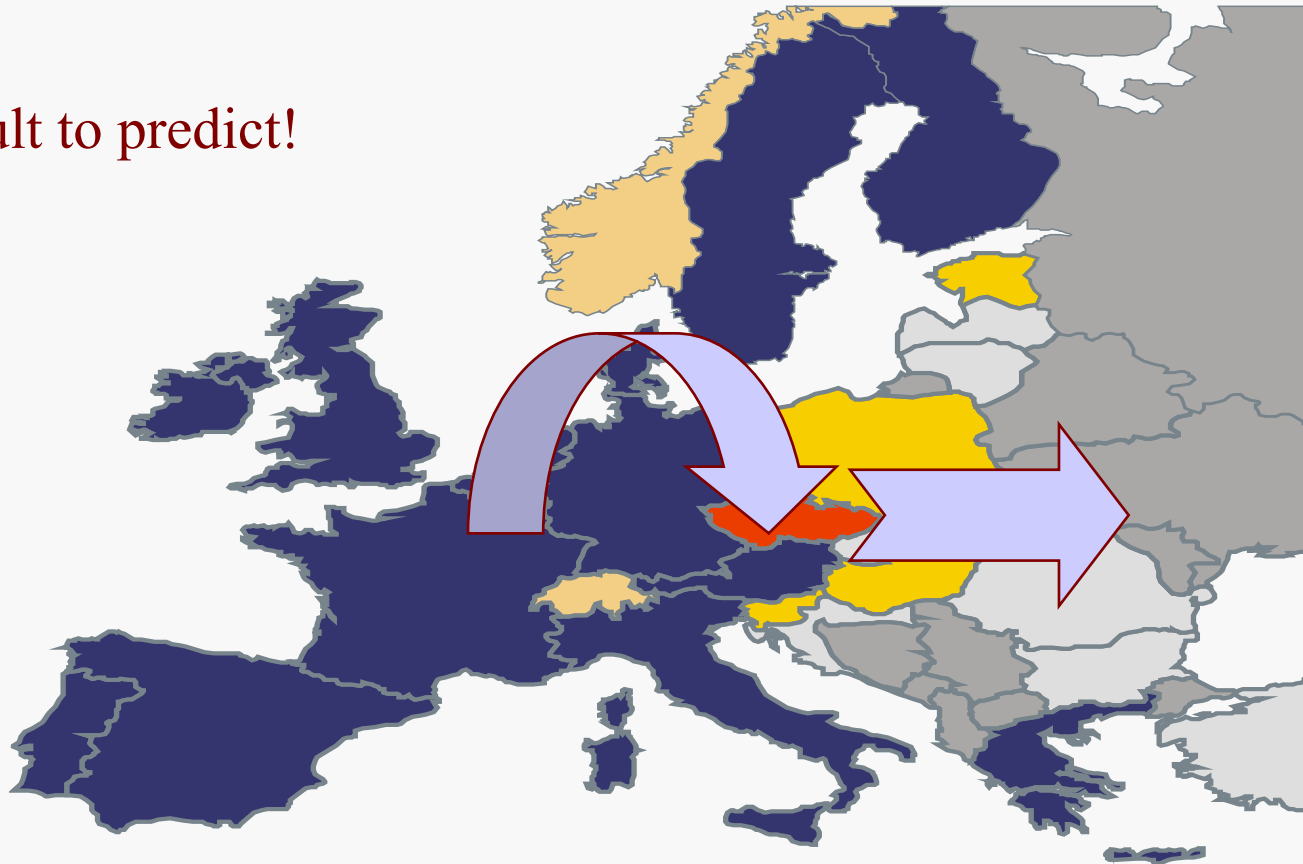
- „While in 90’s we were very attractive for huge green-field investments which required enormous investments in premises, machinery and equipment, today the Czech Republic is increasingly chosen by companies that do not require the expensive equipment, but primarily invests in training and training of their employees - programmers, designers, researchers and so on “ says Alexandra Rudyšarová, the CzechInvest director.

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? In 202x?

Future trends?

Difficult to predict!



Case study: Brno and Amazon



- Amazon in Brno
- 2,5 bil. CZK investment
- 1500 jobs

Case study: Brno and Amazon

- October 2013 - Amazon announced two large distribution centers in Brno and Dobrovíz open by Christmas 2014
- December 2013 - Brno councilors conditional approved the construction of a giant warehouse provided the Road and Motorway Directorate (RSD) would build a connection to the highway
- January 2014 - councilors refused to contract RSD with highway connection , Amazon project found deadlocked
- February 2014 - councilors again refused several variants of contracts for the construction
- March 2014 - after the next disapproval contracts with RSD Mr. Onderka Mayor of Brno, announced that it is the end of the project
- April 2014 - Amazon addressed it would look elsewhere, Brno councilors nevertheless subsequently approved the sale of land for highway ramp and gave the project their OK, then the company took the time to think
- May 2014 - councilors approved an update of the land-use-plan, which allows the construction of a giant warehouse at the Černovická terrace
- June 2014 – Amazon announced that the company will no longer pursue the construction of a warehouse in Brno

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More info available at

<http://www.czechinvest.org>

<http://www.cnb.cz>

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



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YOUR ATTENTION**

