

FOREIGN DIRECT INVESTMENT AND INVESTMENT INCENTIVES; COMPARISON OF THE CZECH REPUBLIC AND THE LIBEREC REGION

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Abstract

Foreign direct investment (FDI) has a considerable influence on economic development in Central European transition economies, including that of the Czech Republic. It was a source of capital given the initial situation and the undercapitalisation of economies at the beginning of transformation, but it also had a transmissive function and influenced the structure of economies, the size of fiscal revenues and the appearance of the supply side of the labour market. This article is divided into three parts. The first one deals with the theoretical definition of FDI and its classification, the second one concentrates on the development of FDI in the Czech Republic and the issue of investment incentives, which are closely related to FDI. The third part of the article looks at the issue of FDI and investment incentives in the Liberec Region as an example of the regional view of the issue. The aim of the article is to analyse the benefits and risks of FDI in the Czech Republic at the level of the economy as a whole and that of the region selected.

Introduction

Foreign direct investment (FDI) has a considerable influence on economic development in transition economies, including that of the Czech Republic. It was a source of capital given the initial situation and the undercapitalisation of economies at the beginning of transformation, but it also had a transmissive function and influenced the structure of economies, the size of fiscal revenues and the appearance of the supply side of the labour market. Although attention is primarily paid to the benefits of FDI, it is true to say that FDI also has its negative aspects. The main negative aspect is the risk associated with the transformation process, when we see the crowding-out-of-domestic-capital effect, the collapse of domestic enterprises unable to face up to foreign competition and the possibility of deformation of the supply side of the labour market associated with a reduction in the differentiation of the economic structure in the case of noticeable concentration on a single industry.

This article is divided into three parts. The first one deals with the theoretical background of FDI and its classification, the second one concentrates on the development of FDI in the Czech Republic and the issue of investment incentives which are closely related to FDI. The third part of the article deals with the issue of FDI and investment incentives in the Liberec

Region. Given that each and every region in the Czech Republic has its own specific features and different starting conditions, determined by long-term development. Therefore FDI and investment incentives show different characteristics at the national and regional levels, too. The aim of the article is therefore to employ the method of comparative analysis to examine the benefits and risks of FDI in the Czech Republic at the level of the economy as a whole and at the regional level, the region in question being the Liberec Region. The article makes use of Czech and foreign economic studies, the data of government institutions and agencies etc.

1 The theoretical background of FDI, positives and negatives

Foreign direct investment, FDI, has had a considerable influence on the development of transition economies. Given the undercapitalisation of such economies at the beginning of the transformation process and their economic lag behind the countries of the European Community, FDI provided them a source of capital and took on a transitional role. There was an influx of new technology (spillover effects), production procedures and work organisation as part of FDI, with these having a positive influence on the transformation of economies and their economic growth.

Foreign direct investment is defined as investment in another country with the intention of obtaining a stake in ordinary shares and decision-making powers of a minimum 10 % or such a stake as providing the investor with decision-making powers¹. FDI takes the form of a stake in registered capital, re-invested profit or loans from a parent company. This definition of the International Fund is also used by such organisations as the OECD, the European Union etc. FDI is also defined in the Czech Foreign Exchange Act which came into force in 1995.

FDI can be divided according to the perspectives of demarcation²:

- The degree of control (an enterprise with a minority share / an enterprise under foreign control);
- Motive for entry (markets seeking FDI / factors seeking FDI / assets seeking FDI);
- The manner of entry (investment in a greenfield site / investment in a brownfield site / mergers and acquisitions);
- The specialisation of the parent company (vertical – different stage of the production chain at individual branches / horizontal – similar stage of the production chain at individual branches).

Although analyses³ which emphasise the positives of FDI predominate in economic literature, FDI can also have a negative impact on the economy. The positives are mainly the net inflow of foreign capital, something which fills the gap of a lack of capital generated domestically, the arrival of new technology, the arrival of lacking human capital in the sphere of research and development and the organisation of production and the positive influence on the condition of the institutional system in the host country. Other major benefits are the greater intensity of expenditure on patent activity, product differentiation, export efficiency and improvement of the access of the business to the world markets.

The arguments outlined above create the impression of FDI having a predominantly positive effect, in that it reduces the technological lag of the host economies and serves as a channel of technological transfer, both direct and indirect (the so-called technological spillover effect).

¹ <http://www.bis.org/publ/cgfs22bde3.pdf> [9.9.2010], *Duce* (2003), page 3

² *Srholec, M.* (2004), page 13

³ See, for example, *Hunya, G.* (2002), *Benáček, V.* (2001), *Stančík* (2007), etc.

From this perspective, FDI accelerates the convergence of economies and their economic growth and generates new employment opportunities.

However, some analyses and studies also recognise the neutral or negative side of FDI. *Jarolím* (2001) does not find any significant horizontal spillover effects using the sample of more than 3000 manufacturing enterprises within 1993-1998. Perhaps the most significant is the crowding out of domestic savings by foreign capital and the liquidation of domestic enterprises unable to compete with foreign businesses (see e.g. *Stančík* (2007)). Where investment is made in industries which are demanding from the capital side of affairs at the expense of those which are demanding from the labour side of affairs, the result is an increase in unemployment. *Merkel and Snower* (2008) and *Burda* (2005) describe this trend in the former GDR. The salaries were at odds with the productivity of work and businesses therefore preferred investment in capital-intensive industries. Increasing salaries at enterprises with foreign involvement spills over into domestic businesses whose productivity is lower, thus causing a rise in unemployment. The lag of domestic enterprises can subsequently lead to the creation of a so-called dual economy, in extreme cases of which domestic businesses are under threat of being forced off the market.

A problem primarily faced by multinational corporations, meanwhile, is that of *transfer pricing*, which reduces the tax yield and is very difficult to punish. We also speak in relation to FDI of a reduction in the differentiation of the economic structure and its sterilisation, see e.g. *Hunya and Geishecker* (2005) or *Srholec* (2004). In the case of the Czech Republic this mainly involves investment in the motor industry and in the related industries. The result is therefore on one hand an above-average sector of industry which employs around 40 % of the labour force and on the other an undersized service sector by European standards

2 FDI in the Czech Republic and investment incentives

All Central and Eastern European countries found themselves in more or less the same situation after the fall of the iron curtain⁴. Consequently they “competed” for foreign investors and capital in the form of so-called investment incentives from the second half of the 1990s onwards. The government in the Czech Republic adopted the idea of investment incentives in 1998 with the aim of increasing the competitiveness of the Czech economy, at the time when Poland and Hungary already had incentive programmes in place. The implementation of the incentive programme in the Czech Republic was entrusted to the government agency CzechInvest.

The provision of investment incentives to investors began on the basis of Government Resolution 298 of 29.4.1998 in the form of pilot projects involving the processing industry. The system was developed in the course of the following two years based on the experience garnered and subsequently improved in Government Resolutions 844 of 16. 12. 1998 and 544 of 31.5.1999. The culmination of all efforts to create a comprehensive system of investment incentives was the approval of Act No. 72/2000 Sb. on Investment Incentives, which came into effect on 1 May 2000, and its subsequent updating in Act No. 453/2001 Sb., Act No. 320/2002 Sb., Act No. 438/2003 Sb., Act No. 19/2004 Sb. and Act No. 280/2004 Sb. The legislation of investment incentives is also found in other acts, primarily Act No. 586/1992 Sb. on Income Tax, as amended, and Act No. 9/1991 Sb. on Employment and the Jurisdiction of Authorities of the Czech Republic in the area of Employment, as amended.⁵ It is important to mention that investment incentives take the form of public aid and must therefore be

⁴ Given the policy of centrally planned economies, foreign investors were not present in any countries of the Eastern bloc at the beginning of the 1990s, with the exception of Hungary.

⁵ http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/inv_pob_vyvoj.html [quoted 2010-10-12]

compatible with EU legislation. Investment incentives were also accompanied by two other programmes – a programme of aid for subcontractors and a programme of aid for the development of industrial zones.

The awarding of investment incentives is bound to having satisfied the following conditions⁶:

- the acquisition of machinery of a value of at least 40 % of the total value of acquired long-term tangible and intangible assets with a maximum of 3 years of the handing-down of the decision to pledge investment incentives;
- the acquisition of long-term tangible and intangible assets of a minimum amount of CZK 200 million (CZK 150 million is sufficient in districts with a level of employment in excess of the average rate of unemployment according to the statistics of the Ministry of Labour and Social Affairs by a minimum of 25 % and CZK 100 million in districts with a level of employment in excess of the average rate of unemployment according to the statistics of the Ministry of Labour and Social Affairs by a minimum of 50 %) within a maximum of 3 years of the handing-down of the decision to pledge investment incentives, whereby half of this sum must be covered by owned capital or, for natural persons, owned funds;
- the acquisition of long-term tangible and intangible assets as part of an investment operation no earlier than on the date of submitting the intention to obtain investment incentives.

Whereas investment in the processing industry was primarily preferred at the beginning, we are currently seeing a trend for support of technological centres, centres of technological services and customer support, or indeed problem-solving and service centres. According to information from CzechInvest, about 1350 investment projects, 450 of these of Czech origins, have been brokered since 1993. The preference for technological and strategic centres has been more than evident in the Czech Republic in recent years. Whereas projects exclusively focused on the processing industry back in 1994, such projects only accounted for 19 % in 2009. Other 36 % of projects involved strategic services and 45 % technological centres.⁷

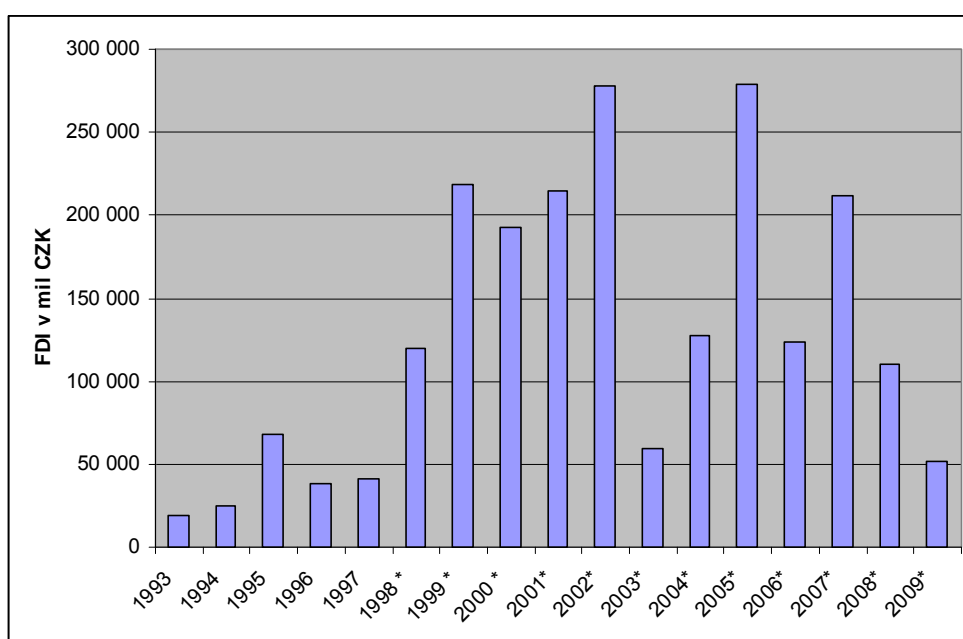
The stimulus of investment incentives had undoubtedly an effect on the volume of FDI invested. As it is clear from *Figure 1*, since 1998 we can see a rise in the influx of FDI that, with the exception of 2003 and 2009, was in excess of 100 thousand million crowns a year. Record volumes of almost 280 thousand million crowns were reached in 2002 and 2006. If we concentrate on the territorial structure, which the Czech National Bank (ČNB) also keeps on record as part of currency and financial statistics, almost a quarter of the total 3 067 377 million crowns came from Germany, 13 % from the Netherlands and 12 % from Austria. Almost half the investment, therefore, came from a mere three Western European states, two of which directly border the Czech Republic.

According to the latest report from CzechInvest, about 486 projects were carried out as part of this influx of FDI between 1998 and 2008 to a total value of 357 thousand million (of the total 2 823 363 million crowns of overall FDI), creating around 308 000 jobs in the process. Twenty-seven percent of these positions were created on the investor-side and the remaining 73 %⁸ on the supplier-side. As far as the overall fiscal impact of foreign direct investment is concerned, fiscal revenues reached almost 260 thousand million crowns in the past ten years, whereby investment incentives accounted for 30 thousand million crowns. The average value of state revenue is therefore over eight times more than the value of investment incentives.

⁶ Ibid.

⁷ <http://www.czechinvest.org/podpora-investic> [quoted 2010-10-12]

⁸ CzechInvest (2009) page 2



FDI in millions of CZK

Source: Czech National Bank (ČNB), Monetary and financial statistics, time series FDI

N.B.: Data to 1997 only includes foreign direct investment in registered capital, with re-invested profits and other capital included from 1998 onwards.

Graph 1 The inflow of FDI to the Czech Republic 1993-2009 in millions of CZK

The facts outlined above confirm the theory of the benefits of foreign direct investment and investment incentives for an economy in the shape of higher fiscal revenues and jobs created. However, the CzechInvest study does not take into account the flip side of the FDI coin. It is therefore unclear how investment affected domestic businesses in individual sectors or how many jobs were lost in domestic businesses as a result of the presence of powerful foreign enterprises. These phenomena are analysed by *Stančík*⁹, for example, who states in his analysis that a 1 % increase in the volume of foreign capital causes a drop of around 1.8 % in the range of domestic companies in the sector. Domestic suppliers mainly do not profit in the case of horizontal investment from a foreign business on the same market and lose their position on the domestic market. *Schwarz et al.* (2007) further figured out that the investment incentives (II) had a rather negative effect on long-term economic development. The II in the Czech Republic aimed mainly into the region with the highest GDP per head and lower unemployment rates (City of Prague and Central Bohemia Region) which rather boosts the regional disparities. According to the study, the average costs on each job created due to the II are 1.6 million CZK. That is a substantially higher amount than using the traditional employment policy measures. For the main and undoubtable contribution of the II we can therefore consider the technological transfer rather than the fiscal or job creation effects.

⁹ *Stančík*, (2007), page 25

3 FDI and investment incentives in the Liberec region

The benefits and negative phenomena associated with an influx of foreign direct investment to the Czech Republic and the share of investment incentives in its growth and frequency are relatively complicated to evaluate on a nationwide scale. There are currently relatively few sources that describe in detail the effects of FDI on the Czech market. The data that we do have available is often predominantly devoted to overall movement within the Czech Republic. It is also important to realise that the volume of direct investment has shown on a continual upward trend so far and has differed greatly in a comparison of individual regions. For the first few years at least we saw FDI for practically a single, solitary operation, the motives for which (apart from investment incentives) were fairly diverse – cheaper and relatively well qualified workforce, the tradition of an industry and various recommendations and activities of groups or individuals. Only in recent years we can talk of a certain standard or established development.

However, it is and will be necessary to confirm the generally proclaimed benefits of investment incentives for investment growth. Then the fiscal and employment benefits must be revised by the lost taxes and dismissed employees of the companies that were forced out by the investment and closed down their business.

Therefore, there is an evident need to analyse foreign direct investment at its micro level, and therefore in individual regions. There we have a better chance of reaching the results of individual companies, their employee structures and tax levies and of monitoring the subsequent socio-economic influences of these companies on their immediate surroundings. This could as a result provide us with a more objective view of the positive and negative interaction of individual FDI with the region.

The FDI most commonly monitored is that activated by investment incentives. It is absolutely true that the main enticement for foreign investment in the Czech Republic is investment incentives, and so we can perhaps compare the costs of these with the overall positive impacts of FDI and in doing so find out whether this economic policy works for us or not. The question is, how to measure the impacts of FDI on the efficiency of the economy, employment or the state budget? How do we check whether investment was directed to regions and which of them were able to extract most? And how to place on record the indirect costs of the alternative use of taxes from which incentives were financed? To find some credible answers we should be able to describe the hypothetical situation without any incentives. We need to estimate, for example the level of unemployment, that would have come about if investment incentives did not exist. In academic practice we can find procedures that provide at least an approximate answer to some of these questions.¹⁰

The data obtained allows us to compare investment as motivated by investment incentives in individual regions. It is important for this comparison to take into account the individual types of investment incentives: These are as follows¹¹:

- An income tax rebate for legal entities;
- Financial aid for new employment positions;
- Financial aid for training and requalification;
- The provision of land with infrastructure for a special price;
- The transfer of land owned by the state at a special price.

¹⁰Jurajda (2008), page 1

¹¹ Czechinvest (2010), Finální zpráva vyhodnocení dopadů investic čerpajících pobídky a zhodnocení efektivity agentury CzechInvest, page 65

The most abundantly used incentive was income tax, meaning the fiscal source of the state budget. Based on the categorisation of investment incentives outlined above we can, in a comparison of FDI supported by investment incentives, monitor the fundamental effects in individual regions, categorised as follows:

- The effect on employment and salaries (the labour market effect);
- Tax revenues (the fiscal effect);
- Other economic and social effects (the structure of industry in the region, the competitiveness of businesses, the introduction of know-how, the development of the workforce at all levels, including management, the export performance of the region, support for research, technological transfer, the increase in quality of products and processes).

As stated above, a total of 486 operations of a planned investment value of around CZK 478 thousand million (in that the value of investment actually made was 357 thousand million crowns) were carried out between 1998 and 2008 on the basis of investment incentives. This, however, is the total figure and says nothing of the distribution of FDI among individual regions or of its actual effects.

Table 1 Number of planned projects in individual regions, 1998 - 2008

Region	Number of planned projects	Planned value of investment (millions of CZK)	Average planned value of investment (millions of CZK)
Moravia and Silesia Region	73	77 000	1055
Olomouc Region	34	28 957	852
Pardubice Region	22	24 555	1116
Liberec Region	19	22 908	1206
South Moravia Region	50	32 003	640
Ústí nad Labem Region	86	82 720	962
Central Bohemia Region	60	88 912	1482
Zlín Region	18	13 047	725
Hradec Králové Region	23	20 547	893
South Bohemia Region	18	11 509	639
Vysočina Region	25	31 361	1254
Pilsen Region	31	21 335	688
Karlovy Vary Region	12	7 456	621
City of Prague	2	2 444	1222
A number of regions	13	13 447	1034
Total	486	478 200	984

Source: compilation by authors based on CzechInvest (2010), page 65

It should be quite fair to admit that this data is taken from a single source which describes the situation of investment incentives and investment at the level of individual regions, a study of the agency CzechInvest. Unfortunately, no other credible sources are available. It is therefore necessary to rely on these figures. This results in a quite surprising finding.

Even from the quick comparison illustrated in *Table 1* it is clear that if we compare the Liberec Region with, for example, the Ústí nad Labem Region, thus two neighbouring regions that used to be one statutory county. There is a considerable difference in the number of

planned investment operations with investment incentives and their total value firmly in favour of the Ústí nad Labem Region, in that the average value of a single operation differs less. By contrast, in a comparison with the Zlín Region, which gives the size and nature of business comparable with the Liberec Region, the average value of one investment in the Liberec Region is almost double.

When examining the labour market effect on individual direct investments, it is important to define the investment and operational stages of investment. The first phase is mainly associated with creating productive capacity of employment. In the second phase the employees receive some specific activities according to investment purpose and goal.

There are differences mainly in the time and stabilisation of the level of employment (“sustainability”). The effect can be direct and indirect ; i.e. the effect of employment brought about by the investor itself and the effect brought about by the purchases made by the investor from suppliers at both the investment stage and the operational stage. Cumulatively, the data gives us an idea of the total number of newly-created jobs in the decade under consideration, whereby we need to take into account the fact that there is always a decrease in employment as part of an entire operation following its investment stage, meaning that only “sustainable” positions remain.

It is clear from *Table 2* that after a relatively hesitant start the share of employment brought about by FDI with investment incentives in the Liberec Region in the full extent of such operations in the Czech Republic rose continually. This trend could indicate the gradually rising attractiveness of this region for investors and, following their investments, the rise in regional employment positions. However, from a different angle it might refer to the increasing dependence of the region on FDI from the employment perspective given that almost the same trend is also seen in the rise of employment at the operational stage of foreign direct investment. If, therefore, FDI in the Liberec Region continues to rise, the labour market will willingly accept given that it needs the employment in question more and more.

Table 2 Newly-created jobs brought about by FDI with II in the Czech Republic and the Liberec region, 1998 - 2008

Year	CR total	CR excluding IS	LR total	LR excluding IS	% of LR in CR	% of LR in CR excluding IS
1998	22 475	14 773	0	0	0	0
1999	35 051	23 052	732	253	2,1%	1,1%
2000	60 849	40 968	1 455	714	2,4%	1,7%
2001	98 644	75 867	2 749	2 104	2,8%	2,8%
2002	137 927	99 064	3 648	2 734	2,6%	2,8%
2003	152 120	118 296	5 596	3 466	3,7%	2,9%
2004	165 773	138 834	6 223	5 344	3,8%	3,8%
2005	215 318	172 808	8 857	7 478	4,1%	4,3%
2006	263 828	217 541	12 323	10 727	4,7%	4,9%
2007	296 896	245 770	13 854	12 378	4,7%	5,0%
2008	308 043	251 489	13 379	12 356	4,3%	4,9%

Source: compilation by authors based on CzechInvest (2010), pages 69, 150

Explanatory notes: CR – Czech Republic, LR – Liberec region, IS – investment stage, II – investment incentives

Projects supported by investment incentives are a financial burden for the state at the initial stage, an additional expense on standard expenditure that therefore reduces revenue for the

state budget. If the investment and development stage is successful, however, FDI subsequently becomes a source of revenue for the state budget in the form of income tax for legal entities and natural persons and social security and health insurance payments. This is the fiscal effect. These revenues, shown in *Table 3*, come from investors and suppliers alike.

The tax contribution of FDI for the Liberec Region (LR) and its development is similar to employment, with the exception of the year 2000, when it was not possible to collect the corresponding proportion of tax. Catching up with the delay at the beginning of the decade is projected in accumulation, which at the end of the period corresponds to the share of the final year. The trend of increasing the share of the LR in the CR is similar to the labour market effect. We can therefore say that as with the labour market effect, the fiscal effect of FDI in the Liberec Region increased in significance on a nationwide scale.

Table 3 Fiscal revenues from FDI with II for the CR and the LR, 1998 – 2008 (thousands of CZK)

Year	CR total	CR cumulative	LR total	LR cumulative	% of LR in CR	% of LR in CR cumulative
1998	1 793 006	1 793 006	0	0	0	0
1999	2 884 317	4 677 323	46 506	46 506	1,6%	1,0%
2000	5 213 101	9 890 424	203 456	249 962	3,9%	2,5%
2001	10 683 631	20 574 055	327 029	576 991	3,1%	2,8%
2002	16 662 239	37 236 294	455 706	1 032 698	2,7%	2,8%
2003	20 041 551	57 277 845	779 531	1 812 229	3,9%	3,2%
2004	23 258 152	80 535 997	918 887	2 731 116	4,0%	3,4%
2005	31 133 265	111 669 262	1 449 112	4 180 228	4,7%	3,7%
2006	41 650 797	153 320 059	2 141 219	6 321 447	5,1%	4,1%
2007	51 119 745	204 439 803	2 511 030	8 832 477	4,9%	4,3%
2008	55 601 963	260 041 767	2 493 349	11 325 827	4,5%	4,4%

Source: compilation by authors based on CzechInvest (2010), pages 75, 153

One effect brought about by foreign direct investment, but not quantified, is the technological transmission of a know-how effect, whereby foreign companies bring complete production processes and technological procedures to the economy of a country. This in turn promotes the development of science and research, and not only at the application stage; it can also affect theoretical development, particularly when entering into cooperation with the Academy of Sciences, research universities and other universities. As *CzechInvest* asserts¹², more than a third of investors (36 %) cooperate with universities or with the Academy of Sciences at a national level, whereas this figure for the Liberec Region is only 22 %.

In conclusion it seems appropriate to compare the effectiveness of FDI in the CR and the LR in a comparison of fiscal revenue in the CR and the LR and investment incentives in the CR and in the LR. The most interesting data in *Table 4* concerns investment incentives in the Czech Republic in the decade in question and the share of the Liberec Region in this (0.6 %) and the percentage expression of fiscal revenues of the Liberec Region in the revenues of the CR (4.4 %) generated in the same way. Whilst the authors are aware of the very simplified view of the matter, it is nonetheless possible to infer from these figures that the Liberec Region has become a more and more interesting region from the perspective of foreign direct

¹² CzechInvest (2010), pages 87, 158

investment year after year, but that investment incentives probably do not play a significant role in this trend.

Neither can we talk of their high effectiveness in the Liberec Region (high net incomes for the value of invested incentives) because not even in 1999, when the Liberec Region took in 6.8 % of all investment incentives in the Czech Republic, or in 2006 and 2007, when 1 % and more was provided, did they cause noticeable fluctuations in the fluid growth of the share of the Liberec Region in terms of net and fiscal revenues and, as we have seen above, in terms of employment in the Czech Republic. The cooperation between investors and scientific and research authorities in the Region as support of the technological transfer of know-how effect remains in the red in the Liberec Region.

An analysis of data for the Liberec Region does not therefore confirm unambiguously positive benefits of FDI for the economic situation and development of the Region, neither does the lack of available information allow it to reveal any outright negative effects. The output data from CzechInvest deny thus quite successfully initial theoretical assertions about the real support of investments by incentives. It also confirms the heterogeneity of views to a necessity of investment incentives for a growth of meaningful investments in the Czech Republic. Again, we must go back to monitor the economic parameters at regional levels and especially it confirms the need for more studies of the topic.

This is, of course, a conscious opinion shortcut. The authors will carry out a more detailed analysis and collect further data for the examination, verification or contradiction of the results shown above.

Table 4 Share of LR in fiscal revenues and provided II in the CR (thousands of CZK)

Year	Fiscal revenues CR	Provided II CR	Fiscal revenues LR	% of LR in CR	Provided II LR	% of LR in CR
1998	1 793 006	16 630	0	0	0	0
1999	2 884 317	99 864	46 506	1,6%	6 831	6,8%
2000	5 213 101	400 634	203 456	3,9%	0	0,0%
2001	10 683 631	948 806	327 029	3,1%	0	0,0%
2002	16 662 239	2 363 728	455 706	2,7%	18 725	0,8%
2003	20 041 551	3 122 017	779 531	3,9%	0	0,0%
2004	23 258 152	5 084 665	918 887	4,0%	0	0,0%
2005	31 133 265	3 524 027	1 449 112	4,7%	13 354	0,4%
2006	41 650 797	4 418 130	2 141 219	5,1%	46 091	1,0%
2007	51 119 745	6 043 638	2 511 030	4,9%	80 720	1,3%
2008	55 601 963	4 046 685	2 493 349	4,5%	14 775	0,4%
Total	260 041 767	30 068 824	11 325 825	4,4%	180 496	0,6%

Source: compilation by authors based on CzechInvest (2010), Manažerské shrnutí, page 155

Conclusion

Foreign direct investment (FDI) has a considerable influence on economic development in transition economies, including that of the Czech Republic. It was a source of capital given the initial situation and the undercapitalisation of such economies at the beginning of transformation, but it also had a transmissive function and influenced the structure of economies, the size of fiscal revenues and the appearance of the supply side of the labour market. Although attention is primarily paid to the benefits of FDI, it is true to say that FDI

also has its negative aspects. The main negative aspect is the risk associated with the transformation process, when we see the crowding-out effect of domestic capital, the collapse of domestic enterprises unable to face up to foreign competition and the possibility of deformation of the supply side of the labour market associated with a reduction in the differentiation of the economic structure in the case of noticeable concentration on a single industry.

The first part of the article illustrated the development of FDI in the Czech Republic since the establishment of the country, whereby the dynamic of its inflow grew considerably following the introduction of a programme of investment incentives in 1998. The actual implementation of the investment incentive programme was entrusted to the CzechInvest agency, according to whose latest report about 357 thousand million crowns has been invested in the Czech Republic in relation to incentives and more than 300 thousand jobs created. Fiscal revenues arising from FDI accounted for 230 thousand million crowns between 1998 and 2008.

These are the main benefits of incentives. Unfortunately, however, the CzechInvest report does not analyse the negatives. One of these is the high percentage of investment in the industrial sector, concentrating on the production of means of transport and equipment. Half of all investment in the processing industry was directed there, which had a negative effect on economic diversity. Although the share of FDI in the secondary sector has shown a long-term falling trend in terms of overall FDI, according to the data obtained from the Czech National Bank an average of 40 % of overall FDI was invested in this sector. Neither does the report take into account the impacts of investments on domestic businesses, meaning that it does not mention how many jobs were lost as a result of domestic enterprises going out of business, something which also results in drops in state revenues.

If we concentrate on FDI at a regional level, looking in our case at the Liberec Region (LR), we can say that the Region attracted 19 of the total 486 planned projects in the Czech Republic between 1998 and 2008 to a total value of almost 23 thousand million crowns, i.e. roughly 5 % of the total planned investment in the CR. To achieve this result, however, it used less than 1 % of the total value of investment incentives in the whole CR. Almost 70 thousand jobs were created, around 4 % of the jobs created in the CR thanks to investment incentives. The Liberec Region, meanwhile, contributed 4.4 % to the net fiscal revenue of the state from investment incentives. These figures can be considered just about right in a nationwide comparison given the fact that the Region has long had a share of around 4 % of the population and in the number of jobs in the Czech Republic. An analysis of data for the Liberec Region does not therefore confirm unambiguously positive benefits of FDI for the economic situation and development of the Region, neither does the lack of available information allow it to reveal any outright negative effects.

Nonetheless, the authors are aware that the analysis of FDI in the Liberec Region was only carried out based on the main indicators and does not take into account any changes in the structure of jobs or other impacts, such as changes in the sectoral and commodity structure or in the export structure. The authors intend to devote attention to these aspects in further, more detailed studies that focus primarily on the role of FDI in the Liberec Region.

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PŘÍMÉ ZAHRANIČNÍ INVESTICE A INVESTIČNÍ POBÍDKY, POROVNÁNÍ ČR VS. LIBERECKÝ KRAJ

Přímé zahraniční investice (FDI) mají v středoevropských ekonomikách včetně ČR značný vliv na ekonomický vývoj. Vzhledem k výchozí situaci a podkapitalizovanosti ekonomik na počátku transformace byly jednak zdrojem kapitálu, plnily ale i funkce transmisní a ovlivnily strukturu ekonomik, výši fiskálních příjmů i podobu nabídkové strany trhu práce. Článek je rozdělen na tři části. První se zabývá teoretickým vymezením FDI a jejich klasifikací, druhý se soustředí na vývoj FDI v ČR a problematiku investičních pobídek, které s FDI úzce souvisí. Třetí část článku se zabývá problematikou FDI a investičních pobídek v Libereckém kraji. Cílem článku se zanalyzovat přínosy a rizika FDI v ČR na úrovni celé ekonomiky a na úrovni vybraného kraje.

AUSLÄNDISCHE DIREKTINVESTITIONEN UND INVESTITIONSANREIZE, VERGLEICH TSCHECHISCHE REPUBLIK VS. REGION LIBEREC

Ausländische Direktinvestitionen haben in den MOE-Ländern, incl. Tschechische Republik, einen erheblichen Einfluss auf die wirtschaftliche Entwicklung. Sie wurden sowohl Kapitalquelle als auch Kanal für den technologischen Transfer. Sie beeinflussen die Struktur der Wirtschaft, die Höhe der Steuereinnahmen und das Angebot auf dem Arbeitsmarkt. Der Artikel ist in drei Teile gegliedert. Der erste befasst sich mit der theoretischen Definition von FDI und deren Gliederung, der zweite konzentriert sich auf die Entwicklung der ausländischen Direktinvestitionen in der Tschechischen Republik und auf die Frage der Investitionsanreize, die mit ausländischen Direktinvestitionen eng in Verbindung stehen. Der dritte Teil des Artikels befasst sich mit Direktinvestitionen und Investitionsanreiz in der Region um Liberec. Ziel des Artikels ist es, die Vorteile und Risiken der ausländischen Direktinvestitionen auf der Republik- und Kreisebene zu analysieren.

BEZPOŚREDNIE INWESTYCJE ZAGRANICZNE ORAZ ZACHĘTY INWESTYCYJNE - PORÓWNANIE KRAJU LIBERECKIEGO NA TLE REPUBLIKI CZESKIEJ

Bezpośrednie inwestycje zagraniczne (FDI) mają w gospodarkach środkowoeuropejskich, w tym w Czechach, duży wpływ na rozwój gospodarczy. Ze względu na sytuację wyjściową i niedokapitalizowanie gospodarek na początku przemian ustrojowych były one źródłem kapitału, pełniąc też funkcję transmisyjną oraz wpływając na strukturę gospodarek, wartość przychodów fiskalnych oraz kształtowanie podaży na rynku pracy. Artykuł podzielono na trzy części. Pierwsza poświęcona jest teoretycznemu zdefiniowaniu FDI oraz ich klasyfikacji, druga skupia się na rozwoju FDI w Czechach i na zachętach inwestycyjnych, które są ściśle związane z FDI. Trzecia część artykułu dotyczy FDI i zachęt inwestycyjnych w Kraju Libereckim. Artykuł ma na celu analizę korzyści i ryzyk związanych z FDI w Czechach z punktu widzenia całej gospodarki i wybranego regionu.