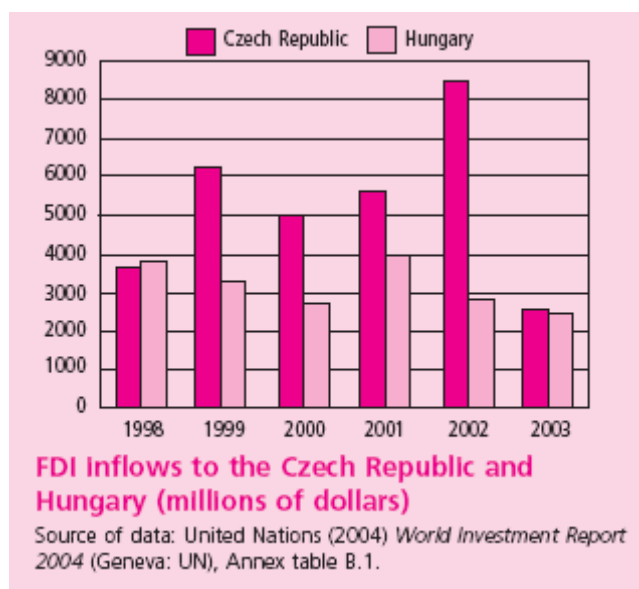


## Formula for FDI success in the Czech Republic

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

Following a period of weak growth from 1997 to 1999, the Czech Republic has overtaken its Central and Eastern European neighbours in attracting FDI. From 2000, it has attracted the highest per capita inflows of the former Communist states in the region, and now has a larger stock of investment than Hungary, which was an early leader in attracting foreign investors. Of the two countries, whose economies are similar in size, the Czech Republic has surged ahead in attracting FDI (see figure). Historically, the Czechs are linked with brewing and Skoda cars, now owned by Volkswagen of Germany. But the country has moved on from its indigenous beer and engineering past. A major achievement was success in persuading the joint venture between Toyota and Citroen to invest a1.5bn. in a new car factory in Kolin in 2001, employing 3000 workers. Poland had hoped to be selected for this plant, pointing particularly to the fact that, with a population of 39 million, it is four times the size of either Hungary or the Czech Republic, and market size is an important factor for potential investors. However, the investment incentives and training grants offered by the Czech government were factors which swung the decision towards the Czech Republic.



The turnaround in FDI has been largely a result of the policies of the Social Democrat government which took office in 1998. It put together a package of policies which, in addition to FDI incentives, included major privatizations of the banks, telecommunications and energy. It initiated subsidies to municipal authorities to build industrial parks. It created CzechInvest, an agency designed to be a 'one-stop shop' for foreign investors, to reduce bureaucracy and costs. The Poles lamented the fact that, in stark contrast to the CzechInvest process, would-be investors in Poland face interrogation from three different ministries. No wonder, they say, Toyota and Citroen opted for the Czech Republic. The head of Poland's Chamber of Commerce lamented that, in Poland, to get a work permit requires filing 17 documents, a process which takes seven to eight weeks and costs the equivalent of a382.

The Czech Republic benefits from relatively low wages, one-fifth of those in Germany, but wages are rising, aided by EU membership in 2004. Foreign investors do not see the country simply as a low-cost location. It offers a central geographical position, good infrastructure, a technical skills base and a growing supplier network. It has attracted numerous investments in the electronics industry, including Matsushita's first television plant in Central Europe in 1996. The biggest greenfield investment has been that of Philips, the Dutch electronics group, and LG Electronics of South Korea, which opened a a200 million television tube plant in 2001. Such was the supply of skilled workers that 3000 people applied for the first 850 operations jobs in the factory.

CzechInvest has turned its focus from manufacturing to more diversified investment. It has offered incentives to companies investing in services, attracting IBM to build an expert solutions centre for handling customer information systems. It has also attracted Accenture, the consultancy, to invest in outsourcing of clients financing and accounting services. The agency is also planning to attract R&D activity linked with manufacturing, reasoning that, as wages rise and manufacturers are tempted to move operations further east, they will see the advantages of the research units and local suppliers and resist the temptation to move. CzechInvest sees that, in the future, the country's central position, good telecommunications system, technical and language skills will make it an attractive location for services. Its attractiveness was enhanced by EU membership in 2004. The Czech Republic, therefore, is in a position to gain from economic integration in the enlarged EU.

Sources: Anderson, R., 'Looking for jobs beyond the age of manufacturing', Financial Times, 12 December 2001; Wagstyl, S., 'Policy shift brings prosperity', Financial Times, 21 November 2002; Marsh, P., 'Czech Republic switches to the right mix for foreign investors', Financial Times, 21 May 2002; Reed, J., 'Poland in slow lane as Czechs win car plant', Financial Times, 26 February 2002.

### **Case questions**

Why is the Czech Republic popular with foreign investors?

What risks and opportunities lie on the horizon in terms of future FDI flows?

@ Information on FDI in the Czech Republic can be found at <http://www.fdiintelligence.com>. Click on the Czech Republic

@ A policy brief on the Czech Republic can be found on the OECD's website at <http://www.oecd.org>