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Author:
Erich Kriz

As a transforming economy, the Czech Republic has been the target of foreign investments for quite a long time. Has the time come to become the investor itself or are internationally active Czech firms still more a wish than the reality? In this article the position of Czech outward foreign direct investment (OFDI) is analysed against the background of current economic and political situation and theories. Introduction is devoted to the basic economic framework, followed by the result of the conducted research and closed by the results.

Czech economy is considered small, opened and very much export-oriented. The economic crisis of 2008 has led to a couple of years of stagnation. The Czech Republic was able to avoid the crisis of public debt that followed the financial crisis, however, the impact of fiscal restrictions on domestic production was very pro-cyclic and seriously hit the growth of GDP. Rating agencies considered this aim of the Czech government as a very positive step and the country’s rating was able to withstand crisis period with outstanding performance. As up to April 2015 the rating of Moody’s is A1 (Poland, Slovakia A2, Hungary Ba1), Standard & Poor’s AA- (Slovakia A, Poland A-, Hungary BB), Fitch’s A+ (Slovakia the same, Poland A-, Hungary Ba 1). Main source of budget cuts were general cuts with no structural reforms behind. This resulted for example in the decline of defence expenditures to the level of 1% GDP with some direct effect on the ability to provide basic defence of the country. With the renewed moderate growth of GDP the budget deficit of 2015 should be at 1.9 % of GDP with the aim to reach deficit of 0.6 % in 2018. GDP growth should oscillate between 2 and 3%.

The adoption of euro is not on the agenda because the majority of population perceive it as negative and there is no political will. Czech National Bank (CNB) is fighting low levels of inflation as it tries to reach 2% of inflation target. Its main tool, interest rate, was already reduced to technical zero in order to stimulate the price rise. This monetary step has not brought about the effect needed and CNB has decided since November 2013 that the CZK/EUR exchange rate was forbidden to appreciate under 27 CZK/EUR. This step should boost both export and inflation. Export companies already report positive effects, however, rate of inflation still remains around tenth of percent.

With respect to internationalisation, the economic strategy of the government is based on two long-term pillars. The first one is the support of export of Czech goods; the second one is the attraction of foreign capital. The fact that OFDI does not appear officially in strategic documents is the first remark of its position of generally non-existing phenomenon. The main export strategy covers the period of 2012 and 2020 and is focused on entering new markets and differentiation of markets. The 2008+ crisis showed that Czech export is concentrated in European countries so the main aim is to support export outside Europe. “Czech Export” is a state agency responsible for conducting all support activities needed. The export strategy also partially mentions foreign investments but only in the sense of enabling the entrance in new markets.

Stable business conditions and relatively low wages in comparison with former EU15 countries play major role in attracting foreign investors, which is supported by the work of state agency Czech Invest. This agency is operating independently on Czech Trade, however, with close cooperation with other state bodies. Its main aim is to promote Czech investment opportunities to both foreign and domestic capital. The focus on domestic capital is interesting per se. Even though there is no official document covering OFDI, simply the fact of not having dedicated support for OFDI and to have simultaneously support for domestic investments shows that the perception is still as of an under-capitalised country.

The research conducted under the V4 Research Project in the Czech case was divided into three parts. First, the current scientific knowledge on this topic was examined. Secondly, the check of appropriate statistics data was done in order to get the picture of current situation. Third part, originally planned as survey among the small and medium companies interested in OFDI, must have been abandoned (due to the focus on the export of goods) and replaced by the information provided by Czech Embassies on investment environment in TOP 10 Czech capital’s destinations.

Czech National Bank datasets allowed us to cover the period of 2004 to 2013. These statistics should be seen against the background of Investment Development Path (IDP) concept, which is commonly used to describe the current investment position of a country. The concept itself is quite simple and it reflects the relation between capital invested outside the country and the incoming one expressed as the net outward investment position. Without going into details, according to the theory IFDI and OFDI ratio should converge to one in the long run. This tendency however faces major obstacles. There are important differentiations due to the transformation of economies and general change of global economy. The arrival of international companies used to be associated with various positive effects such as the spill-over effects of know-how and capital which enabled local producers to increase their productivity, competitiveness and finally to become themselves foreign investors. Nowadays with more internationalized economies, investors are not bounded to the country of investment and often come with the already set chain of contractors and sub-contractors which means that possible spill-over effect and growth of local companies via cooperation with investor is less likely or slower.

The topic of OFDI as revealed in available studies seems to be at the margin of domestic academic debate; if examined it is often based on countries' comparison. There were particular fields of interest. First studies were focused on premature investments abroad in 90s as a solution implemented to improve financial situation by transforming companies. This resulted often in failure of both investors and investments. Next studies were dealing with IDP or development of OFDI. Recent studies were focused on international comparison of OFDI among countries of Central and Eastern Europe. The research conducted so far provides together quite consistent picture of OFDI situation with no explicit contradictions. According to these researches, Czech OFDI is located in the second phase with the tendency to move to the third. This movement, however, probably will be prolonged due to the lesser spill-over effect of IFDI.

Czech OFDI has been constantly growing since 2004 and has risen from less than 3 billion EUR in 2004 to 15 billion EUR in 2013. In addition, the share of OFDI in IFDI has significantly risen although meagrely. The structural composition continues to concentrate towards services with the share of more than 80%.

If the OFDI of 2013 is broken down into individual countries, clear domination of the Netherlands with 42% can be seen, followed by Slovakia with 15%, Cyprus with 7%, Romania and Ireland 6% and rest of countries with share of less than 3%. The tendency of tax-optimization led investments is obvious. The Netherlands, Cyprus and Ireland are known for favourable business conditions and tax rates. This is also quite unclear part of OFDI research because many investments with the origin in the Czech Republic are formally conducted by foreign companies and therefore counted both as OFDI and as FDI. This is evident in the case of Czech companies moving abroad in order to enjoy benefits and possible investment protection in case of international disputes. On the other hand, there are also investments conducted by Czech companies owned by international corporations. These investments are decided from abroad, financed from foreign headquarters although, the formal investor is the Czech firm.

The composition of Czech OFDI seems to become more concentrated than before with the total domination of European countries. The proximity plays major role in placing foreign investments. In 2013, 13 billion of investments were in the EU, more than one billion in other European countries and the rest of areas accounted for less than 0.5 billion. The share of European countries has been constantly growing since 2004.

The support of OFDI by the state is realised indirectly only by information provided via economic sections of embassies and afterwards by the portal of Ministry of Foreign Affairs or the portal of Czech Export agency. This information has also various composition even though the basic structure is common. It differs in topicality and details; the connection to the size of the embassy is obvious. Czech companies invest mostly in developed markets of EU; perspective sectors across countries are energy, healthcare, environment technologies and traffic infrastructure. There is, however, an exception of Greece where the risks are naturally perceived differently than in the case of other countries. Another interesting remark is the recommendation to invest into Greek agriculture sector.

The overall result of research showed clear picture of the current Czech OFDI position, however, was not able to support or deny all research proposal of the Project. The crisis of 2008 brought the change of perspective. The government does not perceive OFDI as a negative phenomenon; however, the public debate has not started yet. As there is no existing state support to answer the question of possible handicap of SME's does not make sense. Whereas large companies can effectively use the economic missions and participate in various official state delegations. Fast growing economies are not even shown in official statistics with the exception of Russia; though, the title of fast growing seems to not be valid in its case for next few years. Czech investors do not perceive there is any particular state support of OFDI available, but they also do not seem to seek it.

Therefore, Czech does invest abroad. The question is whether Czech firms really invest in the sense of expecting higher return of capital or they invest in order to change simply the domicile of the money. First possibility is classic investment; the second one brings significantly less value added. In the case of the Czech Republic, the latter seems to dominate more and more.

The statements expressed in this text exclusively reflect the views of its author.

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Erich Kriz – works as a project manager in EUROPEUM Institute for European Policy. He studied National Economics at the University of Economics in Prague. He is focusing on international trade and economic cooperation among Visegrad countries