

Foreign Direct Investments

FDI

Investments

Indirect (portfolio capital)

Direct (FDI)

Foreign direct investments

IMF	25 %	}	Share on the equity capital allowing a control over a company
CR	10 %		

Acquisition FDI (control over an other subject)

- establishing new company
- acquisition already existing company or its part
- profit reinvestment and increase of capital share in existing company

Direct transfer of capital over borders is not always necessary!!!

Goals of foreign investments

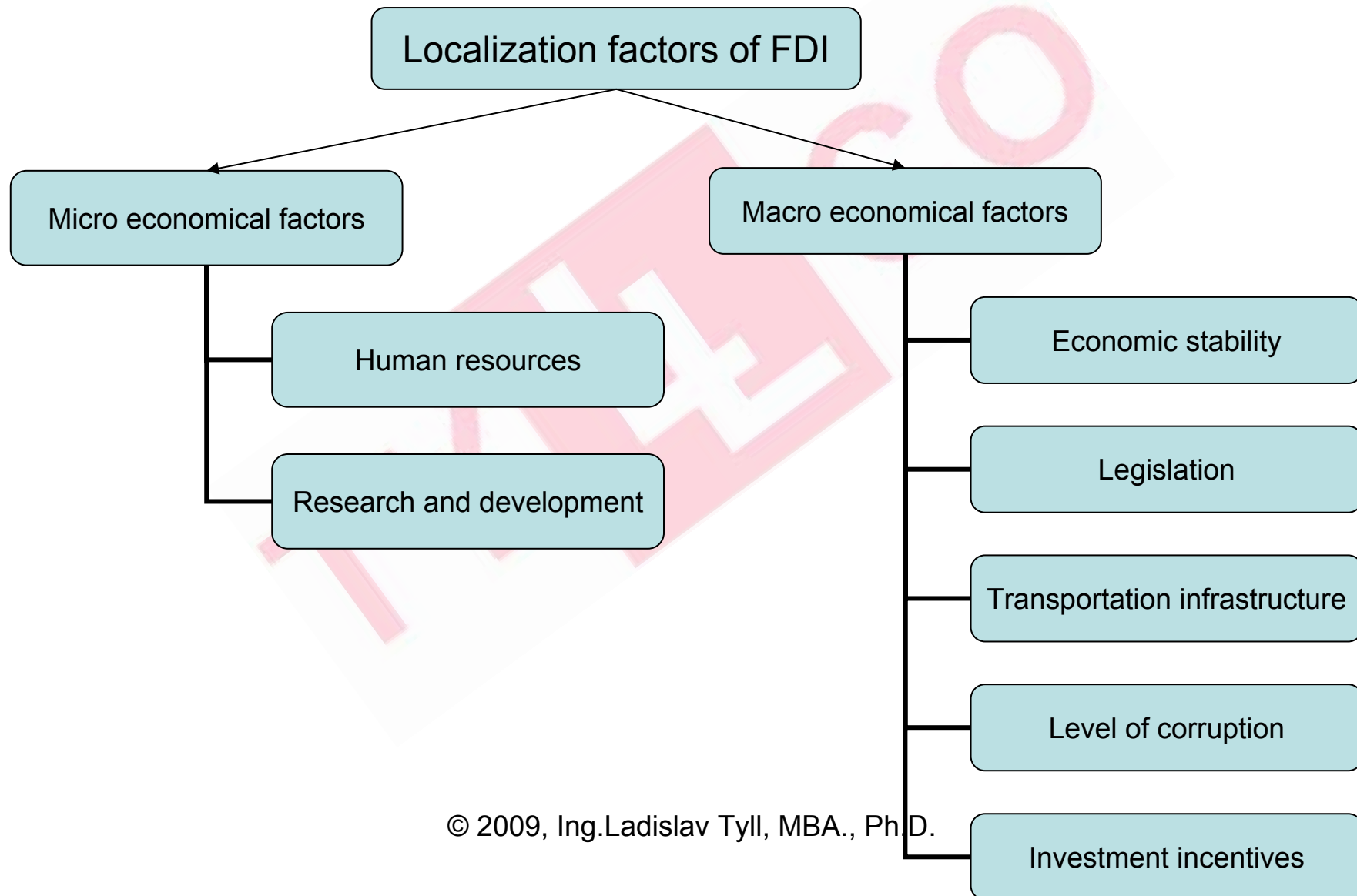
- Entering foreign markets
- Achieving higher return in comparison to domestic business
- Return of capital invested
- Safety of investments
- Business liquidity

Decision making process about investment localization

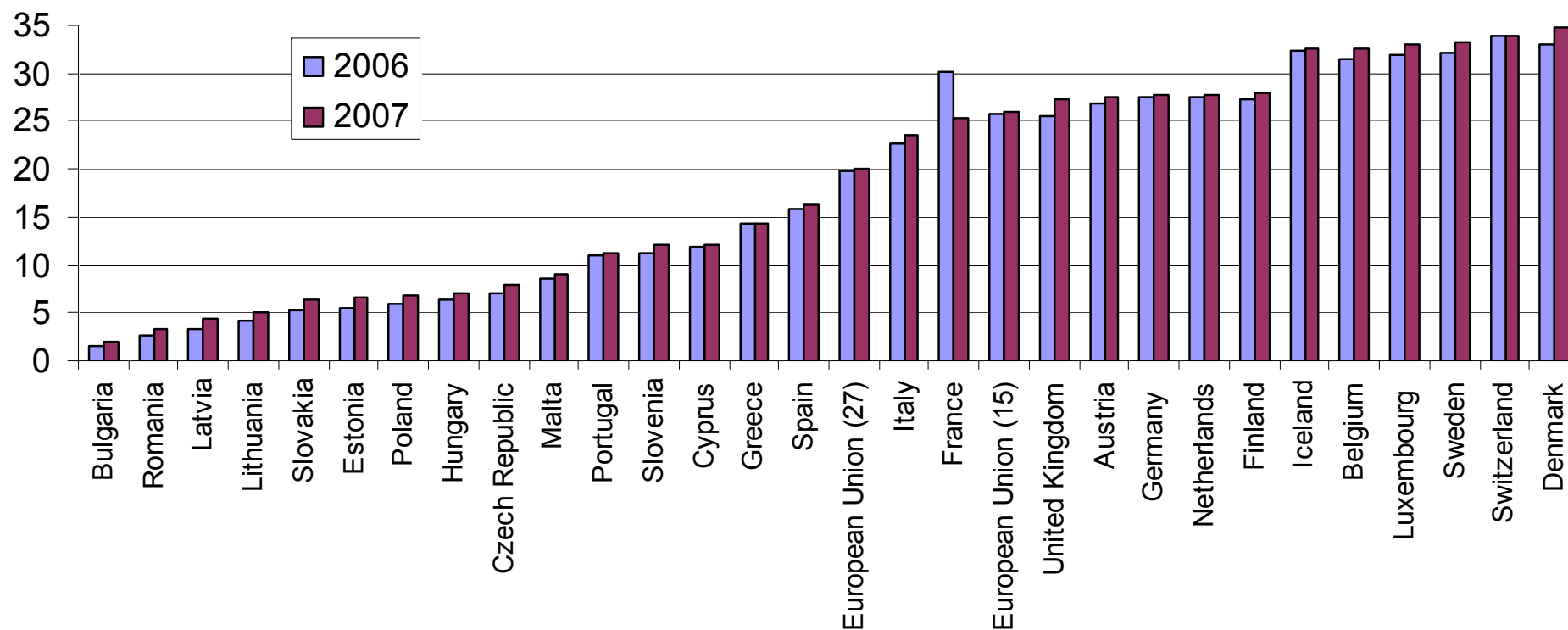
Analysis of country level

	Cultural differences	Administrative differences	Geographical differences	Economic differences
Bilateral comparison	Language Ethnicity Religion Values Standards	Currency Legal system Political sys. Trade blocks	Distance Common borders Climate	Population incomes Natural resour. Human resour. Infrastructure
Unilateral measurement	Traditions Isolation Spiritualism	Foreign relations Corruption Membership in internat.org. Political risk	Location Geographical area Remoteness	Income/capita Infrastructure

Decision making process about investment localization



Average hourly labour costs in EU (2006, 2007)



China: 0,65 EUR
 India: 1,00 EUR
 Singapore: 5,86 EUR

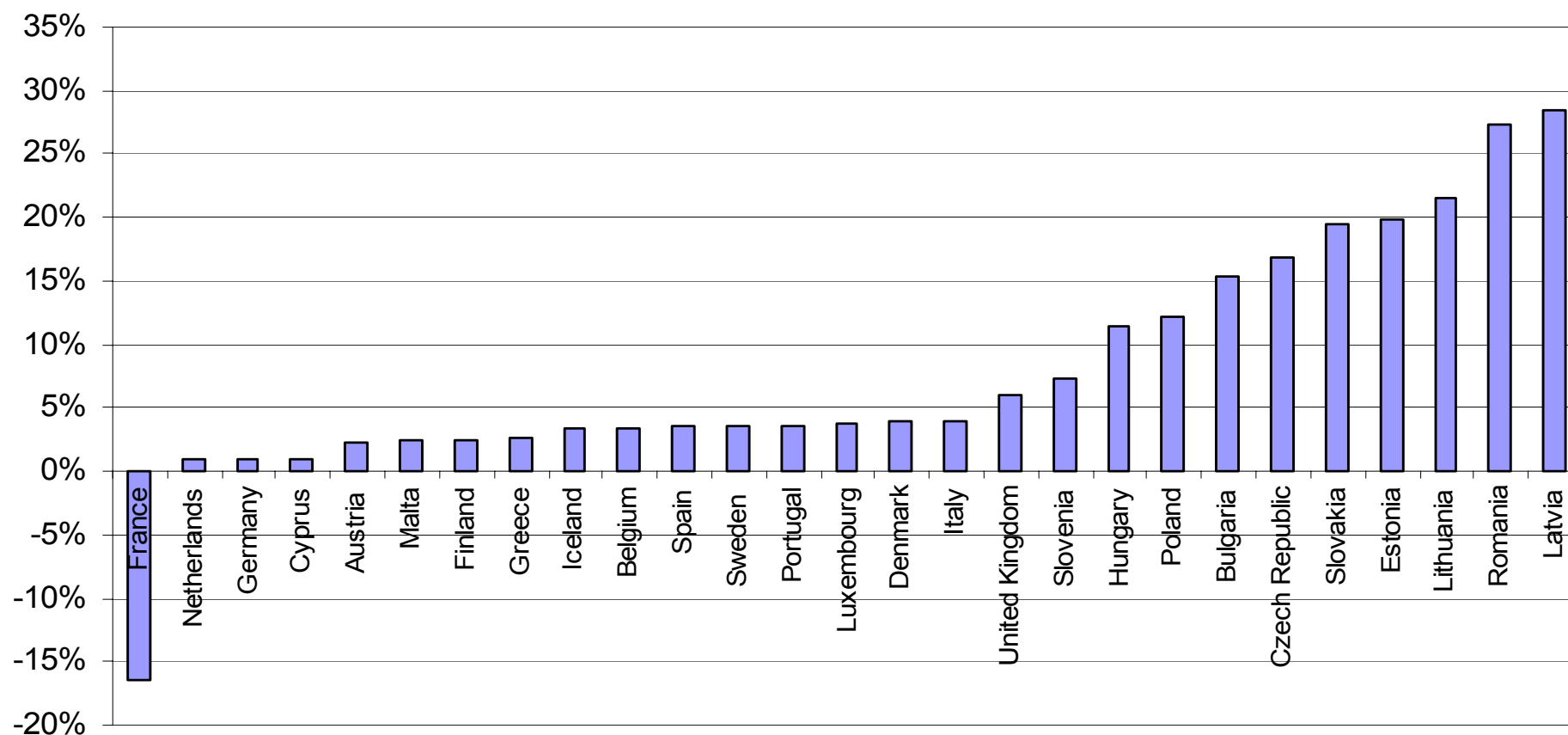
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Source: <http://epp.eurostat.ec.europa.eu>

<http://www.thehindubusinessline.com/2004/12/11/stories/2004121102110400.htm>

Average annual growth of labour costs (2006 - 2007)

Čína: 9 %
Indie: 16 %



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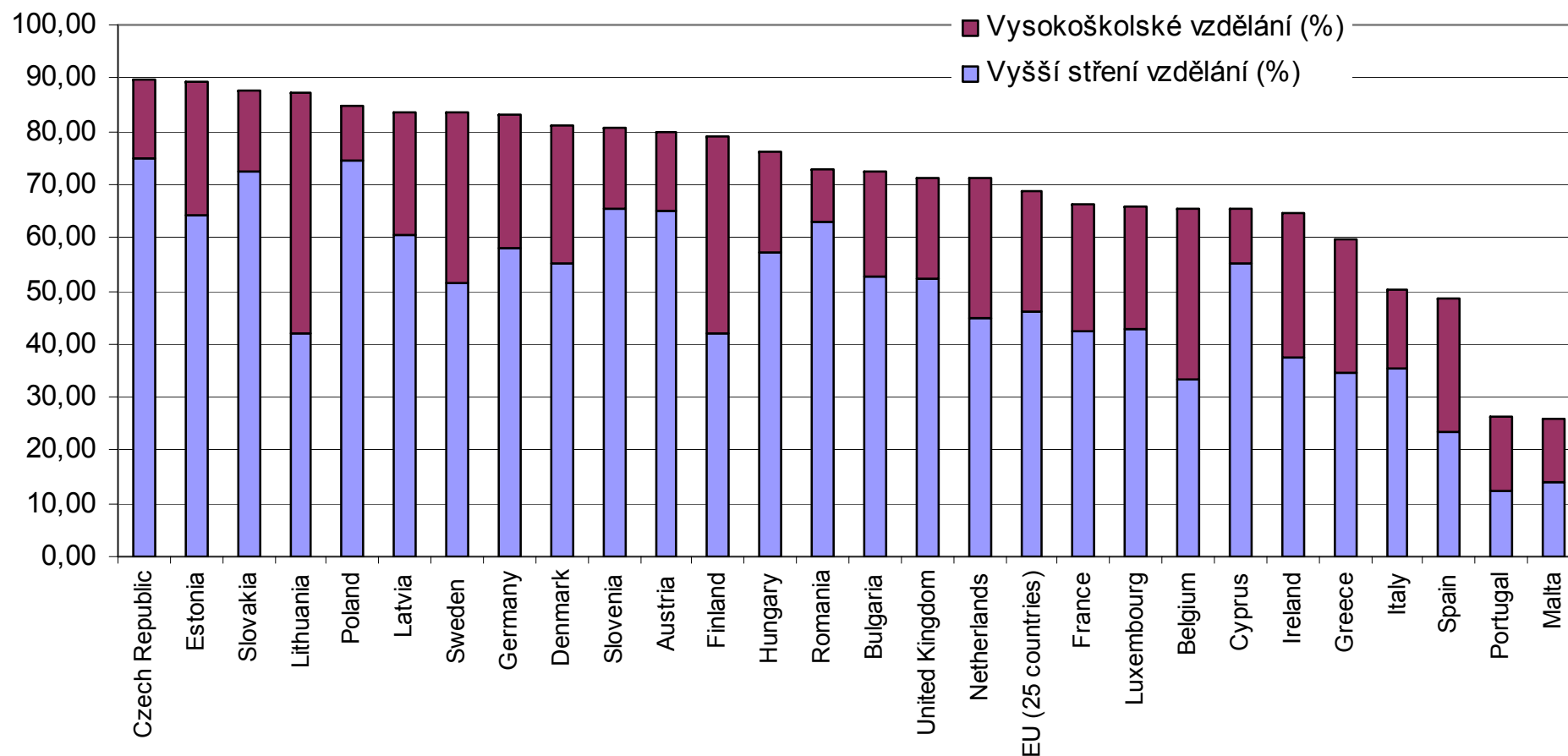
Source: <http://epp.eurostat.ec.europa.eu>

Oxford economics forecasting

Education

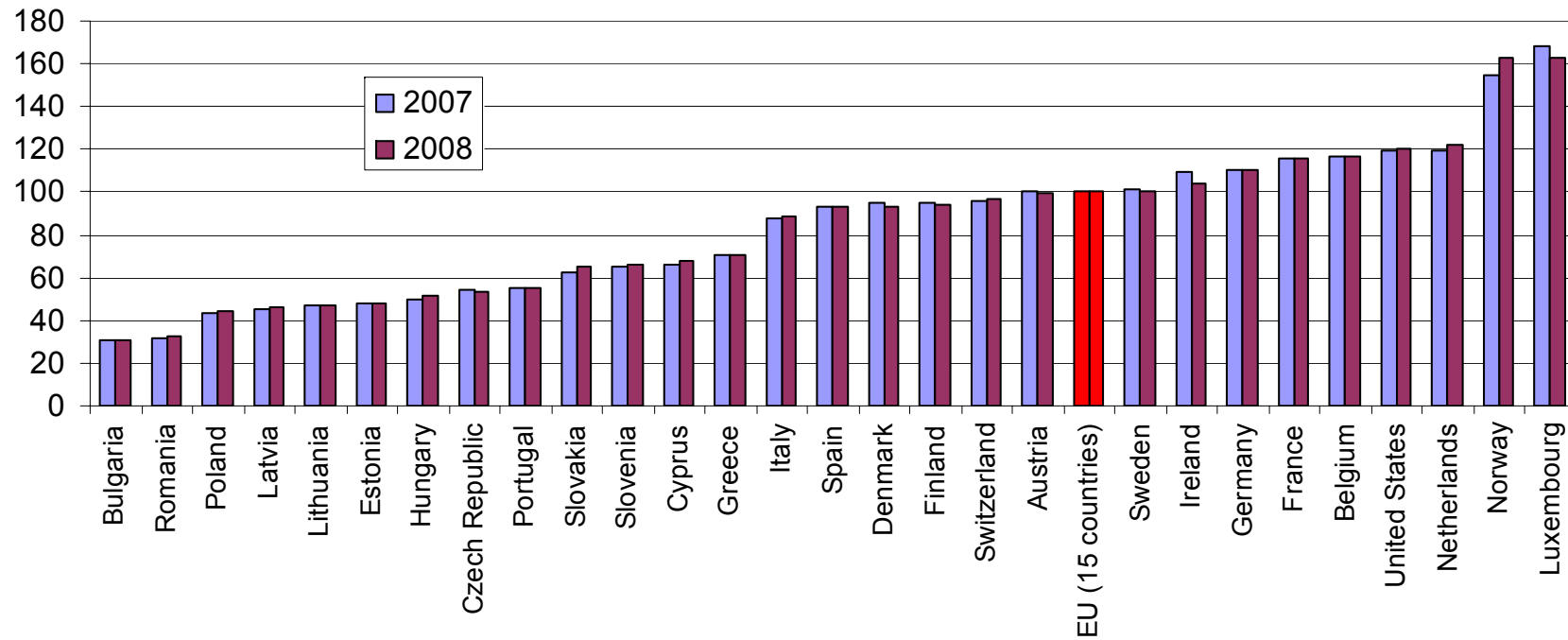
Share of higher university and upper secondary education within population age 25-64 (2006)

China: 73 % + 19%
India: 54 % + 12%

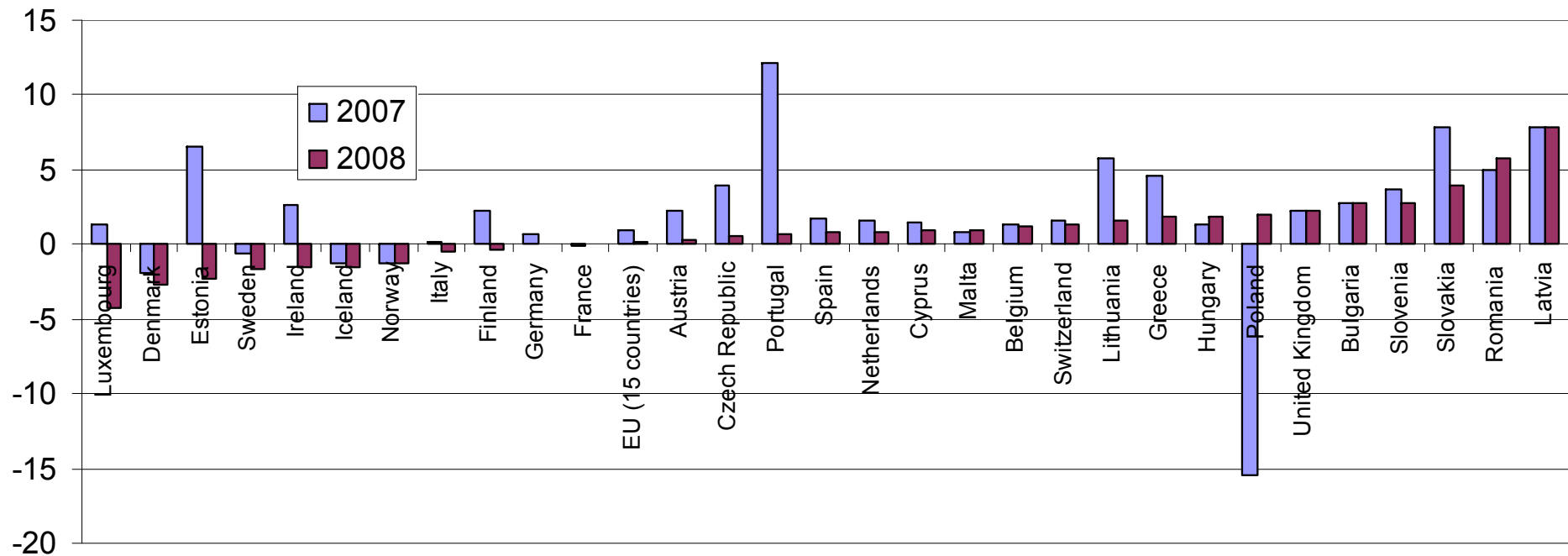


Source: <http://epp.eurostat.ec.europa.eu>
<http://www.uis.unesco.org>

Labour productivity per hour worked – GDP in PPP (2007,2008)



Growth rate of labour productivity per hour worked - % change over previous year

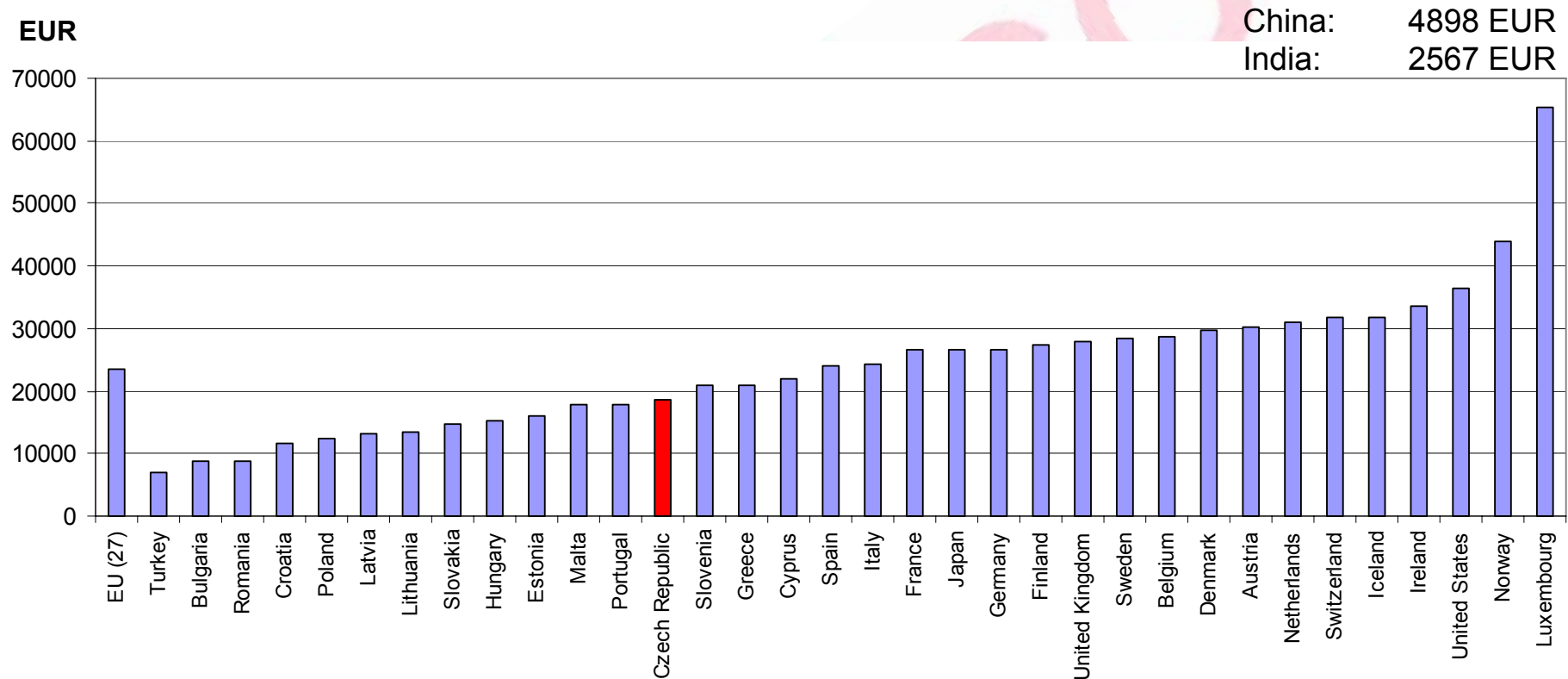


R&D in manufacturing industry, BERD on value added, (%)

Country	Period	Manufacturing industry	Production of electrical and optical devices	Production of means of transport
Sweden	1997+99+01	12,1	38,0	27,5
Finland	1997-2001	7,8	27,9	2,9
Germany	1997+99+01	7,5	12,6	18,8
France	1997-2001	7,0	17,7	17,1
Belgium	1997-2002	6,8	20,1	4,2
Dennmark	1997-2000	6,0	12,7	Na
United Kindom	1997-2001	5,8	9,0	14,1
Nietherlands	1997-2001	5,5	Na	5,1
Austria	1998	4,6	15,9	10,9
Norway	1997+99+01	4,0	14,7	1,9
Czech Republic	1997-2001	2,2	1,8	12,5
Italy	1997-2002	2,2	7,6	10,4
Spain	1997-2001	1,9	6,3	4,1
Hungary	1997-2001	1,2	1,4	0,8
Slovakia	1997-2001	1,2	1,6	Na
Poland	1997-2001	1,1	2,8	3,9
Greece	1997+1999	0,8	11,4	0,3
Portugal	1997-1999	0,5	2,5	0,9

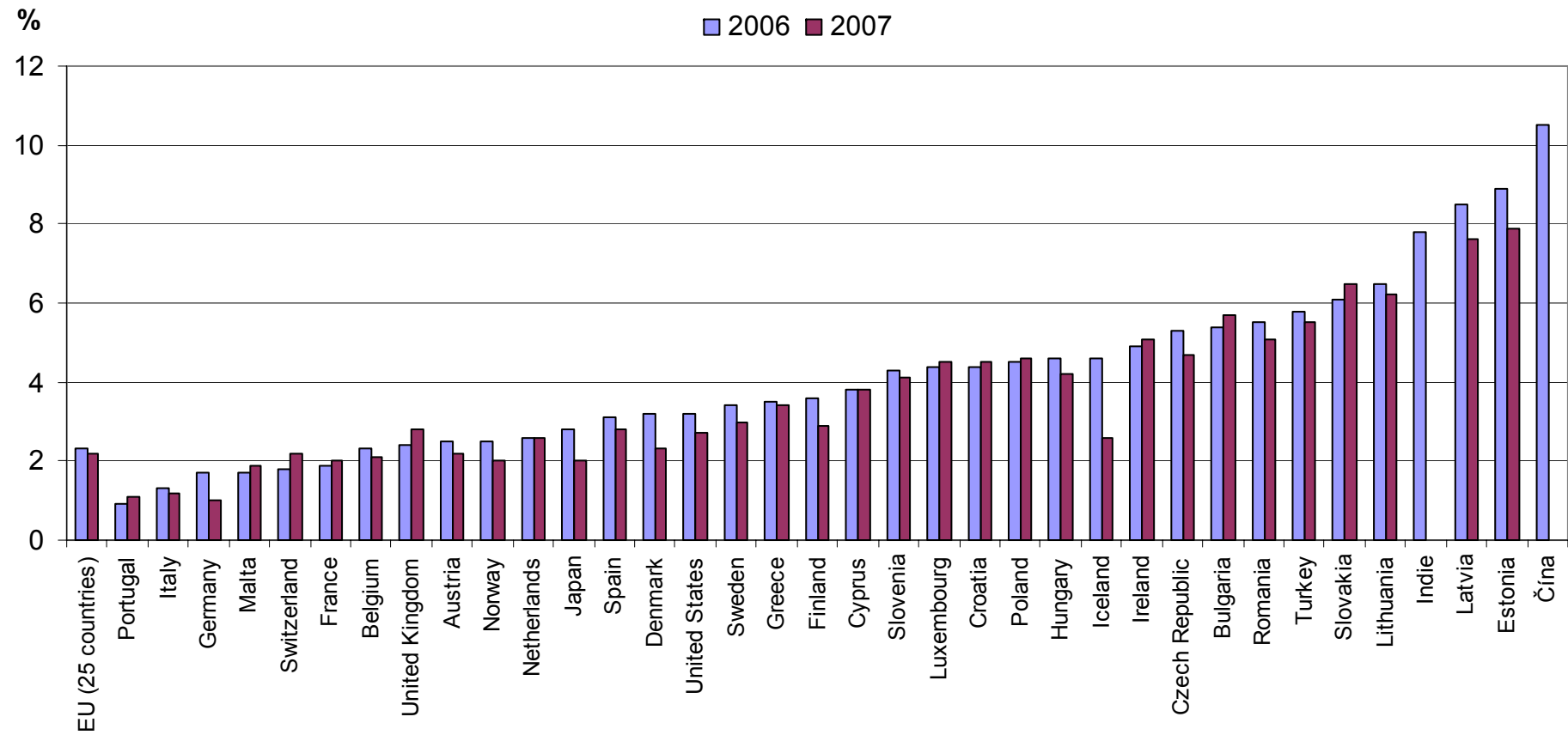
Macro-economical factors

GDP per capita according to PPP (2006)



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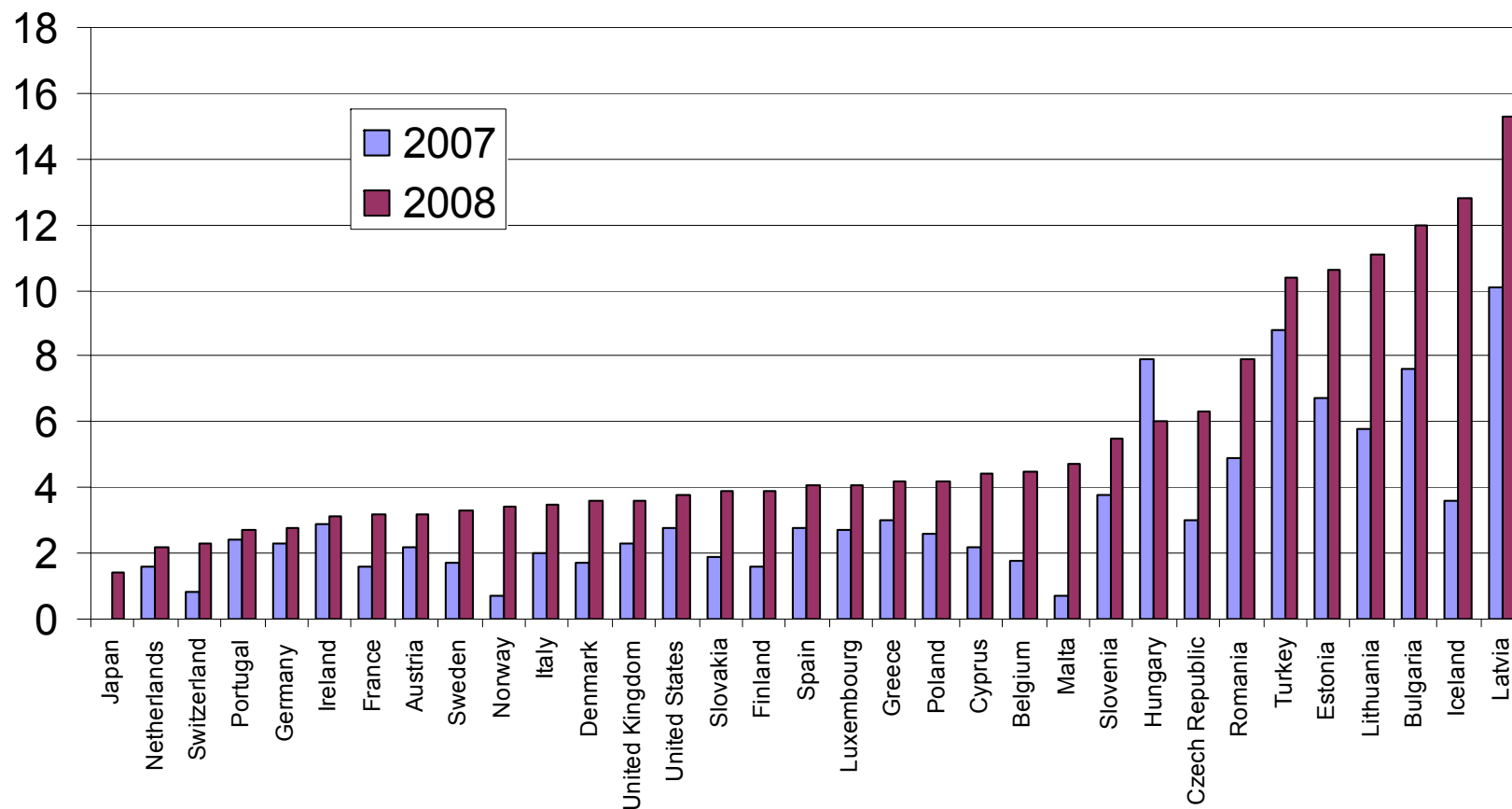
GDP Growth



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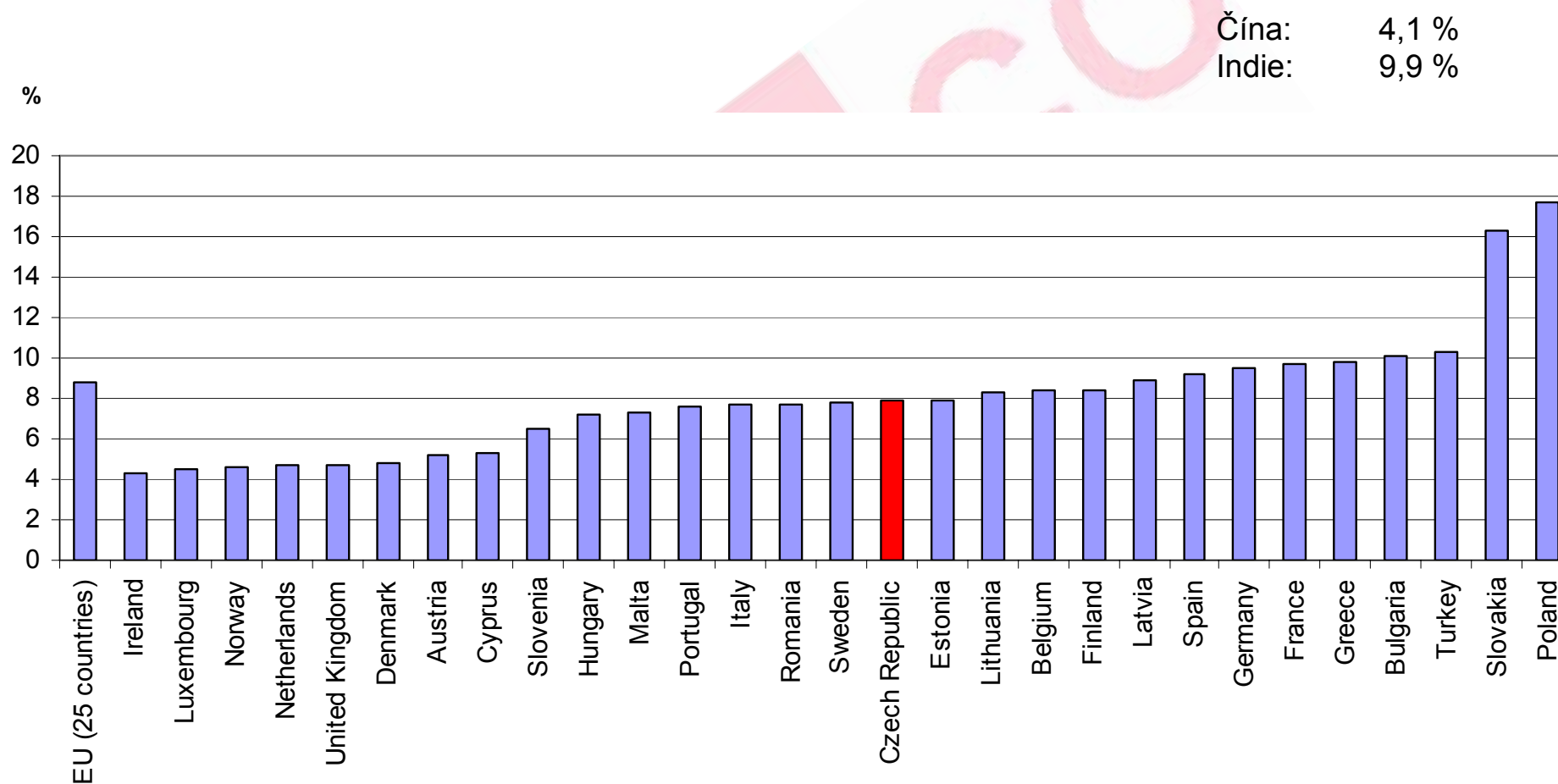
Annual average inflation rate 2007,2008 (%)

China: 4,5 %
India: 3,5 %



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Míra nezaměstnanosti v r. 2005 (%)



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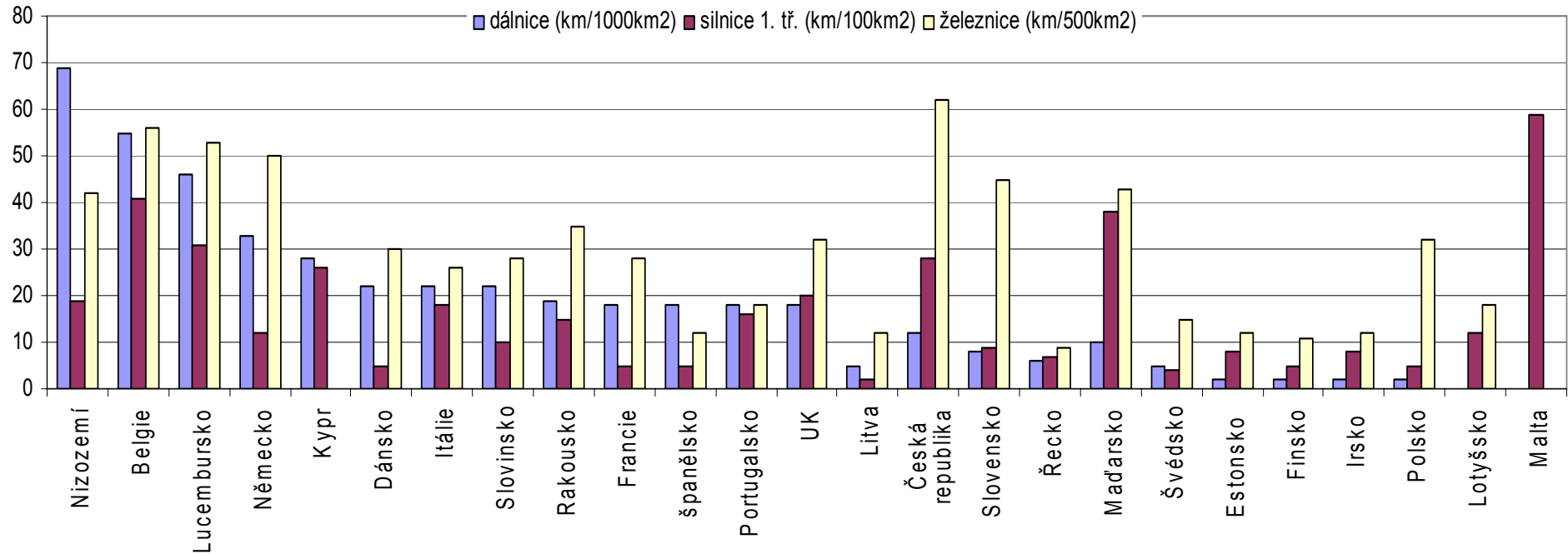
Tax rates (2008)

	Corporate tax	Dividend tax	Interest tax	Royalty taxes
Australia	30,0	5 (15)	10	10
Austria	25,0	10	0	5
Belgium	33	5 (15)	10	5
Canada	19,5	5 (15)	10	10
Czech Republic	21,0	0 (15)	15	25
Denmark	25,0	15	0	5
Finland	26,0	5 (15)	0	1, 5, 10
France	34,33	10	0	5
Germany	25,00	5 (15)	0	5
Greece	25,0	38 - 47	10	10
Hungary	16,0	5 (15)	0	10
Ireland	12,5			
Italy	27,5	12,5		
Japan	30,0	10 (15)	10	10
Korea	25,0	5 (10)	10	10
Luxembourg	22,0	5 (15)	0	10
Mexico	28,0	10	10	10
Netherlands	25,5	0 (15)	0	5
Norway	28,0	5 (15)	0	5
Poland	19,0	5 (10)	10	5
Portugal	25,0	10 (15)	10	10
Slovak Republic	19,0	0	0	10
Spain	30,0	5 (15)	0	5
Sweden	28,0	0 (10)	0	5
Switzerland	8,5	5 (15)	0	10
Turkey	30,0	10	10	10
United Kingdom	28,0	5 (10)	0	10
United States	35,0	5 (15)	0	10
Romania	25,0	10	7	10
Singapur	22,0	5	0	10
China	33,0	10	10	10
India	35,9	10	10	10

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Traffic infrastructure

Density of highways, 1 class roads and railways (2003)



Legislation

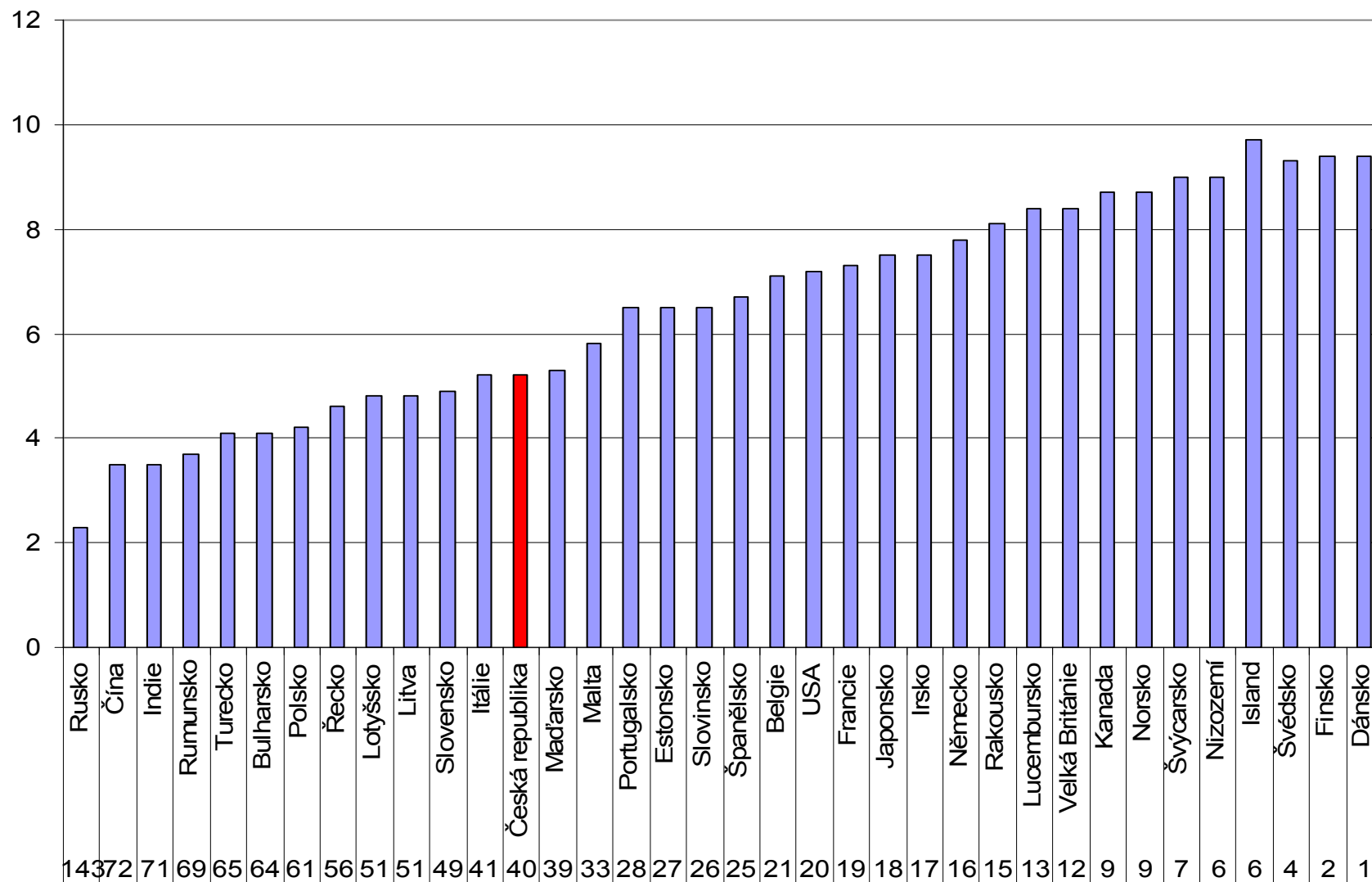
- **General conditions for doing business of foreign entities**
- **Investments protection (bilateral agreement)**
- **Specific law and regulations (EU, OECD, WTO)**
- **Activity of courts, law and market transparency, corruption rate**

PwC:

- **Additional tax from FDI**
- **Risk premium**
- **Deterred foreign investments**

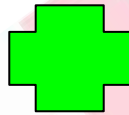
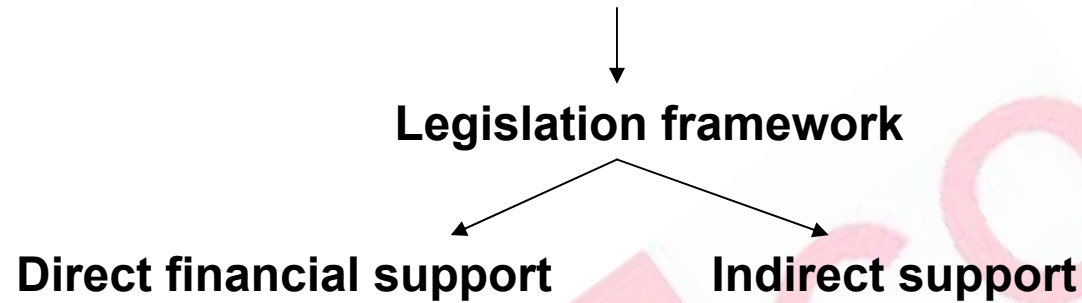
Corruption

Corruption perception index - 2007



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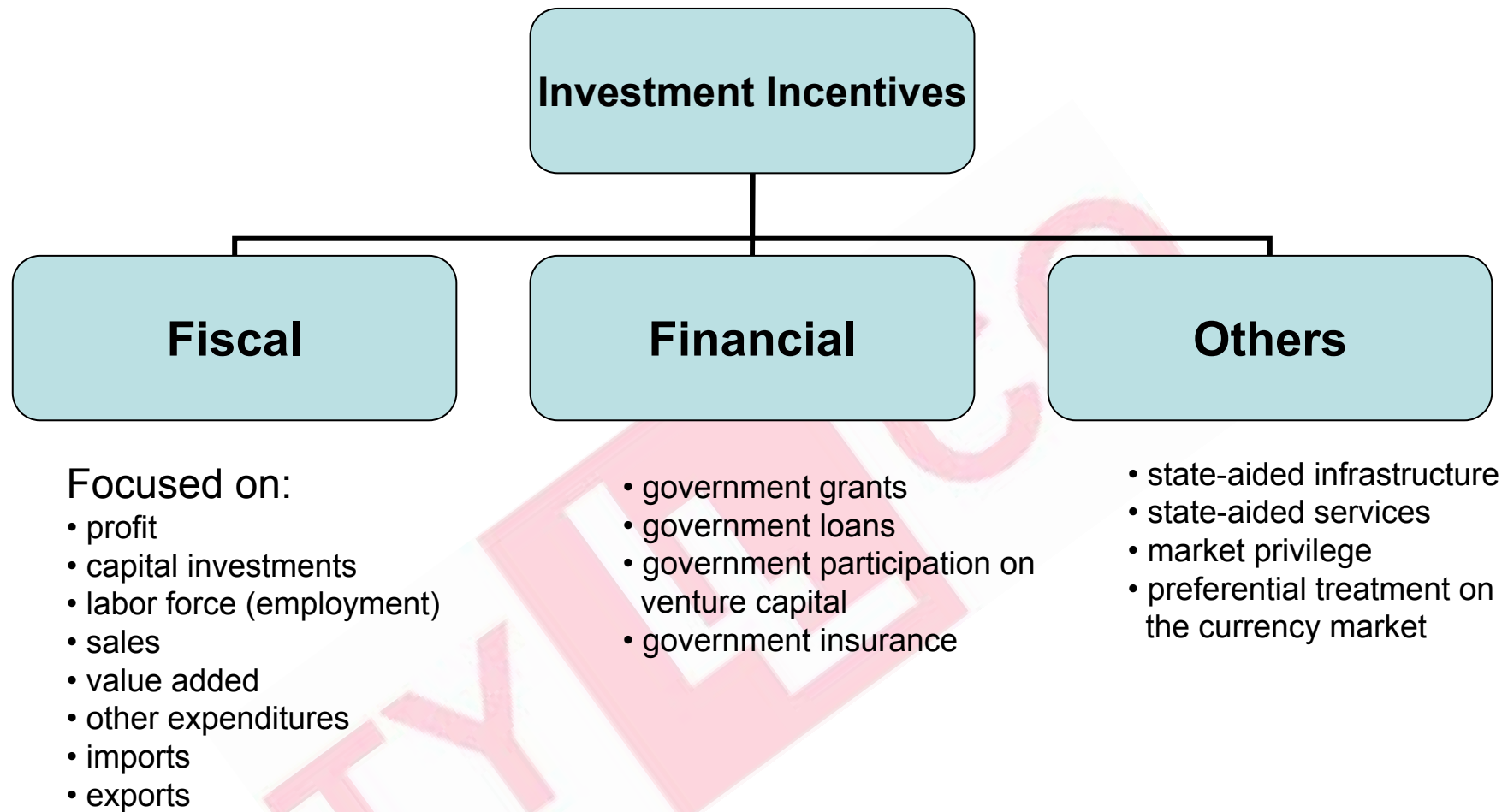
Investments incentives



- new work opportunities – reducing of unemployment
- growth of GDP
- improved balance of payments of the Czech Republic
- support for education system
- keeping „Czech brains“ in our country
- regional development
- development of suppliers network (companies)
- side effects (e.g. Infrastructure improvement)



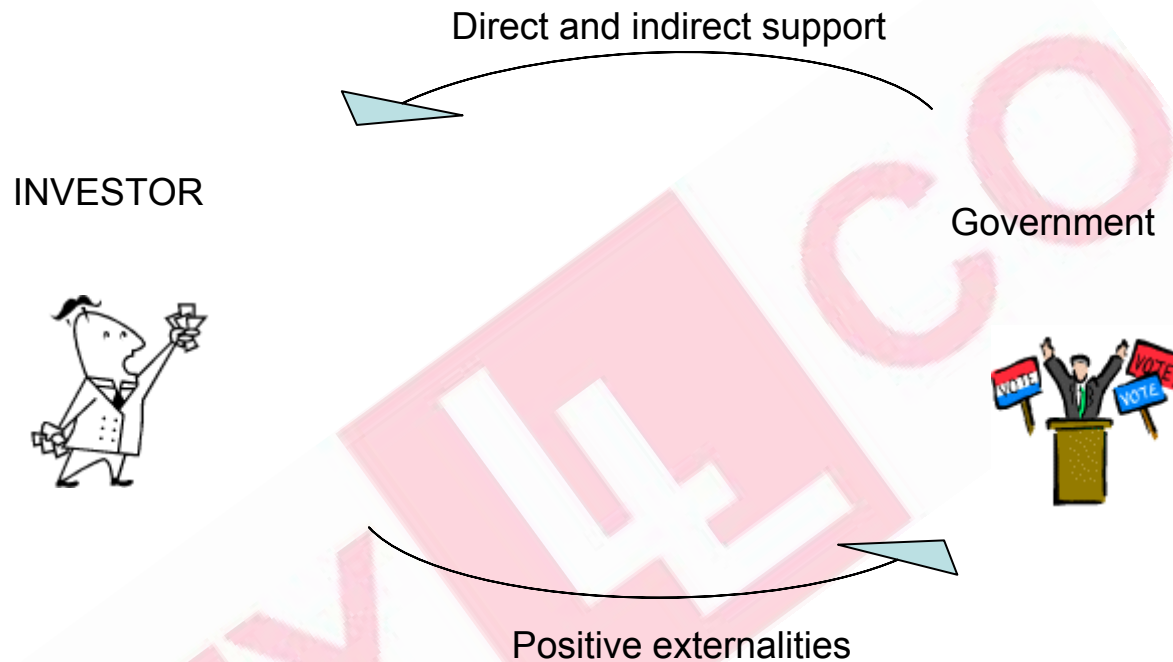
- growth of dependency of the Czech economy on foreign capital
- head-hunting of foreign companies among Czech ones
- long run risk if investors move to other regions



Tax relieves

Tax holidays		Simple, quick stimulation
		transfer pricing, migrating companies
Investments deductions		Better aiming, estimation of the impact on the income part of National budget
		Higher administrative cost for state supervision, Support of replacing labor by capital
Changes in depreciation		Non-discriminating
		Lower impact on investment activities
Lower tax rates		simple, reduction of transfer pricing problems
		Expensive solution from national budget point of view Less important investment incentive for investors

Efficiency of investment incentives

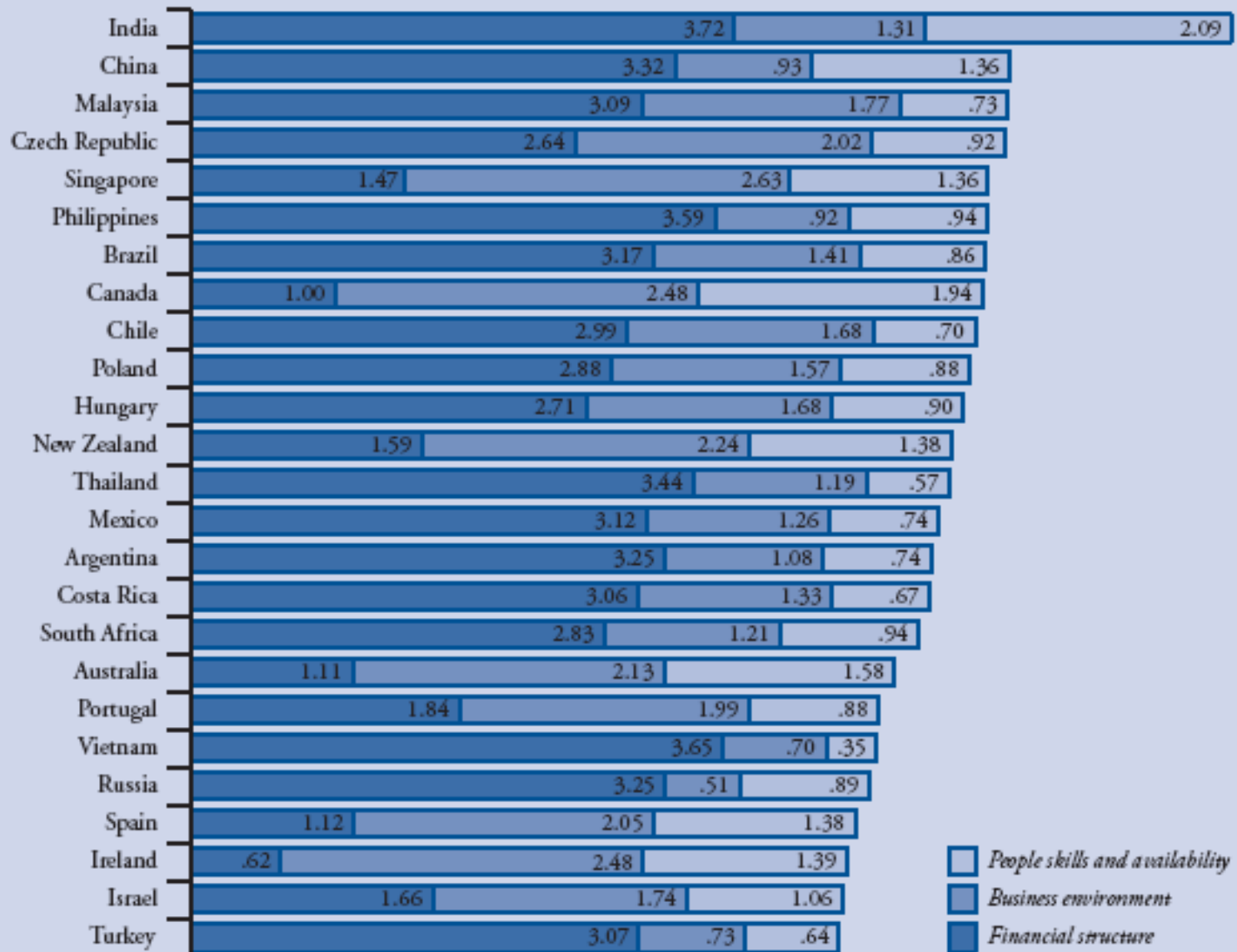


- Goals:**
- size of FDI inflows
 - new working places
 - sector and industry diversification of FDI
 - export orientation (Net Export)
 - import x local suppliers
 - technology transfer

Investments flows within EU (bil. EUR) - 2005

	Outflows	Inflows	Net*
Belgium	21.4	22.4	-1.1
Czech Republic	0.7	8.8	-8.1
Denmark	6.3	4.0	2.3
Germany	36.7	26.3	10.4
Estonia	0.5	2.2	-1.7
Greece	0.8	-0.2	1.0
Spain	31.2	18.5	12.7
France	79.9	40.0	39.8
Ireland	10.9	-25.0	35.9
Italy	33.4	15.7	17.7
Cyprus	0.3	0.9	-0.6
Latvia	0.1	0.5	-0.4
Lithuania	0.3	0.8	-0.5
Luxembourg	64.9	56.8	8.1
Hungary	1.0	5.2	-4.2
Malta	0.0	0.6	-0.6
Netherlands	97.2	35.6	61.6
Austria	7.5	7.2	0.3
Poland	1.2	6.6	-5.3
Portugal	0.9	2.5	-1.6
Slovenia	0.5	0.4	0.0
Slovakia	0.1	1.7	-1.6
Finland	2.2	3.7	-1.5
Sweden	21.1	11.0	10.1
United Kingdom	81.3	132.3	-51.0

A.T. KEARNEY OFFSHORE LOCATION ATTRACTIVENESS INDEX 2004



Methods of FDI evaluation



Most suitable: multi-criteria analysis

$$\text{Efficiency of FDI} = f(\text{current value} \sum_{i=0}^p \text{costs} \text{ and } \sum_{t=m}^n \text{effects})$$

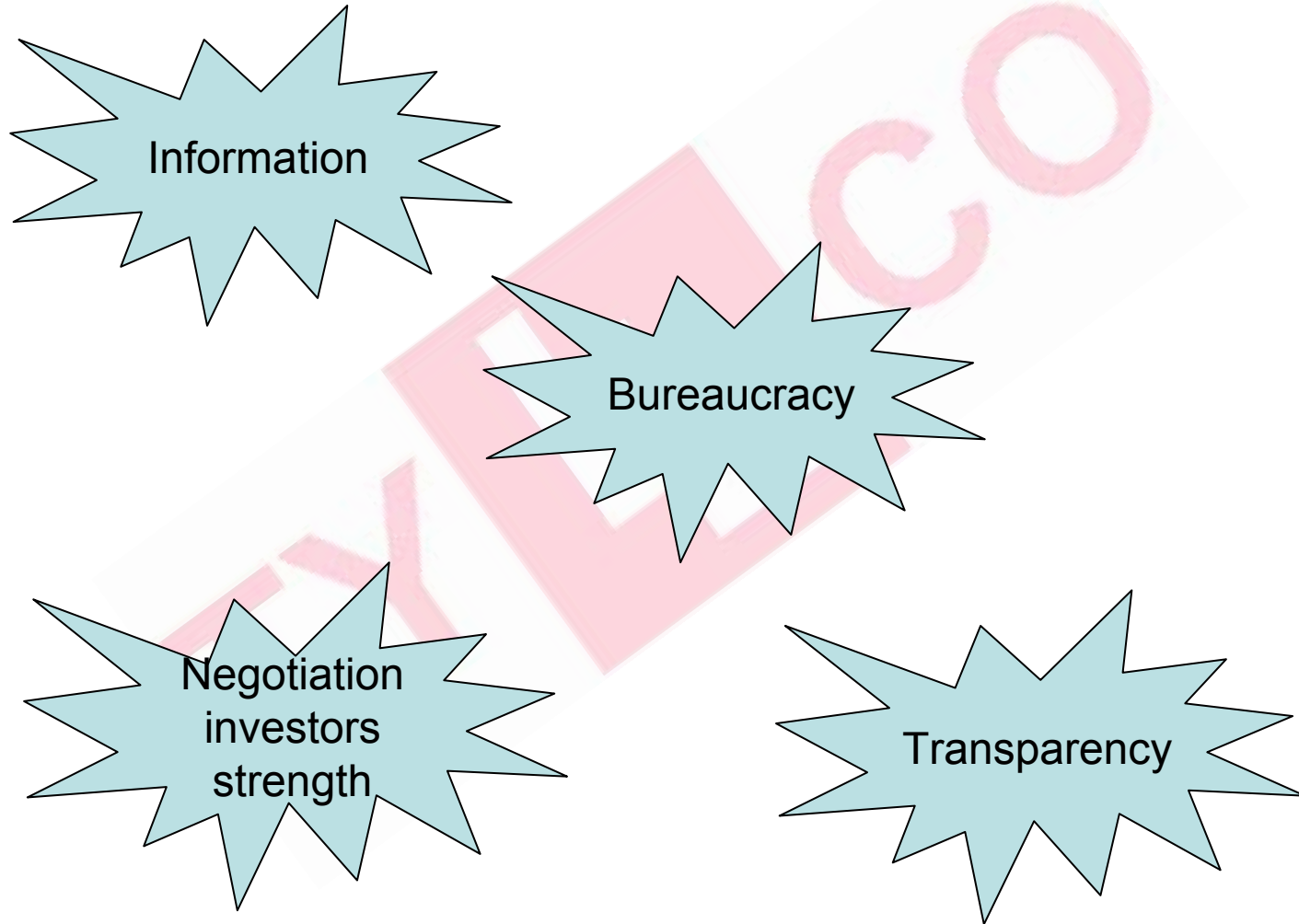
- Effects:
- size of the investments (expressed in money equivalent)
 - new working places
 - structural characteristics (inflows – technologies, resources)
 - export efficiency (% export orientation, net exports)
 - importance of the investor
 - impacts of the investments according to population opinion
 - cooperation with local suppliers

Costs: only fiscal

Process of investment evaluation

1. Formulation the criteria system
2. Determination of preferences of individual criteria and their weights (SAATY METHOD)
3. Result = particular value for given investment
4. The choice of investment
 - Formulation of minimal values for each criteria
 - Determination of preferential order
5. Determination of investment incentives

Selective x unselective INV incentives



Evaluation of European countries from the investors point of view

Rank	Factor	Weight
1	Average hourly labor costs	0,161
2	Highway density	0,152
3	Density of 1st class roads	0,148
4	Average annual labor costs	0,123
5	Share of population with university or higher secondary education	0,111
6	Corporate taxes	0,096
7	Intensity of R&D	0,063
8	Labor productivity	0,061
9	Railway density	0,032
10	GDP per capita (PPP)	0,023
11	Corruption rate	0,011
12	Inflation rate	0,010
13	Unemployment rate	0,008

	Rank according to the index coeficientns	FDI inflows in mil USD (2003)	Rank - index UNCTAD (2003)
1	Česká republika	Lucembursko	Lucembursko
2	Lotyšsko	Francie	Belgie
3	Lucembursko	Belgie	Irsko
4	Litva	Španělsko	Estonsko
5	Velká Británie	Irsko	Slovensko
6	Slovensko	Nizozemsko	Česká republika
7	Belgie	Itálie	Nizozemsko
8	Estonsko	VB	Kypr
9	Nizozemsko	SRN	Maďarsko
10	Dánsko	Rakousko	Španělsko
11	Irsko	Polsko	Dánsko
12	Polsko	Švédsko	Lotyšsko
13	Slovinsko	Finsko	Švédsko
14	Francie	Dánsko	Finsko
15	SRN	Česká republika	Francie
16	Finsko	Maďarsko	Slovinsko
17	Španělsko	Portugalsko	Litva
18	Rakousko	Estonsko	Polsko
19	Maďarsko	Kypr	Portugalsko
20	Švédsko	Slovensko	Rakousko
21	Kypr	Malta	VB
22	Itálie	Lotyšsko	Malta
23	Portugalsko	Slovinsko	Itálie
24	Řecko	Litva	SRN
25	Malta	Řecko	Řecko

effectiveness index UNCTAD = $\frac{FDI_i / GDP_i}{FDI_w / GDP_w}$ Ing.Ladislav Tyll, MBA., Ph.D.

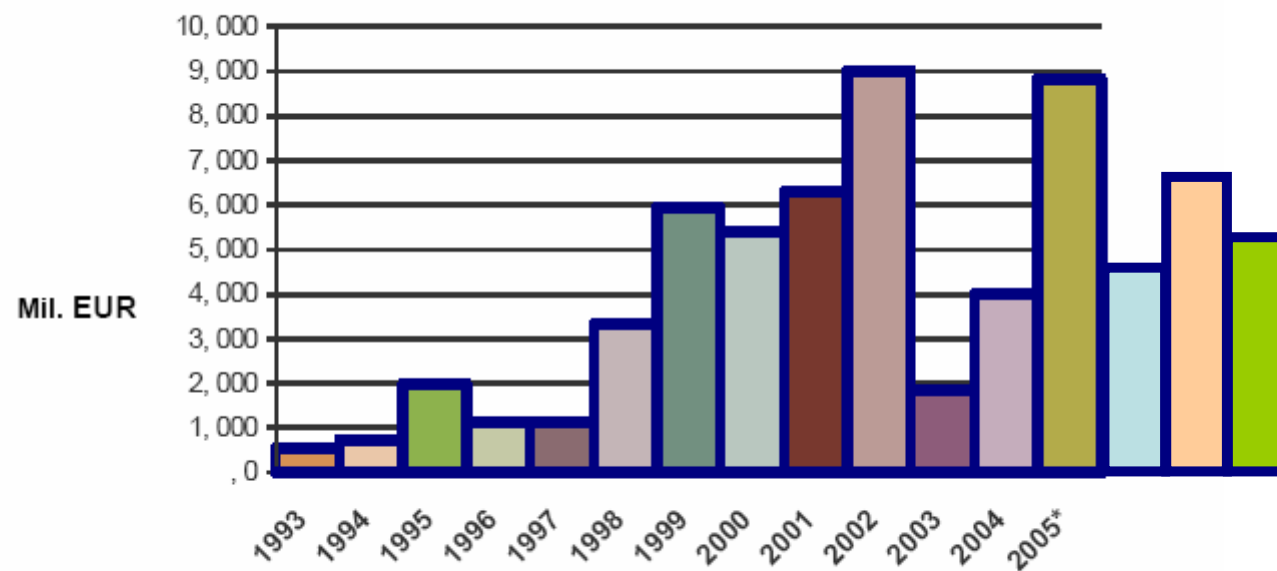
Rating of investmets risks 12/2005

Country	STANDARD AND POOR'S	MOODY'S	FITCH-IBCA
Slovinsko	AA-	Aa3	AA-
Česká republika*	A	A1	A+
Maďarsko	A-	A1	BBB+
Polsko	BBB+	A2	BBB+
Estonsko	A	A1	A
Slovensko	A	A2	A
Rumunsko	BBB-	Ba1	BBB-
Rusko	BBB+	Baa3	BBB

*4/2008

FDI in the CR

INFLOW OF FOREIGN DIRECT INVESTMENT TO THE CZECH REPUBLIC



Source: Czech National Bank, March 2006

FDI in the CR

FDI in the Czech Republic

Country	2003	2004	2005*	1993 – 2005*	
	mil. EUR	mil. EUR	mil. EUR	mil. EUR	%
Germany	144	610	896	12,973	26
Netherlands	-936	1,613	1596	8,493	17
Austria	429	354	369	4,640	9
France	603	-142	177	3,433	7
United States	136	407	86	3,072	6
Switzerland	121	148	207	2,295	5
Belgium	-224	-42	148	2,088	4
United Kingdom	563	15	186	1,907	4
Japan	291	31	111	709	1
Sweden	-44	-26	234	686	1
Other	780	1,039	4,827	9,940	20
Total	1,863	4,007	8,837	50,236	100

FDI in the CR

FDI in the Czech Republic according to industries

Sector	2003	2004	2005*	1993 – 2005*	
	mil. EUR	mil. EUR	mil. EUR	mil. EUR	%
Manufacturing					
Machinery and equipment	1,463	-31	241	5,518	37
Basic metals and metal products	584	406	517	2,616	17
Refined petroleum and chemicals	78	215	399	2,265	15
Food and tobacco	92	6	126	1,717	11
Non-metallic products	77	1	61	1,258	8
Other	24	218	142	1,647	12
Total	2,318	815	1,486	15,021	100
Non-manufacturing					
Financial intermediation	790	615	1,047	9,296	26
Transport, storage, communications	-2,581	217	3,990	9,193	26
Trade, hotels and restaurants	579	596	461	5,920	17
Real estate, business activities	390	1,324	1,562	5,727	16
Electricity, gas, and water supply	221	233	118	2,614	7
Other	145	154	174	2,412	7
Total	-456	3,192	7,351	35,215	100

Source: Czech National Bank, March 2006

* preliminary

FDI in the CR

List of mayor investors in the field of R&D in the Czech Republic

Company	sector	Company	Sector
AMI Semiconductors	microelectronics	Motorola Freescale	microelectronics
Behr	automobiles	On Semiconductors	microelectronics
Bosch	automobiles	Ricardo	engine spare parts
Continental Teves	automobiles	Rieter	automobiles, precision engineering
Ericsson	electronics	Rockwell Automation	precision engineering
Flextronics	microelectronics	Roper Industries	precision engineering
Honeywell	electronics	Siemens	automobiles
IMI	precision engineering	Silicon & Soft Systems	microelectronics
Indet Safety Systems	automobiles	ST Microelectronics	microelectronics
Ingersoll Rand	precision engineering	TRW	automobiles
Kostal	automobiles	Tyco	fire systems
Latecoere	airplanes spare parts	Valeo	automobiles
Mercedes Benz	automobiles	Visteon	automobiles

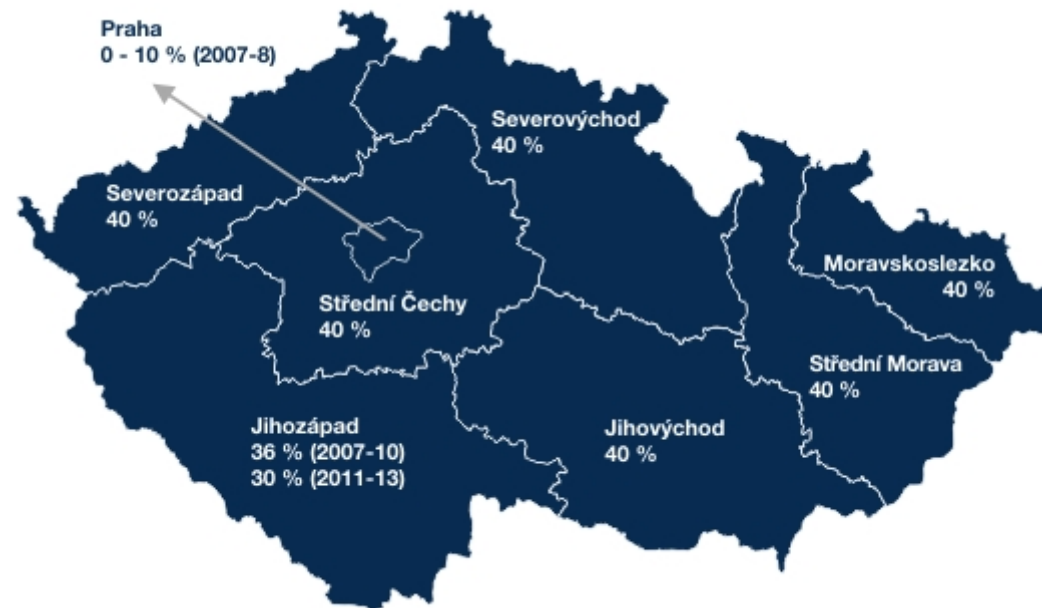
FDI in the CR

The influence of companies with foreign capital on the Czech economy

- Employ 37 % workers in industry (2004), 41 % (2005)
- 52 % sales in industry (2004), 59 % (2005)
- 60 % total Czech export (2004), 68 % (2005)

FDI in the CR

Maximal rate of public support (% of certified costs)



Manufacturing

tax deduction on corporate taxes
support for training and reskilling

Strategic services and technological centers

business subsidies
subsidies for training and reskilling

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FDI in the CR

Manufacturing industry

Incentives

Corporate Income Tax deductions

Full income tax deduction up to 5 years (newly established companies)

Partial Income tax deduction up to 5 years (expanding companies)

Material support for creation new working places

200,000 CZK per a new working place in most affected regions by unemployment (A)

Material support for trainings and reskilling

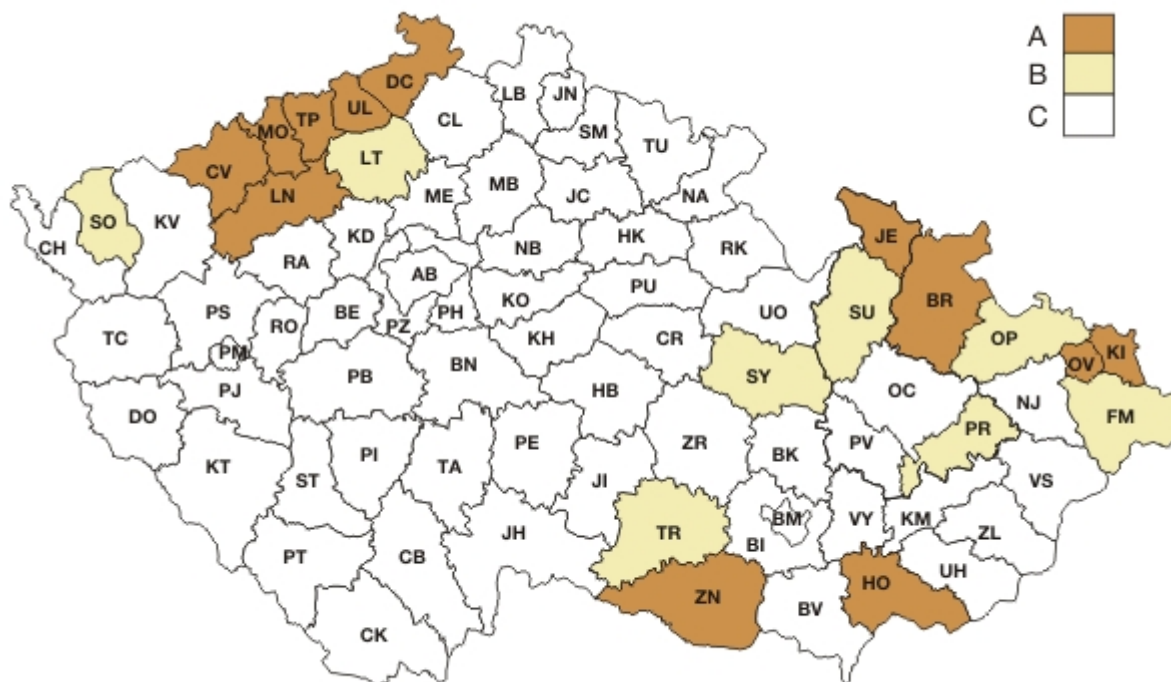
in amount of 35 % of training and reskilling costs in most affected regions by unemployment (A)

	A	B	C
Material support for creation new working places (thous. CZK)	200	-	-
Material support for trainings and reskilling	35 %	-	-

FDI in the CR

Manufacturing industry

	A	B	C
Material support for creation new working places (thous. CZK)	200	-	-
Material support for trainings and reskilling	35 %	-	-

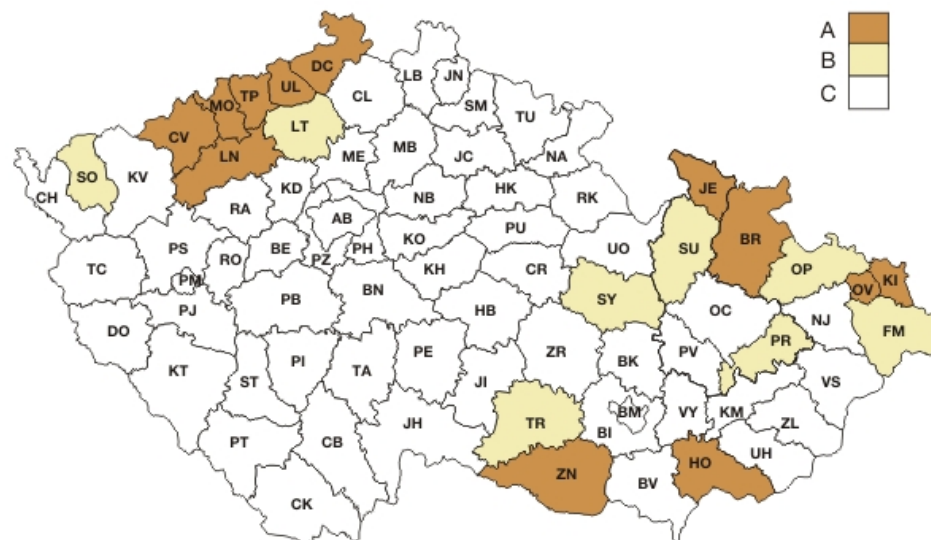


FDI in the CR

Manufacturing industry

Conditions for obtaining investment incentives

	A	B	C
Minimal amount of investment (mil. CZK)	50	60	100
Minimal coverage by own capital (mil. CZK)	25	30	50
Minimal % investment into machinery from the total investment	60	60	60



Clusters

A business cluster is a geographic concentration of interconnected businesses, suppliers, and associated institutions (educational and others) in a particular field. Clusters are considered to increase the productivity with which companies can compete, nationally and globally.

MICHAEL E. PORTER

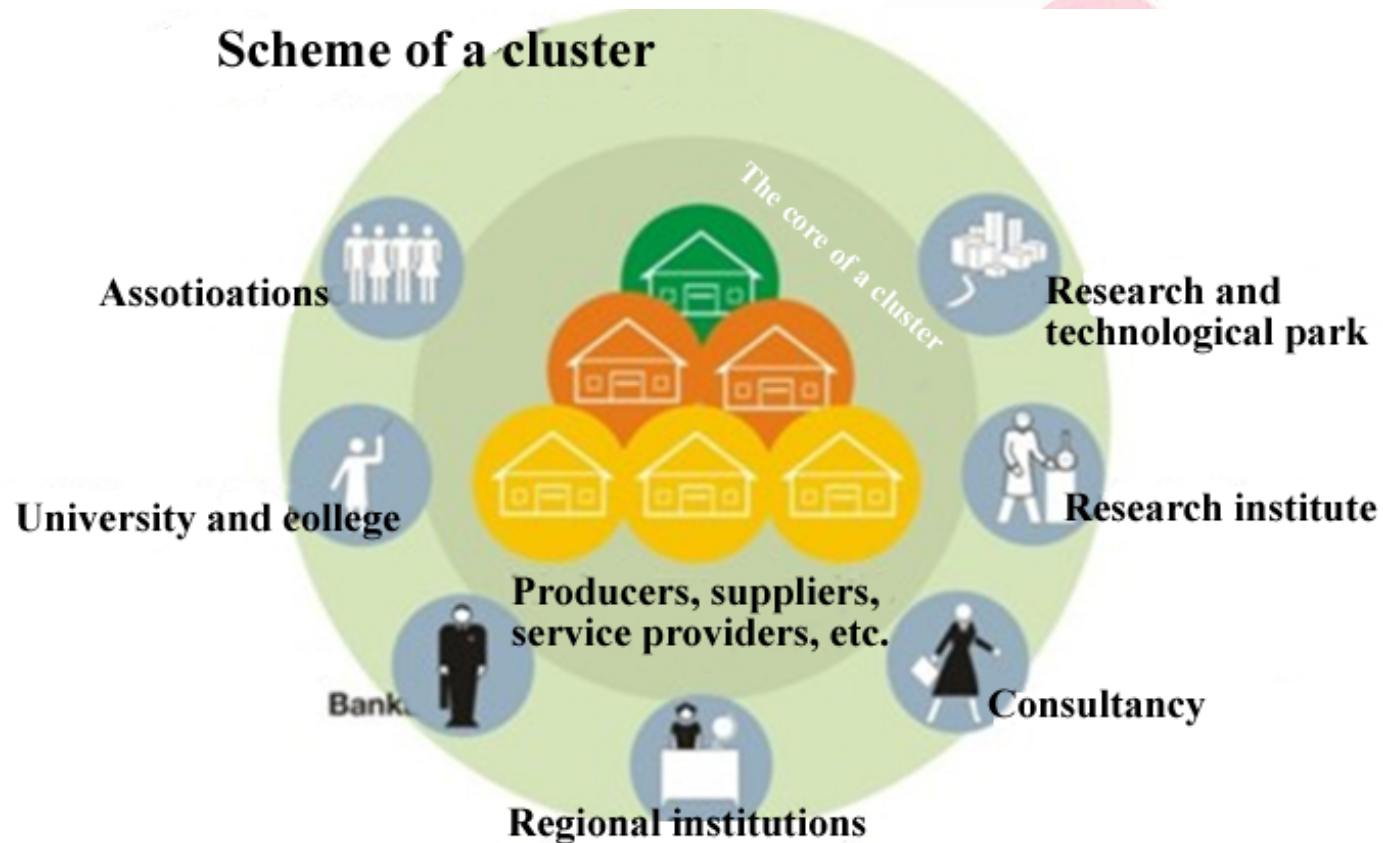
EU definition: groups of independent companies and institutions which:

- cooperate and compete
- are geographically concentrated
- specialize in a specific industry (common technologies and skills)
- are knowledge based or traditional

Use of clusters:

- improved return of companies within a cluster
- more innovations
- initiation of new companies establishment
- increased exports
- attraction of new investments
- support for research
- support for regional development

Scheme of a cluster



Clusters

Basic types of clusters

based on value chain
(network of suppliers interconnections, e.g. automobile cluster)

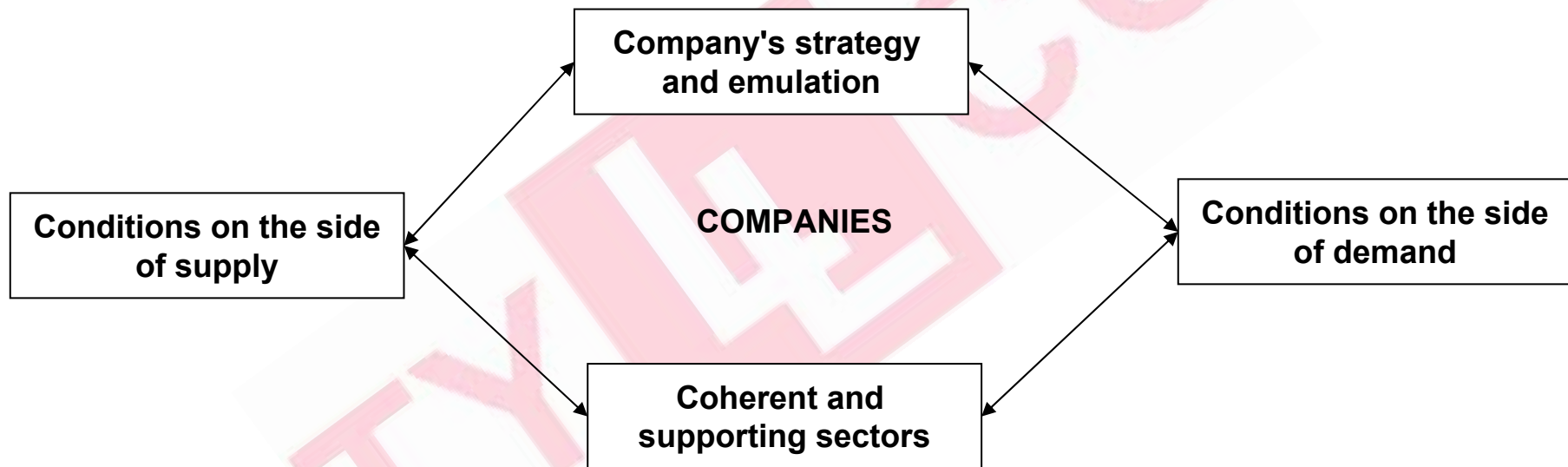
based on competencies
(cluster of IT and software – field of technological expertise for other sectors)

Legal forms of clusters:

- Association (§ 20 civ. code. No. 40/64 Ed.)
- Trading company (Ltd., Inc.)
- Association according to law No. 83/1990 Ed. about citizens association
- Independent association (consortium) according to civil code § 829

Conditions of competitiveness of a cluster

PORTER's DIAMANT



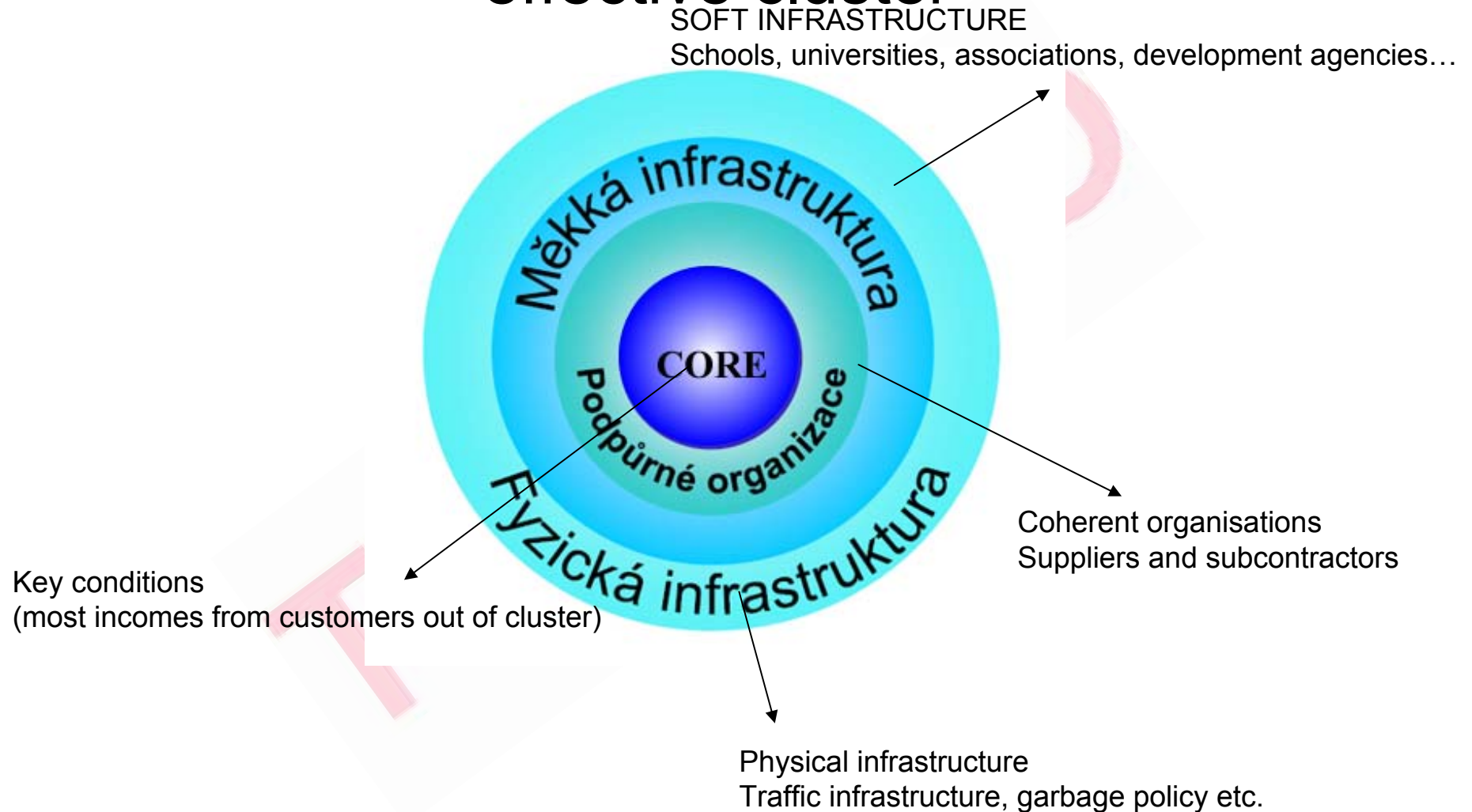
Examples of clusters

Entertainment	Hollywood (USA)
High-Tech	Silicon Valley (USA)
Furniture (chairs)	Udine (ITA)
Football balls	Sialkot (PAK) – 70 % world production incl. brands Nike, Addidas, Miltre
Pharmacy	Medicon Valley (SWE)
Perfume flacons	Bressle Valley (FRA) – 75 % world production
Ski shoes	Montebelluna (ITA) – 75 % world production

Qualities and components of a highly effective cluster

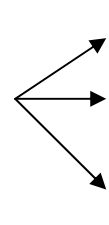
- Quality of a human potential (formal and informal relations)
- Available „external savings“ (passive attendance)
 - Availability of qualified and specialized labour force
 - Availability of inputs and subcontractors
 - Attraction of new customers and opening the market
 - Rapid information flows and new technologies
- Common activity, active gains from „clustering“
 - vertical and horizontal interconnections
 - „soft“ and „hard“ networks

Qualities and components of a highly effective cluster

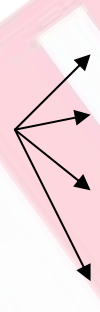


Success factors of clusters

Critical success factors:

- 
- Existence of operational networks and interconnections
 - Strong innovation base (with supportive activities in R&D)
 - Existence of a strong knowledge base

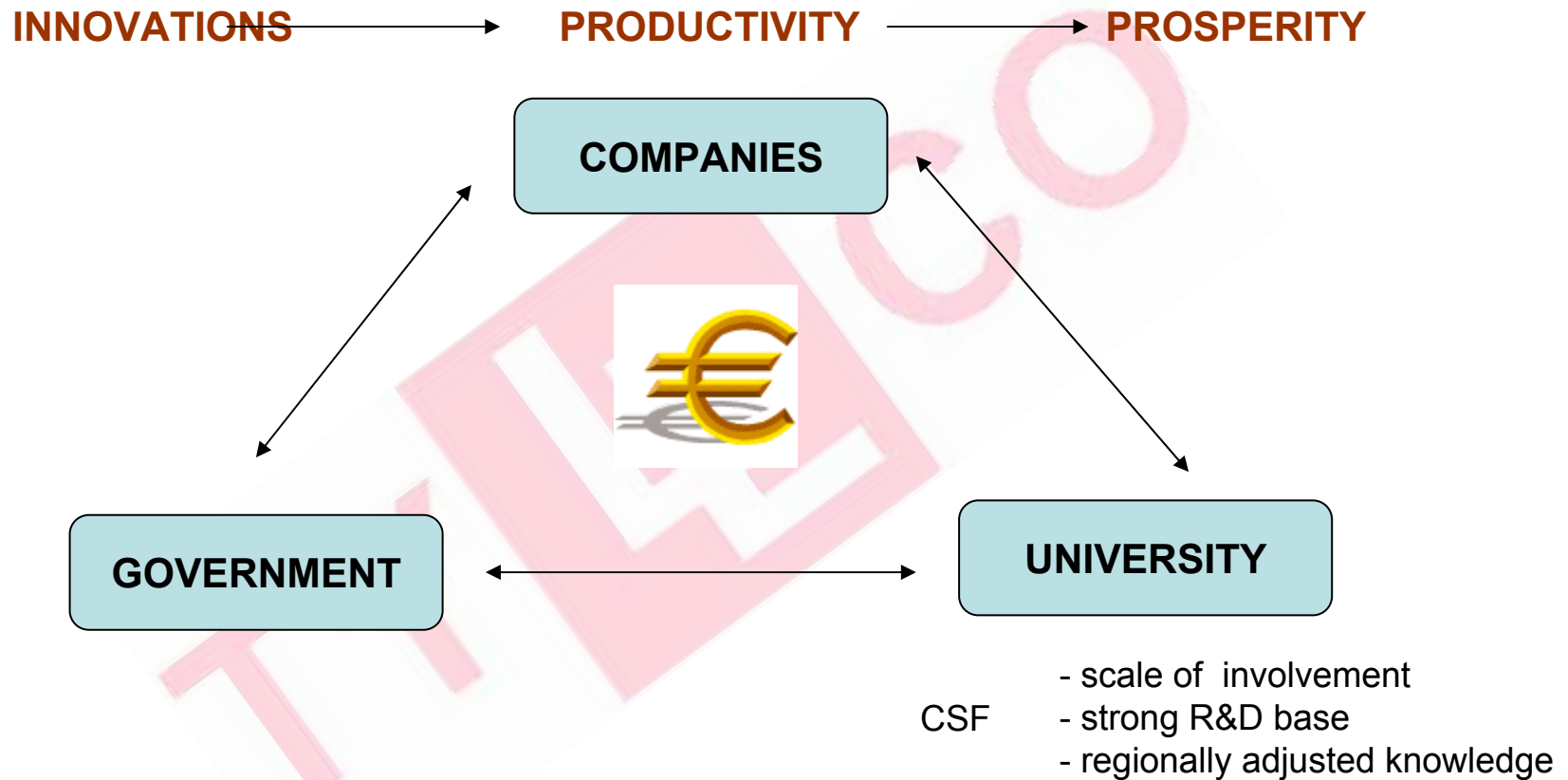
Additional success factors:

- 
- Adequate technical infrastructure
 - Presence of large companies
 - Strong business culture
 - Access to financial sources

Benefits of clusters for involved companies

1. Provide economies of scale and lower costs
2. Decrease limits of smaller companies and increase specialization
3. Increase local competition and thus increase its global competitive advantage
4. Increase the speed of transfer of information and technologies
5. Increase the power vox of smaller companies
6. Encourage government to investments to specialized infrastructure
7. Allow effective interconnections and partnerships (academic forums)

Universities and clusters



Regional government and clusters

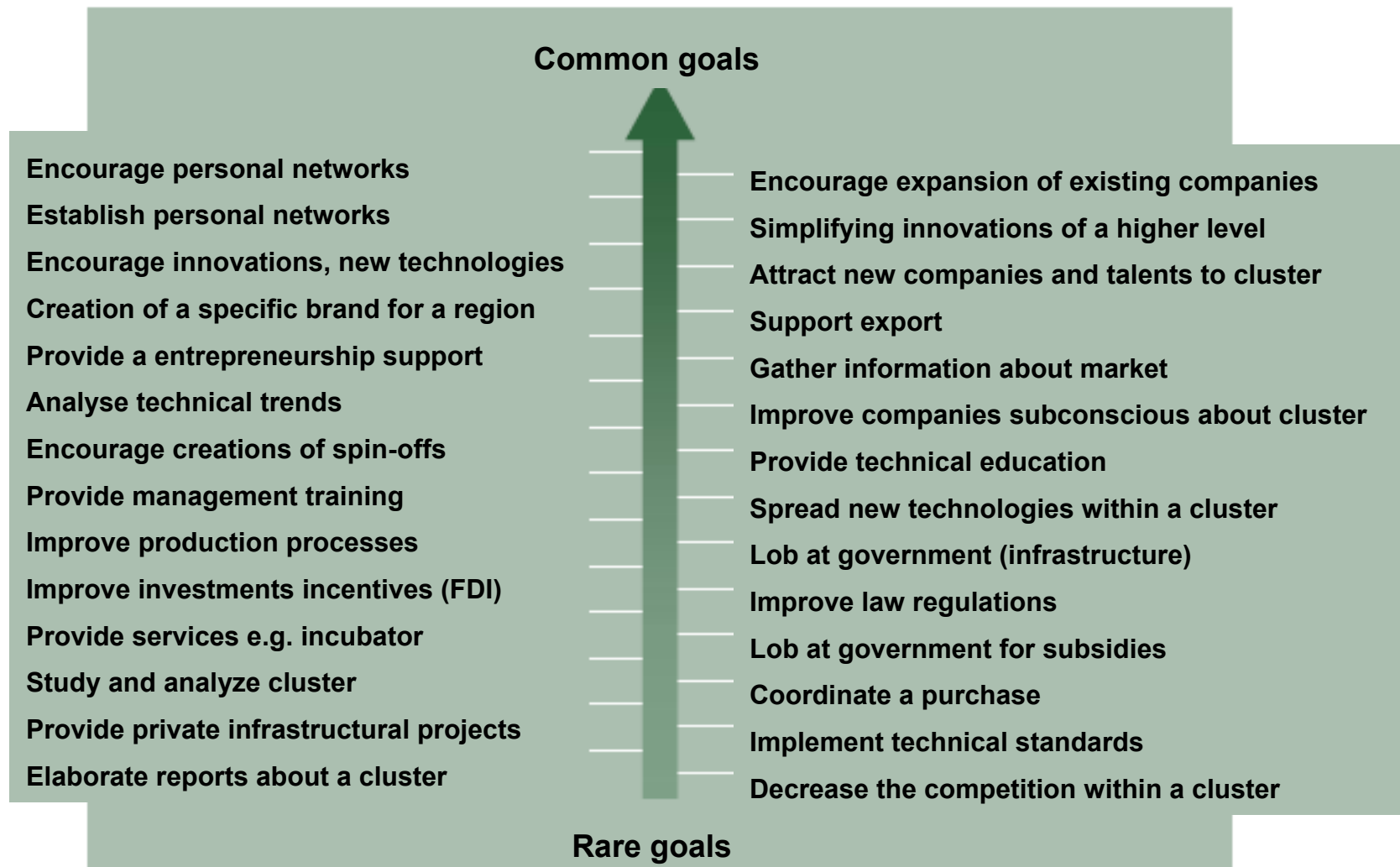
Identification of a cluster potential

Providing a financial support for initial cluster activities

Development of business environment and infrastructure

Support for networking and mutual cooperation

Goals of a cluster

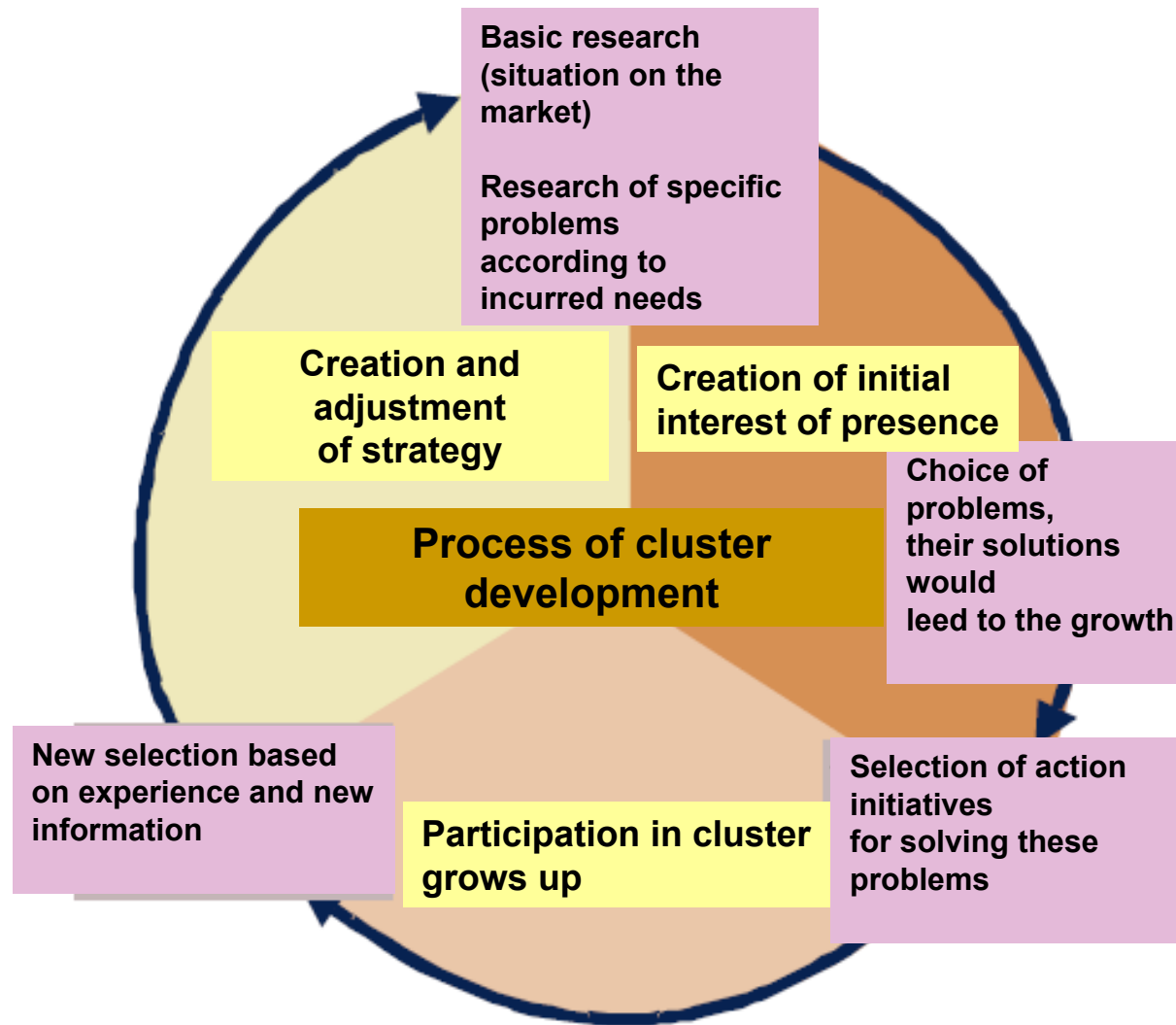


Source: CPKI 2003 – rank according to percentage accordance in KI
© 2009 Ing Ladislav Tyll, MBA, Ph.D.

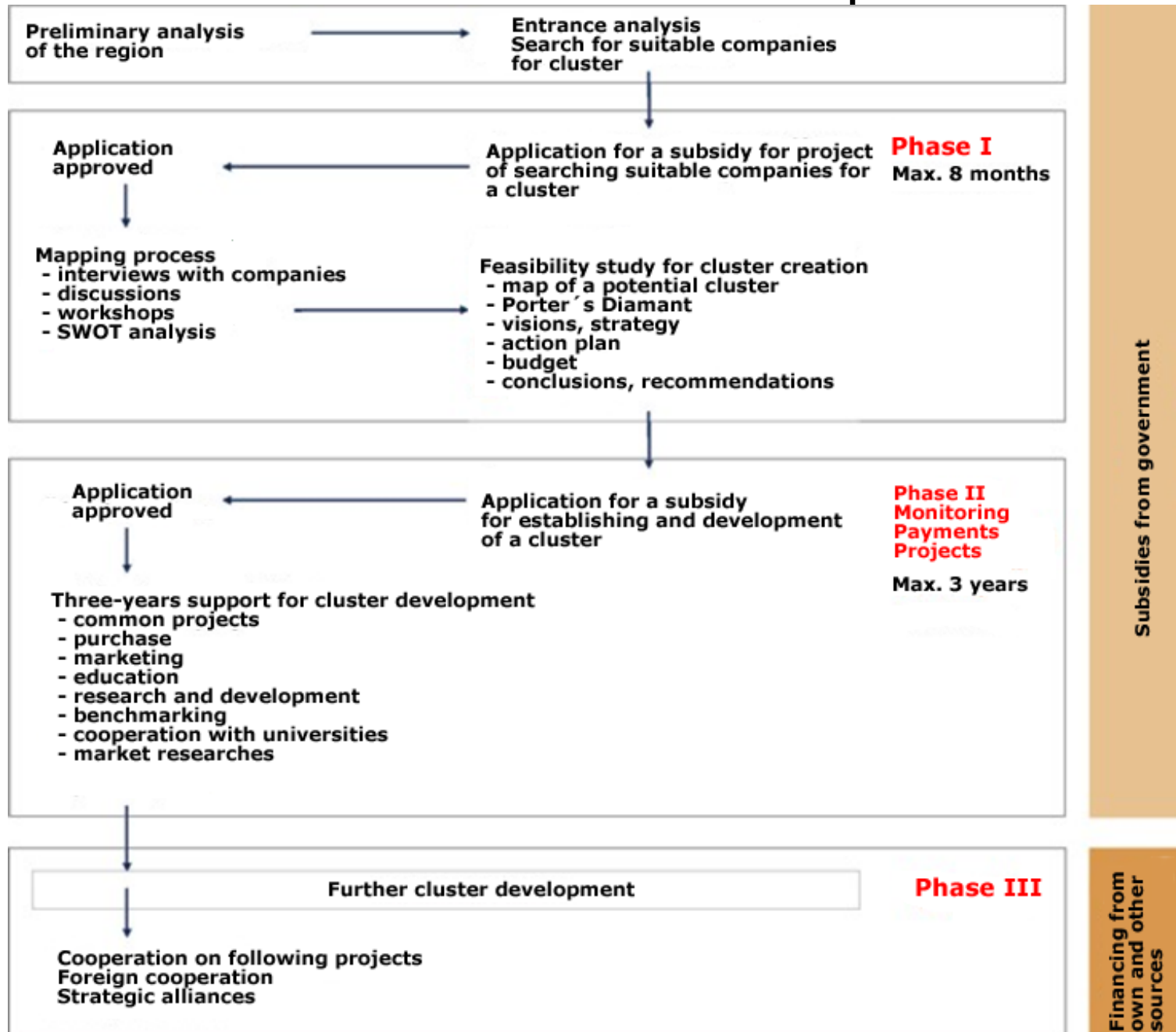
10 reasons why to be a cluster member

1. Information
2. Communication
3. Cooperation
4. Education
5. Consultancy and lobbying
6. PR and marketing
7. Productivity
8. Innovations
9. Internationalisation
10. Competitiveness

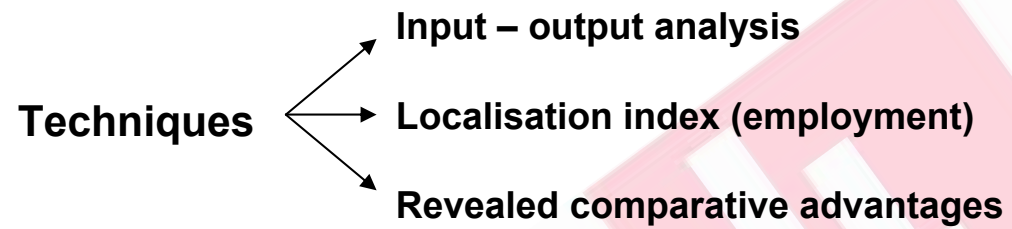
Process of cluster development



Process of cluster development



Cluster identification



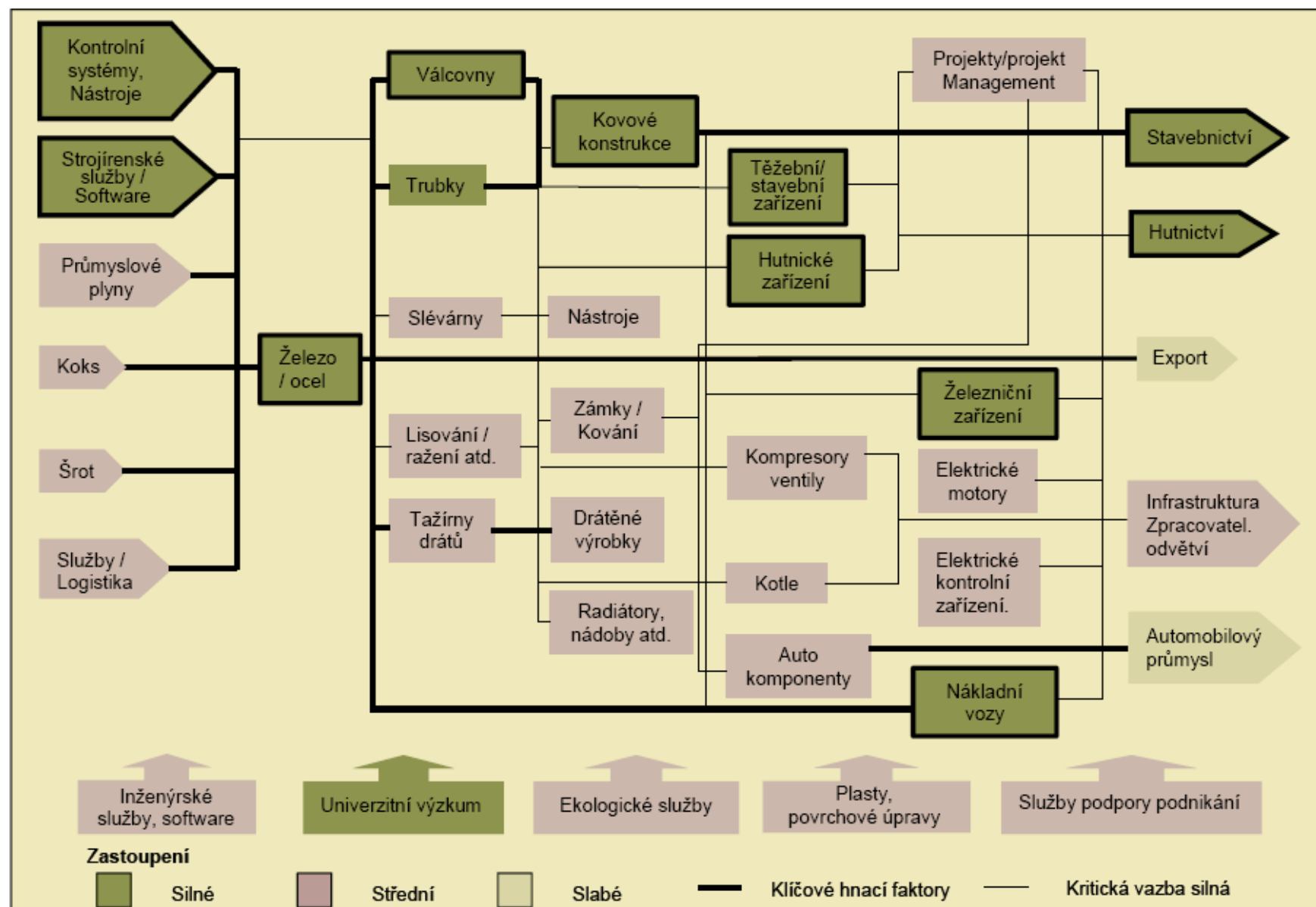
$$LQ = \frac{x/X}{y/Y}$$

Cluster maps

- Goals:**
- Identification of mutual business / suppliers - buyers relations between different sector in a region
 - Gaps identification within a cluster (completion by local or foreign investments)
 - Identification of opportunities for reinforcement suppliers relations and value added due to cooperation
 - Identification of cluster capacity for export market or as a supplier for foreign investments
 - Identification of strengths and weaknesses
 - Identification of key drivers of the cluster from competitiveness and innovation increase point of view

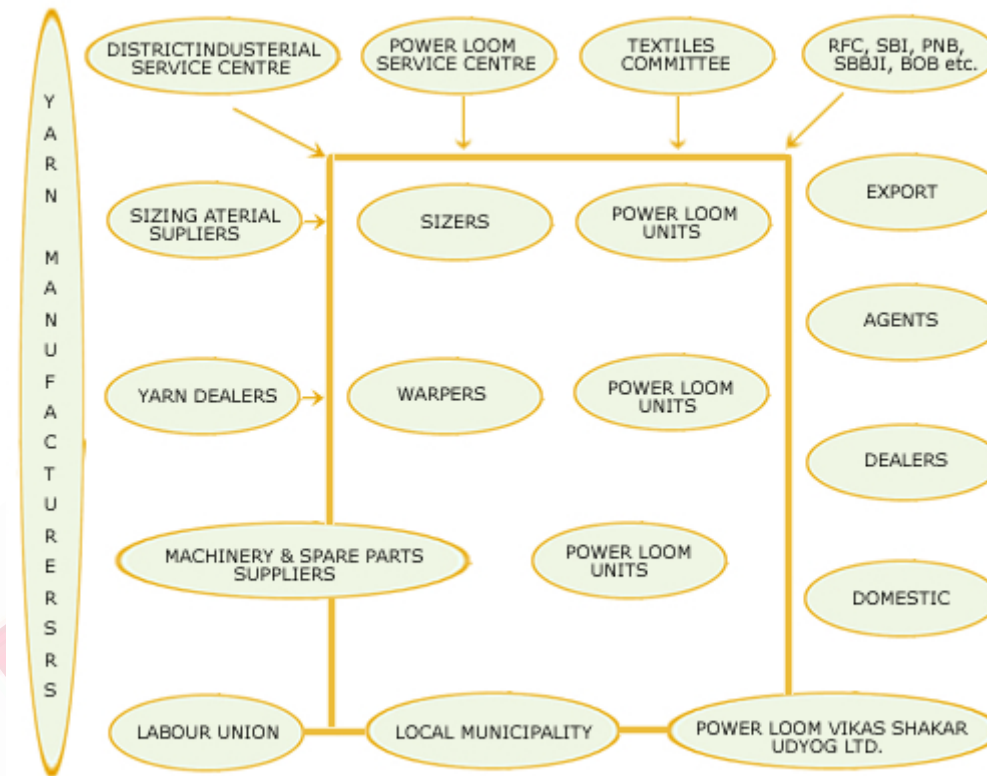
Cluster maps

Northmoravien machinery cluster



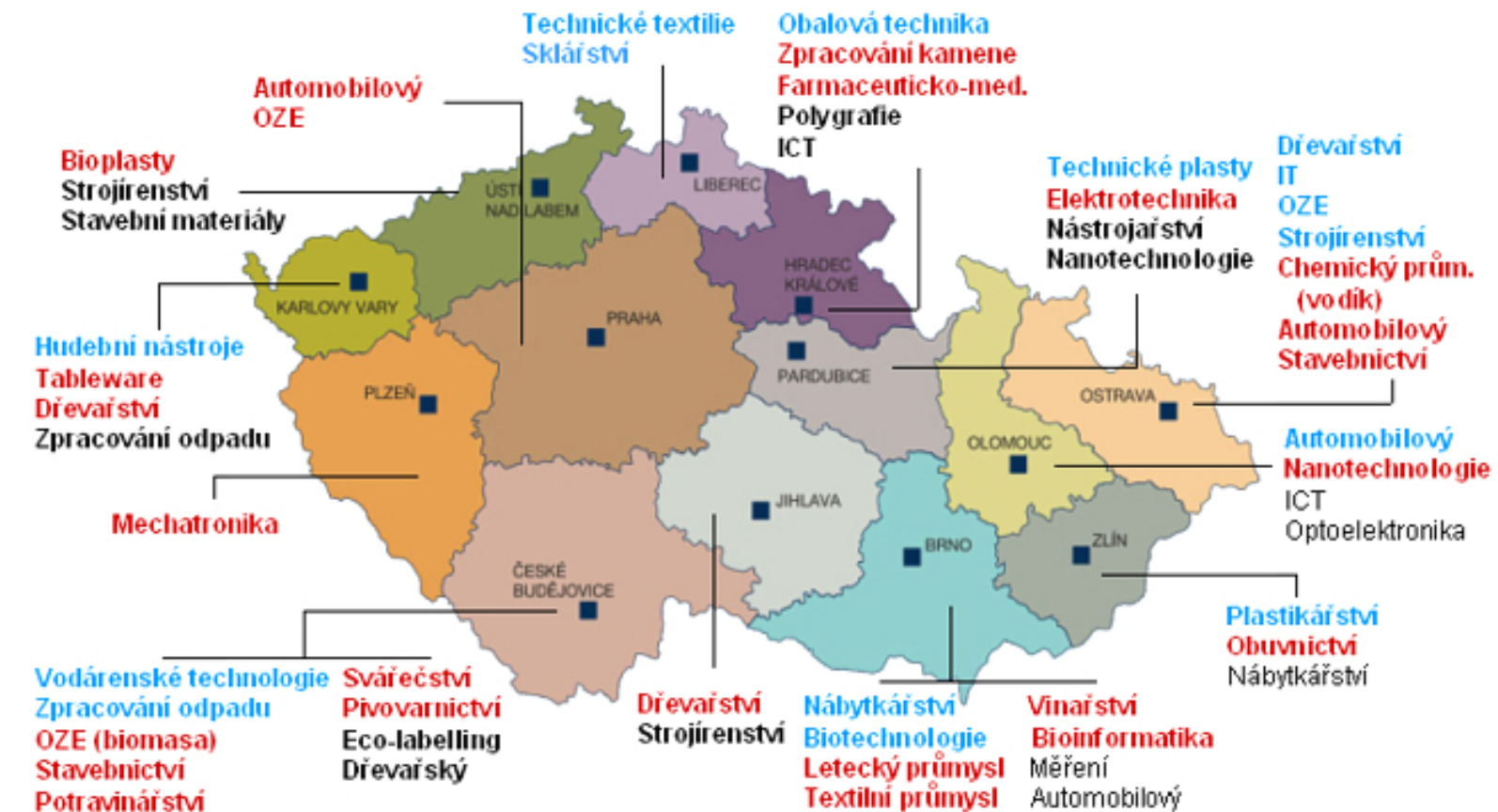
Cluster maps

Kishangarh Powerloom Cluster Map



TOP

Cluster initiatives in the CR



■ Založené klastry

■ Projekty ve fázi mapování

■ Projekty ve fázi přípravy ve třetím čtvrtletí roku 2006

□ Uvažované projekty

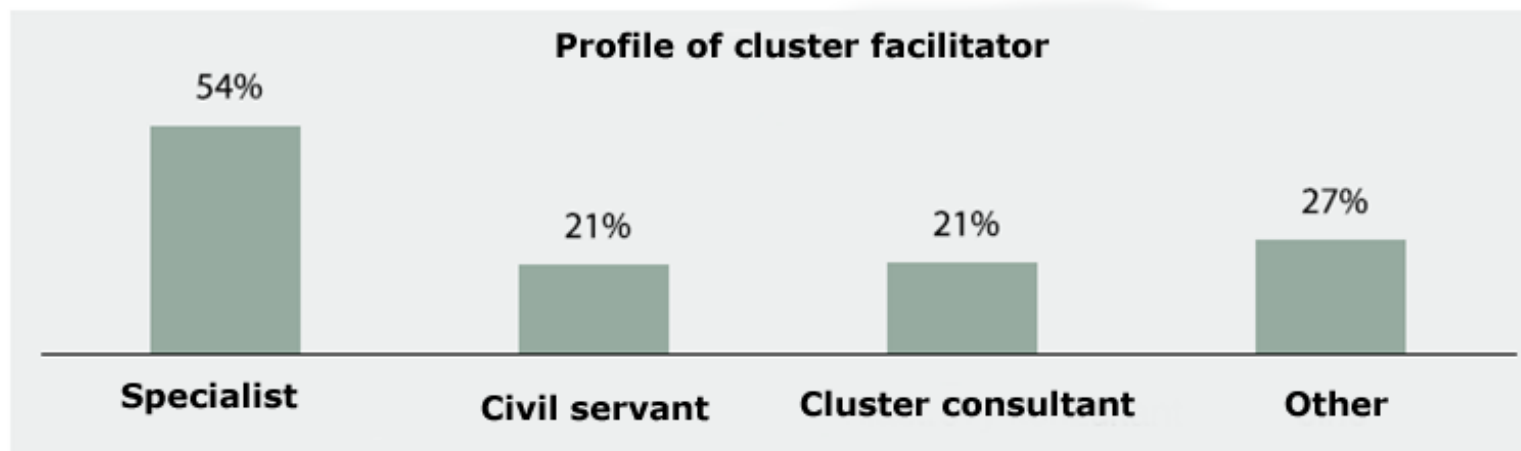
Process of cluster development

FACILITATOR

= person, responsible for cluster coordination

Role of facilitator:

- Identifies and encourages cluster and networking opportunities and develops them
- Seeks for possible connections between companies when there are mutual interests and needs e.g. common purchase or export
- Facilitates initial workshops – presentation and introduction of cluster concepts for companies from a specific sector
- Intermediates and develops contacts
- Acts as a neutral intermediary, vehicle of changes and catalyst, intermediates a dialog between cluster members
- Tries to create a trust between cluster members
- Helps to attract new comers, growth of existing companies, seeks for innovation opportunities
- etc.



Process of cluster development

Financing a cluster

