

Foreign direct investment to the Czech agri-food sector development in the pre-accession period to the EU

Přímé zahraniční investice do zemědělsko-potravinářského sektoru v období před vstupem do EU

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Foreign direct investments (FDI) are becoming one of the key indicators in quantifying and assessing the effect of globalisation on the world economy. FDI are considered being particularly beneficial to developing economies, however, the main share of the internationally invested capital still goes to the most advanced world economies.

Transition economies are a specific group competing for the maximum share of the international supply of the investment capital. A nation's attractiveness to foreign investors is considered to be an indicator of the stability and soundness of its economy, and the volume of FDI inflow is one of the yardsticks of progress with the economic reform. FDI are also significant because of the mass privatisation of state assets in former centrally planned economies.

MATERIAL AND METHODS

The Czech National Bank (CNB 2001) bases its statistics on the definition of foreign direct investment set by the OECD in harmony with the EUROSTAT and the International Monetary Fund.

This definition specifies that:

"Foreign Direct Investment" reflects the objective of obtaining a lasting interest by a resident entity in one economy ("direct investor") in an entity resident in an economy other than that of the investor ("direct investment enterprise"). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated". A direct investment enterprise is defined as "an incorporated or unincorporated enterprise in which a foreign investor owns 10 per

cent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise.

Foreign investors have the opportunity to enter either into the existing business chains or invest on the "green field" and take an advantage of the till now relatively cheap labour, especially in some regions.

In the case of interest to invest to the Czech food industry, a foreign investor can contact different services of services agencies and companies specialised on connections with orientation on investments and business services or professional chambers.

The capital input of FDI helps to invest the missing financial resources needed for technological reconstruction and modernisation.

The Czech food industry as one of the important manufacturing sectors with a high share of value added (VA) is going to be prepared for the entrance to the EU and investors will have opportunities to positively appreciate their investments, mainly in short and longer time period. VA is considered as an important criterion of the efficiency and competitiveness of production.

Inward foreign direct investments

Published data (WIIW-WIFO Database 2002) demonstrate the level of FDI into the Czech agriculture, forestry and fishing sector in comparison with other accessing countries. Monitored value of FDI share depends on the development and efficiency of the sector. The share of FDI stock in year 2001 was in the Czech Republic 0.4%, in Hungary 1.1% and 0.1% in Poland.

According to data available on FDI inward to the CR food industry it is possible to demonstrate their development in the period 1993–2002.

As it documents Table 1, the year-on-year index is fluctuating. The influence of some higher investments is evident.

Table 1. Czech Republic: Inward foreign investment 1993–2002 (in mill. of EUR)

Year-on-year index	1994/93	1995/94	1996/95	1997/96	1998/97	1999/98*	2000/99*	2001/00	2002/01
Non-manufacturing total	137.20	389.08	47.68	125.80	274.60	186.40	78.59	139.88	181.64
Agriculture, hunting and forestry	50.00	60.00	0.00	60.00	116.70	85.70	150.00	355.60	37.50
Manufacturing total	126.60	167.84	137.20	389.08	47.68	125.76	274.56	186.42	78.59
Food and tobacco	30.60	156.70	50.00	60.00	0.00	60.00	116.70	85.70	150.00

Source: Data provided by the Czech National Bank

*Until 1997, data included FDI in equity capital, starting from 1998, data on reinvested earnings and other capital have been included in FDI flows.

Table 2. Czech Republic: Inward foreign investment to the food industry, 1993–2002

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
FDI total (bill. CZK, cumulated)	19.050	44.044	112.037	150.812	192.063	312.032	530.844	723.265	937.850	1 213.985
FDI food industry (bill. CZK, cumulated)	6.671	8.713	11.951	13.933	16.916	21.014	33.442	40.243	49.619	56.375
FDI total (bill. CZK) ^{1, 2}	19.050	24.994	67.993	38.775	41.251	119.969	218.812	192.421	214.585	276.135
FDI food industry (bill. CZK) ²	6.671	2.042	3.238	1.982	2.983	4.098	12.428	6.801	9.376	6.757
% of GDP (food industry) ^{3, 4, 5}	–	–	4.0	4.2	4.8	4.2	4.2	3.8	3.8	3.8
% of FDI (food industry)	35.0	19.8	10.7	9.2	8.8	6.7	6.3	5.6	5.3	4.6

Source: Data provided by the Czech National Bank

¹ Until 1997, data included FDI in equity capital, starting from 1998, data on reinvested earnings and other capital have been included in FDI flows

² Year 2002 = preliminary data

³ The matter is the value added from production (the indicator is near by GDP of the branch)

⁴ Numbers of 1993 and 1994 are not available

⁵ The estimation for years 2001 and 2002

Calculations: Mezera (RIAE Prague)

In Table 2, there is described the development of the inward foreign investment amount to the Czech food industry in period 1993–2002 and its % share in GDP. The highest level of FDI was reached in 1993 (35.0%). In the following years, there was a significant decrease of foreign investors interest to invest into the CR food industry.

DISCUSSION

Special policies are used for foreign direct investment (FDI) in the Czech Republic, mainly in the field of agricultural land. There exist preferences of domestic subjects as landowners, what is reflected in legislation. This policy will be applied during the transition period and for 7 years after the entrance of the CR to the EU.

The value of FDI to agriculture, forestry, fishery of the CR in 2002 was CZK 242.9 mill. The total value of FDI to

the mentioned sector in the years 1993–2002 was approximately CZK 2 668 mill. The share of FDI preliminary represents only 0.4% of the total income of FDI to the non-manufacturing sector in the year 2002.

Different policies are aimed at the manufacture of food products, beverages and tobacco sector as to the part of industry. The input of foreign investments to this sector was not limited. The special regime was applied only in cases of trademarks production with the special state interest (Budvar).

There was a basic change from the liberal and neutral politics in the connection to the foreign investors. Step by step, there were used the principal of foreign investments incentives. The income of FDI to the manufacture of food products, beverages and tobacco sector was not limited. According to the statistical data from the Czech National Bank, it was in total CZK 6 757.1 mill. It presents the share of 2.4 % in the total direct foreign investments value invested to the CR national economy. In the year

2002, there was the increase of FDI to the manufacture of food products, beverages and tobacco sector in comparison with year 2001 both regarding the share and the value of food.

The total value of FDI to the manufacture of food products, beverages and tobacco sector at the beginning of the year 1993 is CZK 56 bill. The share of this FDI value is 4.6% of total value of FDI to the national economy.

FDI have been targeted till now mainly to the confectioner's and tobacco industry, durable pastries, breweries, and malt-houses, sugar refineries, starch production, milk and oil and fat production, production of prepared dishes. The very significant share of FDI is concentrated to beer production.

Another problem to be solved is the influence of financial input of multinational companies and their impact on the development of the national food production.

There are possibilities for investment incentives, based on legislative framework, for business support services. Some types of these supports are aimed at High-Tech Repair Centres and Software Development Centres.

Investment incentives for the manufacturing sector include:

- Corporate tax relief for ten years or partial corporate tax relief for five years
- Job-creation grants
- Training and re-training grants
- Industrial property (infrastructured) at a discount
- Transfer of land owned by the Czech state at a discount.

CONCLUSIONS

Monitoring of FDI development reflects that the highest score of their input to the food sector was reached in starting years of the economic reform (investment into privatisation). The allocation of investments in the food sector was determined by its manufacturing tradition. The other factor that had determined the investment allocation was the quickly changing market position and the present competitiveness. FDI are usually aimed at production with the strong position in the market. The same conclusion is described in materials Jansik (2000, 2001) and Kedaitiene (2002).

This situation was highly significant in confectioneries production, breweries and some other special food products.

The share of FDI in following years noted a significant decrease.

The future perspective of FDI allocation into the food sector will be connected with macroeconomic factors (investment stimulation, tax system etc.) as with the competitiveness of certain food products manufacturing in the market, with the professionalism of human resources, especially with the skills of the management and other factors.

The present governmental policy offers possibilities of investment inventiveness to the food-manufacturing sector. Many activities are mainly aimed at a new production, at the expansion or modernisation of manufacturing activities.

The other type of investment inventiveness is the support of services for business. There are supported technological services centres aimed at solving the problems connected with the hygienic, health care, ecological and technological problems of the production. There is a real presumption that after the accession of the CR to the EU, the interest of foreign investors to enter Czech environment and small firms will increase. It is supposed that the preference will be aimed at the specialised production. The intensification of competitiveness according to the finished consolidation of the main part of leading food manufacturing firms is expected.

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