Volume 34 - Post-Communist Reform in the Czech Republic: Progress and Problems (2016)

Perspectives on Business and Economics

2016

An Analysis of Inward Foreign Direct Investment Determinants in the Czech Republic

Carlie Skellington
Lehigh University

AN ANALYSIS OF INWARD FOREIGN DIRECT INVESTMENT DETERMINANTS IN THE CZECH REPUBLIC

Carlie Skellington

Introduction

During the 1990s, countries located in Central and Eastern Europe (CEE) experienced a large inflow of relocation or investment by multinational companies. Among the most popular of target countries were the Czech Republic, Hungary, Poland, and Slovakia, comprising the Visegrad Four: a group of countries in Central Europe that work together to achieve common interests within the all-European integration. Although desiring cooperation among the Central European region, the Visegrad Four compete with one another to attract the most investment from foreign companies in the form of foreign direct investment (FDI)—investment made by one enterprise in one country into a different enterprise in another country ("FDI in Figures"). As a valuable asset to economies in transition, FDI holds the potential to generate new jobs, bring in new technology, and promote growth and employment in a target country.

Perhaps surprisingly, the relatively small Czech Republic has been a leading CEE country in attracting FDI. The Czech Republic's FDI stock per capita investment has exceeded that of any other CEE country, improving every year since 2007 (Table 1) with the largest per capita FDI at $11,500 per inhabitant, compared to Hungary ($9,980), Slovakia ($9,820), and Poland ($6,370). According to international research studies, the Czech Republic's consistently high inflow of FDI per capita indicates both the country's dependency on FDI for economic stability and its success in securing inward FDI from foreign companies ("Country Expertise").

In this article, I investigate the variables contributing to the strong interest of FDI in the Czech Republic in order to forecast whether the Czech Republic is likely to sustain its high level of FDI in the future. My research suggests that the Czech Republic's strong transportation infrastructure, low personal income tax rate (PIT), and favorable conditions for investment incentives—when compared to the remaining Visegrad Four countries—are the primary drivers of the considerable FDI in the country between 1990 and 2016. Furthermore, my research analysis indicates that the projected outlook of FDI in the Czech Republic is favorable and consistent with current values.

History of Foreign Direct Investment in the Czech Republic

After the fall of communism and the breakup of the Warsaw Pact in 1989, Czechoslovakia transitioned from a centrally planned command economy to an economy characterized by decentralized decision making and markets—an attempt to stabilize and restructure the country's financial situation. While other CEE countries, such as Poland, experienced hyperinflation, the formerly communist-led Czechoslovakia entered a transition period, with low levels of inflation, budget deficits, and foreign debt. Unlike Hungary or Poland, however, Czechoslovakia's communist government delayed the natural progression toward legal private sectors and market institutions. On January 1, 1993, the political separation of Czechoslovakia led to distinct Czech and Slovak government powers (Svejnar).

As an early reformed country in CEE, the Czech Republic pursued multiple stabilization, liberalization, and privatization programs in the early 1990s. Small-scale businesses and stores were sold by public auction under the Act on Small Privatization, a project pursued between the years 1990 and 1993 to sell previously state-owned assets to domestic owners. For larger industrial companies, the main method of privatization was known as coupon—or voucher—privatization. Every Czech citizen could purchase a coupon book for 1,000 koruny (CZK) containing investment points, which could then be used to bid in auctions for shares in state-owned companies undergoing privatization ("Privatisation of State-Owned…"). Approximately six million new individual or corporate shareholders formed after the coupon privatization was applied to 1,664 joint-stock companies ("Economy and Privatisation"). The Czech Republic's accession to NATO in 1999 and to the European Union (EU) on May 1, 2004, boosted investment even further, as implementation of EU rules and regulations improved the country's business climate. In particular, the EU maintains a single external tariff and a single market within its external borders. Since the accession, trade has occurred primarily with the EU and countries in the former Soviet Union. It is in this environment that the Czech Republic has pursued important strategies to encourage FDI. In the next section, each of these strategies is discussed in detail.

Factors Driving Czech Foreign Direct Investment

Dunning's research (1993) is the most frequently referenced study identifying the primary determinants that drive FDI. In terms of *market-seeking* FDI, which serves local and regional markets, the most significant factors include market size and transportation infrastructure. Labor costs and education are important factors for firms looking for an advantage over local competitors through *resource-seeking* FDI, during which firms invest abroad to gain access to better resources. Finally, the deciding factors in choosing between economically similar countries often include tax and investment incentives. Demirhan and Masca (2008) find that inward FDI is larger for countries with larger market sizes, better infrastructure, lower wage costs, better education, lower tax rates, and greater investment incentives. The next section presents an analysis of how the Czech Republic fares according to each of the above FDI determinants compared to neighboring Visegrad Four countries.

Transport Infrastructure Network

Transport infrastructure is often co-integrated with FDI and the economic growth of a country, with all three variables interacting in a symbiotic, long-term relationship (Pradhan et al.). The availability of government-provided infrastructure—such as roads, highways, ports, communication networks, and electricity—increases productivity and, therefore, attracts foreign investment. In particular, reliable

Table 1
Stock of Inward Foreign Direct Investment as Percentage of GDP

	2007	2008	2009	2010	2011	2012	2013	2014
Czech Republic	57.9	52.7	61.4	64.1	59.9	67.7	66.0	59.1
Hungary	65.4	59.2	75.1	70.6	66.8	80.9	82.2	71.7
Poland	37.3	30.4	39.1	43.1	39.7	44.7	46.3	44.8
Slovakia	53.0	56.2	58.1	57.2	58.2	59.5	59.3	53.2

Source: "Country Expertise."

Table 2
Quality of Air Transportation in 2014

	Ranking Worldwide	Index
Germany	6	8.74
USA	14	8.49
Czech Republic	19	8.29
United Kingdom	22	8.11
Austria	36	7.22
Hungary	41	6.49
Slovenia	50	5.69
Poland	55	4.69
Slovakia	68	4.23

Source: "Investment Climate in the Czech Republic."

infrastructure improves the investment climate by subsidizing the cost of total investment and raising the amount of returns (Khadaroo and Seetanah). Dependable and efficient road designs, highway maintenance, and materials can reduce road damage of privately owned and operated business vehicles, lessening transportation costs for foreign companies.

Due to its central location in Europe, the Czech Republic serves as a natural crossroad for major trade acquisitions—linking the country to neighboring European states through railways, roads, navigable waterways, and air transport. Since joining the EU Single Market, which currently covers the area of 28 countries in Europe and accommodates over 500 million customers, the dependence on the Czech Republic as a transit hub has increased significantly. Maintaining a thriving automotive industry, the Czech Republic has one of the most sophisticated transport networks in CEE, covering an area of 78,864 cubic kilometers. In 2013, for instance, the Czech Republic maintained 15,607 km of railroad; 55,761 km of road; 687 km of waterways; and 91 total airports, as measured by the Czech Statistical Office. According to the 2014 International Institute of Management Development (IMD) World Competitiveness Yearbook (WCY), the Czech Republic has built more railroads, at 0.12 km per square km, than has Poland, Slovakia, or Hungary, at 0.06 km per square km, 0.07 km per square km, and 0.08 km per square km, respectively. The advanced railroad system has earned the country the ranking of third in the world for railroad density in 2012. In terms of road density, the Czech Republic ranks twelfth in the world, with 1.66 km per square km, behind Hungary, which ranks fifth, with 2.10 km per square km ("The Business and Investment Climate in the Czech Republic").

The quality of air transportation further supports the Czech Republic's thriving transport system, an attractive quality for foreign investors that often encourages business development. Based on the IMD WCY Executive Opinion Survey, the Czech Republic has an air transportation quality index of 8.29 out of 10, following closely behind Germany and the United States, with indexes of 8.74 and 8.49, respectively (Table 2). Among the remaining Visegrad Four are Hungary, Poland, and Slovakia, with indexes of 6.49, 4.69, and 4.23, respectively, as described in the IMD WCY 2014 ("The Business and Investment Climate in the Czech Republic"). In 2012, the Vaclav Havel Airport Prague accommodated 10,800,869 passengers between arrivals and departures. Among the Visegrad Four, Warsaw Chopin Airport in Poland experienced the second highest number of passengers at 9,352,979, followed by Budapest Ferenc Liszt International Airport in Hungary, with 8,429,843 passengers, and Letisko Bratislava Airport in Slovakia, with 1,362,739 passengers (Eurostat). The total number of passengers signifies the potential market for foreign investment; therefore, countries with more visitors appear more favorable to foreign investors. Since the country's advanced rail, road, and air transportation system lowers potential investment costs and increases potential productivity, the Czech Republic's transport infrastructure network is a major advantage for investors.

Tax Incentives

Studies identify the corporate tax rate as another very important macroeconomic factor in determining the flow of FDI (Dewhurst). The resulting net increase in domestic income from foreign investment is shared with the government through the taxation of wages and businesses. Because FDI provides foreign investors the freedom to choose a location based on taxation requirements, policy makers are consistently ensuring that tax rates are attractive to inward foreign investment. According to Gordon and Hines (2002), tax policies are "capable of affecting the volume and location of FDI, since…higher tax rates reduce after-tax returns, thereby reducing incentives to commit investment funds" (p. 43). More specifically, studies analyzing cross-border flows hypothesize that FDI, on average, decreases by 3.7 percent given a 1 percent point increase in the tax rate on FDI ("FDI in Figures").

Among the most influential of taxes on foreign investment are corporate taxes, PITs, and the value added tax (VAT). As do other countries, the Czech Republic taxes the net profits from companies doing business in the country through the corporate tax, whereas taxes on the income of each person are collected through PIT returns. The VAT is a tax imposed on supplies of goods and provision of services in the Czech Republic as well as on goods imported to the Czech Republic from other EU member states. Effective January 1, 2015, the Czech Republic's standard corporate income tax rate is 19 percent, with a 5 percent corporate income tax rate applied to basic investment funds and a 0 percent corporate income tax rate applied to pension funds ("Investment in the Czech Republic"). Among the Visegrad Four, Poland and Hungary maintain the same corporate tax rate as the Czech Republic at 19 percent, while Slovakia imposes a rate of 22 percent ("Investment in Slovakia"). Unlike the corporate tax rate, however, the Czech Republic's PIT rate appears more favorable to relocated employees of foreign companies than to the PIT in the other Visegrad Four (Table 3). In 2015 the Czech Republic's PIT was a flat rate of 15 percent, whereas the remaining Visegrad Four held higher PIT rates at 18 percent to 38 percent, 19 percent to 40 percent, and 19 percent for Hungary, Poland, and Slovakia, respectively ("Investment in Hungary").

Currently in the Czech Republic there are three types of VAT rates, including 21 percent for most goods and services; 15 percent for some selected goods and services—

Table 3
2015 Tax Rates (Percent) in the Visegrad Four

	Standard Corporate Income Tax	Personal Income Tax	Value Added Tax
Czech Republic	19	15	21
Hungary	19	18–38	25
Poland	19	19–40	22
Slovakia	22	19	19

Source: "Investment in the Czech Republic."

such as food products, certain books, certain pharmaceuticals, and special healthcare products; and 10 percent for some selected goods—such as certain books, infant food, and certain pharmaceuticals. Although Hungary and Poland maintain higher VAT rates than does the Czech Republic at 25 percent and 22 percent, respectively, Slovakia is the most favorable, with a VAT rate at 19 percent (see Table 3). Additional taxes pertinent to FDI include social security and health insurance, road taxes, real estate taxes, and energy taxes. Therefore, the favorable PIT rate and the average corporate tax rate give the Czech Republic only a slight advantage over the other Visegrad Four in regard to investment.

Investment Incentives

Catering specifically to foreign investors, many countries provide financial and non-financial assistance, termed investment incentives, which include subsidies, tax breaks, and preferentially priced land. As a result, foreign investors often weigh their decision to locate or relocate a company based on the investment incentives offered by the countries of interest. Due to budgetary constraints and differing economies, investment incentives tend to vary from country to country, including those among the economically similar Visegrad Four. Investors in the Czech Republic, in particular, may receive the following financial benefits: (1) investment incentives through tax holidays and cash grants; (2) subsidies from EU funds through cash grants; (3) research and development tax allowances; and (4) education tax allowances. Such incentives are divided into particular sectors that a specific country seeks to promote. The Czech Republic, for instance, offers investment incentives in the high-tech manufacturing industry, research and development facilities, technology centers, and shared-services centers.

The conditions for investment incentives in the Czech Republic differ according to the industry or service. In the manufacturing industry, for example, there are three conditions that must be met before investment support is considered. First, a new manufacturing plant must be established or an existing plant must be expanded. Second, a minimum amount of CZK 100 million must be invested in both tangible and intangible assets. Third, at least 20 new jobs must be created. For all types of investments, however, the assets for the project cannot be acquired until the incentives application is submitted, with a guarantee that the investment will be maintained for at least five years ("Investment in the Czech Republic").

Although the particular investment incentives are similar among the Visegrad Four, the eligibility conditions that investors must meet in order to receive such incentives differ from country to country. Among the most relevant to this study, requirements appear to be more favorable for investment in the Czech Republic than in any other Visegrad Four country. Before subsidies can be allocated, the Czech Act on Investment Incentives requires an investment of €1.8 million, whereas Slovakia requires investors to invest at least €3 million in particular regions of high unemployment ("Investment in Slovakia"). Furthermore, the Czech Republic requires a foreign company to create at least 20 jobs, whereas the Investment Aid Act in Slovakia requires all expansions to create at least 40 jobs. Likewise, the Hungarian government offers a VIP training subsidy for training employees hired to new positions only if an investor has created at least 50 jobs ("Investing Guide Hungary 2014"). Although the condition of investment expenditure of at least €100,000 in Poland is less than that in the Czech Republic and Slovakia, employment grants in Poland require a range of 35 to 500 new jobs, depending on the sector ("Investor's Guide – Poland"). Since conditions for investment incentives must be met before investment incentives are awarded, the more lenient conditions required by CzechInvest—the Czech Republic's nonprofit business and development agency—give the country a slight advantage for FDI, in comparison to the remaining Visegrad Four.

Education

Additional education generally enhances labor market outcomes, because it increases the number of available skilled and experienced workers for foreign investors. As explained by David Mansfeld, the Director of Johnson and Johnson SSC, this international company's reasons for choosing Prague as the home of its finance service center included a reliable, hardworking, high-quality, and multilingual labor market; macroeconomic stability of the country; and a well-developed infrastructure ("Investment Climate in the Czech Republic"). Although the OECD estimates that 75 percent of individuals ages 24 to 64 across OECD countries have acquired post–high school education, the Czech Republic surpasses the average with 92 percent of its citizens having pursued education after high school—showcasing its abundance of skilled and effective workers. The other Visegrad Four countries maintain similarly skilled labor forces at 92 percent, 90 percent, and 82 percent for Slovakia, Poland, and Hungary, respectively ("Investment in the Czech Republic"). According to results of the 2013 IMD Survey (Table 4), the Czech Republic ranked second (5.15) behind Poland (7.16) among the Visegrad Four in terms of the education system, satisfying the needs of a competitive economy (cited in "Investment in the Czech Republic"). Furthermore, the Czech Republic ranked first (5.55) in terms of university education, meeting the needs of a competitive economy, with Poland ranked second at 4.98 (Table 5). Such results show that Czech university graduates are competitive candidates in the job market, thus making them attractive to foreign investors. With similar education competency ratings among the Visegrad Four, however, the Czech education system is not at a clear advantage for foreign investment.

Labor Costs

Based on the current state of the world economy, companies are increasingly inclined to seek out additional cost savings, particularly in CEE countries where costs are lower. Compared to countries in Western Europe—such as France, the United Kingdom, and Germany—the Czech Republic maintains lower labor costs, which encompass salaries and wages, contract labor, employee benefits, and employment-related insurance. For instance, the 2013 average annual wage for employees in the Czech Republic was $15,441, which was much lower than that in France ($47,248), the United Kingdom ($50,357), and Germany ($54,157) ("Investment Climate in the Czech Republic"). Therefore, the lower wages in the Czech Republic and other neighboring countries attract foreign investors directly to the CEE region.

Similar to other CEE countries, the average annual wage in the Czech Republic has only grown approximately three percent since 2011. When directly compared with other CEE countries, however, the Czech Republic's current labor costs do not fare as favorably. Specifically, the Czech Republic experienced the highest average gross monthly wages in 2015 at €971 (Figure 1), with Poland following closely behind at €927 ("Investment Climate in the Czech Republic").

Although employee wages play a significant role in labor costs, foreign investors also continually assess individual countries based on their enterprises' price-quality (PQ)

Table 4
Rankings of Education System Meeting the Needs of a Competitive Economy

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Czech Republic	6.05	4.77	5.26	6.12	4.67	5.06	5.68	5.58	5.00	5.00	5.15
Hungary	6.12	5.42	5.86	4.83	5.13	4.32	4.46	3.46	4.40	4.11	4.08
Poland	3.82	4.79	3.82	3.47	3.67	4.49	4.03	5.05	5.02	5.15	7.16
Slovakia	5.76	5.73	5.04	3.73	3.67	3.60	4.14	3.14	3.53	2.67	3.42

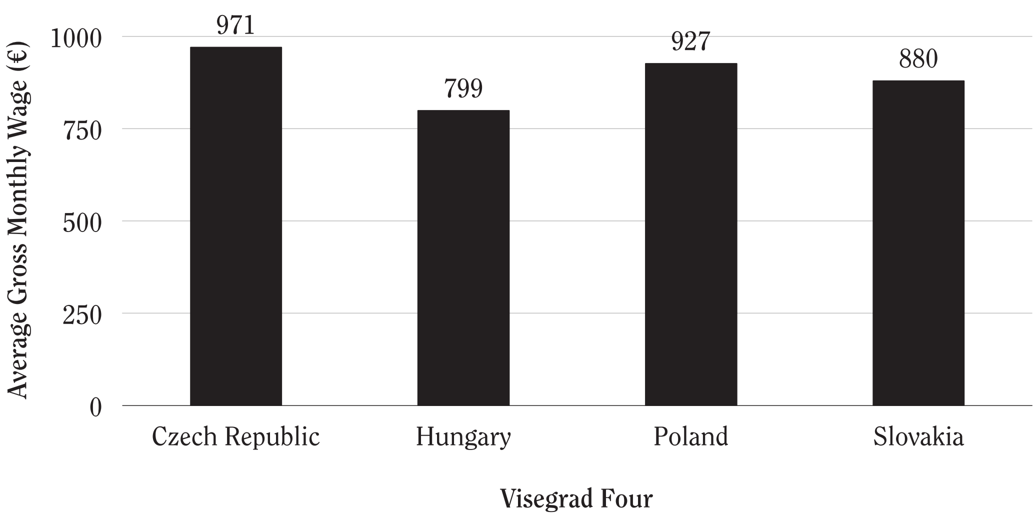
Source: "Investment in the Czech Republic."

Table 5
Rankings of University Education Meeting the Needs of a Competitive Economy

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Czech Republic	6.33	5.13	5.70	6.12	4.87	5.64	5.84	5.70	5.21	5.33	5.55
Hungary	6.67	6.06	6.37	5.47	5.74	5.04	4.87	4.27	5.02	5.14	4.35
Poland	4.71	5.33	4.26	4.77	4.59	5.13	4.64	5.39	5.43	5.10	4.98
Slovakia	5.86	5.73	5.22	4.04	4.13	3.85	4.00	3.56	3.82	2.71	3.09

Source: "Investment in the Czech Republic."

Figure 1
Average Gross Monthly Wages in 2015



Source: "Investment Climate in the Czech Republic."

ratio, which relates the price of a company's product to its quality or value. According to research conducted by CzechInvest on the Visegrad Four countries, Hungary experiences the lowest and most favorable PQ ratio for a selected group of companies, followed by the Czech Republic and Poland for the same bundle of companies ("Investment Climate in the Czech Republic"). In other words, the products made by companies in Hungary are less expensive—given their quality and value—than those in the Czech Republic or Poland. The Director of Investment Projects at the Hungarian Investment and Trade Development Agency supported such an analysis when stating that a majority of investments in Hungary involve reinvestments, highlighting the quality of Hungary's business climate ("Czech Republic Among the Absolute Leaders…"). Although the Czech Republic's low PQ ratio counteracts its high wage costs, labor costs in the Czech Republic are not necessarily an attractive factor to foreign investors.

Market Size

Another vital determinant of FDI is the host country's market size (Babuněk). According to Mellahi et al. (2011), countries with a larger market size attract more FDI due to lower costs and a larger potential demand. Market size is typically measured by the host country's total population size and economic power, but it can also be approximated by GDP; all of the measures often have a positive correlation with FDI inflows (Yin et al.). For comparisons among countries with large populations, the ratio of numbers of inhabitants to country size is used rather than absolute population numbers. Among the Visegrad Four, all populations have grown since 1990 with the exception of Hungary, whose population has continuously decreased (Babuněk). As of January 2016 (Table 6), Poland possesses the largest population size among the Visegrad Four at 38.4 million people, while the Czech Republic follows with 10.5 million people ("World Population Clock"). Resmini (2000) finds that CEE countries with larger populations, like Poland, are more likely to attract additional manufacturing FDI due to the potential of receiving a higher rate of return on capital and profits from investment. Therefore, small market size—as with Hungary and Slovakia—is one of the barriers that the Czech Republic faces. Supporting this claim, the U.S.-based company General Electric (GE) Capital announced its decision in April 2015 to sell its branch bank in the Czech Republic with intentions to relocate to a country with a larger labor market. GE Capital is the third foreign bank desiring to sell its branch in the Czech Republic, whose market has been described as stable yet uneventful ("GE Mulling Options…").

On the other hand, statistics support the notion that people are happy living and working in the Czech Republic, which appeals to foreign investors seeking a reliable and dedicated workforce in a target country. Such a statement supports the Czech Republic's rank of 24 out of 60 countries in the worldwide quality-of-life index (Table 7)—the best ranking among the CEE countries ("The Business and Investment Climate…"). Although foreign investors are not necessarily attracted to the Czech Republic's small market size, investors do consider a hardworking and healthy workforce an important factor in selecting a country for investment.

The Outlook for Foreign Direct Investment in the Czech Republic

As described previously, the Czech Republic differs primarily from other Visegrad Four countries in terms of its transportation infrastructure, tax incentives, and investment incentives. In particular, the Czech Republic maintains the greatest railroad density—twice that of Poland's. The Czech Republic has also been rated the best in transportation quantity, whereas Hungary maintains the highest road density and Poland accommodates the largest number of travelers at its airport. In terms of tax incentives, the Czech Republic levies lower PIT rates compared to the other Visegrad Four; however, its corporate tax rates and VAT are similar to those in other Visegrad Four countries. Although the types of investment incentives are comparable among the four countries, CzechInvest imposes more lenient conditions that investors must meet before acquiring their incentives. In particular,

Table 6
Population Size in Visegrad Four

	2014	2015	2016
Czech Republic	10,485,784	10,473,306	10,460,843
Hungary	9,866,860	9,870,151	9,853,470
Poland	38,487,333	38,463,086	38,438,854
Slovakia	5,420,240	5,426,582	5,432,931

Source: "World Population Clock."

Table 7
Quality-of-Life Index (2014)

Rank	Country	Score
1	Switzerland	9.73
2	Austria	9.55
3	Norway	9.47
4	Sweden	9.44
…	…	…
24	**Czech Republic**	**7.56**
36	Slovenia	5.64
37	Slovak Republic	5.40
54	Hungary	4.00
56	Poland	3.69
57	Romania	3.37

Source: "Investment Climate in the Czech Republic."

CzechInvest's conditions require less financial investment and fewer newly created jobs than conditions in any other Visegrad Four country.

Although the Czech Republic has succeeded in maintaining favorable transportation infrastructure, tax incentives, and investment incentives for foreign investors, this analysis identifies several other FDI determinants in which other Visegrad Four countries may be superior. Due to similar higher-education statistics among the Visegrad Four, the Czech Republic's dedicated and skilled workforce is not distinctive. As a result, improved tertiary education does not explain why the Czech Republic has maintained a higher FDI than the other Visegrad Four. Additionally, the Czech Republic and Poland pay the highest average wages—a factor that raises labor costs for foreign companies—while Hungary maintains the lowest wages and the most favorable PQ ratio among the four countries. Furthermore, Poland has a population size almost four times that of the Czech Republic and Hungary, indicating Poland's investment advantage with a larger potential market size. Therefore, neither labor costs nor market size likely contributes to the increased inflow of FDI in the Czech Republic in comparison to the other Visegrad Four.

Although continuing to face high competition from the other Visegrad Four countries, the Czech Republic's outlook for inward FDI is favorable. Transportation infrastructure is likely to remain sophisticated and developed in the Czech Republic while other Visegrad Four countries attempt to catch up in the future. In addition, the Czech Republic's favorable tax and investment incentives accompanied by flexible investment conditions are top priorities for investors when deciding among countries with similar labor costs and education levels. To support the continued inflow of FDI in the country, CzechInvest is in the process of employing three strategies, including additional investment incentives toward value-added sectors, such as biotechnology and biomedicine, the expansion of CzechInvest foreign offices, and collaborative marketing among investment agencies in the Visegrad Four countries ("Investment Climate in the Czech Republic").

A more collaborative initiative, however, may be in the works for the Czech Republic and its neighboring Visegrad Four competitors. On December 9, 2015, representatives of the Visegrad Four met for the first time at the Czech embassy in Tokyo to discuss cooperation in investment and technology, trade, and tourism. As described by Tomas Dub, Ambassador of the Czech Republic in Japan, "Though [they] are competitors, [the Visegrad Four] can also be partners. By joining together, [they] can become more visible and thus more attractive" ("First-Ever Meeting…"). His statement was further supported by that of Lucie Polášková, head of AfterCare Section at CzechInvest, who expressed during an interview that CzechInvest is now directing efforts toward cooperating with investment promotion agencies in the other Visegrad Four countries, with the intention to market CEE as a whole to foreign investors. Although there is competition among the Visegrad Four to attain the highest FDI, the similarity in FDI determinants throughout the region suggests collaborative marketing as an answer for the Czech Republic in maintaining its high inflow of FDI in the future.

Conclusion

While maintaining low inflation and modest interest rates, the Czech Republic has flourished in attracting high volumes of FDI per capita since 2007. The country's low unemployment rate and high trade surplus have encouraged additional smaller investment projects by foreign investors. Complementing the stable economy and favorable rate of economic growth, the introduction of investment incentives has promoted investment even further. Compared to the other Visegrad Four, its advanced transportation infrastructure and enticing tax and investment incentives make the Czech Republic a solid competitor in attracting inward foreign investment. With 59.1 percent of the Czech Republic's 2014 GDP allocated toward inward FDI, it is clear that FDI is an influential component of the country's model of economic growth—in the present and future.

REFERENCES

Babuněk, Ondřej. "Foreign Direct Investment in Visegrad Four and the Main Trading Partners." *Statistika*. Vol. 49, No. 4, 2012, pp. 14–26.

"The Business and Investment Climate in the Czech Republic." CzechInvest. 2014. Czechinvest.org. Accessed January 1, 2016.

"Country Expertise." The Vienna Institute for International Economic Studies. 2016. wiiw.ac.at/czech-republic-overview-ce-5.html. Accessed January 1, 2016.

"Czech Republic Among the Absolute Leaders of Central and Eastern Europe in the Inflow of Services Investments." CzechInvest. February 22, 2010. www.czechinvest.org/en/czech-republic-among-the-absolute-leaders-of-central-and-eastern-europe-in-the-inflow-of-services-investments. Accessed January 1, 2016.

Demirhan, Erdal, and Mahmut Masca. "Determinants of Foreign Direct Investment Flows to Developing Countries: A Cross-Sectional Analysis." *Prague Economic Papers*. Vol. 17, No. 4, 2008, pp. 356–69.

Dewhurst, David. "New Study: Corporate Tax Rate Most Important Single Factor for Investment." Tax Foundation. July 9, 2015. taxfoundation.org/blog/new-study-corporate-tax-rate-most-important-single-factor-investment. Accessed January 1, 2016.

Dunning, John H. *Multinational Enterprises and the Global Economy*. Harlow, Essex, United Kingdom: Addison-Wesley Publishing, 1993.

"Economy and Privatisation." Czech Foreign Ministry. 2015. www.mzv.cz/ottawa/en/general_information_on_the_czech/economy_and_privatisation/index.html. Accessed January 1, 2016.

Eurostat. "Tertiary Education Statistics." Statistics Explained. ec.europa.eu/eurostat/statistics-explained/index.php/Tertiary_education_statistics. 2014.

"FDI in Figures." OECD. 2015. www.oecd.org/investment/FDI-in-Figures-April-2015.pdf. Accessed January 1, 2016.

"First-Ever Meeting of Representatives of the Visegrad Four Countries in Japan." CzechInvest Business and Investment Development Agency. December 21, 2015. www.czechinvest.org/en/first-ever-meeting-of-representatives-of-the-visegrad-four-countries-in-japan2. Accessed January 1, 2016.

"GE Mulling Options On Sale of Czech Banking Unit." BNE IntelliNews. November 26, 2015. www.intellinews.com/ge-mulling-options-on-sale-of-czech-banking-unit-85010/. Accessed January 1, 2016.

Gordon, Roger H., and James R. Hines Jr. "International Taxation." National Bureau of Economic Research, Working Paper No. 8854, March 2002.

"Investing Guide Hungary 2014." PricewaterhouseCoopers Hungary Ltd. 2014. www.pwc.com/hu/hu/publications/investing-in-hungary/assets/investing_guide_en_2014.pdf. Accessed January 1, 2016.

"Investment Climate in the Czech Republic." Czech Ministry of Industry and Trade. 2015. Czechinvest.org. Accessed January 1, 2016.

"Investment in Hungary." KPMG. January 2015. www.kpmg.com/HU/en/IssuesAndInsights/ArticlesPublications/Documents/20150624-Investment-in-Hungary-2015.pdf. Accessed January 10, 2016.

"Investment in Slovakia." KPMG in Slovakia. 2015. www.kpmg.com/SK/sk/IssuesAndInsights/ArticlesPublications/Documents/Investment%20in%20Slovakia_2015a.pdf. Accessed January 19, 2016.

"Investment in the Czech Republic." KPMG in the Czech Republic. 2015. www.kpmg.com/CZ/cs/IssuesAndInsights/ArticlesPublications/Factsheets/Documents/KPMG-Investment-in-the-Czech-Republic-2015.pdf. Accessed January 15, 2016.

"Investor's Guide – Poland." PalilZ. 2014. www.paiz.gov.pl/publications/how_to_do_business_in_poland. Accessed February 12, 2016.

Khadaroo, Jameel, and Boopen Seetanah. "The Role of Transport Infrastructure in FDI: Evidence from Africa Using GMM Estimates." *Journal of Transport Economics and Policy*. Vol. 43, No. 3, 2009, pp. 365–84.

Mellahi, Kamel, Mehmet Demirbag, and Liesl Riddle. "Multinationals in the Middle East: Challenges and Opportunities." *Journal of World Business*. Vol. 46, No. 4, 2011, pp. 406–10.

Pradhan, Rudra P., Neville R. Norman, Yuosre Badir, and Bele Samadhan. "Transport Infrastructure, Foreign Direct Investment and Economic Growth Interactions in India: The ARDL Bounds Testing Approach." *Procedia – Social and Behavioral Sciences*. Vol. 104, 2013, pp. 914–21.

"Privatisation of State-Owned Enterprises in Czech Republic." European Commission. ec.europa.eu/europeaid/privatisation-state-owned-enterprises-czech-republic_en. 2013.

Resmini, Laura. "The Determinants of Foreign Direct Investment in the CEECs." *Economics of Transition*. Vol. 8, No. 3, November 2000, pp. 665–89.

Svejnar, Jan, ed. *The Czech Republic and Economic Transition in Eastern Europe.* San Diego, California: Academic Press, 1995.

"World Population Clock." Countrymeters. February 1, 2016. countrymeters.info/en/World. Accessed February 1, 2016.

Yin, Feng, Mingque Ye, and Lingli Xu. "Location Determinants of Foreign Direct Investment in Services: Evidence from Chinese Provincial-Level Data." LSE Asia Research Centre, Working Paper No. 64, 2014, pp. 1–34.