THE ROLE OF INVESTMENT PROMOTION AGENCIES AT ATTRACTING FOREIGN DIRECT INVESTMENT AND THEIR IMPACT ON ECONOMIC DEVELOPMENT IN CENTRAL EUROPE (THE CZECH REPUBLIC AND SLOVAKIA IN COMPARATIVE PERSPECTIVE)

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To my Dad.
ABSTRACT

The objective of this work is to critically evaluate the role and extent investment promotion agencies play in the effort of two Central European states to attract foreign direct investment. Several variables defining the authority, political independence, competence of these government-established institutions, as well as variables that have effect on formulation, implementation and successfulness of a suitable investment promotion strategy are assessed. The detailed scrutiny of Czech and Slovak investment promotion agencies involving structural and performance variables show considerable differences in various aspects of their organizational structure, functions and their performance, all having impact on the quantity and quality of attracted FDI into their home economies. Moreover, both of the examined investment promotion agencies seem to at least partially influence the economic-development record of their country and its further developmental prospects.

Institutional analysis of CzechInvest and SARIO shows that despite the fact that both of these agencies endeavor to be active shapers of the locational decisions of multinational corporations as well as countries’ development paths their results vary and confirm the general hypothesis that under specific circumstances the greater and better investment promotion is associated with higher cross-country FDI flows. Overall findings suggest that CzechInvest played a substantial role in facilitating the inflow of FDI while SARIO lags behind in many respects that may have further repercussions in their home countries’ ability to compete for investment, upgrade local economies and secure better linkages to global economy.
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LIST OF ABBREVIATIONS

AFI  Association for Foreign Investment
CE  Central Europe
CEE  Central and Eastern Europe
CEO  Chief Executive Officer
CzechInvest  Czech Business and Investment Development Agency
EU  European Union
FDI  Foreign direct investment
FIAS  Foreign Investment Advisory Service
ICT  Information and Communications Technology
IT  Information Technology
IDA  Industrial Development Agency of Ireland
IPA  Investment Promotion Agency
ITDH  Hungarian Investment and Trade Development Agency
Klub 500  Association of Slovak entrepreneurs employing more than 500 employees
MIGA  Multilateral Investment Guarantee Agency
MNC  Multinational corporation
NADSME  National Agency for Development of Small and Medium Enterprises
OSS  One stop shop
OIR  Oxford Investment Research
PHARE  Poland and Hungary: Assistance for Restructuring their Economies
PAiIiZ  Polish Information and Foreign Investment Agency
R&D  Research and development
SARIO  Slovak Investment and Trade Development Agency
SNAZIR  Slovak National Agency for Foreign Investment and Development
UNCTAD  United Nations Conference on Trade and Development
V4  Visegrad Four
ZPS  Združenie Priemyslu Slovenska (Slovak Industry Association)
1. INTRODUCTION

One of the most important and most widely used skills in marketing is product promotion. This basic technique consists of company messages aimed to stimulate awareness of, interest in, and purchase of its products. Nowadays, however, it is not only companies that promote their products. Companies’ endeavor to get their product on the best-visible eye level shelves is in many respects similar to governments’ effort to market their country in the best light by promoting investment in order to attract foreign capital which is under certain circumstances believed to have positive impact on economic-development trajectory of the country.¹ In certain sense, multinational corporations (MNCs) are nothing else than picky ready-to-invest customers actively seeking for the best ‘product’ (country) that would satisfy their demands. Sometimes, however, even the high-quality and relatively cheap product is not able to attract potential customers without well-targeted promotion that would ‘sell the message.’

It was Wells and Wint who first noticed that governments eager to attract foreign direct investment (FDI) have to undertake specific type of marketing called investment promotion, which mushroomed in its institutionalized form relatively recently.² Today’s investment promotion is related to unprecedented growth of FDI in the last two decades (Figure 1), which became probably the most prominent source of private capital for developing countries and economies in transition. Paradoxically, today’s proactive government efforts to attract FDI have gradually evolved from restrictive policies that were sign of policy-makers’ uncertainty about advantages of foreign investment. While very little has left of these government ‘police-man’ functions, institutionalized approach to FDI, carried out by for this purpose created government agencies, has remained. What is more, these

initially ‘FDI-suspicious’ agencies shifted their overall focus and scope of activities from screening and monitoring to investment promotion. Investment promotion agencies (IPAs) were set up at fast pace and shortly after the fall of the Iron Curtain many developing and transiting countries have begun to undertake proactive approach to attract FDI. The region of CEE was no exception.

This thesis attempts to find out what is the specific role of two Central European IPAs (Czech and Slovak) in attracting FDI. I look into agencies’ organizational structure, operations and their general performance in terms of FDI attracted, but also their contribution to overall economic development in order to answer the question whether the existence and functioning of these institutions could at least partially explain the different volume of FDI flowing to Czech and Slovak Republics. Do institutions matter also in the CE context where fierce competition to attract as much FDI as possible is under way? If yes, what specific circumstances have to be fulfilled? Hoping to contribute to the debate, I try to show whether the operations of Czech and Slovak IPAs could play a decisive role in attracting different amount of FDI to their home countries and if so I also hope to identify factors, which might explain these findings.

Uncovering the role IPAs play at attracting FDI in CE context has a potential to illuminate and touch upon several complexities connected to other spheres of FDI related studies, bearing numerous important ramifications. To begin with the country-level, the institutional profiles of Czech and Slovak IPAs have a great capacity to illuminate the general approaches of both countries towards FDI, which despite their similar outer appearance differ profoundly in many respects. In other words, IPAs and their actual operation can serve as

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4 Today there are more than 180 national IPAs and hundreds of sub-national ones although only a few existed two decades ago.
governments’ uncompromising mirror reflecting the state of policy implementation, since, as Murphy rightly points out, policies and promotion of FDI should be seen as the two sides of one coin. They are inextricably linked and promotion is nothing more than the implementation of a key part of governments’ FDI policies, which are often easier to be articulated than put in practice. In more theoretical terms, this thesis can contribute to the debate on appropriateness and feasibility of state interventions which often triumph over laissez-faire approach when attracting of FDI to boost the country’s economic development is considered.

1.1 Research Question

The focal research question to be answered in this study is the following: Does the working of investment promotion agencies represent a significant factor at least partially accounting for quantitative and qualitative differences in attracted FDI in Central Europe? While trying to answer this question by focusing on cross-institutional evaluation of individual IPAs and their role in this process several additional arising questions stemming from interesting differences between these government-based institutions are addressed. Among these, perhaps the most interesting one and addressed in more detail is: what role, if any, do these agencies play in government-premeditated economic development of the country?

1.2 Literature Review

Most of the research done on investment promotion and IPAs until now comes almost exclusively from three sources and it is usually written for practical purposes to enhance working of these agencies. Their academic value, however, is far from being affected

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by this fact and despite certain technocratic and policy-oriented approach it serves as a good basis for further academic research.

The first source that is important to mention is the World Bank’s Foreign Investment Advisory Service (FIAS), which published several breakthrough studies on the subject among which the most important one is the pioneer work of Wint and Wells. This must-read study examining the structure and functions of IPAs was first to indicate that investment promotion has a statistically significant influence on FDI flows. Even though the authors provided some crude support for the assumption that investment promotion is worthwhile, the study had shortcomings in terms of the concept used to measure the promotion. However, for more than ten years it remained the only empirical examination of the causality between promotion and FDI flows.6

Another important contribution from FIAS, focusing on IPAs’ effectiveness, is the work of Morisset and Andrews-Johnson. It confirmed the findings about the relevance and capacity of investment promotion that partially explains cross-country variations in FDI inflow, but at the same time used more recent and richer data. Among many important outcomes this study has brought, the most crucial one confirmed that greater promotion is associated with more FDI. Moreover, the authors proved significant influence of IPAs’ structure and functions on their overall performance. Major shortcoming of this study, however, is the time-span of its empirical analysis that is limited only to the year 2001 and thus lacks a necessary time dimension.

The second source of IPA-concerned literature is the United Nations Conference on Trade and Development (UNCTAD). Similarly as the works from FIAS, these studies are based on various global IPA surveys used for general evaluation of trends and performance of IPAs pinpointing the best practices used in investment promotion. One of such studies based

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6 Wells and Wint, *Marketing a Country: Promotion as a Tool for Attracting Foreign Investment*. 
on annual surveys of IPAs is *The World of Investment Promotion at a Glance* that is a global summarization that looks at ‘average’ IPA’s organizational structures and tools.\(^7\) *The Survey of Best Practices in Investment Promotion* has a very similar character aiming to define the best practices in investment promotion that would allow developing IPAs to increase the effectiveness of policies and practices in their strategy.\(^8\) Although the *Guidelines for Investment Promotion Agencies* come from different UN agency it is ‘just’ another instruction manual how to build an effective IPA.\(^9\)

Even the third source - the Multilateral Investment Guarantee Agency (*MIGA*) of the World Bank Group is producing policy-oriented papers whose objective is to improve the capacity of IPAs worldwide, but mainly of those in developing countries. Studies worth mentioning are MIGA’s IPA performance benchmarking papers that asses qualities of IPAs around the world in comparative perspective through investor-inquires handling using the standardized criteria as well as comparing their performance against other IPAs. These studies are built on the premise suggesting that providing of good quality investor information can influence mobile investors’ location choice decisions, which is not tested within them, but as they assert it is based on strong industry evidence and it nowadays became a commonly accepted wisdom.\(^10\)

The common denominator of the abovementioned studies is their focus on large-N investigations of IPAs omitting many particular findings coming from surveys of participating agencies. These works offer an overall picture of investment promotion across the world, but for understandable reasons often overlook individual agencies as well as regional comparisons that could possibly provide very instructive lessons in attracting FDI. There are only few

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exceptions that break this rule. The first one is a study by Spar closely exploring the substantial role Costa-Rican national IPA played in attracting hi-tech investment from Intel thus becoming a surprise for other competitors since the country usually did not occurred in the ‘long-list’ of major MNCs. The second analysis applying the case-study approach is a common MIGA-FIAS project that maps four successful IPAs from different parts of the world examining their facilitative role and organizational qualities used to build a successful investor policy framework and market their countries. The last source worth to mention are works about the Irish IPA - IDA from Ó Riain and Nelson both of who recognize its importance in attracting FDI and its contribution to ‘bringing up’ the ‘Celtic Tiger’. Several useful concepts and approaches applied in these studies are used throughout this dissertation.

What is more, the research on investment promotion within the CE context is almost non-existent. To the best of my knowledge there is only one publication that deals with this region. However, it is ‘just’ another large-N based guideline for developing IPAs presenting general trends in investment promotion. As several authors point out, there are still many directions that deserve further research since the field of investment promotion contains various empirical gaps that need to be filled. According to Morisset, individual case studies and regional comparisons is one of the ways how to fill such gaps. Therefore, despite the existence of some relevant IPA literature dealing with global trends and providing useful guidelines how to improve these agencies, the CE IPAs hardly received any attention. Hoping

to contribute to the general investment-promotion debate this study scrutinizes the role of the Czech and Slovak IPAs in influencing the development paths of their countries over time by identifying and comparing various factors that might play a role in this process.

Following the introduction and short literature review (section 1), the debate and variety of conceptual considerations creating the theoretical framework of this work together with complex methodology are presented in its second part. The third section provides examination of numerous structural variables that present the potential but also real performance of individual IPAs in attracting FDI. Fourthly, the performance variables are laid out, shedding more light on concrete results of each IPA in attracted FDI that also serve as useful indicators of agencies’ successfulness in enhancing the economic development of their home country. The conclusion brings together all empirical evidence provided throughout the paper and completes the quest for answering the research question by showing the noteworthy differences that give a clear picture of uneven role IPAs play in both countries. In addition, clarifications of the position IPAs and investment promotion have in the process of attracting FDI as well as implications stemming from my analysis are provided.

2. THEORETICAL FRAMEWORK & METHODOLOGY

To fully understand the potential and significance of investment promotion this section focuses on its different aspects on more general and theoretical level. I begin with conceptualization of investment promotion that offers various contexts in which the topic can be grasped. Next, the specificities of relationship between FDI and investment promotion as well as the justification of country-choice are provided. The section concludes with an outline of methodological approach used to illuminate the role IPAs play in CE.

2.1 Theoretical Framework

2.1.1 Conceptualizing Investment Promotion

FDI has become a buzzword and phenomenon capable of developing into a source for management, technology and external funding for the developing, transiting, but also developed countries. Attracting FDI thus turned out to be a heavily used approach of many governments across the world to boost their economies. Many studies were devoted to the techniques how to do it. While there is hardly any universal blueprint most of them found out the necessity to improve host-countries’ microeconomic and macroeconomic indicators together with the liberalization of their economy in order to succeed.17 Such approach, however, has not necessarily guaranteed anticipated success in attracting of FDI. This is where the concept of investment promotion stepped in.

Why to promote a country and how to do it? Why it is sometimes not enough to get the institutional, micro and macroeconomic ‘fundamentals’ right and does the country need a proactive and interventionist approach towards inward investments? These questions create the heart of the investment promotion debate, appearing in late 1980s when many developing countries and economies in transition tried to jump on the wave of opening up of the world economy and the growth of FDI worldwide. The debate’s main theoretical insights are
provided in the next paragraphs. Yet before setting out the examination, the definition of investment promotion is presented.

Investment promotion is a range of different activities, many of which resemble marketing, used by governments in order to attract FDI. Investment promotion among other things also covers a wealth of activities like advertising, provision of market information, direct mailing, investment seminars or missions, organization and participation in trade exhibitions, identification of potential investors, matching future investors with local partners and investor facilitation in form of providing pre-investment, implementation and post-investment services to the investor.\(^{18}\) Usually the activities as incentives granting, screening and negotiation with foreign investors are not considered as investment promotion as such, however, some studies include them in the list.\(^{19}\) In very straightforward manner, investment promotion can be defined as “efforts by a government to communicate to foreign investors the nature of the country’s investment climate, and to persuade and assist these investors to invest, or reinvest in the country.”\(^{20}\) In most countries IPAs are directly responsible for investment promotion and its coordination.

The concept of investment promotion stems from the literature dealing with the subject of government interventions into the economy. There are at least two basic contending approaches. While the neoclassical view on investment promotion is build on the premise that if host countries secure good investment climate investors will automatically seek out the most favorable investment opportunities, the interventionist view suggests that this is often not enough because of existing market failure due to perception or information gaps. Furthermore within this second approach at least two contending views can be identified.

\(^{17}\) Magnus Blomström and Ari Kokko, "The Economics of Foreign Direct Investment Incentives," (Stockholm School of Economics, 2003), p. 4.

\(^{18}\) See e.g.: Wells and Wint, Marketing a Country : Promotion as a Tool for Attracting Foreign Investment, p. 8.

The interventionist approach is built on the assumption that investment promotion of the would-be-host country demonstrates positive results in terms of attracting foreign firms. This assumption was validated by the research on this relationship, which proved the impact of investment-promotion-effort variable on attraction of FDI. Investment promotion was therefore simply viewed as a matter of marketing and studied in this specific context. That is to say, if a company wants to sell its product it has to set some sort of marketing program to acquaint consumers with its new product, tell them of its qualities and last but not least construct a successful brand image. In the same way, most countries have to do some advertising if they want to attract potential investors usually for economy-development purposes.

Despite the mainstream finding that investment promotion pays, Moran examined its justification and came to more ambivalent conclusion. Investment promotion was again examined in the light of phenomena like market failure and market intervention. This perspective views investment promotion as a problem of market allocation. Under assumptions of perfect competition, investment promotion is nothing else than a government intervention with potential to distort allocation of resources, penalize unfavored industries, and introduce a rent-seeking impulse into the host-country economy. Even under the assumption of imperfect competition, that seems to justify governments’ pro-active efforts and which is more realistic in global FDI market, the results of intervention in form of investment promotion are not fully predetermined and may create distortions for the economy, however. Although this competing perspective is not in direct contradiction with the interventionist approach, it points at some inherent problems of investment promotion.21 In spite of this, the fact that investment promotion in most of the cases does yield impressive

results became a widely accepted justification of countries’ efforts to improve this aspect of FDI-luring policies.

2.1.2 Investment Promotion and FDI

Numerous factors determining locational decisions of MNCs explaining what drives foreign investors to opt for particular country can be found in the FDI literature. This section closely looks at investment promotion as one of the pull factors influencing the inflow of FDI, and its place among other usually proposed host country drivers pulling MNCs to invest in particular economies. Before doing so a short space is devoted to those ‘other’ most commonly emphasized determinants of FDI found in the mainstream literature.

Theory and previous research suggests that MNCs are attracted by factors related to country characteristics. These location-specific determinants are mainly political and economic fundamentals such as market size, overall political and economic stability creating perspective business environment, labor skills levels, availability of infrastructure, investment incentives, etc. Even though researchers have examined political, social, economic and policy variables trying to find a statistically significant relation with FDI, their individual importance remains open to permanent academic discussion and no single most important variable explaining FDI inflows has been isolated. Although the hierarchy and importance attributed to individual factors vary, for the purposes of this paper it is useful to mention the 1993 survey of potential investors from developed countries willing to invest in CEE. Every would-be-investor identified three most important FDI determinants considered in his decision and scored them 3, 2 or 1 according to their significance, where the most important one was assigned 3 points. According to this survey the top 4 determinants considered in investors’

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‘wish list’ were: political stability, significant domestic market, financial stability and skilled labor force (Table 1).

While there is hardly any universal blueprint most of the studies found out the necessity to improve host-countries’ macroeconomic indicators together with the liberalization of their economy in order to succeed. Another common feature of these earlier studies focused on FDI determinants is their omission of investment promotion as one of the important pull factors having impact on quantity and quality of attracted FDI.

There are several points to be kept in mind while trying to describe the relationship between investment promotion and FDI inflow. First and foremost and as already shown in the literature review, investment promotion is closely associated with FDI inflows. Second, investment promotion is likely to have the greatest impact in group of countries where other factors that attract FDI (e.g. the degree of political and economic stability, nature of labor force, etc.) are most similar or close to equal.24 Third, and in relation to the previous point, such similar country characteristics able to attract FDI are often found in the developed industrial countries that devote great effort to getting their fundamentals right and that afterwards opt for investment promotion, which usually similarly as provision of investment incentives belongs to the last phase of FDI attraction. Morisset and Andrews-Johnson validated such approach confirming that investment promotion makes more sense in countries that improved their fundamentals in the first place, because even superb investment promotion can only hardly compensate for poor investment climate.

Although it can be anticipated that general findings of this work will be compatible with the assumption about positive correlation between investment promotion and inflow of FDI, my primary objective is neither test nor falsify it. This work rather puts in the centre of

24 Wells and Wint, Marketing a Country: Promotion as a Tool for Attracting Foreign Investment, p. 98.
its attention the working and achievements of IPAs that hopefully have enough explanatory power to clarify their role in attracting FDI.

2.1.3 Country Selection – Promoting Similar Products

Before any attempts to compare investment promotion efforts in the Czech Republic and Slovakia and in line with what has been said in the previous section a question related to the quality of promoted products deserves attention, since the environment (whether political, business or social) in which scrutinized agencies operate cannot be ignored. It is important to recognize that promoted products should be at least roughly comparable in order to make any relevant claims about the IPAs’ role in attracting FDI. The reason to undertake such assumption is relatively simple. It would be pointless to compare the role of promotion for products whose characteristics differ substantively, because it could easily happen that it is the distinctive product features rather than promotion as such that make the product interesting for investors. In line with our effort to find out whether the investment promotion can account for differences in attracted FDI, ‘products’ Slovakia and the Czech Republic and their political and economic indicators together with state’s basic characteristics should be relatively equal, making the examination of IPAs’ role worthwhile. Do the Czech and Slovak Republics fulfill this requirement? A short ‘product specification’ below should answer this question.

First and on more general level, the fact that both the Czech Republic and Slovakia are relatively small in size makes them ideal candidates for undergoing investment promotion.25 Second, after the fall of communism both of them had quite similar starting line regarding the possibilities to spurt their economic development via attracting FDI which can be clearly seen in the UNCTAD FDI matrix that compares countries’ performance and

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25 Large countries need less marketing effort than do small ones, since countries as China, USA or Germany are well known for potential investors and usually appear on their ‘list’ of places being considered for investment almost automatically. See: Ibid., p. 178-179.
potential to attract FDI. Both, despite rather diverging policy paths since 1993 belonged to the category of front runners characterized by high potential as well as by higher real performance in terms of attracting FDI (Figure 2). Third, Slovakia and the Czech Republic (together with other two Visegrad countries), by Bohle and Greskovits labeled as ‘embedded neoliberal’ regimes, share attributes of institutional and structural similarity, similar performance in attracting FDI from complex industries, as well as comparable manufacturing base and export structure. Fourth, both countries as part of former Czechoslovakia with lengthy manufacturing tradition inherited similar industry profiles with focus on industry branches as machinery, electrical engineering, metalworking, chemicals and ferrous metallurgy.

Even more important for our country-selection is their comparability in fundamental country characteristics such as macro and microeconomic indicators and factors related to the general investment environment that are often recognized as important determinants of FDI (see section 2.1.2). With no ambition to offer a detailed and exhaustive comparison of these determinants, the most important ones are presented, starting with countries’ domestic market size whose limited magnitude hardly constitutes an asset in both countries’ efforts to attract FDI. Continuing with general investment climate, it has to be admitted that the Czech Republic’s position in this indicator was initially better (Figure 3) mainly because of Slovakia’s different economic development path caused by Mečiar governments’ orientation towards national capitalism. Despite Slovakia’s initial poor performance in this indicator it has to be noted that country’s economic performance in terms of GDP growth (which was one

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of the highest in CEE) and inflation during Mečiar governments (1994-1998) was, somewhat surprisingly, similar or even better than that of the Czech Republic29 (Table 2). After 1998 both countries’ economic-development paths started to converge and Slovakia not only succeeded to catch up (Figure 4), but in many respects ‘outperformed’ the Czech Republic whether in macroeconomic or investment climate indicators.

Political stability, often regarded as one of the most important pull factors of FDI, was again initially relatively higher in the Czech Republic than in Slovakia. Similarly as in the case of investment climate, both countries started to converge after the fall of Mečiar government. And what is more interesting, despite countless political missteps of Mečiar cabinets, both countries remained at relatively comparable levels. This can be clearly seen on the Euromoney’s political stability indicator (Figure 5) as well as on the World Bank’s good governance indicator (Figure 6).30 This is the right place to mention that political instability during Mečiar era is often perceived as one of the most important obstructions for higher inflow of FDI into Slovakia. Such explanation, however, has several shortcomings. First, the levels of FDI attracted to both countries until 1998 (end of the Mečiar government) were relatively comparable and low, despite moderately better record of the Czech Republic. Second, it was during the two reform-oriented Dzurinda’s governments when both countries attracted historically highest amounts of FDI. Nevertheless, Slovakia has not succeeded in closing the FDI gap despite its praised reforms that spurred country’s economy and political stability. This is well documented e.g. by the historically highest FDI inflow into the Czech Republic in 2005 placing the country at the seventh position in number of investment projects

29 Much of the growth in the Mečiar era, however, was attributable to high government spending and over-borrowing rather than productive economic activity.
in Europe (Figure 7)\textsuperscript{31} and putting it among the group of the twenty largest recipients of FDI in the world in the given period\textsuperscript{32}.

\textit{Labor} related indicators (labor cost, productivity, qualification, availability) show again very comparable levels for both countries. While the labor force in the Czech Republic is only slightly more qualified\textsuperscript{33} (Figure 8), Slovakia’s labor market is characterized by the lowest labor costs in the V4 region (Figure 9), yet the highest productivity\textsuperscript{34} and relative labor abundance stemming from persisting high level of unemployment in the country (Table 3).

It would be possible to continue in comparative enumeration of other FDI determinants, but the abovementioned examples should serve as a sufficient evidence of both products’ similar characteristics classifying the Czech Republic as moderately superior having in mind over-time product sophistication of Slovakia, making their FDI policy regimes increasingly open and similar. Since CE has become a competitive environment, many countries of this region have found that it is not enough to attain the basic level of attractiveness for foreign investors and that they need to make not only further efforts to attract FDI, but also need to be successful in competing for the same investors. It is worth mentioning that policy strategies for FDI attraction often seem to succeed at varying degrees for countries with relatively similar characteristics. Czech and Slovak Republics’ record on the quantity and quality of FDI attracted, despite both countries’ convergence in most of the traditional FDI factors, shows interesting differences. What explains this variation and is it possible that investment promotion and IPAs in particular played a significant role in this


process? This work goes behind the examination of what are traditionally considered to be the most important pull factors of FDI and seeks to examine the specific role of IPAs in attracting FDI in CE context. The next section provides a framework through which this will be done.

2.2  Methodology, Limitations and Sources of Data

Several initial obstacles need to be overcome in order to uncover the role and importance of investment promotion in attracting FDI and its impact on countries’ economic development within the CE context. First and most importantly, the researcher interested in this topic can hardly rely on any settled existing methodological approach. Second, similarly as in the mainstream FDI literature that often tries to identify and disentangle key factors that are responsible for FDI inflow into particular country, there is hardly any unified and guaranteed answer on the extent and importance of the role IPAs play in its attraction. Finally, and somewhat unexpectedly, efforts to scrutinize government roles in the process of investment promotion encounter the general problem of finding relevant and reliable information. Despite the fact investment promotion is considered to be a public good, this type of information is either classified or not available since IPAs, whether directly or indirectly, usually take part, in the bargaining process with MNCs that are often reluctant to release any information related to their future investment. These limitations, however, do not have an invalidating character for this work that tries to tackle them by employing a rather complex but hopefully clear and prolific methodological approach.

On more general level, this work is an empirical cross-country and even more cross-institutional comparison of two IPAs that are expectedly the most relevant government institutions to investigate when studying investment promotion. Thus the general method used in this work is comparison based on the qualitative institutional analysis in many places

complemented by relatively extensive data exhibiting information about IPAs’ structure and performance. Furthermore, I build on cross-sectional as well as on longitudinal data which are together with other evidence condensed into final comparison with the objective to uncover common trends and differences.

On more specific level, having in mind the aforementioned impediments and in order to be able correctly assess the extent and significance of investment promotion in the region of CE, the chosen methodological approach is rather multifaceted and constructed of numerous variables whose aim is to serve as indicators that will allow me to get the broader picture about the state and role the chosen IPAs play/ed in attracting FDI.

The actual variables, applied to estimate the importance of investment promotion and IPAs’ relevance in attracting FDI, are divided into two main categories. **Structural variables** (section 3) are simply those related to the internal characteristics of investment agency whether from the organizational (3.1) or functional point of view (3.2). **Performance variables** (section 4) refer to the indicators that have potential to evaluate IPAs’ real effectiveness.

**Structural, organization-specific variables** (3.1) embrace IPAs’ legal status and existing relationship to the government (3.1.1 and 3.1.2), complexities of which dramatically influence functionality and overall results of individual agencies. Similarly IPAs’ relationship with private sector (3.1.3) can affect its general performance. The next variable is IPAs’ staff and expenditures (3.1.4) that according to simple ‘the-more-the-better’ logic improves agencies’ investment promotion capability. The last important indicator within this set of variables is the IPAs’ sub-national and international representation (3.1.5). Its arrangement, quality and numbers also affect IPAs’ potential to attract FDI into the country.

**Structural, function-specific variables** (3.2) include some of the core IPA functions such as image building (3.2.1), whose assessment is a good starting point forming the very
heart of investment promotion. The second variable is investment targeting (3.2.2) that looks at priorities and successfulness of investigated IPAs in picking up investment following sectoral/industry type-of-investment criteria. The last one from the group of structural variables is policy advocacy (3.2.3), which assumes that the more possibilities and impact IPAs have in influencing/reforming policies of its own government in matters related to foreign investment the more favorable outcomes in terms of attracted FDI can be achieved.

Proceeding to the second main set of indicators, performance variables include IPAs’ effectiveness (4.1). Within this concrete variable, aspects like agency-mediated FDI, number of jobs created and investment projects realized shall be examined. The better results in all of these basic indicators are all factors anticipated to give a solid foundation to better economic-development records and potential to attract more FDI. Secondly, the structure and quality of mediated FDI (4.2) is a variable inspecting the structure of FDI attracted to the country by its IPA. FDI sector-diversification and its sophistication are assessed, both being relatively good and accepted evaluation criteria of investment promotion effectiveness creating more positive developmental outlook for the country. Thirdly and finally, upgrading of the local economy (4.3) is variable that weighs up the specific role IPAs play in this process using the example of backward linkages promotion.

Even though many factors contributing to the success of IPAs are hardly tangible, residing in their skills, history, experiences, personalities and insights of its staff, the investigation of both proposed ‘structural’ and ‘performance’ variables, offers to deliver disentanglement of investment promotion complexities and identification of the role investment agencies play in attracting FDI as well as their responsibility for deepening the economic development of their country. This will hopefully provide me with enough evidence

to make general conclusions about the role IPAs play in CE. What is more, the indicators themselves are able to answer the question why the studied IPAs differ in this role.

This work draws upon various sources – some already mentioned – including mostly primary sources as government materials, individual agencies’ internal documents, presentation materials, their annual reports and statistics, newspaper articles, press-conferences statements and information collected in various IPA surveys in form of questionnaires conducted by a third party or the author. The data collected prevailingly refer to the whole period of agencies’ institutional existence providing the reader with necessary time-dimension usually missing in this type of studies.
3. STRUCTURAL VARIABLES – ASSESING THE POTENTIAL

This section presents structural variables related to a) IPAs’ organization and b) functions for both investment agencies individually. All variables examined in this chapter are recognized as relatively important in the existing investment promotion literature and offer a possibility to provide satisfactory evidence about IPAs’ organizational qualities and internal efficiency boosting their potential to act as a key tool for attracting FDI and accelerator of economic development.

3.1 IPAs’ Organizational Structure Variables

3.1.1 IPAs’ Legal Status

Although the legal status and method of agencies’ establishment might seem as unusual and extraordinary categories to start with, both may have a direct impact on their mandate and powers thus influencing their capacity to attract FDI. The mode of IPAs’ creation (either by decree or law) often defines the strength of its authority and reveals support from key government policy makers. The best practices in investment promotion recommend establishing an IPA with a clear legal structure and powers to carry out its mandate.\(^{36}\) The transparent legal framework specifying IPAs’ responsibilities, functions, powers and authority directly influences their stability, permanence and independence regarding potential investors, but also government officials. Many transition countries lacking the necessary know-how, however, usually established IPAs through government decrees as subunits of particular ministries giving them only limited authority and vague mandate. Contrariwise, agencies founded by law indicate strong governmental support for such body as well as clear and coherent investment promotion strategy.\(^{37}\)


\(^{37}\) Guidelines for Investment Promotion Agencies. Foreign Direct Investment Flows to Developing Countries, p. 46.
CzechInvest’s original institutional establishment, similarly as that of the most CEE IPAs, is based on a government decree issued in 1992 by the Czech Ministry of Industry and Trade and it did not provide much optimism about the agency’s future, considering its powers, competencies and efficiency. Nevertheless, with CzechInvest’s growing importance and sound results, its existing legal status has come under question. Even though, the agency was able to deliver results without being directly mentioned in the Czech law, in 2002 the government through the Act on the support of small and medium enterprises at least symbolically confirmed its importance in attracting FDI. Another change in the agency’s legal status and recognition of its position was brought by the act from 2004, which redefined its role from purely investment-promotion oriented agency to a country’s central body responsible for domestic economic development.

Similarly as CzechInvest, the Slovak investment agency came into existence by a special government decree issued in 2001. However, its position resulting from this step proved to be much weaker. As, at that time the CEO of SARIO, Alan Sitár complained, his agency lacked a clearly formulated mandate mainly because of its decree-based setup. The only SARIO’s mandate in time of its creation was a vaguely defined agreement with its parent Ministry of Economy saying that SARIO is responsible for running programs connected with support of FDI and exports. SARIO thus found itself without any specific powers, often leading to duplication of functions with other ministries and undermining agency’s position when dealing with investors. Despite the calls for embedding the agency’s role directly into the Slovak law, in order to define its mandate and create a transparent and stable partner for willing-to-invest MNCs, they remained unheard, starting the history of agency-government

In 2004 a law proposal addressing many of these objections aiming to “solve SARIO’s institutional and program fragmentation” was introduced. This proposal recognized agency’s needs to change its status and powers in order to bring comparable results with its counterparts in Visegrad countries. Despite the government’s identification of necessity for this change the bill was rejected and it gradually fell into oblivion without further explanation of such development, thus putting SARIO into the role of an incompetent ‘appendage’ of the Economy Ministry.

To sum up, CzechInvest as well as SARIO were created by specialized decrees issued by their parent ministries giving them very uncertain outlook to their future existence. Nevertheless, as time went by, it was CzechInvest, whose role was ‘codified’ into the Czech legislation giving it more advantageous position and recognizing its importance, while SARIO, despite certain endeavors to change it, remained a decree-based institution with weak and unclear mandate.

### 3.1.2 IPA’s Relationship to the Government

Having outlined the institutional set-up of both agencies, the relationship between IPAs and their governments is assessed in more depth. It has to be noted that this relationship offers a number of complexities that define IPAs’ capacity to attract FDI. I therefore present several aspects of this relationship in order to fully capture its character. Moreover, it will allow me to contrast the role government and IPA as such play at attracting FDI in both countries.

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Wells and Wint were first who pointed at different existing arrangements between governments and IPAs. Although most of the IPAs are government bodies, their degree of autonomy and insulation from government often provides them with varying potential to operate more effectively. In brief, there are purely governmental agencies that are part of traditional civil service, private agencies completely divorced from the government and those lying somewhere in between labeled as semi-autonomous or ‘quasi-government’. Large-N studies among other findings provide sufficient evidence favoring more autonomous nature of IPAs, which have proven to be able to attract more FDI than purely governmental agencies. Additionally, according to Nelson, such autonomy is important because IPAs should not serve short term political interests of the government itself. The autonomy, however, has to be supplemented by high-quality relations with government officials and their continuous support, allowing the agency to achieve its goals. Shortly, the promotion agencies’ links to their home governments are critical factors which bear upon their performance and effectiveness in attracting FDI. The nature of these links in the cases of CzechInvest and SARIO is analyzed below.

Focusing on the relationship between the Czech government and CzechInvest first, it has to be stressed that it underwent a certain development, whose nature, however, was very constructive and stable. CzechInvest was founded as a body that falls under and is a part of its supervising government organization - the Ministry of Industry and Trade. The formal relationship between the government and CzechInvest put the agency into formally dependent role when it has to report to its parent ministry. CzechInvest, however, managed to gain more autonomy changing its status from purely governmental agency with the reputation of ‘unwanted child’ to a widely respected and relatively independent semi-autonomous IPA. As the first CEO of CzechInvest, Jan Havelka notes, winning the government’s trust was one of

the main goals to be fulfilled in order to solidify the platform on which the agency could become a respected body able to attract FDI. It is rather paradoxical, that the way to agency’s greater autonomy from government led through winning its support first. This was done through routine interactions with its parent Ministry, as well as through applying such peculiar, yet very effective methods as invitation of government officials on study tours and tracking their birthdays and other personal events.\textsuperscript{47} CzechInvest over time achieved a relatively high degree of autonomy from the government through various steps, whether it was gaining partial financial independence from the Ministry through the use of EU funds or defending the agency from politicians who saw it as a place to put their political supporters.\textsuperscript{48} Independently of such interests it was able to design a coherent plan for promoting investment and given a chance to develop high-quality services for potential investors.

One of such achievements dependent directly on the quality of political relations with governments was CzechInvest’s successful transformation into the so called ‘one-stop shop’ (OSS). The concept of OSS is widely used as vehicle to deal with administrative barriers faced by investors to provide a more streamlined and investor-friendly policy environment. This is done through IPAs which are usually the point of first contact for foreign investors and appropriate candidates to substitute a labyrinth of government bodies responsible for dealing with myriad of investment-related steps such as issuing necessary permits, licenses, approvals and clearances.\textsuperscript{49} The OSS approach significantly eases the investment process through its coordination assuring elimination of investment activities duplication from the government side. Changing an IPA into functioning OSS requires agency’s sufficient authority granted by its government in order to reduce the risk of slowing

\textsuperscript{46} Nelson, p. 1.
\textsuperscript{47} Competing for FDI: Inside the Operations of Four National Investment Promotion Agencies, p. 13.
\textsuperscript{48} Ibid., p. 14.
\textsuperscript{49} Frank Sader, "Do "One-Stop-Shops" Work?," (FIAS, World Bank, 2000), p. 1-3.
the investment promotion process by bureaucratic rivalry.\footnote{Survey of Best Practices in Investment Promotion," p. 36-37.} The wide political support of CzechInvest allowed it to become a real OSS,\footnote{Competing for FDI: Inside the Operations of Four National Investment Promotion Agencies, p. 20; Paul Shockley, "User-Friendly Neighbor Offers One-Stop Shopping," Warsaw Business Journal March 4-10 (2002): p. 14.} indicating the existence of a single agency rather than a number of government bodies all with different and possibly overlapping or conflicting requirements towards potential investors. Such successful OSSs are exceptions rather than the rule, because of bureaucratic resistance evolved either by ministries or other agencies fearing that the creation of such umbrella agency would result in curbing their own mandate and authority.

The gradual political insulation complemented by good relations to key government officials helped CzechInvest to achieve the actual semi-autonomous status\footnote{"FIAS/MIGA Census of Investment Promotion Agencies (CzechInvest)," (Foreign Investment Advisory Service, Multilateral Investment Guarantee Agency, 2002), p. 2.} providing it with a significant degree of autonomy from the government, yet not a complete independence. CzechInvest’s success was partially a product of what Nelson calls strategic or ideological consensus\footnote{Nelson, p. 17.} characterized as continuity in FDI related policies over successive governments.\footnote{Roy C. Nelson, "Competing for Foreign Direct Investment: Efforts to Promote Nontraditional FDI in Costa Rica, Brazil, and Chile," Studies in Comparative International Development 40, no. 3 (2005), p. 11.} This strategic consensus within the Czech Republic in favor of the Czech IPA has not existed from the very beginning in its today’s form, however. The first two ‘neoliberal’ Czech governments led by Václav Klaus (1993-98) did not share the enthusiasm about potential positive effects of FDI on the Czech economy and for a considerable time refused to intervene in guiding the course of country’s economic development through measures as investment promotion or investment incentives.\footnote{"Survey of Best Practices in Investment Promotion," p. 36-37.} It was successive social democratic governments instead that openly proclaimed FDI support their key developmental strategy for boosting the Czech economy. There was hardly any strategic consensus within the Czech political spectrum on issues like government interventions, targeting of specific sectors for investment
or providing government incentives to promote FDI. Nevertheless, its increased inflow following the introduction of investment incentives scheme in 1998 together with improving results of CzechInvest helped to ‘manufacture’ such consensus and resulted in a strong support for the agency and its activities. Since positive results from investment promotion usually take longer than one administration to become evident a relative ideological consensus among the political parties was necessary also for CzechInvest that was thus allowed to develop into professional tool to attract FDI independently on individual governments.

SARIO’s situation was different from the very beginning of its existence. SARIO, however, was already a second institutional attempt of Slovak governments to promote FDI. After the break-up of Czechoslovakia the first Slovak government decided to continue in the support of the Slovak National Agency for Foreign Investment and Development (SNAZIR) established in 1991. SNAZIR, the SARIO’s predecessor, embodied almost all basic mistakes that can be done in investment promotion and the agency soon acquired ‘bad image’ among potential investors, but also in Brussels, which co-financed several of its projects through the European Commission. For now, looking exclusively at its relationship with Slovak governments, it is sufficient to note that SNAZIR existed in a political environment of Mečiar governments that paid only little attention to attracting FDI. Moreover, SNAZIR failed to develop close relation with any of these governments, resulting in virtually no impact on changing the FDI policy framework of the country and dooming the whole agency to failure.

57 Peter Barecz, “SARIO Agency Playing Catch-up to Region,” The Slovak Spectator 6, no. 35 (2000).
SNAZIR’s poor performance and mauled image\textsuperscript{61} forced the reform-oriented post-Mečiar governments to open a new chapter of investment promotion by establishing a brand new IPA. SARIO, launched in 2001, aimed to become a standard and effective IPA that would help Slovakia to reach comparable levels of FDI inflow attracted to V4 countries, but also to less developed countries as Bulgaria and Romania, whose FDI inflow per capita in 1994-1999 exceeded FDI levels in Slovakia (Table 4). The rapidly changed political environment and wide economic reforms of Dzurinda’s governments promised a real chance of fulfilling this scenario using SARIO as a key tool to attract FDI. The success in realization of this goal, however, was only partial. The relationship of SARIO with Slovak governments may illuminate the process of FDI attraction and its unbalanced results.

The new era of Slovak investment promotion did not start very impressively. The quick changes in the young agency’s ownership structure did not give it a good prognosis for its future. SARIO, initially a joint-stock company owned by the non-state National Property Fund was first transferred to several government ministries and then dissolved as a joint-stock company and integrated into the Economy Ministry. This organizational chaos was overshadowed by problems related to agency’s unclear use of the EU PHARE funds\textsuperscript{62} that were soon replaced by accusations from the SARIO’s parent Ministry against agency’s director Alan Sitár and his top-management because of their alleged private sector activities resulting in possible conflict of interests.\textsuperscript{63} There has been a difference of opinion between SARIO and the Ministry of Economy over agency’s functioning since its launch. The ministry was very reluctant to any signs of agency’s endeavor for greater autonomy.\textsuperscript{64} These strained relations led to a situation when SARIO only few months after its establishment faced

\textsuperscript{61}Peter Barecz, ”SARIO Investment Agency Nears Collapse,” \textit{The Slovak Spectator} 7, no. 22 (2001).
\textsuperscript{63}Conrad Toft, ”All Change (Again) at Investment Agency,” \textit{The Slovak Spectator} 9, no. 9 (2003).
bankruptcy following the government’s intentional delay in the transfer of its budget, leaving it unable to pay the rent for its offices.\textsuperscript{65} The conflict between the government and its own agency quickly mauled SARIO’s image.\textsuperscript{66} Even the next functioning of SARIO was affected by uneven power relationship between the Ministry and agency, which is best seen in frequent rotation of SARIO’s directors appointed by the Minister of Economy and usually reflecting political changes at the Ministry.\textsuperscript{67} The agency was never sufficiently insulated from the political pressures of the Ministry, which had significant impact on its functioning that was impaired by lack of vision, professionalism and continuity.

Potential investors quickly realized that key parts of investment process are easier to be arranged at the Ministry than at the agency.\textsuperscript{68} Such circumstances are in direct contradiction with the aforementioned OSS approach. SARIO turned out to be a ‘one-more-stop shop’ instead, forcing would-be-investors to interact with one more entity during the lengthy investment process. Agency’s insufficient political support from governments led to intensive turf battles within the government bureaucracy, parts of which never really had interest in granting SARIO all the necessary authority to wield the control over the investment process. The agency thus became only another layer of bureaucracy that investors had to overcome.

Harmful political influence exerted on the agency by its parent ministry was not the only problematic aspect of SARIO’s insufficient political insulation. The agency has become a hot potato in the hands of Dzurinda governments leading to intra-governmental disputes

\begin{thebibliography}{9}
\bibitem{Smolka2002} Dewey Smolka, "Troubled Sario Investment Agency Gets Another Director," \textit{The Slovak Spectator} 8, no. 6 (2002).
\bibitem{Barez2001} Peter Barecz, "Investment Agency Image Mauled Again," \textit{The Slovak Spectator} 7, no. 29 (2001).
\end{thebibliography}
over its actual political control. This long lasting conflict among the Economy Ministry and the Government Office intensified proportionally to increasing FDI inflows to the country. Even though SARIO participated in several mega-investment projects, such as PSA Peugeot/Citroen or Hyundai/Kia, it was never given a chance to present itself as a success generator. The credit for realized investment was always usurped either by the minister of economy currently at the office or directly by prime minister. Perhaps the most serious blow to the agency’s already injured image and reputation occurred during the period when Pavol Rusko held the office of the Economy Minister in the second Dzurinda government. SARIO’s role in attracting FDI at that time faced heavy criticism from Minister Rusko who presented the increasing inflow of FDI into the country as a result of his personal work at the Ministry. Rusko labeled SARIO as nothing more than his PR agency and further marginalized its position, independence and authority. The agency-ministry relationship based on their mutual mistrust continued also after Rusko’s resignation in 2005, when the new minister ordered 11 internal controls of SARIO in order to make a first step in its consolidation. The Ministry’s attempts to bring SARIO through hard times with the help of establishing a crisis management failed despite its efforts to push ahead some internal reforms with the objective to depoliticize the agency and the agency confirmed the image of being a form of

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69 Holt, "SARIO Summer of Discontent Waxes Full."
70 Peter Kremský, "SARIO Má Opáť Meníť Kurz [SARIO Is About to Change the Direction Again],” ETrend (2002).
71 Jesný, "Slovenskej Republike Chýba Štátny Marketing [The Slovak Republic Lacks State Marketing],” p. 25.
72 Robert Žíňanský, "Opatrné Štátné Vábničkou Na Investory [Careful with the State’s Lure on Investors],” Hospodárske Noviny, 7 October, 2005.
political payoff. According to Spee, IPAs depending on national governments will be struggling very hard to successfully compete for FDI especially where each change in the composition or leadership in government is immediately followed by a change in organization and staff of the agency. Such state of matters, however, proved to be characteristic also for the SARIO-governments relationship.

To conclude this complex argument, the evidence provided shows that the relationship of both agencies with their governments and its development over time, differed significantly thus affecting their potential to attract FDI. While both CzechInvest and SARIO formally share the mode of relationship to the government by their institutional anchoring into their parent ministry, the former developed considerable insulation from political pressures, which allowed it to professionalize its activities and secure the continuity regardless of quickly changing political environment in the Czech Republic. SARIO on the other hand suffered from excessive political vulnerability resulting in lack of conceptual approach to investment promotion, which automatically became a part of pork barrel politics without clear rules thus having a detrimental effect on agency’s potential to attract FDI.

3.1.3 IPAs’ Relationship to the Private Sector

It is not only the IPAs’ relationship to the government, which crucially defines their potential to attract FDI, however. Their linkages and collaboration with the private sector are often equally important. How these links are translated into both IPAs’ functioning is scrutinized below.

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78 "Havelka: SARIO Je Trafika [Havelka: SARIO Is a Form of Political Payoff]," 24 hodin, 3 December, 2005.
The effectiveness of IPAs is considerably enhanced in case the private sector is someway participating in their functioning. Involving the private sector into IPAs’ functioning is important for number of reasons. First, it contributes to increasing IPA’s visibility and credibility in the eyes of foreign investors. In addition, it increases the perception of IPA’s objectivity by potential investors, who are often suspicious about the validity and impartiality of information provided through purely governmental agencies. Second, the high-quality IPA-private sector relationship helps agencies to identify problems encountered by investors in the country. Third, an existing network between the IPA and private sector provides the agency with greater independence from everyday government pressures and facilitates the adoption of suitable management and promotional culture, since the private sector representatives are likely to push for performance and enable the agency to understand how decisions in the private sector are made. IPAs’ linkages with the private sector are in practice usually realized through inclusion of the private-sector representatives into agencies’ supervisory board structure or organizing a different form of network with private-sector representatives such as chambers of commerce, industry associations or local companies.

With regards to the CzechInvest’s private sector linkages, a specific model of their relationship, characterized by relative intensity of cooperation, has emerged. The agency developed a close working relationship with the private sector through a well-thought composition of its Steering Committee. Its members chosen for agency’s networking purposes and committee’s mixed public-private composition (Table 5) allowed it to access Committee members’ respective institutions and bring together senior government officials with top executives of private sector companies, large banks and the Chamber of Commerce, giving

81 Wells and Wint, Marketing a Country: Promotion as a Tool for Attracting Foreign Investment, p. 36, 48, 57-58.
82 Morisset and Andrews-Johnson, p.4.
83 Paid McMenamin and Hill, p. 30.
CzechInvest a platform for dialogue between these groups. Even though the Steering Committee was gradually expanded with both private sector and government representatives, its advisory role was more notable at the beginning of CzechInvest’s functioning and lessened throughout time. The Committee composition, however, is not the only institutional link of the agency with the private sector. In 1996 CzechInvest initiated the establishment of the Association for Foreign Investment (AFI), which represents a group of companies based in the Czech Republic willing to support the entry of FDI by offering services to foreign investors entering the local market and ensure their unproblematic entry. AFI successfully interwove those public and private representatives who identified with the aim to attract foreign investors to the country. AFI served this objective very well through offering further relevant services that went beyond the framework of CzechInvest’s assistance. Furthermore, AFI developed into relatively influential organization able to exert significant pressure on Czech governments with potential to modify relevant FDI policies while representing investors’ interests, and also guaranteed that views other than those prevailing in the government are taken into consideration.

The framework of cooperation between the private sector and SARIO differs in many respects. As already mentioned, some form of strategic consensus has to be achieved among the major political forces within the country in order to effectively attract FDI (section 3.1.2). Such consensus, however, as highlighted by Nelson, has to exist not just among political parties, but it is crucial that these parties are in favor of developing significant interaction with the business community in order to promote FDI. Neither strategic public-private consensus - whether existing or ‘manufactured’ - nor any considerable partnership is evident between

SARIO and the Slovak business community, however. SARIO does not offer any similar pattern of relationship to the private sector as its Czech counterpart.

Shortly after SARIO’s establishment there was a clear and reasonable plan to sign a contract with the Slovak Association of Industrial Companies (ZPS) in order to coordinate steps of state administration bodies and Slovak industry representatives while attracting foreign investors to the country. Such agreement has never been reached, despite up to the present time lasting calls from ZPS to improve their mutual cooperation. What is more, the very important part of the Slovak business community grouped in Klub 500, the association of businesses with more than 500 employees, continuously criticized the volume of investment stimuli promised by government to foreign investors as Hankook Tire, Kronospan or Johnson Controls. The recurrent complaints of Klub 500 about the unequal treatment of foreign and domestic investors hardly demonstrate any type of consensus on FDI between the public and private sectors in Slovakia. SARIO, lacking any significant links to the private sector and having virtually no impact on the debate about investment incentives, was not in the position to influence this public-private discrepancy. Finally, SARIO, unlike CzechInvest, has not established any kind of supervisory board thus missing another opportunity to somehow link the agency to the private sector. The inexistence of a board composed of a mixture of senior government officials and private sector representatives appears to be best explained by the dominancy of SARIO’s parent ministry which uses a strong ‘hands-on’ approach in guiding the agency.

The evidence above clearly indicates that the quality of CzechInvest’s relationship to the private sector and its relative diversification equipped it with better tools to attract FDI more effectively. SARIO, in contrast, has not developed a comparably successful framework of cooperation with the private sector despite some intentions to do so.

3.1.4 IPAs’ Staff and Expenditures

Another area worth looking at when comparing the potential of IPAs to attract FDI is the area of such ‘earthbound’ variables as both agencies’ staff and budget.

The interpersonal nature of investment promotion offers numerous measures how to look at the agencies’ staffing whether it is its background, given responsibilities, overall qualification or skills.\textsuperscript{91} For our purposes it is sufficient to look at agencies’ staff through two concrete measures – staff number and turnover. While there is hardly any ‘recommended’ staff number an ideal IPA should have, Morisset suggests that the number of staff is correlated with the level of income in the country, where a typical IPA in a developing country has about 10 staff members, while the average size of IPA professional staff in high-income countries is 30.\textsuperscript{92} According to another large-N study, when looking on average IPA personnel numbers, an agency in transition economies reported to employ 26 people.\textsuperscript{93} There are exceptions that exceed the usual numbers such as Industrial Development Agency of Ireland, which served as a model of successful IPA for both scrutinized agencies, staffed with more than 280 qualified employees,\textsuperscript{94} reflecting gradual pressure for professionalism in investment promotion. In both CzechInvest’s as well as SARIO’s case a notable over-time increase of staff can be noted, at certain moment overreaching the average levels for developing but also developed countries. SARIO’s staff increased significantly from its start

\textsuperscript{91} MIGA, Developing an Investment Promotion Agency (Module 2: IPA Set-up) - 4.3 Staffing the IPA,(MIGA's FDI Promotion Center, 2006, accessed 11 June, 2006); available from http://www.fdimotion.com/toolkit/user/index.cfm.
\textsuperscript{92} Morisset and Andrews-Johnson, p. 14-15.
\textsuperscript{93} The World of Investment Promotion at a Glance, p. 11.
off in 2001 when compared to its understaffed predecessor SNAZIR, however, it continuously somewhat fell behind CzechInvest (Table 6). The CzechInvest’s dramatic personnel increase in 2004 is related to its merger with two other state agencies that deal with support of Czech businesses’ competitiveness. SARIO’s lagging behind in staffing is also notable in the Visegrad context, as in 2003 it occupied the position of the least-staffed (Table 7).

While the number of agency’s staff alone does not necessarily have the power to assess IPA’s potential to attract FDI, staff turnover can serve as a good complementary indicator to do so. Both CzechInvest and SARIO during their existence experienced some degree of staff fluctuation. The relatively high turnover in IPAs’ professional staff is nothing unusual, because it faces lucrative offers made by incoming MNCs that seek competent employees having a good knowledge of regional and local conditions. Despite this fact CzechInvest managed to keep its employees fluctuation at 14 percent per year. SARIO’s staff fluctuation, however, was higher, reaching 37 percent in 2006 and naturally having potential detrimental effect on systematic attracting of FDI. This could be explained by already mentioned lack of agency’s political insulation often resulting in massive departure of personnel following political changes at the post of agency’s CEO or in its top-

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98 An average IPA staff turnover, whether in developing, transiting or developed countries, climbs to around 30 percent per two years. See: The World of Investment Promotion at a Glance, p. 39.
99 "FIAS/MIGA Census of Investment Promotion Agencies (CzechInvest),” p. 5.
management. The last useful staff-related criterion worth looking at is a number and rotation of CEOs both agencies had during their existence, where the smaller number should logically demonstrate IPAs’ higher stability, more coherent vision and effectiveness. CzechInvest’s 4 CEOs during its 14-year history in comparison with SARIO’s 8 directors during its 6-year history speak again in favor of the former.

The budget variable is another crucial indicator affecting the IPAs’ potential to attract FDI. Similarly as in the case of staff numbers, there is hardly any optimal budget an ideal agency should have. Nevertheless, Morisset and Andrews-Johnson proved a positive correlation between the IPA budget and FDI attracted to the country and they also pointed to the fact that IPA budget needs to be beyond a minimum level to exploit the increasing returns associated with promotion activities. In other words, size matters in terms of IPAs’ budgetary resources and an effective investment promotion requires a minimal level of financial commitment. To be more precise Morisset’s conclusions suggest that IPAs having budget under US$ 64,000 have no impact on FDI, while those with the budget ranging from US$ 64,000 and US$ 2 million are considerably more effective and finally agencies with resources from US$ 2 million to US$ 11 million reach the best results in FDI attraction.

In light of these findings it may be concluded that both CzechInvest’s and SARIO’s budget places them in the category of effective IPAs. Despite an overtime annual budget increase and gradual shift of both agencies to the category of the most effective IPAs concerning the height of their budget, CzechInvest’s financial resources level is in any case at least twofold in comparison with that of SARIO (Table 8). For comparison, the budgets of IPAs from the two remaining Visegrad countries indicate even higher use of financial resources. For instance, the budget of the Hungarian investment agency ITDH in 2004

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reached almost US $25 million\textsuperscript{105} and although the resources of the Polish promotion agency PAIiIZ are comparable with those of SARIO ranging from US$ 3.15 to 4.18 million\textsuperscript{106} a plan for its tenfold increase already exists.\textsuperscript{107} These numbers apparently seem to prove that investment promotion in CE is getting more attention from national governments.

Leaving the Visegrad context aside, the quantitative comparison of Czech and Slovak IPAs concerning their staff and budget work more in favor of CzechInvest, even though SARIO in measures like budget size and staff number achieves levels characteristic for IPAs in developed countries with potential to effectively attract FDI.

### 3.1.5 IPAs' International and Sub-national Representation

In spite of certain voices arguing that the number of IPA’s international offices has no significant association with FDI flows, Nelson rightly emphasizes that they are often key components of the so called transnational strategic network, which IPAs have to establish in order to work on attracting investors abroad, but also for understanding the changing trends in global businesses that help them to best adapt agencies’ strategy to benefit of those trends.\textsuperscript{108} Moreover, nearly all successful IPAs have established offices in their key target markets,\textsuperscript{109} and such representation abroad is more than desirable for maintaining close and on-going touch with potential investors.\textsuperscript{110}

*CzechInvest*’s foreign representations were launched soon after the agency’s creation. At the very beginning, the Czech embassies were used to promote the country to potential investors. However, as the number of international offices increased, the agency decided to establish its own offices abroad.


\textsuperscript{110} Wint, p. 12.
foreign investors, but in 1994 the agency opened its two own offices abroad followed by several others in ensuing years. Today CzechInvest runs nine offices strategically located in major American, European and Asian industrial centers (Figure 10). The opening of overseas office in the world-known IT and hi-tech center - Silicon Valley is only one such example logically corresponding with the CzechInvest’s interest to attract technology advanced investment projects.\textsuperscript{111} Foreign offices as such of course do not necessarily guarantee increased FDI inflows. However, the country structure of CzechInvest mediated FDI seems to indicate their justness, since the majority of investment originates in the countries where the agency is represented by its offices (confront Figure 10 and Figure 11). Another illustrative indicator of the successfulness of operating such offices is unprecedented level of Japanese investment in the Czech Republic, which became the biggest recipient of Japanese FDI not only in Visegrad perspective (Figure 12 and Table 9), but also among all CEE countries.\textsuperscript{112} CzechInvest is one of the few CEE IPAs that has a foreign office in Japan and it uses it very effectively since Japan is one of the major sources of FDI for CzechInvest (Figure 11), while many other CEE countries lured significantly lower levels of Japanese FDI.\textsuperscript{113}

SARIO, immediately after its launch also announced planned opening of nine foreign branches,\textsuperscript{114} recognizing their effectiveness in attracting FDI in its source countries.\textsuperscript{115} The tensions between SARIO’s directors and its parent Ministry, however, did not accelerate their creation\textsuperscript{116} and the realization of this objective failed prematurely because of the agency’s insufficient funding.\textsuperscript{117} SARIO until today has not managed to put into operation a single

\textsuperscript{116} Holt, "Sitár: Good Luck to Successor." Holt, "SARIO Summer of Discontent Waxes Full."
foreign branch. SARIO opted for a different form of foreign representation instead, relying mostly on trade missions of Slovak embassies abroad that were meant to undertake also the investment promotion agenda. Another attempt to substitute the existence of foreign offices is agency’s participation at different investment seminars, exhibitions, trade fairs and other events abroad. Neither the use of embassies nor partaking at investment shows is recognized as the most optimal means to attract FDI. As the former director of SARIO Artur Bobovnický emphasizes, foreign offices are needed because 60 to 80 percent of investment projects is created not in the country willing to attract FDI but in countries of FDI origin. In other words, and also according to numerous other studies, although many countries have been tempted to charge their embassies abroad with carrying out investment promotion these attempts and their results have been in almost all cases disappointing. Similarly, IPAs’ foreign branches can not be adequately replaced with agency’s sporadic participation at various investment events, whose effectiveness tends to be rather low.

Establishing a network of regional offices is often as important as the creation of its international branches. A successful investment promotion needs to be coordinated at the national and regional levels. Almost all IPAs in CEE set up their sub-national subsidiaries, which are usually coordinated by their respective national IPAs to avoid unnecessary competition within the country’s regions. Here it is enough to note that CzechInvest and SARIO established a relatively dense network of regional branches responsible for various tasks ranging from traditional investment promotion to development of cooperation among local firms, municipalities and other regional institutions with potential to participate in the improvement of business climate in individual regions. Although both agencies encountered

119 Kremský.
120 Guidelines for Investment Promotion Agencies. Foreign Direct Investment Flows to Developing Countries, p. 54-55.
some communication problems with regional and local representatives of municipalities, \(^{122}\) it was CzechInvest that managed to improve these links notably \(^{123}\) while SARIO and its regional offices still struggle to win the trust of the regions which often either are not aware of their existence or are unsatisfied with their approach. \(^{124}\)

In summary, CzechInvest shows to have developed superior international and regional network structure than its Slovak counterpart. In addition, when looking at their other two Visegrad neighbors it can be seen that the Polish IPA similarly to the Slovak one did not open a single foreign office (Table 10), which according to some experts may be one of the reasons why Slovakia and Poland still relatively lag behind in the volume of attracted FDI per capita when judged against Hungary and the Czech Republic. \(^{125}\)

The evidence provided in the examination of the number of organizational structure variables above hopefully satisfactorily answered the question related to both IPAs’ institutional characteristics. In light of these analyzed indicators it is feasible to state that both IPAs’ internal characteristics differ considerably putting CzechInvest into theoretically more favorable position in terms of potential to attract FDI. Answering of the ‘who are you’ question, however, does not provide necessary basis for acquiring a complex picture about their role in attracting FDI. In order to obtain it, a basket of functional structure variables is presented in the next section, whose aim is to answer the ‘what do you do’ question.


\(^{123}\) *Competing for FDI: Inside the Operations of Four National Investment Promotion Agencies*, p. 16-17.


\(^{125}\) Kremský.
3.2. IPAs’ Functional Structure Variables

Having advertised the significance of the functional structure variables in the methodology part of this paper, this section scrutinizes their form and influence on IPAs’ ability to attract more FDI. It analyzes in more detail three of four IPAs’ core functions - image building, investor targeting and policy advocacy (Figure 13).

3.2.1 Image Building

“A brand is a storehouse of trust that matters more and more as choices multiply.” This marketing insight is applicable also to the image-building function of IPAs, whose task is to turn their country into a trustworthy and resonant brand among investors. Image building of a country, creating the very heart of investment promotion, is aimed to improve and sell a country’s image within the investment community as an attractive location for their future investment. Image building is especially vital for countries that are new to FDI attraction, going through major political or economic reforms or are geographically small and therefore receive little international media coverage. The Czech Republic and Slovakia fulfilled most of these criteria when their IPAs tried to turn them into respectable investment brands.

*CzechInvest* started as a marketing focused organization, whose primary aim was to positively differentiate the Czech Republic from other countries in the region, which after the fall of the Iron Curtain was perceived by most foreign investors as ‘terra incognita.’ Although the product ‘Czech Republic’ had many comparative advantages contrasted with other CEE countries (see section 2.1.3) the creation and fosterage of the country’s positive

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130 *CzechInvest, 10 Let Agentury CzechInvest [10 Years of CzechInvest]* (Prague: CzechInvest, 2002).
image among potential investors was an obligatory step in order to attract more FDI. CzechInvest’s image-building tools included usual marketing-like activities as advertisements, press releases, direct marketing, PR events, etc. A detailed analysis of these tools, however, is not particularly important for the purposes of this section, whose main focus lies rather in concise estimation of the agency’s role in increasing the awareness about and cultivating positive perceptions of the Czech Republic among investors. Although it has to be admitted that systematic measuring of the image-building variable is rather problematic there are few clarifying proofs that can illuminate this process.

CzechInvest until very recently was one of the few government bodies directly responsible for the sophistication of the Czech Republic’s business image.\(^\text{131}\) Although the government-led systematic development of the country brand appeared only recently,\(^\text{132}\) until this time CzechInvest managed to increase the awareness about the country among investors quite successfully. The Czech Republic, according to the survey of European investor community, was ranked as a country with fourth best investment image in Europe.\(^\text{133}\) More solid evidence on CzechInvest’s credit for the country’s image building is also its award for the best marketing campaign by an IPA and promotion of the Czech Republic.\(^\text{134}\)

Correspondingly, one of the SARIO’s strategic goals is to build the country’s image and the value of the brand ‘Slovakia.’\(^\text{135}\) Agency’s situation was far from similar to that of faced by CzechInvest at the beginning of its marketing endeavors, however. SARIO was credited with transforming the image of Slovakia from a country affected by the rule of two Mečiar governments and labeled by former U.S. Secretary Madeleine Albright as “a black

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\(^\text{134}\) CzechInvest, CzechInvest Wins Several Prestigious Awards (Prague: CzechInvest, 2003).
\(^\text{135}\) SARIO, "SARIO - Agency Profile," (Bratislava: SARIO, 2006).
hole in the heart of Europe” into a destination of choice for FDI. In line with this objective, SARIO generated numerous standard image-building activities such as various investment-environment presentations, roadshows, seminars, etc. It did not take too long and investment location Slovakia started to make headlines in major newspapers around the world, dubbing the country by monikers as investors’ paradise, economic powerhouse, Tatra tiger or Detroit of Europe. This attention-grabbing big news about Slovakia had only little to do with SARIO’s image-building program, however. The agency, according to the former head of CzechInvest J. A. Havelka, acted as “small publishing house” investing into the least effective forms of marketing. SARIO’s share on Slovakia’s success in the international media was far from being decisive namely because of agency’s limited image-building budget unable to finance such extensive media coverage, which is considered to be one of the most effective, but also most expensive ways to improve investor perceptions of the location.

The desired marketing effect strengthening Slovakia’s image among investors was to a large extent caused by Dzurinda’s cabinet fundamental economic reforms as such, reinforced by striking contrast between the new and former Mečiar governments, which gave rise to parallels about an ugly duckling becoming a swan. Furthermore, despite SARIO’s numerous image-building efforts, it has not offered continuous, targeted and conceptual

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139 Odkladal.
140 Kantorík.
model of the state-marketing strategy\textsuperscript{145} that would not have to rely on occasional words of praise in the international media, which found the Slovak story attractive at the peak of the country’s reform activities, but might forget it very quickly when their ‘glory’ fades away.\textsuperscript{146}

Taking into account the abovementioned arguments, it has to be admitted that despite the different quality and extent of both agencies’ image-building activities, the Czech Republic as well as Slovakia achieved relatively comparable investment image among potential investors with better outlook for the brand ‘Czech Republic.’ Even though CzechInvest allocated more resources to image building activities and used more sophisticated techniques on continual basis than SARIO, Slovakia, thanks to its reforms that grabbed worldwide attention, also managed to presents itself as an attractive investment location. Both countries thus found themselves in relatively favorable position in terms of their potential to attract attention of willing-to-invest MNCs.

3.2.2 Investor Targeting

A country cannot serve everyone in broad FDI markets, because MNCs are too numerous and diverse in their investing requirements. Successful IPAs thus rather look for market segments that they can serve more effectively, mirroring the specific locational advantages, and matching the needs of foreign investors with the development objectives of the host country. Investor targeting is a cost saving technique used by IPAs to attract FDI in greater quantity and quality through narrowing the scope of their promotional efforts. It usually happens on multiple levels involving selection of countries, regions, sectors, industries or specific companies.\textsuperscript{147} IPAs understand investor targeting as opportunity to use scarce resources efficiently by focusing their promotional efforts on most responsive sectors.

\textsuperscript{145} Kantorík; Jesný, "Slovenskej Republike Chýba Štátny Marketing [The Slovak Republic Lacks State Marketing].”

or on those that have been identified as being potentially most valuable to the economy. This section examines both IPAs’ strategies with special focus on targeted industries, whose selection can have crucial effect not only on attracted FDI volume and quality but also on country’s future development of economy, since the rationale behind sector targeting lies in the diversification of host country economic activities and it is also used as one of the tools for their restructuring.

In order to assess the optimality of both IPAs’ targeting strategies a framework developed by Oxford Investment Research (OIR) is used. IPAs in general tend to target industries based on consideration of their ‘attractability’ (measure of the cost of attracting the industries to the country) and ‘desirability’ (measure of the potential benefits and externalities of a given industry for the country). Choosing target industries thus involves a trade-off between the two objectives: increasing the flow of FDI (industries easiest to attract) and contributing to country’s economic development goals (industries with some desirable quality). The final industry targeting strategy is often an intersection of these two conflicting approaches combining both criteria of attractibility and desirability (Figure 14). Such targeting strategy should enable short-term FDI attraction goals to mesh with long-term development goals. The final step to do so, following the identification of ‘national strength industries’ and determination of ‘future goal industries,’ is attraction of ‘pathway’ or ‘quick-win industries’ which are less desirable but easier to attract and at the same time able advance the country towards more desirable but currently unattainable industries. This three step process towards a coherent and optimal targeting strategy is clearly formulated in a simple matrix (Figure 15).

CzechInvest has opted for industry targeting strategy that reflects the Czech Republic’s characteristics of economy. The logic behind this step can be explained by IPAs efforts to deliver the maximum technology transfer to their home economies. This can be done under assumption that industrial capabilities of the country are not too underdeveloped, because if so, it is expected that domestic firms will be unable to learn from the high-tech firms. Simply put, the ‘knowledge gap’ would be too great.\textsuperscript{150} CzechInvest targeted FDI from industries that embodied more technology than the national domestic average, but not so much more that domestic companies would have difficulty learning from them. To be more concrete, CzechInvest built on the presence of country’s existing industry roots (see section 2.1.3) trying to capitalize on their strength, hoping to send a signal to foreign investors about their potential. CzechInvest, recognizing the Czech Republic’s pre-Second World War industrial prowess in manufacturing and industrial legacy of late-socialism\textsuperscript{151} at the beginning of its existence decided to focus on manufacturing sector as a whole (‘national strength’ industries), broadening later its scope to selected industries, such as the automotive, electronics and microelectronics, electrical industry, chemical industry, pharmaceuticals and precision engineering (quick-win or pathway industries). After certain achievements in attracting of FDI from these industries CzechInvest added strategic services, high-tech repair centers, aviation, medical equipment, and biotechnology to its portfolio of (future goal) targeted industries.\textsuperscript{152}

CzechInvest not only introduced a coherent and workable targeting strategy based on linked and interdependent industries, but also managed to build agency’s organization

\textsuperscript{150} The large-N survey of 122 IPAs proved that target industries unaligned with character of their national economies attract less FDI. Charlton and others, p. 9, 20.

\textsuperscript{151} This is the right place to recall that Visegrad countries specialized in the automobile, machinery or electronics industries during the late-socialism. This made them more interesting for MNCs and they could expect significantly larger inflows of industry-specific FDI than other countries in the region. For more refer to: Greskovits and Bohle, "Neoliberalism, Embedded Neoliberalism, and Neocorporatism: Paths Towards Transnational Capitalism in Central-Eastern Europe," p. 33-34.

structure around target industries in order to develop specific expertise.\textsuperscript{153} In addition, the agency focuses on industries which demonstrate high world flows through continual monitoring of investment projects in Europe that are analyzed to identify the most mobile and growing industries which are targeted respectively.\textsuperscript{154}

Before looking at SARIO’s role in industry-specific investor targeting, two observations deserve attention. First, SARIO is not primarily responsible and autonomous in formulation and adjustment of industry-targeting strategy. It is rather Slovak governments that prepare such decisions. Second, the limited ability to independently choose targets may result in unrealistic strategy, as it happened in the case of SARIO’s predecessor SNAZIR that had to adopt government approved “especially unrealistic targeting based on desires, with little thought to the interests of investors,” which was part of the first strategic document on support of FDI inflow.\textsuperscript{155} SARIO used the same unrealistic strategy adopted in 1999 that articulated rather loosely that both FDI from manufacturing and service sectors should be actively targeted. In addition, sectors orientated towards export were identified as those with the potential to modernize Slovakia’s manufacturing capacities, thus worth to focus on.\textsuperscript{156} Nevertheless, later on, SARIO and its parent ministry prepared an active investment strategy targeting industries such as engineering, IT, automotive, chemical and wood processing.\textsuperscript{157} All of them, except IT, could be well labeled as pathway industries that relatively well suit Slovakia’s economy structure that, even though to a lesser extent than Czech Republic, is based on developed manufacturing sector within which machinery, metallurgy, metal processing and automotive industries are traditionally the strongest.\textsuperscript{158} Similarly as in the

\textsuperscript{153} Davis.
\textsuperscript{154} Charlton and others, p. 14.
\textsuperscript{155} Wells and Wint, \textit{Marketing a Country : Promotion as a Tool for Attracting Foreign Investment}, p. 188.
\textsuperscript{156} "Strategy of the Slovak Government to Support the Influx of Foreign Direct Investment," (Bratislava: 1999).
\textsuperscript{157} Nicholson.
Czech Republic, also the Slovak government after the attraction of considerable amount of FDI from these pathway industries issued a new strategy targeting ‘future goal’ industries.\textsuperscript{159}

SARIO, following the revised strategy on FDI, prioritized targeting of strategic investment from ‘fashionable’\textsuperscript{160} technology and R&D intensive industries very similar to those targeted by CzechInvest (precision engineering, ICT, electronics, software development, pharmaceutics, medical equipment and biotechnology).\textsuperscript{161}

In summary, both agencies targeted FDI from considerably similar industries relatively well aligned with their economic characteristics. In addition, both agencies opted for similar pathway and future goal industries that are relatively co-dependent and well linked. Despite SARIO’s limited autonomy to set target industries, both agencies’ targeting strategies are comparable and in theory could have similar effects on the quality and quantity of attracted FDI into their countries.

3.2.3 Policy Advocacy

It is not only marketing and FDI generation that characterize IPAs’ functioning. The most effective IPAs usually have a vital policy function too. They have mandate to propose and advocate improvements in relevant FDI policies and in some cases become a key catalyst in a policy reform process.\textsuperscript{162} Such IPAs create an important part of policy process empowering them to suggest enhancements of various policies, laws and procedures in order to improve the business environment for investors.\textsuperscript{163} They are strategically placed between the government and foreign investors, having position of interlocutor that can act as the principal advocate for FDI within the government and source of feedback to state


\textsuperscript{160} More than 90 percent of IPAs from OECD countries and 83 percent of those from CEE try to target investment from high-tech industries. \textit{The World of Investment Promotion at a Glance}, p. 21.


\textsuperscript{162} Sader, p. 5.
policymakers on the concerns of foreign investors. In addition, according to Morisset and Andrews-Johnson, the policy-advocacy function of IPAs has the most significant impact on the volume of attracted FDI within investment promotion.\textsuperscript{164}

\textit{CzechInvest’s} policy-advocacy function is developed soundly and there are several instances supporting this claim. First, CzechInvest and affiliated Association for Foreign Investment (AFI) created a powerful partnership, where the latter supports the former in various policy reform initiatives in the government aimed at improving of investment climate.\textsuperscript{165} A good example of CzechInvest’s importance in policy process is its heavy participation in the introduction of investment incentives in the country.\textsuperscript{166} It was the agency itself that proposed, developed and pushed through the Czech Republic’s first set of incentives during second Klaus government notorious for its indifference to foreign investors. CzechInvest also started initiatives aimed at improving the legal system and business climate in general. CzechInvest is involved in policy making by permanent lobbying in various government departments which are approached with relevant proposals on investment-environment issues.\textsuperscript{167} It also to a large extend stood behind various amendments and modifications of incentive package, in order to attract more sophisticated service-based type of FDI.\textsuperscript{168} Second, the agency also participates at various other policy task forces in form of recommendations and draft policies related to industrial zones,\textsuperscript{169} regional development, and improvement of the investment climate. Third, CzechInvest actively seeks feedback from investors on business-environment issues through organization of various roundtables, whose conclusions are used in revision and amendment of investment-environment policies.\textsuperscript{170}

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\textsuperscript{164} Morisset and Andrews-Johnson, \textit{The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment}, p. 36.
\textsuperscript{167} "Czech Republic New Economy Thinking," \textit{Business Eastern Europe} 31, no. 28 (2002).
\textsuperscript{170} "FIAS/MIGA Census of Investment Promotion Agencies (CzechInvest),” p. 12.
\end{flushleft}
The record on policy advocacy in the SARIO’s case is more ambiguous. There are several indications showing that this function is fairly underdeveloped and close to nonexistent. To mention just some of them, it seems highly improbable that politically vulnerable agency as SARIO, whose top-management, given the label of ‘seasonal workers,’ directly appointed by the government, would be able to exert any significant backward pressure in order to influence investment-related policies. Similarly as in the case of CzechInvest, SARIO’s policy advocacy dimension is clearly vivid in its participation in the preparation of investment incentives for Slovakia. Despite the existence of agency’s will and some formal space for participation in improvement of business climate, its actual lobbying performance remained far behind. SARIO’s intention to push through a major redefinition of first hurriedly ratified incentives scheme collided with different interests at the Ministry of Economy, culminating when Minister Rusko was specifying the amount of investment incentives granted to potential investors on arbitrary basis, uncovering agency’s helplessness and lack of influence. In addition, SARIO does not mention policy advocacy as being a major function in any of its official documents and according to the data in Survey of International Foreign Investment Promotion Practices, SARIO does not carry out policy advocacy at all.

Nevertheless, according to the survey of SARIO’s activities, the policy-advocacy function of the agency does exist. Its comparison with CzechInvest, however, clearly shows CzechInvest’s dominance even in this variable. SARIO significantly lags behind in terms of time and budget devoted to policy advocacy, but also in the amount of accepted and implemented recommendations by government for policy change.

In a nutshell, the policy advocacy function in the case of CzechInvest is clearly more developed and effective than in the case of its Slovak counterpart. Advocating improvements

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171 Kantorík.
174 Piontkivska and Segura, p. 12.
in the investment climate has become an extremely important activity of several IPAs and the failure of those agencies to improve it has been one reason for the failure of many countries to attract the anticipated volume of FDI. Thus, in theory, even this variable speaks for CzechInvest’s greater potential in attracting FDI.

Answering the ‘who are you’ (organizational structure variables) and ‘what do you do’ question (functional structure variables) allows me to move to the last ‘how well you do it’ question answered through the set of performance variables.

\[175\] Trník; "FIAS/MIGA Census of Investment Promotion Agencies (CzechInvest)."
4. PERFORMANCE VARIABLES – IPAs’ IMPACT ON DEVELOPMENT

Having described the main structural variables offering an interesting look at the structural diversity of scrutinized agencies and simultaneously preliminarily pointing at their theoretical potential to attract FDI, this section continues in the assessment of their real performance in order to untangle the state and the role of investment promotion in CE and also preliminarily answers the research question whether scrutinized IPAs can account for quantitative and qualitative differences of their home countries in attracted FDI. Moreover, this section precisely through the review of performance variables as IPAs’ effectiveness, nature of mediated FDI and upgrading of the local economy shall examine IPAs’ impact on economic development of individual host-countries. It is reasonable to do so because many IPAs besides attracting FDI have prime responsibility for broader economic and societal development\(^{176}\) and according to some investment promotion practitioners “IPAs are the front line in the battle to improve their societies.”\(^{177}\) Before moving on towards the examination of individual performance variables it is useful to briefly present both countries’ FDI record.

Much has been written on Slovakia’s pro-market reforms carried out by Dzurinda’s governments that made it a target for labels as investors’ darling and alike. Nevertheless, Slovakia’s FDI record despite its promisingly looking catch-up after 1998 has not reached the comparable levels of the Czech Republic. Slovakia lags behind not only in total FDI inflows but also when attracted FDI per capita is considered (Figure 16). The Czech Republic’s FDI record in 2005 expressed in stock per capita is almost twofold when compared to Slovakia (Figure 17) whose FDI inflows dropped considerably in 2003 and have not recovered in the following years.


Of course there are several potential explanations of such development. First, Slovakia’s complicated economic and political transformation decelerated by Mečiar’s rule often serves as a relatively plausible justification accounting for both countries FDI variations. Second, the alleged saturation of CEE FDI market is another frequently used rationalization. Its validity, however, can be questioned referring to the fact that the Czech Republic and Hungary in 2005 managed to attract the highest FDI inflows in their history unprecedentedly exceeding the levels achieved in previous years.\(^{178}\) Third, follow-the-leader explanation, based on the assumption that many investors prefer to follow others into developing locations, is probably the most robust one. Given the persisting dominance of the Czech Republic over Slovakia in attracted FDI, it would be reasonable to expect that the higher number of investors in the former spread a word about the destination Czech Republic more frequently. Notwithstanding the supposed robustness of this explanation it has to be admitted that by the same token it is also hardly verifiable.

Is it possible that there is another explanation that can at least partially account for differences in the amount and quality of FDI generated by both countries and is it possible that IPAs played significant role in this process? The following set of variables hopes to move closer in answering this question.

### 4.1 IPAs’ Effectiveness

Providing IPAs’ basic analysis of effectiveness using indicators such as agency mediated FDI, number of realized FDI projects and the amount of newly created jobs serves as a good starting point that can throw some light on certain aspects of their overall performance. One important methodological remark has to be done before doing so. Since CzechInvest’s creation dates back to 1993 and SARIO’s to 2001 it is reasonable to expect that results in most of the compared indicators will automatically depict the former as more

\(^{178}\) World Investment Report 2006. FDI from Developing and Transition Economies: Implications for
effective and successful. To at least partially control for SARIO’s time lag only the data from selected years (2001-2006) are compared where suitable.

The quantification of agency-mediated FDI is the most straightforward indicator worthwhile to look at when assessing both IPAs’ performance at attracting FDI. CzechInvest since its establishment mediated FDI in the total value of more than USD 18 billion\(^{179}\) which creates almost one third of total FDI attracted to the Czech Republic. The agency shows its over-time increasing importance when in 1993 it was responsible only for 2 percent of total inward FDI inflows while in 2003 it was already 55 percent, reaching its historical maximum of almost 80 percent in 2006 (Table 11 and Figure 18). Estimating SARIO’s contribution to the total amount of attracted FDI to Slovakia is more difficult, however. Agency’s record concerning the amount of mediated FDI is incompatible with official statistics on total FDI inflows to Slovakia. SARIO e.g. in years 2003-2005 declares higher amount of mediated FDI than was actually attracted to Slovakia as a country. This discrepancy is explained by SARIO’s different methodology which deduces the volume of the agency-mediated FDI from the planned level of investment.\(^{180}\) In other words, the agency takes investment for granted when the so called Memorandum of Understanding with potential investor is signed, although the ‘real money’ comes to Slovakia much later.\(^{181}\)

Although the abovementioned constraints do not allow me to measure SARIO’s share on attracted FDI to Slovakia a comparison of different kind will serve well when trying to illuminate agency’s role. One way to uncover IPA’s role and its overall performance, that will to some extent answer the first part of the research question, is to compare the levels of FDI per capita stock mediated by SARIO and its Czech equivalent. This comparison reveals


\(^{180}\) Such approach is probably understandable in the light of agency’s conflicts with its parent ministry and political pressures it had to face since its creation thus pushing it to present itself as successful and well functioning body in order to uphold its shaky position.
that CzechInvest since 1993 mediated investment per capita worth USD 1771 while SARIO during its 6 year history lured FDI worth USD 986. It seems that working of CzechInvest and SARIO had considerable impact on FDI record of both Czech and Slovak Republic. The practical inexistence of IPA in Slovakia in 1993-2000 does not invalidate this conclusion, but contrariwise it confirms that existing (rather than non-existing) and working IPA can make a difference in countries’ efforts and results in attracting FDI. Very illustrative is also the fact that the volume of total CzechInvest-mediated FDI (USD 18,1 billion) is higher than total FDI level attracted to Slovakia as such (USD 14,4 billion) (Table 12).

Considering the number of realized investment projects it can be clearly seen that CzechInvest with its 744 completed projects predictably surpasses SARIO (215 projects) because of its longer existence (Figure 19). However, even when the data for the time period of 2002-2006 is compared, CzechInvest’s dominance is still obvious (Table 13).

The number of newly created jobs generated by agency-mediated FDI is another indicator able to partially predicate IPAs’ basic effectiveness. CzechInvest again logically performs better than SARIO simply because of its earlier creation. The number of created jobs generated by CzechInvest-attracted FDI slightly exceeds 150,000.\textsuperscript{182} Again, even when only the years of SARIO’s operation (2002-2006) are considered, CzechInvest does significantly better in this indicator than its Slovak counterpart (Table 14).

The performance related evidence shows that high share of CzechInvest on attracted FDI to the Czech Republic combined with its longer existence and SARIO’s poorer performance may be recognized as factors partially responsible for quantitative differences in both countries’ FDI records. Moreover, these results are compatible with the structural characteristics of both IPAs provided in the previous section indicating better position for CzechInvest concerning its potential to attract FDI.

\textsuperscript{181} Marta Ďurianová, “Interview with Roman Kuruc, General Director of SARIO,” \textit{The Slovak Spectator} 11, no. 29 (2005).
4.2 Structure and Quality of IPA-Mediated FDI

IPAs’ share on FDI attracted to the country is not the only indicator worth to scrutinize when assessing their role. Structure and quality of mediated FDI are also categories that deserve attention because of both IPAs’ similar investor targeting strategies (see section 3.2.2). Comparing the structure of agency-mediated FDI to some extent also illustrates agencies’ contribution to the restructuring plans of both countries based on building up effective, flexible and knowledge-based economies\(^{183}\) often referring to the success-story of Ireland that managed to do so mainly because of its industrial policy reliant on FDI from high value-added sectors.\(^{184}\)

Although both agencies formulated similar investor targeting strategies defining similar priority industries, their results differ considerably when the number of agency-mediated projects\(^{185}\) by sector is considered. Most of the projects mediated by both agencies come from traditional industries as automotive, chemical, plastic, rubber, engineering, metalworking or wood-processing and CzechInvest’s record in all of them is better than that of SARIO. What is more, CzechInvest is much more successful in realization of its targeting strategy concerning the attraction of FDI from sophisticated hi-tech industries. Since both agencies decided to attract value-added FDI relatively recently, it is interesting to observe that CzechInvest pursues its goals coherently and with success, while SARIO’s targeting strategy seems more as a matter of rhetoric and wishful thinking. To be more concrete CzechInvest accomplished almost three times more projects in IT and electronics and registered even higher successfulness in generating projects from shared services, high-tech and technology centers than SARIO (Figure 20).


\(^{184}\) Rugman and O'Higgins, p. 107.
The gradual diversification of Czech economy benefiting from high-tech and R&D investments mediated by CzechInvest becomes very visible in the last years (2002-2006). CzechInvest’s effectiveness in attracting high-value added investment is permanently increasing (Figure 21 and Figure 22) and the agency is “playing a critical part in transforming the Czech industrial economy away from exclusively manufacturing based investments.” Moreover, it helped to transform the Czech Republic into one of the most interesting investment location for R&D and innovation activities of foreign MNCs and was also very effective in selling this message as according to the Economist survey the country was recognized as the 10th most attractive R&D location, while Slovakia occupied 26th position (Figure 23). CzechInvest’s contribution to building of the knowledge-based economy is demonstrated e.g. by the fact that majority of FDI projects in 2006 announced by U.S. companies in the Czech Republic are R&D projects in innovation industries originating from enterprises based in Silicon Valley and Chicago – both of which were chosen as strategic locations for CzechInvest’s foreign offices (see section 3.1.5). The improving structure of FDI is also apparent within the ‘traditional’ automobile and engineering industries, where shift towards more complicated and specialized production with increasing share of R&D projects can be observed (Figure 24). Interesting evidence documenting Czech Republic’s economy gradual diversification is boom of FDI flowing into electronics engineering industry that, besides car industry, is becoming a new driving force of the Czech

185 Comparing performance by the number of projects rather than using the volume of attracted FDI is substantiated by the fact that levels of FDI from hi-tech industries are often lower than those reached by capital intensive industries such as automotive.
186 CzechInvest, Sophisticated Investments Find Their Way to the Czech Republic (Prague: CzechInvest, 2006).
Last but not least, the Czech Republic became the most attractive offshore destination for IT services and support in CEE and it continues to be a major hub for call centers in Europe with more than 300 centers whose number should double by 2007.\textsuperscript{192}

As already mentioned, \textit{SARIO} despite its declared focus to attract value-added FDI does not stand up to its own rhetoric. The structure of the agency-mediated FDI (refer back to Figure 20) documents that sophisticated projects are still quite sporadic. Despite the fact, Slovakia has attracted some FDI from high-tech industries including R&D and services, SARIO’s role in this process is minimal,\textsuperscript{193} since the share of the value-added agency-mediated FDI projects remains critically low (Figure 25). Even when the country-level is considered, Slovakia considerably lags behind the Czech Republic in attracting technology and R&D intensive investments giving murky outlooks to the creation of knowledge-based economy.\textsuperscript{194} As Peter Staněk, an economist from the Slovak Academy of Sciences, puts it „\textit{Slovakia talks about it excessively, but makes very little for it.}”\textsuperscript{195} SARIO’s results also seem to indicate that it was not particularly successful in presenting Slovakia as a right location for more sophisticated FDI and it is still rather stuck with the image of automobile powerhouse.\textsuperscript{196}

Briefly recapitulating, it is evident that the structure and quality of IPA-mediated FDI confirms CzechInvest’s superiority when compared to SARIO. It is reasonable to expect that dissimilar performance of both IPAs in attracting sophisticated FDI could significantly influence the overall FDI-quality record in both countries and spurt their reorientation towards

\textsuperscript{193} “IT Investory Zatiaľ Štátu Nemajú Za Čo Ďakovať [IT Investors Have Nothing to Thank for to the State yet],” \textit{ETrend} (2003).
knowledge-based economy. In other words, the working of CzechInvest and SARIO indicate that the former has positively contributed to the diversification and formation of Czech knowledge-based economy rudiments while the latter, despite its claims, until now has not positively influenced Slovakia’s path to innovation-driven economy.

4.3 IPAs and Upgrading of the Local Economy

Both agencies present themselves not only as pure FDI-generation vehicles but also as bodies responsible for broader development of their home economies. This part traces and compares specific instances where IPAs act as accelerators of economic development and innovation intermediaries thus providing at least anecdotal, yet, as it will be seen, quite revealing testimony about their contribution to this goal. Agreeing with the argument that aside from direct benefits of FDI, it can also act as a key driver of local enterprise development, IPAs’ role in fostering FDI spillovers is scrutinized. To clarify what role both IPAs play in deepening the contacts between MNCs and the local economy a deeper look into their activity of backward linkage promotion is offered as well as short comparison of other developmental tools.

One of the most common areas where IPAs may exert positive influence on local economy upgrading is backward linkages promotion aimed to increase the involvement of small and medium enterprises (SMEs) in MNCs’ production process. Such linkages are vital because besides providing capital and diffusing knowledge to the linked enterprises, they

199 Backward linkages refer to any upstream relationship between MNCs and local SMEs which manufacture parts, components, materials and services for MNCs.
can also help in creation of productive and competitive indigenous industrial base.\textsuperscript{201} IPAs can assist MNCs in identifying and introducing reliable local SMEs with whom they can partner in order to ensure that sustainable development gains result from the attracted FDI.

\textit{CzechInvest} launched a supplier linkage and upgrading program (Supplier Development Programme) in 1999 with the aim to increase the number of domestic subcontractors for foreign-affiliate manufacturers and other MNCs. For this purpose a database of Czech subcontractors has been introduced. Moreover, CzechInvest also started to act as a mediator between foreign MNCs and Czech suppliers, and provided them with services increasing their production quality thus improving their chances to join the supplier chains of large production plants.\textsuperscript{202} While the pilot phase of this program was aimed at suppliers of electronic goods, the second phase broadened the portfolio to manufacturing sectors such as the car components production, medical equipment, aviation, etc.\textsuperscript{203} Matchmaking between MNCs and local SMEs, networking, information provision and support of SMEs upgrading through provision of resources and advice created the main components of this program. CzechInvest helped more than 150 local SMEs to conclude contracts with foreign MNCs worth 4 billion Czech crowns and local firms participating in this program show positive results in terms of their increased labor production, gross revenue and export performance.\textsuperscript{204}

Despite \textit{SARIO}'s declared development dimension, it does not run any formal or informal backward linkages programs.\textsuperscript{205} Although SARIO in 2001 advertised creation of „\textit{time consuming yet very effective Domestic Suppliers Support Program},” whose aim was to

\begin{flushright}
\textsuperscript{201} Moran, \textit{Foreign Direct Investment and Development : The New Policy Agenda for Developing Countries and Economies in Transition}, p. 41.
\textsuperscript{202} \textit{A Survey of Support by Investment Promotion Agencies to Linkages}, (Geneva: UNCTAD, 2006), p. 15.
\textsuperscript{204} "Agentúra Pomohla K Miliardovým Zákazkám [Agency Has Contributed to Orders Worth Billions],” \textit{SME}, 14 March, 2006.
\textsuperscript{205} Remiaš.
identify perspective indigenous suppliers of components for strategic foreign investors in manufacturing sector,\textsuperscript{206} it has never been realized. Sporadic claims of Milan Juráška, the current SARIO’s CEO, about the inappropriateness of comparisons between the Slovak and Czech IPAs because of their different structure\textsuperscript{207} are not legitimate, however. Although CzechInvest in 2004 merged with two other development agencies giving, the new entity wider competencies in upgrading the local economy via its focus on SMEs, its backward linkage program as well as other development programs were introduced before. Similarly, the fact that Slovakia has a specialized National Agency for Development of Small and Medium Enterprises (NADSME) primarily responsible for development of Slovak indigenous SMEs can not be used for SARIO’s defense because NADSME does not run backward linkages program. At last, involvement in the creation of backward linkages is standard development tool used by IPAs worldwide and is believed to be one of the most effective ways of upgrading domestic enterprises.\textsuperscript{208}

IPAs often posses many other developmental tools in form of specific programs aimed to upgrade and maximize the benefits of FDI for their home economies. While it is not possible to mention all of them, a brief comparison assessing their objectives and results leads to the conclusion that CzechInvest’s role of economy-development ‘facilitator’ is much more complex, vivid and advanced than it is in the case of SARIO. CzechInvest besides operating its own development programs became also responsible for implementation of 15 programs aimed at upgrading of local enterprises covered from EU structural funds. SARIO also became an EU programs implementation agency, but its portfolio counts only 2 programs (Table 15).

In summary, CzechInvest, has started to act as a liaison between MNCs and domestic enterprises that were given a possibility to participate in a specific agency-administered


\textsuperscript{207}Remiaš.
backward linkage program. SARIO missed the chance to help in the creation of competitive Slovak supplier base for key industries in the country since it gave up a widely used IPA instrument aimed to ‘plug’ local entrepreneurs into the global supplier networks and embed FDI into the local economy and channel its benefits. In addition, CzechInvest acts as a full-fledged development body administrating its own as well as EU enterprise-development programs. SARIO’s role of economic-development accelerator, on the other hand, is much less robust.

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5. CONCLUSIONS AND IMPLICATIONS

The ultimate objective of this work was to obtain complex evidence describing the role of two CE IPAs in attracting FDI and enhancing economic development of their respective countries. The thesis’ primary contribution dwells in its in-depth examination of two regionally competing national IPAs, currently missing in the investment promotion literature. The wealth of dimensions used to compare my cases supported by the wide array of empirical data is another novelty used in the study of IPAs. Agencies’ organizational and functional characteristics as well as their real performance were scrutinized to fully capture their varying impact but also factors able to explain it.

A probe into the structural variables’ impact on potential of both IPAs to attract FDI has uncovered that most of these variables - agencies’ mandate, relationship to the government and private sector, their very internal characteristics as well as their core functions – reveals a noteworthy difference between CzechInvest and SARIO, putting the former into the position of soundly functioning agency, that according to the best practices in investment promotion, has a potential to be more successful in attracting FDI than its Slovak counterpart.

Similarly, most of the performance variables have indeed confirmed CzechInvest’s superiority in practice when the agency achieved significantly better results – whether in the number of investment projects realized, amount of agency-mediated FDI, number of jobs created or structure and quality of mediated FDI – than SARIO. The reasons lying behind such significant performance differences among both agencies may be well explained by reviewing the structural variables that clearly identify agencies’ strengths and weaknesses.

In more specific terms, both sets of variables explored in the previous chapters clearly suggest that the role of CzechInvest in attracting FDI to the Czech Republic was more substantial than SARIO’s attempts to attract foreign investments to Slovakia. This first
finding is reinforced by the fact that CzechInvest during its existence received several prestigious awards among which the “European IPA of the year” award won consecutively in 2001 and 2002 are the most impressive. SARIO’s organizational as well as functional drawbacks translating into its underperformance were similarly confirmed by Ivan Mikloš, Dzurinda’s former minister of finance and economy, who openly admitted that CzechInvest’s FDI policy is more sophisticated and the agency still functions “much better” than SARIO.\textsuperscript{209}

Although there is no way to exactly quantify the impact of IPAs on FDI attracted to the country and similarly as with other FDI determinants it is difficult to separate its individual influence, the evidence presented in previous chapters does indeed provide reason to suppose that the functioning of IPAs in Czech and Slovak Republics can at least partially account for cross-country differences in attracted FDI. Simply put and moving towards the second conclusion, if the statistically significant correlation between greater/better investment promotion and higher FDI flows is accepted, it has to be admitted that divergent evidence regarding CzechInvest’s and SARIO’s functioning as well as their performance point towards their different impact on both countries’ FDI record in terms of its quantity as well as quality. Having in mind also both countries’ similarities regarding other FDI determinants, the divergent quality of investment promotion emerges as more than interesting factor to think about when trying to explain cross-country variations in FDI flows. The fact that the best European IPA (CzechInvest) operates in the country with one of the highest inward FDI stock per capita in CEE (Czech Republic) can serve as another interesting clue about IPAs’ significance in attracting FDI.

The third and final conclusion of the paper is that the quality and quantity of FDI attracted by CzechInvest and SARIO can further influence the development prospects of both countries in different manner. CzechInvest not only performs better than SARIO in

\textsuperscript{209}Marek Bičík, “Do 15 Let Se Na Česko Dotáhneme [We Will Catch up with the Czech Republic within 15 Years],” Mladá Fronta Dnes, 17 May, 2006, p. 4.
repositioning the product ‘Czech Republic’ in broad FDI markets, but applying various
development tools it has also launched successful product sophistication (economy
upgrading). CzechInvest, unlike SARIO, simply became a true economy-development
accelerator gradually shifting the Czech Republic towards innovation-driven economy.

Proceeding to the broader implications of my conclusions, is there then anything
interesting and more general about the Czech and Slovak approaches to attract FDI that IPAs’
institutional profiles reflect? First, starting with the country-level, despite the fact that both
countries made attracting FDI one of their top priorities the actual implementation of policy
guidelines into practice differs significantly. Accepting the view that FDI policies and
investment promotion are inextricably linked, leads to the implication that the unsatisfactory
functioning of SARIO reflects Slovakia’s difficulties in policy realization. SARIO’s
functioning serves as a merciless mirror reflecting the state of practical administrative
implementation of these FDI policies, posing serious impediments to the country despite it’s
otherwise quite liberal investment environment. In contrast, the exemplar functioning of
CzechInvest points at better FDI policy implementation in the Czech Republic.

Second, is it possible to identify main explanatory factors behind both agencies’
differing position and authority within their countries? The answer might possibly lie in the
circumstances present at the time of early formation of both agencies. Even though,
CzechInvest originated in the atmosphere hostile to FDI promotion, it was created relatively
independently from party politics, whose representatives in 1993 dealt with more pressing
issues than attracting of FDI. CzechInvest, in spite of being a state agency, used further
measures to gain as much insulation from politics as possible allowing it to evolve a
professional and business-like approach towards FDI promotion. This can not be said about
SARIO, whose creation can be understood as a direct result of political demand for more FDI,
whose increasing inflow promised to solve many of Slovakia’s pressing issues such as high
unemployment. SARIO was not only ‘born’ in the times when quick results from investment promotion were expected, but it also had to deal with the fact that representatives of party politics have quickly recognized the volume of political and electoral ‘capital’ lying in mega-investments as Hyundai/Kia. SARIO thus did not have enough time for its institutional buildup or consolidation and found itself in the environment where attracting of FDI became part of pork barrel politics.

Third, it is interesting to observe that the attitude of private sector in the Czech Republic and Slovakia towards state’s FDI policies was rather different. The partial explanation for this can be probably found in CzechInvest’s higher activity to establish and intensify communication and contacts between MNCs and Czech businesses, which gradually mitigated concerns of the private sector resulting from the entrance of foreign corporations to the Czech Republic. In addition, the Czech Republic has decided not to discriminate between foreign and Czech investors that also became eligible for state assistance and turned the agency into their potential partner rather than hated enemy. Conversely, the mistrust of the Slovak private sector towards foreign capital was even exaggerated by state’s idleness, personified in SARIO’s inactivity whether in the communication of FDI’s potential benefits or creation of functional links between Slovak industries and foreign MNCs.

Fourth and in more theoretical terms, the comparison of results of the Czech and Slovak IPA indirectly implies that investment promotion as a specific form of state intervention seems to be substantiated and even appropriate under the assumption of existing market failure due to perception or information gaps. This implication is strengthened by the fact that many CEE countries have already significantly improved their economic policy fundamentals in order to do well in aggressive competition for strategic investments. Sound investment promotion policies and well functioning IPAs thus might represent the next and probably very crucial step after getting the countries’ fundamentals right.
APPENDICES

List of Tables

Table 1. Most Influential FDI Determinants in CEE

<table>
<thead>
<tr>
<th>MOST INFLUENTIAL FDI DETERMINANTS IN CEE</th>
<th>Ranking</th>
<th>Pull factor</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political stability</td>
<td>1.</td>
<td>115</td>
<td></td>
</tr>
<tr>
<td>Host country market size</td>
<td>2.</td>
<td>71</td>
<td></td>
</tr>
<tr>
<td>Financial stability</td>
<td>3.</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>Qualified labor force</td>
<td>4.</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Potential profitability</td>
<td>5.</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Geographic location</td>
<td>6.</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Competitive costs</td>
<td>7.</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>Currency convertibility</td>
<td>8.</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Transport network/Infrastructure</td>
<td>9.</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Legislation</td>
<td>10.</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Host country’s potential export base</td>
<td>11.</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Favorable tax system</td>
<td>12.</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

Source: Hošková, p.16.

Table 2. Chosen Macroeconomic Indicators of the Czech Republic and Slovakia (1994-2006)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth %</td>
<td>Czech R.</td>
<td>4.9</td>
<td>6.6</td>
<td>6.5</td>
<td>1.3</td>
<td>1.5</td>
<td>2</td>
<td>3.8</td>
<td>4.6</td>
<td>4.5</td>
<td>5.5</td>
<td>5</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>GDP growth %</td>
<td>Slovakia</td>
<td>na</td>
<td>na</td>
<td>4</td>
<td>0.7</td>
<td>0.5</td>
<td>1.3</td>
<td>3.6</td>
<td>2.5</td>
<td>1.9</td>
<td>3.6</td>
<td>4.2</td>
<td>6.1</td>
<td>6.1</td>
</tr>
<tr>
<td>Inflation rate %</td>
<td>Czech R.</td>
<td>10</td>
<td>9.1</td>
<td>8.8</td>
<td>8.5</td>
<td>10.7</td>
<td>2.1</td>
<td>3.9</td>
<td>4.7</td>
<td>1.8</td>
<td>0.1</td>
<td>2.8</td>
<td>1.9</td>
<td>2.5</td>
</tr>
<tr>
<td>Inflation rate %</td>
<td>Slovakia</td>
<td>13.4</td>
<td>9.8</td>
<td>5.8</td>
<td>6.1</td>
<td>6.7</td>
<td>10.6</td>
<td>12.0</td>
<td>7.3</td>
<td>3.3</td>
<td>8.5</td>
<td>7.5</td>
<td>2.7</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Table 3. Labor market characteristics in the Czech Republic and Slovakia

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Labor cost (US$)</td>
<td>Czech R.</td>
<td>243</td>
<td>313</td>
<td>362</td>
<td>341</td>
<td>366</td>
<td>370</td>
<td>353</td>
<td>389</td>
<td>484</td>
<td>599</td>
<td>702</td>
<td>796</td>
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<tr>
<td>Labor cost (US$)</td>
<td>Slovakia</td>
<td>196</td>
<td>242</td>
<td>266</td>
<td>275</td>
<td>284</td>
<td>259</td>
<td>247</td>
<td>258</td>
<td>298</td>
<td>391</td>
<td>491</td>
<td>557</td>
<td></td>
</tr>
<tr>
<td>Labor productivity (US$)</td>
<td>Czech R.</td>
<td>na</td>
<td>100</td>
<td>104.5</td>
<td>103</td>
<td>103.7</td>
<td>107.9</td>
<td>112.4</td>
<td>120.1</td>
<td>121.6</td>
<td>127.3</td>
<td>na</td>
<td>na</td>
<td></td>
</tr>
<tr>
<td>Labor productivity (US$)</td>
<td>Slovakia</td>
<td>na</td>
<td>100</td>
<td>106</td>
<td>112.6</td>
<td>120.3</td>
<td>124.6</td>
<td>129.4</td>
<td>134.4</td>
<td>145.6</td>
<td>153.7</td>
<td>159.2</td>
<td>na</td>
<td></td>
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<tr>
<td>Labor availability (%)</td>
<td>Czech R.</td>
<td>4.6%</td>
<td>4.1%</td>
<td>3.9%</td>
<td>4.8%</td>
<td>6.5%</td>
<td>8.8%</td>
<td>8.9%</td>
<td>8.2%</td>
<td>7.3%</td>
<td>7.8%</td>
<td>8.3%</td>
<td>8.3%</td>
<td></td>
</tr>
<tr>
<td>Labor availability (%)</td>
<td>Slovakia</td>
<td>13.7%</td>
<td>13.1%</td>
<td>11.3%</td>
<td>11.9%</td>
<td>12.6%</td>
<td>16.4%</td>
<td>18.8%</td>
<td>19.3%</td>
<td>18.6%</td>
<td>17.5%</td>
<td>18.1%</td>
<td>17.9%</td>
<td></td>
</tr>
</tbody>
</table>

Note: 1. Nominal monthly average wage (US$)
2. GDP per hour worked at 1995 constant prices
3. Unemployment rate
Table 4. FDI Inflow in CEE, 1994-99

<table>
<thead>
<tr>
<th>Country</th>
<th>FDI Inflow (mil. US$)</th>
<th>FDI Inflow per capita (mil. US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungary</td>
<td>12 530</td>
<td>1 253</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>12 425</td>
<td>1 206</td>
</tr>
<tr>
<td>Latvia</td>
<td>1 915</td>
<td>766</td>
</tr>
<tr>
<td>Estonia</td>
<td>1 033</td>
<td>688</td>
</tr>
<tr>
<td>Croatia</td>
<td>2 869</td>
<td>637</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1 260</td>
<td>630</td>
</tr>
<tr>
<td>Poland</td>
<td>19 923</td>
<td>515</td>
</tr>
<tr>
<td>Lithuania</td>
<td>1 827</td>
<td>440</td>
</tr>
<tr>
<td>Romania</td>
<td>5 638</td>
<td>253</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1 762</td>
<td>212</td>
</tr>
<tr>
<td>Slovakia</td>
<td>1 078</td>
<td>200</td>
</tr>
</tbody>
</table>


Table 5. CzechInvest Steering Committee Composition

<table>
<thead>
<tr>
<th>Sector</th>
<th>CzechInvest Steering Committee Institutional Members in 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>PUBLIC (8)</td>
<td>Ministry of Industry and Trade</td>
</tr>
<tr>
<td></td>
<td>CzechInvest</td>
</tr>
<tr>
<td></td>
<td>CzechInvest</td>
</tr>
<tr>
<td></td>
<td>Ministry for Regional Development</td>
</tr>
<tr>
<td></td>
<td>Ministry for Regional Development</td>
</tr>
<tr>
<td></td>
<td>Ministry of Foreign Affairs</td>
</tr>
<tr>
<td></td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td></td>
<td>Ministry of Labour and Social Affairs</td>
</tr>
<tr>
<td>PRIVATE (8)</td>
<td>Czech Chamber of Commerce</td>
</tr>
<tr>
<td></td>
<td>Confederation of Industry</td>
</tr>
<tr>
<td></td>
<td>Union of Czech Production Cooperatives</td>
</tr>
<tr>
<td></td>
<td>Association of SMEs and Self-employed Entrepreneurs</td>
</tr>
<tr>
<td></td>
<td>Czech-Moravian Guarantee and Development Bank</td>
</tr>
<tr>
<td></td>
<td>Association of Entrepreneurs</td>
</tr>
<tr>
<td></td>
<td>Association for Foreign Investment</td>
</tr>
<tr>
<td></td>
<td>Association for Foreign Investment</td>
</tr>
</tbody>
</table>


Table 6. Number of Staff - CzechInvest and SARIO, 1993 - 2005

<table>
<thead>
<tr>
<th>STAFF NUMBER - CZECHINVEST AND SARIO, 1993-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>CzechInvest</td>
</tr>
<tr>
<td>SARIO</td>
</tr>
</tbody>
</table>

Sources: CzechInvest, Annual Reports 2002-2005; Competing for FDI: Inside the Operations of Four National Investment Promotion Agencies; SARIO, Annual Reports 2002-2006; author's survey.
Table 7. Number of Staff in Visegrad IPAs (2003)

<table>
<thead>
<tr>
<th>Agency/Country</th>
<th>Staff Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>CzechInvest (Czech Republic)</td>
<td>63</td>
</tr>
<tr>
<td>SARIO (Slovakia)</td>
<td>43</td>
</tr>
<tr>
<td>ITDH (Hungary)</td>
<td>234</td>
</tr>
<tr>
<td>PAiIZ (Poland)</td>
<td>70</td>
</tr>
</tbody>
</table>


Table 8. Annual Budget of CzechInvest and SARIO, 1993-2006 (mil. US$)

<table>
<thead>
<tr>
<th>Year</th>
<th>CzechInvest</th>
<th>SARIO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>0.27</td>
<td>-</td>
</tr>
<tr>
<td>1994</td>
<td>0.8</td>
<td>-</td>
</tr>
<tr>
<td>1995</td>
<td>1.37</td>
<td>-</td>
</tr>
<tr>
<td>1996</td>
<td>1.86</td>
<td>-</td>
</tr>
<tr>
<td>1997</td>
<td>1.55</td>
<td>-</td>
</tr>
<tr>
<td>1998</td>
<td>1.95</td>
<td>-</td>
</tr>
<tr>
<td>1999</td>
<td>2.12</td>
<td>-</td>
</tr>
<tr>
<td>2000</td>
<td>3.49</td>
<td>-</td>
</tr>
<tr>
<td>2001</td>
<td>3.90</td>
<td>-</td>
</tr>
<tr>
<td>2002</td>
<td>4.99</td>
<td>0.62</td>
</tr>
<tr>
<td>2003</td>
<td>6.74</td>
<td>2.24</td>
</tr>
<tr>
<td>2004</td>
<td>10.50</td>
<td>2.96</td>
</tr>
<tr>
<td>2005</td>
<td>13.43</td>
<td>5.02</td>
</tr>
<tr>
<td>2006</td>
<td>NA</td>
<td>6.32</td>
</tr>
</tbody>
</table>

Sources: Competing for FDI: Inside the Operations of Four National Investment Promotion Agencies; CzechInvest, Annual Reports 2002-2005; Remiaš; SARIO, Annual Reports 2002-2006.

Table 9. Japanese FDI inflow to V4 countries

<table>
<thead>
<tr>
<th>Country</th>
<th># cases</th>
<th>Value/US$ mil.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>86</td>
<td>719</td>
</tr>
<tr>
<td>Slovakia</td>
<td>3</td>
<td>17</td>
</tr>
<tr>
<td>Hungary</td>
<td>50</td>
<td>862</td>
</tr>
<tr>
<td>Poland</td>
<td>36</td>
<td>553</td>
</tr>
</tbody>
</table>

Source: JETRO - Japan External Trade Organization.

Table 10. Number of IPAs’ International and Regional Offices in V4

<table>
<thead>
<tr>
<th>Agency/Country</th>
<th>International</th>
<th>Regional</th>
</tr>
</thead>
<tbody>
<tr>
<td>CzechInvest</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>SARIO</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>ITDH</td>
<td>44</td>
<td>7</td>
</tr>
<tr>
<td>PAiIZ</td>
<td>0</td>
<td>16</td>
</tr>
</tbody>
</table>

Sources: SARIO, CzechInvest, ITDH, PAiIZ.
Table 11. FDI Mediated by CzechInvest as % of total invested FDI in the Czech Republic

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inward FDI in the CR (mil. US$)</td>
<td>568</td>
<td>862</td>
<td>2558</td>
<td>1424</td>
<td>1300</td>
<td>3720</td>
<td>6324</td>
<td>4980</td>
<td>5640</td>
<td>8440</td>
<td>2101</td>
<td>4463</td>
<td>1091</td>
<td>5957</td>
<td>59339</td>
</tr>
<tr>
<td>Agency-mediated FDI (mil. US$)</td>
<td>13</td>
<td>71</td>
<td>82</td>
<td>191</td>
<td>248</td>
<td>730</td>
<td>668</td>
<td>1561</td>
<td>2175</td>
<td>1042</td>
<td>1171</td>
<td>2140</td>
<td>3425</td>
<td>4600</td>
<td>18135</td>
</tr>
<tr>
<td>Mediated FDI as % of invested FDI in the Czech Republic</td>
<td>2.2%</td>
<td>8.2%</td>
<td>3.2%</td>
<td>13.4%</td>
<td>19.6%</td>
<td>10.9%</td>
<td>31.3%</td>
<td>38.6%</td>
<td>12.3%</td>
<td>55.7%</td>
<td>47.9%</td>
<td>31.1%</td>
<td>77.2%</td>
<td>30.6%</td>
<td></td>
</tr>
</tbody>
</table>


Table 12. Total FDI Attracted to the Country vs Agency Mediated FDI

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>568.0</td>
<td>862.0</td>
<td>2558.0</td>
<td>1424.4</td>
<td>1300.0</td>
<td>3720.0</td>
<td>6324.0</td>
<td>4980.0</td>
<td>5640.0</td>
<td>8440.0</td>
<td>2101.4</td>
<td>4463.3</td>
<td>1091.0</td>
<td>5956.8</td>
<td>59338.9</td>
</tr>
<tr>
<td>CzechInvest</td>
<td>12.5</td>
<td>71.0</td>
<td>81.9</td>
<td>191.2</td>
<td>248.1</td>
<td>729.5</td>
<td>688.2</td>
<td>1561.2</td>
<td>2174.5</td>
<td>1041.9</td>
<td>1170.8</td>
<td>2159.9</td>
<td>3424.7</td>
<td>4600.0</td>
<td>18135.2</td>
</tr>
<tr>
<td>Slovakia</td>
<td>179</td>
<td>272.9</td>
<td>258.4</td>
<td>369.8</td>
<td>231.3</td>
<td>706.7</td>
<td>427.9</td>
<td>1925</td>
<td>1584</td>
<td>4094</td>
<td>668.8</td>
<td>1122</td>
<td>650</td>
<td>1941.1</td>
<td>14431.6</td>
</tr>
<tr>
<td>SARIO</td>
<td>291.9</td>
<td>1328.4</td>
<td>2107.9</td>
<td>893.6</td>
<td>760.5</td>
<td>5322.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Table 13. Number of Investment Projects Completed by CzechInvest and SARIO, 2002-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>CzechInvest</td>
<td>64</td>
<td>60</td>
<td>145</td>
<td>154</td>
<td>176</td>
<td>599</td>
</tr>
<tr>
<td>SARIO</td>
<td>30</td>
<td>25</td>
<td>47</td>
<td>48</td>
<td>65</td>
<td>215</td>
</tr>
</tbody>
</table>

Sources: CzechInvest, SARIO.

Table 14. Number of Jobs created by CzechInvest and SARIO, 2002-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>CzechInvest</td>
<td>11767</td>
<td>11427</td>
<td>20153</td>
<td>20938</td>
<td>24479</td>
<td>88764</td>
</tr>
<tr>
<td>SARIO</td>
<td>5356</td>
<td>6057</td>
<td>11958</td>
<td>7219</td>
<td>11240</td>
<td>41830</td>
</tr>
</tbody>
</table>

Sources: CzechInvest, SARIO.
Table 15. IPAs' Development Dimension - CzechInvest and SARIO

<table>
<thead>
<tr>
<th>TOOL/PROGRAM</th>
<th>CzechInvest</th>
<th>SARIO</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Backward linkages promotion (1999 - 2007)</strong></td>
<td>Objectives: equipping domestic suppliers with the information and skills to meet foreign investors' requirements Results: 150 SMEs concluded contracts with foreign MNCs worth 4 bil. Czech crowns</td>
<td>Non-existent</td>
</tr>
<tr>
<td><strong>Clusters development (2004 - 2007)</strong></td>
<td>Objectives: supporting regions and business development in the form of regional groupings of mutually related subjects Results: 25 clusters established</td>
<td>Non-existent</td>
</tr>
<tr>
<td><strong>Industrial Zones (Parks) Development (1998 - 2007)</strong></td>
<td>Objectives: supporting development of IZ (land identification, infrastructure building, land development and zone management training) Results: 92 industrial zones realized by CzechInvest, 78% are occupied</td>
<td>Objectives: identification of IP, main coordination of IP development, financial support Results: there are approx. 50 IP in Slovakia, 3 supported by SARIO through state funds, 10 through EU funds</td>
</tr>
<tr>
<td><strong>Operational Program Enterprise and Innovation (2007 - 2013)</strong></td>
<td>Objectives: implementation of 15 aid programs aimed at local enterprise development through: support of business incubators, science &amp; technology parks, innovation and modernization of companies, introduction of R&amp;D results into production and to the market, etc.)</td>
<td>not participating</td>
</tr>
<tr>
<td><strong>Operational Program Industry and Services</strong></td>
<td>not participating</td>
<td>Objectives: implementation of 2 programs aimed at business development through a) support for building and reconstruction of infrastructure, b) assisting SMEs to present on domestic and foreign markets</td>
</tr>
</tbody>
</table>

Sources: CzechInvest, SARIO.
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Figure 1. FDI inflows, global and by groups of economies, 1980-2005 (bil. US$)


Figure 2. UNCTAD Matrix of Inward FDI Performance and Potential


Figure 3. Economic Freedom in the Czech Republic and Slovakia (1995 - 2007)

Source: Based on Heritage Foundation Economic Freedom Index.
Figure 4. Economic Performance of the Czech Republic and Slovakia (1993-2004)

Source: Euromoney Country Ratings.

Figure 5. Development of Political Stability in the Czech Republic and Slovakia (1993 - 2003)

Source: Euromoney Country Ratings.

Figure 6. Political Stability of the Czech and Slovak Republics (1996-2005)

Figure 7. Top 10 recipients of FDI in Europe 2005 (number of investment projects)

Source: European Investment Monitor 2006.

Figure 8. Education structure of population older than 15 years in 2001

Sources: Czech Statistical Office, Slovak Statistical Office.
Figure 9. Comparison of Labor Costs: Germany and Euro area vs CEE countries

Source: SARIO, Why is Slovakia such an Attractive Business Location?, Bratislava, p. 2.

Figure 10. CzechInvest - Foreign Offices

Source: CzechInvest.
Figure 11. CzechInvest Mediated FDI by Country of Origin, 1993-2006 (mil. US$)

Source: CzechInvest.

Figure 12. Japanese FDI in Central Europe (number of investment projects)

Figure 13. Major Functions of Investment Promotion Agencies

<table>
<thead>
<tr>
<th>Function</th>
<th>Objective</th>
<th>Activities</th>
</tr>
</thead>
</table>
| Image Building            | To create the perception of a country as an attractive site for international investment | * advertising  
* PR events  
* mass media campaigns abroad  
* investor forums  
* maintaining relationships with journalists and business partners  
* developing the agency’s website |
| Investment Targeting/ Generation |                                                                 | * identification of potential investors  
* matchmaking  
* direct mailing, telephone campaigns  
* seminars for targeted investors |
| Provision of Investment Services |                                                                 | * information provision  
* "one-stop-shop" registration/approval service  
* sectoral analyses  
* various assistance in obtaining sites, suppliers etc. |
| Post-Investment or Aftercare Services | To assist a foreign investor in maintaining his business in a good standing, facilitating reinvestment decisions in the future | * legal or other advisory support to on-going foreign investment projects  
* dealing with bureaucracy etc. |
| Policy Advocacy           | To improve an investment climate by establishing an effective feedback between a foreign investor and government | * surveys of private sector  
* participation in task forces  
* policy and legal proposals to authorities  
* lobbying |

Source: Piontkivska and Segura.

Figure 14. A Simple Target Selection Process

Source: Charlton and others.
Figure 15. Optimal Targeting Strategy for IPAs

Step 1: Identify and target national strength industries
Step 2: Industry and country analysis to identify future goal industries
Step 3: Identify ‘pathway’ industries which build in capabilities to future goals.

Source: Charlton and others.

Figure 16. FDI Inflow per Capita in the Czech Republic and Slovakia

Figure 17. Inward FDI Stock per Capita (Czech Republic and Slovakia)

Source: based on UNCTAD.

Figure 18. CzechInvest Mediated FDI as a Share of Total FDI Attracted to the Czech Republic

Figure 19. Number of Investment Projects Realized by CzechInvest and SARIO

Source: CzechInvest, SARIO.

Figure 20. CzechInvest and SARIO - Number of Projects by Sector

Figure 21. Structure of CzechInvest Mediated FDI projects (2003)

Source: CzechInvest, Business Support Services in the Czech Republic, p. 2.

Figure 22. Shift in the Structure of Mediated FDI by CzechInvest 1999 and 2006

Source: CzechInvest.

Figure 23. Most Attractive Countries for R&D Investments.

Source: The Economist.
Figure 24. The Most Successful Countries by the Number of R&D Projects Won in Automotive Industry.


Figure 25. Structure of Mediated FDI projects by SARIO, 2002 and 2005.

Source: SARIO; author's own research.
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