Investment Activities of Czech Companies by Means of Foreign Direct Investment and Their Development

Eva Hamplová, Jaroslav Kacetl, Jaroslav Kovárník

Abstract **—** This article deals with investment activities of Czech companies done by means of foreign direct investment (FDI). It focuses on the development of foreign direct investment in the period 2000-2010, compares this type of investment on the international level and subsequently evaluates the foreign direct investment abroad effects on the Czech Republic's balance of payment. One of the most significant facts involved in investing abroad by means of foreign direct investment abroad is a choice of particular economic activities and destinations. This article summarises trends and the development of economic activities and territorial stimuli that Czech companies take into account when establishing or buying companies or their parts, when reinvesting profits or making lending transactions to subsidiaries, associated companies or branches outside the Czech Republic.

Keywords **—** balance of payments, business, business environment, business integration, foreign direct investment (FDI), globalization, transnational corporation.

I. Introduction

FOREIGN direct investment is a frequently discussed theoretical as well as practical topic of international finance. Whereas one group of expert thinks the more of foreign direct investment, the better, other economists are more wary about it [1, 11].

Foundation or acquisition of businesses by means of foreign direct investment reflects the objective of obtaining a lasting interest by a resident from one economy ("direct investor") in an entity resident in an economy other than that of the investor ("direct investment enterprise"). Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated. In addition to shares in equity capital, foreign direct investment covers reinvested earnings and other capital, including lending transactions with a direct investor [3].

The permanent ownership means that a long-term relation between the direct investor and investment – has a significant influence on managing the company, its investment strategy, production and trade policy, as well as the diversification of risks connected with the exchange rate, with the operational and financial results of the company's economy [10].

Foreign investment location decisions are thought to be influenced by a number of country specific variables. Market size and growth are widely associated with investment patterns. Tariff and non-tariff barriers to trade, input costs and geographic proximity affect the economics of direct investment. Legal, political and economic conditions are considered important factors in investment decisions. The host country's similarity to the investing firm's home country has also been hypothesized to affect location decisions [7].

Supranational companies are an ever more important entity in international economic relations. They have great economic significance, and at present they are also the main vehicles of innovation. The supranational corporation category covers the terms "multinational corporation" and "transnational corporation". Multinational corporation is, today, more of a historical term. It is a company that is active in a number of countries, but which maintains its domestic company culture, and sends domestic experts etc. to its branches abroad. With transnational companies (or corporations), the identity of the domestic country disappears, so that it is often not possible to establish where the company originated, and where it has its headquarters [2].

A transnational corporation is, according to the UN Conference on Trade and Development (UNCTAD), considered to be a company that owns, or controls the activity producing added value in more than two countries, and it has an equity capital stake of at least 10 % in a different country. The parent company expands by means of foreign direct investment into another country; where it creates foreign affiliations. It does so by means of mergers and acquisitions. That means that it acquires shares in already established companies, or it sets up new companies (that is called investing in a greenfield). Foreign affiliations include: foreign branches, subsidiary enterprises and associate enterprises. The parent company owns a foreign branch, which is an internal part of the company, by itself, or together with another partner. The branch can take the form of a permanent headquarters, or office, of the foreign investor, a mutual company (joint

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venture) with other partners, long-term (exceeding one year) ownership of current assets or real estate. It usually uses the name of the parent company, and its profit is taxed as a part of the profit of the whole company. The subsidiary is an independent economic unit with its own legal personality in which the parent company has more than half of the voting rights. An associate is created in the same way as a subsidiary, but the share of voting right is in the region of 10-50 % [2].

When defining a transnational corporation, actual economic power is not taken into account, so most transnational corporations are of a medium, or small, size. In the same way, not every transnational corporation (including the largest ones) is a global corporation that functions in a larger number of countries around the world or for which its key activities take place abroad [2,9].

The main objective of transnational corporation is the maximisation of profits and the achievement of a high rate of return on invested capital, which companies can achieve through expansion into other regions in order to gain better access to the market, and a reduction in costs, or an increase in yield. Sectors with high fixed cost (e. g. as a result of a high level of expenditure on research, or the provision of essential technological equipment) also require a high volume of production, and resulting sales, in order to generate profit. Economies of scale can be implemented, not only in production, but also in marketing, logistics and other activities that facilitate sales. A high rate of capital intensive production, increased technological progress (which reduces the effects of distance), and the similarity of consumer behaviour in the main centres of the global economy, are among the main factors of growing international production in terms of transnational corporation [2, 13].

To a greater extent, gaining access to the market motivates the expansion of transnational corporations more than the attainment of lower costs. This trend is mainly valid in developed countries and corresponds with the geographical spread of transnacional corporation activities.

The main focus of activity of transnational corporations is in the service sector (particularly the financial services); and with the increasing price of fuels and raw materials, the investment activity of transnacional corporations in the extraction industries is significantly growing. The greatest concentration of transnational corporations is in the following sectors: banking and insurance service, commerce, telecommunication, mining and oil refining, the automobile, chemical, pharmaceutical, electronics, and food processing industries (particularly the production of beverages, as well as tobacco products) [2, 14].

The percentage of global GDP accounted for by transnational corporations is the measure of their economic strength. The activities of transnational corporations have a number of potential positive, and negative, effects on their mother country, as well as on the host country. Among the main positive effects of transnational corporations for the host economy are provision of scarce resources (capital, management, technology), increase in productivity that can transfer to the domestic sector through a “spill-over” of technical knowledge to other entities, strengthening of the ability to compete in foreign markets as a result of a higher quality of production, lower prices, as well as increased efficiency in production, scope of production and access to companies' broad distributional networks, creation of new job vacancies in this and other adjoining sectors, development of infrastructure in a general sense (transportation, social, communication, energy networks, capital markets, etc.) as well as strengthening of political and economic stability (particularly in developing countries) [2, 9].

However, as transnational corporations' activities increase, their negative effects are more and more emphasised; these effects can be caused by the different objectives of the transnational corporations and the governments of the individual countries. A transnational corporates activity is motivated by profit in the long term (in the short term it can be, for example, efforts to increase the market share, and turnover), whereas a government strives for (ideally) overall economic stability and its development, environmental protection, employee protection, job security, etc. Some transnational corporations, however, use deficiencies in the legislation of the host countries (particularly in the developing world) and behave in their foreign branches in ways they would not be able to in their home country, for ethical, ecological and other reason (e.g. using child labour, or using obsolete technology which has a detrimental effect on the environment). The sudden departure of a transnational corporation as a result of changes in company strategy, or for reasons of adverse company management could also have negative effects. The transfer of production to other countries has an effect on the labour market in the region from which it is departing. A common criticism of the work of transnational corporations is their tendency to optimise tax income. Thanks to transfer prices, in which the branches of one company sell goods amongst themselves, transnational corporations can transfer profit to places with the lowest tax burden [2, 12].

The Czech Republic is another country, where foreign direct investment has been successfully developing for almost twenty years. Czech foreign investment shows a significantly positive trend, even though the volume and trend of foreign investment in the Czech Republic are more important.

II. Problem formulation

The main problem issues of this contribution focus on answering the following questions.

Do Czech subjects (domestic resident) invest into buying assets in the form of foreign direct investment and what is the trend of this type of investment? What is the effect of foreign direct investment on the Czech Republic's balance of payments?

The supplemental analysis of this contribution is a survey of territorial regions into which Czech subjects invest and what lines of business they are interested in.

A. Position of the Czech Republic in international comparison

In terms of foreign direct investment, the Czech Republic belonged to the worst ranked EU countries. This indicator is the ratio between the foreign direct investment abroad and Gross Domestic Product (GDP). It covers investment to the rest of the World.

Since 2000, foreign representation of Czech subjects abroad has risen more than six times, from the original 1.3 % to the current 8.3 % foreign direct investment of GDP (see Tab. I, II). In 2010 the estimate of total foreign direct investment stock equals 304.4 billion CZK, which is 11.56 billion euro[1]. Table I and II imply that concerning the volume of foreign direct investment in GDP in 2009, the Czech Republic ranked 21nd among the 27 EU countries.

In the tables, there are highlighted, due to better intelligibility, only the Czech Republic and those other EU countries that achieved similar foreign direct investment abroad stock in relation to their GDP as of 2009.

According to an official source [6], among the top six countries are Luxembourg (stock 239.8 % of GDP), Ireland (stock 118.8 % of GDP), the Netherlands (stock 115.4 % of GDP), Sweden (stock 82.9 % of GDP), Belgium (stock 75.3 % of GDP) and United Kingdom (stock 74 % on GDP).

Table I: FDI outflow to the rest of the world (stock in % of GDP); 27 EU countries; 2010 was estimated [4, 5]

	2006	2007	2008	2009	Rank	2010
L	97.7	137.5	209	239.8	1.	:
IRL	51.7	53.8	67.4	118.8	2.	:
NL	107.3	111.9	106.6	115.4	3.	:
SWE	62.7	66.8	69.6	82.9	4.	:
B	:	:	155.2	75.3	5.	:
GB	56.6	60.9	62.1	74.0	6.	:
CY	35.4	39.4	52.7	68.2	7.	:
DK	50.9	54.9	57.9	65.0	8.	:
F	46.9	50.9	51.8	58.6	9.	:
FIN	44.1	44.1	45.1	51.4	10.	:
E	33.6	37.5	38.9	41.5	11.	:
A	31.2	37.2	37.8	41.2	12.	:
G	32.2	34.8	34.3	39.3	13.	:
EST	20.4	26.5	29.6	33.2	14.	:
P	25.6	27.3	26.3	27.8	15.	:
I	19.4	22.8	23.4	26.4	16.	:
MT	**17**	**14.8**	**13.3**	**18.5**	**17.**	**:**
HU	**10.5**	**11.7**	**13.3**	**17.3**	**18.**	**:**
SI	**11.1**	**14.2**	**15.2**	**15.5**	**19.**	**:**
GR	**8.1**	**10.2**	**11.4**	**11.7**	**20.**	**:**
CZ	**3.4**	**4.6**	**6.1**	**7.4**	**21.**	**8.3**
PL	**4**	**4.6**	**4.7**	**6.6**	**22.**	**:**
LT	**3.3**	**3.8**	**4.4**	**6.1**	**23.**	**:**
SK	**2.3**	**2.3**	**3.3**	**4.1**	**24.**	**:**
LV	2.3	3.0	3.2	3.3	25.	:
BG	1.3	1.8	2.9	2.7	26.	:
RO	0.7	0.7	0.7	0.8	27.	:

Source: [6]; own processing

Table II: FDI outflow to the rest of the world (stock in % of GDP); 27 EU countries

	2000	2001	2002	2003	2004	2005
L	38.7	44.3	63.6	65.4	74.6	94.2
IRL	28.6	39.5	43.0	41.5	52.5	54.4
NL	78.5	84.2	81.3	86.9	87.8	101.7
SWE	49.6	55.7	52.1	52.8	54.4	59.3
B	:	:	:	:	:	:
GB	60.2	60.0	55.4	57.3	51.7	55.4
CY	:	:	10.9	13.8	18.4	22.7
DK	41.0	44.4	40.1	38.5	47.1	52.8
F	33.2	38.6	36.1	37.8	39.6	45.1
FIN	42.4	42.6	42.5	41.4	41.0	44.1
E	28.6	31.9	30.6	29.6	32.4	28.5
A	12.9	15.2	18.5	19.8	:	22.8
G	25.2	29.9	28.0	27.0	26.4	30.0
EST	4.5	7.2	8.3	9.4	10.7	14.7
P	16.7	18.8	14.5	19.1	21.7	23.1
I	16.3	16.6	14.3	14.2	14.8	17.4
MT	**5.2**	**6.9**	**5.9**	**16.6**	**18.3**	**17.4**
HU	**:**	**3**	**2.9**	**3.4**	**5.3**	**7.5**
SI	**:**	**5.1**	**5.8**	**7.2**	**8.2**	**9.7**
GR	**:**	**5.1**	**5.5**	**5.7**	**5.4**	**5.8**
CZ	**1.3**	**2**	**1.7**	**2.2**	**3.1**	**3.1**
PL	**0.6**	**0.6**	**0.7**	**0.9**	**1.2**	**2.2**
LT	**0.3**	**0.4**	**0.4**	**0.6**	**1.7**	**2.9**
SK	**1.8**	**2.3**	**2**	**2.2**	**1.8**	**1.3**
LV	0.3	0.5	0.6	0.9	1.6	1.8
BG	:	:	:	0.2	0.4	0.4
RO	:	:	:	:	:	0.2

Source: [6]; own processing

[1] FDI abroad stock for the year of 2010 is calculated by means of the recommended guidelines of the Czech National Bank. For the approximate calculation of preliminary state of FDI abroad, there were added up the final data representing the state as of the end of 2009 and the flow preliminary data of 2010 [4].

B. FDI development of Czech Subjects

The evaluation of foreign direct investment trends from 2000 to 2010 (see Tab. III, IV) shows that the Czech Republic's annual foreign direct investment growth amounts to 0.66 % from GDP. It is a balanced, very low rate of growth in the period under consideration.

The other half of the monitored period shows a higher growth rate and the year of 2008 is the strongest in the whole monitored period (the flow was 2.0 % of GDP). From the value of foreign direct investment outflow abroad in 2010 it is possible to infer that the situation in the Czech economy is stable.

Table III: FDI outflow to the rest of the world (flow in % of GDP); 27 EU countries; average index of growth (AIG)

	2006	2007	2008	2009	2010	AIG
L	269.0	518.3	229.0	420.7	236.3	349.98
IRL	6.9	8.2	7.2	10.8	8.0	7.00
NL	9.6	7.1	7.7	3.6	4.1	9.56
SWE	6.7	8.1	6.5	7.8	6.6	7.17
B	12.7	17.5	4.1	-11.4	6.7	7.21
GB	3.5	11.3	6.9	1.5	1.1	5.28
CY	4.8	5.7	16.4	21.5	18.2	8.00
DK	3.0	6.6	4.1	2.2	1.0	5.22
F	4.9	6.3	5.6	5.6	4.2	0.56
FIN	2.3	2.9	3.4	1.6	1.7	4.00
E	8.4	9.5	4.7	0.6	1.6	0.52
A	4.2	10.5	7.1	1.7	2.9	3.94
G	4.1	4.9	3.7	1.8	3.2	2.48
EST	6.6	8.1	4.7	8.0	2.0	4.03
P	3.6	2.4	1.1	0.6	-3.8	2.28
I	2.3	4.3	2.9	1.9	1.1	1.91
MT	**0.5**	**0.1**	**3.4**	**1.4**	**1.0**	**1.67**
HU	**3.4**	**2.6**	**2**	**1.9**	**0.6**	**1.63**
SI	**2.4**	**4.1**	**2.5**	**0.3**	**0.4**	**1.69**
GR	**1.5**	**1.7**	**0.7**	**0.6**	**0.4**	**0.90**
CZ	**1**	**0.9**	**2**	**0.7**	**0.9**	**0.66**
PL	**2.6**	**1.3**	**0.8**	**1.2**	**1,0**	**0.78**
LT	**1**	**1.5**	**0.7**	**0.6**	**0,4**	**0.65**
SK	**0.9**	**0.8**	**0.6**	**0.5**	**0,4**	**0.41**
LV	0.9	1.3	0.7	-0.2	0.1	0.46
BG	0.5	0.7	1.4	-0.3	0.5	0.35
RO	0.3	0.2	0.1	-0.1	0.1	0.06

Source: [6]; own processing

Concerning the dynamics of foreign direct investment outflow abroad in relation to GDP of all 27 EU countries, the Czech Republic ranked around the twentieth place in 2010 (its AIG was 0.66 %). The dynamics of foreign direct investment outflow abroad in relation to GDP of the EU countries is documented in Tab. III and IV. Once more, there are highlighted, due to better intelligibility, only the Czech Republic and those other EU countries that achieved similar foreign direct investment abroad stock in relation to their GDP as of 2009. For example, Slovakia (a neighbouring country and comparable economy) with the average AIG index of growth (see Tab. III) of 0.41 % ranks very low. Only Bulgaria (AIG 0.35 %) and Romania (AIG 0.06%) rank lower.

When evaluated according to the average index of growth between 2000 and 2010, out of the 27 EU countries only Luxemburg reached extreme AIG value of 350 %. Other 26 countries reached on average less than 10 % of the year-to-year foreign direct investment growth in relation to GDP.

Table IV: FDI outflow to the rest of the world (flow in % of GDP); 27 EU countries; average index of growth (AIG)

	2000	2001	2002	2003	2004	2005
L	:	:	557.3	341.8	246.5	330.9
IRL	4.8	3.9	6.9	3.5	9.7	7.1
NL	19.6	12.6	7.3	8.2	4.8	20.6
SWE	12.9	2.8	:	6.7	6.1	7.5
B	:	:	4.9	12.3	9.4	8.7
GB	15.8	4.0	3.1	3.3	4.1	3.5
CY	1.9	2.6	4.9	4.3	4.4	3.3
DK	17.8	7.9	3.6	-0.3	:	6.3
F	13.2	6.9	3.5	3.0	2.8	5.4
FIN	19.7	6.7	5.5	-1.4	-0.6	2.2
E	10.0	5.4	4.8	3.2	5.8	3.7
A	3.0	1.6	2.8	2.8	2.9	3.8
G	3.0	2.1	0.9	0.2	0.7	2.7
EST	1.1	3.2	1.8	1.6	2.2	5.0
P	6.9	5.2	-0.1	4.1	4.0	1.1
I	1.1	1.9	1.4	0.6	1.1	2.4
MT	**0.7**	**0.6**	**-0.1**	**11**	**0.1**	**-0.3**
HU	**1.2**	**0.7**	**0.4**	**2**	**1.1**	**2**
SI	**:**	**1.3**	**0.8**	**1.8**	**1.4**	**1.9**
GR	**1.7**	**0.5**	**:**	**:**	**0.4**	**0.6**
CZ	**0.1**	**0.3**	**0.3**	**0.2**	**0.9**	**0**
PL	**0**	**0**	**0.1**	**0.1**	**0.4**	**1.1**
LT	**0**	**0.1**	**0.1**	**0.2**	**1.2**	**1.3**
SK	**0.1**	**0.3**	**0**	**0.7**	**-0.1**	**0.3**
LV	0.1	0.2	0.0	0.4	0.8	0.8
BG	0.0	0.1	0.2	0.1	-0.8	1.1
RO	0.0	0.0	0.0	:	:	0.0

Source: [6]; own processing

Czech subjects invest abroad in the company stockholders' equity. They either establish a new enterprise (subsidiary) or buy controlling interests. The created profit is re-invested and thus increases the value of foreign direct investment abroad. It significantly participates in transferring the capital and loans to companies in the group.

In 2010, as much as 40 % of foreign direct investment abroad were lending transactions, 40 % of foreign direct investment abroad were reinvested earnings and just 20 % of foreign direct investment abroad was new equity capital (see Tab. VI). The situation was completely different in 2008.

Then, reinvested earnings constitute about 75 % of foreign direct investment abroad and 25 % foreign direct investment abroad was new equity capital. In 2006, reinvested earnings constituted circa 35 % of foreign direct investment abroad and 65 % of foreign direct investment abroad was new equity capital (see Tab. VI).

The above-mentioned figures suggest that Czech subjects tend to establish new companies abroad less and less frequently but their investment activities aim at reinvesting earnings or – as it was in 2010, they aim at making lending transactions as direct investors.

Extending foreign direct investment abroad stock by means of reinvested earnings has two significant economic reasons. Tax effects are the first and for the Czech Republic the most important reason. Using tax effects by means of "tax havens" is very popular and companies are extremely interested in establishing their enterprises abroad only for this reason.

The other reason is non-debt financing of investment activities abroad. That is extending entrepreneurial activities, production and services in chosen lines of business within using external sources of finance.

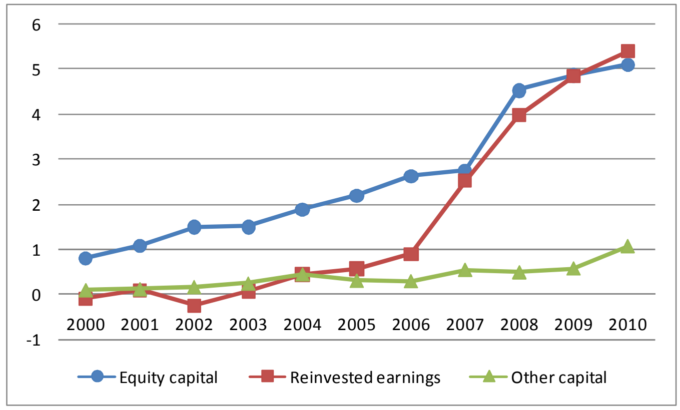
Extending foreign direct investment abroad stock by means of lending transactions with a direct investor is only of temporary nature. It is a classical debt, which has to be paid back. It only depends on in how long time. Table V suggests that the other capital is currently insignificant in the total foreign direct investment abroad stock. However, if Czech foreign direct investment abroad stock rises for this reason, the situation might change.

Table V: Czech FDI abroad stock in relation to the rest of the world in billions of euro and the share of its components (in %) in individual years between 2000–2010 (2010 was estimated)

Year	Equity capital		Reinvested earnings		Other capital		Total
							100%
2010	5.098	44%	5.388	47%	1.075	9%	11.56
2009	4.866	47%	4.834	47%	0.575	6%	10.275
2008	4.533	50%	3.981	44%	0.489	5%	9.002
2007	2.741	47%	2.527	43%	0.543	9%	5.811
2006	2.615	69%	0.904	24%	0.291	8%	3.81
2005	2.188	71%	0.572	19%	0.3	10%	3.061
2004	1.877	68%	0.443	16%	0.441	16%	2.76
2003	1.497	83%	0.075	4%	0.235	13%	1.808
2002	1.489	106%	-0.24	-17%	0.156	11%	1.405
2001	1.085	84%	0.092	7%	0.111	9%	1.288
2000	0.801	101%	-0.094	-12%	0.088	11%	0.795

Source: [3]; own processing

Figure 1: Development of Czech FDI abroad stock and its components in billions of euro



Source: [3]; own processing

Table VI: Czech FDI abroad flow in relation to the rest of the world in billions of euro and the share of its components (in %) in individual years between 2000–2010

Year	Equity capital		Reinvested earnings		Other capital		Total
							100%
2010	0.232	18%	0.555	43%	0.497	39%	1.284
2009	0.266	39%	0.337	49%	0.082	12%	0.685
2008	0.688	23%	2.333	79%	-0.055	-2%	2.965
2007	0.211	18%	0.738	62%	0.238	20%	1.188
2006	0.790	67%	0.408	35%	-0.026	-2%	1.172
2005	0.275	-2350%	-0.128	1093%	-0.159	1357%	-0.012
2004	0.368	45%	0.274	33%	0.182	22%	0.824
2003	-0.011	-6%	0.109	60%	0.085	46%	0.183
2002	0.257	117%	-0.082	-37%	0.046	21%	0.221
2001	0.103	56%	0.069	37%	0.013	7%	0.184
2000	0.055	119%	-0.02	-43%	0.012	25%	0.047

C. Effects of FDI outflow on balance of payments

In the period under consideration, as it is reflected in Figure 2, there is only one year with an active balance of payments. The effects linked to foreign investment result in surpluses on the current as well as financial accounts of balance of payments only in 2005. It is only an exception and the reason for that cannot be seen only in higher repatriated profits (the value of received dividends was in 2005 circa 14 times higher than in 2004 and 4 times higher than in 2006 – see Tab. VII), but also in received lending transactions from a direct investor. It is a unique situation when a direct investor received in the given period a higher amount of lending transactions than they provided themselves. The year of 2005 is in a sense a breaking point. Total absolute increases of received dividends in individual years (2005-2010) are no more in millions of euro (as they were between 2000 – 2004) but in hundreds of millions of euro (see Tab. VII).

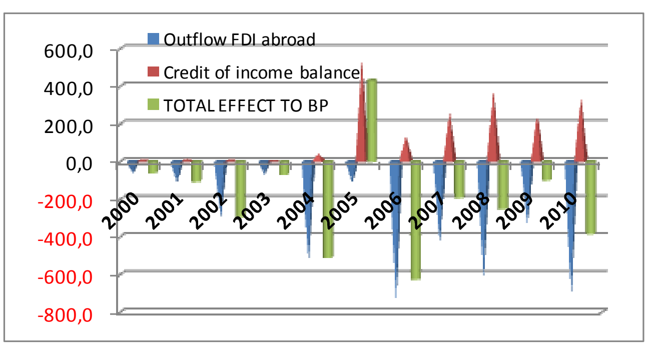
The effects of the balance of payments are overall negative, i.e. negative financial account is not covered with positive credit items of the current account (in the section of balance of payments, which is called “credit of income balance”). Foreign direct investment pumps more financial resources out of the Czech economy than into it. Negative effects on balance of payments are not a serious problem if we take into account total sums as they have fluctuated since 2006. They were in millions of euro in 2006 (- 626.3), in 2007 (- 192.4), in 2008 (- 251.8), in 2009 (- 97.2) and in 2010 (-385.9).

Table VII: Analysis of credit of income balance and its components in billions of euro in individual years between 2000–2010

Year	Dividens	Reinvested earnings	Interest	Total
				100%
2010	0.340	0.555	0.0028	0.8977
2009	0.248	0.337	0.0026	0.5874
2008	0.377	2.333	0.0038	2.7131
2007	0.255	0.738	0.0023	0.9953
2006	0.133	0.408	0.0049	0.5456
2005	0.539	-0.128	0.0081	0.4188
2004	0.037	0.274	0.0016	0.3131
2003	0.002	0.109	0.0041	0.1149
2002	0.006	-0.082	0.0018	-0.0743
2001	0.004	0.069	0.0049	0.0779
2000	0.004	-0.02	0.0044	-0.0117

Source: [3]; own processing

Figure 2: The analysis of total effects of FDI abroad on the balance of payments in relation to the financial account and the current account in million of euro



Source: [3]; own processing

D. *FDI abroad by geographical zone*

The analysis of regions where Czech subjects allocate their foreign direct investment implies that a large majority of them invested in the period under consideration (i.e. 2000–2010) in Europe (Table VIII, IX). In the first half of the period they also invested in the Americas and Asia, namely in the Virgin Islands and the United Arab Emirates.

In Europe, the most significant country for allocating Czech foreign direct investment is Slovakia. It is understandable as it is a neighbouring country and a very important market with similar company culture. There is an advantage of low transfer costs and almost no language barrier. In 2010, 15 % of Czech residents' foreign direct investment was allocated in Slovakia. The share of direct investment allocated in Slovakia between the years of 2000–2010 was falling but their absolute value was rising. During the ten years it was from 239 million euro to 1,720 million euro, i.e. 6 times. The main part of the Czech stock of direct investment in Slovakia is equity capital (58 %, i.e. 998 million euro). Reinvested earnings equal 37 %, or 636 million euro and other capital makes 5 %, which is 86 million euro.

Table VIII: Analysis of Direct investment abroad in billions of euro and percentage (2000–2005) by geographical zone

	2000		2001		2002		2003		2004		2005	
TOTAL WORLD	**0.8**	**100%**	**1.3**	**100%**	**1.4**	**100%**	**1.8**	**100%**	**2.8**	**100%**	**3.1**	**100%**
EUROPE	**0.7**	**84%**	**0.9**	**69%**	**1.3**	**92%**	**1.6**	**90%**	**2.4**	**85%**	**2.6**	**85%**
Netherlands	0.0	0%	0.0	3%	0.1	4%	0.3	14%	0.3	11%	0.6	20%
Slovakia	0.2	30%	0.3	24%	0.5	36%	0.5	30%	0.6	22%	0.8	25%
Romania	0.0	0%	0.0	0%	0.0	0%	0.0	0%	0.0	0%	0.1	2%
Cyprus	0.0	4%	0.0	1%	0.2	14%	0.2	12%	0.3	11%	0.1	3%
Bulgaria	0.0	0%	0.0	0%	0.0	0%	0.0	0%	0.2	8%	0.1	4%
AFRICA	**0.0**	**0%**	**0.0**	**0%**	**0.0**	**0%**	**0.0**	**0%**	**0.0**	**0%**	**0.0**	**0%**
AMERICA	**0.1**	**10%**	**0.1**	**10%**	**0.0**	**3%**	**0.1**	**5%**	**0.1**	**4%**	**0.2**	**6%**
ASIA	**0.1**	**6%**	**0.3**	**20%**	**0.1**	**4%**	**0.1**	**5%**	**0.3**	**10%**	**0.3**	**10%**

Source: [3]; own processing

Table IX: Analysis of Direct investment abroad in billions of euro and percentage (2006–2010) by geographical zone

	2006		2007		2008		2009		2010	
TOTAL WORLD	**3.8**	**100%**	**5.8**	**100%**	**9.00**	**100%**	**10.28**	**100%**	**11.56**	**100%**
EUROPE	**3.7**	**97%**	**5.7**	**98%**	**8.90**	**99%**	**10.18**	**99%**	**11.41**	**99%**
Netherland	0.83	22%	2.0	34%	3.91	43%	4.21	41%	5.31	46%
Slovakia	1.21	32%	1.32	23%	1.49	17%	1.56	15%	1.72	15%
Romania	0.02	1%	0.27	5%	0.46	5%	0.98	10%	0.87	8%
Cyprus	0.11	3%	0.43	7%	1.03	11%	0.93	9%	0.82	7%
Bulgaria	0.38	10%	0.47	8%	0.52	6%	0.50	5%	0.56	5%
AFRICA	**0.0**	**0%**	**0.0**	**0%**	**0.0**	**0%**	**0.0**	**0%**	**0.02**	**0%**
AMERICA	**0.09**	**2%**	**0.07**	**1%**	**0.03**	**0%**	**0.01**	**0%**	**0.02**	**0%**
ASIA	**0.04**	**1%**	**0.05**	**1%**	**0.06**	**1%**	**0.09**	**1%**	**0.15**	**1%**

Source: [3]; own processing

Since 2005, another important foreign direct investment destination has been the Netherlands. In 2010, 46 % of Czech residents' foreign direct investment was allocated in the Netherlands. Between the years of 2000–2004 direct investment to the Netherlands changed from 0.2 million euro to 316.5 million euro. Between the years of 2005–2010 they changed from 627 million euro to 5.311 million euro, i.e. 7.5 times. The main part of the Czech stock of direct investment in the Netherlands consists of reinvested earnings with 64 %, i.e. 3.400 million euro. Another 22 %, i.e. 1.168 million euro are represented by equity capital and other capital makes 13 % of lending transactions, i.e. 690 million euro. In case of the Netherlands the reason for Czech subjects' investment is clear as the Netherlands, together with Cyprus and Luxemburg, belongs to tax havens. Czech entrepreneurs look for potential tax reliefs and establish new companies in order to receive tax allowances.

In the recent years (2007–2010), the interest of Czech subjects also aims at countries like Romania, Cyprus and Bulgaria. Table IX implies that these countries represent some 8% – 5 % of total foreign direct investment abroad.

E. FDI abroad seen by means of economic activities

Concerning foreign investment, economic sectors that Czech subjects are in the long-term interested in can be summarized in the following way (see Table X, XI).

Table X: The analysis of direct investment abroad in billions of euro and percentage (2000–2005) seen by means of economic activities:

1. Agriculture, Forestry and Fishing; 2. Mining and Quarrying; 3. Manufacturing; 4. Electricity, Gas and Water; 5. Construction; 6. Total Services; 6a. Financial Intermediation; 6b. Real Estate and Business Activities; 6c. Trade and Repairs

	2000		2001		2002		2003		2004		2005	
Contens	**0.795**	**100%**	**1.288**	**100%**	**1.405**	**100%**	**1.808**	**100%**	**2.760**	**100%**	**3.061**	**100%**
1.	**0.003**	**0%**	**0.000**	**0%**	**0.000**	**0%**	**0.000**	**0%**	**0.000**	**0%**	**0.000**	**0%**
2.	**0.000**	**0%**	**0.002**	**0%**	**0.006**	**0%**	**0.032**	**2%**	**0.051**	**2%**	**0.069**	**2%**
3.	**0.106**	**13%**	**0.130**	**10%**	**0.247**	**18%**	**0.261**	**14%**	**0.343**	**12%**	**0.269**	**9%**
4.	**0.000**	**0%**	**0.000**	**0%**	**0.000**	**0%**	**0.002**	**0%**	**0.232**	**8%**	**0.180**	**6%**
5.	**0.007**	**1%**	**0.008**	**1%**	**0.012**	**1%**	**0.030**	**2%**	**0.042**	**2%**	**0.048**	**2%**
6.	**0.679**	**85%**	**1.147**	**89%**	**1.139**	**81%**	**1.482**	**82%**	**2.093**	**76%**	**2.494**	**81%**
6a.	0.326	41%	0.499	39%	0.805	57%	0.952	53%	1.118	40%	1.265	41%
6b.	0.055	7%	0.150	12%	0.076	5%	0.199	11%	0.363	13%	0.324	11%
6c.	0.239	30%	0.411	32%	0.218	16%	0.232	13%	0.528	19%	0.71	23%

In the whole period under consideration (2000–2010), a large majority (i.e. 60 – 89 %) of economic activities are services. In particular, three type of services. The biggest share belonged in the first half of the periods to financial intermediation. Czech subjects established new enterprises, bought out controlling interests in foreign companies or reinvested their profits in companies specialized in financial and insurance intermediation.

Since 2006 the share of these activities has been decreasing, whereas the significance of real estate and business has been growing. In 2010, the economic activity of financial intermediation equalled 6 % of the total stock of foreign direct investment abroad, real estate and business 47 %, and trade and repairs 7 %. Companies invested in trade and repairs significant sums mainly at the end of 2000 and beginning of 2001. In the following period the investment stayed more or less at the same level.

Table XI: The analysis of direct investment abroad in billions of euro and percentage (2006–2010) seen by means of economic activities:

1. Agriculture, Forestry and Fishing; 2. Mining and Quarrying; 3. Manufacturing; 4. Electricity, Gas and Water; 5. Construction; 6. Total Services; 6a. Financial Intermediation; 6b. Real Estate and Business Activities; 6c. Trade and Repairs

	2006		2007		2008		2009		2010	
Contens	**3.810**	**100%**	**5.811**	**100%**	**9.002**	**100%**	**10.275**	**100%**	**11.560**	**100%**
1.	**0.011**	**0%**	**0.008**	**0%**	**0.000**	**0%**	**0.000**	**0%**	**0.002**	**0%**
2.	**0.068**	**2%**	**0.073**	**1%**	**0.050**	**1%**	**0.049**	**0%**	**0.060**	**1%**
3.	**0.759**	**20%**	**0.726**	**12%**	**0.948**	**11%**	**0.892**	**9%**	**0.873**	**8%**
4.	**0.356**	**9%**	**1.061**	**18%**	**1.113**	**12%**	**1.571**	**15%**	**2.432**	**21%**
5.	**0.065**	**2%**	**0.080**	**1%**	**0.226**	**3%**	**0.000**	**0%**	**0.019**	**0%**
6.	**2.551**	**67%**	**3.863**	**66%**	**6.666**	**74%**	**7.262**	**71%**	**7.679**	**66%**
6a.	0.909	24%	0.824	14%	0.654	7%	0.665	6%	0.723	6%
6b.	0.881	23%	2.180	38%	5.147	57%	5.400	53%	5.488	47%
6c.	0.489	13%	0.566	10%	0.565	6%	0.758	7%	0.753	7%

Source: [3]; own processing

Except services, Czech residents invested into manufacturing industry. In the whole period in consideration, the average stock of foreign direct investment in this economic activity was 12 %. In 2010 it was 21 %, which equalled the total amount of 2,432 million euro. The total stock of foreign direct investment abroad amounted to 11,560.40 million euro in 2010.

III. CONCLUSION

The trend of Czech foreign direct investment development abroad between the years of 2000–2010 suggests the way how Czech subjects determined their financial strategies and possibilities. The total amount of invested financial resources increased between the years of 2000 and 2010 by 10.765 million euro. In 2010 it represented 13.54 times as many financial resources invested abroad as in the year of 2000.

Nevertheless, from the European or even global point of view it represents only tiny investment activities of this type – foreign direct investment abroad. This judgement is based on the assessment of percentage of foreign direct investment abroad in GDP (Table I). However, the percentage of foreign direct investment abroad in GDP is rising all the time, which suggests that the interest of Czech subjects in foreign investment is increasing not only when it comes to establishing new companies, buying controlling interests of foreign companies, but also when it comes to creating and reinvesting profit in foreign companies.

This trend appears to be particularly significant in the last five years (2005–2010). It concerns reinvested profit which is not pumped out of the host countries but has been repatriated in the Czech Republic. This fact has a negative impact on the Czech Republic's balance of payments as it decreases its total balance.

As far as the investment is concerned, it is attractive to domestic subjects to reinvest the created profit in the host countries and thus valorise the invested financial resources in an intensive form, i.e. by self-financing.

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