

# THE FOREIGN DIRECT INVESTMENTS IN THE USTI REGION: THEORY, ACTORS AND SPACE DIFFERENTIATION

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## Methodological Basis

The foreign direct investment (FDI) are one of the key indicators. The success of the economic transformation in transitive economy is measured according to these indicators in recent years. On the macroeconomic level FDI are also analysed regarding their structure and their importance to the Czech economy, e.g. Bradshaw [3], Dawson [6], Munzi [16], Zamrazilová [33] or specific branches - Pickles, Smith [21], Pavlínek [18], eventually ownership relations that was analysed by Srholec [27].

The aim of this report is to analyse the effects of FDI on the development of the regional economy on the Usti Region example, focusing on FDI in planned industrial zones. Firstly, the importance of FDI on the theoretical level will be analysed, then the importance of FDI in the regional economy of Usti Region will be reviewed included differences between its counties regarding the localisation of the foreign investors in the industrial zones.

The analysis of FDI regarding the regional development and the regional economy will start from the following research questions. Is the income of FDI a sign of the regions' competitiveness of the Usti Region also in lower ordinal standard? Does the region divergent development processes become evident also in localisation of the foreign investors in the counties of Usti the region as shown in e.g. Hapl [10]? In consequence with the path dependence is there in the counties asymmetric development in the positioning of the foreign investments in different areas?

In the statistic analysis the article uses the database of Czechinvest, Česká národní banka (Czech national bank), Krajského úřadu Ústeckého kraje (Regional Authority of the Usti Region), UNCTAD (United Nations Conference on Trade and Development).

## 1. FDI in the Theoretical and Geographical Contexts

A lot of publications and articles based on the regional research, for example: Turnock [29],

Toušek, Tonev [28], Mallya [15], Young [32] are studying the importance of FDI in the regional economy, its competitiveness and regional development processes. The specific issue is the analysis of the regional attraction for the foreign investors and their localisation decisions, e.g. Jones, Wren [12], Viturka [31], Sojková [25], Spilková [26], Dunning, Gugler [9], or more precisely the impact of the localisation of foreign investments on socioeconomic environments of the particular regions e.g. Dinga [7].

Regarding the transitive economics and the transformation of the regional economic structures we can analyse FDI according to the eclectic theory of J. H. Dunning [8] that is analysing the life cycle of FDI. First there is the income of FDI to the targeting country; when local companies are not able to invest much abroad. The foreign investor doesn't establish any business contacts at the beginning of the transitive economics transformation. There are more reasons for that; poor access to the local information, lower trust towards the local economic environment, the local companies are not able to fulfil the quality, quantity and technology requirements. The main part of the large-lot production is exported to the foreign markets and Massey [13] describes these branches as so-called 'cathedrals in the desert'. Consequently the profit of the investments increases and the company's headquarters reinvest this profit to enlarge the existing branch or to start a new branch. The foreign investors could increase the production and reinvest the part of profit but it would all depend on the attraction of the area. FDI are getting more connected with the local environment, the local companies and other local investors. At this prosperous stage the profit is considerably repatriated and so the quantity of FDI decreases. Together with the economy growth the production costs are rising and that can lead to the closure of the branch and generally, regarding the geography, to the transfer of the capital to the less expensive countries. In the regional economy the determining factor is the level

of integration of FDI with the other actors involved in the development of the region. Retaining FDI is connected with the ability of the external competitiveness of the transitive economics and the level of the agglomeration savings that are connected with the branch activities in the region. The improvement of the production quality of the local companies will increase their export potential. The economic growth then makes these companies consider the location of their investments and to change their views on the investment opportunities from regional to macroregional level. According to Dunning, Narula [17] on the macroeconomic level there is the decrease of FDI emphasised by the decline of investments of the local companies as they invest abroad.

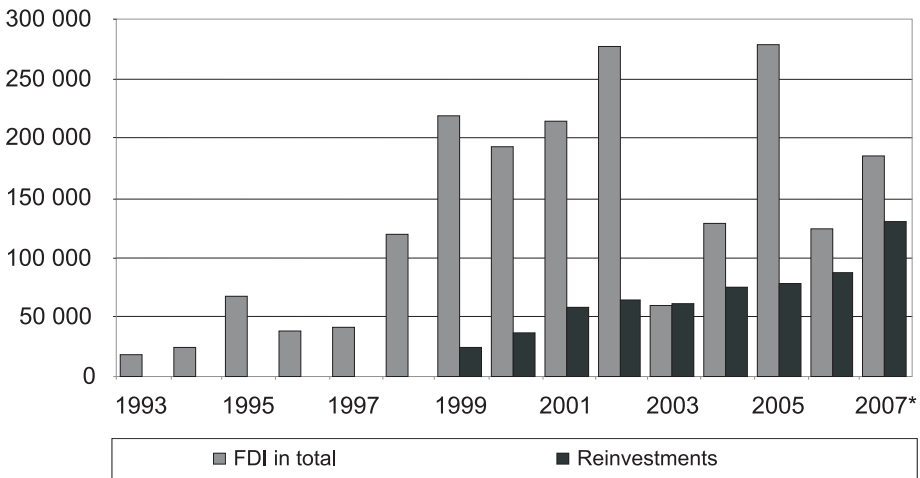
The inflow of FDI to the Czech Republic together with the quantity of the reinvestments is shown on the Fig.1. While the total amount of FDI increases in 1993 - 2002, in the following years the annual inflow of FDI declines and it doesn't reach the figures from the years 1999 - 2002 except in 2005. *Visa versa* the amount of the reinvested profits from FDI began to rise at the end of nineties and it kept that trend until 2007, when it reached its maximum value. The growth of the reinvested profits (included dividends) is proving the success of FDI in the Czech economy.

Based on the FDI and reinvested profits develop-

ment it can be deduced that the Czech economy overcomes the initial period, that was based only on the inflow of FDI from abroad and that it is getting to the period, where the FDI mainly consist of the reinvested profits.

According to Britton [5] the inflow of FDI leads the domestic companies to the integration into the multinational production chains after their initial dependence on each other. Nevertheless Pavlínek [18] and Srholec [27] are warning that the inflow of FDI can lead to the dual economy; when on one side persist the primary original structure of the domestic companies, which are specific with their lower productivity, the higher percentage of less qualified jobs and generally poor competitiveness. On the other side, the FDI are forming a new, separate economic environment, with better competitiveness on the domestic and foreign markets and with the qualities that exceed the host economy. The probability that this duality occurs and also its size depend on how much the FDI is linked with the domestic companies, followed by how big the technological difference is between the domestic and foreign companies and how intensive are the spillover effects that infiltrate into the domestic companies. Zamrazilová [33] also says that the duality in economy can also have negative displacing effects, when the FDI slowly pushes domestic companies away

**Fig.1: The inflow of the direct foreign investments (FDI) and the amount of the reinvested profits in CR in the years 1993 - 2007 (in mil. CZK)**



\*in 2007 there are the estimate results of ČNB (Czech National Bank)

Source: ČNB, private data

from markets. At the same time the FDI inflow becomes the creative destruction subject in the host economy – the key factor of Schumpeter's concept of economic development [22]. On the one side the old fashioned economic structures and uncompetitiveness companies are substituted by new (foreign) subjects, that bring new technologies, institutions, business connections to the regional economy, and they are then able to get into the domestic and foreign markets. Although the duality in the Czech economy is not growing anymore, the efficiency of the integration process of the domestic and foreign companies is poor and branch differentiated according to Zamrazilová [33].

The subjects that use FDI are mainly big multinational corporations that create their own specific in-plant hierarchical system to maximize profit. According to Jessop [11] or Boyer, Saillard [4] the technological and economical development led from Ford's production concept where the main manufacturing corporations were focused only on the large-lot production to the flexible specialised companies (closer specified by e.g. Blažek, Uhlíř [2]). The beginning of the flexible production meant the turning point in the production organisation that became decentralised from one place to the subcontractor company's network that was specialised on the specific products, which were de-concentrated on the regional and macro-regional level. The importance of these subcontractor companies in production network is rising, subcontractors are specialising their production on the components that will be sold to their main customers but also to the rival companies. The production of the final goods is the result of the optimised contractual relations within the hierarchy of multinational corporation and also the important thing is the relationship with the subcontract companies. The guarantee of the long-term growth of the regional economy depends on the decisions of these corporations and according to Massey [13] also on the position of the established branches within the hierarchic organisation of multinational corporation.

The inflow of FDI to the Czech Republic on the regional level is connected with the position of the country and its border countries, where at the beginning, FDI were mainly located depending on the economic development of the border-regions especially on German and Austrian borders,

mention Toušek, Tonev [28]. The next period is connected with the privatisation and raising inflow of FDI; the importance of the horizontal position of the country is going down according to Žižalová [35], the importance of the concentration zones and socioeconomic development of the region for the investments location is growing.

The removals of barriers in the international business, the decline of transport costs and the development logistic systems costs became evident in the changes in the investor's decisions, where to locate their investments from regional to the global level. The reason for that was to gain the positive effects based on the comparative benefits of the individual countries. Regarding to the Czech Republic, which went through the radical change of its geopolitics orientation towards the western markets, the inflow of FDI was encouraged also by the political aim to get into the EU. After finishing privatisation processes in transitive economics, according to Pickles a Smith [21] were the FDI aimed on greenfield investments and on uniting all the foreign actors and acquisitions. The foreign investors aimed their investments on the qualitatively less difficult production that was using imported technology and management innovations.

The higher amount of FDI in comparison with the quantity of domestic investments in abroad doesn't necessarily indicate the attraction of the economical environment of the country; the high developed countries often show negative balance in the summary of the investments incomes and outcomes. In the transitive economies has the positive balance of FDI different meaning than in the developed economies, e.g. the EU 15 shows the negative balance of FDI. This can be explained as the result of the transferring of the production into the new member countries. According to UNCTAD [30] there is the similar situation in e.g. Japan and France. According to Pavlínek [19], the Czech Republic with the other transitive economies are regarding the path dependence strongly determined by the past history, and therefore they need the high amounts of FDI for the economics changeover. On the macroeconomic level the amount of FDI inflow could be considered as the indicator of the transformation process success, the foreign investors' positive perception and the sign of their trust in the stability of the system.

## 2. The Foreign Direct Investments in the Usti Region

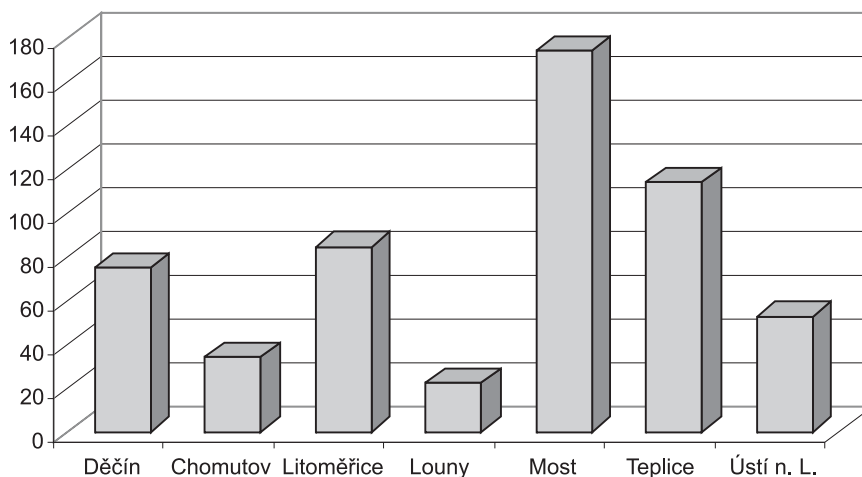
The FDI review in the Usti Region from the geographical perspective is based on the comparison of the position of Usti Region towards the other regions in the context of the total inflow of FDI to the Czech Republic. The additional review point is the examination of the differences on the lower level (between counties). The importance of FDI in the Usti Region is considered from the interregional level – the review of the importance of the Usti Region within the Czech Republic and within the regions – the differences on the lower county-level in the Usti Region.

In the long term the Usti Region belongs to the problematic regions and is behind in many matters (e.g. inconvenient educational, professional and industrial structure, unemployment) in comparison with the average figures taken from the whole Czech Republic, see Blažek, Csank [1]. According to Hampl [10] it belongs, regarding to the transformation, to less successful regions, so based on the macroeconomic data it can be expected, that globally it would be less attractive region for the foreign investors. If we look at the inflow of FDI in the regions, the Usti Region is after Prague and the Central Czech region, on the same level as South Moravian and Moravian-Silesian regions in the total amount of FDI in 2000-2006. When we take the amount of

FDI per 1 resident, the Usti Region is one of the more successful regions, where the standard of FDI is above the average of the Czech Republic regions (except for Prague, where the amount of FDI is roughly the half of the whole budget of FDI that come to CR, and that would markedly effect the comparison figures between the other CR regions.) In the period mentioned above becomes the Usti Region even fifth the most attractive region after Prague, the Central Bohemia Region and the Pilsen Region, when we consider FDI per 1 resident, e.g. in the Moravian-Silesian Region their FDI per 1 resident is half of the value of the Usti Region.

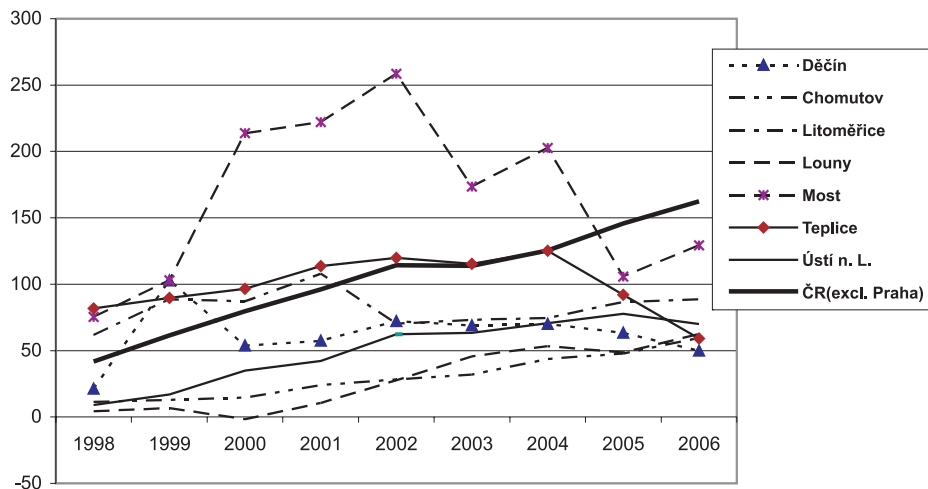
If we look at the inflow of FDI in the counties of the Usti Region (see Fig. 2), the highest amount of FDI in the Usti Region in 1998 - 2006 had Most county, followed by Teplice county, Litoměřice and Děčín counties. Regarding to the amount of FDI per 1 resident in 1998 - 2006 reached the Most county above average figures and in long-terms it was above the average of the figures from the whole Czech Republic (except from Prague), as shown on the Fig. 3. In the overall perspective we can say, that the Usti Region regarding the inflow of FDI was not any different from the other regions (except from Prague), therefore the Usti Region included its counties can't be considered as FDI non-attractive. Although the inflow of FDI is relatively high, bad macroeconomic results of the region confirm its partiality in the regional develop-

**Fig. 2: The total amount of FDI in the Usti Region and its counties in 1998 - 2006**



Source: ČNB, private data

**Fig. 3: The trend of FDI per 1 resident in the Usti Region and its counties in 1998 - 2006 (in thousand CZK)**



Source: CNB, private data.

ment, on which should the number of other private companies and the public institutions participate.

When interpreting attraction of the region for FDI, considering only the mentioned figures would be simplifying, as they don't include any further details about the foreign direct investments and the foreign investors. To judge the quality of FDI is relatively difficult as there are not enough relevant details, however it is possible to look at the partial indicators, e.g. the database of the finished foreign investments (Czechinvest), where we can see the projects of the foreign investors, where this institution participated.

The other quality indicator is the presence of FDI specialised on the research and development innovation process. According to the analyses of innovation potential of the regions in the Czech Republic [20], the Usti Region is one of the least attractive regions in the Czech Republic, with its low grants for the science and research activities, the small number of jobs in science and research, small number of VaV institutions and technological centres, poorly developed high-tech department and innovative businesses. Although the fact, that this weak point in the regional economy is well known in long-term, the number of the regional innovative activities are not growing much, for example Czechinvest didn't support in the category of technological centres any of the projects in the Usti Region.

Considering better competitive positions of the most of the other regions the development of the regional innovative potential based on the grants from the public resources will be very difficult, and that would have the impact on the decisions of the foreign investors when opening new branches or expansion of the existing ones.

### 3. The Foreign Investors in the Industrial Zones in the Usti Region

The review of the foreign investors in the industrial zones comes from the investment projects database, where Czechinvest participated in 1993 - 2008. The realized investment projects were analysed regarding the following indicators – the number of employees, the number of investors, the quantity of investments and the relation between the chosen data, if locating FDI is influenced by the path dependence and if FDI interferes or follows the partial asymmetry in the development of the region economy on the internal-region level.

In relation to the new jobs (Tab. 1), which were created by the foreign investors in the industrial zones, the least jobs were created in Děčín county. That could explain the long-term slow increase of unemployment in the county (at the present, it became the second highest in the region). The most of the new jobs that were created by the

foreign direct investments were in the Louny county, followed by Chomutov and Most counties. The same county order was the outcome of the research, which was comparing the proportion of the new jobs in the industrial zones towards the number of the economically productive county citizens (see Tab.1). This result is partially influenced by the specific situation in Louny county. There was the industrial zone Triangle built as the

To locate the production here has usually specific reasons, which could be – the disposition of the plots, investments encouragements, convenience of the location towards the developed markets that results in cutting down on the transport and logistic costs. The example is Toyota Logistics Services Czech, which according to the facts mentioned above built the industrial zone in Krupka – between Teplice and Ústí nad Labem,

**Tab. 1: The differences in location of the foreign investments between the counties in the Usti Region in 1993 - 2008**

County	Number of investors	VPM	VPM/ EA	Investments (in mil. CZK)	EA / per 1 resident (%)
Děčín	9	544	0,01	3 510	52,8
Chomutov	29(24)*	5 483	0,08	9 239	58,1
Litoměřice	9(7)*	806	0,01	5 235	60,6
Louny	22(19)*	7 210	0,10	15 120	82,4
Most	11	3 031	0,04	3 918	61,7
Teplice	13(11)*	1 347	0,02	15 170	55,2
Ústí n. L.	14(11)*	2 461	0,03	9 556	59,4

\* The figures in brackets mean the number of foreign investors, and the figure without brackets mean the number of the realized investments, it means some companies could create more investment projects, which was often connected with the enlarging of the current industrial capacity and structure. VPM – the number of new jobs, EA- the number of economical active citizens

Source: Czechinvest database, ČSÚ, private calculations.

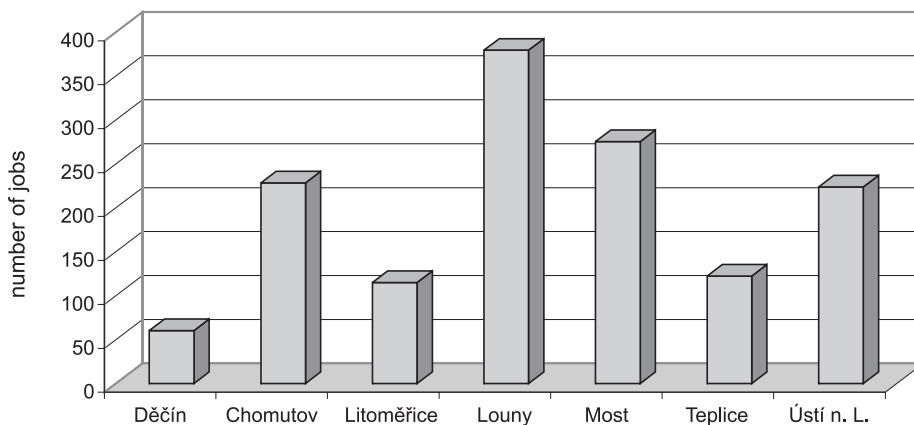
strategic industrial zone in the CR assuming that people would also commute from the neighbouring counties Most and Chomutov.

In the industrial zones in the Usti Region are definitely dominating the foreign investors above the domestic investors. According to Czechinvest database, the most of the investors came to Chomutov county (25) and Louny county (20), and the least of them came to the Děčín county (9) in 1998-2008. According to the industrial structure and the production chains there are investors that are mostly not connected with each other as subcontractors and the produced parts or final production is mostly exported from the region to the final customers abroad. The qualification of the citizens in the Usti Region is not among the competitiveness factors, as the region has in long-term worse educational and qualification structure in comparison with the Czech Republic.

where they established the logistic-service centre for Czech and German markets, assuming it could be enlarged and used for the clients in the Central Europe.

The different perspective on the foreign investors in the Usti Region is on the Fig. 4, where is shown the average number of jobs per 1 investor. It is evident, that the businesses with the biggest production are located in the counties Louny, Most, Chomutov and Ústí nad Labem, and the number of jobs in these counties is more than double comparing with the other counties (in Louny county it is even triple). In the western part of the region are dominant the branches of the multinational companies with more jobs than in the eastern part of the Usti Region. The similar situation - the west-east gradient shows Fig. 5, which shows the average investment per one new job. The lowest amount of investments went to

Fig. 4: The average number of jobs per 1 investor in the region



Source: Czechinvest database, private calculations.

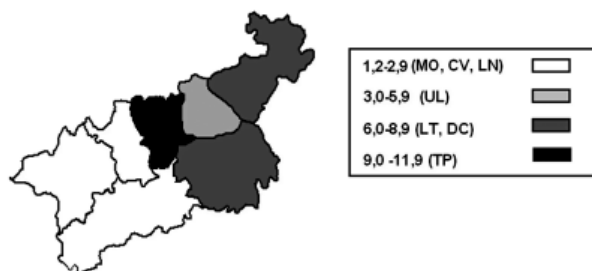
the Most, Louny and Chomutov counties, while in the eastern part of the region there are new jobs, which were much more expensive to create. In the western part of the region are the figures under the nation-wide average, because the average of the Czech Republic is per 1 job the investment is 3,5 mil. Czk. We can assume that the realisation of the capital-intensive projects will be not so endangered by the displacement of FDI into the more attractive countries regarding the costs, in comparison with the jobs that are less demanding on investments.

The differences between the counties within the Usti Region are in each county slightly different in the structure of the realised investments and the job types. The higher impact of the transformation process in the eastern part led to the above the average increases of the unemployment that should be declined by the new jobs in the industrial zones. From this per-

spective the demand for the new jobs makes sense, but the question is, how much should be the quantity more important than the quality. In the western part of the region are the branches of the multinational companies dominant and they are providing more jobs and for the creating of a new job they need lower investments. The development differentiation in the location and the structure of the foreign investments between the regions is markedly influenced by the path dependence – the region specialization in the brown coal mining, the related industries and the specific structure of the human resources, where prequalification and applying for a new job on the present employment market will be difficult.

Reaching the agglomeration advantages is difficult in the Usti Region, because the innovation potential of the region and the connection of the research and development with the practise are very poor in the Czech Republic. Matoušková,

Fig. 5: The average investments (in mil. CZK) per 1 job in the counties in 1998 - 2008



Source: Czechinvest database, private calculations. Source: Czechinvest database, private calculations.

Macháček, Postránecký, Toth [14] are also pointing out, that the branches of the multinational companies regarding their position in the inter-plant hierarchy will be more sensitive to the economic process and they are more endangered by the closure or massive reductions in production.

In the Usti Region we can talk about the partial splittage of the region in the east-west gradient that results from the region specialization (mentioned above) and is still present in the altered form regarding the less qualified jobs and the assembly production. This trend will further negatively influence the regional development processes (especially in the western part of the region) and will poorly encourage the competitiveness of the region in the medium and long term horizon.

Another danger is the presence of the dual economy in the parts of the Usti Region on the lower level. The technological gap between the domestic and the foreign companies can decrease their ability to implement new technologies, to produce the competitiveness products and to develop subcontractor connections with other foreign companies. The concentration of FDI with the lower requirements on the qualifications and the lower investments for creating of the new jobs, would lead to the lower competitiveness of the companies and of the whole region economy.

The risk of outflow of FDI for the inventors in the industrial zones could be eliminated by the complex of the agglomeration savings precautions in the regions, e.g. the development of the region employment market, networking grants and the encouragement of the information transmission based on the sector and inter-sector interactions and Blažek [1] mentions the development of the investors after-care system (after-care programs). According to Smith [24] the future increase of FDI will influence the growth rate of the external savings and the agglomeration effects, and that can further increase the competitiveness of the region. Therefore in these regions there is more important to do the interventionism precautions, which could eliminate the potential danger mentioned above. According to Smejkal [23] the important part will have the positioning and the preference of the regional policy that could influence the decisions of the foreign and domestic investors. In the transformation period dominated the quantitative importance of the FDI, but because of the interest of the long-term increase of

the competitiveness of the region are important qualitative FDI, which inflow should be supported by the public resources.

#### **4. The Regional Development Actors and the Inflow of the Foreign Investments: the Example of the Industrial Zone Triangle**

The genesis of Triangle is a good example of the dimensional analysis of the industrial zone development that influence the inflow and the location of the foreign investments. Based on the qualitative investigations can be designed the formation and development process of the biggest industrial zone in the Usti Region included the number of the actors.

In 2002 government alienated the area of the former military airport to the Usti Region; it was the huge brownfield type area of 364 hectares with the ecological problems (the flight path and a lot of functionally unsuitable buildings). The area is located at the border of the counties Most, Chomutov and Louny in reachable commute distance within 30 minutes from the main housing estate centres of the above counties.

In the industrial zone project preparation were involved several key actors on the regional and nationwide level. The most important matter was to get the statute of the strategic industrial zone in 2002 that needed more intensive government contribution that participated in costs, connected with the revitalisation of the area and its preparation for the investor. The government task was to make a decision for the former military airport transformation to the industrial zone, as the new economically profitable usage of the huge brownfield and to help the new development of the Usti Region. The government grants should lead to the synergetic effect, when the revitalised area would be occupied by the foreign investors. Regarding to the size of the area and new 13-thousand jobs that where planned to create there is the distinctive influence on the employment market in the region and the improvement of the region competitiveness expected. The development of the industrial zone was considered in the different alternatives. The "minimal" model was orientated mainly for the product; the "maximal" model was considering creating the multifunction



urban area that would create something like a Triangle-City [34].

For the development of the Triangle was very important the concern of the self-government of the Usti Region, that moved this project into the most important development priorities of the region. The county council together with Czechinvest started looking for the foreign investors, the region was presented on many domestic and foreign actions and they were looking for the big strategic investor that would be able to occupy the largest part of the prepared area. In the following years several foreign investors were found, e.g. consortium Peugeot-Citroen and especially the consortium Hyundai-Kia, which despite the great effort of many involved subjects of the project and further negotiations with the public administration institutions (the government had approved the investment contract with the consortium Hyundai-Kia) they decided to place their investments to Žilina. The reasons for this strategic decision were following: the less convenient localisation of Triangle – the quality of the traffic infrastructure and the longer distance to Hyundai branch in Nosovice, Moravian-Silesian county. The important matter in it had also the government's big incentive investment together with other infrastructure, tax and social offers from the Žilina self-government.

In 2006-2007 negotiated Czechinvest and the county council of the Usti Region with other investors and consequently the contracts with Hitachi Home Electronics (Czech), Ltd. and IPS Alpha Technology Europe Ltd. that makes LCD televisions were signed. Hitachi created 800 new jobs on the area of 42 hectares and IPS Alpha created one and half thousand new jobs. In the consequence of the economic crises there is the radical change in trend of the industrial zone development. In the beginning of 2009 the both companies employed approx. 4500 people, but in March 2009 Hitachi announced the closure of its branch and IPS Alpha cut down the production and dismissed 400 employees. This trend proves that the global decrement on the automobile market and the criticism of the increase of car dealers in the Czech Republic will also effect the other industrial branches that are not connected with the automobile industry as the result of the economic recession. This example shows that the criticism of the high concentration of the automobile indu-

stry in the Czech Republic is not considering the impact of the economic recession also on the other branches substantial.

## 4.1 The Situation during the Economic Crisis in 2008-9

In the connection with the strategic decisions of the both companies are at the beginning of 2009 getting involved further subjects in the stabilization process and the future development of the industrial zone. The Regional Authority of the Usti Region as the owner of the industrial zone, created the special group consisting of economic and social institution representatives of the Usti Region, employment offices from the counties Most, Chomutov, Louny and Ústí nad Labem and other county's economic chambers, with the main purpose – to minimize the negative impact on the regional employment market. Czechinvest and the public administration institutions carry on searching for the new foreign investors, while the empty place is back on the estate market advertised by the real estate agencies. Although the choice of the foreign investor in the strategic zones must be agreed by the government, the other actors, included regional self-government, consider the development of this industrial zone as the key factor of the region, where the zone is created and participates on the preparation of the area to the construction of the traffic infrastructure (especially the fast highway between Prague and Chomutov) and propagation. There is also promised support from Hitachi, when they declared their involvement to find a new foreign investor.

The development of the industrial zone Triangle, the inflow followed by outflow of FDI can be interpreted in the context of the company field organization according to Massey [13], who points out the importance of the multinational subject branch in the corporation system. The branches with the weaker position (e.g. assembly plants) influenced by the economic problems of the investor or by the economic crisis are more endangered with the production restriction or the shutdown of the branch. In the connection with this fact is important to say, that the investment per 1 job of Hitachi and IPS Alpha was in the interval of 1,2 to 1,4 mil. CZK, and that is one of the lowest investments in the Usti Region made per 1 job (see Fig. 5).

Obtaining new investors for the industrial zone Triangle will be difficult, however the preference of the development of Triangle within the strategic development plans of the Usti Region leads to the long-term activation of actors on the national and region level, that can partially compensate worse quality location factors (e.g. in the transportation and human resources) of the industrial zone Triangle and its background. The revitalisation costs and preparation of the area costs reached 2 billion CZK, and therefore all the government actors have to use those investments from the public sector the most effectively as they can.

## Conclusion

The importance of the inflow of FDI on the national, regional and local levels can be reviewed using different methods. In the long-term the FDI contribute to the Czech economy and creates a new economic environment, to which the domestic companies are slowly integrating also, they are slowly overcoming the technological gap and together with FDI also participate on the growing competitiveness of the national economy. Between the regions there is a significant difference in the inflow of FDI, on one side there is the dominant Prague, followed by the Central Bohemia Region, whereas the Usti Region comparing with the other regions belongs to more attractive regions regarding investments. At the same time, there are not many differences in the inflow of FDI between the regions, regarding the development progress of the regions (except for central Bohemia space.)

The main target of this article was to enrich the existing analyses that were explaining the benefits of FDI for the regional development and the regional analyses on the county level, i.e. monitoring the differences in localisation of FDI in the particular regions. The Usti Region was chosen as the example region, because it was one of two regions, where the successful restructure (in which FDI was one of the important factors) had an extraordinarily challenging position. In the Usti Region there is the most dominant county Most county, and that could lead to the conclusion, that Most is the most attractive area in the Usti Region for the foreign investments. Regarding different qualitative matters there are different conclusions when reviewing FDI. In the amount of FDI inflow the Usti Region is not behind with the other re-

gions, however the problem is in its general low development of the innovative business, research nets and worse educational and professional level of its inhabitants. It is apparent mainly in the lower agglomeration effects that would motivate higher inflow of FDI in high-tech departments or in the technology development. The existence of duality in the economy is connected with the above matter and it could be further enforced by the decrease of innovation activities in the Usti Region (comparing with the other regions) and the increasing, or stable technology gap between the domestic and foreign companies.

The regional divergent development processes were, regarding the localisation of FDI in the counties of Usti Region, confirmed. The structure of the foreign investors in the industrial zones in the Usti Region proves some kind of asymmetry in the socio-economic development of the region. In the western part of the region were the foreign investors establishing branches with more jobs on average and lower investment per 1 job. The larger impact of the transformation process in the western part of the region was connected with its high unemployment which resulted in that the local development activities took as their priority the creation of the new jobs in new industrial zones despite the lower qualities of these new jobs or the acceptance of ecologically more risky operations (e.g. NEMAK company in the county Most). This attitude comes out from the hard and soft localisation factors, in which the eastern part of the Usti Region is behind the western part, e.g. considering the quality of human resources, transport access, the presence of the university. The development differentiation in between the regions considering the localisation and the structure of the foreign investors is therefore partially influenced by the previous socio-economic development of the region, and it consequently creates the regional differentiated conditions for the localisation of FDI in the Usti Region.

The higher risk of the mentioned asymmetric development is in the bigger concentration of the foreign direct investments that are more sensible on the economic changes multiplied by its weaker position in the multinational concern structure. This fact is proved by the example of the industrial zone Triangle, which in the consequence of the economic crisis, lost one foreign investor in April 2009 and another foreign investor radically cut down its production.

Consequently in the quantitative review the FDI inflow cannot be considered as a relevant factor of the competitiveness, as there are differences between the counties of the Usti Region in the amounts of FDI (with dominant Most county) which don't correspond with the overall development of the region. The FDI is a relevant factor when reviewing regional competitiveness only in case, when there are also respected its qualitative parameters considering desirable long-term encouragement of the regional competitive advantage. The FDI inflow was at the beginning supported by the privatization processes and by the basic industrial factors as the price of work, traffic and technical infrastructure, accessibility and the suitability of the new industrial zone area. In the following period agglomeration effects and competitiveness of the regional innovation system will become more important qualitative factors. In the post-transforming period is the importance of the quantitative criteria when reviewing of FDI decreasing in the favour of qualitative criteria, which in the long-term will encourage the competitiveness of the economy on the national and regional level.

This article is written with support of specific university research for at Department of Social Geography and Regional Development, Faculty of Science, Charles University in Prague.

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Doručeno redakci: 7. 6. 2009  
Recenzováno: 23. 7. 2009; 27. 7. 2009  
Schváleno k publikování: 14. 9. 2009

**ABSTRACT****THE FOREIGN DIRECT INVESTMENTS IN THE USTI REGION: THEORY, ACTORS AND SPACE DIFFERENTIATION****Petr Hlaváček**

*The article was focused on the analysis of the direct foreign investments benefits for the development of the region and monitoring the differences in the localisation of the foreign direct investments on the example of the Usti Region and its counties.*

*Between the regions are considerable differences in the inflow of the foreign direct investments, in the Czech Republic. The Usti Region comparing with the rest of the regions in the Czech Republic is except for the Central Bohemia space more attractive for the foreign direct investments, in spite of its poorer success in the transformation process.*

*The regional divergent development processes were regarding the localisation of the direct foreign investments in the counties of the Usti Region proved; the structure of the foreign investors in the industrial zones in the counties of the Usti Region shows some kind of asymmetry in the socio-economic development of the region in the east-west gradient. The differentiation between the regions in the localisation and the structure of the foreign investors is partially influenced by its previous socio-economic development.*

*The higher risk of the asymmetric development within the Usti Region is in the concentration of the direct foreign investments that are more dependent on the economic cycle. This fact proves also the example of the industrial zone Triangle in the western part of the region, where the production that needed lower initial investments was located. These subjects radically cut down or finished its production in relation with the economic crisis.*

*Therefore in future development it would be more important to have qualitative foreign direct investments that encourage the competitiveness of the Usti Region.*

**Key Words:** *Foreign direct investments, industrial zone, regional development, region, transformation, regional economy.*

**JEL Classification:** R11.