

TATANA HORNYCHOVA

University of Economics, Prague, Czech Republic

MILAN DAMBORSKY

University of Economics, Prague, Czech Republic

INVESTMENT INCENTIVES AND RELOCATION TENDENCIES OF LARGE ENTERPRISES IN THE CZECH REPUBLIC

Abstract:

Large enterprises represent a key group for the economy of the Czech Republic. The aim of the study is to assess the relocation tendencies of large enterprises in the Czech Republic and to assess the legitimacy of public support for these companies. The study was prepared in response to the currently debated state aid rules, which significantly change the ratio of the maximum public support for small and medium-sized enterprises and large enterprises. Since 2007, strong pressure can be perceived in the Czech Republic to move business activities abroad. These tendencies are emerging, particularly in the manufacturing industry and are caused by various factors. In addition to the natural market factors, such as rising labor costs and high corporate taxes, there are also other non-market factors including in particular investment incentives, lower standards in social and environmental protection. Relocation tendencies are stronger in case of large (multinational) companies. Therefore the Czech Republic has to compete with other states that implement very generous investment support, regardless of their economic advancement. A number of countries outside the EU (e.g. South East Europe) are currently implementing a very competitive tax policy for large investors, which could be characterized as "dumping". Similarly, this also applies to the sale of land at a discounted price and to subsidy for job creation. This is an important issue in the context of other obligations that EU countries pass on to investors. These include disproportionately tougher legislation on environmental protection and social protection of workers. Investment incentives or any form of state aid therefore work as a tool for equalizing investment conditions in an environment where it is not possible to unify public investment support with countries outside the EU.

Keywords:

large enterprises, Czech Republic, relocation tendencies, investment incentives, state aid