



**Reasonable
Europe**

Czech Presidency
of the Visegrad Group
2019/2020

**Investments
in Poland, Hungary,
Slovakia and the
Czech Republic**

**Trends
Policy
Cooperation**

Summary

Visegrad

Smart

Visegrad

**Investments
in Poland, Hungary,
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**Trends
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We are creating conditions for common growth

The Czech presidency of the Visegrad Group is coming at a time when the entire region is enjoying economic development and growth. The growth forecast for both this year and 2020 is positive for all of the V4 countries. The unemployment rate is at a record low. A new phenomenon, namely foreigners' interest in working in the region, is becoming apparent. The standard of living is rising throughout the region. Like domestic activities and innovations developed in the individual countries, foreign investments are contributing to the current optimistic situation. For the first time in their historic development, the countries can focus on promoting growth instead of on restructuring measures. A characteristic feature of the whole region is the search for a new growth model.

In February of this year, the Czech government adopted a new innovation strategy called The Czech Republic – The Country for the Future, which lays out the vision for domestic economic development until 2030. The Czech Republic's economic growth must be based on the innovation economy and not only on the low costs of domestic

production. It is necessary to foster the global success of companies through support for research, development and innovation.

The Czech Republic has the potential to rank among the innovation leaders and the government's objective is to create the conditions necessary to take advantage of this opportunity. We want public and private investments in research and development to increase significantly. This is aided by some of the already fulfilled priorities of the new innovation strategy, particularly the functional system of deductions for research and development, new programmes aimed at supporting industrial research and the digital transformation of companies, as well as an amendment to the Investment Incentives Act.

One of the important sub-topics on which the Czech Republic intends to focus during its presidency of the Visegrad Group is support for the creation of conditions for the development of smart investments, i.e. investments that aid the region's development. Such investments are those that do not bur-



den the region, but rather develop its potential and contribute to the population's rising standard of living.

Petr Očko

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The interconnectedness of the individual economies is greater in the current era than ever before. The decisions that we make in the Czech Republic will also indirectly affect the investment mood and activities of companies in neighbouring countries. Therefore, it is necessary to engage in dialogue with our natural partners and familiarise ourselves with their views on resolving regional economic problems, while also exchanging experience with the use of individual instruments of investment support and economic policy. Only in this way can we fulfil the economic policy objectives of the individual Visegrad Group member countries.

Current economic development in the V4 countries

The economies of the V4 countries have been doing very well in recent years and rank among the fastest-growing countries of the European Union in terms of the dynamics of economic growth. The EU-28 economy grew by 2.0% in 2018 (without adjustment for seasonal influences), when only the economies of Ireland (8.2%) and Malta (4.9%) grew faster than the V4 countries, with Latvia and Slovenia coming close to the fastest-growing V4 countries, Poland (5.1%) and Hungary (4.9%).

Economic development is similar in many ways among the V4 countries. Their growth slowed in 2016 due to the subsidence of the extraordinary impact of drawing from European funds from the terminating financial outlook of the previous year. In the following period, a considerable recovery occurred due particularly to domestic demand, as investments were again added to steadily rising consumption. Only the Czech Republic did not maintain its rapid pace in 2018, which was primarily due mainly to tension in capacities.

In the Czech Republic, economic growth accelerated from 2.5% in 2016

to 4.4% in 2017. This was due mainly to dynamically rising domestic demand, as improved consumer confidence, supported by rapid income growth and a record labour participation rate, was reflected in higher household consumption. The recovery of investment was apparent particularly in the private sector, as companies carried out their expansions through acquisition of new technologies. Development in 2018 matched the assumptions that the economy had reached the limits of its possibilities. Its performance increased by only 3%, as higher performance under domestic conditions was prevented mainly by a shortage of workers, while the external environment was marked by growing uncertainties. The year-on-year improvement was due to strong domestic demand, especially investment activity, whereas net exports hindered the growth rate. In the first half of this year, the Czech economy grew by 2.7% year on year, which basically corresponds to the estimated annual growth of approximately 2.5%.

Following 2.2% growth in 2016, the Hungarian economy subsequently

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grew by 4.1%. Fiscal policy measures and the favourable financial situation stimulated domestic demand, as did high consumer confidence founded on rapid wage and employment growth. Investments also contributed significantly to higher performance, with renewed drawing from EU funds serving as the main source of their acceleration. In 2018, economic growth accelerated to 4.9%, supported by robust consumption and investment. Favourable development is continuing this year, when its dynamics have exceeded 5%. In addition to domestic demand, the economy also received a significant boost from the external sector, as the automotive industry in particular revived after several weaker quarters. Growth of 4.4% is expected for 2019 as a whole.

Poland maintained consistently strong growth throughout 2017, reaching an annual rate of 4.8%, compared to 3.1% in 2016. Private consumption had a decisive impact and public investment also rose again following the slump in 2016. External sector activity was more pronounced in the second half of the year, though its annual contribu-

tion to growth was essentially neutral. Last year, the Polish economy further accelerated to 5.1%, with domestic demand being the dominant feature. As in the previous year, private consumption this year is supported by rapid wage growth and record high consumer confidence; a strong recovery in the public sector is being reflected in investments. With a slight slowdown in exports and imports, 4.4% growth is expected this year.

The Slovak economy grew slightly by slightly more than 3% in 2016-2017, though the structure of growth differed significantly between those years. Only the development of private and public consumption was stable. Conversely, investment recovered after the slump in 2016, while foreign trade declined following its significant contribution to growth in 2016. Last year, economic growth accelerated to 4.1%, which was due to an investment boom in the automotive industry as well as the implementation of major public infrastructure projects financed from EU funds. Economic growth will probably slow to 3.6% this year, as growth in domestic demand will weaken slightly in terms of both in-

vestment activity and final consumption. Despite increasing trade-related uncertainties, growth should be stimulated by foreign trade, especially in the export-oriented automotive industry.

The dynamic growth of the V4 countries is reflected in the gradual closing of the gap between their performance level and that of developed countries. Domestic GDP per capita reached 79% of the EU average in 2004 and has since risen to 90%, and the Czech Republic has overtaken four countries, ranking 15th in the EU-28. Slovakia and Poland have achieved even faster convergence rates, despite having had a lower starting level than the Czech Republic. Last year, per-capita GDP reached 78% of the EU average in Slovakia (rising from only 57% in 2004) and 71% in Poland (compared to 50% in 2004). Hungary had a lower convergence rate, which at 70% lagged behind Poland in 2018 despite being significant better at the time of EU accession (61%).

The V4 countries' economic growth is based primarily on growth in labour

productivity, though this indicator is also below the EU average. In Slovakia and the Czech Republic, the level of labour productivity was more than 80% of the EU average in 2018, even though in 2004 Slovakia was significantly worse (66.1%) in this respect than the Czech Republic (73.2%). In the monitored period, Poland advanced solidly in terms of labour productivity, rising to 77.5% from 61.7%, while Hungary achieved the weakest result, rising to only 68.9% from 65.3%.

According to the share of sectors in gross value added, the economic structure is practically identical in the V4 countries. In comparison with the EU average, it is mainly characterised by a higher share of industry at the expense of services. The share of industry exceeds 30% in the Czech Republic and oscillates around 26% in the other V4 countries, while in the EU it is only 19.5%. The biggest changes in the structure of the V4 economies occurred during their transformation into market economies and its current form is essentially stable.

Comparison of selected indicators

Source: Eurostat, 2019

Indicator	period	Czech Republic	Hungary	Poland	Slovakia	EU-28
GDP (year-on-year change %)	2018	3.0	4.9	5.1	4.1	2.0
Per-capita GDP (PPS, in %, EU-28=100)	2018	90	70	71	78	100
Labour productivity (in %, EU-28=100)	2018	83.0	68.9	77.5	81.3	100
GVA, share of industry (in %)	2018	30.2	25.9	25.6	25.9	19.5

Investments in the Visegrad Countries – From the threats posed by dependence on manual labour to the challenge of the digital economy

Nearly a quarter of a century ago, car-makers began to discover the Central European region. Many brands were attracted to Poland, Slovakia, Hungary and the Czech Republic mainly by low costs and the abundance of these countries' workforce in comparison with their western neighbours. Though investments were mainly driven by demand from the old European market, the aspect of expansion to new markets cannot be neglected. The region's population of approximately 64 million was hungry for consumption.

The first investments were acquisitions of former state-owned production facilities. Škoda plants were acquired by Volkswagen in the Czech Republic and Slovakia. Fiat bought car production in Poland, Audi acquired unfinished facilities in Győr and Suzuki built a new facility in Esztergom, Hungary.

Manufacturing brought prosperity

In 2000, approximately 1.2 million cars were produced across the Visegrad region. Eighteen years later, the volume

had nearly tripled to 3.3 million cars of 14 brands. Despite understanding the V4 region as institutionally and economically converging, there are clear patterns indicating that current economic development corresponds with differentiations among the individual V4 countries.

The rising volume of automobile production has influenced the structure of all of the economies in the region, as parts makers followed the expansion of their customers. Automotive production has become a profitable business for carmakers themselves, connected firms and, due to rising wages, for local citizens, too. In the region, the automotive boom has helped to develop new automotive suppliers with a global presence such as Brano, Brisk and Mitas in the Czech Republic and ASMET and Boryszew Group in Poland.

Not only carmakers have taken a chance on the new locations on the economic map of Europe. Producers of electronics, especially televisions, household appliances such as refrigerators, washing machines and dishwashers, followed the trend of moving production to

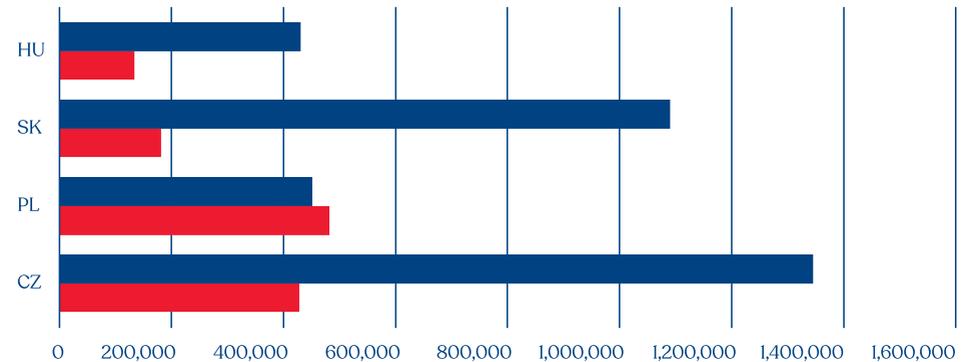
Pavel Chovanec

CzechInvest

Automobile production in the V4 countries

● 2018
● 2000

Source:
OICA, 2019



Visegrad Europe. In electronics, Asian investments started to dominate. The first Japanese investment in the Czech Republic was the Matsushita Group's construction of a TV assembly plant in Plzeň. The region was a very favourable location for electronics manufacturing, as evidenced by the fact that the locally owned Videoton group in Hungary developed into one of the biggest European electronics manufacturers.

In 2018, Electrolux employed approximately 2,700 people in Hunga-

ry and nearly 5,500 in Poland. The South Korean company Samsung employed nearly 1,500 in TV assembly in Hungary and almost 2,000 in Slovakia. Other brands operating in the region include Flex and Videoton in Hungary and Foxconn and Panasonic in the Czech Republic.

However, the early stage transferred productions had not been the state-of-the-art manufacturing facilities, foreign investments had been considered as the best treatment for the countries



lagging behind in technology and productivity and suffering from high unemployment.

Time of crisis

To praise the countries as industrial hubs, the media started to present the Visegrad countries as “Emerging Europe”. New nicknames such as “Factory of Europe”, eventually “New Europe – Manufacturing Powerhouse” or sayings like “Made in Germany with parts from Poland” appeared. Slovakia, with the highest level of per-capita car production, was nicknamed the “European Detroit”. The positive meaning of that moniker was transformed into a warning with the onset of the global crisis in 2009. Car production was severely affected.

The optimistic growth in the region was hit by the economic crisis. The markets of all of the V4 countries faced a new challenge. The circumstances had changed dramatically since the beginning of the 1990s. After twenty years of integration, “new Europe” and “old Europe” were more connected than any single state before. The V4 countries joined the EU in 2004. Slovakia adopted the euro currency in 2009 and to date is the only V4 country to have done so. Hungary was the V4 country most severely affected by the crisis, while Poland merely experienced slowing growth. The situation in Hungary evolved so intensely that the country had to ask for financial aid, which was finally provided by the International Monetary Fund in the volume of EUR 20 billion. At the same time, Daimler was build-

Real GDP per capita in the V4 countries in 2009-2018 (in EUR, growth in %)

Source: Eurostat, 2019

	2009	2011	2013	2015	2017	2018
CZ – Real GDP growth	-5.4	2	-0.5	5.1	4.1	2.6
CZ – Real GDP	14,600	15,200	15,000	16,200	17,200	17,600
PL – Real GDP growth	1.8	5	1.5	3.9	4.8	5.2
PL – Real GDP	9,100	9,900	10,200	10,900	11,800	12,400
SK – Real GDP growth	-5.6	3.4	1.4	4.1	3	4
SK – Real GDP	11,900	12,900	13,200	14,200	15,000	15,600
HU – Real GDP growth	-6.5	1.9	2.4	3.8	4.4	5.1
HU – Real GDP	9,800	10,100	10,200	11,100	11,800	12,500

ing its first non-German European car assembly plant in the Hungarian city of Kecskemet.

While bearing in mind the scope and impact of the problems caused by the crisis, which become a nightmare and headache for economic policymakers,

governments across the region started to focus on budgetary sustainability and spending cuts. Even though they were hit by the crisis, the V4 countries did not face strong austerity measures. However, changes aimed at increasing tax collection were implemented, especially in the areas of the personal income tax and value added tax. To find

the new budgetary sources, the Czech Republic and Hungary launched a new scheme of taxation based on the so-called supra-gross salary, which was a globally unique concept. In order to raise additional tax revenue, the personal income tax was newly calculated based on the gross salary increased by the employer's social-security contribution.

Many of the planned investments involving expansion, particularly those connected with hiring new workers, were halted. Of course, the crisis resulted in an impact on the investor confidence.

Diverse region

Membership in the EU and the ongoing integration had a positive impact on all of the V4 economies. This was due not only to available subsidies for supporting disadvantaged regions and cohesion policy, but also to the newly acquired access to the EU market and especially the German market. The increase in German exports and relat-

ed enlarged purchase orders of components finally pulled the region out of the recession. The crisis revealed vulnerabilities based on the policy of exploiting low costs. At the same time, investors were pushed into restructuring on their old markets and started to search for "the best deal in the east", which comprised a mix of abundant cheap labour and public financial support.

Although the available public support is helpful, it is not the only investment motivation. The regions with the highest support are those suffering from the highest unemployment. Paradoxically, the regions with the lowest support attracted the most investment projects. Nearly 95% of the Visegrad Group's population lives in a region with available investment support.

During the recovery from the financial crisis, convergence with so-called "old Europe" and wage growth become the demanded topics of the economic policy. Investment policies underwent a critical review. In the debates, certain pejorative terms started to

Regional investment aid limits in the V4 countries (in relation to population)

Source:
Author, 2019

	Regional investment aid intensity	Share of Population	Population
Czech Republic	0%	12%	1,280,508
	25%	88%	9,298,312
Slovakia	0%	11%	606,753
	25%	35%	1,862,227
	35%	54%	2,924,657
Hungary	0%	18%	1,750,000
	25%	10%	983,933
	35%	23%	2,304,651
	50%	49%	4,791,901
Poland	10%	5%	1,756,000
	25%	28%	10,928,759
	35%	49%	18,869,239
	50%	18%	6,857,160

appear across the region. The Czech “montovna” (fitting shop) and Polish “przemysł peryferyjny” (peripheral industry) become synonymous for badly paid jobs with low tax revenue. The region thus started to search for a new growth strategy.

The future is coming now

As the region is highly exposed to the automotive industry and carbon intensive economy which is evident in the case of the biggest local companies, it is highly desirable for future growth to clarify the process of the next transformation. This time it is going to be the shift to the green economy connected with renewables, artificial intelligence and data processing. The biggest companies in the region are not only foreign investors, but domestic champions, too.

The shift from manufacturing hub to innovation-oriented economies is associated mainly with the rise of the concept of Industry 4.0, as it was announced in 2011 referring to the new

trend in German structural policy. Not only manufacturing, but also new jobs in development, shared business administration and software development have become the focal point of structural policy, as citizens search for such jobs on the labour market.

It is necessary to point out that without implementation of Industry 4.0 principles, current manufacturing and logistics operations in the region would lose their competitiveness even in the medium term. The switch from current focus on hardware production to a green and data-driven economy is required for all future growth in Warsaw, Budapest, Bratislava and Prague, too.

Regional investment aid limits in the V4 countries (in relation to population)

Source:
Coface CE Top 500, 2018

Rank	Name	Country	Sector	Turnover in EUR million, 2017
1.	PKN Orlen	Poland	Minerals, chemicals, petroleum, plastics and pharma	22,831
2.	Škoda Auto (VW)	Czech Republic	Automotive	15,970
3.	MOL	Hungary	Minerals, chemicals, petroleum, plastics and pharma	13,309
4.	Jeronimo Martins Polska	Poland	Trade	11,531
5.	PGNG	Poland	Utilities	8,584
6.	Audi Hungaria (VW)	Hungary	Automotive	7,550
7.	Volkswagen Slovakia (VW)	Slovakia	Automotive	7,549
8.	Grupa Lotos	Poland	Minerals, chemicals, petroleum, plastics and pharma	5,790
9.	Eurocash	Poland	Trade	5,571
10.	PGE	Poland	Utilities	5,530

Trade cooperation between the countries of the Visegrad Group is thriving

The Czech Republic, Hungary, Poland and Slovakia rank among the Central European countries that are bound by strong historical-political, cultural and economies ties. In recent years, these countries have raised their profile within the Visegrad Group, commonly referred to as the V4. The Czech Republic currently holds the presidency of the Visegrad Four, which was previously held by Slovakia. The presidencies of Poland and then Hungary will follow. The one-year rotating presidency begins on 1 July and ends on 30 June of the following year. During their respective presidencies, the individual countries strive to assert their interests and priorities, which the V4 support. Some recent V4 topics resonate strongly in the EU. **The voice of the V4, as a group that represents 64 million people – more than 12% of the European Union's population – is hard to ignore.**

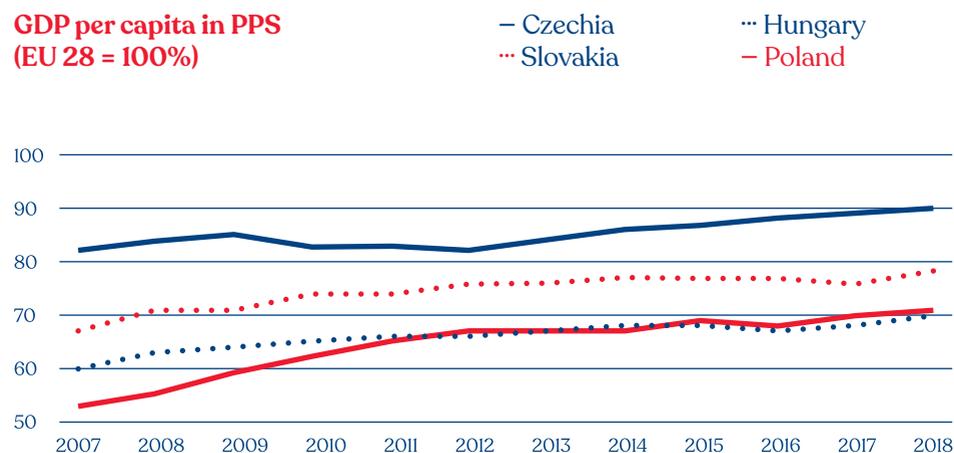
Within the Visegrad Group, the Czech presidency has the goal of being rational, pragmatic and constructive, and thus adopted for its logo the slogan “V4 Reasonable Europe”. The programme of the Czech presidency in-

cludes three main conceptual pillars, the so-called 3R, which are Reasonable Solutions, Revolutionary Technologies and Reconciliation. Within Reasonable solutions, it offers constructive proposals on topics such as support for the Western Balkans and the Eastern Partnership, economic and social convergence, support for the single internal market and the four freedoms. The second pillar, Revolutionary Technologies, is focused on science, research, digitisation and artificial intelligence. The third, Reconciliation, involves seeking compromises and a conciliatory approach where possible, e.g. in matters involving negotiations on the Multiannual Financial Framework and migration.

The Czech Republic is interested in strengthening the V4's coalition potential within the EU. It perceives the Visegrad Group as a traditional platform for dialogue and practical cooperation in the region of Central Europe that is valuable particularly thanks to the high level of mutual trust and respect, as well as the ability to compromise. It places emphasis on effectiveness, informality, flexibility and inclusion, while also focusing on spe-

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cific and positive projects where they bring real value added for the Czech Republic, the V4 countries and the EU as a whole. It is opening up to new partners in its expanded formats and projects.

Economic ties form a very strong bond in the cooperation between the V4 countries and the Czech Republic intends to further reinforce them within its priorities. The economies of the Visegrad countries have been doing very well in recent years and continue to rank among the European Union countries with

above-average growth. Particularly domestic demand remains the driver of that growth and investments play a significant role as well. However, the slowing of economic growth in Germany and the EU is starting to be felt in the Czech Republic. Conversely, new growth records were set in Hungary (4.9%), Poland (5.1%) and Slovakia (4.1%) last year thanks to expansionary economic policy and investments.

The dynamic economic growth in the V4 countries in recent years is

reflected in the gradual convergence with the economic level of developed European Union countries. However, there are still gaps to be closed in many respects. The Visegrad Four countries have therefore been focusing in recent years on qualitative changes and support for R&D, technological development and innovation with the aim of becoming innovative economies and thus ensuring economic growth in the future. The Czech Republic set forth its objectives in the new Innovation Strategy 2019-2030.

In terms of the share of sectors in gross value added, the economic structure of the V4 countries is characterised by a larger share of industry in comparison with the EU average. This share is in excess of 30% in the Czech Republic and oscillates around 27% in the other V4 countries, whereas it is not quite 20% in the EU as a whole. Simply stated, the V4 countries therefore support efforts aimed at reasonable and sustainable development of industry within the EU. Areas of common interest logically include the automotive industry and thus a

more restrained approach to the transition to a low-carbon economy, preservation of nuclear power in the energy mix of these countries and the persisting necessity of utilising European resources for the further development of their economies and stimulation of convergence of all regions of the V4 countries with the developed countries in the EU. Such transformation cannot be achieved in any other way than qualitatively, through technological progress and development of innovative activities that bring forth higher value added. The V4 countries are well aware of this and their current direction follows the path of advancement of research, development, innovation, digitisation and artificial intelligence. They are striving to support activities that are associated with the frequently discussed phenomena Industry 4.0 and Society 4.0. This is of key importance for maintaining the competitiveness of the V4 economies, which are highly dependent on industry and foreign trade and are facing difficulty in the form of a labour shortage.

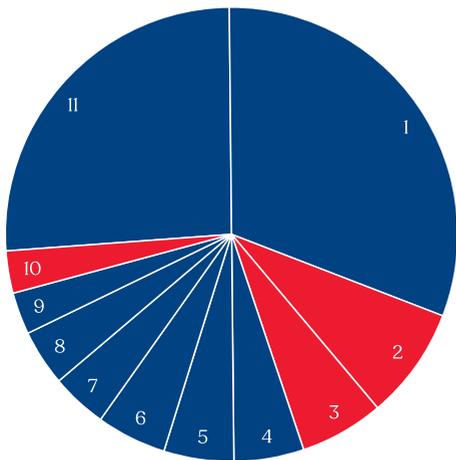
Thanks to good economic conditions, significant trade exchange is growing

Comparison of the V4 countries by selected indicators

Source: Eurostat, 2019
(Note: * average, summary)

Indicator	year	CZ	HU	PL	SK	V4*	EU28
Population (million)	2019	10.6	9.8	38.0	5.5	63.9	513.5
GDP per capita (PPS, in %, EU28=100)	2018	90	70	71	78	77	100
GDP (y/y change in %)	2018	3.0	4.9	5.1	4.1	4.3	2.0
Unemployment rate (ages 20 to 64) in %	2018	2.2	3.6	3.8	6.4	4.0	6.7
Labour productivity (v %, EU28=100)	2018	83.0	68.9	77.5	81.3	77.7	100
Share of industry on gross value added (GVA, %)	2017	31.7	26.4	27.2	26.6	28.0	19.6
Investment share of GDP (%)	2017	24.77	22.23	17.72	21.40	21.50	20.62
Foreign trade turnover in goods (EUR billion)	2018	–	8.90	22.38	20.79	52.07	245.47
Czech exports (goods, EUR billion)	2018	–	5.15	10.39	12.98	28.52	144.50

Top ten destinations for Czech exports, 2018 (based on data from the Czech Statistical Office)



- (1) Germany 32.4%
- (2) Slovakia 7.6%
- (3) Poland 6.0%
- (4) France 5.1%
- (5) United Kingdom 4.7%
- (6) Austria 4.5%
- (7) Italy 3.9%
- (8) Netherlands 3.7%
- (9) Spain 3.0%
- (10) Hungary 3.0%
- (11) Other 26.1%

in all of the V4 countries, which have a common strategic trading partner, namely Germany. **In terms of the Czech Republic's foreign trade, the V4 countries rank in the top ten most significant trading partners.** In terms of turnover, Poland ranks third (after Germany and China), followed by Slovakia; Hungary ranks tenth. In aggregate, turnover of trade with the V4 countries comprises more than one-fifth of the Czech Republic's total trade exchange with the EU 28 countries. From the perspective of Czech exports, Slovakia ranks second after Germany, followed by Poland and, farther back, Hungary, which is the tenth-place destination for Czech exporters. Exports to the V4 countries comprised 16.6% of all Czech exports in 2018.



With 5.1% GDP growth, Poland achieved the strongest economic growth in the region last year thanks especially to private consumption, domestic demand and public investments. If we look farther back in history, we can say that Poland was practically the only EU country that was not affected by the financial crisis of 2008-2009. Due to the size of the domestic consumer market and rising wages, only a slight slowdown of economic growth may occur this year and next, while investments may strengthen thanks to spending in the public sector.

Behind Germany, Poland has the longest common border with the Czech Republic. Cross-border cooperation plays an important role in Czech-Polish relations. With its rapidly developing market of 38 million people, Poland represents for the Czech Republic unexploited potential in the area of trade cooperation, which remains hindered by unfinished transport infrastructure. Poland has long ranked third in terms of achieved turnover, exports (behind Germany and Slovakia) and imports (behind Slovakia and China). How-

ever, the country progressed in 2016, when – for the first time since 1993 – it advanced to second place in terms of turnover among our most important trading partners, immediately behind Germany. Poland remained in second place in 2017, but then fell back to third in 2018 due to the impact of enormous growth in imports from China. Mutual trade turnover exhibits a long-term growth trend and reached more than EUR 22.4 billion in 2018. Particularly Polish exports to the Czech Republic have been a source of turnover growth in the past three to four years. The commodity structure of mutual trade is dominated by machinery and transport equipment and various industrial products. Chemicals, food and live animals imported from Poland also play a significant role.

The size of the Polish market and the country's dynamically growing economy are opening up a number of new opportunities for Czech-Polish trade cooperation. An opportunity for automotive industry suppliers consists in the construction of the first engine-manufacturing plant in Poland in connection with an investment by the



Germany company Daimler AG in the value of EUR 0.5 billion. The Polish government plans to spend up to approximately CZK 118 billion on an electromobility development programme by 2020. Other investments are planned in, for example, energy, the defence industry, mechanical engineering, rail transport, the pharmaceutical industry, healthcare and food processing. A number of Czech companies, such as ČEZ, Energetický a průmyslový holding, Energo-Pro, Třinecké železářny, Penta Investments, ČZ UB, Newton Media, Mall.cz, Notino.cz and Sportissimo, operate in Poland. The biggest Polish investor in the Czech Republic is the petrochemical concern PKN Orlen.

Last year, the Hungarian economy registered 4.9% year-on-year GDP growth. This was due not only to the recovering global economy, but also a number of national reforms including reduction of the tax burden on both households and businesses. The super-gross wage was repealed in 2013 and the tax rate remained at 16% until 2016, when it was lowered to 15%. Prior to the elections, the Minister for National Economy, now Finance Minister M. Varga, spoke about a further substantial reduction, even to a single-digit rate. Since 2016, a programme aimed at supporting housing and families with multiple children has spurred favourable demographic development. Corporate tax was reduced to a flat 9% rate in 2017. In combination with the favourable financial situation, fiscal policy measures have stimulated domestic demand, resulting in rising consumer confidence, wages and employment. A construction boom and investments have also contributed significantly to this stronger performance. The utilisation of European funds has also helped. As in other countries, however, there is a risk this year of slowing growth due to the impact of insufficient capacities and weaker foreign demand.

Hungary is frequently referred to as the Czech Republic's "honorary neighbour without a common border". According to data from the Czech Statistical Office for 2018, Hungary is our tenth most important trading partner and export destination. Czech exports to Hungary have long been growing, rising by more than 7% in 2018 and reaching the record value of nearly EUR 5.2 billion, while turnover grew by more than 8% year on year and reached another record value of nearly EUR 9 billion. Czech-Hungarian trade has long been flourishing. Vehicles and machinery traditionally dominate the commodity structure. The automotive industry is strongly represented in Hungary. German investments, e.g. Mercedes in Kecskemét and Audi in Győr, and a Japanese investment – manufacturing of Suzuki automobiles in Esztergom – are significant in this sector. It is also worth mentioning BMW's recently announced investment, including R&D, in Debrecín. In May 2019, Prime Minister Viktor Orbán and Minister for Innovation and Technology L. Palkovics ceremoniously opened the first phase of the Hungarian national polygon for testing autonomous driving technologies, which should be completed by 2020 with the ambition of becoming one of

the most advanced such facilities in the world. The Czech Republic and Hungary involved in a project within the European ELI (Extreme Light Infrastructure) research initiative, which is part of the EU's broader plan to construct a new generation of research centres with the highest-performance lasers in the world.

Outside of the automotive industry, potential for Czech-Hungarian trade cooperation can also be found in the area of energy, e.g. in connection with the construction of new reactors at the Paks nuclear power plant, as well as the aerospace and defence industries and deliveries for public transport. Weapons will newly be manufactured in Hungary under license from ČZ Uherský Brod. Hungary is also an interesting market in terms of investment. Recent Czech investments include those of PPF Group in telecommunications (Telenor) and the entry of Alza and Mall into the Hungarian market. Agrofert remains the biggest investor in Hungary. Conversely, the biggest Hungarian investor in the Czech Republic is the petrochemical giant MOL. With its industrial tradition, the Czech Republic has a good name in Hungary on which it can build, though it cannot rely only on history.



The Slovak economy accelerated substantially to 4.1% year-on-year GDP growth in 2018 thanks to a boom in the automotive industry (Jaguar Land Rover) as well as investments in public infrastructure with the participation of European funds. In coming years, this should be manifested as an increase in the volume of foreign trade and opportunities for Czech suppliers. Additional opportunities are opening up in, for example, the areas of infrastructure, rail transport, power generation – particularly nuclear energy (Mochovce and Jaslovské Bohunice) – and repair of turbines at the Gabčíkovo hydro-power plant, as well as in the defence industry, metal processing, food, healthcare and pharmaceuticals. The anticipated growth of Slovak exports could be dampened by a slowdown of economic growth in the coming years.

The Slovak and Czech markets are historically strongly intertwined. Following the dissolution of Czechoslovakia, Slovakia implemented a number of economic reforms, including adoption of the European common currency. Since 1993, Slovakia has consistently been our second most important

export destination after Germany. It is necessary to bear this fact in mind above all. Slovakia's fall in the ranking of our most significant trading partners in terms of achieved turnover was caused by an unfavourable convergence of circumstances when, on one hand, Czech-Slovak trade has stagnated in recent years and, on the other hand, Czech-Polish trade has grown continually alongside increasing imports from China. As a result, Slovakia was "overtaken" by Poland in 2016 and by China in 2017, thus dropping from second to fourth place. Turnover grew by nearly 8% year on year in 2018, reaching EUR 20.8 billion. Unfortunately, that was not enough to improve Slovakia's standing, as it remained in fourth place among the Czech Republic's biggest trading partners. Differences in achieved turnover are not considerable and further changes in the ranking in the immediate future are not out of the question.

For reasons that need not be repeated, Slovakia remains the closest market for the Czech Republic regardless of the currently decreased dynamics of growth in mutual trade. A welcome

Development of the trade turnover in goods of the Czech Republic and V4 countries (in EUR billion)



impetus for revitalisation of economic and trade relations, both with Slovakia and with the other V4 countries, may come this year, when we commemorate the significant thirtieth anniversary of the fall of the Iron Curtain. In light of this anniversary, a conference of the V4 countries' investment agencies will be held at the International Engineering Fair in Brno. This event is not considered in the world of trade to

be only symbolic, but rather an effort to stimulate the further development of trade and investment among the participating V4 countries.

Current and new trends in industrial and logistics investments in the V4

A new phenomenon emerged in connection with the transformation of the CEE industrial base in the 1990s after the collapse of the system of centrally managed economies. It was so-called greenfields, i.e. industrial zones built on a “green field”. The essence of this trend, which began on the territory of the V4 at the end of the 1990s, was the lack of modern industrial, warehouse and logistics facilities. These were standard facilities used by manufacturing and other business entities – investors from Western Europe, the United States and other developed countries – in their current business destinations. The rapidly opening economies of the CEE countries, led by the V4, the huge demand of these countries for foreign direct investment (FDI) and the strong interest of industrial investors in further development and expansion caused an enormous demand surplus over the almost non-existent supply of industrial and business properties. The basic and, at the same time, key problem that had to be resolved in order to address this inequality was the lack of sites/land for construction of modern buildings known generally as “industrial zones”.

For many decades, it was not possible to construct such buildings in the existing production complexes, which in many cases were more or less brownfields. There were many reasons for that situation, but the main ones were the unclear and complicated ownership structure of these sites, improper location with respect to spatial planning, transport connectivity and urban integration in centres of cities and municipalities, areas affected by environmental pollution due to intensive post-war industrial production and, in relation to all of this, the significant costs of resolving these problems, which no one was able or willing to pay from state, public or private sources. At the time, it seemed that the only feasible option was greenfields, a proven method that could be quickly implemented. Nevertheless, there were also significant problems that hindered rapid preparation, implementation and thus development. These problems, however, had proven to be much less intractable compared to the use of existing industrial sites and brownfields.

The main problems were, in particular: a) absence of selected suitable locations for this type of business; b) lack

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of zoning plans and relevant decisions and permits for these sites at the level of cities, municipalities and regions, c) unpreparedness of the state and public and private sectors to ensure sufficient financing and preparation of projects involving approved industrial zones in which it would be possible to build modern buildings and sites, and d) absence of a property-development sector and experience necessary to ensure this type of construction and infrastructure investments.

Influenced by all these factors, all of the V4 countries, through their governments, established individual national investment agencies (e.g. CzechInvest, SARIO) to prepare and launch a system of preparation and support of the development of industrial zones in the late 1990s.

The preparation of the system was based on the following key points: a) searching for suitable locations throughout the country, taking into account key factors such as the unemployment rate, economic level of individual areas, logistics connections, etc.;

b) local representatives' willingness to cooperate and their professional training; c) initiation of preparation of individual zones (zoning and regulatory plans, settlement of ownership structure, negotiation and agreement with all participants in the investment process, project preparation, selection of construction contractors, etc.); d) creation and launch of appropriate subsidy programmes at the national level and ensuring adequate funding to finance technical and transport infrastructure projects in future industrial zones; e) marketing support for the system and for the future industrial zones, especially in selected destinations abroad in order to increase the potential of attracting foreign investors from various industries.

It can be stated that these efforts and resources paid off, because in the course of just a few years dozens of new industrial zones were prepared and fully occupied by hundreds of industrial enterprises employing tens of thousands of new workers who were recruited from the large number of unemployed at that time and from inefficiently surviving enterprises of the old post-war generation.

The support and organisational systems of the industrial zones varied from country to country, but this did not have a significant effect on the differences in outcome in each country. In terms of the success of the preparation and construction of industrial properties, all of the V4 countries have reached levels that are practically comparable to Western European countries over the past 20 years.

Over the past 20 years, however, the property market has developed significantly, moving to a different level, both quantitatively and qualitatively. While ten to 20 years ago the market was dominated by industrial zones built and offered by the public sector (cities, municipalities, regions), vacant land was offered directly to investors and investors built their own industrial buildings, today the situation is diametrically different. The market is dominated almost exclusively by construction of warehouse and logistics properties owned by developers and offered for rent directly to investors. Investors are no longer attracted and addressed solely by state agencies, but in cooperation with property owners, developers and multinational consulting companies.

The preparation of industrial zones as a market segment has decreased in terms of market share and more or less serves only as a supporting tool for building the end product – rental buildings. That is why industrial real estate databases are now filled almost exclusively with buildings for rent and not with vacant land as before. The databases of land and industrial zones are now rather an auxiliary/supporting internal tool and the preserve of state development agencies. In addition to the influx of huge amounts of private resources into this real estate business, another indicator of market change is the gradual shift from greenfields to brownfields. Besides the gradual elimination of the negative aspects of using brownfields listed in the introductory section of this article, another phenomenon has occurred in recent years. State and local authorities have begun to cut back on their support for greenfields. The conditions for greenfield construction are becoming increasingly difficult to fulfil and the use of brownfields is starting to become more attractive for developers despite the higher costs of preparation and construction in these locations. This is good news for every-



one, especially for the environment in towns and villages and the people living there.

What should be done next in light of the evolving Industry 4.0? Industrial Property 4.0 should follow Industry 4.0's trends, but mainly focus on environmental friendliness that meets the needs of the third millennium. In particular, this concerns the greening and humanisation of industrial buildings and areas, e.g. the following directions and measures such as green roofs and shells of buildings, park adaptations of industrial and storage areas, use of renewable energy, closed or semi-closed water management, effective waste management, etc.

In conclusion, it is necessary to state that, from the perspective of the offer

of industrial properties (i.e. greenfields and modern rental buildings), it is necessary to keep this offer stable and sufficient. This means continuously preparing new zones for new types of production and logistics (focusing especially on automation and robotics), both in the area of greenfields and brownfields. This is particularly necessary with the currently critically low vacancy rate of rental properties (namely: Slovakia – approx. 3%, Czech Republic – approx. 4%, Hungary – approx. 4% to 5%, Poland – approx. 4% to 6%), the limited offer of sites suitable for development and, at the same time, time-consuming preparation of new projects. It is crucial to plan the infrastructure in the context of global as well as regional development in order to understand the challenges brought forth by, for example, Industry 4.0.

Selected figures
Industrial and Logistics Market Report, Q1 2019

Czech Republic

- 168,000 m² of warehouse space was completed in Q2 2019
- since the end of 2014, more than 1 million m² delivered to the market in the Prague area alone
- 38% of all warehouse space located in and around Prague
- total stock stood at 8 million m²
- approximately 522,000 m² of warehouses are presently under construction, with 46% already pre-leased

Slovakia

- total modern industrial supply premises amounted to 2.3 million m² in Q1 2019
- the majority of premises (59%) are located in Bratislava
- approximately 299,000 m² of additional industrial premises are currently under active construction
- 18% involve speculative development and approximately 65% of projects are located in Bratislava, Banská Bystrica and Nitra

Source:
Colliers International

Hungary

- vacancy in the Budapest region reached a record-low average rate of 2.4%
- tenants with manufacturing activities are exceptions, as they are more solution-oriented”
- more than 176,000 m² of new construction was in the planning/preparation phase in Q1 2019; the size of a typical building is 10,000–20,000 m²
- 91% of the stock in Budapest is located in logistics parks, while approximately 9% comprises urban logistics properties
- the investment volume of industrial/logistics assets reached EUR 150 million in 2018

Poland

- Poland adopted the New Investment Support Act in June 2018
- The New Investment Support Act provides that all the areas allocated for business activities in Poland will be turned into a single investment zone
- Poznań market – in 2018, the total supply of industrial space increased by 185,000 m² and reached nearly 2 million m²
- Wrocław market – ten newly built facilities covering an area of 219,400 m² were opened in the Wrocław market in 2018, increasing the total supply of modern logistics and warehouse space to 1.7 million m²

Introduction of the investment agencies of the V4 countries

1) Business and Investment Development Agency CzechInvest

Main activities

The Business and Investment Development Agency CzechInvest is a state contributory organisation subordinate to the Ministry of Industry and Trade of the Czech Republic. The agency arranges for the Czech Republic both domestic and foreign investments in the areas of manufacturing, business support services and technology centres. It also supports small, medium-sized and innovative start-up companies and innovation. CzechInvest closely cooperates with municipalities to support the country's business infrastructure. In providing assistance and services to its clients, CzechInvest fully respects both the Innovation Strategy of the Czech Republic 2019-2030 – The Country for The Future and CzechInvest's Strategy 2019+.

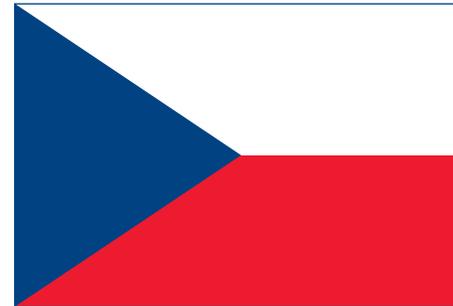
Strategy 2019+ defines three main types of clients – investors in value-added industries, start-ups with

strong potential and innovative SMEs. These clients play a key role in developing the competitive environment in the Czech Republic and CzechInvest therefore uses a variety of resources to assist them.

Greatest accomplishment of the past year

The Czech Republic has recently been focusing on attracting high-value-added investments. The Czech Republic has become home to well-established companies in diverse sectors. CzechInvest's aftercare clients include major investors such as Siemens, Valeo, Honeywell and Robert Bosch. These companies cooperate closely with both public and private entities in the Czech Republic and have a broad portfolio of activities including R&D.

One of the world's automotive leaders, BMW, recently decided to build its Mobility Development Centre in the Karlovy Vary region. The polygon for testing vehicle prototypes, specifically electric and self-driving cars, will con-



tain roughly 100 km of roads and will employ approximately 700 people, including technicians and experts in digitalisation and autonomous driving.

The most important comparative advantages

One of CzechInvest's missions is to support foreign direct investment, which helps to improve the business environment, especially in countries that have undergone a transformation, as the Czech Republic did together with the other V4 countries. The Czech Republic was able to use all of the benefits and improved its investment climate in order to attract more investments in advanced sectors. The results are admirable, as the Czech Republic has become a competitive economy with a stable political and economic environment with high quality of life. Czech universities turned out a total of 72,000 graduates last year alone. Appropriate education and qualification are crucial for implementing smart investments, and the Czech Republic is ready for those thanks to its very well-educated

and skilled workforce.

Important changes in legislation with an impact on investment support

As a governmental organisation, CzechInvest fulfils its purpose by supporting the Ministry of Industry and Trade in relevant areas. CzechInvest administrates the State Programme of Support for Industrial Zones and Infrastructure and is also the only organisation in the Czech Republic with which investors can register their applications for investment incentives.

However, there are two major upcoming changes in the Czech legislation with a direct impact on investments. The first one is an amendment to Act No. 72/2000 Coll., on Investment Incentives. The investment incentives system will newly focus more on support for projects with higher value added. The second change involves Regulation (EU) 2019/452 establishing a framework for the screening of foreign direct investments into the Union. The Czech Republic is preparing its own legislation in order to be able



to screen investments that may affect security or public order.

2) Slovak Investment and Trade Development Agency

Main activities

The Slovak Investment and Trade Development Agency (SARIO) operates under the Ministry of Economy of the Slovak Republic. One of its core activities is investor support. In this regard, it aims to attract new investments into the country as well as assist established companies with their expansion projects and provide all kinds of tailored support to meet the individual needs of local businesses. Another essential activity is linked to the support of Slovak companies in the area of foreign trade and strengthening their position on the global market.

On top of that, SARIO created a platform that responds to the combined pressure of global competition and local labour availability, pushing many international companies established



in Slovakia into more complex, capital-intensive investments. It is called the SARIO Innovation Services agenda, a new matching platform interconnecting the needs of the agency's major clients – large investors established in Slovakia – with capacities and competences of the most advanced and innovative Slovak technology companies.

Greatest accomplishment of the past year

By supporting new investors entering the Slovak market, SARIO acts as an accelerator of the Slovak economy and its growth. As a result, the country is experiencing an ongoing economic expansion, driven by booming value-added investments, both local and foreign. This statement can be backed up by, for example, data from the OECD showing that Slovakia is considered to be one of the worldwide leaders in growth of value added in manufacturing among all of its member states. On top of that, Slovakia records the highest employment in high- and medium-high-technology manufacturing sectors as well as in knowledge-intensive services as

a share of total employment in the CEE region.

The agency's recent FDI success stories bearing a substantial volume of value added include the investment of the German company Mubea, which in 2018 announced its plan to create up to 500 new jobs, of which 115 are employees of the development centre in the city of Kežmarok. This project will significantly help to fulfil one of SARIO's strategic goals in increasing the inflow of investments with emphasis on higher value added and the latest best-in-class technologies. Another value-added success story is that of the Japanese corporation Minebea Mitsumi, which thanks to assistance from SARIO, opened its new European plant in Košice in 2018. The company itself describes the facility as its most advanced plant in Europe, focused primarily on production and development of mechatronic drives for use in many industrial sectors. The project also includes an R&D centre with approximately 100 employees.

The most important comparative advantages

Many international companies have already discovered the potential of business opportunities offered by Slovakia. Considered one of the most politically stable and safest countries for investors in Europe, Slovakia offers an attractive investment environment in proximity to the key European markets as well as a well-educated and hardworking workforce. The country is a regional leader in labour productivity, while still remaining cost-competitive on both the regional and European levels. The fact that Slovakia is the only V4 country to have adopted the euro has also had a substantial positive impact on business, as it increased economic and financial stability and created favourable conditions for long-term business decisions. Another comparative advantage of Slovakia is its ability to adopt new technologies brought to the country by foreign investors. In this respect, Slovakia is a leader in CEE. On top of that, Slovakia also ranks among the top 15 countries in the world with the highest number of installed robots in the manufacturing industries, which proves the capability of the country's workforce and makes Slovakia an ideal destination for the implementation of highly automated and value-added projects.

Important changes in legislation with an impact on investment support

Today, companies in Slovakia have the possibility to benefit from various measures implemented by the government in order to facilitate and support their business operations. Besides the standard regional aid framework, which is designed to support not only manufacturing facilities but also technology centres and business support services centres, companies can apply for a special tax regime which consists of additional deduction of expenses related to R&D activities. The deduction rate was recently increased to 150% with the plan to further raise the rate to 200% in 2020.



3) Polish Investment and Trade Agency

Main activities

The Polish Investment and Trade Agency (PAIH) supports both the foreign expansion of Polish businesses and the inflow of FDI into Poland. It also aims to boost Polish exports. In supporting entrepreneurs, the agency assists in overcoming administrative and legal procedures related to specific projects and helps to develop legal solutions, while also finding suitable locations, reliable partners and suppliers.

The agency implements pro-export projects such as Polish Tech Bridges, which is focused on expansion of innovative small and medium-sized enterprises. PAIH actively work with leading Polish sectors regarding foreign expansion and offers support for Polish companies on developing markets. It is also responsible for the promotion of Poland at the upcoming World Exposition EXPO Dubai 2020.



To offer direct, onsite assistance for business, PAIH has established a system of international support all over the world. PAIH Foreign Trade Offices comprise a global, constantly expanding network of the agency's divisions responsible for providing support for Polish exporters and investors who are seeking new opportunities overseas. PAIH Foreign Trade Offices are focused on rapidly growing distant markets that represent the greatest potential for Polish companies. The offices were also designed to attract foreign investors and assist them on their way to setting up their business in Poland.

Greatest accomplishment of the past year

For the Polish Investment and Trade Agency, 2018 was a record-setting year with over 70 projects completed with an estimated total value of EUR 2.13 billion and creation of more than 19,000 new jobs in total.

Since the establishment of LG Chem in the Lower Silesia region, the elec-

tromobility sector has remained one of the most important and dynamically growing branches of the country's economy. Moreover, since last year, eight new companies in this growing sector have invested in Poland: Umicore, SK Innovation, Foosung, Johnson Matthey, Mitsui High-tec, Bafang Electric, Northvolt and Guotai Huarong. One of the largest in terms of capex was the Belgian company Umicore, which pledged to invest EUR 320 million in a new facility in Nysa (southwest Poland). These investments are further building up the electromobility cluster, which positions Poland at the fore of the eRevolution in the automotive sector.

EME Aero began construction of a new facility in Jasionka (southeast Poland) in May 2018. It is expected to be one of the most advanced maintenance facilities in the aerospace industry. A total of approximately USD 170 million will be invested within this joint-venture project run by Lufthansa Technik AG and MTU Aero Engines AG. The company was attracted by, among others, the Aviation Valley cluster, which remains one of the fastest-developing aviation clusters in Europe.

The most important comparative advantages

One of the main assets in Poland is its diversity and great cooperation between companies. Whether in the newly forming electromobility sector or well-established clusters such as Aviation Valley, Poland encourages companies to develop close relations.

This can also be seen in legislation, where the government promotes companies taking part in clusters for incentives. Moreover, the recent overhaul of the Polish higher education system introduced new means of cooperation between academia and industry.

Important changes in legislation with an impact on investment support

In recent months, the Polish government has introduced several important changes in the legislation having an impact on investment incentives.

The main goal of those changes is to enhance the novelty of investment projects as well as to support further automation of manufacturing facilities. Poland also constantly makes great efforts to support R&D projects. Three main changes have been implemented, the first of which is the Polish Investment Zone – CIT exemption for entrepreneurs which pursuant to the act of 10 May 2018 amends the instruments of CIT or PIT tax relief. The tax relief is now available across the entire territory of Poland. The decision regarding support, issued at the request of entrepreneurs, can grant investors up to 15 years of full tax relief up to the maximum aid limits as regulated by the EU. The decision on support is issued for the implementation of a new investment meeting certain quantitative and qualitative criteria that favour locations with higher unemployment and projects offering high value added and innovativeness of the given investment.

The second changes involves IP Box. Poland's IP Box complements the existing tax preference system for innovative activities and introduces

a preferential 5% tax rate (instead of the 19% tax rate) on qualified income from qualifying intellectual property rights created, developed or improved by the taxpayer as part of its R&D activity. The Polish intellectual property rights catalogue is one of the broadest worldwide and includes rights to use intellectual property, sale of such rights and selling of products based on IP. The incentive is based on the Organisation for Economic Cooperation and Development (OECD) recommendations regarding the modified nexus approach.

The third change is the initiative called Planned Changes of the Governmental Cash Grants Programme for Supporting Investments of Major Importance to the Polish Economy for the Period 2011–2023, which offers cash grants for investors. Under the programme, financial support is provided for investors to create new jobs or to undertake new investments. Its main objective is to boost innovation and productivity of the Polish economy by increasing the inflow of technologically advanced investments and creating high-productivity jobs.

The programme is currently (September 2019) being amended. Planned amendments include lower minimum requirements for R&D investments and innovation projects. At the same time, a higher level of support will be granted if the given investment is located in a medium-sized city or region affected by higher unemployment.



4) Hungarian Investment Promotion Agency

Main activities

The Hungarian Investment Promotion Agency (HIPA) is governed by the Ministry of Foreign Affairs and Trade.

The agency contributes to the economic development of the country by promoting Hungary as an ideal location for investments and by providing management consultancy services to investors and prospective investors. Within the framework of policy advisory activities, the agency mediates between business and government and collects companies' feedback in order to prepare policy proposals to further improve the business environment. The agency is also responsible for government investment incentives and serves as the managing body of the VIP cash subsidy system based on individual government decisions.

Furthermore, the agency provides management consultancy services in the fields of location selection, supplier development and mergers and acquisitions in a one-stop-shop service model on a free-of-charge basis.

Concerning location selection and business expansion projects, the agency supports investors in their location search and evaluation activities, organises site visits and reference visits, provides tailored incentive offers and information packages as well as administrative support in dealing with public authorities.

The agency also aims to boost cooperation between Hungarian small and medium-sized enterprises and international companies by operating an online database of qualified suppliers, by organising supplier trainings focused on integrators' needs and by providing professional consultancy and intermediation.

In addition to promoting foreign direct investment, the agency aims to link po-

tential financial and strategic investors with Hungarian projects and businesses, handling a continuously growing online database of projects awaiting capital injection in five sectors.

Greatest accomplishment of the past year

A record number of investment projects and volume characterised HIPA's activities in 2018. Last year's 98 positive decisions represent EUR 4.3 billion of investment for Hungary, which is up by 23% compared to 2017, creating more than 17,000 new jobs. Moreover, the ratio of projects representing high local value added increased significantly, in line with the FDI strategy of focusing on quality instead of quantity of investment projects, stepping up from the "Made in Hungary" era to the "Invented in Hungary" period. In the areas of R&D, ICT, engineering and business services, HIPA registered 60% growth in the number of successfully negotiated projects, which totalled 29, creating nearly 5,000 new jobs in these high-value-added service areas due to investment decisions made by com-

panies such as Flowserve, ExxonMobil and Evosoft. Another positive trend is that the number of technology-intensive projects which do not necessarily create new jobs but bring new technologies and increase productivity receiving grants in 2018 was three times the number of those in 2017.

In 2018, HIPA's greatest achievement was its contribution to BMW's decision to set up a new plant in Debrecen, creating over 1,000 new jobs with an investment volume of EUR 1 billion.

As a result of the newcomers of 2018, Hungary now has eight different OEMs on board. Five of them (Audi, BMW, Mercedes-Benz, Opel, Suzuki) are or will be engaged in manufacturing activities while three (Ford, Jaguar Land Rover, Nissan) are active in engineering or business services.

The 2018 investment trends are confirmed by international surveys as well. Based on the Site Selection Global Best to Invest 2018 report, Hungary is among the world's ten best invest-

ment target countries and was named the best country for investment in the Eastern Europe & Central Asia region and number one for investment volume per capita. HIPA also won the Top Investment Promotion Agency, Eastern Europe & Central Asia Award.

The most important comparative advantages

Hungary pursues a foreign trade and investment oriented foreign policy, given that – similarly to other countries in the region – exports and foreign direct investments play an important role in economic development. Since 2010, the Hungarian government has taken several measures to improve the country's business climate. For instance, the dual education system based on the German model has been introduced, gradually gaining in importance in recent years. A flat corporate income tax rate of 9% was introduced in 2017, which is the lowest value among the EU member states. In addition to that, the government is firmly committed to reducing the tax burden related to employment. As a result of this, the so-

cial-security contribution tax rate was lowered from 27% to 17.5% between 2017 and July 2019.

One of the greatest achievements of the Hungarian economic policy is the fact that the number of employees currently exceeds 4.5 million and the unemployment rate amounts to only 3.4%. Thus, the government has achieved significant results in the implementation of the objective of the work-based economy set in 2010.

In addition to all of these factors, foreign investors can benefit from the competitive labour costs and developed infrastructure that Hungary offers them, not to mention the comprehensive incentive system.

Important changes in legislation with an impact on investment support

The principal purpose of the investment-promotion incentive system in Hungary was to increase national employment. This objective has been

achieved successfully: according to the recent statistical reports, the unemployment rate is below 3.5% in Hungary. These data and employment forecasts justify the need for elaborating and operating an incentive system focusing on maintaining existing jobs and improving corporate productivity rather than creating new jobs.

As a result of the current amendment, in the future VIP cash incentives will be available for implementation of asset investments, for creation and/or expansion of regional service centres and for implementation of R&D projects.

VIP cash incentives for asset investments will be available for investments in the minimum value of EUR 5 million or EUR 10 million, depending on the location of the investment:

- minimum EUR 5 million: in Baranya, Békés, Borsod-Abaúj-Zemplén, Nógrád and Szabolcs-Szatmár-Bereg counties

- minimum EUR 10 million: in Bács-Kiskun, Csongrád, Fejér, Győr-Moson-Sopron, Hajdú-Bihar, Heves, Jász-Nagykun-Szolnok, Komárom-Esztergom, Pest, Somogy, Tolna, Vas, Veszprém and Zala counties.

In the future, it will not be necessary for investors to create new jobs; however, maintaining the number of already existing employees and increasing corporate sales revenue and wage costs will have an important role in the eligibility criteria system.

Investors will continuously have the opportunity to apply for VIP cash incentives based on the former criteria for the establishment and/or expansion of BSCs and for R&D projects.

Private companies in the V4: Valeo

Valeo is an automotive supplier and a partner to all automakers worldwide. As a technology company, Valeo designs innovative products and systems that contribute to the reduction of CO2 emissions and to the development of intuitive driving. In 2018, the group generated sales of EUR 19.3 billion and invested 13% of its original equipment sales in research and development. As of 31 December 2018, Valeo had 186 plants, 21 research centres, 38 development centres and 15 distribution platforms, and employed 113,600 people in 33 countries worldwide.

Valeo has been present in the Visegrad countries since 1995 and today has over 14,000 employees there: 7,000 in Poland, 4,500 in the Czech Republic, 3,000 in Hungary and 300 in Slovakia. Its factories in the V4 manufacture products for all four of the company's business groups, e.g. parts for air conditioning, headlamps, wiper blades, cameras, switches, interior control panels and sensors for automated parking and automated driving.

Vehicle electrification is one of the key drivers of the company's presence in the region. The Žebrák (Czech Republic) factory is currently being expanded with an investment of CZK 450 million and will start production of battery coolers for electric vehicles at the end of 2019. The Visegrad region is also home to Valeo Siemens eAutomotive, which was founded in 2016. In the Czechowice (Poland) and Veszprém (Hungary) production plants, this joint-venture company manufactures powertrain components for electric and hybrid vehicles.

The Visegrad region is not only a production location for the Valeo group, but also a key region for research and development activities with engineering teams comprising more than 1,000 employees. One of the group's major R&D centres for automated driving – working on sensors and software – is situated in Prague. The initial investment of CZK 600 million in 2017 was followed by construction of two additional buildings containing both offices and laboratories in 2018 and 2019. Valeo's only high-speed test track for automated driving is also located in



the Czech Republic and in 2018 the company signed a memorandum of understanding with the region of Central Bohemia on further investments of CZK 100 million over the next ten years to expand this facility. R&D investments are also ongoing in Poland with several new highly qualified job openings in headlamp engineering and in Hungary, where development engineers are working on parts for comfort and driving assistance systems.

One of the most important strengths of the Visegrad region is the high level of technical university education. Valeo cooperates with several academic institutions in the region such as the Czech Technical University in Prague and the Technical University of Ostrava. The company has also set up scholarship programmes for talented students and offers internship programmes in both production and R&D. Cooperation is fruitful also in the domain of national and European funded projects. In 2019, Valeo initiated joint research programmes in the field of artificial intelligence – linked to automated driving – involving several PhD students from the region's academic institutions.

The current challenges of operations in the Visegrad region are associated with the record low unemployment rate in all four countries and thus an increased effort to attract and retain employees.

All of the Valeo group's locations in the Visegrad region are at the forefront of Industry 4.0 implementation. A massive investment in production automation is being undertaken not only because of the productivity gain, but also as a tool to balance the lack of production operators due to the above-mentioned low unemployment rate. One of the company's biggest factories in the region, specifically in Rakovník (Czech Republic), is implementing new methods of automation and digitalisation as part of a pilot factory for the whole Valeo group that will serve as a benchmark for other facilities worldwide.

Private companies in the V4: GE Aviation

GE Aviation, an operating unit of GE, is a world-leading provider of jet, turboprop and turboshaft engines, components and integrated systems for commercial, military, business and general aviation aircraft and has the largest development engine portfolio in the jet propulsion industry, investing more than USD 2 billion annually in R&D. In 2008, GE Aviation acquired certain assets of Walter Engines, a Czech company with over 90 years of aviation heritage, and formed GE Aviation Czech. Since then, GE Aviation Czech has specialised in the design, production and service of turboprop engines at its integrated research and development and manufacturing facility in Prague. In 2012, GE Aviation Czech successfully launched the H Series turboprop family, incorporating GE's 3-D aerodynamic design techniques and advanced materials to create a powerful, fuel-efficient, durable engine for a multitude of uses: agricultural, business turboprops, commuter and utility aircraft. Fast forward to November 2015, when GE Aviation unveiled its all-new turboprop engine after being selected by Textron to power its Cessna Denali. The 1,300 SHP-rated engine is the first entry in

GE's new family of turboprop engines aimed at business and general aviation aircraft.

In January 2015, GE Aviation announced its decision to build its new turboprop engine development, test and production headquarters in the Czech Republic, creating 500 new jobs with an investment of USD 400 million in a new R&D programme. This decision truly elevated GE's activities in the country to the next level. This significant investment extended existing development and manufacturing activities and over the course of just two and half years, increased the headcount by 230+ highly experienced and university-educated employees.

With this move, GE Aviation combined the valuable expertise in its existing turboprop facility in the Czech Republic with ground-breaking technologies in its commercial jet engines to pursue new turboprop engines in the 1000 to 2000 shaft horsepower (shp) range, including the Catalyst engine for Textron Corporation.



GE Aviation Turboprops also entered into strategic research collaboration with the Faculty of Mechanical Engineering at the Czech Technical University (CTU) in Prague as part of its strategy to develop a versatile and strong ecosystem of external R&D partners to enable future growth. CTU is a central pillar of this ecosystem and is joined by other technical universities and research centres such as Brno University of Technology and the state-owned Aviation Research Institute (VZLU) in Prague, which GE Aviation partnered with on ongoing innovation and research projects related to VTOL, hybrid engine-based vehicles and additive manufacturing and AR/VR technologies. GE Aviation Turboprops also leverages other GE locations within the Visegrad Group, especially the Engineering Development Centre (EDC) in Warsaw.

Private companies in the V4: Robert Bosch

As early as 1898, Robert Bosch opened his first sales office outside of Germany in the UK. This was followed by offices in France a year later and in the United States in 1906. In 2019, the Bosch Group comprises Robert Bosch GmbH and its roughly 460 subsidiary and regional companies in over 60 countries. Today, Bosch is active on every continent, has strong market positions in all its sectors worldwide and operates 280 manufacturing plants. The main business sectors are: Mobility Solutions, Industrial Technology, Consumer Goods and Energy and Building Technology.

These facts illustrate the validity of Bosch's long-term strategy of being present internationally, close to customers. The fall of the Iron Curtain in 1989 heralded a new era for Bosch. By 1994, it had companies of its own in 13 countries of the former Eastern Bloc. Mainly the Visegrad countries provided the suitable environment for the investments in expansion due to their proximity to Germany, stable political and legal environment, sufficient infrastructure, skilled workforce and favourable costs. And the automotive industry, especially in Czech Republic, Hungary and Slo-

vakia, fitted well in the Bosch business portfolio. Moreover, the governments of the V4 countries have shown strong interest in gaining foreign investments. For example, the Czech Republic and Hungary have supported Bosch's activities through their foreign direct investment promotion agencies, CzechInvest and the Hungarian Investment Promotion Agency. Bosch went on to open manufacturing facilities in Jihlava and České Budějovice in the Czech Republic, Wrocław, Łódź, Rzeszów and Gołeniów in Poland, Miskolc, Hatvan and Eger/Maklár in Hungary, and Engels and Samara in the Russian Federation. The share of Bosch's sales generated outside of Germany rose from 51% in 1990 to approximately 79% in 2018.

Today, Bosch is well established in all of the Visegrad countries. The six Bosch legal entities in the Czech Republic, including four manufacturing facilities, employ nearly 9,000 associates. The combination of the traditional skill sets of Czech technicians with the Bosch Production System is a model of success here. Both automotive plants in Jihlava and České Budejovice are among the top sites with regard to production quality and flexibil-



ity within Bosch's international production network. More than 550 technicians at the development and testing centre in České Budějovice play an important role within the global Bosch R&D network. Nevertheless, the automotive sector represents the major part of Bosch's sales in Slovakia, though the household appliances plant in Michalovce with its 900 associates produces energy-efficient electric motors and pumps. Thanks to the expansion of electronics development, the number of R&D technicians has increased to 170 recently.

Bosch has been present in Hungary since 1898. Since its re-establishment as a regional trading company in 1991, Bosch has grown into Hungary's largest foreign industrial employer with nine Hungarian subsidiaries, including seven manufacturing plants. The Budapest Engineering Centre is the company's largest European development centre outside of Germany. The Bosch Group employs nearly 14,800 people in Hungary, including more than 2,700 engineers in R&D.

The Bosch Group has been present in Poland since 1992 and is represented

there by four companies. Bosch operates in five Polish locations, has eight manufacturing plants (including six plants for small and large household appliances) and three R&D centres and employs over 7,400 associates in the country. Bosch soon discovered the broad expertise and great potential of the IT sector in Poland, where it has been developing the Bosch IT Competence Centre since 2008. Today, three hundred IT experts in Warsaw are actively shaping innovations of the future as they work on projects in the area of IoT, Industry 4.0, e-commerce, cybersecurity and product lifecycle management.

The Bosch plants in the Visegrad region actively support the implementation of connected industrial solutions. To this end, they also utilise the competences of their sister company Bosch Rexroth in numerous instances. The target is to increase quality and flexibility and to optimise the production processes. In the last four years, the plants successfully launched central elements of Industry 4.0 such as real-time monitoring, augmented reality, 3D printing, projects using high data volumes, autonomous carts in manufacturing and predictive maintenance.

Shared interests of V4 in the EU in the areas of politics and the economy

The cooperation of the V4 countries at the EU level is very often understood as placing emphasis on defence of their national interests when it comes to the so-called migration quota and immigration policy. A closer look offers much intensive cooperation in areas other than just the migration issue. First, economic cooperation has always lagged behind political cooperation among the V4 countries at both the regional and EU levels. Looking at the cooperation of the V4 countries in any policy area, the need for enhanced cooperation has always arisen from those countries' shared interests and goals, particularly membership in NATO and, most importantly, the EU. That said, their economy-related policies have been left without any special interests in terms of emphasizing enhanced cooperation or even trying to standardise their policies in order to achieve better intra-Visegrad cooperation.

As other contributions in this brochure show, the economic cooperation among the Visegrad countries is based on similar dynamics given by the historical context as well as by the

current dynamics on the Common Market. There are two interesting patterns: the strategic role of Germany for all of the V4 countries and the shared experience of their respective economies serving as logistics and supplier hubs. However, there exists the shared aim of strengthening the V4 as a research and development area with solid infrastructure as well as an advanced education system.

As the table above indicates, all of the V4 countries have in past decade followed the trend of increasing education spending. Nevertheless, it remains unclear as to whether or not this increase is sufficient in the context of upcoming economic and social challenges. This raises an important issue: the extent to which the V4 countries are able and willing to coordinate their priorities in relation to the EU in order to respond to global changes called forth by, among other things, the growing role of new technologies.

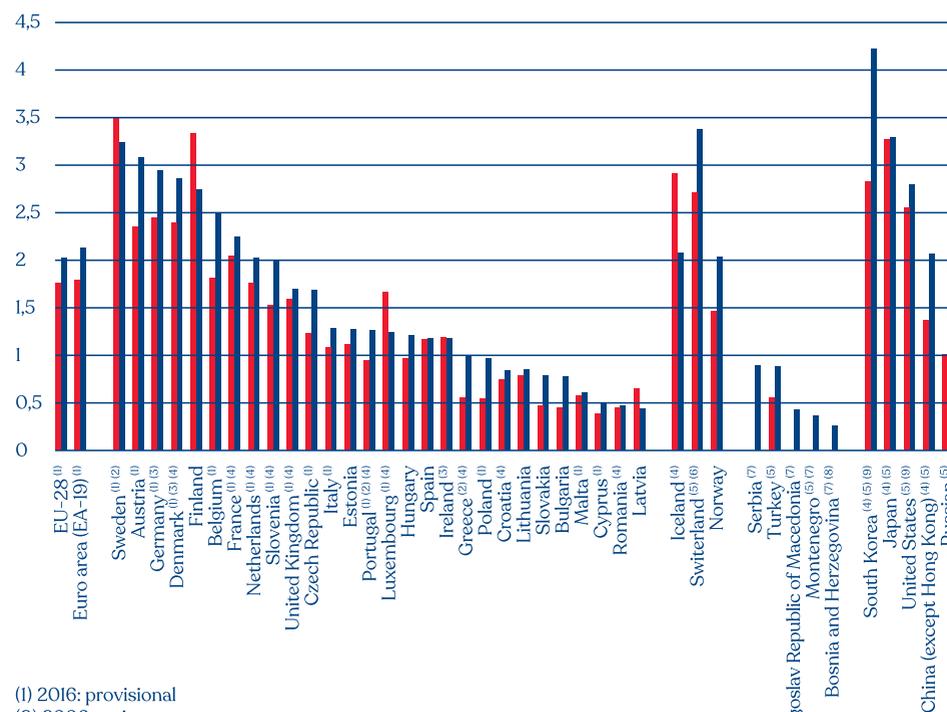
That said, there is an eminent need to tackle these challenges in the area of coordination while bearing in mind

Michal Vít

Share of the budget dedicated to education (EU and selected non-EU countries)

● 2006
● 2016

Source: Eurostat



- (1) 2016: provisional
- (2) 2006: estimate
- (3) 2016: estimate
- (4) Break in series
- (5) 2015 instead of 2016
- (6) 2008 instead of 2006
- (7) 2006: not available
- (8) 2014 instead of 2016
- (9) 2006: definition differs

that other EU member states also face similar development issues. In this context, it needs to be said that the V4's importance as a coordination framework within the EU is rising constantly not only with respect to key political agendas such as the migration issue, but also with respect to coordination in the area of the Common Market. On the other hand, this puts significant pressure on the limits of Visegrad cooperation, namely the ability to identify shared political interests and to develop and execute a coordinated strategy. Since economic issues have never been the most significant aspect of intra-V4 cooperation, such issues might have serious consequences for a coordinated policy with respect to the key political agenda of the EU. This brings us back to the very beginning. The V4 can develop a coordinated strategy when it comes to top policy priorities, while also developing deeper integration in areas where all parties involved see mutual direct benefits. Conversely, in policy areas where transaction costs for enhanced cooperation are higher, the level of cooperation decreases. In addition to that, the need for cooperation is driven by different aims, such

as strong economic relations with Germany instead intra-Visegrad interests.

It is realistic to expect that the Visegrad countries will continue to protect their economic interests – as other EU member countries do – and regional cooperation is a welcomed side effect of their national priorities. In this context, it needs to be said that the V4 countries rather react to EU priorities than actively shape them.

In light of the negotiation of the upcoming Multiannual Financial Framework (MFF) for the period 2021-2027, it is apparent that the V4 countries are attempting to follow the main development trends in terms of the rising flexibility of programme priorities and their focus on the EU's current cohesion challenges. Since emphasis has been shifted from structural geographic redistribution towards policy-oriented redistribution, the position of the V4 countries has fallen when it comes to being among the top-priority regions. This should be taken as a signal to support in-

tra-Visegrad debate about the group's role in the EU. There are a few crucial points that make the V4 a very important region in this regard. First, all of the V4 countries face similar challenges when it comes to the need to support policies aimed at boosting innovative businesses. Second, there is a strong private sector that enjoys the structural and infrastructural setting of the region when it comes to the development of the already existing background of global innovations. Third, all of the countries are driven by similar externalities such as the strong economic role of Germany. Despite the fact that the V4 countries have had several reservations about the newly adopted MFF, it is in their vital interest to increase coordination in the field of policies promoting innovative businesses policies in order to support their competitiveness on the global market. In this context, cooperation at the EU level is the only possible platform for interconnection within the EU and for gaining significant know-how and financial support.

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