

CZECH FOCUS

Magazine of the Association for Foreign Investment



Number 2/2007



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Hi-Tech Czech



**Focus on contract
manufacturing in the Czech Republic**

Association for Foreign Investment



Your roadmap to quality services
in the Czech Republic

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Bank activities
Business Activities
Business Enterprise and Assets Valuation
Business Process Reengineering
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Services Offered: www.afi.cz/en/services

The Association for Foreign Investment

represents a group of Czech service companies with local experience that support the entry of foreign investors into the Czech Republic and provide a wide range of professional services to foreign investors entering the local market.

The primary aim of the AFI is to ensure that the entry of foreign investors into the Czech market is as smooth and easy as possible. Companies from the AFI group are experts in the fields of advisory services, consultancy, project services and auditing. These companies also offer investors related services after the start of their business operations in the Czech Republic.

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INVESTOR'S CALENDAR

September – November 2007

September

25. – 28. 9. ILMAC, Trade Fair

Basel, Switzerland

October

8. – 10.10. Future Horizons, Conference

Prague, Czech Republic

8. – 10.10. EXPO REAL 2007, Trade Fair

Munich, Germany

16. – 19.10. BIOTEC 2007, Conference

Brno, Czech Republic

24. – 26.10. EUM-Bio 2007, Seminar

Kuala Lumpur, Malaysia

25. – 28.10. Czech Fair, Trade Fair

Yokohama, Japan

November

13. – 15.11. Global Entropolis, Conference

Singapore, Hong Kong

14. – 15.11. Display Forum, Conference

Prague, Czech Republic

14. – 17.11. Medica 2007, Trade Fair

Düsseldorf, Germany

27. – 29.11. IAC, Conference

Sunderland, UK



Contact:

Editorial Board of Czech Focus

Association for Foreign Investment, czechfocus@afi.cz

Stepanska 11, 120 00 Prague 2, Czech Republic

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Dear Readers,

The Czech economy has been remarkably successful over the past several years. GDP has grown at an annual rate of 5-6%, inflation has remained low and the trade balance shows a healthy dominance of exports over imports. Now would be a good time to take advantage of this favourable situation by reforming the business and investment environment in order to strengthen the Czech Republic's long-term competitiveness beyond the country's borders. A substantial part of the Czech political spectrum recognises the necessity of economic reforms, while the debate has revolved mainly around taxes. The Confederation of Industry of the Czech Republic welcomes the decrease of effective taxation. In my opinion, the changes must be much more extensive if the government wants to support the further development of economic growth.

The government is preparing to set ceilings on social security and health insurance which are the standard in Europe. This is clearly a step in the right direction. Nevertheless, it is necessary to point out that secondary labour costs will continue to remain relatively high, which for industry is more important than tax reform. If the health-insurance system is already in surplus and the government wants to further reduce the payment of benefits, it would not be good for employers to pay high premiums.

The inflexible labour market can also become a barrier to economic growth. Increasing its flexibility will thus be a key factor in the further development of the Czech economy. If the Czech Republic wants to fully utilise its labour market's potential, it will be necessary to reduce social support, restrict welfare payments and make expenditures on the active employment policy more effective. These are the aims of the Czech government's policy. Unemployment could then fall below six percent. Of course, in order for the labour market not to be exhausted by these measures, the government should implement its plans for bringing in skilled workers from abroad. By means of tax breaks, it would then be necessary to motivate employees to improve their skills, which in turn would bring them higher wages.

It is necessary to take into account that after many months the Ministry of Finance has returned to discussing the schedule for introducing the euro. For the Czech export industry, implementation of the common European currency is absolutely vital, though this will not happen without more significant cuts in government spending, which will require considerable political courage. However, it is necessary to add that the Czech Republic cannot avoid this. Until these reforms are implemented, domestic companies will have to continue to fight against an unnecessary enemy in the form of the significantly strengthening Czech crown.

From the perspective of industry, such reformative cuts should not be applied to investment in transport infrastructure, whose insufficient development could restrict further growth. There is an extraordinary opportunity to use financial resources from EU Structural Funds for this purpose in the 2007-2013 period.

The government wants to continue increasing the total volume of funding going into research, development, and improvement of technical education at all levels. This is an excellent approach, though it is necessary to add that these investments should be more effective. It will be important to direct these resources to areas with real economic results. The availability of a skilled workforce, particularly in technical fields, will be the deciding factor in where new investments projects are implemented.

*Martin Jahn
Member of the Board
of Directors, Škoda Auto
and Vice-President of the Confedera-
tion of Industry of the Czech Republic*



Hi-Tech Czech

Focus on contract manufacturing in the Czech Republic

If you bought your HP computer, Playstation game console or iPod in Europe, there is a good chance that the product, or at least part of it, was manufactured in the Czech Republic

Thanks to its favourable location near major European markets, skilled and educated workforce and rich industrial history, the Czech Republic has long been one of major industrial centres of Europe. That is why many well-known companies such as ABB, Bosch, Honeywell, Panasonic, Procter & Gamble, Siemens, Toyota and others have invested in the country. However, it is less well known that many more brand names are also produced in the Czech Republic. They are produced by contract manufacturers – foreign and domestic companies which produce products or parts there of for brand owners in order to utilise their spare production capacity or because they have made contract manufacturing their main business strategy.

Contract Electronics Manufacturing

Contract manufacturing has become especially widespread in the electronics industry and the Czech Republic has attracted a big share of this business in Europe. It is estimated that more than 40% of all computers sold in Europe are manufactured in the Czech Republic.

The first foreign electronics contract manufacturer to start production and assembly operations in the Czech Republic was the Taiwanese company **First International Computer (FIC)**. In 1998, FIC started production for Hewlett Packard, Compaq and other computer producers in Rudna near Prague. Since then the company has expanded the range of its products – the manufacture of LCD and plasma TVs and monitors was introduced in 2005.

Just a few months later, in early 1999, **Celestica** started operations in the Czech Republic with the acquisition of a small site in Rajecko, north of Brno. The site was greatly expanded by the construction of a large 40,000 m² facility in 2000-2001. The facility performs printed-circuit assembly, full systems assembly, and repair services for the IT, telecommunications, networking, and computer-memory industries and employs some 2,000 people. In 2002, Celestica bought a Sagem mobile-phone plant in Kladno, east of Prague, and performs printed-circuit assembly (PCA), final assembly, testing, configuration, repair operations and fulfilment services from one fully integrated manufacturing facility there. The operation employs about 1,000 workers and is considered a PCA centre of competence because of the highly complex PCA assembly it performs.



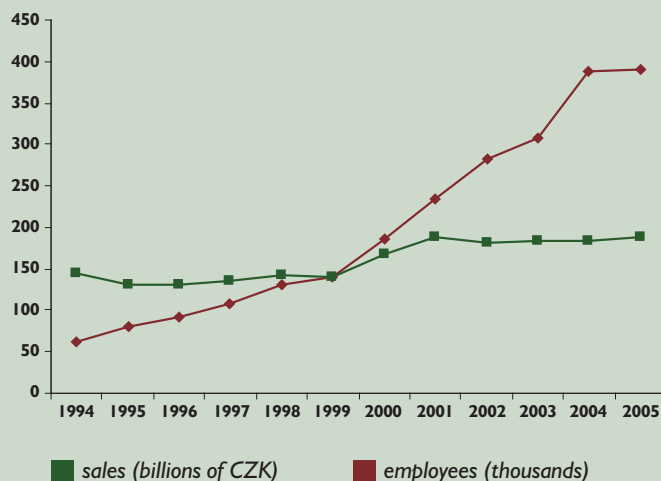
Celestica, Rajecko

Foxconn: huge expansion

Foxconn is the largest contract electronics manufacturing company in the Czech Republic (and also one of the largest in Europe). Having selected the Czech Republic as its regional production headquarters for the Foxconn Group in Europe in 2000, the company acquired a brownfield site of the former Czech electronics/electrical-engineering giant Tesla in Pardubice and commenced the large-scale renovation and construction of production facilities on the site. Within three years Foxconn CZ became the Czech Republic's eighth largest company in terms of turnover and the country's second biggest exporter. By the end of 2006 the company employed over 4,000 people in Pardubice and ranked fifth in the Czech Top 100 Companies list and second on the list of Czech exporters. Foxconn CZ manufactures a range of products including desktop computers and notebooks for Hewlett Packard, and Dell, Microsoft Xbox 360 game console, and Cisco products. Nearly all of Foxconn's production is exported.

In May 2007 Foxconn announced the construction of its second manufacturing facility in the Czech Republic. Following extensive research involving 10 potential sites in the Czech Republic, Kutna Hora, a town with a population of 22,000 located about 40 kilometres east of Prague, was selected for the new plant, which will manufacture LCD displays and monitors and other computer components. The company will invest up to CZK 3 billion (USD 147 million) and create up to 5,000 new jobs in Kutna Hora. "We knew that we could increase the capacity of the Pardubice plant to 6,000 employees but we were looking for a location where we would be able to create 5,000 new jobs", commented Jim Chang, Managing Director of Foxconn CZ. "We considered many locations in the Czech Republic but Kutna Hora won. We have been in the Czech Republic for seven years. We know it here, have built infrastructure here and have good employees. That is why we decided to invest in the construction of another plant here". Talks on construction of a satellite town with 3,000 flats for Foxconn employees are currently underway. (See the interview at the end of this section.)

Growth of electronics and electrical engineering in the Czech Republic



Source: Czech Ministry of Industry and Trade, 2007



Employees of Foxconn CZ at work

Asian boom

The Czech Republic has become a preferred European location for Taiwanese electronics companies: other contract manufacturers as well as original equipment manufacturers have followed FIC and Foxconn. In 2004 **ASUS** announced plans to build its European manufacturing and repair facility in Ostrava-Hrabova (with the capacity to manufacture 200,000 and repair 50,000 computers per month). The facility currently employs 1,400 and another 200 workers are expected to be hired before the end of the year. **Inventec**, which has been in Brno since 2004, recently expanded and built another plant for the manufacture of parts for iPods and other products. Acer, Benq, GIGABYTE and Wistron have also invested in Brno, where **Acer** has built a service centre and customer support centre for the EMEA region, and **BenQ** is expanding its manufacturing and service facility from 600 to 1,300 employees to cope with the increased demand for LCD TVs and monitors. **GIGABYTE** has built a European service centre there for motherboards, graphic cards and other computer parts. **Wistron** is also expanding its Brno facility to add LCD TV and monitor production capacities to existing PC repair activities. Another Taiwanese firm, **Tatung**, has invested in Plzen, where it employs 400 people manufacturing LCD TVs and monitors.

While all of these companies are growing steadily, the growth of the contract manufacturing giant **Flextronics** has been less consistent in the Czech Republic. After a promising start in 2000-2001, when Flextronics took over the Brno facility of contract manufacturer Dovatron (which had been in Brno since 1998) and built a new 30,000 m² facility on a new site, the company was heavily hit by the global recession on the electronics market and moved production out of the Czech Republic in 2003. Nevertheless, the company decided to keep its R&D centre in Brno to take advantage of local skills. In 2006 Flextronics returned to manufacturing in the Czech Republic, when it took over the Lego plant in Kladno. The facility, which currently employs some 800 people and will eventually be expanded, will be the only Lego plant in Europe to manufacture the Systems model range of toys. But the real return of Flextronics to the Czech Republic will take place this year, after the company's takeover of Solectron is completed. **Solectron** recently opened a European service centre in Plzen to serve its customers, which include Ericsson, Hewlett Packard, Motorola and IBM. The facility should employ 1,000 people by 2010.

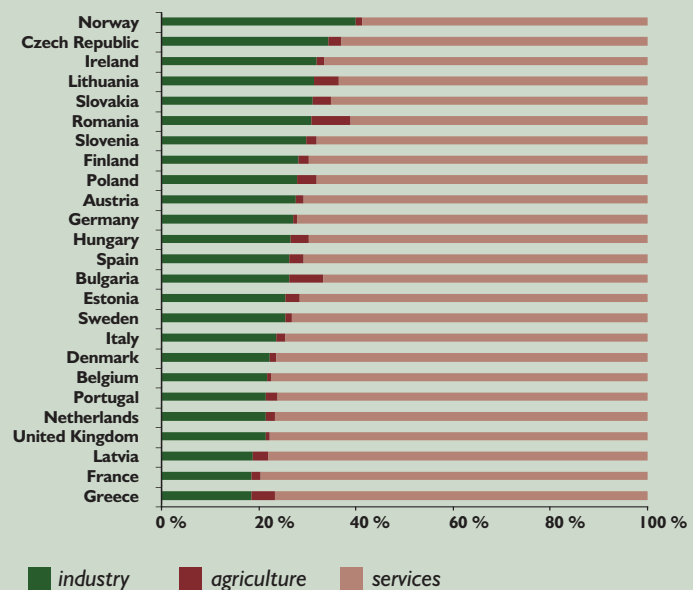
R&D and other activities

The activities of contract manufacturers in the Czech Republic are not limited to manufacturing and assembly. In addition to Flextronics, many other companies also offer product development and design services. FIC, Foxconn, Celestica and ASUS all have R&D units in their Czech plants. The presence of large contract manufacturing facilities in the country has attracted many service suppliers to the Czech Republic. These include supply-chain management companies such as **ModusLink** and **Banta**, which have both set up operations in Brno, as well as specialised smaller companies such as **Realtime Technologies** of Ireland, which set up shop near Pardubice to support Foxconn, and the British firm **Thompson Litho**, which established operations in Lodenice, south-west of Prague, to provide printing solutions, optical media manufacturing, software replication, kitting and other services to the growing Czech computer industry.

With their low-cost manufacturing capabilities, Asian countries such as China have long been considered a threat to vulnerable and cost-sensitive industries, of which contract electronics manufacturing is a prime example. The UK firm **JJS Electronics** offers an example of how contract manufacturers can combine locations in Western and Central Europe and Asia to retain and increase business. The company offers turnkey manufacturing services including PCB assembly, mechanical assembly and full system assembly of products such as portable medical systems, date-stamping printers, handheld computer terminals and large, complex industrial laser power-supply cabinets.

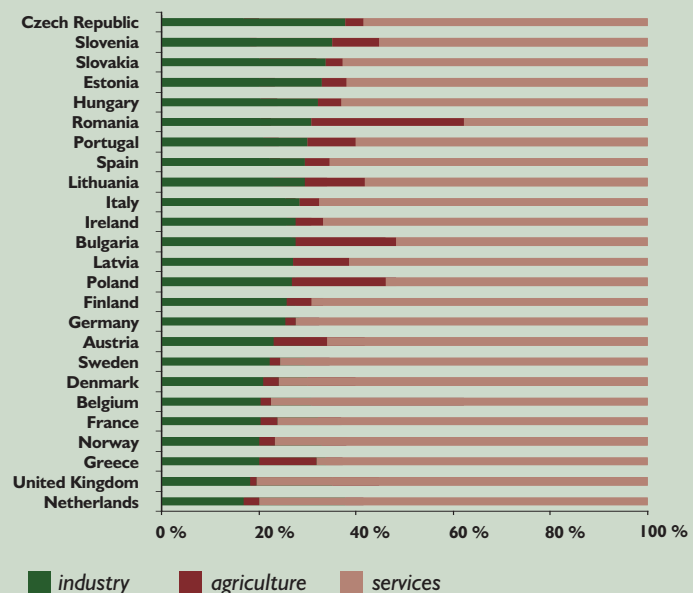
JJS has a strategic alliance with a contract electronic manufacturing partner in the Philippines and provides local UK representation and technical support for high-volume, low-cost manufacturing in Asia. In 2005 the company established a manufacturing subsidiary in Chomutov, in the north-eastern part of the Czech Republic, and is thus able to offer customers a dynamic

Share of industry in GDP



Source: Eurostat, data are for 2006 or 2005

Share of industry in employment



Source: Eurostat, data are for 2006 or 2005

range of contract electronics manufacturing services starting from prototyping and small and medium volumes in the UK and the Czech Republic, to high-volume, low-cost manufacturing in Asia.

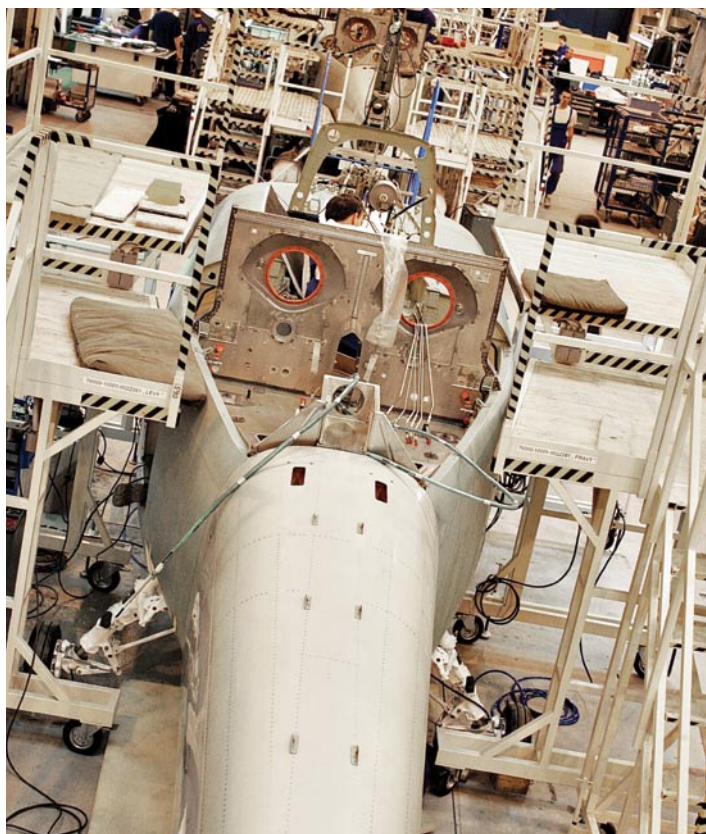
Domestic contract manufacturers

Many Czech companies are active in contract manufacturing. The initial impetus for this was usually the loss of traditional markets and customers in the 1990s following political and economic changes in Central and Eastern Europe. Czech companies utilised their production facilities, machinery and, above all, skilled workforce to manufacture products and components for the world's leading corporations.

Metra Blansko, a traditional producer of measuring and metering equipment, manufactured laser printer cartridges for Lexmark until recently, for example, while **Tesla Jihlava** has produced connectors, precision machined components and plastic parts for Automotive Lighting, Bosch and Siemens VDO. **ETA** and **IsolitBravo**, traditional Czech producers of household appliances, sell their products (kettles, coffee makers, fryers, yoghurt makers and so on), both under their own names and to OEMs such as Philips.

Czech contract manufacturers have grown from nothing to become medium-sized companies. **Bohemiatech** (220 employees) provides printed circuit-board assembly and other services for companies in Germany, Austria, Denmark, Switzerland and the United States, as well as in the Czech Republic, where the main customer is the Panasonic car-audio plant in Pardubice. **Wendell Electronics** (160 employees) offers extensive services ranging from PCB design and prototyping to full systems assembly, testing and repair. The company recently won a contract to supply printed circuit boards to Panasonic plants in the Czech Republic via Panasonic's Japanese supplier Celco. The contract will enable Wendell to create more than 20 new jobs.

Maurice Ward & Co. is a home-grown contract manufacturing company with foreign ownership. Originally a small Irish logistics firm, the company expanded into supplier sourcing and contract manufacturing in 2000-2001 and built a 9,000 m² contract manufacturing facility near Most, about a one-hour drive from Prague. The company's manufacturing activities include plastic injection moulding, keyboard printing, assembly and other services. (See the Spotlight on People section for more information on this company.)



AERO Vodochody - helicopter Sikorsky S-76

Aerospace industry

Contract manufacturing is not limited to the electronics industry. **AERO Vodochody**, the largest Czech aircraft producer with extraordinary experience dating back to 1919, began manufacturing almost the whole S-76 helicopter, excluding dynamic parts and interior installation, for Sikorsky Aircraft Corporation in 2000. Nowadays, AERO facilities provide aerostructures with high value added, out of which the largest is the S-76 Program, followed by C-27J center wing box for Alenia Aeronautica (since 2006), parts for Boeing 757, F/A-18E/F/G Hornet gun-bay door or fixed leading-edge part kits for Boeing 767. The Company won the Supplier of the Year award from BAE Systems in 2003. Due to its history, AERO has capacities to offer cooperation in most areas of aircraft manufacturing including engineering, airframe assembly, including installations and testing, detail part fabrication, special processes, tool design and manufacture, executive aircraft painting, overhauls and upgrades, airport services, etc.

Another Czech aerospace company, **Jihlavan**, manufactures hydraulic and other parts and systems for Saab, Boeing, Airbus, GE Aircraft Engines, Bobcat and other customers.

Motor Jikov, an industrial conglomerate from the South Bohemia region of the Czech Republic, performs a wide range of contract manufacturing activities. These include the manufacture of automotive parts for the US firms Textron and Teleflex, machine parts for Electrolux, riveting tools for Textron and parts of industrial machines for Bosch-Rexroth, Hatz, Pall and others.



AERO Vodochody

Opportunities for your company

The currently booming European economy presents additional good opportunities for Czech contract manufacturing. Companies located in the Czech Republic are expanding their product ranges and introducing more sophisticated production technologies. Many companies are investing in their research and development capacities in order to be able to provide better and more complex services to their customers. The growth of the Czech manufacturing sector has provided an impetus for the growth of small companies providing specialised services. The most positive aspect of this development is that companies such as Foxconn trust the Czech Republic and are investing in expansion of their activities in the country.

CzechInvest, the national investment and business development agency, is able to assist foreign companies, which are looking for new potential partners for manufacturing, assembly and development of new products. The agency has compiled extensive databases of Czech-based producers of industrial products and components and can match foreign companies with potential Czech partners. Czech companies, especially smaller ones, can receive assistance, which will enable them to increase their ability to compete for contracts from foreign and Czech-based companies. Contracts worth CZK 1.8 billion (EUR 65 million, USD 85 million) were signed in 2006.

Interview with Jim Chang, General Manager of Foxconn CZ



Jim Chang

Jim Chang was born in mainland China but spent his childhood in Taiwan. Having worked for Foxconn in the United States, he came to the Czech Republic in 2000. He has been Managing Director of Foxconn CZ in Pardubice since the company's manufacturing plant began operations there. The company now employs nearly 5,000 people. In his spare time Jim Chang likes to play golf and watch movies.

You decided to invest in the Czech Republic seven years ago, when you built your first manufacturing plant in Pardubice. Why the Czech Republic?

We wanted to have a manufacturing facility in Europe. Most of our customers had their largest markets in Europe in 2000 and we were looking for the best location to be as close as possible to those markets. The Czech Republic fully met our conditions. Our Czech plant helped us deliver products to our customers in a much more simple way. Transportation from other countries would have taken six to eight hours more and in our business it is necessary to save every minute. Plus, comparing the Czech Republic with other countries at that time, the costs of doing business also played an important role in our decision.



Foxconn CZ

The number of companies manufacturing or assembling flat LCD screens, TVs and monitors in the Czech Republic is growing (Panasonic, Hitachi, IPS Alpha, Tantung, BenQ and Changhong are already operating in the Czech Republic, ed.). Why is that?

I suppose that all companies have the same reasons we had. Furthermore, based on our example they have seen that it works here.

You are now planning to build another manufacturing plant in this country. Why have you decided for the Czech Republic again?

The main reason for our decision to invest in another facility is that we have been here for seven years. We know the environment and have good employees here. We said to ourselves that if we are to have another manufacturing facility in Europe, the best location for it would be the Czech Republic. We have not had any major problems here and I believe that this will be the case in the future too.

Why you will not build the new plant in Pardubice?

We already have 5,000 employees there. Of course, we could increase the capacity for more than 6,000 employees, maybe more. But we are looking for a location for 5,000 employees. Getting those 5,000 employees will not be easy so it will be better for the plant to be outside of Pardubice. Everybody, not only us, says that there is a shortage of people. This is a problem of all companies, no matter where they are from – the Czech Republic, Europe, America....



Foxconn CZ, shop

Are you trying to lure employees from more distant towns too? For example, are you offering them accommodation?

When choosing a location, we always want people from within a radius of about 40 kilometres to be able to work there. It would be ideal if we had all employees only from that area. I have spoken with many people about the possibility of bringing in workers also from areas with high unemployment. In the Czech Republic people have so far been reluctant to move but we will try to change this.

How exactly?

As far as recruitment is concerned, we will try to recruit people from within a 40-kilometre radius first. The next step will be – if necessary – recruitment from within a wider radius and arranging accommodation for workers. I believe, however, that the situation will change and Czechs will start to move to where jobs are. Everything should be balanced – you have regions where the unemployment rate is 6% but also regions with 16% and more. It would help entrepreneurs, foreign and domestic, if people started to move and it would help the Czech government too. But it is true that we can also bring people from abroad to the factory if not enough locals are interested.



An employee of Foxconn CZ at work

How large will your investment in the new plant be?

There are two possibilities which depend primarily on the availability of a sufficient number of employees. We can invest 70 USD million or less but we can also go at full speed and invest more than 100 million dollars. I cannot have technologies ready and then not have people. That would be a bad decision.

Abridged and translated from the daily Hospodarske Noviny, 10 April 2007

Understand the locals and integrate

Interview with Maurice Ward Jr.
Managing Director, Maurice Ward & Company



Maurice Ward Jr.

Maurice Ward Jr. came to the Czech Republic in the early 1990s to set up the Prague branch of the Maurice Ward Group, an Irish forwarding company originally established in Dublin in 1968. Since then, the group's operations have expanded from freight forwarding and logistics to not only software development for the logistics industry, but also to contract manufacturing and integrated end-to-end supply chain management. The group now has nine branches in the Czech Republics, branch offices in Ireland, Hungary, Slovakia, Romania, Germany, Austria and the UK, as well as satellite offices in the Balkans, Poland, the Baltic states, Belarus, Ukraine and Holland. Its clients include leading multinational companies such as Panasonic, Hewlett Packard, Packard Bell, and BenQ. The Maurice Ward Group currently employs nearly 800 people, mostly in the Czech Republic, and turnover is expected to exceed EUR 100 million this year. The group is now headquartered in Prague, where Maurice lives with his family.

Why did you decide to invest in the Czech Republic?

Our first investment was made in 1994. At the time, there were few competitors involved in our major fields of operation. We have made many new investments since then, mainly because the staff and management available in the Czech Republic have grown the business and identified opportunities. The group headquarters is now located in Prague and we are committed to future investments in the country.

You have lived in the Czech Republic for more than 10 years. Do you intend to stay here forever?

Forever is a long time, but we are very happy in the Czech Republic and I cannot see myself or my family ever leaving the country.

Are you happy with your Czech employees?

Yes. Czech employees are excellent. We could not have grown the business in the Czech Republic without our excellent staff. It is important for any investor to understand what motivates employees, as this will determine the commitment of any individual to the organization.

Do you use Czech suppliers?

Yes, where possible we will always use Czech suppliers. If there is no difference in quality, price and customer service, a Czech supplier will always win.

Do you plan any expansion of your activities in the Czech Republic?

Yes, we intend to invest heavily in the Czech Republic again in 2008. Our local customers are growing and our philosophy is to invest in our customers.

Czech wages are going up. Is this a threat? Are you considering moving eastwards?

The labour market is much tighter than it has ever been. In specific pockets and regions, it is becoming nearly impossible to find skilled or even unskilled workers. Many organizations are covering the peak season with imported labour. Increased wages will force companies involved in pure assembly to consider moving further east. Corporations with more capital-intensive operations will move more slowly, if at all. I believe a skills shortage presents a greater threat to Czech Industry than increasing wage costs. Moving further east than the Czech Republic presents political and, especially, logistics issues. A key advantage of the Czech Republic is its proximity to the biggest markets in Europe. As the world becomes more and more „just in time“, moving further from the end customer becomes more challenging.

How do you see the Czech Republic in five or ten years?

The outlook is very bright. Financial institutions will loosen credit and the consumer will continue to spend. This will drive much of the service sector. The profile of foreign industry in the Czech Republic is excellent. The automotive sector will still be strong in five and ten years' time. Unlike Ireland, I expect industry to stay in the Czech Republic for the long term. Unless politicians do something silly, the country should be very prosperous in ten years' time.

What would be your advice to foreigners who are now relocating to the Czech Republic?

The main advice to investors would be to try to understand and empower the local workforce. Management methods that work in Germany, Japan or the USA may not work here. A motivated Czech workforce can achieve amazing results. For individuals, I would suggest trying to get to know some Czech people. Especially in Prague, it is very easy to live in an expat world where there is no contact with Czech nationals. It is much healthier to integrate and understand the local culture than to live on an expat island.



Illustrative photo, Maurice Ward & Company

What should the Czech government do to make relocation to and life in the Czech Republic easier for people like you?

I do not believe it is the responsibility of the government to make my life any easier. I do not think there is anything in the Czech Republic that is more difficult than in any other country. In the Czech Republic, if you fill in the forms correctly, everything is very straightforward.

What is your favourite place in the Czech Republic?

My chata (cottage). It is great to get away from the city and get back to nature for the weekend.

Clusters: getting a head start through partnership

A persistent problem of many Czech firms is their isolation and lack of communication and cooperation with the science and research sector. Membership in a cluster is a possible solution that can aid the development of such firms and enhance their competitiveness.

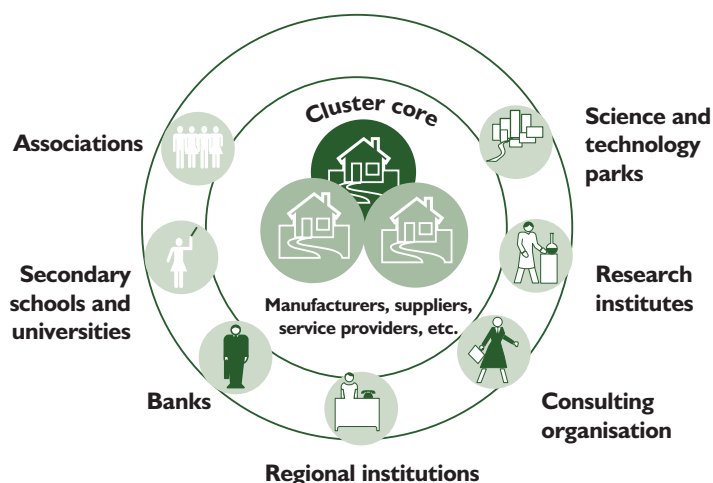
A **cluster** is a regional cooperative grouping associating firms in a specific sector and other supporting institutions and organisations – particularly institutions of tertiary education. Though participating companies compete with each other, at the same time they work together to solve a range of common problems. Thanks to cooperation in these areas, they can overcome their limitations and gain a competitive advantage, which is difficult to achieve alone. Doing so involves an advantageous, multifaceted partnership between companies, universities and regional institutions that provides a range of benefits for all members of the given cluster.

A cluster's benefits for its members

By participating in a cluster, **companies** can primarily achieve economies of scale and lower their costs, which is clearly a key aspect of participation. Nevertheless, there are several other areas where a cluster can assist its members, particularly in overcoming the limitations of small firms and enhancing their specialisation, as well as accelerating the transfer of information and technologies. A cluster also enables small firms to improve their negotiating position; more effectively conduct lobbying activities and compel the government toward investment in specialised infrastructure. Thanks to such a partnership, firms can eventually receive orders, which would otherwise be out of reach due to price or scope and jointly implement large projects in the area of innovation, research and development, for example. Cooperation with groupings of companies in specialised sectors offers **universities** the possibility to enhance their knowledge and understanding of business processes and needs. This makes it possible for the students of a given school to receive a tailored education in a particular area. Graduates are thus better prepared to work in industry and the curricula are better adapted to the needs of students. A no less important area of interest for universities is applied research, which allows them to become involved in profitable real-world research projects.

The motivation for **public administrative** bodies to participate in a cluster lies in the fact that the concept of clusters is an important and effective regional-development tool, which has been proven in many countries around the world. Through involvement in a cluster, regional administrative authorities can channel support to prospective sectors and firms

The structure of a cluster

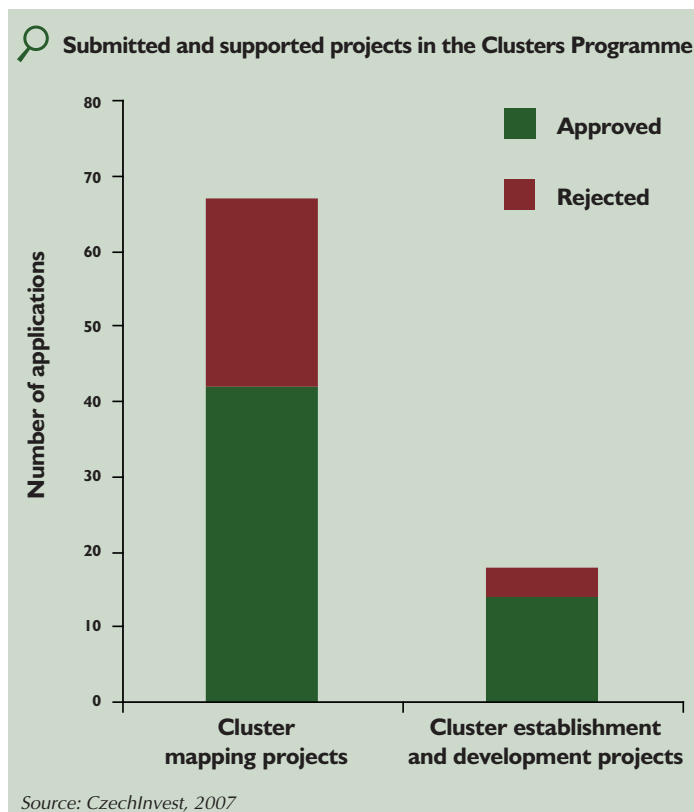


Source: CzechInvest, 2007

with strong growth potential. In turn, this contributes to the specialisation of the given region, increasing its attractiveness for investors and strengthening the overall competitiveness of the regional economy. Equally important is a cluster's role as a forum for dialogue between key actors in the regions, which enables the creation of effective public-private partnerships.

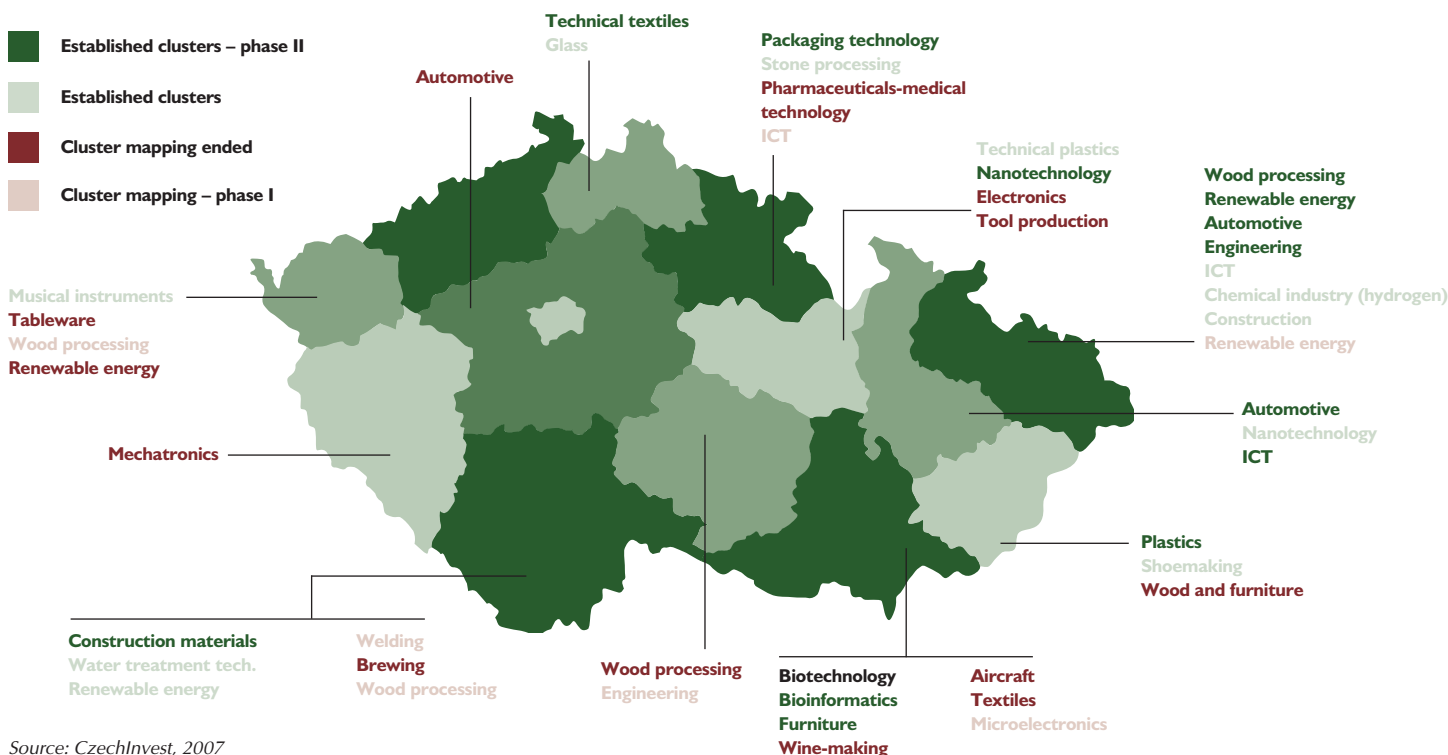
Cluster formation

The structure of clusters can vary depending on their objectives, number of members and environmental conditions. The form of a typical cluster in the Czech environment is simply demonstrated in the illustration below. Due to the fact that setting up a cluster is a long and demanding process, it is usually divided into two phases. The first phase involves **mapping**, the aim of which is to determine whether there is potential for establishing a cluster and if doing so would provide a competitive advantage in the given sector. This process involves the identification of functioning partnerships between firms in the sector and existing or potential links to universities



in the relevant field. This phase thus results in the discovery of suitable entities interested in cooperation through membership in the cluster and the formulation of the cluster's vision and strategy. Although the mapping process may appear simple in this brief outline, this is not always the case. Convincing firms to participate and reaching a consensus with regard to their common needs and the cluster's goals can be rather difficult. Thus a **facilitator** may be needed to assist with the cluster's inception. A facilitator is a person who works to encourage the involved entities to discuss the question of partnership, helps them to find common areas

Overview of existing clusters and cluster initiatives in the Czech Republic



Source: CzechInvest, 2007

of interest, define action plans and start effective cooperation between the cluster's members. The second phase of development involves gathering information, identification of the key actors and formulation of the cluster's structure and strategy, leading to the actual **establishment of the cluster** in the form of a new legal entity (most commonly a civic association, cooperative or an association of legal entities) and subsequently to its **further development**. At this stage, the cluster's members can begin effective cooperation and emphasis is placed on implementation of the most various joint projects. These are most often oriented toward the areas of research and development, innovation, promotion and marketing, human resources development, and sharing information and know-how.

Clusters in the Czech Republic

Clusters and cluster initiatives have proven successful around the world. In recent years support from European Union structural funds has been focused on the development of clusters in the Czech Republic as well.

Within the Operational Programme Industry and Enterprise (OPIE) for the period 2004-2006, the **Clusters Programme** was focused on activities leading to the development of cooperation between companies, universities, science and research institutions and other organisations, as well as mutual cooperation between individual firms. In the new programming period 2007-2013, the similar **Cooperation Programme** will build on the success of the Clusters Programme. Like the previous programme, this new programme will support the establishment and development of cooperative groupings as a tool for innovation and increased competitiveness of the economy (more information is available at www.czechinvest.org/spoluprace).

Particularly thanks to the extensive promotional activities conducted by CzechInvest, the Clusters Programme was of great interest to companies and entrepreneurs. A total of 85 applications were submitted to this programme with a requested total grant amount of approximately CZK 580 million, which far exceeded the total financial allocation intended for the programme. In the end, 56 projects received support in the form of grants totalling CZK 280 million, thus utilising the programme's entire allocation. To date, **25 new legal entities (clusters)** have been established in the Czech Republic and are in various phases of development. Of these, the furthest along

in their development are 14 clusters, which have received support in the second phase and are gradually implementing larger joint projects. Clusters are being established in a wide range of sectors in the Czech Republic. These can be simply divided into three types: traditional sectors (e.g. wood processing, mechanical engineering, footwear), transforming traditional sectors (technical textiles, plastics, packaging technology) and high-tech sectors (nanotechnology, biotechnology, ICT).



CLUTEX – technical textiles cluster. Gala opening of the "The Meaning of Textiles" exhibition at the STYL Brno trade fair.

EXAMPLES OF SUCCESSFUL CLUSTERS

CLUTEX – technical textiles cluster (www.clutex.cz)

Established in the Liberec region, CLUTEX is a successful cluster in the area of technical textiles, which is a traditional branch of Czech industry that has undergone an impressive transformation. The impetus for establishing CLUTEX was primarily the interest of the 17 founding companies in which the mapping phase was executed and the efforts of two non-manufacturing entities – the Association of the Textile, Clothing and Leather Industry (ATOK) and the Technical University in Liberec. ATOK has endeavoured to improve the image of the Czech textile industry and has undertaken to implement the conclusion of a study called TOP Strategy for the Czech Republic by 2010. During this period, the university was lacking the greater interest of manufacturers in the results of research and development and their implementation, which led to the decision to utilise the opportunities offered by the OPIE Clusters Programme.

The cluster's aim is to change the orientation of its members' production toward products with greater utility and higher added value, and toward greater utilisation of science and research findings, thereby gaining a competitive advantage. A further endeavour is to increase the prestige of the member companies through their involvement in the production of special types of technical textiles according to the capabilities of the individual enterprises and through the offer of completed science and research works from the Technical University and other research firms that are partners of the cluster. Innovations resulting from cooperation between the involved entities play an important role in this project.

The cluster's practical activities – seminars, workshops, creation of implementation teams for transferring selected development concepts into practice, preparation of studies – are currently underway. CLUTEX's manager Libuše Fouňová, considers the cluster's participation in the STYL Brno trade fair as a great success, as its exhibit was highly regarded even by individual visitors, and also points positively to the construction of a network of specialised laboratories. Thanks to this, a workplace within the cluster has been equipped with instruments for determining the properties of threads of individual technical textiles and software for designing complicated technical fabrics.

The quality of this project is evidenced by its being awarded the title Cluster of the Year 2006, which Libuše Fouňová sees as praise for the activities, diligence and determination of the cluster's management and members in fulfilling the conditions of the programme.

OMNIPACK – cluster of packing manufacturers (www.klastromnpack.cz)

The Hradec Králové region is home to one of the Czech Republic's first clusters, OMNIPACK (25 members), which brings together primarily small and medium-sized enterprises from the packaging industry, their suppliers, providers of other services, and the University of Pardubice.



OMNIPACK - cluster of packaging manufacturers, development and testing centre

bice. According to its manager Petra Všečeková, the initial motivation for establishing the cluster was the loose association of Omnipack firms operating in the area of packaging production. "Thanks to mutual cooperation, we discovered that by joining together individual firms can take on larger and technically more demanding orders, including those requiring cooperation with other producers. We found that we can cooperate and that doing so is beneficial for the participants."

The aim of the cluster is to support and coordinate cooperation between the members not only in production, but also in the areas of innovation, promotion, export and professional training in order to achieve greater competitiveness, economic growth, increased exports and a larger number of implemented innovations.

A pivotal joint project of the cluster is the establishment and development of a testing centre with unique technology for developing new packaging and designing fixing agents. The centre also includes equipment for measuring the mechanical stress affecting packages and the products contained therein, and testing equipment for verifying the quality of packaging systems in relation to product-protection requirements.



Cluster-manager's Conference in Prague (February, 2007)

Plastikářský klastr (www.plastr.cz)

Plastikářský klastr is a plastics cluster established in the Zlín region as the result of the mapping of firms in the local rubber and plastics industry. In reply to the question of what led to the cluster's establishment, its manager Jaroslav Toufar, stated: "The simple answer can be found in the statistics on the industry's efficiency in the Zlín region. Rubber and plastics processing is the single most efficient industrial segment in the region, which is clearly the Czech Republic's dominant region in this sector." In addition to a large share of production and employment in the region, Jaroslav Toufar sees the cluster's strength in the support provided by the region, which is financially involved in the project. "However, I consider a more essential element to be the cluster's involvement in the preparation and, I hope, implementation of the Regional Innovation Strategy, which is to be the key programme for development in the region," says Toufar.

The cluster currently has 19 members, exclusively plastics companies, 75% of which are small and medium-sized enterprises. In the area of science and research, the cluster cooperates with all faculties of Tomáš Baťa University in Zlín and the Technological Innovation Centre. The cluster's activities are focused particularly on increasing the competitiveness and efficiency of the sector in the region, as its vision is to become the Czech Republic's centre of innovative plastics processing. The goals are to create a representative forum of plastics manufacturers, to set up an effective network of such manufacturers in order to facilitate the use of selected services and products, and to lay the groundwork for preparation of joint development projects. The cluster's activities are focused on four priority areas: presentation and promotion of the cluster, human resources development, research and development, and joint purchasing of products and services. One of the cluster's pivotal joint projects is the establishment of the Plastics Technology Centre, which is to be a combination development and training centre.

More information is available at www.klastr.cz

Author: Marie Wernerová, CzechInvest

Hyundai plant construction at full speed

Hyundai's Chairman and CEO, current and former members of the Czech national and local governments, representatives of local authorities from the Moravian-Silesian region, CzechInvest employees and AFI members, suppliers, car dealers and would-be employees – more than 600 guests came to the construction site in Nosovice on 25 April to witness the ceremonial start of construction of Hyundai's first manufacturing plant in Europe.



Groundbreaking ceremony (April 2007)

Hyundai Motor Manufacturing Czech Ltd. - General information

Total land area:	200 hectares / 500 acres
Planned investment:	EUR 1.1 billion
Number of employees:	3,520
Parts of the plant:	pressshop, bodyshop, paintshop, assembly hall, and transmission plant
Production capacity:	300,000 cars and 600,000 transmissions per year
Cars produced:	C-class passenger car, MPV, third model to be introduced in 2011

The first phase of the 1.1 billion-euro plant, to be completed in the spring of 2009, will employ over 2,800 people and produce 200,000 cars annually beginning with the i30 C-class five-door hatchback and a yet-to-be revealed compact minivan. In the second phase, to be completed by 2011, a third model line will be added, another 675 jobs created, and production capacity expanded by another 100,000 vehicles per year.

"With Hyundai's accumulated manufacturing experience in Korea, China, the USA, Turkey and India, we have created a truly state-of-the-art manufacturing facility that will set the standard for efficiency and productivity. When combined with the strong capabilities of Czech workers and the Czech reputation for excellent craftsmanship, Hyundai Motor Manufacturing Czech has the potential to make the highest quality cars in all of Europe," said Chung Mong-Koo, chairman and CEO of Hyundai Motor Company.

The Nosovice factory will benefit from synergies generated by its close proximity to Kia Motors Slovakia (Kia is a wholly-owned subsidiary of Hyundai), located just 85 kilometres (53 miles) to the east, with which it will share suppliers and other support functions. The Nosovice plant will manufacture up to 600,000 transmissions per year for both Hyundai and Kia, while Kia will manufacture engines for both plants.

Companies supplying products and services to Hyundai may create additional 10,000 jobs in the Czech Republic, providing a significant stimulus for the growth of the Czech economy. At least 13 of Hyundai's Korean suppliers are expected to build manufacturing plants and create at least 4,000 jobs in the country. For comparison, eleven Korean suppliers have already set up shops in Slovakia to supply Kia. Additional jobs will be created by Czech companies supplying Hyundai and its suppliers with a wide range of parts and services. Czech companies are already supplying the construction site – Ross Holding of Havlickuv Brod is building electrical wiring networks on the site and inside buildings while Ostrava-based Satjam will supply metal siding for all buildings on the site. Negotiations with other suppliers are underway.

"The construction of the Hyundai automobile plant in Nosovice, which we are ceremonially starting today, has and will have many further effects for the region," says Evzen Tosenovsky, governor of the Moravian-Silesian region. "There has already been an extraordinary inflow of capital, new investors are coming from sectors that the region needs and wants, such as IT, and various companies are moving their service centers here. Infrastructure, mainly for transport, is being completed. The education system is being expanded and the region has become very attractive for real estate developers."



Press-shop (January 2007)

Selected Hyundai suppliers investing near Nosovice

Company name	Products	Employees	Location
Donghee	Fuel tanks	230	Cesky Tesin
Dymos	Car seats	300-400	Frydek Mistek
Hanil E-Hwa	Interior parts	500	Chlebovice
Hyundai Mobis	Chassis modules	800	Nosovice
Hyundai Hysco	Sheet-metal and pipes	70	Nosovice
Matador-DongWon	Rubber parts	200	Trinec
Pyeong Hwa Automotive	Door-module parts	260	Cesky Tesin
Plakor	Plastic parts	500	Mosnov
Sejong	Exhaust systems	250	Karvina
Sungwoo	Sheet metal parts	1,500	Ostrava-Hrabova

Project milestones

- September 2005** First visit to Nosovice
 - 27 March 2006** Announcement of decision to invest in Nosovice, Czech Republic
 - 18 May 2006** Investment agreement signed in Seoul
 - 7 July 2006** Hyundai Motor Manufacturing Czech Ltd. established
 - September 2006** Preparatory works in Nosovice started; tree relocation, etc.
 - 1 November 2006** Top-soil removal begins
 - December 2006** Land-leveling started
 - 21 March 2007** Construction of transmission plant started
 - 25 April 2007** Ceremonial start of construction
 - 16 May 2007** Construction of paint shop started
-
- October 2007** Start of construction of administrative building
 - End of 2007** Completion of production buildings
 - Early 2008** Start of machinery installation
 - July 2008** Completion of administrative building
 - October 2008** Start of test production
 - March 2009** Start of mass production
 - 2010** Annual production – 200,000 cars
 - 2012** Annual production – 300,000 cars



Land levelling (January 2007)



Hyundai i30

Business with curry's flavour

Indian investors in the Czech Republic

Global flows of foreign direct investment (FDI) have seen a new trend in the past few years: companies from developing countries are increasingly becoming important investors beyond their own borders.

Brazilian, Indian, Mexican, Russian and Chinese companies are joining US, European and Japanese companies in a massive outward expansion, which involves not only exports, but also investment in other countries. Between 1987 and 2005, the share of companies from developing and transition economies participating in such deals increased from 5% to 17%.

Western European subsidiaries. Nevertheless, companies from other regions have also invested in the country: in the manufacturing sector, the Czech Republic has attracted companies from countries such as China, Malaysia, Mexico, Russia, South Korea, and Taiwan.

These companies manufacture a wide range of products including LCD and plasma televisions and monitors, computers and other IT equipment, metal products, trucks, textiles, and food products. They are also active in IT services. This confirms that the trend of developing country FDI is also affecting the Czech Republic and that the country is truly a part of the global economy.

The largest number of developing-country investors in the Czech Republic is from Taiwan, though Indian companies are quickly catching up. This should come as no surprise – the Indian economy has been growing by 8-10% per year over the last decade and many Indian companies have grown to become global leaders in their fields of activity.

The largest Indian investment in the Czech Republic is that of **Mittal Steel Holding**. In early 2003, Mittal took over 52% of the largest Czech steel company, Nova Hut, for USD 6 billion and a commitment to invest CZK 9 billion (approx. 300 million USD) in the company within following ten years. The venture has been very successful – in 2006, production at Mittal Steel Ostrava, as the company is known today, increased by 13%. The company was the eleventh largest company in the Czech Republic in terms of sales in 2006 and with some 8,000 employees it ranks among the largest Czech employers as well. Nearly CZK 1 billion (USD 46 million) was invested in 2006 and the company announced plans to invest an addition CZK 4-5 billion within next few years.

Some Indian investments have been in industries that are traditionally strong in India but under heavy competitive pressures in Europe. **Alok Industries**, a textiles producer, acquired Mileta, a traditional Czech producer of handkerchiefs, in early 2007. The deal will mark a major turning point in the history of Mileta, as the company will change its traditional production to the manufacture of shirting and damask fabrics. The production of handkerchiefs will be based on finishing semi-finished products imported from India, whereby Alok and Mileta hope to increase their competitiveness on the European market.

Another example is the acquisition of the Czech tea packaging company Jemča by **Tata Tea** through its British subsidiary Tetley. Jemča is a leader on the Czech market with a 30% market share and 45 kinds of black, fruit and herbal tea sold under its own brand name, though also exports to countries such as Switzerland, Austria, Finland, Slovakia and even Japan.

Indian companies have also invested in the Czech truck-manufacturing sector – the traditional pride of Czech industry. **Vectra Group**, a manufacturer of construction equipment, trucks, buses and automotive components, is a minority (11%) shareholder in Tatra, a Czech company whose history of truck and car manufacturing goes back to 1895 when Tatra produced the President, the first car manufactured in Central Europe. Vectra is one of Tatra's largest customers in Asia and assembles Tatra trucks in its manufacturing facility in Hosur near Bangalore.

In 2006, **Ashok Leyland**, the second largest automotive group in India, acquired the ailing Prague-based light-truck producer Avia. Another Czech company with a long tradition but an outdated product

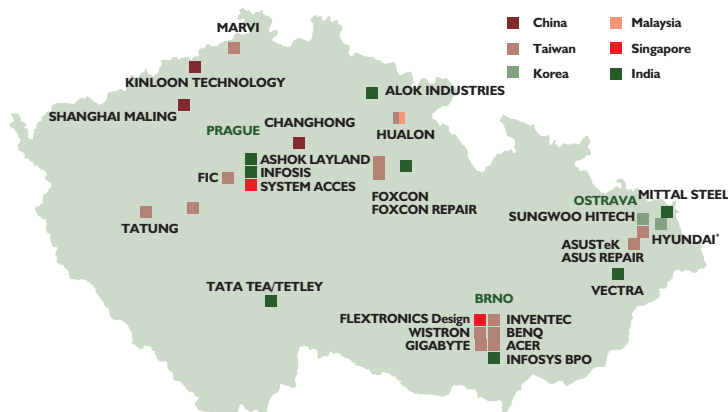
The World Investment Report for 2006 lists several reasons for this trend:

- Companies from developing countries have obtained a significant share of their domestic markets and are investing abroad to expand their customer base.
- Domestic production costs have risen to the level, which makes production in another country an interesting proposition.
- Competition on the local market from domestic and foreign firms is another reason why developing-country companies internationalise their activities in order to maintain or increase their competitiveness.
- Growing demand for raw materials in recent years is another incentive to invest: raw-materials processors from developing countries invest abroad to maintain control of potentially scarce resources. At the same time, rising global prices of raw materials have strengthened their financial position.
- Companies from developing countries have become more technologically advanced and their products are in many cases no longer inferior to the products of their developed-country competitors.

In some countries (e.g. China), governments actively encourage domestic companies to invest abroad while companies from other countries (e.g. South Africa) are investing abroad to lower the risk associated with an unstable domestic political climate.

Traditionally, most foreign direct investment coming to the Czech Republic has originated in the developed economies of Western Europe, the United States and Japan. In 2006, inflow of FDI from these countries accounted for more than 96% of the total, although the Czech National Bank's statistics may be distorted by the fact that many non-European companies are investing in the Czech Republic through their

Major Asian investors in the Czech Republic



Japanese investors were listed in the previous issue.



Illustrative photo, Avia Ashok Leyland Motors

and shrinking customer base, Avia has gone from nearly 5,000 employees and annual production of 15,000 vehicles in 1989 to fewer than 300 employees and just over 500 vehicles sold in 2006. A failed joint-venture with Daewoo in the 1990s and insufficient investment in the development of new products greatly contributed to the decline of the company, which once (in the first half of the 20th century) manufactured not only trucks and cars, but also aeroplanes. Indian investment in Avia has already made a great impact – the company has rebuilt its sales network in Europe and plans to sell 1,150 to 1,400 vehicles this year, mainly in the Czech Republic and Slovakia but with 300 trucks going to Ireland and Great Britain and others to be sold in Spain and Hungary. Ashok Leyland arranged the sale of 100 vehicles in Australia through its own network and plans to use its strong sales network in Central and East Asia for the distribution of Avia's products.



Illustrative photo, Avia Ashok Leyland Motors

Avia's existing strong contacts in Russia and other countries of the former Soviet Union will be utilised to expand the activities of both Avia and Ashok Leyland in this region. The two companies complement each other well – Ashok Leyland produces trucks weighing 15-50 tonnes, while Avia's trucks weigh only 7.5-12 tonnes. Sharing research and development as well as Ashok Leyland's Indian supplier base is expected to help Avia increase sales to nearly 4,000 vehicles next year and up to 6,000 in 2010. The company is hiring for its Prague factory again, with 60 employees expected to join its staff in September 2007.



Infosys BPO, grand opening of the new centre in Brno

However, Indian investments are not limited to manufacturing. The largest Indian IT company, **Infosys**, has invested heavily here, with a large office in Prague and a business-process outsourcing centre in Brno, the Czech Republic's second city. In Brno, the BPO facility opened under the name **Progeon** was recently renamed **Infosys BPO** and an expansion from the current 200 employees to 400 was announced at the end of April. The facility was established to provide end-to-end transformational outsourcing solutions, infrastructure management services and additional IT service capacity to the company's European clients, which include companies in the automotive, manufacturing, banking, insurance and capital-market sectors. The expanded Brno facility will employ workers from over 20 nations, 80% of whom are hired locally. The centre provides services in over 20 languages, including German, Spanish and French. "This nearshore centre in Europe complements our offshore development centres in India, allowing us to provide customers a complete, seamless outsourcing solution," said Amitabh Chaundry, CEO and Managing Director of Infosys BPO during the opening of the new centre in Brno on 26 April.



Infosys BPO, grand opening of the new centre in Brno



There is growing interest among Indian IT-services and software-development companies in the Czech Republic and its neighbours. One of the reasons for this is the necessity to provide services to clients in languages other than English. Sourcing used to be practiced mainly by US and British companies in the past but now many companies from France, Germany, the Netherlands and other countries are also outsourcing or considering doing so. Companies providing outsourcing services must be prepared to do so in European languages other than English, and not just German and French but also Spanish, Italian, Dutch, Swedish and Russian. The availability of people who speak these languages is limited in India but does not pose a problem in the Czech Republic. Another factor spurring interest in the region is the necessity to be closer to European customers – most locations in Europe can be reached within a one or two-hour flight from the Czech Republic.

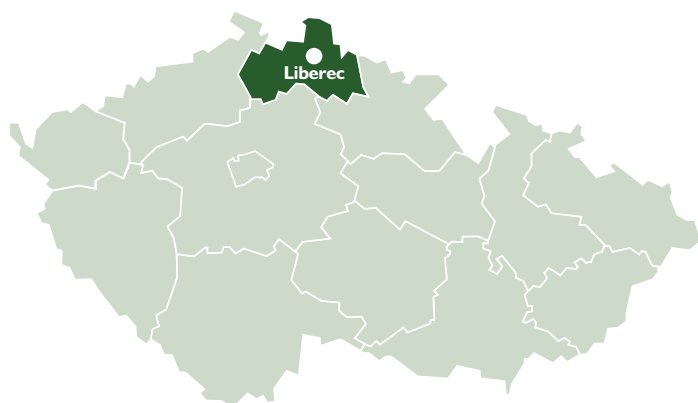
The latest Indian investment in the Czech Republic was announced this March – the generic drugs manufacturer **Glenmark Pharmaceuticals** of Mumbai acquired more than 90% of the Czech company **Medicamenta**. Glenmark thus acquired a base for its expansion to the European market. Medicamenta produces pharmaceuticals, veterinary drugs, food supplements and cosmetics for the Czech and Slovak markets and owns familiar brand names such as Superpyrin. The deal is also a prime example of globalisation: Medicamenta, with a history dating back over half a century, was acquired by a company that is nearly three decades younger – Glenmark was established in 1977.

The current wave of Indian investment continues and complements a rich tradition of Czech-Indian economic relations – the Czech consulate in Mumbai was established in 1920, less than two years after the establishment of Czechoslovakia. Czech companies have left a significant mark in India – Skoda as a supplier of industrial and power-generation machinery and equipment, Bata as a shoemaker as well as a builder of towns for its employees (e.g. Batanagar in West Bengal) and Jawa through its motorcycles, once a major mode of transport for many Indians. Czech companies have also invested in India in more recent times – Tatra in Hosur and Skoda Auto in Aurangabad, to name just a couple. It is obvious then that economic relations between the two countries seem set to flourish.

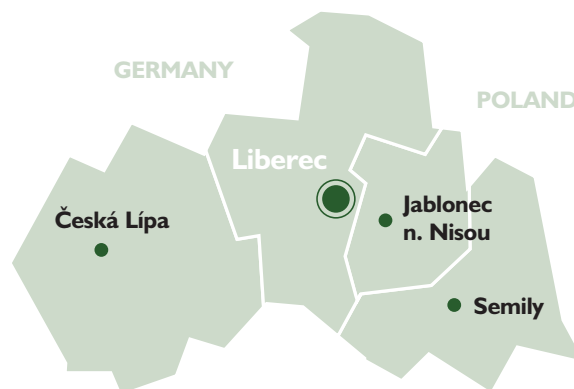
Liberec: a small region with huge potential



World-famous Bohemian crystal, nanotextiles and unique automotive components are not the only products for which the Liberec region is well known. In spite of its diminutive size, this second smallest region of the Czech Republic has great development potential and a rich industrial tradition.



The Liberec region's location within the Czech Republic



Map of the Liberec region

Basic Data

Land area	3,163 km ²
Population	430,290
Population density (pers./km ²)	136
Unemployment rate (2005)	8.30%
Labour force (2006)	215,600
GDP per capita (2006)	7,800 EUR
Region capital	Liberec

Source: Czech Statistical Office 2006, City Invest Czech 2006 - 2007

Unique landscape on the border

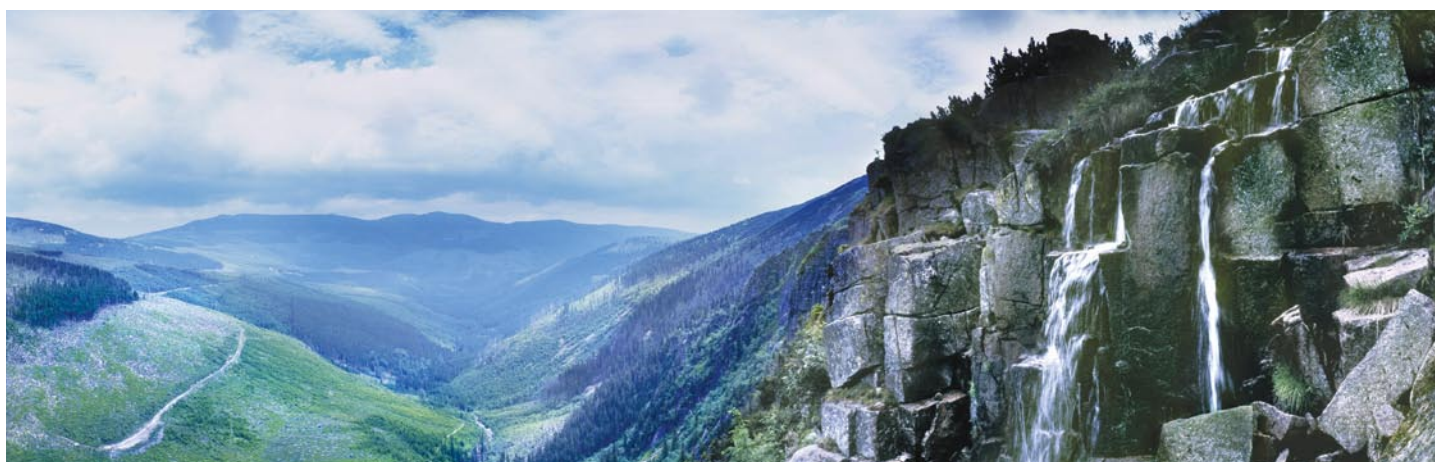
The Liberec region borders Poland and the Federal Republic of Germany. It is neighboured by the Hradec Králové region to the east, Central Bohemia to the south, and the Ústí region to the west. The region's capital

and natural centre is the city of Liberec, which has a population of nearly 100,000 and forms a single agglomeration with the nearby city of Jablonec nad Nisou.

The Liberec region's natural border is formed by the Krkonoše and Jizera Mountains. Popular among tourists, these mountains are dotted with ancient castles and chateau, giving the region a unique, romantic atmosphere. In addition to a range of other natural monuments and points of interest, the expansive Macha Lake is a very popular destination for outdoor relaxation in the region.

A powerful trio: textiles, machinery and glass

Before the First World War, the Liberec region was already the most well developed industrial area of the then Austro-Hungarian Empire, and its tradition of machinery, textile and glass production continues to this day. The region's textile industry is now in a modern guise, which is evident in the presence of a range of advanced firms producing primarily technical and specialised textiles. For example, the companies Direct Alpine and Singing Rock focus on high-quality outdoor clothing and equipment, while



Krkonoše Mountains



Lighting fixtures from the company Preciosa - Lustry are used in many hotels, casinos and other luxurious spaces, including a wedding hall in Osaka, Japan.

Technolen produces special technical textiles. We must also mention the Liberec-based firm Elmarco, which specialises in unique nanotextiles that are able to filter out bacteria and viruses.

Glassworks in the Liberec region have been producing world-renowned Bohemian glass jewellery and crystal (Jablonec, Crystalex, Preciosa) for centuries. Near the city of Turnov, the focus in years past was always on working gemstones. Today,

this practice has a more modern, industrial form as represented by, for example, Crytur, which works artificial crystals used in lasers and electron microscopes, and the company Saint-Gobain, which machines advanced ceramics for plumbing fixtures.

Suppliers of automotive components are currently undergoing extensive development in the region. It is commonly said that it would be possible to build a complete automobile from parts manufactured in the Liberec region. The majority of local companies in this sector (Cadence Innovation, BTY plast, Fehrer Bohemia and others) primarily supply plastic mouldings. A full range of multinational companies such as Benteler, Knorr Bremse, TRW, Monroe, Denso, ArvinMeritor, Pekom Kabeltechnik and Bosch also have operations in the region. Other, smaller yet highly specialised engineering firms with their own development departments collaborate with universities and are able to provide unique, high-quality technical solutions (PSV, Krofian, Jablonecká nástrojárna, VÚTS, Litmas, EPR).

Accessibility: a key to the region's success

The Liberec region's advantageous location ensures outstanding transport accessibility. Thanks to the highway interchanges in Rumburk and Zittau, Berlin is only four hours away by bus and Wrocław, Poland, can be reached in a mere two hours. A key aspect for the region is the four-lane expressway from Prague to Liberec, by which it is possible to reach the outskirts of the capital in under an hour. This continually developing highway network is highly valued by automotive-component suppliers. It is possible to travel from Liberec to Škoda Auto's Mladá Boleslav plant in 35 minutes and TPCA in Kolín in only an hour.

A further advantage of the region is its favourable connection to the German state of Saxony with several railway interchanges (primarily Zittau, Varnsdorf) and thus the rail connection to Dresden. The railway line to Poland is also used extensively.

New spaces – new possibilities

New industrial zones covering roughly 10 hectares in Turnov, Nový Bor and Hrádek nad Nisou will be available to companies from 2009. Hrádek, which lies only a few hundred metres from the border with Poland and Germany, is a particularly appealing location. In cooperation with the Liberec region, CzechInvest has drawn up an overview of available brownfields for whose revitalisation it is possible to obtain support from EU Structural Funds. Revitalisation of two ten-hectare brownfields has also been prepared by private developers for rental production halls in Liberec and Nové Město pod Smrkem. An additional 15 hectares of very promising sites are available in the region's Liberec North industrial zone.



An employee of TRW Automotive at work

A unique centre of education and development

The Liberec region can pride itself on having excellent preconditions for the growth of research and development. A number of interesting and unique specialisations can be found among the students in Liberec and the surrounding area.

The Technical University in Liberec is the most important institute of higher learning in the region with 7,000 students attending six faculties, not only in technical fields.

The Technical University has taken part in a range of significant research projects. Its most well known patents are in materials engineering and nanotextiles. Specialists at one of the university's laboratories recently succeeded in designing a device for the production of nanofibres used in healthcare. The engineering faculty developed a special steel

🔍 Main foreign investors in the Liberec region

Name of company	Country of origin	Sector	Location
TRW Automotive	Germany, USA	Automotive industry	Jablonec n.N., Frýdlant
Benteler	Germany	Automotive industry	Liberec, Chrastava
Cutisin	Great Britain	Packing materials	Jilemnice
Bombardier Transport	Canada	Transportation equipment	Česká Lípa
Ontex	Belgium	Sanitary equipment	Turnov
Narex	Germany	Electric tools	Česká Lípa
Kontron	Germany	Software	Liberec
Cadence Innovation	Germany	Plastics, Automotive industry	Liberec
Saint-Gobain Advanced Ceramics	France	Ceramics	Turnov
Lucas Varyity	United Kingdom, USA	Automotive industry	Jablonec n.N., Liberec
Denso	Japan	Automotive industry	Liberec

coating for Škoda Auto that can be used in oil-less transmissions. Applied research conducted by the mechatronics faculty, where new production-automation technologies are developed, is invaluable for companies in the automotive sector, for example. The university is continually expanding its laboratories and plans to establish a science and technology park focused on mechanical engineering by 2010. In addition to academic research, a range of private companies is investing tremendous effort in development. The clear leader in this area is Crytur of Turnov, which manufactures monocrystal elements for laser devices and electron microscopes. Elmarco, one of the region's leading high-tech firms, is further developing nanofibre technology. The Research Institute of Textile Machines holds patents for textile machines, which it has designed and produced. Jablotron is a respected player in the area of mobile-phone technology, though it has also developed a range of unique electronic building-security solutions.



Jizera Mountains, Ještěd - TV tower with revolving restaurant

Chemistry is yet another area of innovation in the Liberec region. The company Mega, for example, produces and is further developing membranes for electrophoresis used in food production and water purification.

Diverse leisure-time opportunities

The Liberec region is rich in leisure-time opportunities. In summer, golf lovers can take advantage of the region's seven golf courses, while the city of Liberec offers an indoor golf centre for year-round enjoyment. For flying enthusiasts, eight sport airfields are available with ideal conditions for gliding. The more adventurous can try their hand at climbing the granite rocks

in the Jizera Mountains or sandstone towers in Český ráj and Českosaské Švýcarsko. The region's mountainous terrain is perfectly suited to hiking, mountain biking and horseback riding.



Historical celebrations in the centre of Liberec

Contact to CzechInvest's Liberec regional office:

Náměstí Dr. E. Beneše 4/12
 Liberec
 460 01
 Tel.: 482 710 353, 482 710 065
 Fax: 485 105 517
 e-mail: liberec@czechinvest.org

From November to April, 200 km of prepared trails are available for cross-country skiers only 15 minutes from the centre of Liberec. The region also offers a wide range of downhill slopes, including the Czech Republic's longest slope (3,200 m) in Rokytnice. In 2009, the region will host the world championship in classic skiing disciplines.

Art aficionados will be enraptured by the Liberec Theatre, which has an opera ensemble and annually premieres at least ten works by international authors and composers. In addition, classical music concerts are among the region's many other cultural attractions.

Author: Jan Marek, CzechInvest



Máchovo jezero

Shared Services Week 2007:

Growth and Innovation for every phase of your shared maturity!

More than 420 delegates could find out more about shared services opportunities in the Czech Republic during Shared Services Week 2007, which was held from 21 to 24 May 2007. Hosted by CzechInvest, this leading European conference on shared services took place for the first time in the Central Eastern Europe, at the Hilton Hotel in the beautiful city of Prague.

Over 50 leading shared services practitioners took the stage to share their knowledge during three full conference days. IBM, Johnson & Johnson, Electrabel, Motorola, the City of Helsinki, Siemens, Intercontinental Hotels Group, Procter & Gamble, Deutsche Bank, Abbey, Telkom SA, NASA, Unilever, Marks & Spencer and the Mondial Assistance Group are but a handful of the names seen among the speakers for Shared Services Week 2007.



Prague - capital city of the Czech Republic

Attendees could choose between three **exclusive study tours at SAP, Johnson & Johnson and Motorola**. SAP's Business Services Centre Europe was established in Prague in 2004 and operates as an internal support centre for the company's subsidiaries in EMEA. Over 360 employees representing 30 different nationalities provide services in 22 languages. The scope of services the centre provides for internal customers range from HR operations support to F&A processing. One of the most recently opened shared services centres in the Czech Republic is JNJ Global Business Services s.r.o. This international shared services centre started operations in September 2006 in Prague and plans to create up to 90 new jobs. The centre will partly cover the global procure-to-pay services for Johnson & Johnson affiliates throughout Europe. The EMEA Shared Services Centre of Motorola (formerly Symbol Technologies) at the Brno Technology Park serves as a hub for Motorola Enterprise Mobility Business and provides EMEA customer support services including a repair centre, customer-service call centre, finance, contract administration and sales ordering operations. It currently employs approximately 440 highly skilled associates.



Brno Technology Park hosts the EMEA Shared Services Centre of Motorola

The presentation Shared Services in the Czech Republic given by Robert Pilous, director of the Investment Development Department at CzechInvest, highlighted the great investment opportunities found in the area of shared services in the Czech Republic. In addition, **Siemens presented a case study of its successful operations in Prague** with a presentation entitled Full of Eastern Promise: Operating a Successful Nearshore SSC in a Competitive Climate. Siemens started its activities in the Czech Republic with manufacturing, afterwards expanding into R&D and shared services. The Siemens Shared Accounting Services Centre was established in 2003 in Prague and provides financial, accounting and procurement services to various companies within the Siemens group. Internal operations are provided predominantly in English and German, though the centre serves Northern and Western Europe and employs 250 operators.

During Shared Services Week 2007, we also had the chance to hear the **winners of the fourth annual Shared Services Excellence Awards** at the gala awards dinner and ceremony which took place after the second day of the event on 22 May. The European business guru Dr. Jonas Ridderstråle of the Stockholm School of Economics and co-author of Karaoke Capitalism and Funky Business took part in Shared Services Week 2007 in order to present his fresh outlook on contemporary business life.

According to the results and discussions from this conference, for shared services the trend of moving ever eastward continues as the hotspots of today, where competition for skilled staff is raising salary expectations, become less marketable as low-cost locations. EU accession has opened up more potentially suitable locations. In Europe, the next frontier may well be Bulgaria or Romania, although both countries are currently less sophisticated due to poor infrastructure. Some companies are exploring Latvia and Estonia but these are small, relatively expensive countries also lacking well-developed infrastructure. **According to the latest forecasts, the inflow of foreign investment in SSCs to the Czech Republic will continue to grow** in the future. The current objective is to focus investment activities in this sector on other regions of the Czech Republic besides Prague and Brno. By monitoring and analysing the current and future needs of the labour market and providing information to educational institutions, CzechInvest has started working on improving the investment environment in regional capitals such as Ostrava, Plzen, Olomouc and Hradec Kralove according to the needs of SSCs.

Author: Natalia Kováčiková, CzechInvest

Science, research and politics find a common voice in Prague

The connection of science and industry has long been a commonly discussed topic in the Czech Republic. The general opinion is that effective cooperation with universities and other scientific institutions is a key to increasing the ability of companies to compete globally, thus aiding the country's overall economic development.

An international conference held on May 17 and organised by the Czech Brain project in cooperation with the University of Economics provided an opportunity for leading European scientists, industrialists, researchers and politicians to meet and bring their disparate worlds together.

Distinguished speakers

In a packed hall at the University of Economics, the topic "Science - The Future of Europe" was discussed by Prime Minister Mirek Topolánek, British Nobel Laureate Sir Harold W. Kroto, Sir Stephen Gomersall – head of Hitachi in Europe, František Schlosser of the Slovak Ministry of Education, Professor Sigrid D. Peyerimhoff of Bonn University and Professor Jan Kubeš of the International Institute for Management Development (IMD) in Lausanne.

In his address, Prime Minister Topolánek mentioned the planned changes in the area of science financing and in the system of university management. Topolánek's cabinet wants to build on the activities of the former Deputy Prime Minister for the Economy, Martin Jahn, and further enhance the system of evaluation of research and development projects. For example, the number of patents held by scientific institutes is not a very convincing indicator.



Prime Minister Topolánek addresses a packed hall at the University of Economics



Martin Jahn presents his vision for improvement of cooperation between schools and universities.

Sir Harold Kroto, whose contribution to the conference was very well received, presented the idea that the lack of quality scientists can best be overcome starting at the elementary-school level, where it is necessary to create for children an environment that encourages creativity and innovative thinking. Sir Harold also emphasised the internet's role in the learning process. Kroto organises popular interactive educational workshops around the world which are intended to awaken children's interest in science. His latest initiative involves virtual workshops conducted over the internet which enable cooperation between schools from various parts of the world. Sir Harold is the founder of the Vega Science Trust, which is dedicated to the popularisation of science among the general public. The Vega Science Trust aims to create a broadcast platform for the science, engineering and technology communities, thus enabling them to communicate on all aspects of their fields of expertise using the latest opportunities offered by television and the internet.



Sir Harold Kroto

Communicating science to the public

The Czech Brain project for the support of scientific and technical intelligence is dedicated to the popularisation of Czech science. The project's activities include awarding the national Czech Brain prize to important personalities in the area of science and technology and the Junior Czech Brain prize for elementary and secondary school students. The project also organises the Science in the Streets and Night of Scientists events as well as international conferences (such as the forum

at the University of Economics). Vratislav Kopačka, a Czech Brain representative, led one of the afternoon roundtable discussions on the topic "Science and Media – Effective Communication". This discussion's participants – media specialists and journalists – focused on how to better present complicated topics in the limited space of the given medium and under time pressure while retaining the attention of readers. They concurred that popularisation of science is one of the fundamental conditions for strengthening its position in society.

Business versus academia

Another roundtable, "Bridges from Industry to Science", focused on specific problems in the area of cooperation between science and industry.

Deputy Minister of Education Petr Matějů discussed the government's proposed changes to the management of universities, according to which universities would be directed by an administrative council comprised of both academics and managers of private companies. The administrative council would also elect the rector of a school as a manager responsible for its activities. This system should ensure a more intensive link between industry and schools. If this reform is successfully carried out, schools could be operating under the new system from 2010. "More flexibly managed schools will be much more interesting partners for firms," said Martin Jahn, now director of human resources at Škoda Auto, commenting on the reform.

Problems with legislation in the area of establishing spin-off companies related to universities were also discussed. Based on their own experience, Professors Vladimír Mařík and Václav Havlíček of the Czech Technical University described how difficult it is to establish a spin-off and persuaded the politicians in attendance of the necessity to simplify the process. Companies also face problems with bureaucracy when applying double deductions to science and research expenditures.

What was the result of the May conference? Cooperation between business and academia gained momentum and a range of specific results have already been achieved, an example of which is Nanospider, a machine for the industrial production of nanofibres developed by the Liberec-based company Elmarco in cooperation with the Technical University in Liberec. We should also mention the portal at www.spoluprace.org. Operating under the auspices of CzechInvest since May this year, this portal represents an important step toward facilitating cooperation between schools and companies, as it allows them to place specific offers of collaboration. For the further development of cooperation between business and academia, it is necessary to implement the university-management reform, simplify the legislation in the area of establishing spin-off companies and set up a system for financing research so that it will be more transparent and lead to higher-quality and applicable results.

Author: Eva Jakšíková, CzechInvest



Andy Garcia playing golf while in town for the Karlovy Vary International Film Festival.

Mariánské Lázně – City of a Hundred Springs

Mariánské Lázně lies in a beautiful, expansive valley in West Bohemia. A nearly 20 kilometre-wide belt of maintained forest interwoven with numerous hiking trails traverses the spas. The city and its surroundings offer nearly 100 curative springs, which help people with respiratory problems, locomotive disorders, cancer and gynaecological ailments.

Mariánské Lázně prides itself on its beautiful neoclassical architecture, colonnades and “Singing Fountain” with original music and lighting effects. King Edward VII of England founded one of the oldest golf courses here in 1905.

Unique procedures – treatment with radon and water

Františkovy Lázně is another beautiful Czech spa town, which is celebrated for its neoclassical architecture and famous Franciscan spring. The unique Jáchymov spas are among the jewels of the Czech Republic and are the world's first radon spas. The impetus for their establishment was the discovery of rich radon springs in former silver mines and the work of Marie Skłodowska Curie, whose name adorns one of the spas.

Jeseník is another well-known spa location where Vincenz Priessnitz, who was also known as the Water Doctor, established the world's first hydrotherapy institute. The “land of a thousand lakes” around Třeboň is yet another unique location where mainly rheumatoid diseases are treated. Luhačovice, the largest spa in Moravia, should also be mentioned here due to its 300-year tradition and picturesque landscape amidst the majestic peaks of the White Carpathian Mountains.

ed.

Source: CzechTourism



Mariánské Lázně – Singing Fountain

Foreign guests at spa locations in the Czech Republic



Source: Czech Statistical Office, 2006



Františkovy Lázně

Partnership to Support Foreign Direct Investment in the CR



The **Partnership to Support Foreign Direct Investment in the Czech Republic** is a joint project of the Association for Foreign Investment and the Investment and Business Development Agency CzechInvest. The project is intended for stable companies that offer highly competitive services and products and that are interested in supporting the high-quality investment climate in the Czech Republic while promoting the Czech Republic abroad. Programme activities support, to the maximum degree possible, communication between partners and foreign investors, Czech companies, representatives of the state administration and AFI members.

Thanks to the Partners of the project we can organise e.g. the following events:



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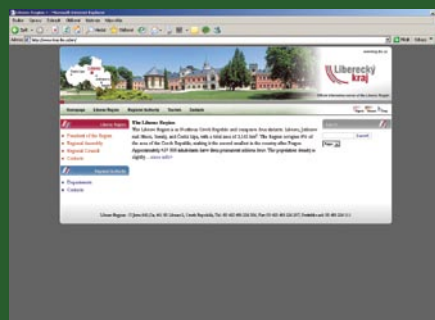
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USEFUL CONTACTS

CZECH REPUBLIC

E-mail: info@czechinvest.org
Phone: +420 296 342 500
Stepanska 15,
120 00 Prague 2, Czech Republic

FRANCE

E-mail: paris@czechinvest.org
Phone: +33 1 56 24 87 72
Centre tcheque , 18, rue Bonaparte
F-75006 Paris, France

GERMANY

E-mail: munich@czechinvest.org
Phone: +49 899 9216 362
Feringastrasse 6, 85774 Munich, Germany

GERMANY

E-mail: cologne@czechinvest.org
Phone: +49 221 1612 145
Hansaring 61, 50670 Cologne, Germany

BELGIUM

E-mail: benelux@czechinvest.org
Phone: +32 2 550 35 53
Bastion Tower, level 20
5, Place du Champ de Mars
1050 Brussels, Belgium

JAPAN

E-mail: yokohama@czechinvest.org
Phone: +81 45 222 2075
6th fl., Yokohama World Porters
2-2-1 Shinko, Naka-ku
Yokohama, 231-0001, Japan

SOUTHEAST ASIA – HONG KONG

E-mail: southeast-asia@czechinvest.org
Phone: +852 2530 8806
Room 2207-9, Tower II, Lippo Centre
89 Queensway, Admiralty, Hong Kong

U.K. & IRELAND

E-mail: london@czechinvest.org
Phone: +44 20 7291 4610
1 Harley Street
London W1G 9QD, United Kingdom

U.S.A. - CHICAGO

E-mail: chicago@czechinvest.org
Phone: +1 312 245 01 80
Suite 938, The Merchandise Mart
200 World Trade Center
Chicago, IL 60654, U.S.A.