DOING BUSINESS IN CENTRAL EUROPE: THE SLOVAK REPUBLIC AND THE CZECH REPUBLIC COMPARISON

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Abstract: At the time of globalization the business environment of the country has a crucial impact on its attractiveness for investments and the economic development. The aim of this paper is to discover the effectiveness of developing attractive doing business environment in the Slovak Republic and the Czech Republic. As a methodological basis in the current paper were used the Global Competitiveness Report, Doing Business Index, the Index of Economic Freedom and their corresponding indicators to analyze the business environment and the attractiveness of the countries in terms of foreign direct investments. We examined the ranking of both countries in the relevant international rankings of indices impacting the business environment, as well as in terms of FDI attractiveness. The results show that the Czech Republic is more successful in terms of doing business. Based on the results we can conclude that the main advantages of Czech Republic compared to Slovakia are the higher effectiveness in terms of administrative requirements and entrepreneurial culture, getting electricity access, protecting minority investors, resolving insolvency and all economic freedom indicators except for investment freedom.

Keywords: Slovak Republic, Czech Republic, doing business, FDI, global competitiveness, economic freedom

Introduction

Both the Slovak Republic and the Czech Republic are the countries of the euro area, members of the Schengen Agreement and also members of the European Union since 2004. There is a stable political situation, relatively low tax rates and sound legislation, which allows doing business in a comfortable environment in both countries. Both countries are recognized as progressively developing countries. Unlike Western European countries, wage rates in these countries are lower that allows to rent land, industrial facilities, office buildings for any needs, freely. However, both countries also have considerable diverginacies in terms of doing doing business. In current paper, we have researched doing business rankings for both countries.

Literature review

Most literature findings indicate that business environment in the Czech Republic is more favorable than in the Slovak Republic. When researching the development

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of business environment in the Slovak Republic and the Czech Republic, Fabus (2017) used Doing Business Index of the World Bank, Global Competitiveness Report of the World Economic Forum and Index of Economic Freedom of the Heritage Foundation for 2014-2015. The author has come to conclusion that the elements of business environment with low evaluations in both the Slovak Republic and the Czech Republic comprise innovation and corruption level, R&D, protection of minority shareholders, enforcement of performance of contracts. Based on comparison, the Czech Republic ranks higher specially in regards with recovery of debt from an insolvent company. Slovakia has reached a considerably higher ranking in paying taxes.

In the research on the availability of financing to SMEs in the Slovak Republic, Ključnikov et al. (2016) have concluded that Slovak SMEs experience the problem with the getting of financing. As regionally the country is experiencing high divergences, the authors have also mentioned that SMEs in the Bratislava region are able to manage financial risks better than the companies in other regions of the country. At the same time, the lack of capital and the lack of information on the accessing financial resources are the great barriers in doing business for young entrepreneurs in Slovakia.

According to OECD research on SME and entrepreneurship policy in the Slovak Republic (OECD, 2021) the economic progress of the Slovak Republic over the past two decades has been mainly driven by large companies trade and inward foreign direct investment. There is a lack of policies to assist SMEs and start-ups to scale up, grow, and be more active and innovative in foreign markets. The research has also shown that Slovak SMEs need to focus on productivity and production improvements, the adoption of new technologies, enhancing skills, including managerial skills.

Litva (2017) has come to conclusion that weak areas of doing business in the Czech Republic are related to the lack of innovation capacity, ineffectively educated work force, insufficient infrastructure.

Smerek et al. (2020) have come to conclusion that compared to the Slovak Republic, businesses in the Czech Republic is characterized by more flexible methods for adaptation, such as job rotation, special work programs, e-learning, training. Mentioned methods of adaptation and education are not so actively represented in Slovak companies. The authors have concluded that the level of personnel work in the Czech Republic is higher than in the Slovak Republic.

However, when researching Business Environment Quality Index in the SME segment in both the Slovak Republic and the Czech Republic, Cepel et al. (2018) and Omelchenko (2020) have concluded that competitive environment is more positive in the Slovak Republic than in the Czech Republic. Gavurova et al. (2019) have mentioned that significant sectorial divergences in both countries have negative influence on business environment in the two.

Belas et al. (2020; 2020) emphasize, in turn, that sectoral differences are more characterized for the Czech Republic than for the Slovak Republic. Acceding to Belas et al. (2020) and Vovk (2020) there is present difference in perception of macroenvironment by entrepreneurs from SMEs in the Slovak Republic and the

Czech Republic. The authors have emphasized that entrepreneurs from Czech Republic percept macroenvironment more positively than Slovak ones.
In the next section, we have considered latest global rankings of the Slovak Republic and the Czech Republic.

International ranking of the Slovak Republic and the Czech Republic

Global Competitiveness Index 2019

According to Global Competitiveness Report 2019, the Slovak Republic ranked 42[d] and Czech Republic ranked 32[d]. The countries ranks on business dynamism pillar are 55 and 33 accordingly. If considering in more detail subpillars of this pillar (Table 1) it can be seen that the Slovak Republic is lagging considerably compared to the Czech Republic.

Table 1: Competitiveness ranking for the Slovak Republic and the Czech Republic

Indicator	Slovak Republic/rank	Czech Republic/ rank
Administrative requirements	49	26
Cost of starting a business	24	24
Time to start a business days	114	111
Insolvency recovery rate	43	27
Insolvency regulatory framework	17	9
Entrepreneurial culture	83	49
Attitudes towards entrepreneurial risk	110	102
Willingness to delegate authority	65	30
Growth of innovative companies	63	49
Companies embracing disruptive ideas	81	50

Source: author based on Global Competitiveness Report 2019 (Schwab, 2019)

Doing Business Index 2020

According to Doing Business Index 2020 (World Bank, 2020) the Slovak Republic ranked 45[th] and the Czech Republic ranked 41[st]. It should be noted that according to the report the Slovak Republic during 2018-2019 made starting a business easier by eliminating the requirement to obtain and submit information on tax arrears and increased wage premiums for work on weekly rest days and at night. There are Doing Business indicators and rankings presented in the Table 2

Table 2: Doing Business indicators for the Slovak Republic and the Czech Republic

Indicator	Slovak Republic/rank	Czech Republic/rank
Starting a business	118	134
Dealing with construction permits	146	157
Getting electricity	54	11
Registering property	8	32
Getting credit	48	48
Protecting minority investors	88	61

Paying taxes	55	53
Trading across borders	1	1
Enforcing contracts	46	103
Resolving insolvency	46	16

Source: author based on Doing Business Index 2020 (2020)

Index of Economic Freedom

According to Index of Economic Freedom 2021, the Slovak Republic ranked 61st and the Czech Republic ranked 27th (Heritage, 2021). The indicators and scores are presented in the Table 3.

Table 3: Economic freedom indicators for the Slovak Republic and the Czech Republic

Indicator	Slovak Republic/score	Czech Republic/score
Property rights	71.5	76.2
Judicial effectiveness	44.4	56.8
Government integrity	48.8	64.4
Tax burden	78.4	79.1
Government spending	47.0	51.4
Fiscal health	93.4	98.1
Business freedom	55.6	68.8
Labor freedom	52.2	77.1
Monetary freedom	74.8	79.7
Trade Freedom	84.0	84.0
Investment freedom	75.0	70.0
Financial freedom	70.0	80.0

Source: author based on the Index of Economic Freedom 2021 (Heritage, 2021)

In the next section, we have considered FDI attractiveness of the Slovak Republic and the Czech Republic.

FDI in the Slovak Republic

Key sectors of the Slovak economy are mechanical engineering, automotive industry, electrical industry, energy, chemical and petrochemical industry, metallurgy and metalworking, pharmaceuticals, food processing, woodworking and paper production, light industry (textiles, ceramics), IT industry. It should be noted that sectors of the economy are united mainly by the cluster type and are concentrated around regional centers. There are highly developed inter-cooperation relations in the automotive industry, energy, engineering, IT and telecommunications, electrical clusters, also in the plastic cluster.

Key foreign private investors in the Slovak economy are the following: Volkswagen, Kia motors, Hyundai, PSA Peugeot Citroen, Jaguar Land Rover, Samsung Electronics, Sony, Whirlpool, Universal Media Corporation / Slovakia /, Henkel, SOITRON, Knauf Insulation, Kössler, Heineken, Gabor, IBM, DELL, Johnson Controls, SWEDWOOD, Siemens.

It should be noted that 88% of the total number of registered enterprises is private business: small (up to 50 people, annual turnover – up to 5 million euros) and medium (up to 250 people, annual turnover - up to 50 million euros)(Jurickova, 2020; Urbaníková et al., 2020).

Strong points of investment attractiveness of Slovakia are based on the following factors:

- the adoption of the euro since 1 January 2009, which has made it possible to abolish the risks associated with the exchange rate and to reinforce sound banking system;
- no taxation of dividends and profits from the sale of shares;
- low production costs, low labor costs;
- highly qualified personnel;
- a sound growth;
- presence of numerous foreign investment grants (which can range from 20 to 50% of investment expenditures depending on the project);
- high trade integration in the single market for goods;
- a strategic geographical position in the core of Europe;
- strategic geographic location of the state;
- satisfaction of existing investors with the pace of development;
- full integration into the world economy;
- state stimulation of local and foreign investments;
- sound political stability and respectable international relations strengthened by the country's entering the EU;
- a qualified and low-cost workforce;
- public and external accounts retained at the proper levels.

Disadvantages for investment in Slovakia are the following:

- the small size of the domestic market with a population characterized by low purchasing power;
- complex access to the labor market with a qualified labor lack and high levels of long-term unemployment (6.7% unemployment in 2020) (Statistical Office of the Slovak Republic, 2020);
- insufficient infrastructure. Though governmental reforms have been established, the infrastructure is not yet well developed and the country has no access to the sea;
- significant administrative and technical barriers: necessity of import licenses particularly for raw materials, energy and some agricultural products;
- high energy costs: Slovakia must import 90% of its energy needs (Baláž et al., 2020);
- high dependence of the economy on the automotive sector and export performance.

Advantages and disadvantages of FDI in the Czech Republic

Traditional industries of the Czech Republic are car industry, aviation industry, engineering industry, environmental technologies, medical equipment, electronics and electrical engineering, chemical and pharmaceutical industry, glass and ceramic industry, furniture industry, building industry, ICT sector, food industry, industrial design.

Main foreign investment companies are Hyundai Motor Company, Sungwoo Hitech, FTE automotive s.r.o., Sun Microsystems Czech, TietoEnator.

Advantages for foreign investments in the Czech Republic are the following (Szabo et al., 2018):

- Czech Republic is the country of Central Europe;
- Czech Republic is the EU member state but not of the euro zone;
- the country's central bank is effective and independent and regulates a stable currency, giving the country great access to the European market and stable international relations;
- a strong banking sector that has shown resilience to latest crises;
- public expenditures at regulated level;
- one of the lowest unemployment rates in Europe;
- great potential of industrial production;
- high qualified labor force.

However, there are also present weak points of investment in the Czech Republic:

- the automotive sector's share in the economy of the Czech Republic is high – more than 9% of GDP (Dębkowska et al., 2019);
- high dependence on exports, which makes the country vulnerable to crises;
- reforms are slow to realize, that can be explained by a political history formed by governmental coalitions;
- the country has faced political tensions, which may jeopardize its stability in the eyes of potential entrepreneurs;
- the country's lack of interest in accepting the euro can discourage some entrepreneurs in the long run;
- the lack of labor and the population aging also poses a substantial difficulty to the country's development and limit the country's ability to meet production requirements.

Conclusions

In current paper, we have researched the effectiveness of two the countries of Central Europe – the Slovak Republic and the Czech Republic in doing business. We have compared the countries in terms of Global Competitiveness Index 2019, Doing Business Index 2020, Economic Freedom Index 2021 and FDI attractiveness. Our research has shown that the Czech Republic is more successful in terms of doing business. We have found out that the Czech Republic is significantly more effective than the Slovak Republic in terms of administrative requirements and entrepreneurial culture, getting electricity access, protecting minority investors, resolving insolvency and all economic freedom indicators except for investment freedom. In regards with FDI attractiveness, we conclude that Czech Republic is more attractive than the Slovak Republic based on the small size of the domestic market of Slovakia and low purchasing power of its population. Both countries have both advantages and disadvantages, however, purchasing power plays considerable role in consuming of offered goods and services.

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