



## Economic Development Priorities 2018-2020

This letter on economic priorities is a policy document of the American Chamber of Commerce in the Czech Republic (AmCham). The priorities are intended to create a framework for deciding which policy initiatives the AmCham will pursue, and to set some long-term policy objectives for our cooperation with governments and other associations.

### *How did we determine our priorities?*

First, we decided on an overall objective that we believe to be not only aligned with the individual interests of all responsible businesses, but also with the goals of society and the government. This objective is prosperity. Prosperity delivers personal and community wealth; it also creates the conditions for sustainable social and cultural programs. We define prosperity in our Prosperity Index, which combines economic gain, economic potential, and the spread of wealth throughout society.

Second, we adopted one clear, measurable target- GDP growth- which we believe is the primary contributor to all other factors in our Prosperity Index.

Third, we identified four current or potential competitive advantages that could be utilized strategically to accelerate GDP growth and improve the Prosperity Index.

Fourth, and finally, we applied those strategic areas to the three primary ingredients of an economy: people, infrastructure, and technology.



### **Advocacy Target**

In 2015, the AmCham Czech Republic set a target for its advocacy initiatives: to increase the GDP of the Czech Republic by 60% for the period 2015-2024.

This target was based on the country's 46% GDP growth between 2005-2014. If the country achieved the target, we estimated that it could become one of the EU's top ten economies.

### **Advocacy Economic Strategy**

To achieve that target, AmCham identified four strategic directions.

1. To exploit the current manufacturing base and expertise in technological universities to increase the level of high tech exports.
2. To exploit the quality of universities, the quality of life in the country's major urban areas, and membership in the European Union, to turn the Prague-Brno-Ostrava triangle into a major business and start-up center.
3. To utilize the major resources the government devotes to specific policy areas, such as health care, transport or research, to create high tech export industry. The aging of the European population creates a significant opportunity in health care.
4. To turn government into a competitive advantage through more rigorous and transparent planning and goal-setting, and by emphasizing measurable innovation in public procurement.

The AmCham proposes to pursue this strategy by working with the government and like-minded associations and organizations in three areas of economic policy: people development, infrastructure development, and technology development.



## **Advocacy Priorities for 2018-2020**

To implement the strategy, the AmCham recommends the following priorities:

### **People**

1. Setting a predictable policy for economic immigration based on the goal of maintaining current levels of employment for Czech citizens and wage growth that corresponds to productivity growth.
2. Establishing incentives for companies and individuals to provide the qualifications and skills necessary for the automation of production and service industries.
3. Introducing machine and computer programming as a required language in elementary and high schools.
4. Improving the Healthy Life Years of the workforce and overall population through better prevention programs, better diagnostics, and better treatment.

### **Infrastructure**

1. Develop a plan for developing and maintaining an integrated rail, road and air commercial logistics systems.
2. Integrate the Prague airport into the national commuter network.
3. Increase digital infrastructure capacity throughout country.
4. Develop a housing plan that will create more entry-level housing in Prague and Brno for purchase or rent.

### **Technology**

1. Reform investment incentives to concentrate on product research, development and production.
2. Establish policy objectives in the area of health, energy, transport, environment and other areas and use these objectives for allocating public research funds.
3. Require major public procurements to use objective and measurable criteria for innovation.



### **People: Immigration**

The high political sensitivity of this issue makes it difficult to assess it from an objective economic viewpoint. No other decision the current government will make, however, will have a greater economic impact than how it determines immigration policy.

Since 2009, the government has shifted to a stricter immigration policy. In the period 2006-2009, the country allowed an average of 89,128 immigrants into the country annually. From 2010-2015, that average dropped to 32,232 annually.

For the same periods, emigration from the country remained virtually the same (41,806 average annually for 2006-2009, 40,522 annually for 2010-2015).

As a result, the country flipped from a net increase of approximately 47,000 people annually due to immigration and emigration flows to a net decrease of 8,000 people annually for 2010-2015.

During roughly the same period- 2012-2017– the number of occupied jobs in the country increased by approximately 346,000. That means roughly 8% of all occupied work was created since 2012. The average number of job vacancies jumped from approximately 40,000 in 2012 to 178,000 in 2017. Vacancies in 2017 equaled half of the total increase in jobs from 2012-2017, and the substantial growth in empty places spread across the economic section (manufacturing, +44,000; ICT, +3000; Professional/Scientific, +7800; and public administration, +12,600). The number and distribution of vacancies indicates that shortage of workforce was significantly stifling economic growth.

### **What policy do we recommend?**

Immigration is the only immediate solution to the shortage of the workforce. We recognize, however, that immigration also has a very strong cultural and political aspect. What we suggest, therefore, is an open debate on the subject that includes objective analysis of the economic impact, and then clear and predictable policy that has support of a majority of the parties.

If we want to maintain or increase the current level of economic investment in the country, the government could consider instituting an immigration policy for companies that employ more than 100 Czech citizens full time.

This policy would amend some of the regulations for submitting and approving work and residence permits. For instance, requirements to prove educational qualification could either be waived, or required within six months of the start of that person's employment. The policy could also create separate department for handling the applications of qualified companies.



### **People: Adult (post-graduate) education and training**

The Czech Republic has a significant advantage within the Visegrad countries in the interest or willingness of the population to educate or train themselves after graduating from school. Czechs (9.6%, 2017) engage in lifelong learning at a rate higher than Hungary (6.3%), and almost three times more than Poland and Slovakia. This rate puts them in the third tier among EU states.

Our participation rates fall far below countries in the first tier, however. Sweden (31.2%), Denmark (27.3%), Finland (27.2) are far ahead of the rest of the EU. The Netherlands (18.8%), France (18.6%), Austria (15.5%), the United Kingdom (14.3%) Estonia (16.3%) and Luxembourg (16.8%) form the larger second tier. Notably, these countries account for eight of the 11 EU countries with GDP per capita over 30,000 PPP.

The digitalization of the global economy will make ongoing education an even more crucial factor in economic performance. As some jobs are replaced by machines, new jobs requiring new skills will be created. That is why we believe that those countries which encourage their populations to modernize their qualifications and knowledge will achieve higher standards-of-living and achieve a smoother transition to the digital economy.

### **What sort of policy do we recommend?**

The Ministry of Industry and Trade and the Ministry of Education could establish Workforce 21, a list of training/education courses provided by certified specialists. These courses should focus on the digitization of the workplace, but also could include specialized training in developing technologies. The primary providers of such training and courses could be public universities; this might require some regulatory changes, including to the compensation of faculty.

Czech citizens and permanent residents could receive a 100% tax deduction if they fully finance and complete the course. If a company pays for the course for their employee, the company could receive a 50% tax deduction.



### **People: Programming as a Third Language**

Success in the future workplace will depend on the seamless interaction between people and machines. Just as interaction between humans requires fluency in human languages, interaction between humans and machines demands that humans can communicate clearly and effectively through the language of modern machines: software. Countries with the highest capability in this form of communication will have a significant advantage in the global marketplace.

In the race to succeed in the digital marketplace, the Czech Republic mostly runs in the middle of the pack within the European Union. The country has fewer people (24%) with low digital skills level than the EU average (26%), 10% more than the EU average (24%) with basic digital skills, and 7% fewer people with above basic skills than the EU average (31%).

Czech companies hire ICT specialists at a slightly higher percentage (21%) than the EU average (19%). Large enterprises hire at a much higher rate (81%) than in the EU (75%). Small and medium-sized enterprises are below EU average.

Good software programming depends on solving problems through rigorous logic, and being able to sequence instructions to enable a machine to make a series of binary decisions that led to the desired result. By emphasizing problem-solving and sequencing of instruction, the education system can better prepare citizens not only for communicating with machines, but for almost any type of decision-making in the workplace.

#### **What sort of policy do we recommend?**

No country has implemented machine communication as a required language, and we do not recommend the Czech government do so immediately.

We do suggest that the Ministry of Education make funds available for pilot projects in problem-solving and logical sequencing at the elementary and secondary school level with the intent of introducing the most successful programs nationally.

We also suggest that the government accredit some programming courses, including work study programs in companies, do full time secondary and tertiary students, and allow either the individual or the company to fully deduct the courses from their taxes.



### **People: Living Healthier Longer**

The declining number of Czech citizens of working age threatens the health system in multiple ways. First, the base of citizens paying for the health care system will decline. Second, older citizens require more care from the system. Third, the lack of workforce will compel companies to recruit older citizens to work longer, and keeping an older workforce healthy will likely demand more care. Improving the performance of the health care system will be a key factor in determining the capacity of the economy and the level of individual and national prosperity.

Health care cannot be improved without innovation. Innovation, which improves the quality of care relative to the cost of that care, depends on the system which can measure performance and which provides incentives for improving that performance. Current health care policy does not have an official overall measure of performance, a way to compare the performance of similar parts of the system (for instance, insurance providers, hospitals, or doctors), or effective incentives for improving performance. In the absence of system-wide definition of measurable performance, the system seems to be guided by providing a volume of procedures at the lowest price.

#### **What sort of policy do we recommend?**

The previous government declared it wanted to increase Healthy Life Years by two full years. This is an admirable— if ambitious— goal, because it would focus the system on improving outcomes in prevention, diagnosis and treatment. We would encourage the incoming administration to implement this goal by translating Healthy Life Years into measurable objectives, and reforming the payment systems to provide greater incentives for achieving these objectives.

In prevention, we would recommend that the Ministry of Health and Ministry of Education work together to improve the nutrition and exercise standards in primary and secondary schools, and consider increasing the budget for school lunches and school exercise programs.

In diagnosis and treatment, we recommend the government create financial incentives for payors and providers to deliver better outcomes. These incentives would take mainly two forms: rewards for attaining public and measurable outcomes (i.e., retaining more of the value they create for the system) and increased competition within the system based on delivering better value for an outcome.

On the working level, we would like to expand the work of many hospitals to introduce quality criteria in procurement, including such new methods as risk-sharing with suppliers based on outcomes.



### **Infrastructure: A high tech logistics network for high tech exports**

The Czech economy depends on delivering goods into the European Union. It will increasingly rely on commuting Czech citizens from surrounding towns and villages into Prague, Brno, and Ostrava.

That will require composing an overlapping strategy for developing the commercial and commuter network to ensure optimal flow while ensuring quality of life for citizens living alongside the transport networks.

### **What policies do we recommend?**

We recommend a two channel approach to ensuring a top class road and rail network. One channel would incorporate analysis of predicted usage and technology change into an action plan which prioritizes projects for both the commercial and commuter network. The second channel would take steps that will improve and accelerate the planning, approval and construction process while still allowing appropriate impact analysis and appeals.

A strategy needs to address two critical bottlenecks in the current system: the highway connection between Brno and Prague and the overlap of the commuter and commercial system around Prague.

The planning process needs to recognize the costs imposed to the private sector of significant delays, as well as the necessity for parking areas created by longer transit times.





### **Infrastructure: Integrate Prague Airport into the national economy**

The Prague Airport's performance was one of the major accomplishments of the previous government. Improved quality, improved efficiencies, increased direct flights to major destinations, and increased passengers have made the airport one of the competitive advantages for economic policy. The airport, however, remains connected to the country's public transport network by a single bus line. This is inhibiting the growth not only of Prague, but of every town and region in the country.

#### **What policies do we suggest?**

Make the complete integration of the Prague Airport into the public transit system a top priority of the government. It should be possible for a Czech citizen to enter a train in Ostrava (or Brno, Pardubice, Usti nad Labem, Budejovice or Plzen) and, with as few transfers as possible, exit the train or Metro at the airport.

At the same time, the airport should be encouraged to develop the commercial potential of the surrounding property.



### **Infrastructure: Lead the EU in Digital Infrastructure**

With so much of the economy undergoing digitization, a country's economic capacity will be determined as much by its digital network as its road and rail network. Many EU countries have recognized the need to invest into the capacity of their infrastructure to spread the opportunities of the digital economy outside of major urban areas. The UK government, for instance, has set the goal of having the best superfast broadband network in Europe, and determined to achieve broadband access of at least 100Mbps to nearly all UK premises. To this end, the UK government has invested at least GBP 1.7 billion in rural broadband, with the goal of achieving superfast broadband to 95% of premises.

The fibre-based new generation access infrastructure together with 5G will create environment for other sectors for their innovations, solutions and new services. The policies should not allow any "digital gap", i.e. both urban and rural areas should enjoy the benefits of modern digital infrastructure with gigabit speeds.

### **What policies do we suggest?**

The current government goal is to achieve 30 Mbps broadband for all the population and 100Mbps broadband for 50% of the population by 2020. We would encourage an acceleration of the program and a raising of the goal to 75%.

For a fast and efficient roll out of fibre-based new generation broadband networks it is necessary that existing underground physical infrastructure is identifiable (transparency of physical infrastructure through e.g. registry of physical infrastructure) and accessible (symmetrical obligation of access to ducts, under cost orientation principle). The policy should promote allocation of future spectrum in order to bring the new 5G mobile generation network efficiently and in a reasonable time frame.



### **Infrastructure: Entry-level housing in Prague and Brno**

Prague and Brno are the principle job creation areas of the Czech Republic. Their ability to continue to produce jobs and national income will be determined by how many young citizens from other areas of the country can find an affordable property to buy or rent.

We believe the planners of both cities may be seriously underestimating the need for affordable entry-level housing, and thereby critically hampering the development of both cities.

Since Prague and the surrounding region attracted 103,000 people. Brno and its surrounding region increased its population by 12,500. That has led to housing price increases, as well as a rise in the number of households which spend 40% or more of disposable income on housing (house overburden). In 2011, the country had rates below the EU average for housing overburden in cities; today the country has more housing overburden in its cities than the EU average). The country's housing overburden is under the EU average in towns, suburbs and rural areas.

Housing costs for households with 60% of the median income or over are the 6th highest in the European Union. Housing costs for households with below 60% of the median income are the fourth highest in the European Union.

#### **What policies do we suggest**

City authorities could instruct their planning authorities to conduct a detailed analysis of entry-level housing demand, and how much of that demand could be met naturally through private development. If there would be a large difference between demand and potential natural supply, we would encourage the government to designate areas for such housing and develop regulations to ensure the affordability of such housing.

At the same time, permit and construction processes should be streamlined.



### **Technology: Reform Investment Incentives for product development**

Incentives to spur investment have existed in two stages. First, incentives were legislated to attract export manufacturing investment. Second, incentives were altered to attract shared service centers and other more urban investments. We believe both have delivered above expectations and, due to that success, may no longer be necessary.

That does not mean eliminating incentives, but shifting them to areas of the economy in which government support can accelerate development. The low level of private investment into research is such an area.

The most important new investment now will center on the development of new technology that will put university laboratories and classrooms on the cutting edge of scientific advances, and create high-tech export clusters that can deliver a long-term competitive advantage to the country.

#### **What policies do we suggest**

We suggest that CzechInvest create a new model of investment incentives aimed at creating technological clusters that 1) increase global research capacity of certain university technical faculties, 2) introduce new high-tech exports that raise the productivity level in the industries in which they are based, and 3) help increase the ratio of private-sector to public-sector research to 2.5:1 by 2030.



### **Technology: policy goals for public research**

Critics often say the government cannot or should not pick winners. That does not mean they should not help create winners. The most effective tool governments possess for creating winners are their public services. If a national government has innovative and ambitious public services, it will require the companies supplying those public services to provide more innovative products and services. By making companies compete through innovation, instead of through lowest price for existing products, a government creates a market for developing and testing new technologies.

The computer was developed through public procurement when the US government ordered the Princeton School of Advanced Studies to design a machine that could rapidly calculate artillery and rocket trajectories. Silicon Valley owes much of its beginnings to military contracts. And a number of industries, from computer to dried foods, received their initial contracts from the US program to send a man to the moon.

### **What policies do we suggest**

We suggest that the Prime Minister, in coordination with the Council for Public Research, ask each ministry in the government to establish one or two areas of service innovation, and set research goals for those areas. In health care, for instance, home (or remote) care or heart disease could be an innovative area. Energy efficiency, safe highways, and remote, ongoing education could be other areas of policy innovation.

Once the policy objectives are set, public research money could be allocated according to policy goals, and applicants reviewed and awarded according to their ability to deliver basic and applied research that help to reach those goals, instead of the current system of dividing funds according to bureaucratic entity.



### **Technology: measurable innovation criteria for public procurement**

Setting innovation (or performance) criteria for public procurement is related to the previous priority of setting policy goals for public research. Public procurement is the tool government can use to purchase products and services that will improve the quality of public services received by Czech citizens.

Under the current practice of public procurement, purchasing innovative products and services is dangerous for elected officials. Much has done to improve the transparency of the system, but not enough has been done to improve the quality of what is purchased. The problem is not transparency, but how institutions and companies are behaving throughout the process.

#### **What policies do we suggest**

We suggest the government create clear guidelines for how institutions and companies can behave in the procurement process. Then we suggest that the government encourage public authorities to increase the weight of quality criteria for procurements.

There are three guidelines we suggest adopting: the company appeal process, the scope of the Competition Office, and the scope of the police.

Some companies appear to be using the appeals process to prevent competitors from realizing a successful bid. We propose setting time limits on appeals to reduce the ability of companies to behave in this way. For example, companies could have a 5-day period after bid criteria were announced to protest the criteria, and after that time, no protests on the criteria would be permissible. An extra five day period could be established between the submissions of bids and the opening of bids to permit companies to file a complaint of unfair procedural or other treatment. After that period, companies could only file complaints about the manner in which bids were opened and announced.

The Competition Office should ensure the competitive of the bid process. They lack both the economic competence and the political mandate to determine whether the decision of a public authority is the best economic outcome for the state. In instances when a public authority has violated the procurement rules, the Competition Office should be able to make a distinction whether that violation substantively impacted the competitiveness of the bid, and have the ability to issue a fine to the authority without cancelling the tender in cases in which the Office determined the bid was still competitive.

The police lack the political mandate to investigate whether public authorities made the right economic decisions or inflicted economic harm on the state. Guidelines should emphasize that police investigation should focus on criminal intent, not the harm caused by unintentionally bad decisions.

Finally, public authorities should be encouraged to devise weighted systems for assessing the quality in public procurement. These measures should be based on performance, not technical specifications, which could be set in the requirements. Public authorities should publish both the justification of the criteria and how each bid was assessed, and be open for their decisions to be challenged in legitimate ways. The goal, after all, of public procurement is to buy the best possible goods and services for the public, and a certain amount of friction in the decision-making process can improve the decision.