



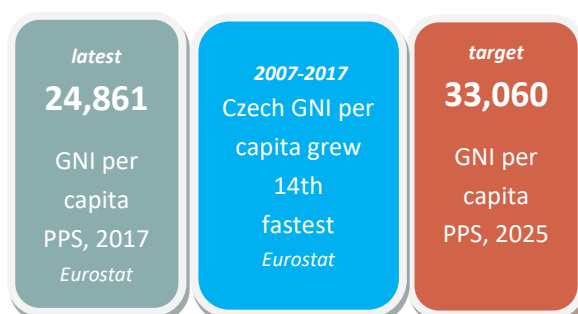
Economic Development Priorities 2020-2022

This letter on economic priorities is a policy document of the American Chamber of Commerce in the Czech Republic (AmCham). Our organization's mission is to increase economic opportunities and prosperity in the Czech Republic, and multiply the economic ties between the Czech Republic and the United States. This document proposes economic policy that would achieve both.

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. To better reflect the economic gains that remain in the country, the goal has been changed in 2019 to a 40% increase in GNI per capita.

This target was based on the country's 31% GNI per capita growth between 2005-2014. If the country achieved the target, we estimate that it could become one of the EU's top ten economies.





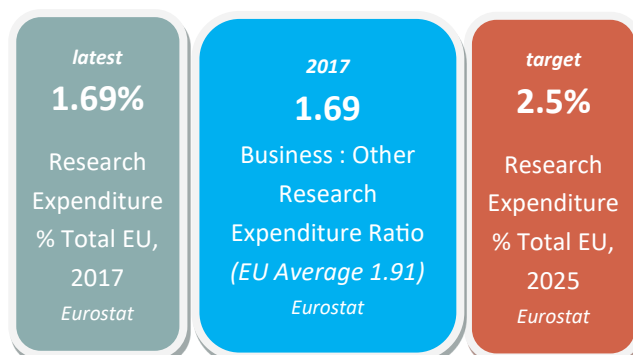
Advocacy Economic Strategy

To achieve that target, AmCham identified four strategic directions.

1. **Transition to High-Tech Manufacturing.** Exploit the current manufacturing base and expertise in technological universities to increase the level of high tech exports.
2. **The City Campus as Idea Factory.** Combine the quality of universities, the quality of life in the country's major urban areas, and membership in the European Union to transform the Prague-Brno-Ostrava triangle into a major business and start-up center.
3. **Government Programs That Drive Innovation.** Utilize the major resources the government devotes to specific policy areas, such as health care, transport or research, to create high tech export sectors. The aging of the European population creates a significant opportunity in health care.
4. **Government as a Competitive Advantage.** Turn government into a competitive advantage through more rigorous and transparent planning and goal-setting, and by emphasizing measurable innovation in public procurement.

To move this strategic directions into concrete action, our document describes how the main economic assets of the country (people, technology, infrastructure, cities, and government) can be aligned to the four strategic directions through economic policy.

We then propose what priorities could be achieved in 2020.



Advocacy Priorities for 2020-2022

This section details how the country's primary economic assets can be aligned with the four strategic directions.

Transition to High-Tech Manufacturing

People.

- a) The current workforce will need new skills to work digitized production lines; subsidizing or incentivizing certified digital skills training will keep the Czech workforce in demand.
- b) Demographics and a population shift to urban areas have starved manufacturing zones of workforce; an immigration points-based system that maintains current level of employment for Czech citizens and keeps wage growth in line with productivity growth could fill the gap in skills and numbers.
- c) The education system should introduce machine and computer programming as a required language in elementary and high schools.

Technology.

- a) The success of the government's new innovation strategy "The Country for the Future" depends on creating clusters of companies researching and developing products in high value-added sectors. This will likely require a series of "big bets" to attract global industries to shift the development and production of key components or final products to the Czech Republic, as well as project management know-how to public research centers.
- b) Manufacturers could be given tax incentives to invest into carbon-efficient production technologies and facilities.

Infrastructure.

- a) The road and rail logistic system needs to be completed and upgraded to handle the increased traffic caused by the substantial expansion of the manufacturing base.
- b) The road and rail system could encourage a rapid conversion to carbon-efficient logistics through toll and other pricing incentives.

The City Campus as Idea Factory

People.

- a) Introduce a points-based immigration process to favor STEM students, research professors and experienced start-up founders and managers.
- b) Introduce programming as a required language.
- c) Introduce personal and corporate tax deduction for certified digital skills training.
- d) Introduce a young talent mentoring program that gives high school STEM students a special summer program of courses and projects with universities and companies.

Infrastructure.

- a) Connect Prague Airport to Prague and the national rail network through metro and multiple bus lines.
- b) Determine how to develop a start-up zone in Prague similar to combination of VUT Brno, JIC and commercial park in Brno.
- c) Work with private sector operators to give major urban areas the highest digital capacity in Europe.
- d) Develop a housing plan that will create more entry-level housing in Prague and Brno- especially around the technological park- for purchase or rent.

Government Programs That Drive Innovation

People.

- a) Government decision-makers could be motivated to search for innovative solutions for setting and implementing policies by tailoring the bonus system to improvements in the performance of public services.

Government.

- a) Establish policy objectives in the area of health, energy, transport, environment and other areas and use these objectives for allocating public research funds.
- b) Establish databases in areas such as health and transport that track outcomes and make the results publicly available.
- c) Require major public procurements to use objective and measurable criteria for innovation.

Government as a Competitive Advantage

People.

- a) Government decision-makers impact the economy as much or more than private sector decision-makers. Their compensation should reflect the importance of their work, and should be tied to outcomes of the decisions they make.
- b) Government agencies should prioritize on providing digital skills training for key employees.

Technology.

- a) Public databases should be integrated. In areas in which the database measures outcomes for public services- health and transport- those results should be made public.

Government.

- a) Create a government scorecard to benchmark performance against neighboring countries. The Czech government performs at a level comparable or better than many of its neighboring countries. No official statistics confirming the quality of government performance exist. We suggest creating a government scorecard which benchmarks performance in areas such as efficiency of permit processes, allocation of government revenues, effectiveness of key government policies, including effective tax rate and cost of government services per citizen.

2020 Recommended Actions

Many of the priorities mentioned on the previous pages are long-term and will take several steps to implement. On the next pages, we identify the urgent priorities and recommend steps that can be achieved by the end of 2020.

Those priorities are:

Immigration. Determining immigration policy and making the immigration process more efficient will be the government decision that has the greatest impact on economic development. Immigration policy affects high-tech manufacturing, city campuses, and government as a competitive advantage. The rapid rise in wages combined with shortage in almost every skill area is forcing high-tech companies to consider shifting work to other countries. Immigration could reduce the risk of this shift becoming significant.

2020 recommended action.

- 1) Complete feasibility study for digitizing immigration process. Prepare legislation for implementing the study's proposals. Secure financing for implementing the study's proposals.
- 2) To improve the ability of businesses to plan investment, develop five-year immigration priorities that include expected number, regional preferences, as well as professional and/or skill preferences and publish these priorities.

Adult (post-graduate) education and training. The Czech economy is digitizing rapidly. If a policy for teaching the existing workforce is not put in place in the near future, the country may lose economic ground to the top global economies. Adult education and training impacts high-tech manufacturing, city campuses, and government as a competitive advantage.

2020 recommended action.

- 1) Develop a proposed certification process and incentive system for companies and private individual to invest into skill development, particularly in digital technology.

Programming as the required language. The fluency of a country's citizenry in interacting with digital machines will be as critical to success in the 21st century as speaking a major foreign language was in the 20th century. Programming as a required language impacts high-manufacturing, city campuses, government as a driver of innovation, and government as a competitive advantage.

2020 recommended action.

- 1) Prepare objectives and criteria for a pilot program in primary and secondary schools and begin funding pilot projects in 2020.

Private research investment. The level of company investment into research remains lower than in most countries with high-tech economies. For the Czech Republic to transform into a sustainable innovation economy, the level of company investment must increase exponentially in comparison to its high-tech competitors. To achieve this, the government will need to attract some "big bet" investments that 1) develop the public research infrastructure, 2) create a new industry by attracting other research-based private investments, and 3) produce a high value-added export.

2020 recommended action.

- 1) Review recent major private investments into public research facilities to identify processes that can be institutionalized and/or improved.
- 2) Coordinate the activities of the government, research institutions and business associations to identify and recruit major research investment more effectively.

Housing Plan. The ability of both Prague and Brno to serve as economic engines is being stifled by high housing costs. Along with the shrinking of the workforce, the urban housing shortage is the largest near-term threat to the country's continued economic growth. The solution will require national, regional and city coordination.

2019-2020 recommended action.

- 1) Create a task force composed of the Ministry of Regional Development, the Ministry of Transport, affected regions, and the cities of Prague and Brno and request solutions by September 2020.
- 2) Develop regulations for the accommodations industry that recognize that hotels and private apartments provide the same service for tourists, and define the owners of multiple overnight rental properties as comparable to a pension or hostel.

Establishing policy objectives for research. An innovative economy requires research that can be commercialized successfully. The government can assist in commercialization by setting policy priorities and objectives based on desired outcomes for public research spending. In the US, for instance, spending on health research is determined by policy goals such as eliminating AIDS or reducing incidence of diabetes.

2020 recommended action.

- 1) Ministries with large research budgets establish policy priorities and objectives for research spending.

Establishing databases for tracking public policy outcomes. An innovative economy requires an innovative government that constantly is improving the outcomes of its services. Establishing public registries of policy outcomes not only creates incentives for innovation in government services, but increases public confidence in government.

2020 recommended action.

- 1) Continue with the work of Health Ministry to build integrated disease registries that track performance and publish these results.

Public procurement as an innovation tool. Government depends on procured products and services to improve policy outcomes. The public procurement process should be guided by achieving measurable policy outcomes as by price.

2020 recommended action.

- 1) The Ministry of Regional Development could issue guidelines for using quality measures in bids, as well as concepts such as pay-for-performance into public bid processes.

A Government Competitiveness Scorecard. Government accounts for a large portion of GDP, and taxes and regulates the rest. How it does this has a major impact on the country's economic competitiveness. The government could define its contribution to the country's competitiveness by creating a scorecard.

2020 recommended action.

- 1) Identify key criteria in government competitiveness for such a benchmark.