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The Impact of Transnational Companies on the Czech Economy

Study programme: N0413A050030 International Management
Author: **Bc. Natálie Francová**
Thesis Supervisors: doc. PhDr. Ing. Pavla Bednářová, Ph.D.
Department of Economics

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Thesis Supervisors: doc. PhDr. Ing. Pavla Bednářová, Ph.D.
Department of Economics

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L.S.

doc. RNDr. Miroslav Brzezina, CSc., dr. h. c.
Dean

doc. Ing. Kateřina Maršíková, Ph.D.
study programme guarantor

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Vliv nadnárodních společností na českou ekonomiku

Anotace

Cílem této práce je zhodnotit vliv nadnárodních korporací na Českou republiku, a to zejména jejich ekonomické, sociální a environmentální dopady, a to na základě sekundárních dat z oficiálních zdrojů. Teoretická část práce definuje nadnárodní korporace, nastiňuje základní koncepce, jako jsou přímé zahraniční investice a představuje klíčové teorie související s jejich vznikem. Následující část zkoumá jejich pozitivní a negativní dopady, a to z hlediska domovské a hostitelské země. Praktická část práce analyzuje pozitivní i negativní dopady nadnárodních korporací na českou ekonomiku. Zkoumá jejich přínos k hrubému domácímu produktu, zaměstnanosti, investicím a výzkumu a vývoji a zároveň se zabývá potenciálními riziky. Závěrečná část obsahuje zhodnocení zjištěných skutečností a předkládá doporučení.

Klíčová slova

Česká ekonomika, Ekonomické dopady, Internacionalizace, Nadnárodní korporace, Přímé zahraniční investice, Společenská odpovědnost firem, Výzkum a vývoj

The Impact of Transnational Companies on the Czech Economy

Annotation

The aim of this thesis is to evaluate the impact of multinational corporations on the Czech Republic, especially their economic, social, and environmental impacts, using secondary data from official sources. The theoretical part of the thesis defines multinational corporations, outlines basic concepts such as foreign direct investment, and presents key theories related to their emergence. The following section examines their positive and negative impacts, from both home and host country perspectives. The practical part of the thesis analyses the positive and negative impacts of multinational corporations on the Czech economy. It examines their contribution to gross domestic product, employment, investment, and research and development, and also looks at potential risks. The final section assesses the findings and makes recommendations.

Key Words

Corporate social responsibility, Czech economy, Economic impacts, Foreign direct investment, Internationalization, Research and development, Transnational corporations

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List of Abbreviations

BERD	Business Expenditure on R&D
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
CZK	the Czech koruna
DESI	Digital Economy and Society Index
D&I	Diversity and Inclusion
EC	European Commission
ESG	Environmental, Social, Governance
EU	European Union
FDI	Foreign Direct Investment
FMCG	Fast-Moving Consumer Goods
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
IBM	International Business Machines Corporation
ICT	Information and Communication Technologies
ILO	International Labour Organization
IMF	International Monetary Fund
IT	Information Technology
M&A	Mergers and Acquisitions
MNC	Multinational Corporation
NFRD	Non-Financial Reporting Directive
OECD	Organisation for Economic Co-operation and Development
OLI	Ownership, Location, Internationalization
R&D	Research and Development

SDG	Sustainable Development Goals
SME	Small and Medium Enterprises
STEM	Supporting National Innovation Capacity
TNC	Transnational Corporation
TNI	Transnationality Index
U.S.	United States
UNCG	United Nations Global Compact
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank
WIPO	World Intellectual Property Organization
WWF	World Wide Fund for Nature

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Introduction

The topic of transnational corporations (TNCs) and their impacts on national economies has been increasingly relevant in recent economic discussions, reflecting ongoing globalization and international economic integration. The researcher's interest in this subject developed through bachelor studies in international trade and recent studies in international management, where theoretical insights intersect significantly with practical economic realities.

The primary aim of this diploma thesis is to evaluate the economic, social, and environmental impacts of TNCs on the Czech economy. This research seeks to assess how these corporations influence economic growth, employment, wage disparities, technological advancements, and corporate social responsibility practices. Equally important is the examination of potential negative consequences, such as dependency on foreign capital, environmental pressures, and social inequalities stemming from TNC operations.

The secondary aim of this thesis is to evaluate the effectiveness of Czech government policies and regulatory measures designed to optimize the benefits of TNCs while mitigating their adverse effects. This involves analyzing investment incentives, regulatory framework, and FDI promotion strategies specifically developed to attract and manage foreign investment across various economic sectors.

The research prerequisite underlying this thesis is the dominant role of the automotive industry within the Czech Republic, driven primarily by prominent international corporations such as Volkswagen (through Škoda Auto), Hyundai, and Toyota. Given the substantial contribution of the automotive sector to the Czech economy, the thesis explores and tests the validity of this assumption.

The structure of this diploma thesis aligns with the outlined objectives. Chapter one establishes the theoretical foundations by defining TNCs and introducing relevant concepts such as the Transnationality Index and Foreign Direct Investment. Chapter two explores economic theories pertinent to TNCs, including Hymer's FDI Theory,

Internationalization Theory, Eclectic Paradigm Theory, Global Value Chain Theory, and Institutional Theory. Chapter three thoroughly reviews the positive and negative impacts of TNCs on economies, societies, and environments.

Chapter four outlines the research methodology, specifying data sources, analytical procedures, and methodological frameworks. Chapter five evaluates the Czech Republic's policy framework concerning TNCs, examining regulatory environments and investment incentives. Chapter six analyzes TNC presence within the Czech economy, providing detailed insight across various economic sectors. Chapter seven assesses economic impacts, particularly focusing on gross domestic product, employment, and wages, while providing comparative analyses with small and medium domestic firms. Chapter eight investigates social and environmental implications, emphasizing Corporate Social Responsibility. Lastly, chapter nine synthesizes the findings into practical policy recommendations aimed at optimizing the economic, social, and environmental outcomes of TNC activities.

The thesis employs both qualitative and quantitative methods, using official secondary data from institutions such as the Czech Statistical Office, OECD databases, World Bank, and European Commission reports.

Artificial intelligence tools were used during the writing of this thesis. Namely, Scite was used to search for resources on specific topics or information. Furthermore, OpenAI was used to navigate through the text and to obtain the most relevant information from the provided sources. This tool also helped to organize the final citations. Lastly, Grammarly was used to edit and check grammar.

1. Definitions and Characteristics of TNCs

In an increasingly globalized context, businesses have transcended national boundaries to become complex international entities. Transnational corporations (TNCs) are central to shaping economic, political, and social landscapes on a global scale. These entities operate across multiple sovereign states, integrating their operational frameworks to leverage international markets, resources, and labor pools. Unlike multinational corporations, which often maintain relatively autonomous subsidiaries within individual nations, TNCs pursue a more comprehensively integrated approach, optimizing global efficiencies while fostering localized adaptability. Understanding TNCs is key to analyzing globalization processes, international trade patterns, and economic development trajectories. TNCs actively create stable, internationally operating corporate networks with suppliers, customers, and partners.

First, it is important to distinguish multinational companies (MNCs) and TNCs. Although both operate in multiple countries, their organizational structures and approaches to international operations differ. MNC is characterized by a centralized management structure, where the parent company retains significant control over decision-making across all its subsidiaries. These corporations establish national subsidiaries in various countries, which, while operating semi-independently, adhere closely to the parent company's policies and strategic objectives. MNCs typically implement standardized business practices and products across all markets, with limited adaptation to local conditions. This basic MNC model allows for strong brand consistency but may lack the flexibility needed to address specific regional preferences (Dunning and Lundan, 2011).

On the other hand, a TNC adopts a decentralized management approach, distributing decision-making authority to regional or local branches. This structure enables TNCs to respond more to local market conditions, legal environments, and cultural differences. Unlike MNCs, TNCs operate through a network of subsidiaries that function autonomously while still being integrated into the company's overall global strategy (Jaworek and Kuzel, 2015).

The United Nations Conference on Trade and Development (UNCTAD) defines a transnational corporation as an enterprise that controls assets in economies other than its home country, typically by owning a certain equity capital stake. An equity capital stake of 10% or more of the ordinary shares or voting power in an incorporated enterprise, or the equivalent for an unincorporated enterprise, is generally considered the threshold for asset control (UNCTAD, 2020).

Grazia Ietto-Gillies (2019, p. 32) defines TNC as a company that owns and controls assets in more than one country. This ownership and control enable the company to engage in international production and various business activities across national borders. She emphasizes that TNCs operate with a central strategic decision-making process coordinating production and other operations across multiple countries.

1.1 Transnationality Index

As businesses expand beyond their domestic market, assessing the degree of their global presence becomes essential. To measure the extent of this internationalization, the Transnationality Index (TNI) was developed by the UNCTAD. The TNI is a metric to assess the degree to which MNCs have internationalized their operations. It is calculated as the average of three ratios:

- Foreign Assets to Total Assets: This ratio measures the proportion of a company's assets that are located outside its home country.
- Foreign Sales to Total Sales: This ratio indicates the share of a company's sales generated from foreign markets.
- Foreign Employment to Total Employment: This ratio reflects the percentage of a company's workforce employed in foreign subsidiaries or operations.

By averaging these three ratios, the TNI provides a comprehensive picture of a company's transnational activities, illustrating how extensively it has expanded

beyond its domestic borders. The higher the TNI, the greater the level of internationalization (UNCTAD, 2017).

It is important to note that while the TNI offers valuable insights into the extent of a company's foreign operations, it does not account for the geographical spread or concentration of these activities. For instance, a company might have a high TNI with operations concentrated in just a few countries, while another with a similar TNI might operate across a more diverse range of nations. Therefore, the TNI should be considered alongside other metrics to completely understand a company's global footprint (Trentini, 2021).

1.2 Foreign Direct Investment

Foreign direct investment (FDI) is, by Sander (2022, p. 114), defined as an investment where a firm establishes a subsidiary abroad, such as a production plant, or acquires more than 10% of the equity in a foreign enterprise, thereby gaining significant influence over its management. This definition aligns with the standard threshold set by international organizations like UNCTAD and the International Monetary Fund (IMF), which consider ownership of at least 10% of a company's voting shares as indicative of a direct investment relationship.

FDI can be viewed from different perspectives. The most important aspects are the motive for entry, the mode of entry, and the degree of control. The motive for FDI may be to capture markets (market-seeking), acquire factors of production (efficiency-seeking), or acquire assets (asset-seeking). Market-seeking investments aim to expand the investor's production presence within the host country while minimizing costs associated with market supply, such as transport expenses and customs duties. This type of investment often serves to replace imports or compete with local production. Efficiency-seeking investments focus on optimizing production costs by leveraging factors such as lower labor expenses, skilled workforce availability, well-developed infrastructure, or favorable natural conditions. Asset-seeking investments are driven by the desire to acquire specific intangible assets, particularly patents and trademarks (Blažek and Šafrová Drášilová, 2013).

Sander (2022, p. 115) differentiates motives for FDI to seek resources, access new markets, or pursue both. The resource-seeking investments described by Sander overlap with the efficiency-seeking investments described by Blažek and Šafrová Drášilová. While both recognize cost advantages as a motive, Sander's framework distinguishes between physical resources, labor, and specialized skills, whereas efficiency-seeking emphasizes labor costs, infrastructure, and natural conditions. Market-seeking investments appear in both frameworks with similar reasoning. Sander also mentions other motives, such as strategic asset-seeking investments (similar to asset-seeking by Blažek and Šafrová Drášilová), escape investment (e.g., as a reaction to poor governance or unstable macroeconomic conditions in the home country), support investment (e.g., to set up an overseas distribution system for goods either manufactured locally or exported to the foreign market), and passive investment (e.g., investing in real estate as a substitute for portfolio investments).

When considering the mode of entry, three options are mentioned: greenfield investment, brownfield investment, and capital entry into an existing business (mergers and acquisitions - M&A). A greenfield investment involves establishing a completely new business, allowing investors to shape the project according to their vision. This process requires constructing facilities, installing machinery, acquiring equipment, and recruiting and training employees, making it a time-intensive endeavor. In contrast, a brownfield investment entails acquiring and repurposing an existing company for new objectives. Some assets, such as buildings, machinery, and equipment, may be retained and adapted, while others require reconstruction, modernization, or replacement. Part of the workforce may be retrained and retained, while some employees are dismissed and new hires are made. M&A involves a full or partial ownership takeover of an existing company. Unlike brownfield investments, M&As aim to fully utilize the company's existing assets and workforce without implementing major structural changes (Blažek and Šafrová Drášilová, 2013).

The above-mentioned framework is straightforward, focusing on why firms invest abroad without delving deeply into firm-specific decision-making processes. On the other hand, Sander (2022) aligns his discussion with John Dunning's (1992) OLI

framework, which considers Ownership (O), Location (L), and Internationalization (I) advantages as key determinants of FDI. Unlike Blažek and Šafrová Drášilová's model, which emphasizes the motives behind FDI, Sander's explanation incorporates the decision-making process behind whether and how a firm engages in foreign investment. Ownership advantages, such as patents or brand names, determine whether a company has a competitive edge abroad. Location advantages, including labor costs, infrastructure, and trade barriers, help firms decide where to invest. Internationalization advantages influence whether a firm should establish foreign subsidiaries or use alternatives like licensing or subcontracting.

FDI serves as both a reflection of globalization and a key measure of multinational or transnational company expansion. UNCTAD publishes the World Investment Report annually, which provides an in-depth analysis of global FDI trends. In FDI statistics, two primary components are systematically monitored: FDI flows and FDI stock, from the point of view of individual countries, their grouping, and the world as a whole. Within the FDI flow, FDI inflows and FDI outflows are monitored. Within the FDI stock is monitored: FDI inward stock and FDI outward stock (Blažek and Šafrová Drášilová, 2013).

In 2024, global FDI rose 11% to an estimated $1.4 trillion but dipped by 8% when excluding flows through European conduit economies, which often serve as transfer points for investments before they reach their final destination, reflecting a world grappling with shifting economic dynamics and persistent uncertainties (UNCTAD, 2025).

2. Economic Theories Related to TNCs

Understanding the economic theories behind the existence and expansion of TNCs is essential for analyzing their impacts on markets, industries, and national economies. Over the decades, various theoretical frameworks have been developed to explain why firms become international, how they expand into foreign markets, and what factors influence their strategic decisions.

Theories explaining the existence and expansion of MNEs and TNCs have evolved in response to the complexities of international business. Classical and neoclassical economic theories laid the foundation by focusing on trade and capital flows. Classical theories developed by Adam Smith (1776) and David Ricardo (1817) focused on comparative advantage and free trade as key drivers of international economic activity. These theories suggest that capital should move from capital-rich to capital-poor countries, as it ensures efficient global resource allocation (Krugman, Obstfeld, and Melitz, 2015).

As firms began expanding beyond national borders, it was necessary to understand why companies chose FDI over alternative market entry strategies like exporting or licensing (Ietto-Gillies, 2019).

2.1 Foreign Direct Investment (FDI) Theory

Stephen Hymer's theory of FDI, introduced in 1960 in his doctoral thesis, marks a significant departure from the traditional neoclassical economic framework, which primarily viewed international investment as a result of capital movements driven by differences in interest rates. Hymer argued that FDI is motivated by market imperfections, which allow firms to exploit competitive advantages that are not easily transferable or replicable. Unlike the neoclassical assumption of perfect competition, Hymer emphasizes the role of structural market imperfections, such as barriers to entry, economies of scale, and access to proprietary technology or management expertise. These imperfections create opportunities for firms to achieve higher returns by internalizing operations across borders (Hymer, 1976).

A fundamental principle of this theory is the distinction between portfolio investment and direct investment. Portfolio investment involves passive financial transactions aimed at earning returns, while FDI entails controlling ownership in foreign entities, granting firms the ability to manage and influence operations directly. This control allows firms to mitigate risks associated with contractual relationships (Ietto-Gillies, 2019).

Hymer identified two primary motivations for FDI: the exploitation of firm-specific advantages and the removal of competition. Firms with unique capabilities can leverage these advantages in foreign markets where local competitors lack similar resources. Firms can also reduce competition by engaging FDI through strategies like mergers and acquisitions or by establishing a dominant presence in key markets (Ietto-Gillies, 2019).

2.2 Internalization Theory

This framework was formulated by Peter J. Buckley and Mark Casson in their 1976 work *The Future of the Multinational Enterprise*. It aims to understand the existence and growth of MNEs. This theory posits that firms expand internationally by internationalizing operations to mitigate inefficiencies and costs associated with imperfect external markets. This theory builds on Transaction Cost Economics, a framework initially proposed by Ronald Coase in his 1937 *The Nature of the Firm*. Coase introduced the concept that firms arise to minimize transaction costs-expenses associated with using the market mechanism, such as searching for partners, negotiating contracts, and enforcing agreements (Coase, 1937). Later, in 1975, Oliver E. Williamson expanded upon Coase's ideas, further developing Transaction Costs Economics. Williamson explored how firms internationalize their structures and operations to reduce transaction costs, particularly when facing market imperfections (Williamson, 1979).

According to Buckley and Casson (1976), several situations make internationalization beneficial for firms. They might choose integration when production involves long-time lags and futures markets are either unavailable or

unreliable. Internationalization is also preferred when market power over intermediate goods requires price discrimination that is impractical externally but feasible within the firm. If market imperfections lead to bilateral concentration of power, creating instability in external markets, firms may integrate to maintain stability. Asymmetry in buyer and seller knowledge about a product's value or quality can also drive integration to reduce buyer uncertainty. Lastly, government interventions, such as tariffs, capital movement restrictions, or inconsistent tax policies, can create inefficiencies in international markets, making internationalization a more viable strategy (Ietto-Gillies, 2019).

2.3 Eclectic Paradigm (OLI Paradigm) Theory

This framework was introduced by John H. Dunning in 1976. As mentioned in the chapter on FDI, this theory suggests that firms engage in FDI when they possess three key advantages: ownership, location, and internationalization. The Uppsala Model (Johanson and Vahle, 1977) challenges the OLI model by emphasizing gradual internationalization, where firms expand incrementally rather than making immediate FDI flows. Later, in 2000 and 2008, Dunning extended his theory and introduced the „Institutional Dimension," arguing that political, social, and regulatory factors also influence FDI decisions. Recent developments in international business scholarship have increasingly questioned the continued adequacy of the OLI paradigm in explaining the complexities of globalization in the 21st century. Contemporary business environments are shaped by digitalization, the fragmentation of global value chains, and the growing dominance of intangible assets. The traditional emphasis on physical presence through foreign direct investment is increasingly challenged by the emergence of platform-based business models and knowledge-intensive service firms, which often internationalize rapidly without requiring substantial ownership of foreign assets or direct control over operations abroad (Batalla, 2014; Narula, 2010). As a result, scholars argue that the OLI framework, while foundational, may require further refinement or integration with dynamic capabilities theory and institutional entrepreneurship to better capture the complexities of firm behavior in a globally networked economy. This suggests

that the explanatory power of the OLI model remains significant but must be complemented by perspectives that acknowledge the evolving strategic logic of internationalization in a digital and institutionally diverse world.

2.4 Global Value Chain Theory

The Global Value Chain (GVC) theory provides a structured approach to examining how production processes are globally distributed and how value is created, coordinated, and captured across borders in increasingly interconnected economies. As outlined in *Analytical frameworks for global value chains 2017*, GVCs are characterized by the international fragmentation of production, whereby tasks such as design, component manufacturing, final assembly, and marketing are spread across multiple countries according to comparative advantage and strategic positioning (WTO, 2017). A central component of GVC theory is the concept of governance, which refers to the ways in which lead firms, typically large multinational corporations, structure and control relationships along the chain. Governance types range from loosely coordinated market-based interactions to tightly integrated hierarchical models, depending on the complexity of tasks, the codifiability of information, and supplier capabilities. In addition to mapping production relationships, the GVC framework also emphasizes the potential for economic upgrading, defined as the capacity of firms or regions to move into higher value-added activities through product, process, functional, or sectoral transitions. Importantly, the theory acknowledges that such upgrading is not automatic and often depends on enabling institutions, investment in capabilities, and the strategic behavior of lead firms (WTO, 2017).

Recent literature has expanded the GVC framework to include social and environmental dimensions. Social upgrading involves improvements in labor rights, working conditions, and wage levels, while environmental upgrading pertains to the adoption of sustainable practices and technologies. These aspects underscore the importance of considering not only economic outcomes but also the broader social and environmental impacts of participation in GVCs (Lay, Pahl, and Thiele, 2025).

2.5 Institutionalist Theory of Economic Development

James H. Street introduced a framework that represents a foundational contribution to heterodox economic thought by emphasizing the historically contingent and culturally embedded nature of economic transformation. In contrast to neoclassical models that prioritize market equilibrium and capital accumulation as primary drivers of development, Street (1987) situates technological progress within a broader institutional framework, arguing that the effectiveness of technology in promoting economic development is mediated by the specific institutional and cultural contexts in which it is introduced. While technology may possess universal characteristics, institutions are inherently local and evolve over time through path-dependent processes. Therefore, successful development cannot be abstracted from the institutional conditions that enable or constrain productive activity. This view aligns with the broader tradition of institutionalist economics, which conceptualizes the economy as an open, evolving system shaped by formal rules, informal norms, and historical practices (Exploring Economics, 2018). Within this paradigm, institutions are not merely background conditions but active determinants of economic performance, influencing how resources are allocated, how power is distributed, and how innovation is absorbed and diffused. Street's theoretical framework advances the argument that underdevelopment often stems not from a lack of technological capacity or capital, but from institutional rigidity or incompatibility with emergent economic needs. As such, policy interventions aimed at fostering development must prioritize institutional reform and adaptation over the wholesale application of externally derived models (Street, 1987).

Forsgren (2017), on the other hand, describes MNEs as complex entities that cannot be fully explained by one theory. He critiques internalization theory and the OLI paradigm for overlooking organizational dynamics and knowledge flows. He also highlights how subsidiaries contribute to innovation and how they operate in different institutional contexts. He hereby points out a need for a multi-theoretical approach to capture the strategic and structural complexity of MNCs (Forsgren, 2017).

3. Impacts of TNCs on Economies

The coming age of multinational corporations should represent a great step forward in the efficiency with which the world uses its economic resources, but it will create grave social and political problems and will be very uneven in exploiting and distributing the benefits of modern science and technology. In a word, the multinational corporation reveals the power of size and the danger of leaving it uncontrolled (Ietto-Gillies, 2019).

TNCs are integral players in the global economy, operating across borders and influencing markets, industries, and societies worldwide. These large multinational entities, which span multiple countries and continents, shape economic dynamics in both their home and host countries. The presence of TNCs in local economies can bring significant benefits, such as job creation, technological advancements, and infrastructure development. However, their operations also raise concerns, including the potential exploitation of labor, environmental degradation, and the disruption of local industries (UNCTAD, 2020).

3.1 TNCs in the Home Country

TNCs in their home countries refer to the large multinational companies headquartered in one nation that operate across multiple countries. These corporations typically drive their home country's economy by generating significant profits through their global operations. They create high-value jobs in sectors such as management, research and development (R&D), marketing, and finance. However, the offshoring of jobs and the shifting of manufacturing operations to lower-cost regions can also create challenges, such as deindustrialization in the home country (Dunning, 2001).

3.1.1 Positive Impacts

TNCs can stimulate economic growth in their home countries by generating significant revenue and creating high-paying jobs. Profits from global operations contribute to national income and tax revenues, leading to overall economic prosperity. Employment in higher-level sectors such as management, R&D, and corporate services may also expand, driving economic advancement (UNCTAD, 2019).

By operating on a global scale, TNCs often drive technological advancements and foster innovation. They can transfer knowledge, resources, and expertise from foreign markets back to the home country, thus contributing to technological development and productivity improvements (Dunning and Lundan, 2018).

Apple's headquarters in Cupertino, California, serves as a hub for ongoing R&D. Profits from its global operations enable Apple to allocate significant resources to cutting-edge product innovation at home, creating thousands of well-paid engineering and tech positions. This not only supports Apple's domestic supply chain but also supports local communities through high wages and specialized training programs (Narula and van Tulder, 2019).

TNCs may also strengthen their home country's balance of payments. They frequently repatriate profits earned from foreign subsidiaries, adding to domestic capital reserves and fueling local investment (Narula and van Tulder, 2019). When TNCs export goods or services produced at home to international markets, they also generate foreign exchange earnings that improve the country's current account (UNCTAD, 2019). This healthier balance of payments can bolster the national economy by supporting a more stable currency, reducing external debt pressures, and promoting ongoing growth.

A prime example occurred when Apple announced the repatriation of a large portion of its overseas profits, injecting billions of dollars back into the United States (U.S.) economy. This capital inflow strengthened domestic financial reserves, contributed

to high-level investments in R&D, and supported the U.S. current account by boosting reinvestment and potential export capacity (Narula and van Tulder, 2019).

Through their broad geographic footprint, TNCs project the cultural, economic, and political values of their home country worldwide. For instance, when a home country brand attains global prominence, it often brings with it certain national associations- ranging from consumer lifestyle images to corporate governance models- that can subtly shape how international audiences perceive the country of origin (Buckley and Strange, 2015). This alignment of brand and national identity can function as a form of soft power, a concept famously elaborated by Nye (2004) and further advanced in newer scholarship on global marketing and international relations (UNCTAD, 2019).

McDonald's global expansion has made its brand a de facto symbol of U.S. consumer culture. Its standardized menu (with exceptions) and service model reflect certain American lifestyle attributes, a phenomenon cited by Buckley and Strange (2015) as a form of „brand-based nation branding." In line with Nye's (2004) notion of soft power, the company's far-reaching presence shapes how international consumers perceive American culture (Robertson, 2018).

TNCs, by virtue of their partnerships, supply-chain investments, and business collaborations, also help forge diplomatic ties that extend beyond formal government channels. Over time, this web of relationships can enhance the home country's global standing, opening doors to new trade agreements, research collaborations, and joint policy initiatives.

3.1.1 Negative Impacts

TNCs can exert a range of harmful pressures on their home countries, often emerging alongside the benefits they offer. One major concern is the relocation of labor-intensive production to lower-cost regions, a practice that can undermine mid-level employment opportunities and weaken traditional manufacturing sectors at home. When TNCs offload substantial parts of their operations abroad, local

wages for lower- and mid-skilled positions can stagnate or decline, leading to localized joblessness and heightened income disparities (Farny, Kibler, and Down, 2021).

Another negative aspect stems from how TNCs typically retain specialized, high-value functions (like R&D and advanced corporate services) domestically while outsourcing routine or easily automated roles elsewhere. Although this approach safeguards some high-paying positions in the home country, it also exacerbates existing wage gaps and may limit prospects for upward mobility among workers who lack advanced skill sets (Li, Strange, and Ning, 2020).

TNCs wield significant economic and political clout, which can skew policymaking. For instance, they may leverage the threat of relocating their headquarters abroad if they are not granted favorable tax or regulatory conditions. Over time, such influence imbalance can hinder the state's efforts to pursue broader social or economic objectives, effectively leaving government with fewer tools to regulate corporate behavior. Overreliance on TNC investments can also make local economies vulnerable to sudden shifts in corporate strategy. Such as abrupt headquarters closures or capital withdrawals can disrupt entire regions (Crane, Matten, and Spence, 2019).

When Amazon sought a location for its second headquarters, many U.S. states and cities offered significant tax breaks or regulatory concessions. In some cases, local policymakers felt compelled to compete against one another, fearing economic loss if Amazon chose a rival region (Jonas and Wilson, 2019).

A further worry involves complex tax optimization strategies that allow TNCs to move earnings through jurisdictions offering lower tax rates. This siphoning of profits can shrink the home country's public revenues, limiting the government's capacity to fund crucial social services or invest in infrastructure.

Despite Google's primary base in the U.S., the firm has historically shifted a portion of its profits through subsidiaries in low-tax jurisdictions, a practice that can reduce its home-country tax obligations. These maneuvers weaken local tax bases, limiting

the government's ability to fund public goods such as infrastructure or healthcare (Garcia-Bernardo, Fichtner, Takes, and Heemskerk, 2017).

3.2 TNCs in the Host Country

TNCs wield a substantial influence on host economies, bringing capital, technology, and expertise that can spur development. However, their sheer size and global reach may also crowd out local firms and strain labor standards. This paradox compels host-country policymakers to weigh incentives for foreign investors against the need for balanced regulations (Hill and Hult, 2016).

3.2.1 Positive Impacts

Transnational corporations often bring significant capital infusions to host economies. By establishing production facilities or service centers, they inject fresh investment into local industries, creating jobs that can boost regional development and personal income. In many cases, these positions require varying skill levels, helping to broaden the labor market and improve overall employment prospects. The immediate rise in domestic purchasing power may also stimulate consumer spending, fueling growth in related sectors (Driffield, Love, and Yang, 2016). Beyond these direct economic effects, TNCs play an important role in driving innovation, introducing new technologies, organizational practices, and institutional standards. Innovation influences their evolving strategies, particularly as they adapt to shifting market conditions and regulatory frameworks (Kumar, Joshi, Sharma, 2024).

For example, Toyota's long-standing operations in Burnaston, Derbyshire, received renewed investment in 2017, illustrating how a single TNC can bolster regional manufacturing. By upgrading production lines to accommodate new car models, Toyota helped preserve thousands of oh jobs and injected capital into local supplier networks (Bailey and De Propris, 2017).

Host economies can additionally benefit through technology transfer and knowledge spillovers. When TNCs introduce cutting-edge production methods,

managerial processes, or R&D activities, local firms and suppliers often adopt these innovations. This process enhances the host economy's productivity, competitiveness, and human capital base. Collaborations with local research institutes further amplify these effects, as TNCs may finance specialized training programs or joint projects that elevate local expertise in critical fields (WB, 2020).

International Business Machines Corporation (IBM) opened a major research facility in Nairobi, partnering with local universities and government agencies to address water management and healthcare logistics challenges. This collaboration has exposed Kenyan software engineers to advanced data analytics and AI research, which has enhanced the local skill base (Amankwah-Amoah, 2016).

Another important advantage lies in improved infrastructure and global supply chain integration. Large TNCs often require efficient transport links, utilities, and communication networks. To meet these needs, they sometimes collaborate witj host-country governments, public agencies, or private partners on infrastructure upgrades. In doing so, TNCs can facilitate better roads, ports, or digital connectivity that also serve local businesses and communities. Access to international distribution channels may then open doors for domestic firms, positioning them for export-led growth (Meyer and Peng, 2016).

By establishing well-coordinated procurement and logistics systems, Nestlé worked with local partners to improve transportation routes from cocoa farms to processing facilities. These upgrades benefited rural communities by easing market access and speeding up product delivery (Oh, Oh, and Esfahani, 2019).

Another example is Samsung's sizable investments in electronic production spurred Vietnamese component suppliers to upgrade their capabilities, aligning with global standards for quality and precision. Many local suppliers have since diversified their client base, exporting beyond Samsung's supply chain (Sheldon and Kwon, 2023).

3.2.2 Negative Impacts

Despite the abovementioned benefits, TNCs can also generate market distortions in host economies. Their financial heft and international reach may allow them to outcompete or buy out local businesses, particularly small and medium-sized enterprises (SMEs) with more limited resources. Over time, such crowding-out effects can reduce the diversity of the local corporate landscape, making the host economy overly dependent on the TNC's continued presence (Meyer and Peng, 2015).

For instance, Walmart rapidly grew into one of Mexico's largest retailers. Family-run shops in many small towns and suburbs could not match Walmart's prices or variety, ultimately leading to widespread closures and a loss of local business diversity (Nye, 2021).

Concerns have likewise been raised about labor exploitation and environmental degradation. In some instances, TNCs may pressure host governments to ease regulations or weaken labor protections to maintain cost competitiveness. This „race to the bottom" can lead to substandard working conditions, minimal worker rights, and ecological harm if local oversight bodies lack the capacity to enforce higher environmental or ethical standards. While many TNCs maintain globally consistent corporate social responsibility practices, lapses do occur, with local communities often bearing the brunt of polluted environments or eroded social protections (Zhang, Li, and Li, 2022).

Global apparel TNCs often source from Bangladeshi factories. In several high-profile cases, factory owners operating on tight margins failed to uphold safe working conditions, resulting in dangerous workplaces and minimal labor protections. Although high-profile accidents prompted new safety accords, challenges persist (Alamgir and Banerjee, 2019).

Some multinational mining corporations in the Democratic Republic of Congo have faced accusations of contributing to water and soil pollution and deforestation. With limited regulatory oversight, local communities bear the brunt of environmental

harm, while TNCs extract valuable minerals for global markets (Kim and Boss, 2022).

TNCs can shift substantial profits out of the host country, limiting the positive spillovers of their operations. Even when they create jobs and boost output, the gains for local tax revenue can be undercut by aggressive accounting strategies or profit repatriation. Host-country policymakers may thus face a dilemma: they depend on TNCs for growth and employment but risk becoming exposed to destabilizing capital flows or revenue shortfalls. In these circumstances, effective regulations and carefully negotiated agreements on tax and repatriation policies become critical tools to protect the host economy's long-term interests (Driffield, Love, and Yang, 2016).

Several major technology firms have used Irish subsidiaries to structure their global profits, benefiting from the country's low corporate tax rates. Although Ireland gains jobs, other host countries where these TNCs operate often lose potential tax revenues, limiting their ability to fund public services (Gumbrell, 2017).

3.3 Social and Environmental Impacts

TNCs wield a powerful influence on economies, societies, and ecosystems worldwide. Their cross-border operations, supply networks, and investment flows can stimulate growth, create jobs, and encourage technology transfer. At the same time, these same factors may exacerbate social inequalities, labor rights concerns, and environmental problems such as pollution and resource depletion (Kolk, 2016, p. 25). This chapter explores the social and environmental implications of TNC activities, paying particular attention to corporate social responsibility (CSR) practices that seek to mitigate negative outcomes. Recent research demonstrates that while TNCs can offer tangible benefits, for instance, infrastructure projects or community development initiatives, these must be carefully balanced with responsible governance to avoid deepening existing social and environmental vulnerabilities (Qi, Zou, and Xie, 2020).

3.3.1 Social Impacts of TNCs

A defining feature of TNCs is their capacity to influence social structures in both home and host nations. Employment creation, for instance, can be a direct benefit. TNC operations frequently lead to skill-building programs, technology transfer, and higher wages relative to many local firms, as illustrated by global electronic giants providing training to host-country employees (Narula and Rugman, 2018). Although such developments may enhance local human capital, they can also cause uneven income distribution if primarily high-skilled workers reap these rewards, leaving lower-skilled segments behind (Coe and Yeung, 2019).

Labor practices within TNC supply chains have garnered particular scrutiny since high-profile incidents such as the Rana Plaza collapse, which underscored persistent vulnerabilities in apparel-sourcing networks (Kühn, Scholz, and Stuchtey, 2019). In electronics manufacturing, criticism of factory conditions, including excessive overtime and low pay, has led to widespread calls for more stringent oversight (Soundararajan, Spence, and Rees, 2018). TNCs have responded with codes of conduct and auditing mechanisms, yet ensuring compliance remains a challenge in global networks where local regulatory frameworks vary significantly (Bruszt and McDermott, 2018).

Beyond the workplace, TNCs shape local communities in multiple ways. Some invest in education, healthcare, or other public goods to support their employed populations. Brands such as Unilever (one of the world's largest manufacturers of food, personal care, and household products) and Coca-Cola have funded sanitation initiatives or water management systems in emerging economies (Pisani, Kourula, Kolk, and Meijer, 2017). However, reliance on corporate-led community development can trigger dependency if these corporations withdraw or reallocate resources, potentially leaving critical infrastructure unsupported (Kolk, 2016).

3.3.2 Environmental Impacts of TNCs

Central to environmental criticism of TNCs is their large-scale resource consumption and pollutant emissions. Heavy industries, such as petrochemicals and mining, often operate with significant carbon footprints, and their global reach multiplies the potential impacts (Luo, Zhang, and Marquis, 2016). In cases where local regulation is weak, overexploitation of resources, from water to forests, may result in long-term ecological damage (Qi, Zou, and Xie, 2020). Even when stronger environmental laws are in place, enforcement can be inconsistent, allowing resource-intensive activities, such as logging, drilling, or large-scale agriculture, to proceed with limited oversight (Gallego-Álvarez and Pucheta-Martínez, 2020).

A common concern is biodiversity loss and habitat destruction. Palm oil plantations in Southeast Asia, for instance, have contributed significantly to deforestation, threatening endangered species and local communities that depend on forests for subsistence (Tang, Gallagher, and Chin, 2020). Although some TNCs fund deforestation or wildlife conservation initiatives, these efforts do not always offset the original ecological harm caused by their operations (Scherer, Rasche, Palazzo, and Spicer, 2016). Global debates on climate change have brought renewed attention to TNCs' role in greenhouse gas emissions, compelling some corporations to pursue cleaner technologies or adopt renewable energy sources (Bruszt and McDermott, 2018).

In the European Union, environmental policies such as the EU Emissions Trading System (ETS) have pushed TNCs toward decarbonization strategies and cleaner technologies (Luo, Zhang, and Marquis, 2016). By setting a cap on total emissions, the EU ETS forces companies to internalize some of the pollution costs, thereby incentivizing energy efficiency and lower-carbon production methods. However, critics argue that the uneven application of such systems across Member States and differences in enforcement can create regulatory disparities. TNCs occasionally exploit these gaps to optimize production in locations with looser environmental constraints (Gallego-Álvarez and Pucheta-Martínez, 2020).

3.3.3 Corporate Social Responsibility (CSR)

CSR has evolved into a strategic framework that helps TNCs balance profitability with wider societal and environmental responsibilities (Kolk, 2016). Beyond philanthropic activities, a patchwork of international guidelines, regional directives, and national action plans has shaped how TNCs formulate and implement CSR strategies. The global context is underpinned by various initiatives, which include voluntary and legally oriented components. In Europe, supranational policies aim at more harmonized CSR reporting.

From a global perspective, the United Nations Global Compact (UNCG) and standards like ISO 26000 provide overarching frameworks that encourage companies to address human rights, labor practices, environmental stewardship, and ethical governance in their operations (Pisani, Kourula, Kolk, and Meijer, 2017). Alongside these guidelines, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises remain influential, encouraging TNCs to promote transparency, environmental risk management, and worker well-being (Aguilera, Marano, and Haxhi, 2019). While these initiatives are primarily voluntary, they can exert considerable soft-power pressure on TNCs, especially given the proliferation of investor-led ESG (Environmental, Social, Governance) evaluations that reward companies seen as socially responsible (Bruszt and McDermott, 2018).

Within the European Union (EU), CSR is shaped by a constellation of legislative and policy tools to ensure consistent, high-level adoption of responsible practices. Following the European Commission's (EC) (2011) definition of CSR as „the responsibility of enterprises for their impacts on society", a key milestone was the Non-Financial Reporting Directive (2014/95/EU). This directive obliges large public-interest entities with over 500 employees to disclose information on environmental performance, social impacts, respect for human rights, and measures taken to combat corruption (EC, 2014). More recently, the Corporate Sustainability Reporting Directive (CSRD) further expanded these requirements to a broader set of companies, solidifying a mandatory reporting culture across Member States (EC,

2021). Critics caution that uniform legislation does not guarantee uniform enforcement. TNCs with complex supply chains often face persistent difficulties ensuring consistent CSR implementation in countries with weaker regulatory oversight (Mair, Wolf, and Seelos, 2016).

On the other hand, in many regions, especially those with weak governance, TNCs act as de facto regulators. Suppliers must comply with corporate codes of conduct to retain contracts (Soundararajan, Spence, and Rees, 2018). Such top-down control can raise the baseline for responsible business, effectively imposing standards where legal frameworks are lacking (Bruszt and McDermott, 2018).

Global consumer awareness also pushes TNCs to innovate in CSR. High-profile brands under scrutiny for poor working conditions have pioneered more transparent auditing and public reporting, pressuring competitors to follow suit (Mair, Wolf, and Seelos, 2016). As seen with specific footwear and tech giants, these measures often become industry norms (Kühn, Scholz, and Stuchtey, 2019).

TNCs influence local development through strategic community investments, such as funding sanitation or education projects. Although these efforts can fill gaps in public services, their long-term effectiveness varies if TNCs shift priorities (Narula and Rugman, 2018).

TNCs collaborate with international bodies, such as the United Nations Global Compact and the World Business Council for Sustainable Development, to create new CSR guidelines. By contributing resources and managerial expertise, they help shape frameworks that, in turn, guide CSR priorities worldwide (Aguilera, Marano, and Haxhi, 2019).

4. Methodology

This chapter presents the research methodology used to examine the impact of TNCs on the Czech economy. The study combines both qualitative and quantitative research methods to obtain a comprehensive understanding of the economic, social, and environmental consequences associated with TNC operations. This dual approach enables a more complex interpretation of both measurable indicators, such as FDI inflows, GDP growth, employment, trade balance, and R&D expenditure, and context-sensitive variables such as government policy, corporate strategies, and socio-environmental outcomes.

The research is based on a descriptive-analytical design that integrates empirical data analysis with a theoretical framework grounded in international business and economic development literature. This approach was selected to enable the systematic exploitation of complex interactions between TNCs and host country environments. By using both inductive and deductive reasoning, the research aims to verify assumptions and evaluate the broader implications of foreign corporate activity in the Czech Republic. The research process is carried out in several stages: literature review, data acquisition, quantitative analysis, qualitative interpretation, and synthesis of findings. Each stage is aligned with the overarching research goals and supports both the validation of assumptions and the critical assessment.

The study is based entirely on secondary data sourced from credible national and international institutions, such as the Czech Statistical Office, the Organisation for Economic Co-operation and Development, the United Nations Conference on Trade and Development, as well as reports from the World Bank and the European Commission. Additional information was drawn from industry-specific publications, including sectoral reports from automotive, ICT, and financial services, along with academic literature.

The dataset ranges over approximately a ten-year period from 2013 to 2023, which allows for the observation of long-term trends and the identification of structural patterns in economic activity. The core of the data includes national-level statistics

on GDP, FDI, employment, labor productivity, wage levels, and export volumes. More detailed sectoral data focus on turnover, workforce composition, and R&D expenditure within key industries such as automotive, electronics, ICT, and finance. It is important to note that a slight variance in the timeline of the data used may occur due to institutional reporting lags. In some instances, the most recent data was not yet available due to the standard processing time required by statistical agencies and international organizations to compile, verify, and publish comprehensive datasets. Careful attention was paid to maintaining internal consistency, with data being cross-referenced and validated across multiple sources if possible.

5. The Czech Policy Framework

Since transitioning from a centrally planned economy to a market-based system, the Czech Republic has relied heavily on FDI and the activities of TNCs to modernize industries and establish global linkages (Dunning and Lundan, 2018; Meyer and Peng, 2016). Early-stage inflows centered on privatization and quick capital injections to revive former state-owned enterprises. However, as Czech institutions strengthened, policymakers emphasized workforce upskilling, technology transfer, and innovation-driven investments (Narula and Verbeke, 2015). For instance, in the early 1990s, Volkswagen acquired Škoda Auto, infusing capital and corporate expertise that revived the carmaker's production capabilities and aided the Czechs' broader post-communist transformation (MIT, 1999). These adjustments have occurred within a highly competitive global landscape where TNCs coordinate increasingly complex supply chains and push host countries to refine regulatory and incentive structures that accommodate both local and international interests (UNCTAD, 2020).

Regulatory measures, including corporate governance provisions, intellectual property safeguards, and strong competition law, have been balanced by financial and fiscal incentives aimed at embedding TNCs more deeply into the local economy (OECD, 2020). Comparisons with other Central and Eastern European countries, such as Poland, Hungary, and Slovakia, reveal overlapping objectives but distinct policy tools and institutional capacities (Beugelsdijk and Mudambi, 2013; Sari and Kucuk, 2018). As a result, the Czech Republic offers a good example of how medium-sized, export-oriented economies can harness the benefits of TNC engagement while pursuing long-term development goals tied to technological upgrading and greater value-added production.

5.1 Regulatory Environment for TNCs

A clearly articulated and consistently enforced regulatory framework is crucial in shaping the expectations and operational parameters for TNCs. National legislation,

in conjunction with EU standards, emphasizes corporate governance practices that encourage financial transparency, board accountability, and adherence to principles of fair competition. The Commercial Code and related directives ensure that TNCs with subsidiaries or local branches in the country maintain accounting clarity and provide disclosures to shareholders and other stakeholders (EC, 2020).

The Czech Office enforces competition policy for the Protection of Competition, which evaluates proposed mergers and acquisitions, investigates potential monopolistic or oligopolistic behaviors, and maintains a level playing field for local enterprises. As part of the EU single market, the Czech Republic also adopts and enforces broader EU competition rules that enhance cross-border cooperation in merger reviews and antitrust enforcement (OECD, 2023). This dual system of national and supra-national oversight fosters confidence in predictable enforcement and stable market conditions.

Another aspect of the regulatory environment lies in intellectual property protection, a priority as the Czech Republic seeks to attract high-value R&D functions. Harmonization with EU directives and participation in international treaties under the World Intellectual Property Organization (WIPO) offer legal certainty for TNCs investing in proprietary technologies (Estrin, Meyer, Nielsen, and Nielsen, 2016). The Czech legal system imposes penalties for infringements, incentivizes local R&D investments, and, in conjunction with well-established patent and trademark offices, signals that innovations developed or transferred into the country will be safeguarded (OECD, 2020).

5.2 Investment Incentives

In the Czech Republic, investment incentives are designed not merely to lure TNCs but also to direct their activities toward sectors and practices that support long-term economic growth. Under Act No. 72/2000 Coll. (the Investment Incentive Act), corporate income tax relief forms a key component of these incentives, with beneficiaries required to meet thresholds concerning job creation, capital

expenditure, or contributions to strategically important industries (CzechInvest, 2025).

Although tax relief is a central pillar, the government also provides cash grants that help offset establishment or expansion costs, especially when TNCs undertake large-scale projects with significant employment potential or export capacity. Many of these grants target underserved regions, aiming to reduce regional disparities by encouraging businesses to locate in areas with fewer economic opportunities. Employment subsidies and training support offer TNCs the means to cultivate a specialized local labor force (CzechInvest, 2021).

R&D and innovation incentives further reveal the Czech government's ambition to transition from low-wage assembly to higher-value-added production. Favorable tax deductions are available for expenses tied to experimental development, while collaborative funding channels bolster partnerships between TNCs, universities, and domestic research centers. Such arrangements can generate spillovers that boost the innovation ecosystem and enrich local suppliers (OECD, 2020).

Beyond these financial dimensions, the government has shown an increasing willingness to link incentives to sustainability and environmental targets. Certain grant programs or tax-based benefits prioritize companies demonstrating a commitment to clean energy transition, efficient resource use, or green technologies. One example is the Eco-Energy sub-program within the Czech Operational Programme Enterprise and Innovation for Competitiveness, which offers grants to both foreign and domestic investors undertaking energy-saving measures, integrating renewable energy sources, or adopting circular-economy principles (EC, 2025).

5.3 FDI Promotion Policies

Alongside formal legislation and economic stimuli, the Czech Republic operates a proactive system of FDI promotion that shapes how TNCs approach investment decisions. At the center of this effort is CzechInvest, a specialized government

agency acting as a liaison between foreign investors and the local business climate (Narula and Verbeke, 2015). CzechInvest assists TNCs throughout their market-entry process, from initial research and regulatory clearance to site selection and introductions to regional authorities. This system aims to reduce administrative complexities and helps TNCs navigate the varying rules and procedures linked to permits or licenses (CzechInvest, 2021).

Sectoral targeting represents a defining feature of the Czech FDI promotion network. Building on historical strengths, policies emphasize advanced engineering, automotive, aerospace, Information and Communication Technologies (ICT), and other knowledge-intensive fields. Such targeted promotions typically involve specialized R&D grants, support for cluster development, and opportunities for joint ventures with local firms (OECD, 2024).

These national-level FDI efforts amplify coordination with EU funds. This is done via the Structural and Cohesion Funds. Through these, the Czech Republic channels resources toward infrastructure projects, such as modernizing highways, rail networks, or digital connectivity, which bolster industrial competitiveness (EC, 2021).

On the other hand, large, headline-grabbing projects can overshadow the developmental needs of smaller domestic businesses. Generous incentive packages, especially for automotive or electronic giants, sometimes risk crowding out local firms that lack the capital or expertise to meet supplier requirements (Meyer and Peng, 2016). For instance, in the Moravian-Silesian Region, high-profile foreign-led projects have been helpful in revitalizing abandoned industry sites. Yet, there remain concerns that SMEs in the vicinity only partially benefit unless they receive corresponding support for technology adoption (EC, 2021).

Certain analysts caution that highly specialized cluster-building strategies may exacerbate uneven regional development if peripheral areas fail to attract comparable levels of attention or investments (Beugelsdijk and Mudambi, 2013). Even though CzechInvest has facilitated successful anchor investments, the extent to which TNCs embed R&D and product-development roles in local facilities remains

highly variable. In response, the Ministry of Industry and Trade has gradually introduced new measures that tie additional tax credits to deeper partnerships between foreign firms and Czech universities or tech start-ups, particularly for pre-commercial research (OECD, 2020).

6. TNCs in the Czech Republic

This chapter provides an overview of the presence, structure, and significance of transnational corporations (TNCs) operating within the Czech Republic. It explores their role in shaping key sectors of the national economy, with particular emphasis on foreign direct investment, employment generation, and export performance. Below is a table of the largest companies in 2023 in the Czech Republic based on revenues - TOP 10 + 1 , as Toyota plays an important role.

Table 1: Companies with the highest revenues in Czechia in 2023, billions CZK

Rank	Name of the company	Revenues
1.	EP Holding	581,07
2.	Škoda Auto	579,77
3.	ČEZ	340,59
4.	AGROFERT	211,66
5.	Hyundai Motor Manufacturing Czech	188,98
6.	ORLEN Unipetrol	166,43
7.	Foxconn Czech Republic	127,47
8.	Lidl Czech Republic	84,36
9.	MORAVIA STEEL	78,36
10.	ČEPRO	78,12
11.	Toyota Motor Manufacturing Czech Republic	73,61

Source: own processing based on (Statista, 2024)

6.1 Entry of MNCs to the Czech Economy

Until the early 1990s, socialist nations, led by the Soviet Union, largely remained isolated from MNCs due to their centrally planned economic structures and extensive state ownership. Private businesses were severely restricted, typically confined to minor enterprises, which effectively prevented significant foreign corporate involvement. Socialist countries predominantly engaged in international cooperation within the Council for Mutual Economic Assistance structure, with occasional interactions involving developing nations, characterized mainly by industrial exports and imports of raw materials, often linked to political objectives.

Engagement with advanced capitalist economies remained minimal, and state regulation heavily dominated these activities, relegating socialist enterprises to operational rather than strategic roles. Initially, European socialist states kept pace with capitalist economies until around the late 1960s. However, subsequent economic stresses, notably the oil crises of the 1970s, highlighted inherent weaknesses in centrally controlled systems. The inability of socialist economies to effectively adapt to market-driven changes significantly accelerated their decline, ultimately leading to their collapse in 1989 (Blažek and Šafrová Drášilová, 2013).

Economic transformation in the then-Czechoslovakia began following political changes in 1989, initiated by two teams. The first, established by the Czech government's Economic Council, included economists who proposed a gradual transformation strategy with incremental privatization and active state restructuring of enterprises prior to privatization. The second team, led by Václav Klaus and associates, advocated rapid privatization based on neoliberal principles, emphasizing immediate mass privatization through voucher privatization without extensive state intervention or preliminary restructuring. The Federal Assembly adopted a compromise scenario in 1990, integrating elements from both teams. However, neoliberal concepts gradually became dominant, sidelining gradualist and interventionist measures such as industrial and regional policies. Legislative changes introduced at this time enabled private enterprise, foreign ownership, and established CzechInvest to attract foreign investments. Privatization proceeded mainly through restitution, municipal transfers, small privatization auctions, and mass privatization. Mass privatization notably employed voucher privatization in two waves (1992-1994), allowing citizens to obtain company shares via investment coupons, heavily mediated by privatization funds. Despite initial public skepticism, voucher privatization gained wide popularity, with participation exceeding 80% of eligible citizens. Public attitudes during privatization revealed apprehension regarding capitalism, social inequality, and foreign ownership, particularly concerning historical aversions to German capital. The Klaus government, sensitive to these concerns, hesitated to sell key enterprises to foreign investors, instead aiming to nurture a domestic capitalist class closely linked to political interests. Ultimately, the adopted privatization strategy significantly favored rapid, neoliberal

approaches, aligning closely with Klaus's original proposals (Blažek and Šafrová Drášilová, 2013).

The economic transformation initially led to a significant recession from 1990 to 1992, termed the "transformational recession," common across post-socialist countries. Structural changes, market liberalization, and the collapse of traditional socialist markets drove this recession. GDP (gross domestic product) sharply declined, industry and agriculture sectors contracted, and many businesses struggled with increased competition, market loss, and reduced state subsidies. Firms faced challenges such as outdated products, inadequate management skills, increased input prices, and diminished consumer demand. Some industries degraded to exporting raw materials rather than finished products, due to their inability to compete internationally. Notable companies experienced severe declines. ČKD Praha's tram production and Tatra Kopřivnice's truck manufacturing collapsed dramatically. Despite initial hardships, numerous smaller enterprises emerged successfully due to new entrepreneurial freedoms, increasing the number of industrial enterprises. A few large privatizations to foreign investors, such as Volkswagen's acquisition of Škoda Mladá Boleslav, positively impacted economic development. Between 1993 and 1996, economic conditions improved markedly, characterized by strong growth, low unemployment, low inflation, and a balanced budget. The Czech Republic was internationally recognized for its successful reforms, becoming the first post-socialist country to join the OECD and obtain an investment-grade rating from Standard & Poor's (Blažek and Šafrová Drášilová, 2013).

By 1997, underlying structural issues surfaced, initiating a second recession due to economic imbalances, low productivity growth, rising labor costs, and extensive corporate indebtedness. Inadequate ownership control, problematic privatization methods, particularly voucher privatization, and bank-firm relationships exacerbated inefficiencies. Many privatized companies lacked effective restructuring, while management engaged in short-term opportunism and asset stripping. Insufficient capital and poor managerial practices undermined prominent Czech-owned

companies, disproving initial expectations of creating a robust domestic capitalist class (Blažek and Šafrová Drášilová, 2013).

The government then began to establish favorable conditions for foreign investors' entry, which involved privatizing major Czech banks. This shift in government policy significantly influenced the FDI inflows, as illustrated in the chart below.

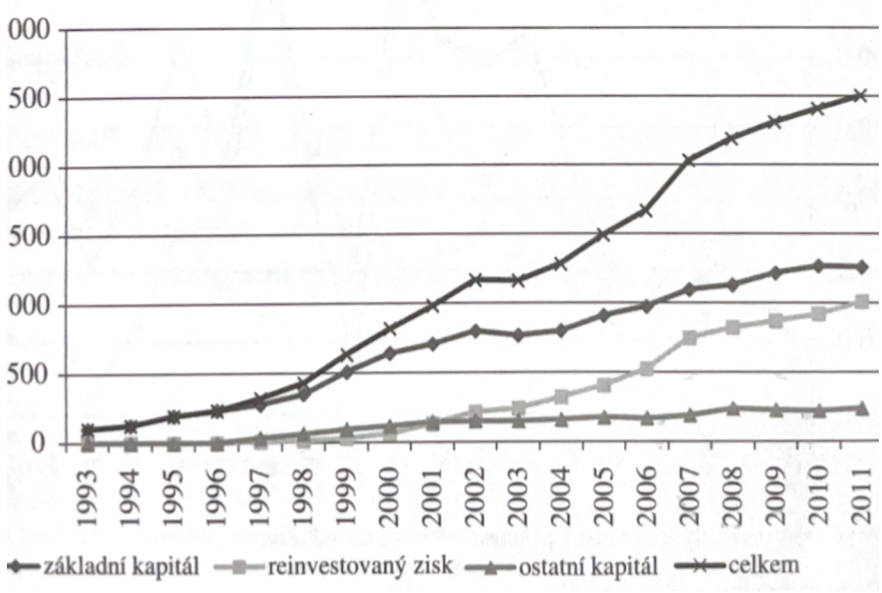

Figure 1: The state of FDI in the Czech Republic, 1993-2011, billions CZK
Source: (Blažek and Šafrová Drášilová, 2013)

6.2 Sectoral Analysis of TNC Presence

Automotive

The automotive industry is one of the key pillars of the Czech industrial identity, and it continues to thrive thanks to the presence of major TNCs such as Volkswagen (via Škoda Auto), Toyota, or Hyundai (AutoSAP, 2024). These global giants don't just build and assemble cars locally, but they also source a variety of components from Czech suppliers who specialize in engines, electronics, and interior parts. From personal experience, I can also mention a small Czech company, "Carda", which focuses on the production of packaging materials. This company belongs to my uncle and, among other things, supplies packaging materials to Škoda Auto. Many

of these domestic suppliers have grown into respected partners in the broader European supply chain, and now they deliver modules to sister plants in Slovakia or Germany (CSO, 2022). In addition to generating a large number of jobs, the influx of know-how from TNCs has driven up quality standards and prompted SMEs to embrace modern production and invest in their own R&D. Some observes worry about the sector's heavy export reliance and the potential risk of economic volatility should the global automotive market experience a downturn (IMF, 2025).

Electronics and Information and Communication Technologies (ICT)

This sector emerged as a particularly dynamic sector for foreign-owned enterprises. Some of the most well-known companies are Foxconn, Siemens, and Honeywell. They run both manufacturing lines and specialized R&D hubs (CzechInvest, 2022). Their decision to expand in the Czech Republic reflects a blend of factors: a tradition of engineering, comparatively lower labor costs than in Western Europe, and easy logistics access to other EU markets (Lloyds Bank, 2025). Pardubice, for example, hosts major electronics production facilities, while Prague and Brno are becoming magnets for software and automation development. Collaboration with local universities is growing, mainly through internship programs or joint research grants. This scenario can be seen in Liberec as well. Disparities still exist, and less-populated regions often struggle to attract top-tier ICT investments, which raises questions about inclusive growth and balanced regional development (MIT, 2022).

Finance and services

Major foreign banking institutions, including Erste (České spořitelna), KBC (ČSOB), and Société Générale (Komerční banka), played a key role in overhauling the Czech financial system following the privatization drive of the 1990s (Blažek and Šafrová Drášilová, 2013). These multinational banks introduced a wide range of consumer-friendly innovations, such as online portals and contactless payments, which quickly became industry norms. The Czech National Bank (2019) acknowledges that foreign capital and international best practices have bolstered the sector's resilience. However, a negative aspect might be that a sizable share of profits often flows back to parent companies, which reduces reinvestment potential in local economies

(Parnreiter, Steinwärder, Kolhoff, 2024). Another challenge to address is the uneven distribution of roles, as strategic decisions or some back-office roles may be centralized outside the Czech Republic. In this case, when everyday operations take place locally, but key corporate functions stay abroad, it can limit the creation of higher-wage positions within the country (Meyer and Peng, 2016).

Retail

In the Czech Republic, international retail companies like Tesco, Lidl, and IKEA manage various stores, ranging from expansive hypermarkets to niche furniture shops (Dunning and Lundan, 2018). Credits for these companies are also for creating numerous jobs and broadening consumer choice, particularly in urban centers. Many retailers have, over time, increased their sourcing of Czech-made products to align with customer preferences for regional items and reduce dependence on imports (CSO, 2022). The rapid expansion of these major brands has brought both benefits and challenges. Small, family-owned businesses often struggle to compete with these giants on price and convenience, especially in rural areas. When local stores close, it can leave communities with limited shopping options, sparking debates about whether government support (grants, tax breaks, etc.) should be offered to help preserve neighborhood businesses (Parnreiter, Steinwärder, Kolhoff, 2024). Domestic suppliers also face challenges, as they are often pushed to meet demanding volume requirements at slim profit margins. They risk being dropped altogether if they fail to meet strict corporate standards for cost or quality. While foreign retailers have introduced broader product selections and modern shopping experiences, concerns remain about whether they sufficiently reinvest in local economies, pay competitive wages to retail staff, and build partnerships with smaller producers.

Aerospace and Advanced Manufacturing

Although not as large as the automotive sector, those fields are prime examples of higher-value TNC activities that rely on Czech expertise. One of the examples is GE Aviation Company (Walter Engines), that have built R&D centers focused on engine design, employing engineers specialized in aerodynamics and materials science

(MIT, 2023). Other advanced manufacturing ventures, including robotics and precision machinery, often cluster around technical universities, particularly in Brno, Prague, and Liberec, where TNCs partner with professors and students to develop prototype solutions (ČVUT, 2021). These projects often benefit from both national grants and European funding streams. For instance, Honeywell has begun experimenting with advanced composite materials for lighter aircraft components or implementing additive manufacturing (3D printing) techniques to streamline production (Baldwin, 2025).

7. Economic Impacts of TNCs on the Czech Economy

7.1 GDP and Economic Growth

In the last decade, the Czech Republic marked solid economic growth (typically 2-5% GDP growth per year), and TNCs were key drivers of this expansion. The Czech economy is highly export-driven. Exports (in years 2015-2021) equal around 70-75% of all GDP (CSO, 2023), and much of this is produced by foreign-owned manufacturers (especially in automotive, engineering, and electronics). Foreign MNCs led the export boom in this period, taking advantage of Czechia's skilled yet cost-competitive workforce and EU market access. For instance, the surge in automotive production (Škoda Auto/VW, Hyundai, Toyota-PSA) and machinery exports in 2015–2018 was largely attributable to investments and operations of TNCs (OECD, 2020). As a result, a significant portion of Czech GDP growth came from the output of foreign-owned firms, which generally grew faster than the domestic sector. The foreign affiliates' share of value added rose marginally over the decade (indicating they slightly outpaced domestic firms) (CSO, 2023).

In 2020, the Czech economy experienced a sharp recession due to the COVID-19 pandemic, with GDP contracting by approximately 5.3% (Worldometers, 2023). TNCs, especially in the automotive and manufacturing sectors, faced severe disruptions to global supply chains, temporarily impacting output. Nevertheless, foreign-controlled enterprises remained crucial economic players, with their share of total value added only slightly decreasing from 42.7% in 2019 to 42.3% in 2020, underscoring their resilience during the downturn (CSO, 2023). This resilience, supported by earnings reinvestment and government stimulus measures, facilitated a robust economic rebound, as Czech GDP growth returned to about 4.0% in 2021 (EBRD, 2022) and 2.85% in 2022 (Focus Economics, 2023). Manufacturing output, a sector heavily reliant on TNCs, recovered particularly swiftly, highlighted by an exceptional year-on-year increase of 54.1% in April 2021, leading to the post-pandemic recovery in exports and industrial production (Eulerpool, 2023).

By 2023, Czech GDP growth had slowed markedly (to about -0.09% in 2023 amid high inflation and weak external demand) (Statista, 2024). Even so, the contribution of TNCs to growth remained substantial. Foreign-owned companies continue to underpin Czech industrial output even though domestic demand is soft. Without the foreign-invested sector's strong productivity and export performance, Czech GDP growth over the observed period would have been significantly lower (CSO, 2023; Hampl and Havránek, 2018). Foreign firms have also catalyzed productivity gains among domestic firms via supply chain links and technology spillovers. Research finds that a 10% point rise in foreign presence boosts Czech domestic firms' productivity by around 11% (Hampl and Havránek, 2018).

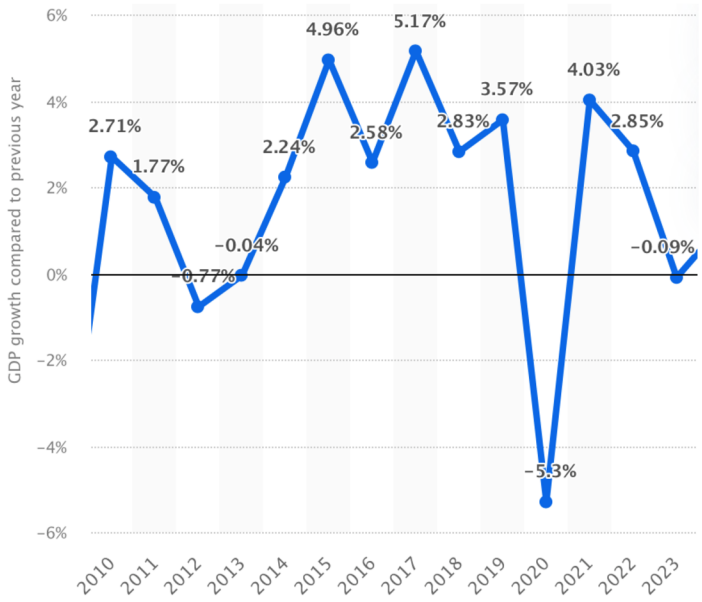

Figure 2: GDP growth in Czechia, 2010–2023
Source: (Statista, 2024)

Figure 3 below illustrates the turnover generated by TNCs in Czechia across the manufacturing and services sectors from 2013 to 2019, clearly showing steady growth in both sectors over the period. Manufacturing turnover remains consistently higher, reflecting the dominant role of foreign firms in Czech manufacturing industries. Especially the automotive and machinery sectors, which significantly contribute to exports and industrial output (OECD, 2025). Turnover in services shows a notable upward trajectory as well, growing FDI, especially in retail, financial

services, and IT (Information Technology), driven by increasing domestic demand and market expansion (Eurostat, 2023).

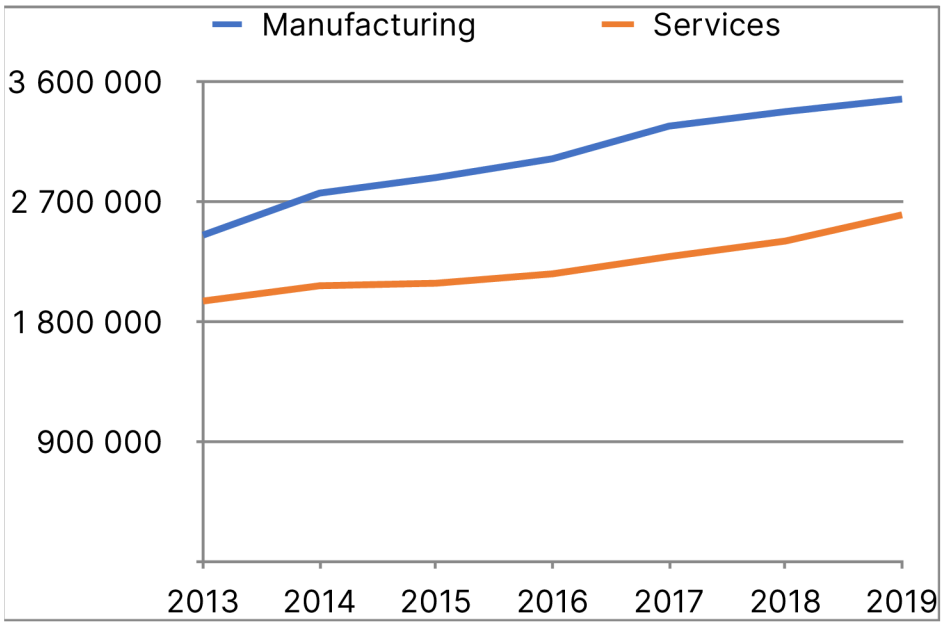

Figure 3: Turnover by sector by TNCs in Czechia, 2013–2019, millions CZK
Source: own processing based on (OECD, 2025)

7.1.1 Comparison with Domestic Firms' Contribution≠

Domestic Czech-owned companies still account for the majority of enterprises, and data from the EC (2019) shows that around 55-60% of business-sector value added is substantiated. According to the SBA Fact Sheet for Czechia, SMEs in the Czech „non-financial business economy" account for 56.0% of total value added and 66.4% of employment. The IMF (2025) analysis highlights that around 50% of the sector's value added is generated using domestic intermediate inputs. This underscores the substantial contribution of domestic companies to the Czech Republic's business-sector value added. The contrast between foreign vs. domestic firms is stark in terms of scale and productivity. An average foreign-controlled enterprise in Czechia produces far more output than an average domestic firm. For example, the roughly 18.000 foreign-controlled companies (by 2019) generate close to 42% of value-added, whereas the nearly 1.3 million Czech-owned businesses produce approximately 58% (CSO, 2023).

Table 2: Number of total enterprises compared to the number of TNCs in the Czech Republic, 2015-2019

Year	Number of enterprises	Number of TNCs
2019	1 209 337	18 014
2018	1 190 641	17 423
2017	1 162 804	15 073
2016	1 160 654	12 260
2015	1 147 211	12 613

Source: own processing based on (CSO, 2022 and OECD, 2025)

Foreign firms also invest heavily (almost 40% of investments) and focus on capital-intensive, high-productivity activities, while many domestic firms are SMEs with more limited capital (OECD, 2024). TNCs have a bigger impact than their size would suggest because their labor productivity is nearly double that of local firms, and they pay about 25% higher wages on average (see more in the next chapter) (EC, 2019). This productivity gap means foreign firms contribute disproportionately to GDP relative to their share of employment.

In terms of GDP contributions, foreign companies have often been the „engine“of growth, especially via exports and industrial output, while domestic firms contribute via supply linkages and services (OECD, 2024). During the past decade, domestic consumption and services (largely driven by local firms) also grew, but the export-led component (mainly TNC-driven manufacturing) was crucial to elevating overall growth rates (CNB, 2025). In downturns like 2020, domestically oriented sectors (e.g., local services, hospitality) actually fared worse, whereas manufacturing, despite a slump, bounced back faster thanks to foreign exporters (CNB, 2020). By 2021–2022, industrial exports by TNCs helped offset weaker local demand (CNB, 2024). Thus, while both segments are important, foreign-controlled enterprises have been the more dynamic force in recent Czech economic performance, with domestic firms playing a supporting role.

It is worth noting that the strong presence of foreign firms has also created some vulnerabilities or dependencies. The Czech economy’s performance is tightly linked to foreign parent companies’ decisions and to external demand conditions. High TNC dominance means a sudden drop in foreign investment or a decision by an

MNC to relocate production could affect the Czech GDP. Likewise, large profit repatriations by foreign firms can constrain the contribution of GDP to national income. Still, on balance, the domestic sector benefits from foreign-led growth through subcontracting, employment, and technology transfer, helping raise the output of local firms in aggregate (Hampl and Havránek, 2018).

7.2 Employment and Wages

TNCs have become significant drivers of employment in the Czech Republic over the last decade. Official data collected by the CSO (2022) indicate that foreign-controlled enterprises account for a considerable share of total employment in industry, services, and other key sectors. As TNC affiliates bring advanced production processes and managerial practices, they tend to create both direct jobs within their own operations and indirect opportunities through local supply chains and partner enterprises (OECD, 2018).

Data on job creation show that TNCs typically establish or expand operations in high-value-added manufacturing (e.g., automotive, electronics) and knowledge-intensive services (e.g., information technology). According to World Bank (WB) (2025), foreign affiliates in these sectors have added a significant proportion of new jobs during periods of strong inward FDI, especially between 2014 and 2019. This rise in TNC-driven employment correlates with an upsurge in skill requirements, as documented by MPSV (2022), leading to greater demand for employees with technical qualifications, language skills, and international experience. While the COVID-19 pandemic disrupted hiring trends in 2020, partial data for 2021 suggest that TNC affiliates maintained relatively stable employment levels due in part to robust supply-chain linkages (OECD, 2022).

As early as 2014, over 900 thousand people worked in foreign-controlled firms, representing nearly one-third of employees in the Czech business sector (CSO, 2025). By the late 2010s, the data indicated an upward trend in the employment rate, with the economically active population exceeding 5.3 million by 2021 (CSO, 2025). By 2020, foreign-controlled companies employed over 1 million workers,

which translates to roughly 30% of all private-sector employees, a similar share to that observed in early 2014. The COVID-19 pandemic in 2020 did not drastically alter this proportion since foreign-owned firms faced employment adjustments similar to domestic companies (Maňasová, 2020). In the post-pandemic recovery of 2021-2022, TNC hiring resumed modest growth, so estimates for 2022 indicate about 1.08 million employees in TNCs, representing approximately 27-28% of the overall private-sector employment (CSO, 2025).

Considering the broader category of the total working population, which includes self-employed persons in addition to employees, TNC employees have accounted for roughly 20% of the labor force in recent years (CSO, 2025). Although this fraction is modestly higher than a decade ago, a sustained expansion in domestic firms has kept the TNC share relatively stable (CSO, 2025).

Structural changes in TNC employment reveal that manufacturing remains the backbone of foreign-controlled business activity, particularly in the automotive, electronics, and machinery sectors (CSO, 2025). At the same time, employment in services, notably in information technology, outsourcing, and retail, has grown in importance (Charles, Xia, and Coutts, 2022). European investors, primarily from Germany and other EU states, lead the foreign ownership in Czech enterprises, whereas U.S. and Asian-based firms are making inroads in high-tech and R&D sectors (EUROSTAT, 2023).

Thus, while the absolute number of employees has risen in recent years, their relative share among all employees has moderated slightly compared to earlier in the decade. According to projections from the OECD (2022) and corroborated by EUROSTAT (2023), the inflows of FDI that underpin TNC activity are expected to persist, especially in key export-oriented sectors.

Table 3: Comparison of TNC employees with the total employee population and the entire workforce, 2014-2023

Year	Number of Czech working population	Total number of employees in Czech	Number of TNC employees in Czech
2019	5 412 200	4 226 700	1 076 213
2018	5 415 400	4 211 000	1 069 735
2017	5 377 100	4 142 900	1 043 545
2016	5 350 000	4 061 300	1 011 413
2015	5 309 900	3 991 100	963 627
2014	5 297 900	3 909 300	942 337

Source: own processing based on (CSO, 2025 and OECD, 2025)

Wage differentials have emerged as one of the most researched aspects of TNC operations. Analyses consistently indicate that foreign-controlled firms tend to pay higher average wages than locally owned businesses (CNB, 2019). This so-called “foreign wage premium” has been observed across various sectors, including manufacturing, retail, and certain service industries. In manufacturing, where TNCs often integrate the Czech Republic into global production networks, the average wage gap can range from 10% to 30% in favor of TNC affiliates. The gap may be even wider in the technology and financial services sectors, reflecting higher skill requirements and greater capital intensity (OECD, 2018; CSO, 2022).

Explanations for this wage premium include TNCs' larger scale and ability to leverage global profit margins to invest in skilled labor. The financial resources of multinational parent companies may also encourage them to offer competitive remuneration packages to attract and retain a higher-quality workforce (WB, 2025).

In the last 10 years, wage levels in the Czech Republic have steadily increased in both domestic and foreign-controlled enterprises. However, several independent studies and reports from international organizations indicate that TNCs consistently pay higher wages than their domestically owned counterparts. For example, the European Commission's Economic Brief (2020) discusses how Central and Eastern European economies, through their roles in GVCs, have experienced wage growth linked to their integration into these chains. The report highlights that sectors with

higher GVC participation often see enhanced wage dynamics due to increased productivity and competitiveness.

Additional evidence comes from an International Labour Organization (ILO) report (ILO, 2020) demonstrating more pronounced wage increases in sectors dominated by foreign-controlled firms. According to the ILO, higher wages in TNCs are linked to advanced technology, adoption, and more significant capital investment, which enable these firms to invest more substantially in workforce training and productivity improvements.

In parallel, the Economic Policy Research Center (2021) has provided case studies suggesting that FDI by TNCs contributes not only to higher wages within those firms but also generates positive spillovers across local supply chains. Such spillover effects help elevate the overall wage structure in industries where TNCs are active. An update from the European Commission (2019) further confirms that, despite a general convergence of wages over time, the wage premium in TNCs has remained consistently in the range of 15-20% in the last decade.

Table 4: Average monthly wage in the Czech Republic, 2014-2019

Year	Average monthly wage in CZK
2019	33 228
2018	31 006
2017	28 704
2016	26 837
2015	25 697
2014	24 906

Source: own processing based on (CSO, 2025)

On the other hand, the higher wage levels in TNCs can create competitive pressure on domestic companies. Rajhold (2015) argues that when domestic firms are forced to match the wage standards of multinationals to retain skilled labor, they may face squeezed profit margins and an erosion of competitiveness. This „wage squeeze“ phenomenon might force local firms into unsustainable labor cost increases, thus impairing their ability to invest in innovation and expansion. Additionally, not all employees in TNC affiliates automatically enjoy superior wages or working

conditions. Certain routine or low-skill operations remain vulnerable to cost-driven relocation if labor costs rise or if market conditions shift (MPSV, 2022).

7.3 Research and Development (R&D)

Foreign-controlled TNCs became the dominant drivers of business R&D. In 2021, foreign-controlled companies spent about 48.1 billion CZK on R&D in Czechia, compared to roughly 28 billion CZK by domestically owned companies (sdg-data.cz, 2022). This means foreign affiliates accounted for approximately 63% of all business R&D expenditure in the country.

Figure 4 illustrates the growth in R&D expenditure by foreign firms operating in the Czech Republic between 2010 and 2017. The blue bars represent the absolute spending, measured in billion CZK, while the red line indicates these firms' spending as a percentage of total national R&D expenditures. Over the examined period, foreign enterprises increased their R&D investments significantly, from CZK 15 billion in 2010 to CZK 36.9 billion in 2017. Concurrently, their contribution to the overall national R&D spending rose notably, from 28% to 41%.

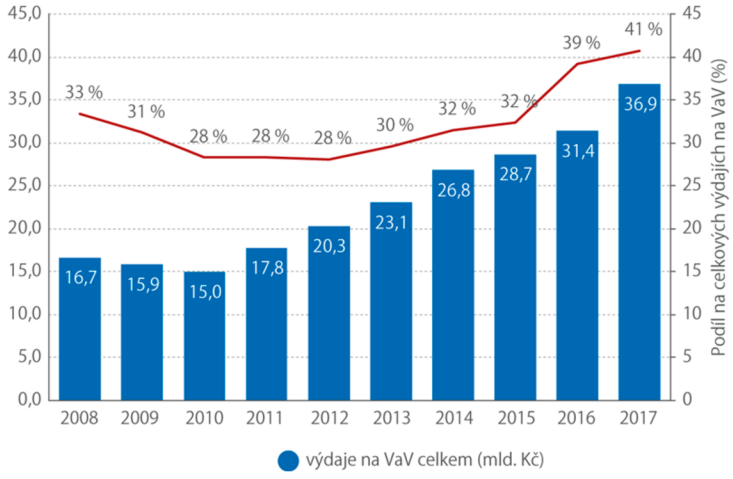

Figure 4: R&D expenditures by foreign-controlled companies in Czechia, 2008–2017
Source: (CSO, 2019)

By 2020, approximately 40% of all R&D expenditures in Czechia (across all sectors) were attributable to foreign-controlled businesses (about 44 billion CZK out of a total of 112 billion CZK). A decade earlier, in 2010, that share was only about 28%.

The R&D performed by TNCs in Czechia roughly tripled in absolute terms over 2010–2020 (from CZK 15 billion to 44 billion) (CSO, 2024). Major MNC investors (e.g., in automotive, aerospace, and software) rank among the top R&D spenders in the country (CzechInvest, 2022). In contrast, domestic private firms' R&D expenditure has grown more slowly. For example, Czech-owned companies' R&D spending rose only 8% between 2012 and 2017, while foreign firms' R&D spending jumped 80% in the same period (CSO, 2019).

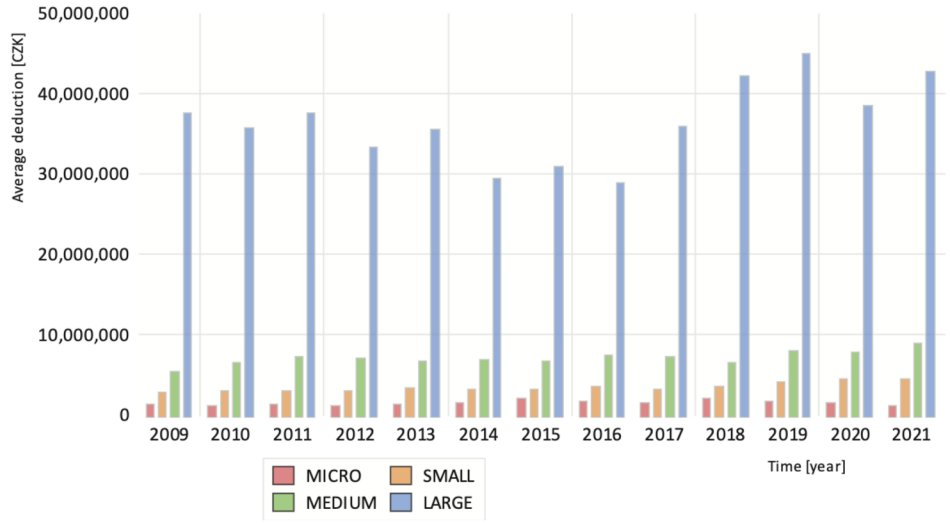

Figure 5: The average amount of the deduction for R&D in Czechia, 2009–2021
Source: (Brabec, Černíková, and Hyblerová, 2023)

Foreign MNCs are firmly „on top" of Czech research statistics, spending more on R&D than all Czech universities and public research institutes combined (in years 2016 and 2017) (CSO, 2019). In the business sector, foreign-controlled firms consistently perform well over half of all R&D. In 2021, their BERD (Business Expenditure on R&D) share was about 63%, and this foreign share of BERD has been above 50% since at least the mid-2010s. For comparison, only a few EU countries (e.g., Hungary, Ireland, Belgium, Slovakia, and the United Kingdom) have similarly high foreign BERD shares above 50%. In contrast, larger economies like Germany or non-EU countries like the US and Japan see foreign affiliates contribute <20% of business R&D (Moncada-Paternò-Castello, Amoroso, and Cincera, 2020).

Table 5: R&D expenditure financed from corporate sources, millions CZK

Year	Czech total	Foreign-owned firms in Czech
2020	66 086	42 903
2019	64 736	43 705
2018	59 947	40 885
2017	53 839	36 035
2016	48 217	30 868
2015	45 607	27 521
2014	43 262	25 863

Source: own processing based on (CSO, 2025)

The dominance of TNCs in R&D spending is likewise in R&D employment. Foreign-owned firms represent roughly one-quarter of all R&D-performing companies in the Czech Republic. Table 6 presents the number of R&D personnel employed by foreign-owned firms compared to the total number of R&D personnel in Czechia for the years 2014-2020. It illustrates a clear upward trajectory in both domestic and foreign employment.

Table 6: R&D in the Czech Republic - number of R&D personnel, 2014-2020

Year	Czech total	Foreign-owned firms personnel in Czech
2020	65 193	14 283
2019	63 690	13 847
2018	61 966	13 945
2017	59 789	13 357
2016	56 178	12 773
2015	56 605	12 401
2014	54 493	10 837

Source: own processing based on (CSO, 2025)

The typical R&D employee in a foreign company is often young and highly educated. Nearly half of the researchers in foreign firms were under 35 years old (as of 2015), and over 60% held a Master's degree (CSO, 2019). Foreign R&D jobs also tend to be well-paid. In 2017, the average monthly R&D wage cost was about 73.000 CZK, significantly higher than in domestic organizations (CSO, 2019).

In a European context, the Czech Republic stands out for its high involvement of foreign MNCs in R&D. Many Central/Eastern European peers show a similar pattern (e.g., Hungary and Slovakia also have the majority of business R&D performed by foreign-owned firms). This reflects the structure of these economies, where incoming FDI brings not only production but increasingly R&D activities. In most Western European countries, domestic firms conduct the bulk of R&D (for instance, foreign affiliates account for <30% of BERD in Germany or France) (Moncada-Paternò-Castello, Amoroso, and Cincera, 2020). Despite Czechia's strong R&D growth (Czech R&D spending more than doubled from 2010–2020, far outpacing the EU-average ~44% increase), its overall R&D intensity (~2% of GDP) still trails innovation leaders like Germany or Austria (3%+ of GDP) (CSO, 2024; Expats.cz, 2022). The heavy contribution of TNCs has helped Czechia approach the EU average in R&D input, but it also means Czech R&D is somewhat dependent on foreign investment decisions. On the positive side, foreign R&D centers have introduced modern technologies and created high-skilled jobs domestically (Brabec, Černíková, and Hyblerová, 2023).

7.4 Impact on Domestic Businesses

In the Czech Republic, foreign-owned businesses are predominantly controlled by entities from EU Member States, accounting for 66% of all such enterprises in 2020. These businesses contributed nearly 27% of the country's total domestic value added, employed around a quarter of the workforce, and made up 24% of all investments (CSO, 2023). This foreign footprint has contributed to economic growth and export performance, but also created a „dual economy" with productivity and wage gaps between foreign-owned and domestically owned firms. Czech domestic businesses, from small and SMEs to large firms, face intensive competitive pressures due to TNC entry. The impact varies by sector - manufacturing vs. services - and comes with opportunities and challenges (CSO, 2023).

Large TNCs bring capital, advanced technology, global brands, and economies of scale that can outcompete local firms on productivity and costs. According to the

recent study by Hampl and Havránek (2018) conducted under CNB, empirical data indicate that foreign-owned companies in Czechia are substantially more productive than domestic ones, with foreign-controlled firms, especially larger and older companies, exhibiting the highest productivity levels. This has left many SMEs and younger domestic firms struggling to catch up. The productivity gap suggests limited knowledge and technology spillovers from TNCs to local firms. Indeed, the persistent foreign-domestic productivity difference in labor and total factor productivity indicates limited know-how spillovers from MNCs to the local economy (CSO, 2019). Domestic companies often cannot immediately imitate or absorb the advanced practices of TNCs, which makes it difficult to compete at the same level.

Both SMEs and large Czech-owned firms have felt the competitive pressure. Many SMEs have been forced to either integrate into TNC-led supply chains as niche suppliers or face a decline in market share. For example, in manufacturing supply networks, smaller Czech component producers often compete to become subcontractors for foreign automakers or electronics firms. Those who fail to meet the productivity or quality standards of TNCs risk losing business (Rajhold, 2015). Some legacy Czech companies were acquired by MNCs (e.g., Škoda Auto became part of the Volkswagen Group), while others had to specialize in market niches or expand abroad to survive. A few state-owned or locally owned large firms remain (e.g., ČEZ or Budvar), but they operate in an environment where global players set high competitive benchmarks. In sectors like banking and telecommunications, nearly all major companies had been acquired by foreign entities by the 2010s, resulting in only a few large domestic competitors remaining (OECD, 2018).

7.4.1 Sectoral Differences

Manufacturing (Export Industries)

This sector has the highest foreign presence. By 2020, foreign-controlled firms accounted for approximately 60% of value added in Czech manufacturing and about 45% of manufacturing employment (CSO, 2023). The automotive industry is the clearest example. Global car manufacturers have extensive operations in the Czech

Republic. Volkswagen (owns Škoda Auto), Hyundai, and Toyota are three key automakers producing in the country. Their dominance means that domestic car brands are virtually absent (Škoda is Czech by heritage but is now a TNC subsidiary). The automotive industry as a whole contributes over 9% of the Czech GDP and around 24% of exports (CzechInvest, 2020). Škoda Auto alone has been estimated to generate about 5% of GDP and 9% of exports in recent years (Škoda Auto, 2019). Other manufacturing segments like electronics and machinery similarly feature foreign-led firms (e.g., Foxconn, Siemens) competing with domestic producers. Productivity in these TNC-heavy industries is high, yet Czech-owned manufacturers often remain in lower-tier positions (OECD, 2018; CSO, 2019).

Table 7: Czech exports by commodities in 2020

Ranking	Commodity section	Exports in million CZK
1	Motor vehicles, trailers and semi-trailers	898 995
2	Machinery and equipment	415 704
3	Computer, electronic and optical products	384 731
4	Electrical equipment	304 881

Source: own processing based on (CSO, 2025)

Services

Some service industries in Czechia are heavily penetrated by foreign chains, while others remain fragmented or are led by domestic firms. Retail trade is a sector where the TNCs' impact is very visible. Major European companies from Germany, the United Kingdom, and the Netherlands predominantly control the country's retail sector. Leading players include REWE Group, which operates Billa supermarkets and Penny Market discount stores; Schwarz Group, managing Lidl discount stores and Kaufland hypermarkets; Tesco Group, specializing in hypermarkets and supermarkets; and Ahold Delhaize, which runs Albert supermarkets and hypermarkets. As of 2019, Schwarz Group, REWE, and Ahold collectively held 57% of the market share (Lloyds Bank, 2025). This led to greater efficiency and lower prices for consumers, yet it has also led to market concentration and a notable decline in independent Czech retailers (EC, 2019; OECD, 2018). For example,

foreign-owned grocery chains dominate hypermarkets and supermarkets, making it hard for Czech grocery SMEs to compete on price, sourcing, and scale. A similar pattern appears in brewing: major Czech breweries have been acquired by global players (e.g., Asahi via SABMiller owns Pilsner Urquell, Molson Coors owns Staropramen), such that the two largest breweries (both foreign-owned) now supply over half of the domestic beer consumption (iDNES, 2015).

In telecommunications and banking, foreign-controlled firms are dominant. Major Czech telecommunication companies are foreign-owned (German Deutsche Telekom AG owns T-Mobile, Vodafone is a subsidiary of the British Vodafone Group Plc, and until 2013, O2 was under Spanish Telefónica) (Statista, 2024). Banking in Czechia is another highly concentrated sector shaped by foreign ownership. As of 2017, 91.7% of all bank assets were held by foreign-controlled banks – the highest share in the EU (EC, 2019). The five largest banks (ČSOB/KBC, Česká spořitelna/ Erste, Komerční banka/Société Générale, UniCredit CZ, and Raiffeisenbank), each a subsidiary of a foreign banking group, together control about 64% of the sector's assets (EC, 2019). This oligopoly of foreign banks arguably limits competition; for example, interest spreads historically remained higher than in some neighboring countries. Similar foreign consolidation is seen in insurance (the top insurers are owned by Vienna Insurance Group, Generali, and Allianz) (EC, 2019). The dominance of foreign financial institutions raised debates about consumer choice – e.g. fees and lending conditions often mirror parent-bank policies rather than local market needs.

IT and software services provide an interesting case: Czechia has produced successful domestic IT firms (for instance, security software companies Avast and AVG were Czech-founded). However, many of these domestic successes ended up merging with or being acquired by foreign companies (Avast was acquired in 2022 by NortonLifeLock, a U.S. firm) (Avast, 2022). Numerous global tech companies established R&D centers, outsourcing offices, or IT hubs in Czech cities (e.g., IBM, Microsoft, Oracle, Red Hat in Brno, etc.) (MFA, 2024). These foreign tech investments have created intense competition for Czech IT talent (often offering higher salaries than local firms can) and have elevated the overall sophistication of

the tech ecosystem. Unlike in manufacturing, the services TNC presence does not always translate to higher local market share because some services (e.g., hospitality, construction, transport) are still largely in domestic hands. Thus, the impact of TNCs in services is concentrated in specific industries – retail, finance, ICT – where they have introduced new competitive standards but also high concentration (WB, 2020).

7.4.2 Barriers Facing Czech SMEs

Czech SMEs operate in a domestic market characterized by fierce competition, not only from each other but also from large foreign firms. According to the Ministry of Industry and Trade (2014), the most common problem cited by Czech entrepreneurs is an insufficient volume of orders and the related strong competition. In a 2013 survey, 22% of Czech business owners said lack of customers was a major issue, and 15% pointed specifically to high competition as a top barrier (Ključnikov, Belás, Kozubíková, and Paseková, 2016). This competitive pressure often manifests as price wars and thin profit margins for SMEs. Large multinational companies can afford to undercut prices or spend heavily on marketing, which small firms struggle to match. As a result, Czech SMEs are frequently forced to compete on price, eroding their margins and capacity to grow. Research confirms that in highly competitive markets, SMEs face challenges like price undercutting and reduced margins, which can impede their financial stability (Keelson, Cúg, Amoah, Petráková, Addo, and Jibril, 2024).

Limited marketing resources are another challenge for Czech SMEs. Compared to large corporations, SMEs have far smaller budgets and expertise for marketing and brand-building. "*SMEs face more barriers in their marketing operations since they have fewer financial resources and assets*," noted Žufan, Civelek, Hamarneh, and Kmeco (2020) in a study on Czech firms. This often leads to low visibility of SME products and difficulty expanding their customer base. Many Czech SMEs rely on narrow local markets or subcontracting roles, lacking the means for slick advertising campaigns or e-commerce expansion. Moreover, access to distribution networks (e.g., getting products on supermarket shelves controlled by big chains) can be

daunting for small producers. These marketing disadvantages create a vicious cycle: unable to invest in promotion, SMEs remain small and local, limiting their revenue for future marketing. Even in the digital era, where social media offers affordable outreach, Czech SME uptake is uneven due to skill gaps (Žufan, Civelek, Hamarneh, and Kmeco, 2020).

Other barriers include wage gaps and related job retention, as TNCs can offer better wages, or the inability of small Czech retailers to compete with large foreign-owned retailers, which has been discussed above.

8. Social and Environmental Impact Analysis

8.1 Corporate Social Responsibility (CSR) in the Czech Republic

Since the mid-2010s, CSR among TNCs in the Czech Republic has shifted markedly from a peripheral, NGO-driven initiative into a fundamental component of corporate strategy. In the early 2010s, CSR was typically promoted on a voluntary basis by nongovernmental organizations and individual firms seeking to differentiate themselves. The European Commission's 2011 CSR strategy and subsequent EU directives acted as a powerful catalyst, compelling both domestic and foreign investors to adopt more structured approaches to responsible business conduct (Kašparová, 2016).

Since 2015, the Czech Government's support for CSR has been voluntary yet proactive. The Ministry of Industry and Trade (MIT) leads the agenda through its Quality Council's CSR section, and the National Action Plan for CSR (2014-2018, renewed for 2019-2023) has set strategic goals for promoting CSR education, awareness, and best practices (MIT, 2014). To incentivize responsible business conduct, the government has employed soft measures, such as conferences, public "Top Responsible Company" awards, multi-stakeholder platforms, and annually recognized exemplary businesses via the National CSR Award (MIT, 2014). In 2019, a special "Responsible Foreign Investor" award was introduced, with Škoda Auto receiving the top honor, underscoring expectations for TNCs to support local sustainable development (Škoda Auto, 2021).

EU disclosure rules have further driven CSR adoption. Under the EU Non-Financial Reporting Directive (2014/95/EU), implemented in Czechia in 2017, large companies (including many TNC subsidiaries) now report on environmental, social, employee, anti-corruption, and human rights issues. Although compliance has increased, studies reveal that many Czech companies meet only the legal minimum, with possibilities for greater substantive transparency. Recent developments, like the new EU CSRD and survey findings from late 2021, highlight an ongoing learning

curve in expanding CSR reporting (MacGregor Pelikánová, 2019). Many TNCs in Czechia align their CSR policies with global standards. The United Nations Global Compact established a Czech Network in 2015, and numerous companies have since become signatories, committing to annual Communication on Progress reports. The OECD guidelines for MNCs are promoted via a National Contact Point at MIT, while industry-led platforms such as the Association of Social Responsibility and Business Leaders Forum facilitate peer learning and initiatives like the SDGs Awards (MIT, 2016). In 2018, Czech companies began signing the European Diversity Charter, with over 90 firms (many TNCs) being signatories by 2020 (Škoda Auto, 2021).

Starting in 2025, ESG reporting will become mandatory under the EU's CSRD. Large companies already subject to the Non-Financial Reporting Directive (NFRD) must report for the fiscal year 2024. If a company's fiscal year does not align with the calendar year, reporting will apply to fiscal years beginning after January 1, 2024. Other large companies meeting at least two of the following criteria—more than 250 employees, over €50 million in net turnover, or total assets exceeding €25 million—will begin reporting for the fiscal year 2025, with their first sustainability reports due in 2026. Listed SMEs are required to report starting in 2026, though they may opt for a two-year delay until 2028 (BusinessInfo.cz, 2024).

8.1.1 Trends in CSR by TNCs

A key trend is the mainstream adoption of CSR. Western TNCs brought established CSR practices into the Czech market (many had global CSR policies)m which helped raise local standards. Over the past decade, CSR concepts like business ethics, community engagement, and sustainability moved from peripheral to mainstream in the business community (Kašparová, 2016). Surveys by consulting firms found that Czech public awareness of CSR was growing, and employees increasingly expected their employers to behave responsibly. By the late 2010s, it became common for large companies, including Czech subsidiaries of Siemens, Toyota, Vodafone, Tesco, and others, to publish annual sustainability reports or dedicated CSR reports (often following Global Reporting Initiative (GRI) Standards). In many cases, these reports

explicitly link the company's activities in Czechia to the United Nations Sustainable Development Goals (SDGs). For example, Vodafone Czechia adopted a long-term Sustainable Business Strategy 2025 in 2016, shifting from ad-hoc CSR projects to a holistic strategy aligned with global SDG priorities (climate action, digital inclusion, etc.) (Asociace společenské odpovědnosti, 2025).

Alongside greater participation in voluntary CSR, foreign firms have improved the quality of CSR reporting. Many MNCs in Czechia now integrate non-financial results into their annual reports or issue standalone sustainability reports biannually, for example, Škoda Auto (Škoda Auto, 2024). MacGregor Pelikánová (2019), in her case study analysis of the 10 largest Czech companies, found that they all include some CSR information in their annual statements, but with different emphasis areas. Notably, employee-related disclosures (e.g., on workforce development, diversity, health, and safety) were the most detailed, serving as a "public declaration" of responsibility, whereas environmental data and social/community contributions were less uniformly reported. This indicates that workplace CSR and ethical conduct had become baseline expectations while comprehensive environmental and community reporting was still developing. Since 2020, there has been a clear uptick in reporting on climate impacts (carbon footprints, energy use) and community investment, spurred by investor interest in ESG criteria. MNCs are increasingly using ESG ratings and indices to benchmark their Czech operations. For instance, in 2021, an independent ESG rating by the Association of Social Responsibility evaluated firms in Czechia on environment, social, and governance metrics for the first time (Asociace společenské odpovědnosti, 2024).

Table 8: Top 10 ESG-responsible large companies in Czechia in 2024

1.	Albert Czech Republic
2.	Coca-Cola HBC Czech and Slovak
3.	ČSOB
4.	KB
5.	Prague Airport
6.	METALIMEX
7.	MONETA Money Bank
8.	Plzeňský prazdroj
9.	Skupina ČEZ
10.	Vodafone Czech Republic

Source: own based on (Asociace společenské odpovědnosti, 2025)

Many TNCs now actively brand themselves around their CSR commitment in the Czech Republic. It is increasingly common to see cause-related marketing and social impact messaging. For example, retailers highlight support for food banks in their advertising, and almost all of them engage in the annual „sbírka potravin“ - Albert, Kaufland, Lidl, Tesco, and so on (Sbírka potravin, 2025). Tesco's study of Czech consumers found that 72% believe a supermarket plays an important community role, indicating that CSR efforts have tangible reputational benefits (Tesco, 2025). Employee engagement in CSR has become a norm. Foreign companies report high participation in volunteer days, payroll giving, or internal „green teams. “ According to the employee survey, a majority of Czech employees are aware of their employer's CSR and view it positively (Činčalová and Jeřábková, 2021).

8.1.2 Main CSR Topics

Nearly all major TNCs emphasize environmental sustainability, aligning with global climate commitments and local regulations. Carbon footprint reduction and energy efficiency in operations are central. For example, Škoda Auto has pledged net-zero emissions for its Czech manufacturing plants by 2030 and achieved its first CO2-neutral factory in 2020. The company also boasts that since 2019, it has sent zero production waste to landfills, thanks to comprehensive recycling and waste prevention efforts (Škoda Auto, 2019). Similarly, Siemens CZ has implemented

rigorous environmental management across its seven Czech plants (ISO 14001 certified) and invests in green innovations (like smart grids and e-mobility infrastructure) that contribute to sustainability in Czech cities (CzechInvest, 2021). Climate change and energy transition have become other mainstream CSR topics. Energy companies like Innogy and ČEZ run campaigns for energy savings and renewable energy adoption, and automotive firms are promoting electric vehicles and charging networks. Retail and Fast-Moving Consumer Goods (FMCG) TNCs have focused on waste reduction. For example, Tesco Czech Republic launched a program to cut food waste in its stores and supply chain. By collaborating with food banks and charities, Tesco has redistributed thousands of tons of surplus food (over 7,000 tonnes in recent years) instead of wasting it (Tesco, 2025) and achieved a 69% reduction in food waste by 2020 as part of a World Wide Fund For Nature (WWF) partnership (WWF, 2021). Other common initiatives include plastic reduction (e.g., eliminating single-use plastics), sustainable packaging, and water conservation.

A strong emphasis on education and human capital development characterizes many TNC CSR programs. Companies invest in educational initiatives to build future talent. For instance, Siemens has sponsored technical education for decades. Its annual Werner von Siemens Awards (now in their 26th year) recognize the best Czech students, researchers, and teachers in science and engineering, with over CZK 16 million distributed in prizes to date (CVUT, 2024). This long-term program encourages youth to pursue STEM careers (Supporting National Innovation Capacity). Siemens and others (e.g., Honeywell, IBM, Microsoft) partner with universities on research projects, provide internships, and donate equipment to labs (CzechInvest, 2021). Many manufacturing TNCs support vocational training programs and dual-study apprenticeships to upskill local workers. Škoda Auto took a step by founding its own university in Mladá Boleslav (Škoda Auto Vysoká Škola) to offer degrees in engineering and business, aligning curricula with industry needs (Škoda Auto, 2021). In the telecommunications sector, Vodafone's „Digital Odyssey“ program focuses on improving digital literacy among seniors. This effort was honored with a „TOP Responsible Company of the Year 2021“ Award for its social impact (Vodafone, 2021).

Another theme gaining prominence is workplace Diversity and Inclusion (D&I). As societies become more diverse and as MNCs bring their global inclusion agendas, issues such as gender equality, support for working parents, and inclusion of disabled employees are now on many companies' CSR agendas.

Data on ecological footprint, compliance with environmental regulations, and sustainability practices among TNCs in the Czech Republic. In 2017, Czechia launched its chapter of the Diversity Charter, and companies like Škoda Auto, Siemens, Microsoft, and Sodexo were among the early signatories. By 2020, Škoda had become a “Golden Signatory” of the Charter, joining over 90 firms in pledging to promote diversity (Škoda Auto, 2024). This entails measures like inclusive recruitment, unconscious bias training, and programs for women in leadership. For example, ČSOB (KBC Group) and UniCredit Bank each have initiatives to increase the share of women in management and to accommodate parents (like on-site childcare), efforts recognized in the Top Responsible Company awards (KBC, 2022). Work-life balance and employee well-being have also appeared in CSR reports. Many TNCs offer above-standard benefits in Czechia (extra holidays, mental health support, flexible working arrangements) as part of their responsible employer stance. Another aspect is ethical conduct and human rights, ensuring fair labor practices, both within the company and in the supply chain. Cases of companies explicitly addressing these include electronics manufacturers auditing suppliers for labor standards and retailers ensuring no forced or child labor in their imported products, aligning with OECD Guidelines (MIT, 2016).

9. Policy Recommendations

Based on previous findings, the significant presence of TNCs in the Czech economy has contributed to the mentioned industrial modernization, job creation, wage growth, and export growth. To ensure that the benefits of FDI are maximized and shared across regions and sectors, it is crucial to align corporate practices with national development priorities. The focus is on employment practices, innovation, R&D collaboration, environmental responsibility, cooperation with domestic SMEs, regional development, and skills enhancement. Proper implementation of these recommendations contributes to the sustainable growth of TNCs and the broader economic and social advancement.

Throughout the 2000s, the Czech state offered a generous incentive framework for TNCs, which included income-tax holidays up to 10 years, cash grants (especially in poorer regions), subsidized land and wages, and strategic investment classification. Significant investments received strategic investment classification, which resulted in them obtaining a larger share of incentives as direct cash grants rather than tax exemptions (EC, 2019). By EU accession in 2004, the corporate tax was a flat 19%, and withholding tax on dividends was 15%. These low rates and incentives helped attract automotive giants, electronics firms, and financial MNCs. Policy gaps, such as prolonged permitting procedures, complex bureaucracy, and limited support for innovation and SME linkages, still constrain further investment. Notably, by the late 2010s, the large profit outflows from foreign firms (dividends up to 5–6 % of GDP) began to spark debate on the need for more significant reinvestment and local value-added (EC, 2019).

Since 2020, new challenges have reshaped the Czech investment landscape. The COVID-19 pandemic disrupted global supply chains and sharply reduced FDI worldwide (global flows dropped approximately 35 % in 2020) (UNCTAD, 2021). Czech exporters (cars, machinery) faced production halts and logistics shocks. Many TNCs re-evaluated their regional strategies, emphasizing supply-chain resiliency and digitalization. International experience suggests that post-COVID policies increasingly stress supply chain resilience and security of supply in key

sectors for the green and digital transitions (EC, 2023). In the context of the Czech Republic, this means promoting the diversification of suppliers by TNCs, particularly by involving SMEs, and supporting the adoption of Industry 4.0 technologies to better withstand potential future disruptions.

Another emerging challenge is the EU Green Deal, which requires Czech industries to decarbonize. According to R. Fraňková from Radio Prague International (2018), Czechia is the fifth biggest carbon dioxide (CO_2) polluter in Europe, which shows the country's high coal reliance. Together with a large number of heavy industries (car parts, steel), this means that both governments and TNCs must invest in cleaner technologies. TNCs in the Czech Republic should thus prepare for stricter environmental standards and carbon pricing, investing in energy efficiency, renewables (e.g., solar, nuclear), and circular practices. For example, the EU has formed working groups focusing on clean energy and critical materials to secure green supply chains (EC, 2025). TNCs (especially in autos and manufacturing) will need to slowly shift towards electric vehicles, battery production, and recycling, or risk lagging behind the European transition.

Digitalization has emerged as a pivotal trend in the Czech Republic's post-2020 economic strategy, aligning with the European Union's broader Digital Decade objectives. The Czech government's "Digital Czech Republic" strategy aims to enhance digital infrastructure, e-government services, and digital skills across the nation, with a target of equipping 80% of the population with at least basic digital competencies by 2030 (Digitální Česko, 2023). The EU's Digital Decade initiative complements national efforts by setting measurable targets in areas such as connectivity, digital skills, digital transformation of businesses, and digital public services. In this context, TNCs in the ICT sector, including software and telecommunications companies, are encouraged to capitalize on these developments by establishing local research and development centers and collaborating within digital innovation hubs (EC, 2025). The COVID-19 pandemic further highlighted the critical need for digital skills across the workforce. In response, initiatives such as Czechitas have been instrumental in providing training programs focused on programming, data analysis, and cybersecurity, particularly

targeting underrepresented groups in the tech industry. Collaborations between industry groups, multinational corporations, and educational institutions are vital to upskilling workers and addressing the digital skills gap (Czechitas, 2024).

In response to recent geopolitical disruptions, most notably the war in Ukraine, TNCs operating within the European Union are facing increasing pressure to reconsider their global supply chain strategies. The Czech Republic has aligned with broader EU efforts to enhance economic resilience through the onshoring of critical production sectors, particularly pharmaceuticals and electronics (EC, 2025). This shift reflects a strategic reorientation from cost-efficiency toward supply security, as vulnerabilities in far-flung supply networks have become apparent (Fahad, Su, Nassani, and Arshed, 2025). The Czech government's enactment of the Foreign Investments Screening Act in 2022 underscores a more protective stance toward FDI, especially in sectors deemed sensitive to national security (UNCTAD, 2025). For TNCs, this evolving policy environment necessitates a recalibration of operational and investment decisions. Strategies such as dual-sourcing components, maintaining buffer stocks, and relocating production capacities within the EU are increasingly being adopted to mitigate geopolitical and logistical risks (Arjona and Revoltella, 2024).

9.1 Recommendations for the Czech Government

The Czech Republic faces skill shortages that constrain growth. The OECD notes that severe labour and skill gaps are a major obstacle despite very low unemployment (OECD, 2023). Government policy should focus on matching education and training to industry needs. This includes strengthening vocational and university curricula in key sectors, expanding lifelong learning and retraining programs (for example, in ICT and engineering fields), and encouraging greater labour-force participation (e.g., through improved childcare and adult education), as recommended by the OECD. Reform of labour migration regimes (for instance, via a points-based visa) could also help fill remaining high-skill vacancies (OECD, 2022).

The government should also deepen investment in innovation. In 2023, R&D spending in the Czech Republic stood at 1.83% of GDP, remaining below the EU average of ~2.3% maintained over recent years (CSO, 2025). Public funding could be raised (towards the EU's 3% of GDP target) and used to leverage private R&D. For example, by expanding co-financed R&D grants and tax incentives for both domestic and foreign firms. OECD and World Bank analysts explicitly recommend such measures (e.g., broadening R&D tax credits and promotional schemes to encourage companies, especially SMEs, to invest in innovation) (WB, 2019). The government should also strengthen science–industry linkages, for example, by supporting joint research centres and innovation clusters and facilitating high-tech foreign projects, building on past EU structural-fund programs (Ptáček and Zdeněk Szczyrba, 2017).

Aligning corporate activity with the EU Green Deal is critical. The Czech economy remains "highly energy intensive" with heavy coal use (OECD, 2023), so the government must accelerate decarbonization. Recommended measures include funding clean-energy projects in industry and transport. Investment should be directed into renewable energy, especially wind and solar, and into energy-efficiency measures (building insulation, modern heating systems, industrial process upgrades). Government policy should also ensure firms are ready for stricter EU sustainability rules. For example, the new Corporate Sustainability Reporting Directive requires large companies to publish their social and environmental impacts (EC, 2025). R&D support can be focused on green technologies (electric mobility, battery storage, hydrogen, smart grids) so that economic growth goes hand-in-hand with carbon reduction.

Czechia's score on the EU's Digital Economy and Society Index (DESI) remains slightly below the EU average (DESI 2022: ≈49 vs 52) (Digitální Česko, 2023), indicating scope for accelerated digitalization. The government's *Digital Czech 2030* strategy should continue to invest in nationwide broadband and 5G networks and expand ICT training, from schools to adult retraining. It should also co-finance Industry 4.0 adoption, for example, by providing innovation vouchers or tax relief for firms upgrading to cloud computing, big data analytics, robotics, and advanced

automation. Recent data show that only about 5% of Czech companies were using artificial intelligence in 2021 (Digitální Česko, 2023), so targeted initiatives (e.g., AI labs or digital innovation hubs) are warranted to close this gap. Enhanced digital public services (e-government, e-health, e-justice) and engagement in EU digital programs will further modernize the economy.

Disparities between Prague/Central Bohemia and other regions remain substantial. To promote balanced development, the government should steer some foreign investment toward lagging areas. Czech investment incentives already aim to support businesses that develop the given region with their investments. This approach can be supported by offering higher grants for projects in high-unemployment regions. For example, in North Bohemia or Moravia. Enhancing transport and digital infrastructure in poorer regions will make them more attractive. (CzechInvest, 2025).

9.2 Recommendations for the TNCs in Czechia

TNCs should actively invest in the Czech workforce. This includes partnering with local universities and vocational schools on tailored apprenticeship programs and on-the-job training to build company-specific skills. Foreign firms often set higher productivity standards, which spur domestic wage and skill improvements. Indeed, analysts note that TNCs “create new jobs” and encourage local firms to improve productivity. By offering competitive wages, clear career paths, and continuous upskilling (including managerial and digital competencies), TNCs will attract and retain the talent needed for advanced operations (OECD, 2024).

TNCs can greatly boost Czech innovation by locating R&D activities in-country and cooperating with local research institutions. They are encouraged to establish local research centers, as GE Aviation, Honeywell, and Red Hat have done (CzechInvest, 2025), to co-develop products with Czech universities or startups, and to license or incubate new technologies with Czech partners. Participation in joint innovation projects, for instance, under EU Horizon Europe or Digital Europe grants, and the exchange of technical staff will help transfer knowledge. In doing so, TNCs gain

from local expertise while elevating the technological capabilities of the Czech economy.

TNCs in Czechia should align operations with EU and OECD sustainability standards. This means implementing environmental management (e.g., ISO 14001 systems), committing to science-based emissions targets, and investing in clean processes. Companies should maximize energy efficiency and shift to renewables, for example, by installing solar panels on facilities, while minimizing waste and pollution. They must also comply with EU requirements (e.g., the CSRD sustainability reporting rules) and pursue corporate social responsibility programs in local communities (health, education, environmental cleanup). Such practices, consistent with OECD guidance that MNEs make positive contributions to environmental and social progress, not only meet regulatory demands but also strengthen the long-term viability of the investment (OECD, 2023).

To maximize local value-added, TNCs should integrate Czech SMEs into their value chains. This involves sharing technical standards and providing training to local suppliers, for example, manufacturers often provide comprehensive training for their distributors to ensure quality (WB, 2019). TNCs can mentor key Czech vendors on international certification (e.g., ISO) and co-invest in joint product development. By adopting fair procurement practices, such as timely payments, predictable order schedules, and outsourcing appropriately, TNCs help domestic SMEs modernize. Such linkages create knowledge spillovers (suppliers learn advanced processes) and foster a deeper industrial network in the host economy (OECD, 2024).

TNCs should leverage advanced digital technologies to modernize both their own operations and the Czech economy. This entails fully adopting Industry 4.0 tools in manufacturing (automation, IoT sensors, AI-driven analytics) and extending these innovations to suppliers and customers. For example, a company could use cloud-based systems for real-time production and inventory management and invite key suppliers to connect to the same platform, raising efficiency across the network. TNCs can also run internal digital-upskilling programs (in-house training, hackathons) to upgrade employees' skills. They should also ensure strong

cybersecurity and data infrastructure so that digitalization proceeds securely (Ashman, 2025).

TNCs themselves should actively strengthen supply-chain resilience. This means mapping critical inputs (both imported and local) and establishing contingency plans. For example, dual-sourcing essential components or holding additional inventory can reduce vulnerability. Firms can also collaborate through industry associations and with the government on scenario planning and joint responses. The OECD emphasizes that businesses should anticipate risks and diversify sourcing to minimise exposure to disruptions. By taking these steps and even co-investing in key upstream suppliers, TNCs can enhance their own continuity and contribute to Czechia's economic stability (OECD, 2025).

Conclusion

Transnational corporations represent one of the most visible and influential forces in the global economy today. Their activities are closely linked to globalization, foreign direct investment, and increasing international economic interdependence. The primary objective of this thesis was to evaluate the impact of TNCs on the Czech economy and assess their economic, social, and environmental effects within the framework of selected economic theories and practical data from the Czech context.

The theoretical part of the thesis focused on defining the concept of TNCs and examining their development, internationalization strategies, and global operations. Special attention was paid to the concepts of the FDI, which represent an important indicator of the level of integration and influence of TNCs. The thesis also reviewed key economic theories. These frameworks helped to explain why firms internationalize, what benefits they seek abroad, and how host countries like the Czech Republic can benefit, or be challenged, by their presence.

A crucial part was also devoted to Corporate Social Responsibility, which has become a major component of TNC behavior in recent decades. Especially in Europe, but increasingly worldwide, there is growing pressure on international companies to not only focus on profitability but also consider their social and environmental footprint.

In the practical part of the thesis, the presence and influence of TNCs in the Czech Republic were analyzed across several sectors, including automotive, electronics, ICT, and finance. The findings confirmed that TNCs are a fundamental pillar of the Czech economy. Although they represent a small fraction of the total number of enterprises, around 18,000 foreign-controlled firms compared to 1.3 million Czech-owned ones, they account for approximately 42% of total business value added, while domestic firms generate around 58%. These foreign entities are also responsible for nearly 27% of national value added, employ a quarter of the workforce, and contribute 24% of total investment. Importantly, their labor

productivity is nearly double that of domestic firms, and they pay, on average, 25% higher wages. One of the clearest illustrations of TNC impact was found in the resilience of the foreign-invested sector during economic downturns. Despite the 2020 recession, when GDP contracted by 5.3%, the contribution of foreign firms to total value added fell only slightly, from 42.7% to 42.3%, underscoring their systemic importance. By 2021, GDP had rebounded by 4.0%, largely driven by export-led sectors dominated by TNCs, particularly automotive manufacturing. These findings confirm the research assumption of the dominance of the automotive industry in the Czech Republic. In 2021, foreign-owned enterprises accounted for approximately 63% of Business Expenditure on R&D.

Regarding social impacts, TNCs have contributed positively through job creation, skill development, and improved wage standards, but they also risk exacerbating inequality. High-skill segments tend to benefit more, and there is potential for crowding out local SMEs. Local SMEs often face difficulties competing with or integrating into the global structures of TNCs. In some cases, TNCs repatriate profits rather than reinvest locally, limiting their broader developmental contribution. From the environmental perspective, while many TNCs have adopted CSR practices, such as those guided by OECD Guidelines, they often operate in resource-intensive sectors like automotive and electronics, which pose risks of emissions, waste generation, and resource depletion. Most companies try to behave in a responsible way, but also take into account possible greenwashing. In the coming years, mandatory reporting on these activities could help identify current challenges better. It is also important to note that many companies prioritize profit maximization over longer-term sustainability goals.

The policy framework of the Czech Republic has historically been welcoming to FDI, offering incentives such as income tax holidays, direct subsidies, and strategic investment classifications. These measures succeeded in attracting leading TNCs like Škoda Auto (VW), Hyundai, and Toyota. However, several challenges persist, including bureaucratic complexity, limited support for SME linkages, and concerns about high profit repatriation, which sometimes exceeds 5–6% of GDP.

The thesis proposed several policy recommendations based on the findings of the current economic situation and post-2020 trends. In response to global shifts, including the COVID-19 pandemic and the EU Green Deal, the Czech policy focus has pivoted toward supporting supply chain resilience, Industry 4.0 adoption, and sustainable regional development. The thesis recommends greater integration of TNC operations with local innovation systems, improved monitoring of CSR practices, and balanced incentive frameworks that encourage reinvestment and knowledge transfer. While TNCs are indeed engines of economic dynamism, they must be harnessed through adaptive and inclusive policy frameworks to ensure that their presence leads to broad-based development rather than dependency.

The main limitation of this thesis is the reliance on secondary data sources, which, although credible, do not allow for a detailed assessment of firm-level strategies or the direct experiences of local stakeholders. Not all institutions process primary data as quickly as needed, and therefore, it is not possible to cover the whole time period evenly.

In conclusion, the evidence from this research confirms that TNCs have a largely positive influence on the Czech economy, especially in terms of GDP growth, employment, R&D intensity, and industrial modernization. However, their dominance also brings structural vulnerabilities, including regional disparities, SME marginalization, and environmental pressures.

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