

BREAKING THE GLASS CEILING AND STARTING STEADY ECONOMIC CONVERGENCE IN THE CZECH REPUBLIC: DIFFICULT BUT NOT IMPOSSIBLE

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RECOMENDATIONS

- Adopt growth strategy to the decades to come
- A place to invest and conduct business
- Development of industrial clusters
- How to build up knowledge economy?
- Effective use of domestic capital

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ADOPT GROWTH STRATEGY FOR THE DECADES TO COME

- The economic convergence of the Visegrad Group countries to the level of countries like Germany or Austria will take **several decades** (at best).
- Any convergence strategy must take into consideration not only the current **demographic situation** but also the predicted changes, especially the most significant issue of the **gradually aging population**.

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ADOPT GROWTH STRATEGY FOR THE DECADES TO COME



Predictions of demographic evolution by country in 2060 (millions of inhabitants).

Source: own chart based on European Commission, 2015.

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ADOPT GROWTH STRATEGY FOR THE DECADES TO COME

This does not mean that the Czech Republic is escaping the problem of a **gradually aging population**.

65+ population

17% → 28%
2015 2060

Working age population

68% ↘ 56.4%
2015 2060

ADOPT GROWTH STRATEGY FOR THE DECADES TO COME

How to change this demographic trend into an advantage?

Adaptation strategy:

- be ready to train and retrain people **in all age categories** to be able to keep pace with technological development and find suitable jobs in the market;

Advantage strategy:

- timely restructuring of the economy so it is convenient to the needs of future decades;
- **health-care** and **social-care** related industries could be expected to further increase in importance, including the **medical equipment** and **pharmaceutical** sectors.

Could we change form assembly and storehouse industry into **medical centre for the richer countries?**

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A PLACE TO INVEST AND CONDUCT BUSINESS

How to compete for new investments: **BETTER FUNCTIONING STATE:**

- state that leads **dialogue** with civil society and business
- real reduction of **red tape**
- prevention of unjustified **gold-plating** (transposition of EU directives)
- **smart regulatory environment** (i.e. predictable and adequately considerate to the needs of the private sector)

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DEVELOPMENT OF INDUSTRIAL CLUSTERS

- Potential for development of knowledge economy in the Czech Republic is through support of **clusters** connected to the already existing, **well-developed industrial base**
 - automotive, nanotechnology, biotechnology, medical devices and cyber-security in IT sectors.
- The **automotive sector** is on the verge of a great revolution brought about by development of **automatically driven cars**, **new safety technologies** and **eco-friendly technologies**.
 - Without **technological centres that would be drivers of such change** the Czech Republic can quickly lose its prominent position as a automotive powerhouse.

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HOW TO BUILD UP KNOWLEDGE ECONOMY?

Domestic human capital

- profound changes of the **whole educational system** so it is flexible and responsive to the needs of the economy
- university research (except to the core research) must be put under pressure to connect with the private or public sphere and **yield practical outcomes**

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HOW TO BUILD UP KNOWLEDGE ECONOMY?

Be attractive to foreign brains

- the labour market in the Czech Republic cannot provide all specializations needed by companies engaged in the knowledge economy sectors;
- combination of **lower living costs** with **high quality of life**, both in general and for foreigners
 - meaning accessibility of everyday situations in English (entertainment to public administration)

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HOW TO BUILD UP KNOWLEDGE ECONOMY?

Prague and its surroundings may be the best suited place to locate the knowledge economy clusters:

- It already has the most cosmopolitan character in the country.
- It already offers the broadest services in English.
- Hometown to important universities.
- “Prague” is a brand better recognized abroad than the name of the whole country – Why not to advertise Czech goods abroad as “*designed and developed in Prague*”?
- Due to its central position – the whole country could evenly benefit!

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EFFECTIVE USE OF DOMESTIC CAPITAL

- The statistics constantly show that Czechs have **strong saving habits** and that there is a large portion of the population with savings that could be ready for **small-scale investments**.
- For the sake of efficient use of domestic capital it is very important to **open more possibilities regarding where to invest** and use the domestic capital leverage for further economic convergence.
- Need to gradually develop the **small-scale investments** friendly environment (eradicate strong legal and psychological obstacles), including e.g.:
 - household solar panels;
 - buy to let;
 - modern instruments such as crowd-funding.

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Middle-Income Trap in V4 Countries? Recommendations presentation

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