

# Czech Republic – your business partner

4 February 2013 – Country Focus Briefing Czech Republic held in Dubai, UAE

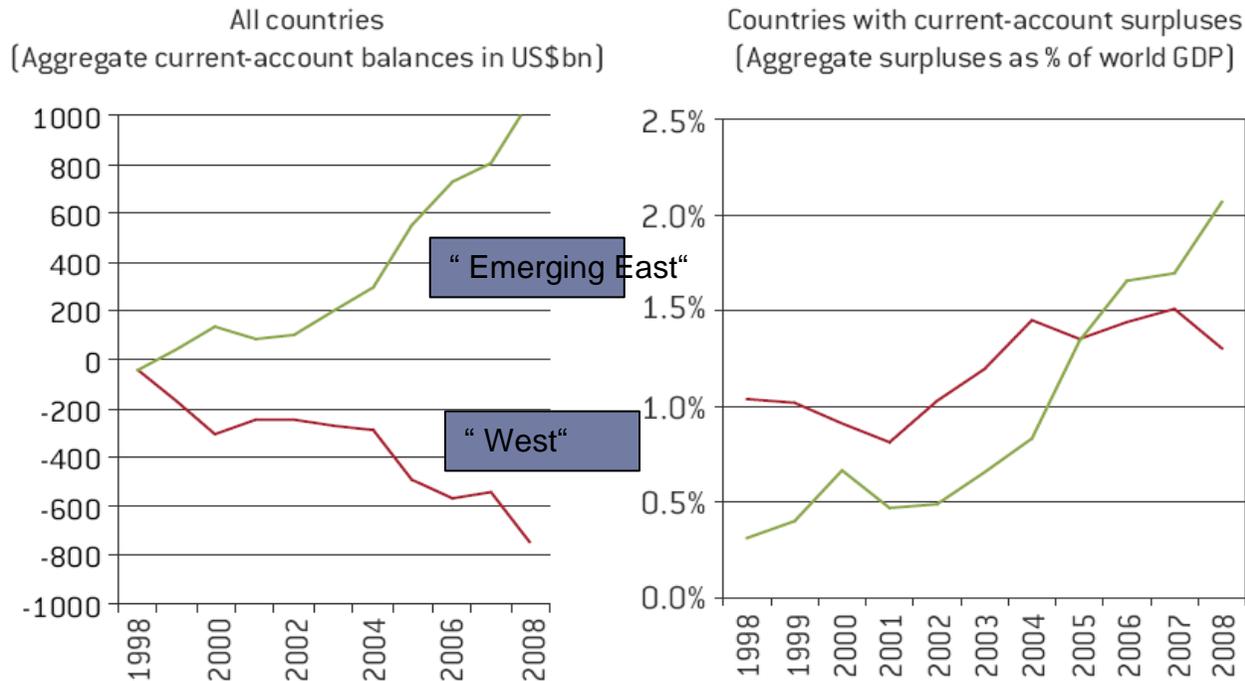
Prof. Michal Mejstřík, Chairman of ICC Czech Republic, Member of National Economic Council of Czech Government

- 1. Introduction – Schumpeterian approach**
- 2. First leg - sustainable macroeconomic development both in ST, MT and LT**
- 3. Second leg - Competitiveness supported by the innovation and institutions**
- 4. Conclusions**



# Background of the crisis

## LT Current account balances around the world



...and different levels of productivity!

- 1: Transfer of wealth
- 2: Emerging economies favor „free trade“ (?) over protectionism for the first time...
- 3: Developed economies private & public deficits financed by borrowings from underdeveloped countries
- 4: G20 new strategic set up

**MULTILATERAL  
WORLD**

Source: Roeller, Vernon (2008), [www.bruegel.org](http://www.bruegel.org)

# LT tendencies in CA and disbalances rooted in competitiveness....

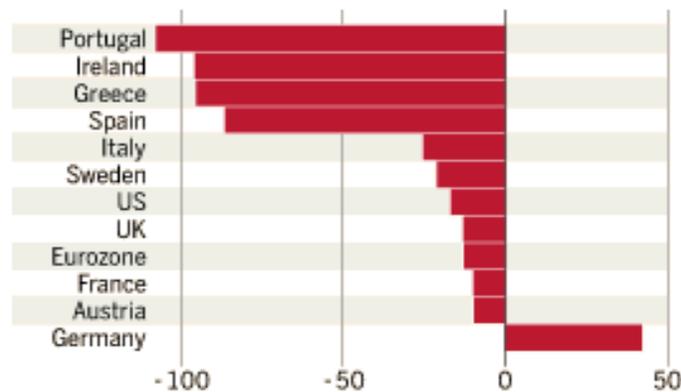
## Current account balances

2007 (% of GDP)



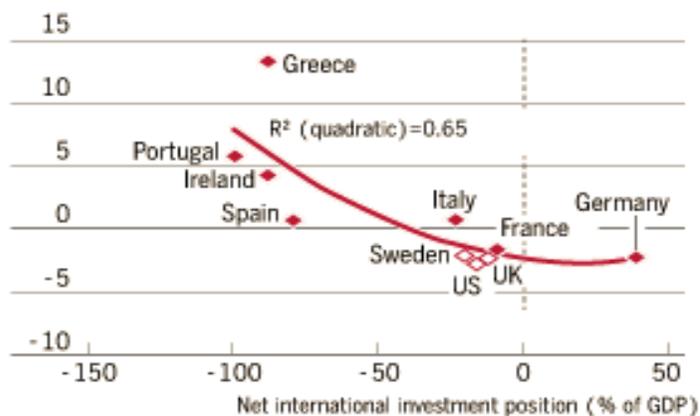
## Net external liabilities

2010 (% of GDP)



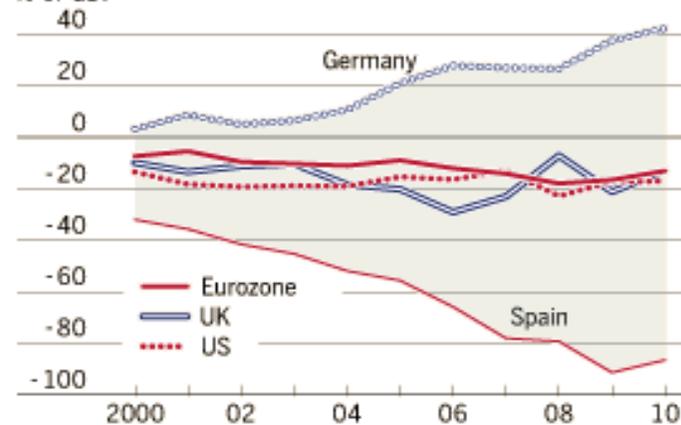
## Rise in sovereign yields related to national balance sheets

Change in 10-year yields, Jan 2007 - Aug 2011



## Net international investment positions

% of GDP



Sources: Goldman Sachs; IMF

Source: [www.ft.com](http://www.ft.com)

# Global net foreign debt context – permanent ? Why ? Who ?

**In 2010, the United States was the world's largest foreign debtor and Japan the globe's largest foreign creditor**

Net position, 2010<sup>1</sup>

\$ billion

Largest net foreign debtors <sup>1</sup>				Largest net foreign creditors <sup>1</sup>			
		Assets	Liabilities			Assets	Liabilities
United States	-3,072	15,284	18,356	Japan	3,010	6,759	3,748
Spain	-1,263	1,673	2,936	China	2,193	3,892	1,699
Australia	-752	1,044	1,796	Germany	1,207	7,323	6,116
Brazil	-703	587	1,290	Saudi Arabia	882	1,084	202
Italy	-453	2,734	3,187	Switzerland	698	3,047	2,348
United Kingdom	-446	10,943	11,390	Hong Kong	691	2,723	2,032
Mexico	-355	259	613	Taiwan	626	1,015	389
Greece	-331	315	646	United Arab Emirates	585	783	198
France	-325	6,622	6,947	Singapore	492	6,622	884
Poland	-308	162	470	Norway	360	1,122	762

<sup>1</sup> Calculated as foreign investment assets less foreign investment liabilities.

SOURCE: International Monetary Fund; McKinsey Global Institute analysis

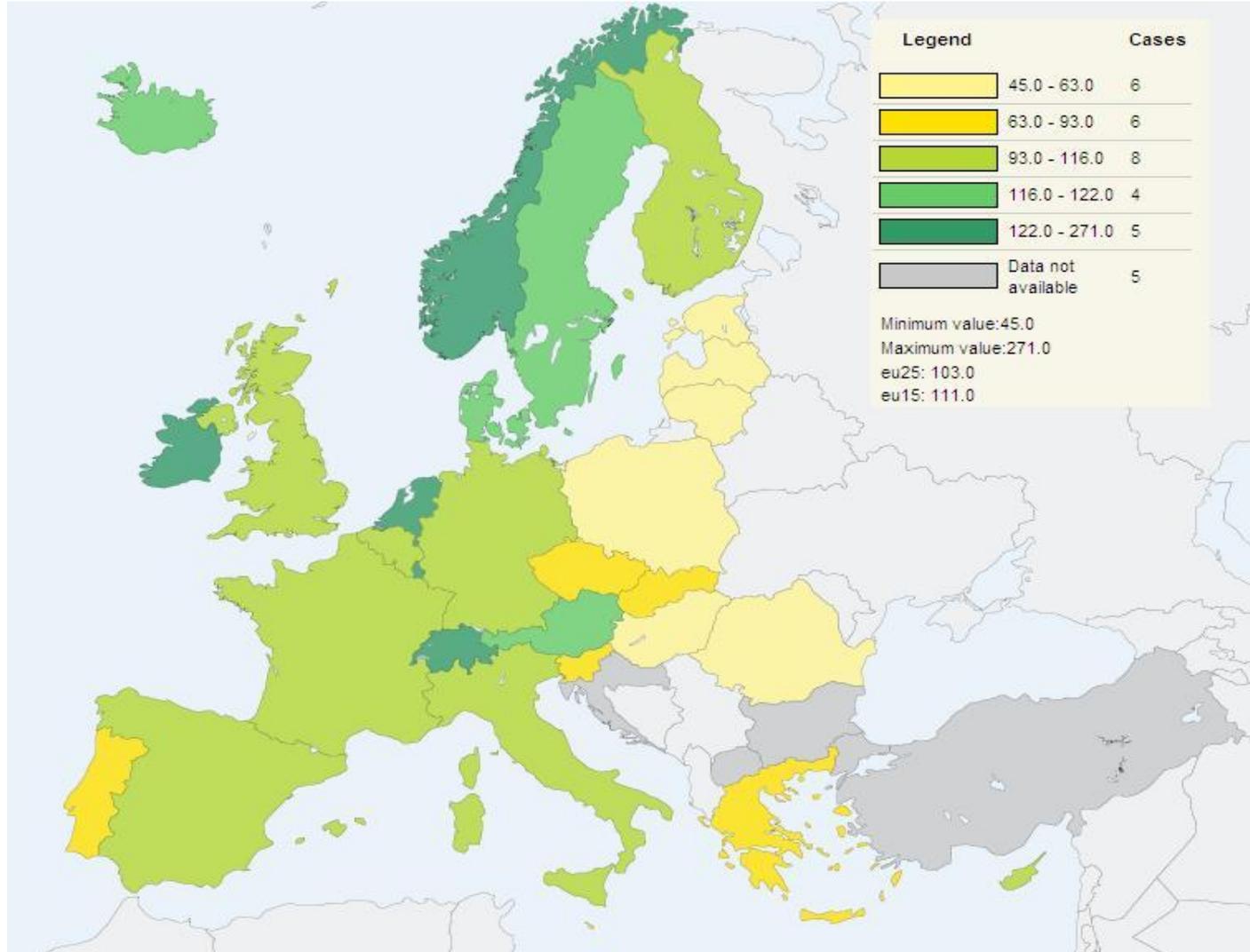
# Two legs for country development – macro and micro

- Two speed EU? Different impacts of the crisis on peripheral EU member states/PIIGS vs. core&Cz&SI
- Long vs. short-term responses to the development
- What are key interrelated legs based upon rules?
  - ✓ First leg – macroviability - fiscal structural
  - ✓ Second leg - competitiveness
- **Unique features of Czech economy** (net export oriented, low loan/deposit ratio, low share of FX loans, low inflation and interest rates etc.) - better than PIIGS. Level of Czech consolidated government debt **with 45% of GDP just half of Euro area and EU27 government debt at 90.0% and 85.1% of GDP respectively as of 3Q 2012. Czech T-bond yields below 2%, within Top 10 lowest worldwide.**  
[http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/data/database) 2WRepo rate 0.05%. Europe wide relatively low unemployment around 9 % and strong social net with the lowest, 9.7% share of population below poverty line.
- Future strategy of the CR – “PIIGS” country or “Finnish-type”/”German-type” country?

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# GDP per capita in PPS 2009 map



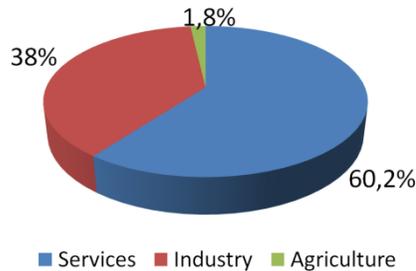
Source: Eurostat



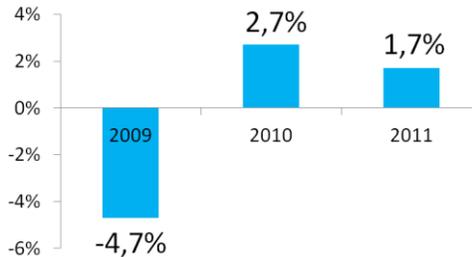
## CZECH REPUBLIC

Parliamentary democracy  
 Area: 78 867 km<sup>2</sup>  
 Population: 10 177 300  
 Capital: Prague  
 Languages: Czech  
 Admin. divisions: 13 regions + capital  
 Currency: Czech koruna (CZK)  
 GDP (PPP, 2011)\*: 285 mld. USD  
 GDP per capita (PPP, 2011)\*: 27 100 USD

Composition of GDP (2011)\*



GDP – real growth rate\*



### Rankings:

- OECD Country Risk Classification (Q1 2013): 0/7
- Global Competitiveness Index (2012/2013): 39/144
- Doing Business (2013): 65/185
- World Competitiveness Yearbook (2012): 33/59

### Ratings:

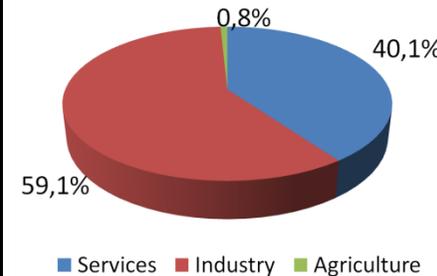
- S&P (1/2013): AA- (stable outlook)
- Moody's (Q1 2013): A1 (stable outlook)



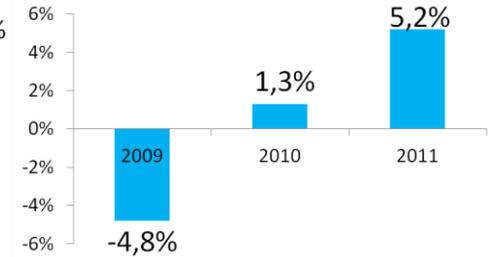
## UAE and DUBAI

Federation with spec. powers  
 Area: 83 600 km<sup>2</sup>  
 Population: 5 314 317  
 Capital: Abu Dhabi  
 Languages: Arabic  
 Admin. divisions: 7 emirates  
 Currency: Emirati dirhams (AED)  
 GDP (PPP, 2011)\*: 256,5 mld. USD  
 GDP per capita (PPP, 2011)\*: 47 700 USD

Composition of GDP (2011)\*



GDP – real growth rate\*

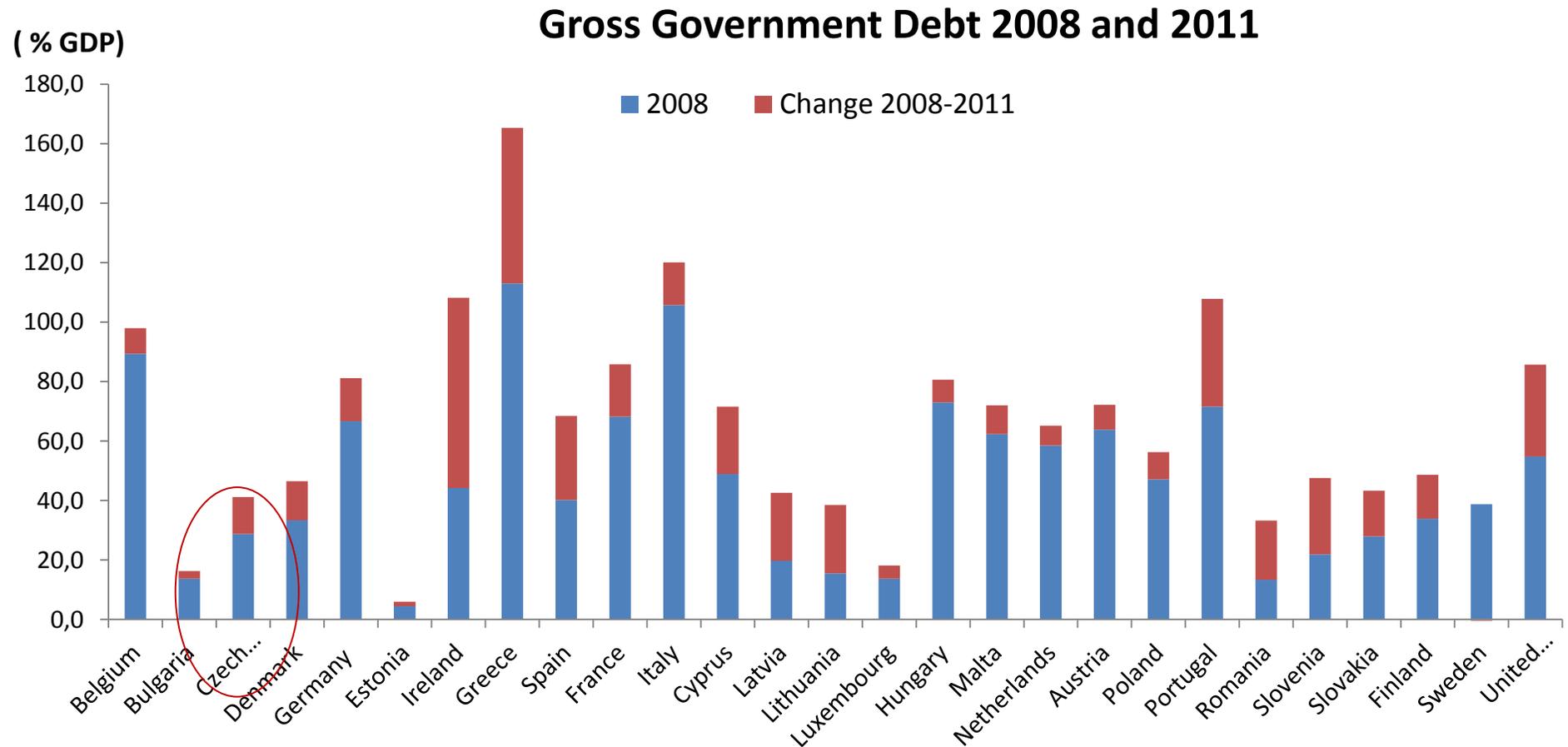


### Rankings:

- OECD Country Risk Classification (Q1 2013): 3/7
- Global Competitiveness Index (2012/2013): 24/144
- Doing Business (2013): 26/185
- World Competitiveness Yearbook (2012): 16/59

### Ratings:

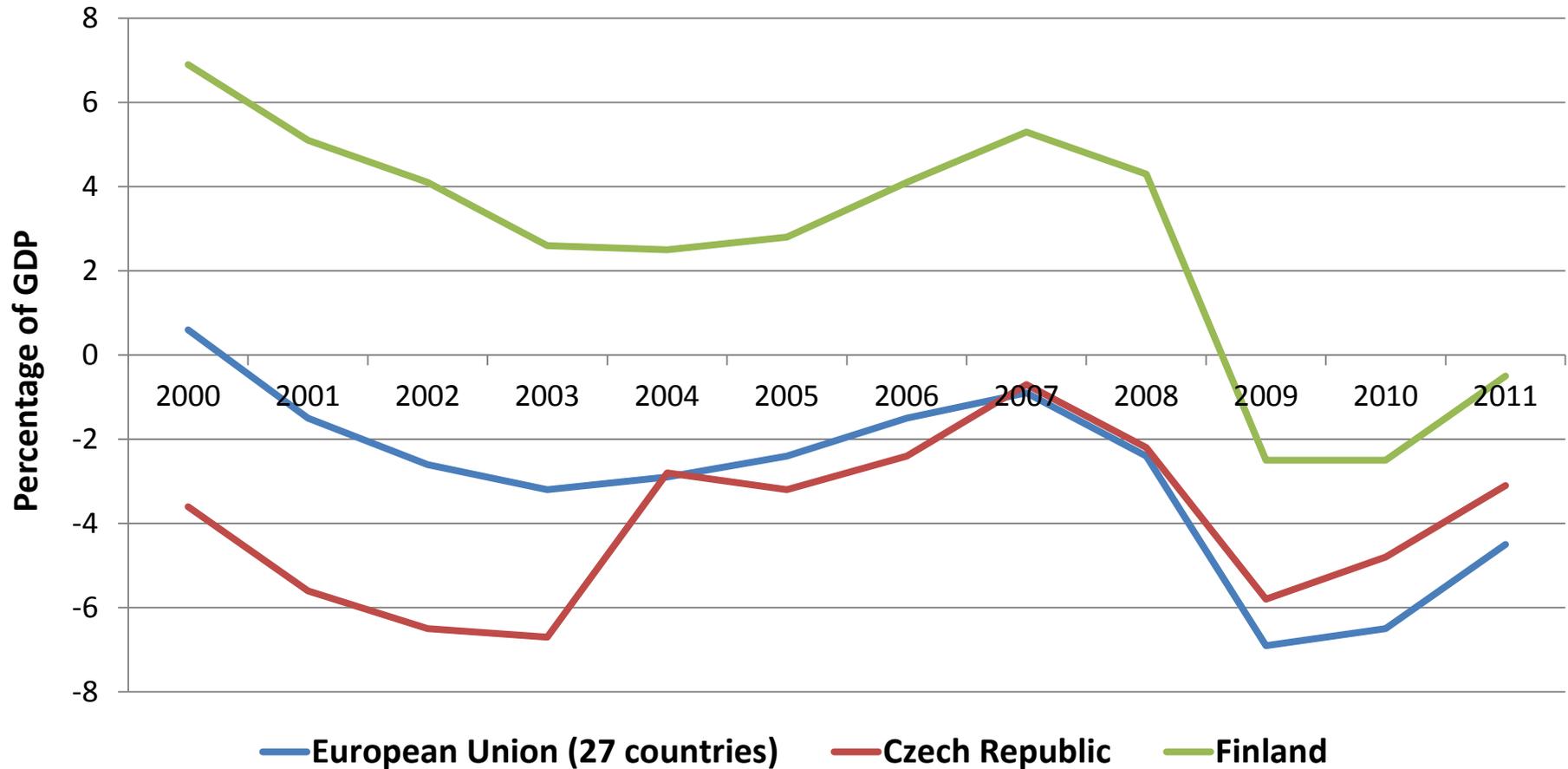
- S&P (1/2013): N\A
- Moody's (Q1 2013): Aa2 (stable outlook)



➤ High debt/HDP ratio of PIIGS while debt of CR relatively low (the 7<sup>th</sup> lowest)

Source: Eurostat [http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/data/database)

# (Net lending or) Net borrowing might be limited due to current gmt effort



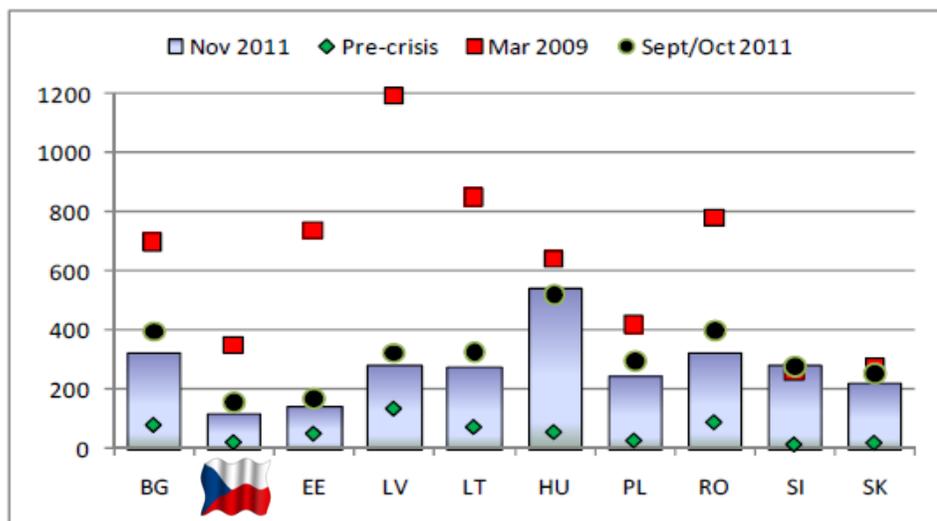
Source: Eurostat (Net lending (+)/Net borrowing (-) under the EDP (Excessive Deficit Procedure))

# Now relatively low credit risk of CZE and SLK vs. PIIGS!

➤ Sovereign Credit Default Swap – CDS- spreads (basis points)

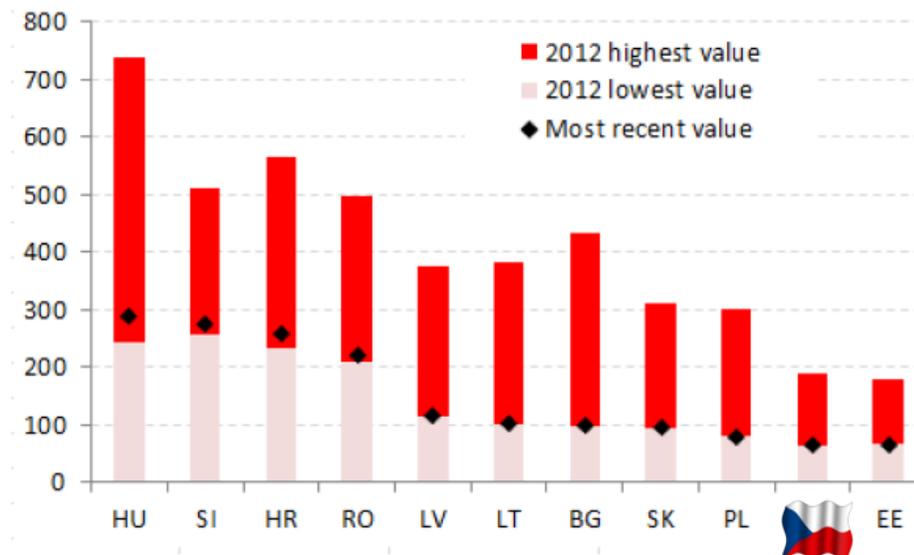
➤ CDS spreads of PIIGS > 200 bps vs. CR > 70 bps as of December 2012

Figure 23. 5Y CDS spreads for EU10 countries (basis points)



Source: Bloomberg, World Bank staff calculations

Figure 38. 5Y CDS, EU11 Countries (Basis points)



Note: Data as of December 18 2012.

Source: Reuters; Bloomberg; World Bank staff calculations.

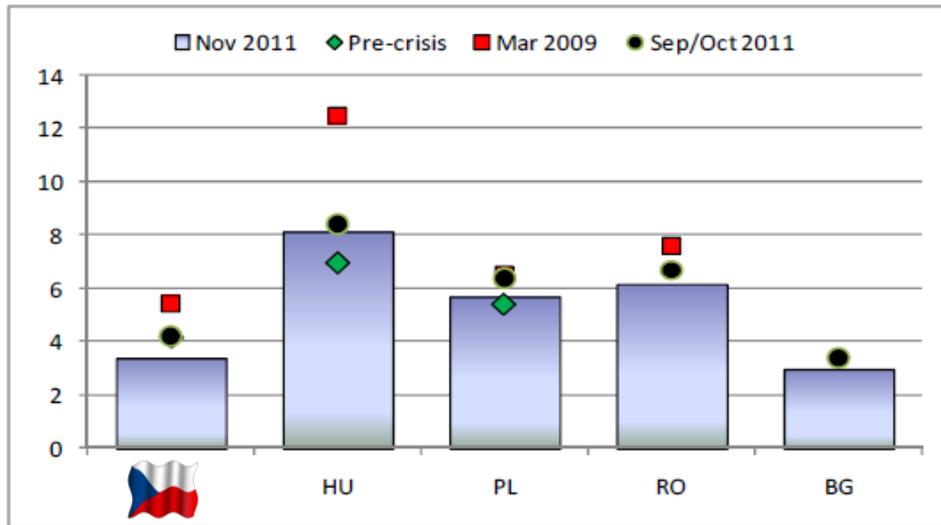
Source: World Bank (2013). EU11 REGULAR ECONOMIC REPORT, January 2013

In 4Q 2012 Czech T-bond yields within the lowest Top 10 worldwide (around 2%).

➤ 10Y bond yields quite low in history...

➤ ...and continuing now

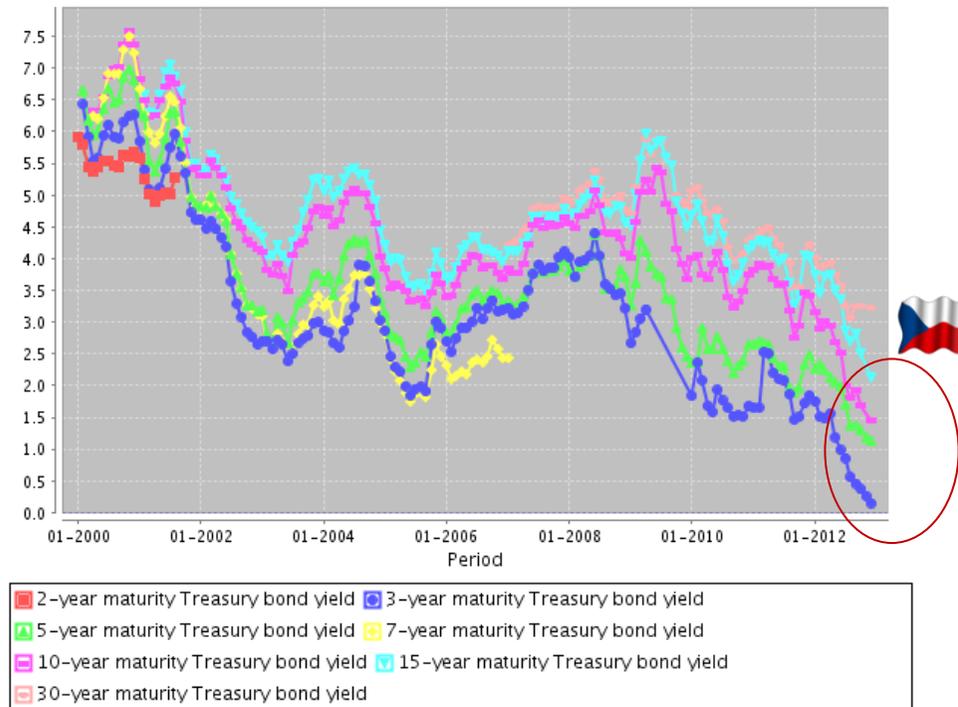
Figure 24. 10Y bond yields in the Czech Republic, Hungary, Poland, Romania and Bulgaria, percent



Source: Reuters, World Bank staff calculations

Notes: RO- pre-crisis not available, BG - data prior to 2011 not available

Government bond yields (monthly averages) (%)



Source: [http://www.cnb.cz/cnb/STAT.ARADY\\_PKG.PARAMETRY\\_SESTAVY?p\\_sestuid=450&p\\_strid=EBA&p\\_lang=EN](http://www.cnb.cz/cnb/STAT.ARADY_PKG.PARAMETRY_SESTAVY?p_sestuid=450&p_strid=EBA&p_lang=EN), World Bank (2012)

## ...also CEE heterogeneous status

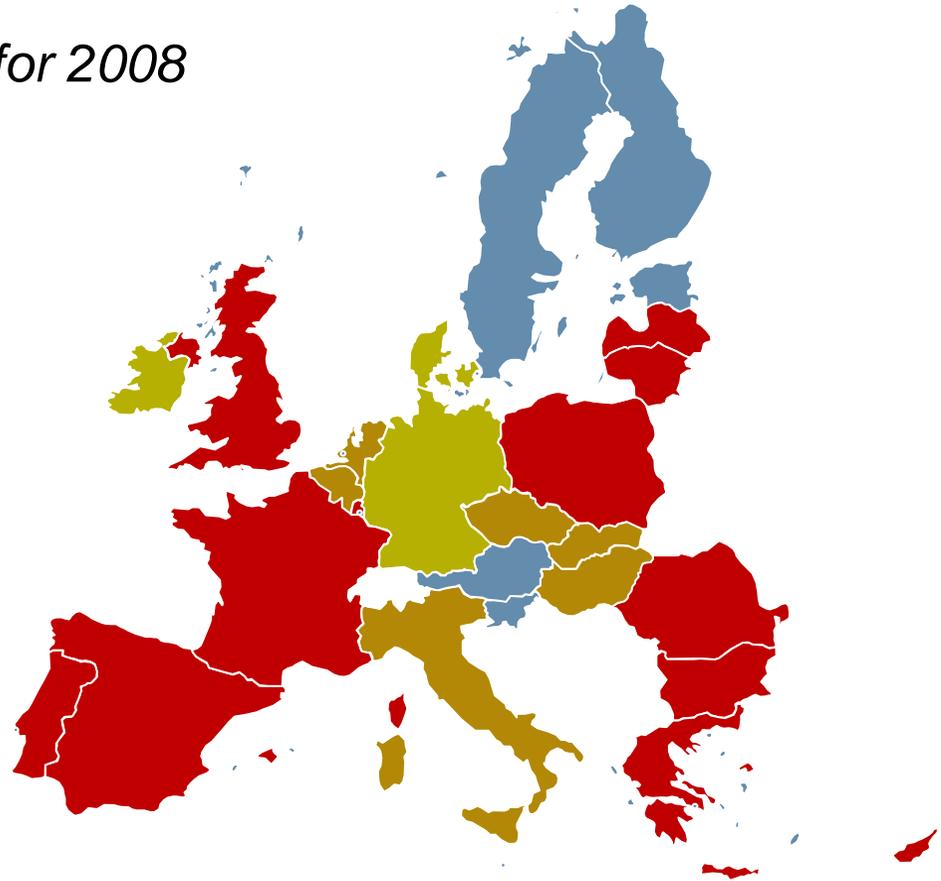
- In several countries borrowings in foreign currencies seemed to be „cheaper“ and FX risk was neglected by debtors (state, households, enterprises)
- But country-specific risk due to current account deficits, foreign exchange indebtedness, fragile national CEE currencies...CEE bank exposure to foreign currency risk has grown then, risk premium has increased
- Danger of „quasi-homogeneous CEE “ risk bias to detriment of less-risky countries such as Czech Republic

**...but banks in Czech republic with excess deposits and low interest rates**

# Learning from the crisis 2008 – 2010 – who responded by trade?

Source : Eurostat (2012) data for 2008

- Trade surplus with both EU27 and the rest of the world
- Trade deficit with EU27, trade surplus with the rest of the world
- Trade surplus with EU27, trade deficit with the rest of the world
- Trade deficit with both EU27 and the rest of the world

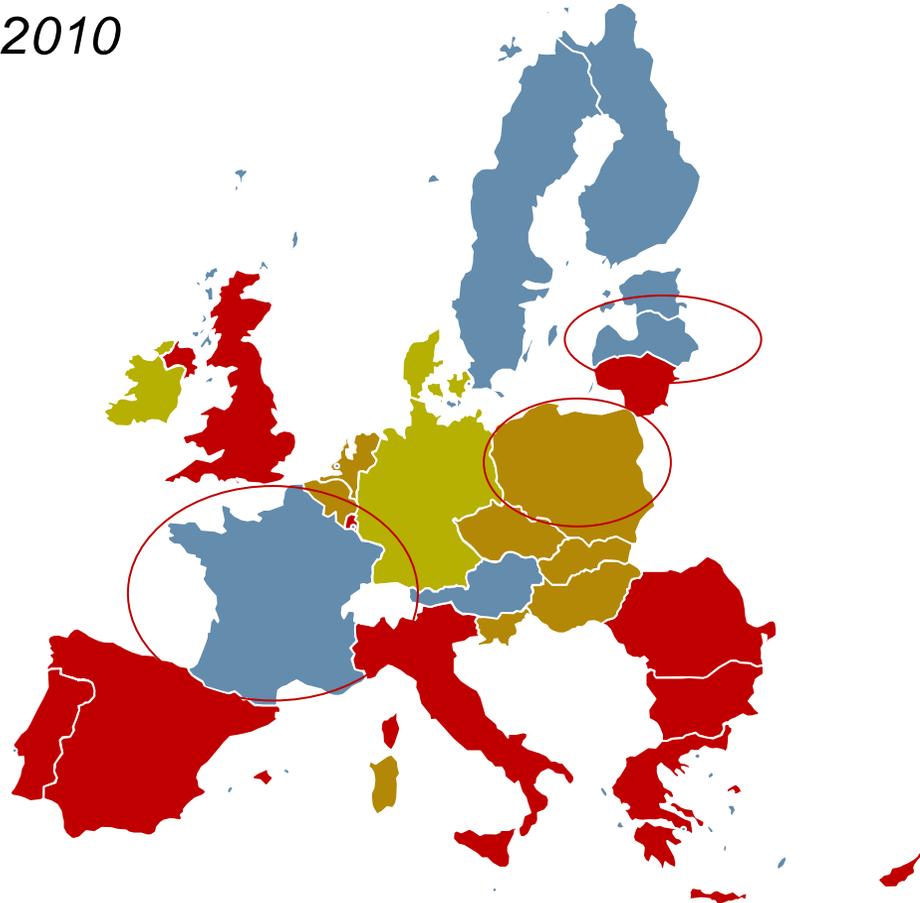


High integration: 86% of Czech exports to EU, majority EU ownership of Czech banks & firms

Export: CZ trade surplus with EU27 but trade deficit with the rest, Finland the opposite

Source : Eurostat (2012) data for 2010

- Trade surplus with both EU27 and the rest of the world
- Trade deficit with EU27, trade surplus with the rest of the world
- Trade surplus with EU27, trade deficit with the rest of the world
- Trade deficit with both EU27 and the rest of the world



High integration: 83% of Czech exports to EU, majority EU ownership of Czech banks & firms

## Export: CZ trade surplus with EU27

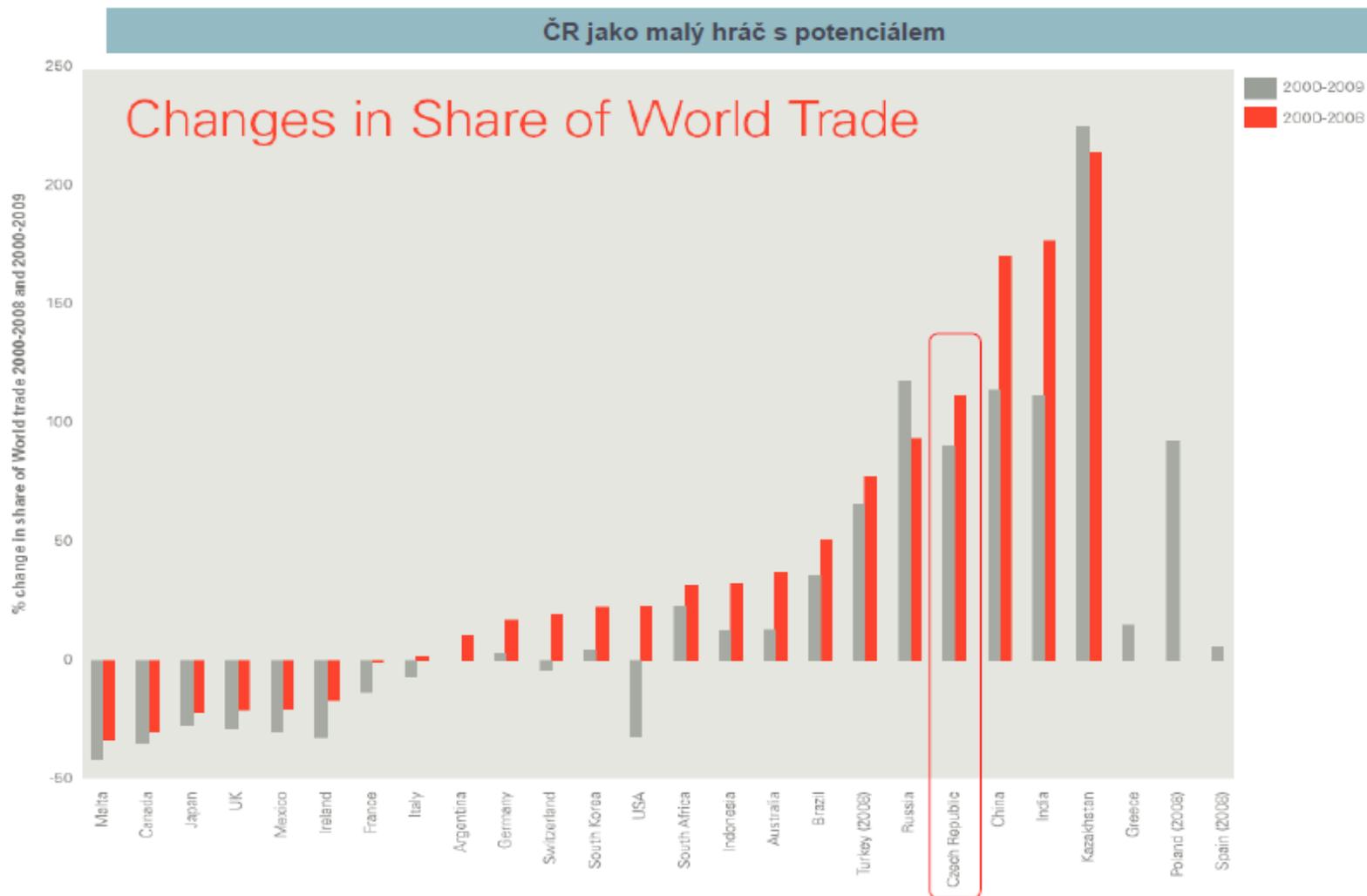
...but trade deficit with the rest, Finland negative (2011)

Source: EUROSTAT (2012) data for 2011

- Trade surplus with both EU27 and the rest of the world
- Trade deficit with EU27, trade surplus with the rest of the world
- Trade surplus with EU27, trade deficit with the rest of the world
- Trade deficit with both EU27 and the rest of the world



# Czech Republic as a small player with huge potential, niches ?



Source: HSBC

# Both CR and Germany in the situation : “The trade figures were “in contrast” to the downward trend in the economy, and the economy had been “flirting with a technical recession“ recently.” (Carsten Brzeski on Germany)

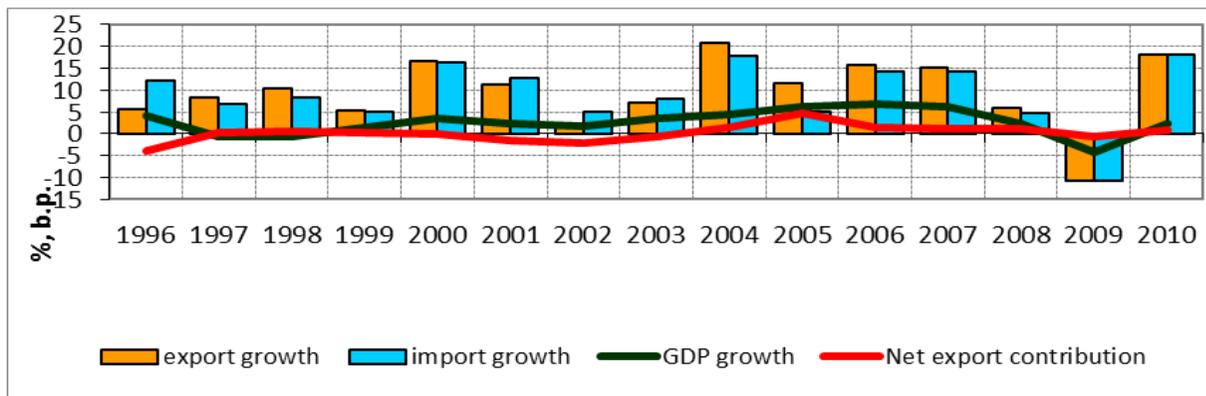
CR openness – export quota  
 - ratio of export/GDP –  
 nearly 67%, Finland 29%

Over 83% share of intra  
 EU27 exports from CR,.

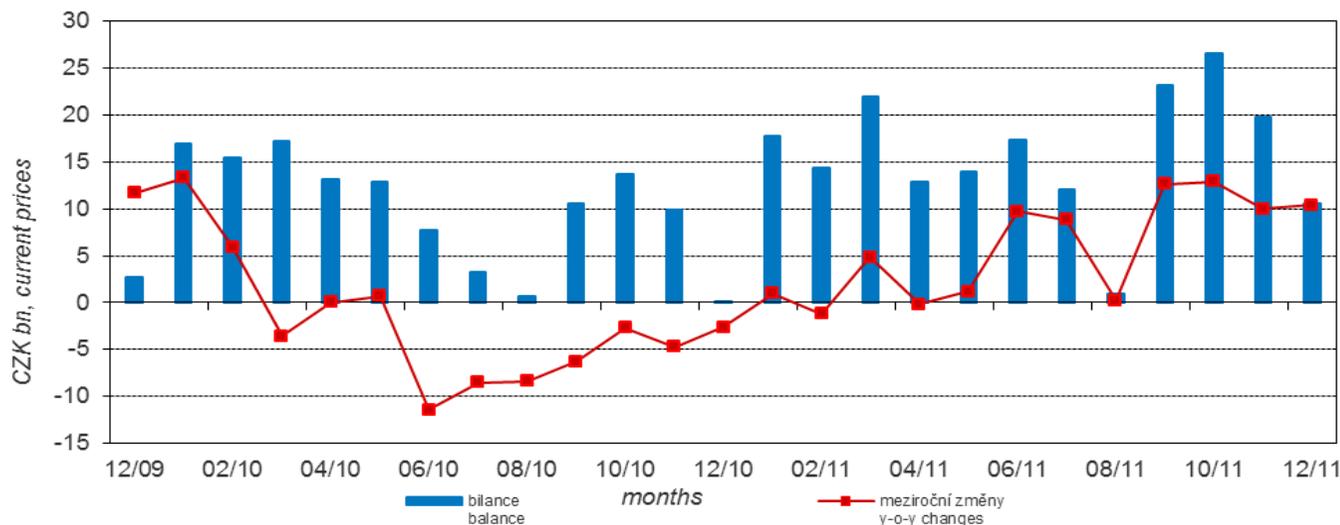
31.9% share of CR exports  
 to or via Germany – No.1  
 partner **with 37 bn. EUR,**  
 then **Slovakia 10, Poland,**  
**France, UK, Italy etc.**

	Czech republic	
	exports	imports
total 2011 MEUR	117	109
Germany	37	28
Slovakia	10	6
China	1	14
Russia	4	6

**Net Exports contribution to CR GDP growth, in 2011 positive again**



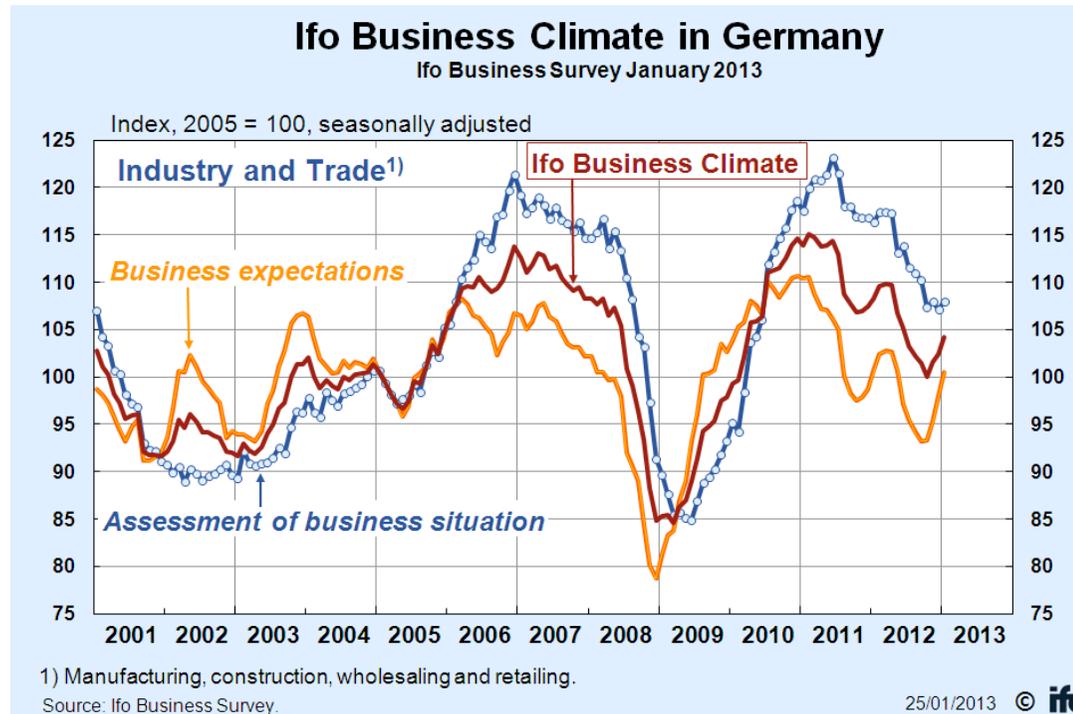
**Trade Balance**



Zdroj: Czech Statistical Office

# Czech Republic and Germany – two countries keeping industry roots

Germany...largest business partner ..IFO business development indices for Germany started to look better in last few months (January 2013)



Source: IFO (2012): IFO Business Survey, January 2013

Germany is still **relatively highly industrialized** country with 24 % of industry contribution to GDP in 2010 (no.14) as well as the **Czech republic with 29.5%** (No.6)

Source: [http://w3.unece.org/pxweb/quickstatistics/readtable.asp?q\\_s\\_id=11](http://w3.unece.org/pxweb/quickstatistics/readtable.asp?q_s_id=11)

# CZ&SL&Finland Exports to the rest of the world: so far not important except for Russia

in billion Euro	Export EU 27	Export outside EU27	Export total	Other export outside EU27, USA, Norway, Japan, Switzerland and Canada	Exports to other countries than EU27, USA, Japan, China, Russia, Latin America, Norway, Switzerland, Canada	Exports to China	Exports to Russia	Exports to Latin America	GDP	export/ GDP	export outside EU 27 /GDP	EU 27 export /GDP	export outside EU27, USA, Norway, Japan, Switzerland and Canada /GDP
<b>Belgium</b>	225	83	308	51	35	7	5	4	355	87%	23%	63%	14%
<b>Czech Republic</b>	84	16	100	11	6	1	4	1	149	67%	11%	56%	8%
<b>Finland</b>	29	24	53	15	6	3	5	1	180	29%	13%	16%	8%
<b>France</b>	239	154	393	106	77	14	7	8	1933	20%	8%	12%	5%
<b>Hungary</b>	56	16	72	13	9	1	3	0	97	74%	17%	57%	13%
<b>Germany</b>	571	379	950	211	92	65	34	20	2477	38%	15%	23%	9%
<b>Poland</b>	95	25	120	17	10	1	6	1	355	34%	7%	27%	5%
<b>Austria</b>	82	33	115	22	14	3	4	2	286	40%	12%	29%	8%
<b>Slovakia</b>	41	8	49	5	1	1	2	0	66	74%	12%	62%	7%
<b>Sweden</b>	68	51	119	23	13	4	3	3	349	34%	15%	20%	6%

Source: Eurostat (data for 2010)

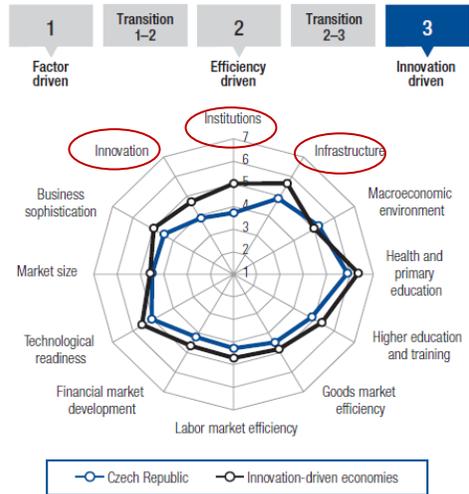
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“While we see a lack of fiscal prudence as having been a major contributing factor to high public debt levels in some countries, such as Greece, we believe that the key underlying issue for the eurozone as a whole is one of **a growing divergence in competitiveness between the core and the so-called "periphery."** Exacerbated by the rapid expansion of European banks' balance sheets, this has led to large and growing external imbalances, evident in the size of financial sector claims of net capital-exporting banking systems on net importing countries”.

# Competitiveness – price and non-price

Stage of development

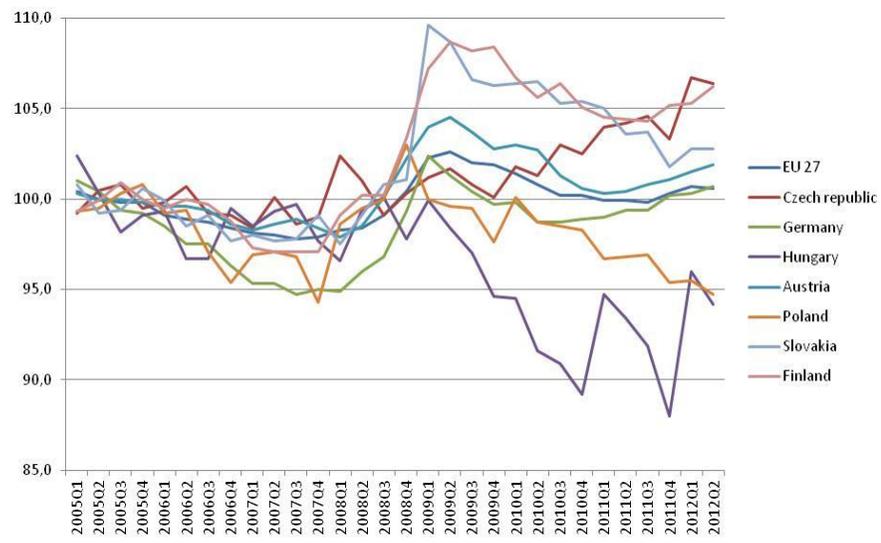


**Czech Republic:**  
→ **STRATEGY MIX ?**  
**Both traditional efficiency factors and innovation**

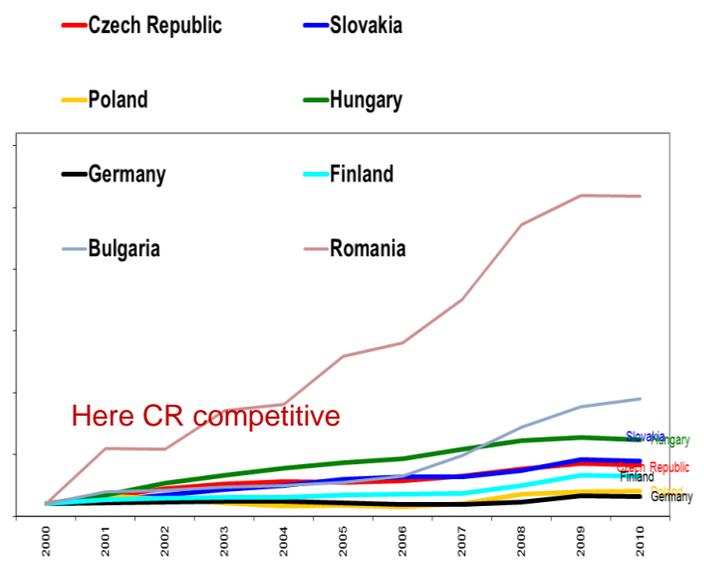
## Main problems

- Problem 3 i: inadequate institutions, infrastructure and underutilization of innovation potentially threatens competitiveness of the Czech Republic
- Another foreign trade threat koruna appreciation and excess growth of unit labor costs in comparison to the slower productivity growth in construction
- Slovak example shows that euro is not a key

## Unit labor costs (full employee compensation over labor productivity)



## Unit labor costs – processing industry only

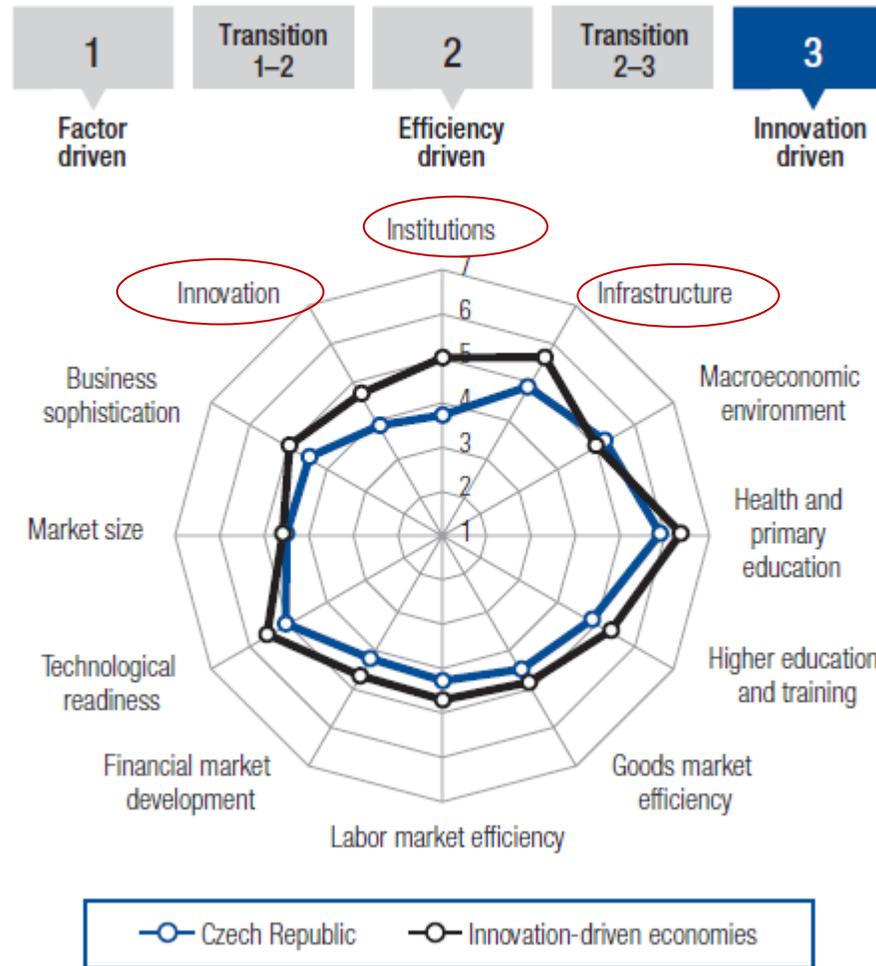


Source: Eurostat 2012

# Problem 3| Global Competitiveness Index: problems of CR



## Stage of development



Zdroj: WEF (2012): The Global Competitiveness Report 2012–2013

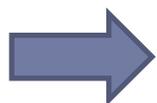
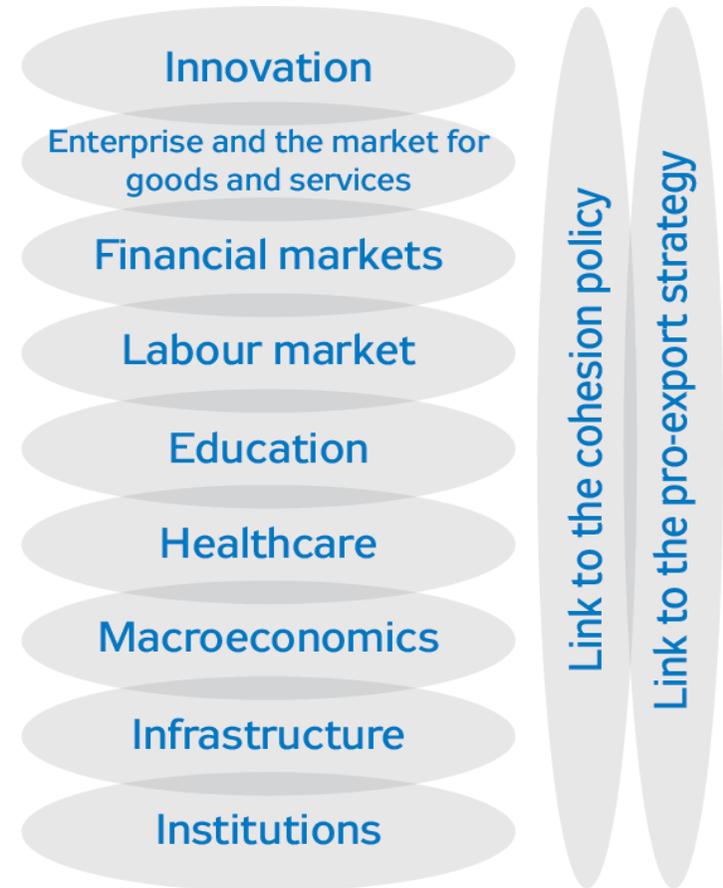
# Coordination towards utilization of our global comparative advantages

- Full utilization of CR comparative advantages potential, (adaptation of business environment – 3i – including strategic location rent)
- Strategic vision, where CR should go and be willing to go
- „Orgware“ - co-ordination of strategies and policies (incl. Foreign policies) that are often autonomous without synergy effects
- See NERV report on competitiveness (2011)



# The Competitiveness Strategy 2011 and its tools

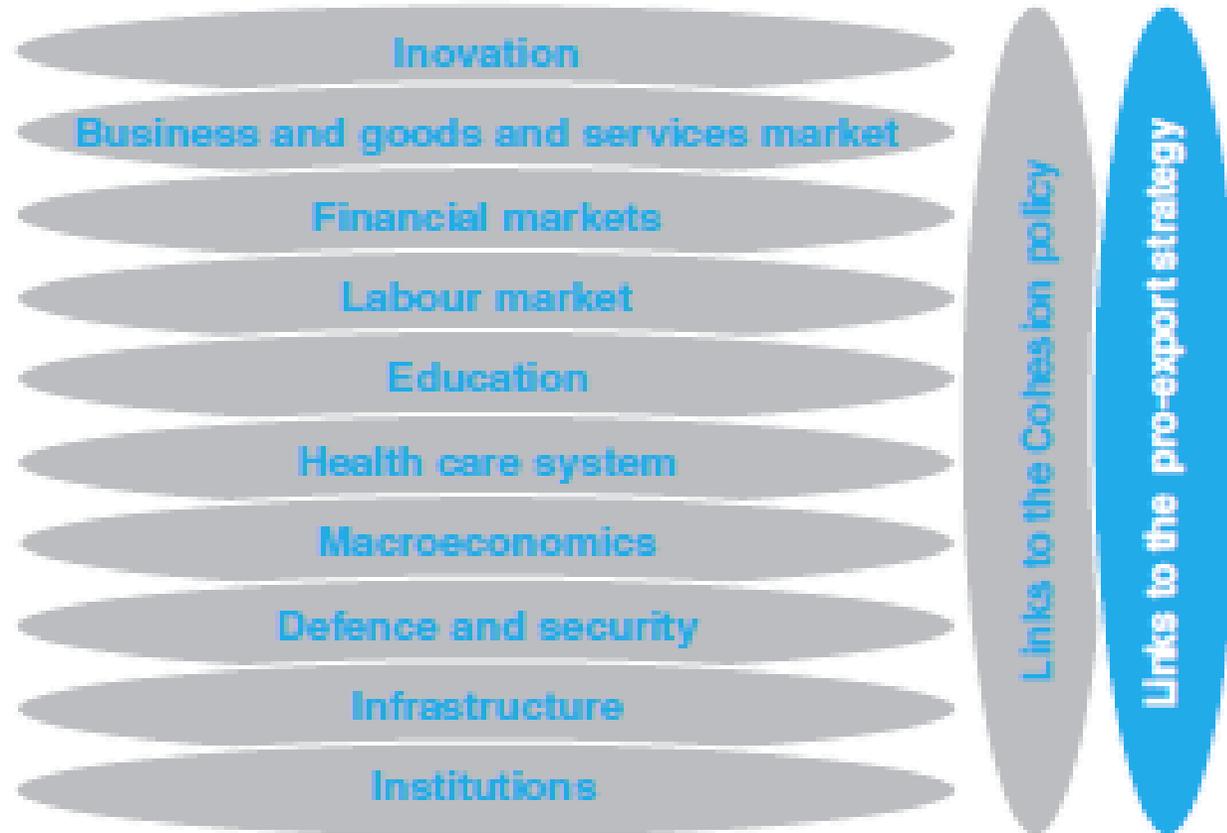
- **Nine pillars**
- **43 specific projects**
- **250 measures in 4 implementation programs**
  - **Public sector**
  - **Education and employment**
  - **Business environment**
  - **Economy of global innovation**
- **Two links** to other strategic documents (cohesion policy, export strategy)
- **Interaction** with other conceptual documents and policies (Energy Policy, National Reform Program, National Innovation Strategy)



OECD Report on the CR (2011) highly appreciated Czech Competitiveness Strategy (2012–2020) adopted by the government. We have entered the implementation phase.

# Export strategy of the Czech Republic for the period 2012-2020

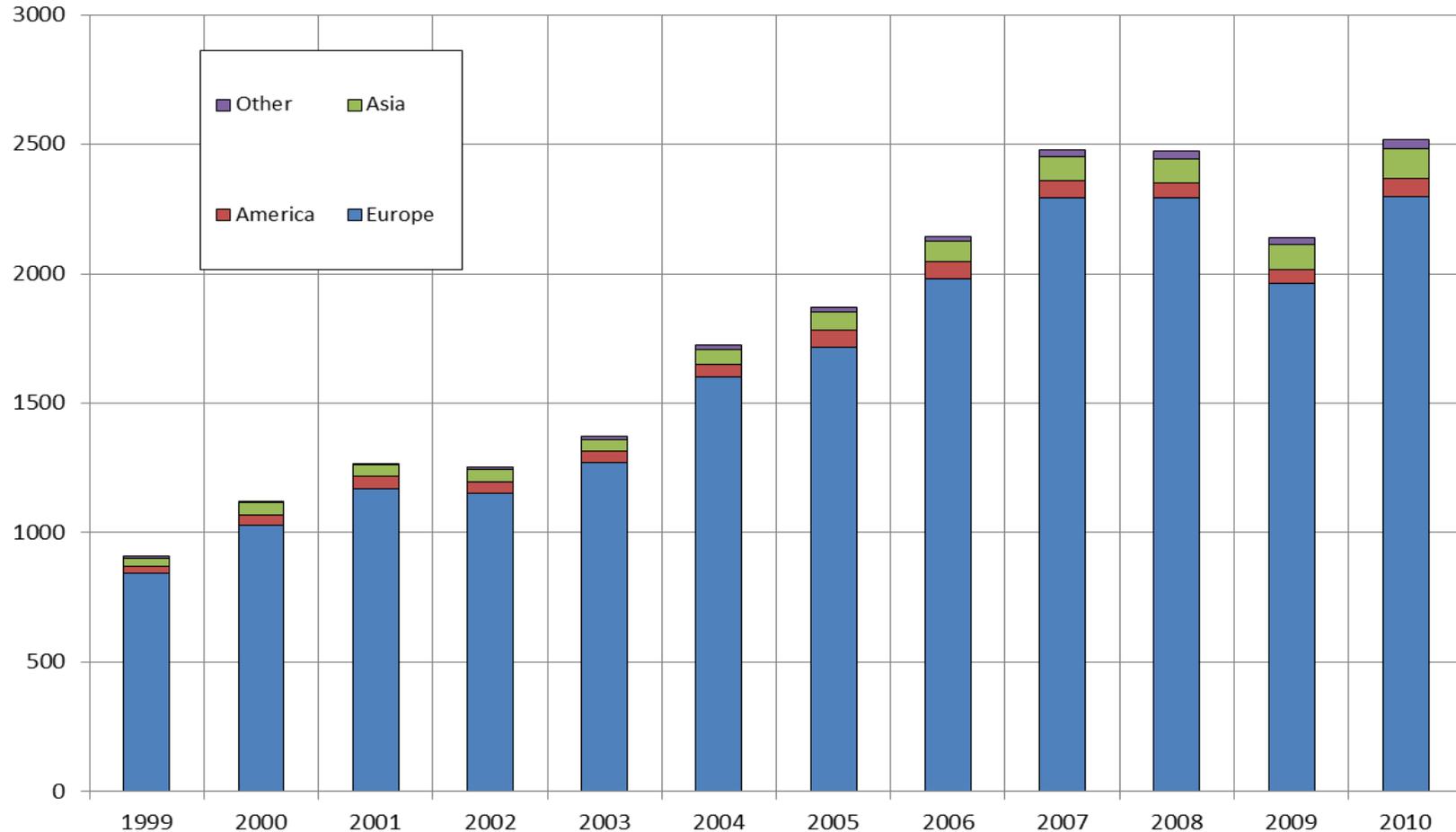
...developed as an integrated cross - sectoral pillar of the CR 2012-2020 International Competitiveness Strategy



Source: 2012-2020 International Competitiveness Strategy for the Czech Republic

# Sensitive territorial structure:

... keep competitive in Europe and expand outside



Source: NERV (2011)

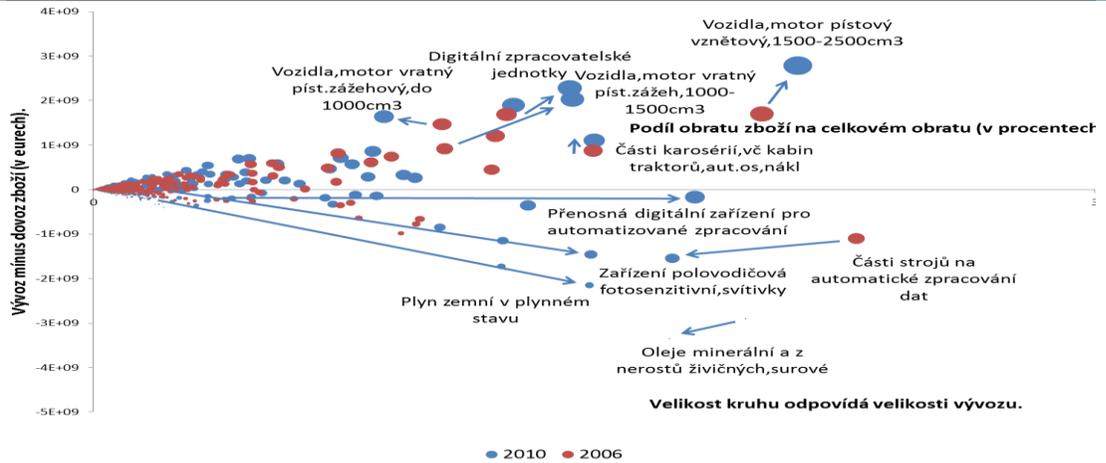
# Comparative advantage – fragile structure of product and service structure

Czech foreign trade with growing concentration in several custom duty items.

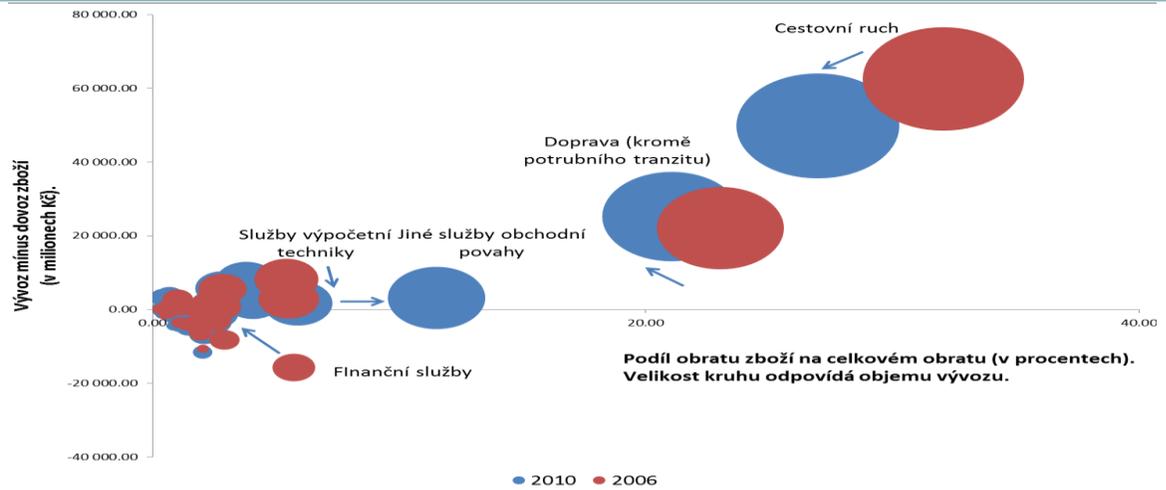
Exports of goods dominated by the automotive industry and electronics (locally assembled) – relevant subdeliveries also imported.

Export of services dominated by the travel and tourism. The more sophisticated services (such as finance, science and research, design) often imported.

## Development of CR foreign trade with goods in goods classification (HS-6)



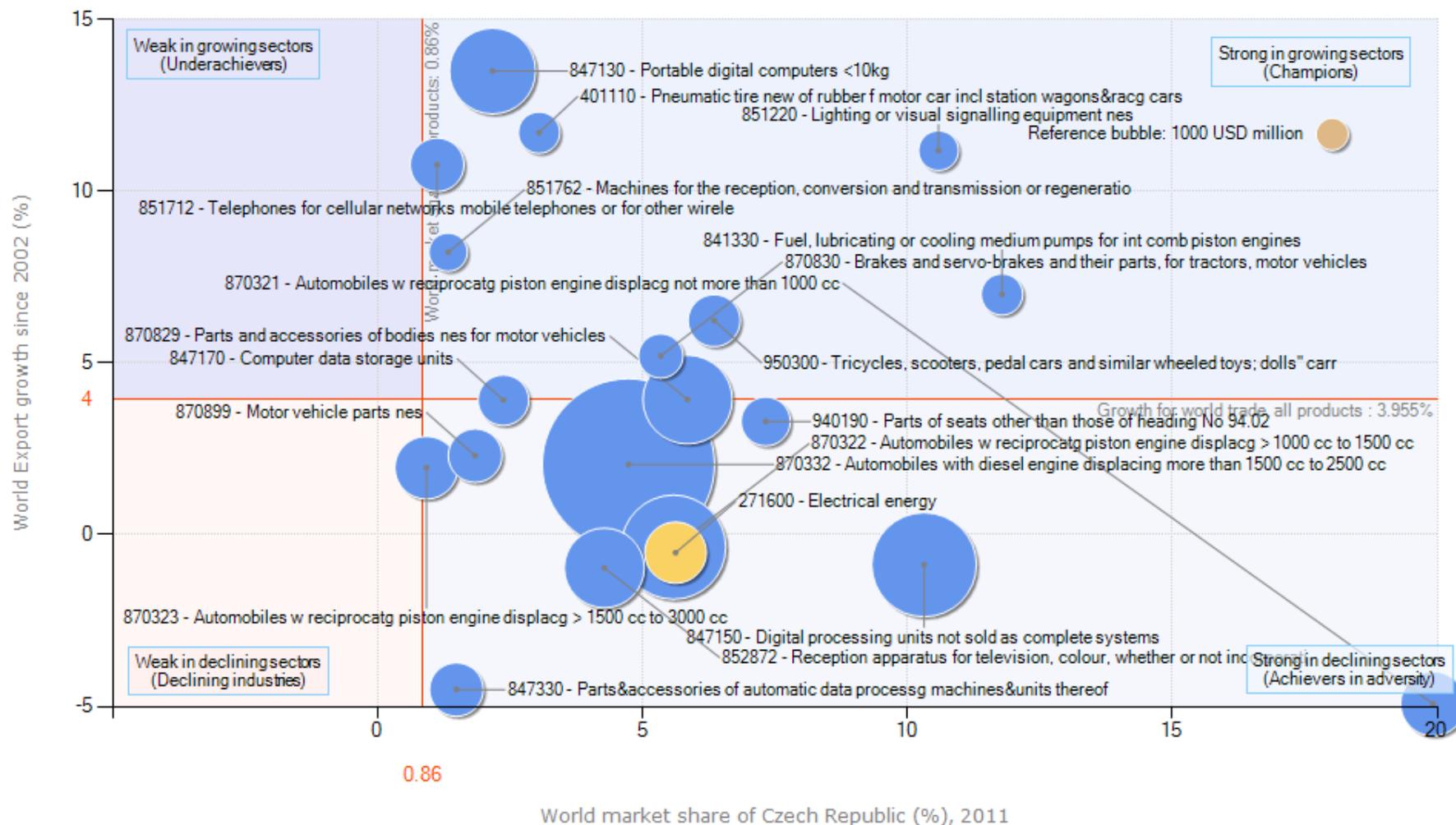
## Development of CR foreign trade with services by groups (HS-6)



Source: NERV (2011)

# Competitiveness of the Czech Republic as a world goods exporter

Exports of Czech Republic - 2011  
Structural Analysis by product (6 digits of HS)



# Main export industries of the Czech Republic

Export of the Czech Republic is highly concentrated to several sectors (mainly group 8 of HS).

Significant export partners in this regard are Germany, France, UK, Netherlands, Slovakia, Poland and Russia.

Example of position of Czech exports in the world :

84 - Machinery, nuclear reactors, boilers, etc					
	World importers	Imports from world (2010, thous. USD)	Imports from Czech Republic (2010, thous. USD)	% of world imports	Rank
1	USA	255284603	615306	0,2	27
2	China	172150025	441086	0,3	26
3	Germany	132341780	6570568	5,0	7
4	France	67218730	1635092	2,4	10
5	UK	67689456	1740211	2,6	8

Product label (HS2)	Exports in value (2010, million USD)	Exports as a share of total national exports in 2010 (%)
<b>All industries</b>	<b>132 139</b>	<b>100,00</b>
84 Boilers, machinery; nuclear reactors	25 414	19,23
87 Vehicles other than railway, tramway	22 493	17,02
85 Electrical, electronic equipment	22 416	16,96
73 Articles of iron or steel	5 077	3,84
27 Mineral fuels, oils, distillation products, etc	4 864	3,68
39 Plastics and articles thereof	4 390	3,32
72 Iron and steel	3 910	2,96
99 Commodities not elsewhere specified	3 233	2,45
40 Rubber and articles thereof	3 212	2,43
94 Furniture, lighting, signs, prefabricated buildings	2 916	2,21
95 Toys, games, sports requisites	2 167	1,64
90 Optical, photo, technical, medical, etc apparatus	2 029	1,54
44 Wood and articles of wood, wood charcoal	1 735	1,31
48 Paper & paperboard, articles of pulp, paper and board	1 729	1,31
70 Glass and glassware	1 688	1,28
30 Pharmaceutical products	1 454	1,10
76 Aluminium and articles thereof	1 372	1,04
29 Organic chemicals	1 215	0,92
83 Miscellaneous articles of base metal	1 183	0,90
49 Printed books, newspapers, pictures etc	1 094	0,83
74 Copper and articles thereof	931	0,70
86 Railway, tramway locomotives, rolling stock, equipment	822	0,62
34 Soaps, lubricants, waxes, candles, modelling pastes	793	0,60
62 Articles of apparel, accessories, not knit or crochet	766	0,58
04 Dairy products, eggs, honey, edible animal products	683	0,52
82 Tools, implements, cutlery, etc of base metal	639	0,48
32 Tanning, dyeing extracts, tannins, dyes, pigments etc	595	0,45
69 Ceramic products	527	0,40
22 Beverages, spirits and vinegar	491	0,37
Other	12 287	9,31

# Global competitiveness of the Czech Republic as a world exporter

Export industries with highest share in total national exports are different from industries with highest share in world exports.

Transport equipment: Czech Republic ranks No. 5 in the world with export USD 2 246 per capita

Three large carmakers Skoda-Volkswagen, Hyundai, Toyota-Peugeot and around one thousand spare parts subcontractors create diversified automotive value chain producing nearly 1,2 million cars yearly.

	Product label (HS2)	Exports in value (2010, million USD)	Exports as a share of total national exports in 2010 (%)	Exports as a share of 2010 world exports (%)
1	36 Explosives, pyrotechnics, matches, pyrophorics, etc	191	0,14	5,31
2	70 Glass and glassware	1 688	1,28	2,69
3	95 Toys, games, sports requisites	2 168	1,64	2,56
4	51 Wool, animal hair, horsehair yarn and fabric thereof	325	0,25	2,55
5	49 Printed books, newspapers, pictures etc	1 095	0,83	2,43
6	86 Railway, tramway locomotives, rolling stock, equipment	823	0,62	2,41
7	83 Miscellaneous articles of base metal	1 184	0,90	2,35
8	93 Arms and ammunition, parts and accessories thereof	218	0,16	2,33
9	87 Vehicles other than railway, tramway	22 493	17,02	2,10
10	73 Articles of iron or steel	5 078	3,84	2,09
11	40 Rubber and articles thereof	3 213	2,43	1,93
12	56 Wadding, felt, nonwovens, yarns, twine, cordage, etc	373	0,28	1,86
13	94 Furniture, lighting, signs, prefabricated buildings	2 917	2,21	1,75
14	34 Soaps, lubricants, waxes, candles, modelling pastes	793	0,60	1,71
15	44 Wood and articles of wood, wood charcoal	1 735	1,31	1,64
16	84 Boilers, machinery; nuclear reactors, etc	25 415	19,23	1,39
17	69 Ceramic products	527	0,40	1,35
18	68 Stone, plaster, cement, asbestos, mica, etc articles	476	0,36	1,29
19	01 Live animals	232	0,18	1,27
20	82 Tools, implements, cutlery, etc of base metal	639	0,48	1,26
21	59 Impregnated, coated or laminated textile fabric	277	0,21	1,24
22	24 Tobacco and manufactured tobacco substitutes	401	0,30	1,17
23	85 Electrical, electronic equipment	22 416	16,96	1,11
24	48 Paper & paperboard, articles of pulp, paper and board	1 730	1,31	1,03

# Czech Republic - world importer

Product label (HS2)	Import value (million USD,2010)	Imports as a share of total imports (%)	Imports as a share of world imports (%)	Number of imported products	Share of top 3 imported products (%)	Share of top 3 supplying countries (%)
<b>00 All industries</b>	<b>125 690</b>	<b>100,0</b>	<b>0,80</b>	<b>4 603</b>	<b>9,9</b>	<b>44,1</b>
85 Electrical, electronic equipment	21 978	17,5	1,04	246	36,0	55,6
84 Boilers, machinery; nuclear reactors	21 471	17,1	1,18	485	35,1	55,7
27 Mineral fuels, oils	11 974	9,5	0,47	37	83,3	67,5
87 Vehicles other than railway, tramway	9 412	7,5	0,89	73	34,0	56,7
39 Plastics and articles thereof	5 984	4,8	1,20	124	24,8	53,4
72 Iron and steel	5 128	4,1	1,33	164	20,1	53,1
99 Commodities not elsewhere specified	4 030	3,2	0,50	1	100	48,4
30 Pharmaceutical products	3 624	2,9	0,84	28	77,4	40,5
73 Articles of iron or steel	3 303	2,6	1,32	118	37,7	55,3
90 Optical, technical, medical apparatus	2 875	2,3	0,63	145	21,9	48,1
40 Rubber and articles thereof	2 320	1,9	1,35	70	46,4	39,3
48 Paper & paperboard, articles of pulp	2 075	1,7	1,21	93	23,0	53
76 Aluminium and articles thereof	1 913	1,5	1,36	35	39,5	39,3
94 Furniture, lighting, signs	1 458	1,2	0,86	37	48,0	60,4
74 Copper and articles thereof	1 324	1,1	0,84	50	54,5	75
95 Toys, games, sports requisites	1 137	0,9	1,04	30	80,6	63,9
38 Miscellaneous chemical products	1 007	0,8	0,65	58	45,5	53,5
32 Tanning, dyeing extracts, tannins	965	0,7	1,38	44	42,5	55,8

Source: ICC CR according to International Trade Centre (ITC), based on UN COMTRADE



## Position of the Czech export to UAE



## CZECH REPUBLIC - international trade

Foreign trade 2011 (mld. USD)\*\*

Exports	Imports	Balance
162,9	152,1	+10,8

### Exports – commodities (2011):

- Reactors, boilers, electronic devices, motor vehicles, tractors, iron and steel products, fuels, plastics, rubber, furniture, optical devices, toys, wood, glass, aluminum, pharmaceuticals...

### Imports – commodities (2011):

- Reactors, boilers, electronic devices, fuels and oils, motor vehicles, plastics, iron and steel, pharmaceuticals, optical devices...

### Exports - partners (2011):

- Germany (32,2%, balance +13,4 mld. USD)
- Slovakia (8,9%, balance +5,9 mld. USD)
- Poland (6,3%, balance +0,3 mld. USD)
38. United Arab Emirates (0,4%)

### Imports - partners (2011):

- Germany (25,7%), 2. China (12,4%), 3. Poland (6,6%)
85. UAE (0,03%)

### Bilateral trade with UAE 2011 (mil. USD) - Czech view

Exports to UAE	Imports from UAE	Balance
636,8	41,0	+595,8

**To UAE:** glass beads, imitation pearls and precious stones, processing units, telephones, switchboards, helicopters, semi-finished silver, optical recording media, compressors, electrodes, data processing devices, oils, memory units, cheese, glass, lamps, machine components, motor vehicles...

**From UAE:** aluminum, plastic desks and sheets, polyethylene terephthalate, fabric textiles, perfumes and toilet waters, processing units...

## UAE and Dubai - international trade

Foreign trade 2011 (mld. USD)\*\*

Exports	Imports	Balance
281,6	202,4	+79,2

### Exports – commodities (2011):

- Crude oil (45%), natural gas, re-exports, dried fish, dates , services...

### Imports – commodities (2011):

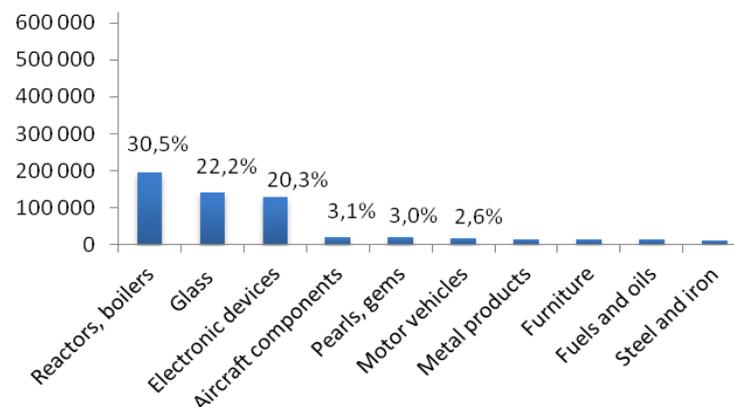
- Gold, diamonds, vehicles, precious metals and jewelry, aircraft and spare parts, phones , jet engines , gas turbines ...

### Exports - partners (2011):

- India (32,8%)
- Switzerland (10,9%)
- Saudi Arabia (5,3%)
- Iran (3,8%) , 5. Canada (3,1%), Turkey (3,1%)

### Imports - partners (2011):

- India (18,4%), 2. China (9,1%), 3. USA (8,5%), 4. Germany, (4,8%), 5. Japan (4,8 %), 6. United Kingdom (3,7%)



# Czech export structure to United Arab Emirates

Year	Export		Import		Turnover		Balance
	thous. USD	Index	thous. USD	Index	thous. USD	Index	thous. USD
2007	540 920	111,8	28 271	65,8	569 191	108,1	512 649
2008	635 074	117,4	41 831	148	676 905	118,9	593 243
2009	536 181	84,4	35 788	85,6	571 969	84,5	500 393
2010	523 357	97,6	35 344	98,8	558 701	97,7	488 013
2011	637 535	121,8	41 314	116,9	678 849	121,5	596 221
2012*	579 575	90,9	31 702	76,7	611 277	90	547 873

\*1/2012-11/2012

Source: Czech Statistical Office

Year	Czech export to UAE (CZK)	Czech export to UAE (USD)	Exchange rate CZK/USD*
2006	10 599 315 148	468 809 551	22,609
2007	9 706 233 996	477 951 251	20,308
2008	8 901 021 848	522 513 757	17,035
2009	8 091 812 944	424 611 059	19,057
2010	6 736 457 410	352 491 100	19,111
2011	7 566 591 148	427 781 046	17,688
2012	7 614 953 152	388 855 290	19,583

\*according to year average (Czech National Bank)

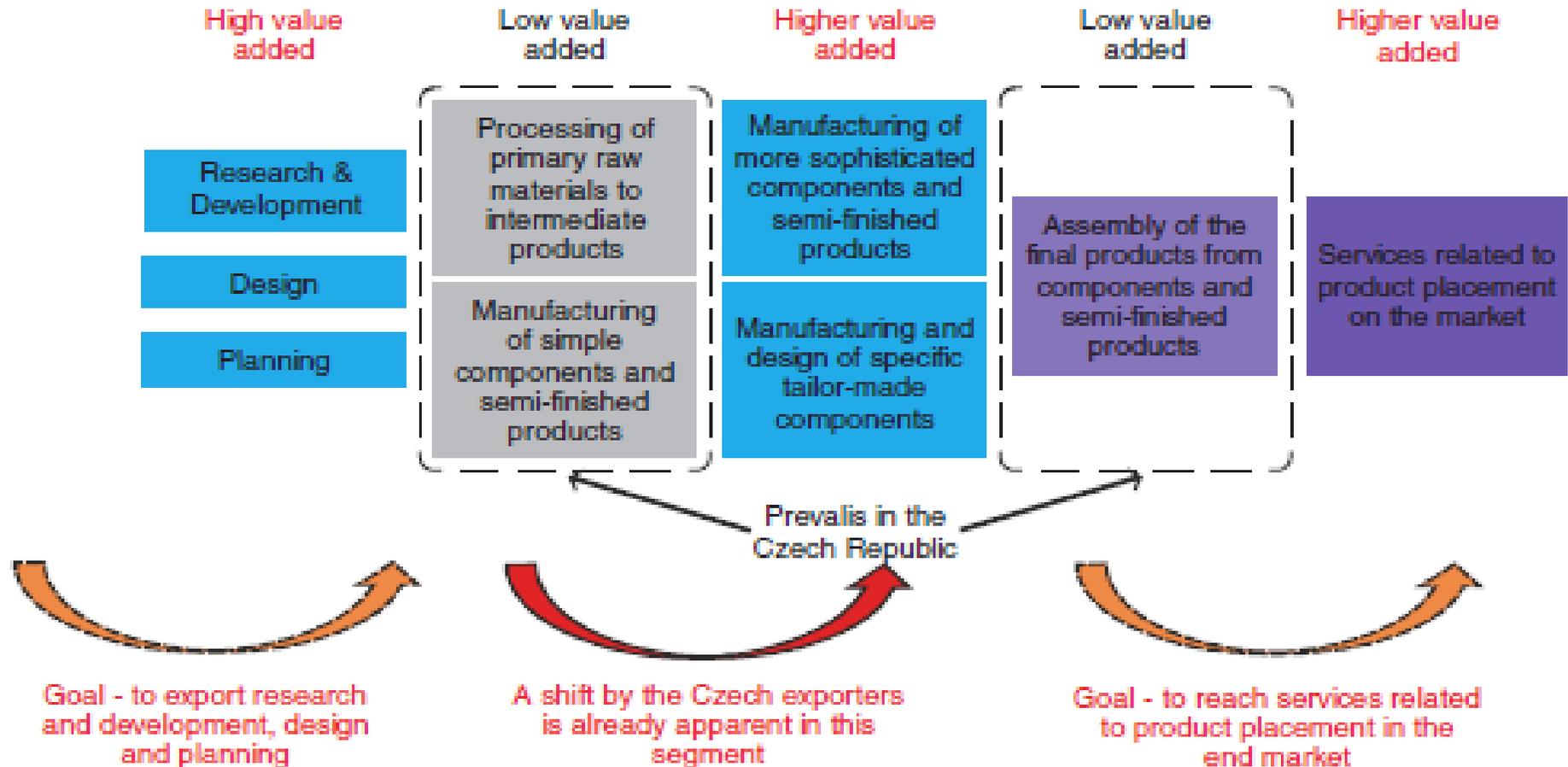
Source: Customs Administration of the Czech Republic

Product code (SITC 5)	Type of product	Export volume from CR to UAE (thous.USD, 1/12-11/12)	Share in total export of CR to UAE (1/12-11/12)
66522	Drinking glass	1 091	0,19%
66523	Glassware used for table/kitchen	5 140	0,89%
66529	Other glassware	2 114	0,36%
66591	Glass laboratory, medical, pharmaceutical	31	0,01%
66593	Glass beads, imitation pearls, precious stones, jewelery	109 108	18,83%
			Total 20,28%

Source: Czech Statistical Office



# Required move of Czech enterprises in value chains

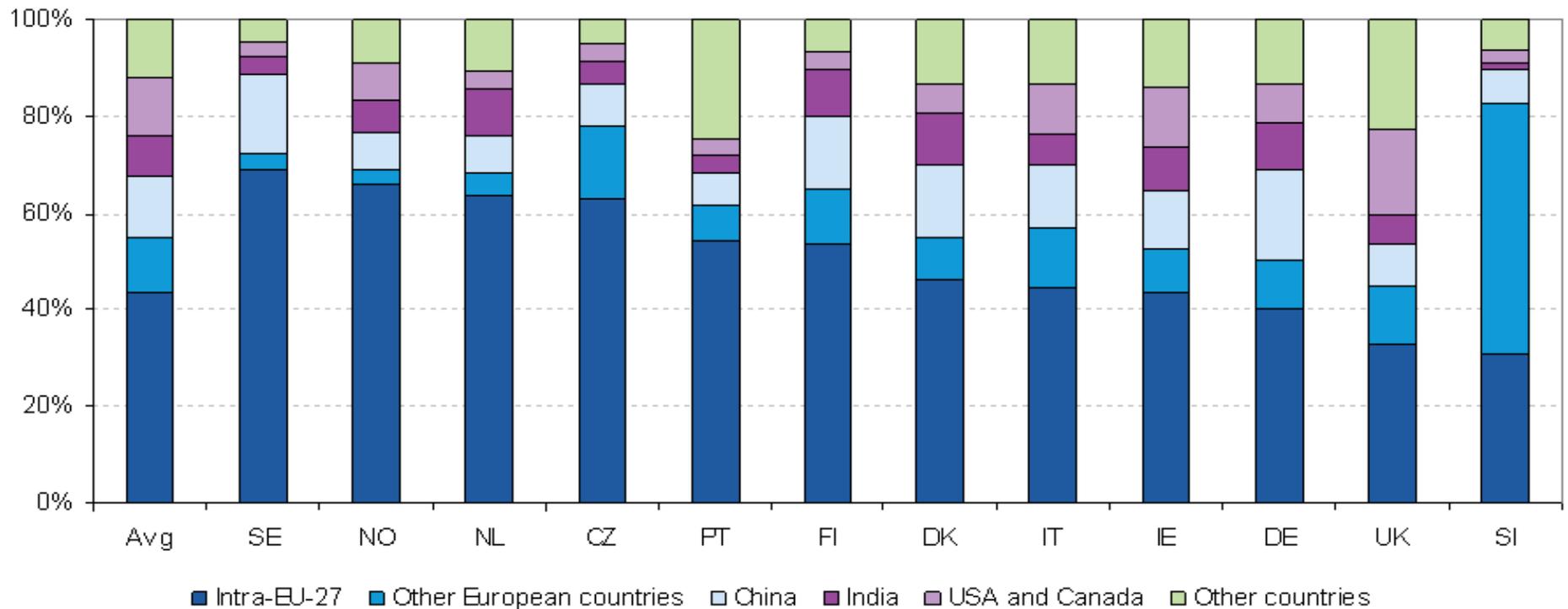


Source: EEIP, a.s.

# To fix the dynamic, competitive position of Czech enterprises in global value chains

An important feature of globalization is that enterprises split their production processes into a number of business functions which they then move around the world to gain efficiency and/or new markets. This subscribes to the well known concepts of global value chains and international sourcing.

## Destination of international sourcing - Share of core and or support functions sourced internationally (%), 2009



Source: Eurostat

# Segmentation of focus oriented foreign trade strategy for over 17 th. businesses

## Czech subsidiaries of foreign parents

Account for majority of Czech final export; high share of imports in production

High degree of internationalization – through the group that is often multinational company (MNC)

Selection of market is driven by the group needs

Within the group they typically belong to the mid- or lower value-added part of the production chain supplied by the cluster of suppliers

Successful examples: TPC, Hyundai (large businesses and subcontractors), specifically Skoda-Volkswagen

## Traditional exporters well-established

Estimated account for 20 – 25% Czech export share, high share of imports in production

Gradual strong internationalization from domestic market

Supply mostly „to psychologically close“ markets

Full control over placing the products to the market, design and R&D etc.

Successful examples: Vítkovice, Žďas, Tonak, Preciosa (both large enterprises and SMEs often rooted in former specialized Foreign Trade companies)

## Experimental exporters

Large number of businesses but small export volumes

Low degree of internacionalization, often ad-hoc penetration to foreign markets

Ad-hoc supplies, rather to neighboring markets

Usually medium-, low value-added businesses, the domestic market is a key factor

Successful examples: Veba, Bernard (mainly MSP)

## Born globals

Very few businesses, rapidly generate high foreign sales (3-6% according to OECD)

High degree of internalization since the start of their business activities

Supply simultaneously to a larger number of markets (also outside EU)

Often high value-added businesses; foreign demand is a key factor

Successful examples: Linet, Avast, Lasvit, J4, start-ups with high value-added

# 12 key projects of export strategy

## I. Export intelligence

- 1) Centre for shared services and export intelligence (back-office)
- 2) Information One-Stop-Shop
- 3) Global diversification of exports (conceptual management)

## II. Export development

- 4) Services for exporters (front office services)
- 5) Export financing and insurance
- 6) International financing resources and development cooperation
- 7) Clusters and pro-export initiatives of self-governing units
- 8) Management and communication platform

## III. Development of trade opportunities

- 9) EU trade policy and export to the Single Market
- 10) Optimisation of the foreign network
- 11) Services of the foreign network
- 12) Investments and innovation for goods and services exports



- Linet became from a family run start-up established in 1990 in Zelevčice near Slaný, Czech Republic one of the top five global companies in production of high-tech hospital beds in the world
- LINET Group's yearly production reached 66,000 hospital beds with revenues of EUR 126.6 million in the fiscal year 2010-2011 and employs 800 people
- The competitive edge of the company is above all in-house research and development, cooperation with universities, systematic development of customer relations and aggressive sale strategy even in difficult territories such as is Cuba, Venezuela, and in 98 other countries



# Czech born and reborn – Czech glass industry

Traditional industry in the Czech Republic (since 13th century) – production of glass beads, tableware, lights and chandeliers

At the end of 20th century, the whole industry had undergone through a redefinition and finding new position in the global competition.

There are at least two successful examples of companies, who were able to find their position on the global market – Lasvit and Preciosa – e.g through production of lighting fixtures



# Czech born globals in high-tech services



More than 50 millions downloads in Google Play app store – AVG Mobilation  
AVG also provides AntiVirus protection for over 130 million computers



Most downloaded in 2012 according to [www.download.com](http://www.download.com) - Avast Free Antivirus



Born global provider of social media statistics and analytical services

## ICC East-West Business Forum 2012 (18-19 September 2012, Prague)

- Under auspices of the Prime Minister Petr Nečas, Minister of Foreign Affairs Karel Schwarzenberg, Minister of Industry and Trade Martin Kuba...
- 250 participants from 30 countries
- Potential of bilateral trade cooperation between Czech Republic and OIC member countries, presentation of business opportunities in energy, machinery, infrastructure, water management, medicine equipment sectors
- [www.ewbf.cz](http://www.ewbf.cz)



## Islamic banking conference (29 May 2012, Prague)

- Cooperation of ICC Czech Republic with embassies of OIC member countries in Prague under leadership of Turkish Ambassador
- Introduction of Islamic banking system and its principles
- 200 participants

***...supported by series of workshops on doing business in Jordan, Uzbekistan, Kazakhstan, Pakistan, Iraq, Malaysia etc.***

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