



Ministry of Foreign Affairs of the Czech Republic

From Globalization to Regionalization: Insight beyond the Central Europe

Martin Tlapa

Deputy Minister of Foreign Affairs



External economic relations of the Czech Republic: slow but safe

- › **Export – average growth in the first half of 2019 +1.8% (+4.2% in the same period of 2018)**
 - › Year-on-year exports grew by 8% (September 2019)
 - › Expected growth of Czech exports – 2.3% in 2020 and 2.7% in 2021 (Economist Intelligence Unit)
- › **Important for the Czech Republic – employment in the business sector is directly linked to the foreign demand**
 - › The share of employees working in the industries directly or indirectly linked to exports is 22% on average worldwide, in the Czech Republic the share is 52%
- › **The German economy is in a good shape, the threat of imposition of new US tariffs on the EU automotive exports remains the biggest short-term external risk for the Czech Republic**
 - › German exports increased by 1.5% in September from August (beating a market projection of a 0,3% increase)
 - › Lower possibility of No-Deal Brexit
 - › Despite unfavourable projections, the EU and the euro area continue to grow (year-on-year GDP growth of EU countries 1.4%, Euro area countries 1.1%)
- › **By reason that...**



The role of the US is more important than it seems - the share of exports and added value in exports is different

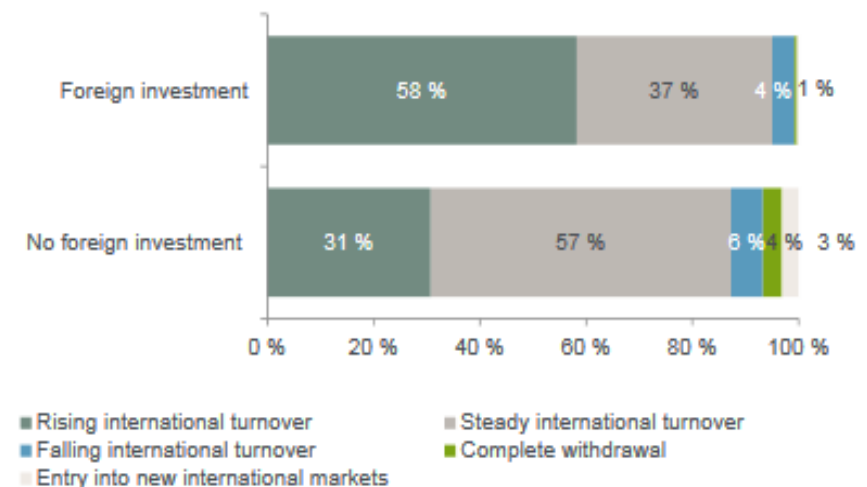
- › ... an analysis of added value flows in foreign trade reveals a relatively higher exposure of the Czech economy to demand shocks in the US and relatively lower exposure to those in Germany - compared to the traditional volume measurement of foreign trade:
 - › Export to Germany – by added value 20%, by export volume 32%
 - › **Export to USA – by added value 7%, by export volume 2,1%**
 - › Export to Great Britain – by added value 6 %, by export volume 5%
- › By gross exports per capita, the Czech Republic has already reached Germany...
 - › Exports per capita – Czech Republic 416 000 CZK, Germany 408 000 CZK (Eurostat)
- › However...



How to serve the foreign markets individually?

- › The Czech Republic is the third among the OECD countries with the longest distance between the manufacturer and the final consumer
 - › Countries with the shortest distances from the final demand are Israel, the United States, the United Kingdom, France, Canada and Japan
- › Confirmation from Germany of what we expected - **companies with permanent ties to their foreign partners are growing twice as fast**
 - › 2/3 of German enterprises that invested abroad between 2012 and 2015 expect their international turnover to grow in the years 2017 to 2019, whereas only 1/3 of companies that have exported without any foreign investment expect their international turnover to increase.
 - › Germany has various financial and consulting tools to support permanent presence and it also supports cooperation of German companies abroad

Figure 4: Foreign investment bolsters growth expectations





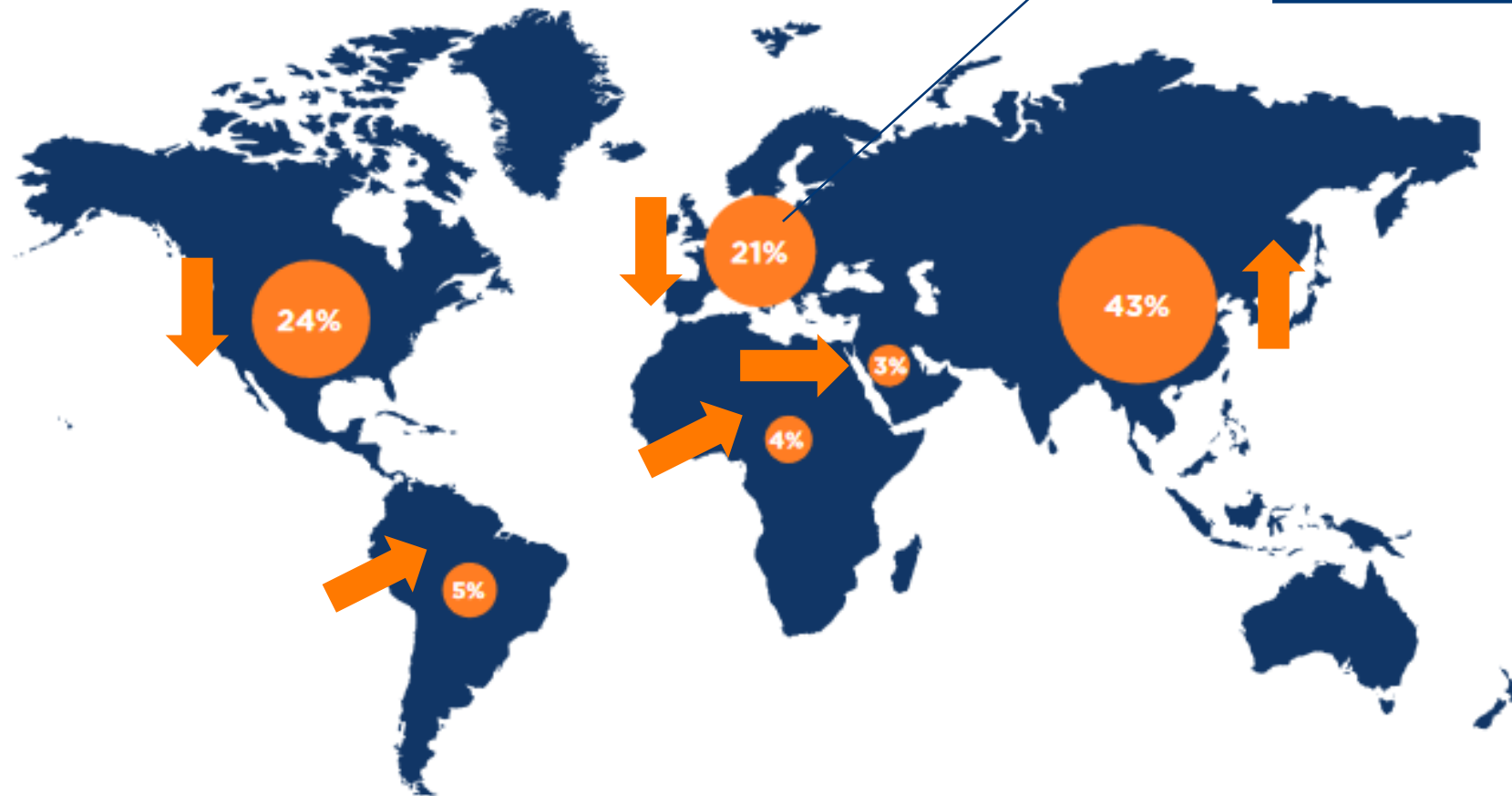
Towards regionalisation

- › **The regionalisation trend confirms that the supply is moving closer to the final markets.**
- › **Regionalisation is particularly evident in Asia** (the share of near-market manufactured goods grew from 38% in 2000 to 49% in 2017). The corresponding share has historically been higher in both Europe and North America, but the development in recent years showcases an increasing trend toward regionalisation of trade in goods also here
- › Important driving factors behind the regionalisation trend include **customer expectations for adaptability and fast delivery of goods and products**, as well as experience of advantages of a closer proximity to markets and a deeper co-operation with local sub-suppliers.
- › By shortening the distance between the manufacturing operations and the markets, companies can reduce the risk of disruption in their logistics chains and reduce transportation costs.



Global growth and major regions

... AND TOMORROW'S GLOBAL ECONOMY
Distribution of global GDP by region, share in per cent, 2035 (forecast)



Central Europe 5%
(DE, CZ, SK, PL, AT)

Most of the economic growth (90 %) will take place outside the EU



Be closer to a global customer

- › The gateway of Central Europe to global markets is primarily Germany.
- › **One of the possible ways of reaching perspective foreign markets is to support the “permanent presence” of Czech companies on them**
 - › The long-term presence of companies on the foreign markets creates not only a link to customers but it also reduces the notional distance.
 - › There is a variety of forms of the permanent presence ranging from foreign branches, joint-venture, acquisition, manufacturing of service unit to variants (typical for ICT companies or online business)
- › The presence on foreign markets is not unknown to the Czech companies
 - › **Even on such sophisticated market as the US.** Companies are emerging across the US marketplace - from software companies such as Avast, to Meopta optics and Farnet's agricultural technology manufacturers.
 - › **A specific example of a successful operation on foreign markets is the Czech company Linet, which has recently established its nineteenth branch in Australia.**
 - › A Southern Moravian company LIKO-S has established a branch in Bangalore in India and successfully operates on the local market.



PROPEA – New tool to support our presence on global markets

- › **CBS – Czech Business Support (PROPEA program)**
 - › An addition to the individual services provided to Czech companies by embassies and CzechTrade and CzechInvest agencies abroad
- › **The aim of the program is to:**
 - › **support Czech companies** whose activities abroad are not limited only to exports
 - › **support the permanent presence** of Czech companies on foreign markets
 - › **reduce the risks** associated with entering a new foreign market
- › **Cooperation of embassies with local specialized and verified companies**
 - › Direct support for Czech companies in foreign countries in areas such as administration, obtaining a license, representation or support of starting a production
- › **Financing**
 - › Uniform percentage participation of Czech companies is 30 %, services are subsidized by 70 % from the PROPEA program budget
- › **Territories**
 - › PROPEA 2019 projects: Mongolia, Morocco, Indonesia and Japan
 - › Expansion to other markets in 2020



International Development Guarantee – a new financial tool to support the presence on global markets

- › Foreign development cooperation program
 - › Supports private investments of Czech entrepreneurs in less developed countries through a bank guarantee
 - › Available to all local companies
 - › Operated by Czech-Moravian Guarantee and Development Bank (CMZRB)
- › The guarantee might be used for:
 - › Acquisition of a long-term non-material property and related transfer costs
 - › Costs related to a realization of a project in a target country
- › Main characteristics of the guarantee
 - › Guaranteed amount is up to 50% of the loan principal, guaranteed loan amount up to CZK 25 million
 - › The amount of a guaranteed loan is not limited
 - › Guarantee maturity up to 8 years
- › Territories
 - › [List of developing countries by OECD](#)



In conclusion

- › The Central European market is crucial for the Czech Republic – the neighbouring countries account for over 1/2 of total exports. The Czech Republic is specialized in the automotive sector
 - › It accounts for a quarter of the industrial production and 9% of GDP, it is also highly procyclical.
 - › Economies of CEE region are becoming more resilient to external factors due to the structural changes of economies, tight labour markets, inflows of foreign investment, stronger domestic demands and increasing diversification (also towards services).
- › In the spotlight of the trade war
 - › **The current development of the world economy is not primarily caused by the trade war**, which is not a major factor in the slowdown. The cyclical downturn in a global industrial growth was already taking place in 2017. The trade war — starting up in 2018 — just piled on that downturn (according to the Economic Cycle Research Institute)
- › We are presenting new tools of a modern economic diplomacy focused on taking the Czech brands and companies to more distant markets and to establish closer relationships with customers.
 - › For example, the newly offered set of services **PROPEA - Czech Business Support and the financial instrument ZRS Guarantee**.
 - › **We strengthen the capacities of sector platforms for comprehensive solution - Czech Healthcare Solutions**
 - › **We combine our services with already existing tools** aiming at an increase of growth and added value (CMZRB) and internationalization of Czech enterprises