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INVESTMENT FLOWS BETWEEN CHINA AND CZECH REPUBLIC

Current Trends and Perspectives in Development of China-V4 Trade and Investment
University of Economics in Bratislava

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PRESENTATION OUTLINE

1. Development of Czech inward investments
2. Outward FDI of the Czech Republic
3. Investment relations between the Czech Republic and China

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INWARD INVESTMENTS INTO THE CZECH REPUBLIC AFTER 2000

- The CR is **one of the most successful** CEE countries in terms of attracting FDI.
- Over 173,000 Czech firms are now supported by foreign capital. According to the CNB, a **total amount of EUR 77.8 billion** worth of FDI has been recorded since 1993.
- The introduction of **investment incentives in 1998** stimulated a massive inflow of FDI into greenfield projects.
- The CR's **accession to the EU in 2004** and the amendments to the investment-incentives legislation have further boosted investment.
- The CR has consistently attracted a **high rate of FDI per capita since 2000**.

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Table 11: FDI Inward and Outward Stock 2000-2012 (% of GDP)

Economy	2000	2004	2008	2009	2010	2011	2012
Inward FDI Stock							
Czech Republic	36.8	50.2	50.2	63.8	64.6	55.5	69.6
Hungary	49.3	60.4	57.1	78.0	70.8	60.9	81.7
Poland	20.0	34.3	31.0	43.0	45.9	38.6	47.3
Slovakia	34.2	66.8	53.5	60.2	57.7	53.4	60.8
Transition economies	15.3	22.9	18.2	35.2	36.1	29.4	30.8
Outward FDI Stock							
Czech Republic	1.3	3.3	5.6	7.5	7.5	6.1	7.7
Hungary	2.8	5.9	11.4	15.6	16.0	17.3	27.4
Poland	0.6	1.3	4.6	6.8	9.5	9.7	11.8
Slovakia	2.7	2.6	3.1	3.6	3.8	4.4	4.8
Transition economies	5.4	12.9	9.8	18.9	19.1	15.6	16.7

Source: UNCTAD (2014).

Stock of inward foreign direct investment per capita (USD)

	2006	2007	2008	2009	2010	2011*	2012**
Czech Republic	7,761	10,828	10,812	11,976	12,200	11,880	12,310
Slovakia	6,166	7,822	9,339	9,667	9,305	9,430	9,760
Hungary	5,558	5,965	6,555	6,779	7,026	7,490	8,270
Poland	3,298	4,680	4,311	4,853	5,261	5,000	5,120

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INWARD INVESTMENTS INTO THE CR

- **Global recession** – FDI inflows into the CR markedly slowed down. High levels of FDI inflows in 2012 again.
- FDI inflow in 2012 = 10.6 billion USD (stock 70% of GDP). FDI outflow = 1.3 billion USD.
- **New trend:** reinvested earnings have been replacing equity capital.
- **Low outward FDI flows and stock** (15 billion USD in 2012) – dominated by foreign acquisitions of the state-owned electricity company CEZ.

Source: UNCTAD (2014).

Table 8: Czech Republic Inward Foreign Direct Investment Flows by Country 2000-2012 (in %)

Country	2000	2004	2007	2012
Western Europe				
Belgium	1.1	...	2.6	7.7
Denmark	2.1	...	2.2	1.0
France	4.7	...	0.5	3.7
Germany	26.5	15.2	11.5	15.5
United Kingdom	3.2	0.4	...	1.9
Italy	0.7	1.0	0.5	1.2
Netherlands	20.8	40.2	21.2	43.1
Austria	14.8	8.8	10.5	13.0
Sweden	3.0	...	3.3	1.0
Switzerland	4.6	3.7	9.3	3.2
Canada	3.1	...	0.2	...
United States	6.1	10.2	4.0	5.0
Japan	0.9	0.8	3.9	...
Other	8.6	28.3	35.4	5.7
Total	100.0	100.0	100.0	100.0

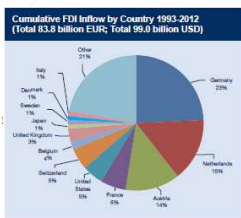
Source: CNB (2013).

Table 9: Czech Republic Inward Foreign Direct Investment Flows: Countries 2000-2010 (in CZK millions)

Country	2000	2004	2006	2008	2010
Brazil	...	-18	13	-43	-28
China	52	16	826	-328	40
India	-1	11	625	-292	-335
Russian Federation	-103	813	-517	2769	1689

Source: UNCTAD (2011).

- EU countries account for most FDI inflows into the CR (88% in 2009).
- Biggest European investors in the CR in 2012: Netherlands, Germany and Austria.
- Other countries: United States, Japan
- FDI from BRIC countries are unstable.



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TOP 10 INVESTORS IN THE CZECH REPUBLIC
(MEDIATED BY CZECHINVEST)

Company	Country of origin	Total investment (in mil. USD)
Hyundai Motor Company	South Korea	1 222
Toyota/PCA	Japan/France	850
VOLKSWAGEN	Germany	800
Mondi Packaging Paper Štětí a.s.	Great Britain	394
Nemak	Mexico	317
Denso	Japan	255
Robert Bosch	Germany	237
Matsushita Electric Industrial Co.	Japan	235
DHL	Germany	190
Siemens VDO Automotive	Germany	179

Source: Czechinvest, 2012 From 1993 to 2011

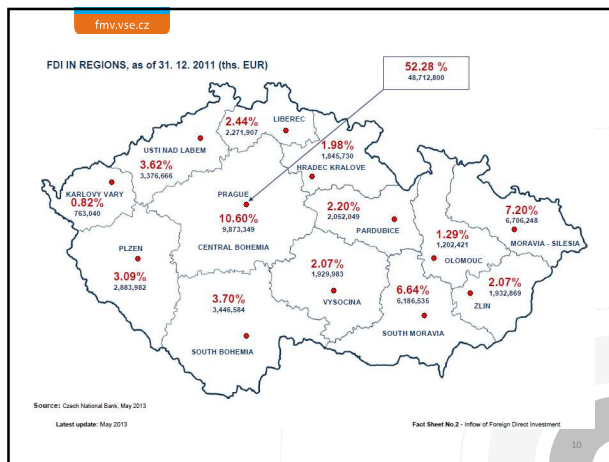
Table 7: Czech Republic Inward Foreign Direct Investment by Industry 2000-2012 (in %)

Industry	2000	2004	2007	2012
Nonmanufacturing				
Agriculture, hunting and forestry	0.3	2.1	0.1	0.4
Mining and quarrying	2.0	3.3	...	1.8
Electricity, gas, and water supply	7.0	7.3	...	-0.8
Construction	3.4	0.3	0.5	1.3
Trade, hotels and restaurants	18.7	18.7	19.1	24.7
Transport, storage and communications	8.7	6.8	11.6	27.2
Financial intermediation	31.8	19.3	35.1	39.8
Real estate and business activities	25.5	41.5	42.5	4.8
Education	0.0	0.0	0.0	0.0
Health and social work	0.0	0.0	0.1	0.5
Other social and personal services	1.4	...	1.6	0.3
Total	88.9	90.7	69.6	91.2
Manufacturing				
Food and tobacco	8.6	0.8	9.0	10.7
Textiles, wearing apparel, and leather	3.3	...	3.0	2.2
Wood, paper and publishing	2.5	27.4	0.8	0.7
Refined petroleum and chemicals	14.5	26.3	10.3	16.7
Nonmetallic products	5.6	6.1	13.7	0.6
Basic metals and metal products	12.2	40.9	20.7	9.5
Machinery and equipment	51.3	-3.8	40.6	42.9
Recycling and other manufacturing	1.0	0.4	3.0	7.5
Total	41.1	20.3	37.0	28.8

Source: CNB (2013).

Table 10: Cumulative FDI Inflow by Sector 1993-2012 (Total 83.8 billion EUR; Total 99.0 billion USD)

- Services account for more than 70% of inward FDI flows from the mid-1990s.
- Financial services - more than 40 % of total non-manufacturing FDI, followed by software and IT services, logistics, telecommunications, tourism.
- Manufacturing has attracted about 1/3 of the FDI stock.
- 29 % of total FDI inflows in 2012.
 - Especially machinery (automotive components), chemical, food and tobacco industries.
- More FDI is being directed towards more high-technology sectors, research; business support services.



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OUTWARD INVESTMENTS OF THE CZECH REPUBLIC AFTER 2000

- Low outward FDI flows and stock (1.3 billion USD, respectively 15.2 billion USD in 2012) – dominated by foreign acquisitions of the state-owned electricity company CEZ.
- Outward FDI started to grow faster after 2000 – stock accounting for 7.7% of Czech GDP in 2012 (below Hungary with 27.4% and Poland with 11.8%).
- Almost all outward FDI stock targets the EU (90% in 2012) – the Netherlands, Bulgaria (CEZ acquisitions in energy production and trading).
- Czech FDI abroad - almost in services.

Table 11: Czech Republic Investment Flows Abroad by Country 2000-2010 (in CZK millions)

Country	2000	2004	2006	2008	2010
Developed Countries	1654	26067	33170	73803	32508
European Union	-120	17652	36085	71791	29151
Germany	-147	42	3762	805	1702
Slovakia	886	2225	5097	2468	3934
Poland	733	884	992	1105	2750
Bulgaria	96	9831	6086	805	1466
USA	296	-56	234	-296	60
Developing Countries	108	-805	-5195	1005	1471
Brazil	31	9	11	-83	47
China	...	367	22	-191	1348
India	...	1227	1783	938	1389

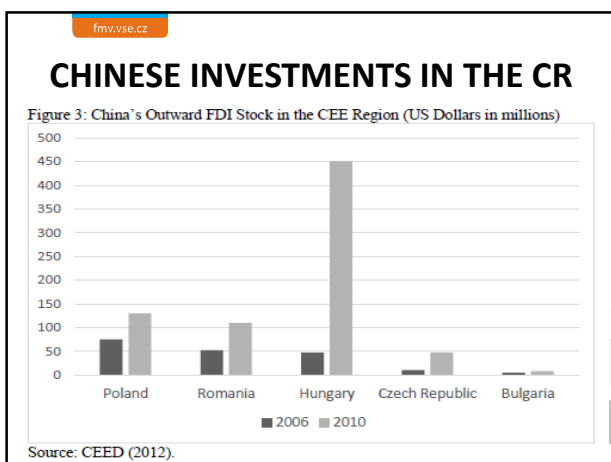
Source: UNCTAD (2011).

Table 12: Czech Republic Investment Stock Abroad by Country 2000-2009 (in CZK millions)

Country	2000	2004	2006	2008	2009
Developed Countries	27889	84087	104743	242428	271920
European Union	16918	60752	87364	229716	255535
Germany	1395	1155	4837	6740	5146
Netherlands	7	9642	23738	105442	111484
Slovakia	838	18679	33271	40186	41369
Poland	1650	1944	3047	9838	9683
Bulgaria	130	7029	10417	14070	13300
USA	557	469	689	266	264
Developing Countries	3546	11544	2568	3322	4922
Brazil	77	2	-14	20	25
China	103	192	254	226	211
India	80	198	492	869	522
Russian Federation	170	3062	4127	4462	3152

Source: UNCTAD (2011).

- The Czech FDI in China – rather insignificant (flow of 47 million CZK in 2010, stock of 211 million CZK in 2009).
- The CR invests more in Russia (3,1 billion CZK in 2009) and India (522 million).



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- Chinese investments in the CR **remain very low**.
- **Manufacturing industry** (electrical machinery, foodstuff, telecommunications and transport equipment).
- The biggest Chinese investor in the CR: **Changhong Electric** (one of the world's biggest LCD TV producers, Sichuan province) – factory near town of Nymburk (2005).
- Common **research projects** (e.g. in biotechnology).

Table 16: Biggest Chinese Investments in the Czech Republic

Investor from mainland China	Manufacturing sector	Investment (CZK mil.)
Sichuan Changhong Electric	Electrical equipment	660.0
Shanghai Maling Aquarius	Food processing	450.0
Shanxi Yuncheng Plate – Making Group	Metal-working	49.9
Shandong Limyi Yuli Foodnuts	Food processing	50.0
Beijing Fight Company	Food processing	12.0
Baolong	Glasswork	1.0

Source: CzechInvest (2009), Businessinfo (2014).

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INVESTMENT OPPORTUNITIES IN THE CR

- Aerospace & Airport Infrastructure;
- Automotive;
- Electronics/Robotics;
- Engineering Technology & Machinery;
- Life Sciences;
- Nanotechnology;
- Renewable Sources of Energy and Cleantech;
- Business Support Services;
- Software & ICT

Forms of Incentives	
Tax incentive	Full corporate tax relief for up to ten years for new companies Partial corporate tax relief for up to ten years for existing companies
Job-creation grants	Financial support for creation of new jobs in selected regions (EUR 2,000 per new job)
Training and retraining grants	Financial support for training and retraining of new employees in selected regions (up to 45% of eligible training costs)
Cash grants for capital investments	Financial support available for large strategic investment projects in the areas of manufacturing and technology centres only (up to 5% of the investment amount); subject to special eligibility criteria (see below)

Source: Investment incentives Act – Amendment from July 2012

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KEY ADVANTAGES OF THE CZECH REPUBLIC

- The growth of attractiveness for foreign investors after 2004:
 - The CR (the EU-10 in general) continues to enjoy advantages as **production centre for goods destined for EU markets**.
 - **Wages have been raising, however remain far below** Western European labour market standards (x Romania and Bulgaria as new low-wage regions).
 - **Flat-tax regimes in the EU-10** (average implicit tax burden 19.4% compared to 27.6% in the EU-15).

The Czech Republic's key advantages as an investment location include:

- Central location in Europe
- Skilled workforce
- Strong presence of foreign investors
- High share of secondary and tertiary education
- EU membership
- Favourable labour costs and price stability
- Availability and quality of local suppliers
- Transparent system of investment incentives
- Existing platform for R&D
- Mentality, culture and attitudes close to western countries
- Compact and high-quality infrastructure
- Envious life style

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CZECH INVESTMENTS IN CHINA

- **New joint-ventures with Chinese companies** – access to the network of distributors, need for a strategic local partner and sharing of operational costs.
- Czech investments in China are **still insignificant**.
- **Insufficient knowledge** of the Chinese market and culture.
- Mainly in **coastal areas**, however **growing interest in Western and Central China** (mainly Sichuan province and Chongqing) – companies may be closer to their customers, reduce costs and take advantage of the Chinese government incentives.
- **The biggest Czech investors in China:** Skoda Company (seated in Pilsen), Skoda Auto (Mlada Boleslav), Home Credit Group.

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Table 15: Examples of Biggest Czech Direct Investments in China

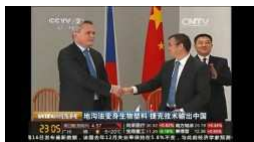
Investor	Manufacturing sector	City/region in China
Lang Fang PAN Vitkovice Environmental Engineering	Ecological equipment	Langfang
Eastern Skoda Machine Tool Modernization	Machine tools	Dalian
KOH-I-NOOR	Pencils	Nanjing
Hong Ye SVIT Machinery Company	Machine tools	Dagang-Yancheng
Tangshan Broumov Cleaning Machinery Company	Car washes	Tangshan
TOS Kunming	Machine tools	Kunming
Agrofert Holding	Titanium white	Tongling
Ravak Shanghai Bathroom Equipment	Bathroom equipment	Shanghai
TESCAN	Electron microscopes	Shanghai
Skoda Kingway Electric	Underground coaches	Suzhou
Stavus Pribarn	Tractore engines	Lanzhou

Source: Businessinfo (2014).

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HIGH-TECH INVESTMENTS IN CHINA

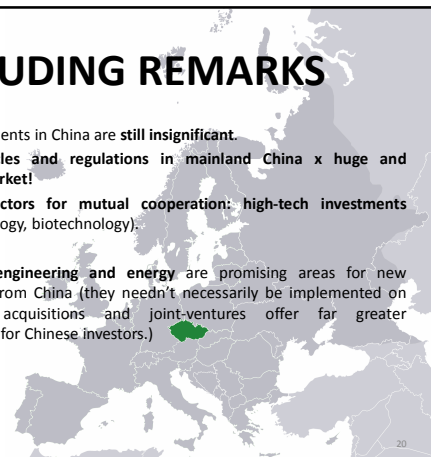
- **High-tech investments in China** (Nafigate Corporation and Suzhou Cleanet) – new energy saving nanofiber membranes for water and air cleaning technologies, textile industry etc.).
- 2013: **Technology mission** of CzechInvest in China.
- The resulting agreement will enable Suzhou Cleanet to use ecological technology of Nafigate (that recycles used frying oil into a biopolymer, which can then be used in the production of bioplastic packaging that degrades over time and thus will not pose a significant threat to the environment).



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CONCLUDING REMARKS

1. Czech investments in China are **still insignificant**.
2. **Many obstacles and regulations in mainland China x huge and promising market!**
3. **Promising sectors for mutual cooperation: high-tech investments** (nano-technology, biotechnology).
4. **Mechanical engineering and energy** are promising areas for new investments from China (they needn't necessarily be implemented on greenfields; acquisitions and joint-ventures offer far greater opportunities for Chinese investors.)



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