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International Business

Business, trade and investment relations between Czech Republic and Germany

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Declaration:

I hereby declare that I am the sole author of the thesis entitled “Business, trade and investment relations between Czech Republic and Germany “. I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on 7 December, 2017

Bonopartova Ekaterina

Acknowledgement

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Content

Introduction

To start with, I would like to explain why I have chosen the topic "Business, trade and investment relations between the Czech Republic and Germany "for my Bachelor Thesis and to mention the objectives I set up to achieve during my analysis.

Basically, the reason for my choice is that Czech Republic and Germany are strong strategic partners who have been developing economic and diplomatic relations throughout the years.

Both countries have always been interested in promotion of mutual trade relations. The border areas were a springboard for the formation of Czech-German relations. The history of the establishment of relations between these countries has shown the mutual usefulness of cross-border trade. The relevance of this issue is determined by the geographical situation and historically formed situation as well.

Thus, the objection of my research is to identify the current situation in cooperation between Czech Republic and Germany in such areas as investment, trade and business in order to analyse problematic and beneficial aspects of both countries partnership.

First two chapters serve as a basis for the final one. Since both Czech Republic and Germany represent developed economies, it will be interesting to analyse each of them in particular by similar indicators in order to overview their strengths and weaknesses.

The first chapter of the thesis provides general information on the current economic situation in Czech Republic, one of the most industrially developed countries in Eastern Europe with a balanced market economy with the largest share in automotive industry comparing to other sectors.

For the analysis of Czech economy, I will use such macroeconomic indicators as GDP, inflation and unemployment to shows the level of economic development of the country.

Further, I find very relevant, to describe foreign trade in terms of export and import data analysis which will help to build the idea of trading partners of Czech Republic and its export and import structure by categorization of products. This information is significant for identifying of Czech strengths and weaknesses. Last Subchapter will be about investment inflows and will consist of FDI in Czech Republic, investment incentives and investment opportunities which are substantial for the topic of my work.

The second chapter of my Bachelor Thesis is about Germany, whose economy is the largest in Europe, driven by its services sector, including tourism and banking industries, responsible for almost 70% of total GDP. Description of the current economic situation in Germany is carried out in accordance with the same structure as for the Czech Republic (Chapter one).

Based on the obtained analysis, I will identify how these two countries could benefit from each other through the mutual international investments and trade in goods and services or might have some weaknesses in such areas. This is what the third and the most important chapter will examine, in other words, the result of analysing of both countries.

1. Analysis of the Czech Economy

The Czech Republic has prosperous and balanced market economy that is well integrated with EU, notably since 2004, after getting an accession. This historical moment for Czech Republic became the end of the several years effort regarding integration into European structures and the completion of the reform process after 1989. By joining the European Union, the Czech Republic has become a part of the domestic market within EU since May 1, 2004. Since EU allows free movement of goods, capital, services and individuals, accession of Czech Republic to the European Union has improved the conditions for the foreign trade. Within the framework of the Union, the Czech Republic became a country with the fastest growing foreign trade.

What are the reasons for that? The answer is quite logical: Czech Republic has a favourable central geographical position within a single EU market and is the optimal distribution point for the EU as a whole. The Czech Republic has also an important advantage for transition and includes such practices as removal of customs duties and customs procedures, allowing to speed up the registration within Czech borders. The acceleration and cheaper circulation of goods within EU countries led to an increase in competitiveness of Czech goods.

Nowadays, Czech Republic has the advantages for trade with a number of countries and several integration groups, with which the EU has preferential business relations.

The auto industry is the largest one and coupled with its supplier's accounting for roughly 24 % of Czech manufacturing capacity. The country produced more than one million cars for the first time in 2010, moreover, almost 80 % of them were exported. (Central Intelligence Agency, 2017)

Inward-looking and moderately conservative Czech financial system is still comparably healthy, export-driven and open. Czech economy is quite sensitive to changes in the countries which are the main export markets. For example, Germany has experienced economic troubles during the financial crisis. Thus the demand for the Czech goods has dropped, which resulted in double digits decrease in industrial production and export. (Central Intelligence Agency, 2017)

Overall, experts prognosticate stable economic growth between 2017 and 2018. Furthermore, a solid demand for labour will push the unemployment rate to its lowest indicator comparing with last twenty years, along with acceleration of wage and supporting consumption. However, investment was cut significantly in 2016 because of the transition in EU funding programmes. Anyway, it is confirmed to be rebounded in 2017. The consumer price inflation rate is believed to be about 2% due to rising cost pressures in 2017. (OECD, 2017)

The Czech central bank is committed to prevent appreciation against the euro until the second quarter of 2017 in order to secure against deflationary forces. Deflation itself is a contraction in the supply of circulated money within economy. Therefore, policy rate might be slowly lowered because the deflationary forces are weakened as well as fiscal policy that is able to support demand in case it is needed. Furthermore, there are structural policies aiming at decreasing skill shortages and increasing productivity which would sustain the enlargement and develop inclusiveness. These programs include childcare, developing incentives for business and R&D, likewise lowering entry and exit barriers for firms. (OECD, 2017)

The public debt should become low and the budget is aimed to be mostly balanced. These situations give an opportunity for fiscal support to increase the economic growth. Additionally, enlarging of investment ought to be a priority, moreover, Czech Republic can take an advantage of EU funds.

Thus, tax and spending policies might have a positive influence on sustainable growth and equality, especially by lowering a tax wedge on labour income and intensify spending on childcare. (OECD, 2017)

1.1 Macroeconomic indicators

At this point, let’s have a deliberate look at current and the most important macroeconomic indicators, showing the functionality of the economic system. These are GDP, inflation and unemployment. As these factors were shortly described in the beginning, now they will be examined more broadly and deeply.

GDP growth has moderately decreased but remains sturdy. It slowed in 2016, because of the decline in public investment due to the change in EU funding period. Hence, a start of new projects has slowed down. Moreover, the businesses which are not related to the construction sector are self-assured and have supportive financial conditions.

There is an increasing shortage of labour which leads to a raising in wages and working hours, as a consequence of consumption growth. Also, a fall in prices of food and energy is suppressing inflation, but without these factors, the inflation has lingered at the level of 1.75 % during 2016. (OECD, 2017)

1.1.1 GDP

The Gross Domestic Product (GDP) of the Czech Republic was worth US$ 185.16 billion in 2015. The latest data shows that estimated GDP in 2017, according to IMF, is a bit over than US$ 200 billion. (GFMAG, 2017)

Firstly, the definition of GDP should be determined so that the meaning and importance of that economic measure would be neither underestimated nor overestimated. Thus, GDP measures a national output and income for a certain country’s economy. Gross Domestic Product is equal to the overall expenditures for all final goods produced and all services provided within a country in a particular period of a time, usually one year.

Anyway, there are few ways of how to assess the GDP of the country, for instance, the data above is GDP by the official exchange rate. Therefore, it will be appropriately to determine what the GDP (official exchange rate) actually is.

Basically, this entry shows the GDP or, in other words, the value of all final goods and services produced within a country in a given year. “Thus, the nation’s GDP at official exchange rates (OER) is the domestic currency denominated annual GDP figure simply divided by bilateral average US exchange rate with that state in that year.” (IndexMundi, 2017)

The measure, consequently, is used to compute and to give a proper value of output. Many economists prefer this measure when evaluating the economic potential, in terms of the reason that exchange rate captures purchasing power, which a nation hold in the international marketplace. However, the official exchange rate can be artificially fixed and it is definitely a subject of manipulation. Thus, it results in an ambiguous statement whether a state has an undervalued or overvalued currency. Also, it might not be an equivalent to the market-determined exchange rate. For instance, some countries may have free-floating exchange rate regime, therefore the value of the currency may vary. The exchange rate in such case is influenced by market forces such as demand and supply. Anyway, even if official exchange rate was determined by the market, market exchange rates are mostly established by a small set of goods and services. Then, it might not consist of the other set of goods that country manages to produce. Moreover, the official exchange rate GDP is not very well fitted to assess domestic GDP over time. For instance, appreciation and depreciation may occur and make GDP by official exchange rate fall or rise. (The World Factbook, 2017)

Also, there is a GDP by purchasing power parity, that economists like to use when comparing per-capita welfare and living conditions. GDP at purchasing power parity exchange rate is the sum of all goods and services produced in a country and valued at prices prevailing in the US in the same given year. However, this measure is very difficult to compute, because US dollar is supposed to be assigned to all goods and services, sometimes these goods may not have the direct equivalent in the United States. As a result, this measure may contain various goods and services for one country and may not have the same goods and services while measuring another country. (The World Factbook, 2017)

GDP per capita is basically purchasing power parity basis divided by a total population as of 1 July of the same year. (The World Factbook, 2017)

Additionally, there are GDP-composition by end use and GDP-composition by sector of origin. The first is GDP-composition by end use, which is a distribution of who does spending in an economy. It shows the percentage that government consumption, household consumption, investment and net export have if data are complete.

The second one is GDP-composition by sector of origin, the name speaks for itself. Therefore, this entry illustrates where production is held. The methodology shows the significance of agriculture, service and industry in a nation's economy. The industry includes mining, energy production, manufacturing and construction. Services encompasses government activities, transportation, finance and all private activities that do not include production of material goods. The agriculture sector consists of farming, forestry and fishing. (The World Factbook, 2017)

Figure 1. Czech Republic GDP per capita PPP from 2006 to 2016 (in billion US dollars)

Source: Trading Economics, 2017

As the main types of GDP have been explained, the official data can be shown now.
Based on data above, it can be stated that the Czech Republic has been negatively influenced during the financial crisis, however, after the critical situation the GDP per capita in PPP has been constantly rising and reached its peak of US$ 30380.59 in 2015. (Trading Economics, 2016)

Figure 2. Czech Republic GDP from 2006 to 2016

Source: (Trading Economics, 2017)

According to Figure 2, which is above, it can be seen that since 2007, GDP has been above the 200 billion US$ most of the time. Anyway, in 2015, GDP fell to the level of 2006, as it has been mentioned before, it happened as a consequence of restrained investment, moreover, this trend was still relevant in 2016. Finally, it is important to highlight that the GDP growth cannot be omitted as it gives annual basis expressed in percentage and the growth is not compounded.

Figure 3. Czech Republic GDP annual growth rate from July 2014 to January 2017 (% of GDP)

Source: (Trading Economics, 2017)

From the Figure 3 above the following conclusion can be derived: The Czech economy has experienced the 2.9 % growth rate in terms of annual GDP, which is higher than in last period when the growth rate was nearly 2%. Moreover, the average GDP growth from 1997 until 2016 is 2.38%, which is relatively good and indicates that economy is doing well. Also, the GDP by end use and GDP by sector of origin for 2016 had such rates as household consumption for 47.9%, government consumption accounts for 19.7%, investment in fixed capital for 25.7%. Furthermore, the net export was positive, thus country has obtained a trade surplus. The export of goods and services was 81.5%, whereas the import of goods and services stuck at around 74.8%. (Central Intelligence Agency, 2017)

GDP by sector of origin is as follows: agriculture stands for only 2.5%, whereas services and industry account for the biggest part of GDP composition 60% and 37.5% respectively. The main agricultural products are potatoes, wheat, sugar beets and pigs. Motor vehicles, metallurgy, glass, armaments and machinery and equipment are the fundamental components of industry.

1.2.2. Inflation

In economics, inflation has maintained the increase in general price level of services and goods over some period of time, usually annually, semi-annually or quarterly. Actually, the Czech consumer prices increased to 2% in April 2017. The highest rate was shown within spring when inflation was at the level of 2.6%.

Figure 4. Czech Republic inflation rate from January 2016 to April 2017 (in %)

Source: Trading Economics, 2017

As it is illustrated above, the inflation started rising since October 2016 when it was noted to be slightly below 1 %. The growth of prices for food and non-alcoholic beverages, likewise transport cost increased by roughly 1 %. Also, upward pressure was brought by the increase in recreation and culture by 0.1%. However, the prices for tobacco and alcoholic beverages fell by the same 0.1%, besides that, inflation was steady for utilities and housing (0.9%). If the average inflation rate would be computed since the moment when country got an independence, its average will be 4.45% from 1993 until 2017. The highest index was remarked in the February 1993 when it reached appalling 21.9%. On the contrary, the lowest mark of -0.40% occurred ten years later in 2003. Notably, from 2014 until 2016 the inflation rate was below one percent. (Trading Economics, 2016)

1.1.2 Unemployment

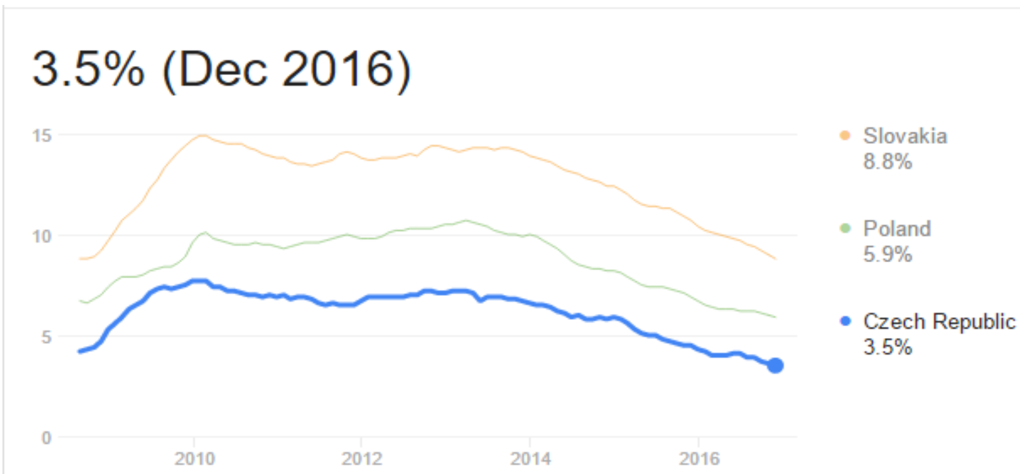
New data released by Statistical Office states that unemployment in the Czech Republic is at its historic lowest index. Unemployment declined to 3.5% which is the lowest level of the country's history. Usually, the unemployment rate is calculated as the share of employed people in the age group which is typically 15-64 years. (Czech Statistical Office, 2017)

It is also adjusted due to seasonal changes. The data have shown some interesting trends, for instance, the male employment rate is higher in comparison to female employment by nearly 15%. Moreover, the increase of a number of self-employment and entrepreneurship is a notable feature of the current situation in the country.

Based on the different age group, the unemployment rate also differentiates. As an example, employment rate of persons aged 15-29 years is not even 50%, whereas in the age group 30-49 accounts for 87.5%. In the age group 50-64 years the employment rate has reached 70.6%. (Czech Statistical Office, 2017)

Therefore, according to Eurostat, the Czech Republic is the country with the lowest unemployment rate in the EU. No wonder that in the near future the shortage in working capital would lead to increase the cost of labour force. Numbers for the Czech Republic are derived from a monthly survey of Labour Force Sample. (Czech Statistical Office, 2017)

Figure 5. Unemployment rate of Czech Republic (in %)



Source: Eurostat, 2017

As it is displayed on the graph above, the Czech Republic really does have a lower unemployment rate in comparison to its neighbours.

1.2 Foreign Trade

1.2.1 Export

According to OEC, the Czech Republic is 29th largest export economy in the world. In 2015, country exported for the amount of US$ 145 B. The top exports of the Czech Republic are Cars (US$16B), Vehicle Parts (US$12.4B), Computers (US$7.57B), Telephones (US$2.8B) and Seats (US$ 2.27B) (OEC, 2016)

The top destinations of the Czech export for 2016 is Germany (107,813 mill CZK), which is 33.9 % of the total export. On the second place is another neighbour- Slovakia (28,669 mill CZK), which is 9 % of overall country's export. United Kingdom is importing Czech goods and services for 18,619 mill CZK, whereby it makes the UK the third largest country in terms of Czech export. France and Poland have the same share in the Czech export with 5.2 % for both. (Ministry of Industry and Trade, 2016)

Furthermore, it might be noticed that export increased for the first three countries in the list. As export increased by 1.3 % regarding to Germany, likewise the growth of 0.8% concerning Slovakia and there was a slight rise of 0.2 % of export to the UK. (Ministry of Industry and Trade, 2016)

Overall, by division of exports towards developed and developing countries there is a huge gap, between these two groups. For instance, the developed countries with a market economy account for 83.1 % of the entire export structure. Therefore, the rest is being exported to developing countries such as Brazil and Turkey both in total have just 1.2% of the overall Czech export. (Ministry of Industry and Trade, 2016)

1.2.2 Import

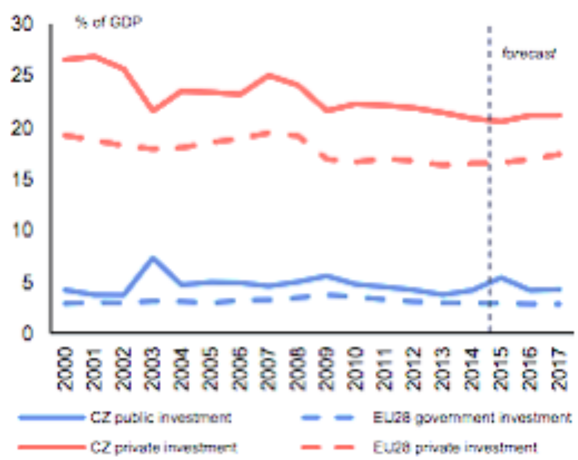
The country's top imports are vehicle Parts (US$ 7.76B), computers (US$ 7.23B), broadcasting Equipment (US$ 3.67B), cars (US$ 3.37B) and packaged medicaments (US$ 3.18B) (OECD, 2017).In total, country has imported goods and services for US$ 139B, whereas the export was US$ 147 B, thus the Czech Republic had a positive trade balance in 2015. (OEC, 2016)
By geographical division of import Germany is still having the biggest share of nearly 25.2%. Moreover, there is another recent emerging importer represented by China that has 13.3%. However, the China's import slightly decreased by 1.7% as it was 15% in 2015. On the contrary, Germany's import was still growing by additional 0.4% in 2016. Also, Poland is the third biggest importer that has significant 9 % and it increased by 1.1 % in comparison to 2015. (Ministry of Industry and Trade, 2016)

It, likewise, was with export that has been mainly sold in developed countries, so the same tendency might be recognized with import. However, the import structure is not that substantial for developed countries, mostly due to China. Therefore, import that came from developed countries was 72.2% out which 64.8 % were from EU members. (Ministry of Industry and Trade, 2016)

1.3 Investment

As we can see from the Figure 10, the total investment in the Czech Republic during the 2000s have accounted for a greater share of GDP compared with the European Union and many other convergence countries. It was basically resulted by private investment, showing strong inflows of FDI.

Figure 10. Investment as a share of GDP in Czech Republic and EU (in %)

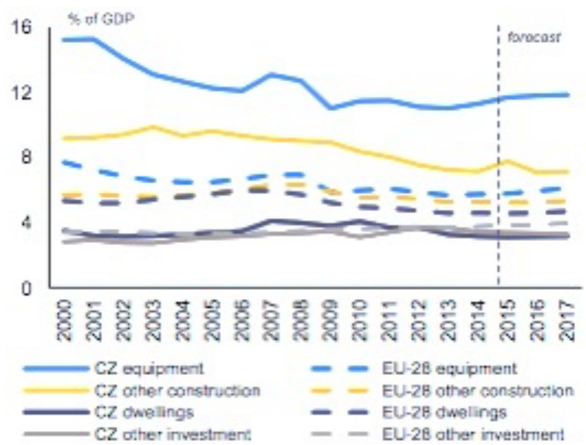


Source: (AMECO and European Commission, 2016)

Investment sector has pulled back after the crisis and this situation caused a decrease in public and private investment, particularly in public one, with a quite significant fall within 2010-2013 (phase of fiscal enhancement). In the capital region investment is concentrated progressively and remains lower than EU average level in per capita terms. (European Commission, 2016)

An allocation of investment by components emphasizes on equipment as on the most powerful sector of investing in the Czech Republic. As it is visible from the Figure 11, investment in regards to the equipment decreased significantly following financial market crisis and stayed without changes in the upcoming years.

Figure 11. Investment components as a share of GDP in Czech Republic and EU in (%)



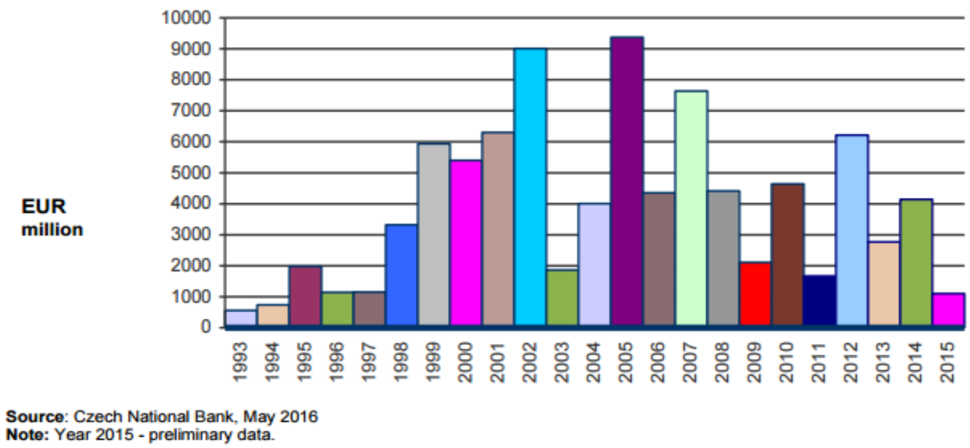
Source: European Commission, 2016

It shows a substantial mass of production in total output. Investment in construction (except housing) have undergone a more long-term drop, however, there is a forecast of stabilisation in the following years. The growth of investment in 2015 regarding other construction shows a great reflection in rise of investment in transport infrastructure, co-financed by European Union funds. (European Commission, 2016)

1.3.1 FDI Inflows

Concerning foreign direct investment inflow, the Czech Republic is one of the most favourable transition economies as it attracts FDI into the country. A total amount of more than EUR 100 billion in FDI has been recorded since 1993. The introduction of investment incentives in 1998 prompted substantial inflow of FDI in both Greenfield and Brownfield projects.

Figure 6. Inflow of FDI to the Czech Republic from 1993 to 2015 (in million EUR)



Source: Czech Invest, 2017

Therefore, the Czech Republic became one of the first reformers in east-central Europe. Early in 1990s country adopted far-reaching stabilization, privatization and liberalization programs.

Moreover, being a member of EU has also helped to improve business environment of the country which also led to increase in FDI inflows. According to Economist Intelligence Unit, the Czech Republic has frequently attracted a high rate of FDI per capita since 2000. Thus, it can be stated that country's attractiveness is relatively strong for foreign investors. Latest data show that overall FDI inflow was around EUR 1.1 billion in 2015. No wonder, that the most important investor is Germany as they invested heavily in automotive production. Also, in the top list of investors are the United States, Austria, Japan and the United Kingdom. It should be mentioned that automotive-components industry is the first sector of FDI. The second beneficiary industry is the service sector, notably, software, IT and also financial services.

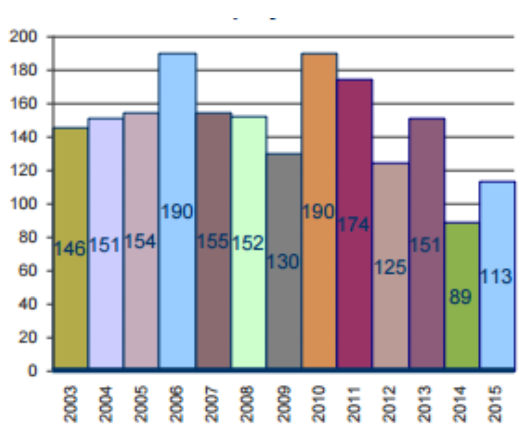
Nowadays the most popular sector is considered to be high technology industry and R&D. Historically speaking, one of the most important investment of the recent period was a construction of joint company in Cologne (US$ 850 million). Two world's biggest automotive companies such as Toyota and Peugeot were involved in process. As a result, the Czech Republic became one of the most important players in the automotive sector.

Another example is Hyundai that built large manufacturing plant in Nosovice, at a cost of 1.2 billion U.S dollars. Moreover, Hewlett-Packard has set up its regional headquarter for computer technology supply-chain in Europe. (CzechInvest, 2016)

In the graph below it is well shown that ever since 2013 every year there were mostly more than one hundred FDI projects. To be more precise, 1920 investment projects from 1651 companies. Automotive –components sector accounted for 12% of total projects. Regionally the top four cities were Prague, Brno, Ostrava and Plzen, having 28.5%; 6.8%; 3.7% and 3.5% respectively. (CzechInvest, 2016)

Key factors behind the decision of where to locate the projects are usually proximity to markets and customers, likewise the availability of skilled labour force.

Figure 7. FDI project trends



Source: CzechInvest , 2017

1.3.2 Investment incentives

Why should investors choose to invest in the Czech Republic? There are several strong reasons for that decision. Firstly, the country has very good access to the European markets, coupled with a long history of industrial production and the high quality of the labour force, so these are unarguably positive aspects of the Czech Republic.

«Among investment incentives are such forms as corporation's tax concessions for 10 years for a newly established or existing corporations, job creation grants (up to 200,000 CZK), transfers of infrastructure land at preferential price, training and retraining grants (up to 35% of training costs) » (Kavka, 2017)

Of course, investor have to comply with conditions for granting investment incentives. For example, tax concessions are granted only when an investment was made in a manufacturing sector or in high-tech sector. In order to get job creation grants, an investor is obliged to invest at least 200 million CZK in areas where unemployment is at least 25% higher than the average rate of unemployment in the Czech Republic. (Kavka, 2017)

Regarding transfers at preferential prices, investment must go into new production, expand existing one or modernize it to improve product or production process significantly.

Training and retraining grants are given when an investment amounting to at least 100 million CZK or 50 million CZK if the investment goes into region with a higher level of unemployment and must be financed by investor’s own resources. (Kavka, 2017)

Supported areas are manufacturing industry, technological centres and business support service Centres. (CzechInvest, 2017)

The government has implemented an investment incentive plan that has encouraged massive FDI inflows including both unused land (Greenfield) and used land (Brownfield). The program includes non-discrimination and equality of treatment between nationals and foreigners, the protection of property rights and export of profits, the protection of investment and the avoidance of double taxation, advanced activity abroad and improved service for foreign investors and broad focus on improving research, development and communication.

On 1 July 2013, the Czech Republic Ministry of Industry and Trade as well as CzechInvest launched the program called "Welcome Package for Investors" aimed at making immigration procedure more rapid for key foreigners who do need a residence and work permits. The benefit of the project was that newly established companies will get a reduction of costs and the associated bureaucratic burden. (CzechInvest, 2016)

The Purpose of the project is to make a friendly environment for potential investors thus enhance foreign direct investment and support to increase competitiveness of the Czech Republic. The program has its own definition of the term "foreign investor"- a commercial company based outside the EU/EEC or Switzerland that has an organizational unit in the Czech Republic. (CzechInvest, 2016)

1.3.3 Investment opportunities

Investment opportunities in specific sectors, the Czech Republic can satisfy most of the demand in many different areas. For instance, CzechInvest usually supports the sectors where it recognizes great potential for future development. For example, such segments as aerospace, automotive, electronics, energy, business support services, nanotechnology and materials, life sciences and advanced engineering. For each of these mentioned sectors, CzechInvest has some experts who can provide with essential information concerning particular sector. (CzechInvest, 2016)

Regarding manufacturing industry, investment in high-tech sector generally offers great potential, mainly due to the Czech long industrial heritage. It is also broadly supported by government aid including the investment incentive scheme. The paramount purpose of the CzechInvest is to enhance the investment in high-tech manufacturing. (CzechInvest, 2016)

Considering business support service, it should be highlighted that it consists of customer contact centres, expert solution centres, software development, research and development centres, high-tech repair centres and design centres. Country's goal is to become the regional hub for these services and CzechInvest has made efforts to magnetize foreign direct investment into business support services. (CzechInvest, 2016)

Regarding financial service, tourism and other services, it should be mentioned that despite the fact that privatization of the banking system has been fully completed, there are still some very lucrative investment opportunities as there is increasing demand for these sorts of services. (CzechInvest, 2016)

Speaking about R&D, it should be mentioned that country's spending on this sector has enlarged steadily over the recent ten years. After having obtained EU membership, the Czech Republic got some additional increase of support for research and science. Gaining the access to a variety of European funds and programs has significantly helped to increase financial support for development of R&D infrastructure and innovation activities. (CzechInvest, 2016)

In general, the property market of the Czech Republic offers many worthwhile investment opportunities. Real estate market is continuously growing in order to live up to increasing demand for high quality offices, industrial and residential spaces. Moreover, there is a possibility for establishing joint-venture. CzechInvest may also help to find appropriate company to collaborate with, likewise, the same help is provided for merger and acquisition processes. (CzechInvest, 2016)

2. Analysis of German economy

Social market economy incorporates competition and reasonable reward, which is basically free market capitalist economy and social policies. Liberty of one member of the society is not separated from a responsibility of the common good. Therefore, social market economy is intensively focused on providing prosperity for all members. (OECD, 2016)

The economy has recovered from the global crisis of 2008. Germany has very high material standards of living, low income inequality and country has shown great scores in many dimensions of well-being. However, there are still many obstacles concerning childcare and full-day schooling. Additionally, it creates a big disincentive for women to work as many of them do it as a part-time job. As a result, a lot of low-income households did not get benefits from high economic growth and investments. Moreover, there is another approaching problem of faster ageing population. Unfortunately, German government is slightly worsening their working opportunities due to exacerbation policies, such as early retirement schemes and pensions system which to a certain extent penalise having a job. (OECD, 2016).

Thus, most of the elders are more exposed to a risk of poverty, however from 2014 Germany introduced a program that allows prolonging of employment contracts beyond pensionable age but pensioners are losing their wealth in case if they postpone their decision to retire beyond the age of 60. (OECD, 2016).

Projected population ageing is another important issue for consideration. It should be highlighted that substantial increase in the old age dependency ratio may occur by 2060, which is earlier than in many other OECD's members. OECD projects that by 2060, Germany's population will decline by tremendous 18% and employment by 23%, if current policies will still the same, as it will reduce the GDP per capita by almost 6.5%. The latest inflow of immigrants may postpone this trend as it was higher than projected. Immigration can certainly delay the influence of demographic ageing and its effect on labour supply. Concerning labour supply, there are many recommendations on diminishing barriers for women to work. Reforms aiming to reduce barriers could significantly raise GDP per capita development. Additionally, it may offset the influence of ageing population that currently employed and sooner or later will retire. Equalization of working conditions between men and women means that emerging of full convergence may lead to a significant raise in GDP per capita roughly by 20% when the process of convergence will be completed. (OECD, 2016)

Regarding the tax wedge, it should be mentioned that currently, it is higher than in many OECD economies, because public health and long-term care expenditures are mainly funded by social security contributions on wage income, and as it was mentioned before the aging population is going to become a serious issue for state. Thus, Germany will need to spend even more than it does now, and it will result in the rise of health care spending and etc. However, tax burden might be shifted towards consumption and real estate sector. This can be implemented by a revaluation of real estate and consumption. For example, elimination of exemption and lower tax rates in Value Added Tax system. (OECD, 2016)

The tax system has some disincentives for a full-time job if the second earner of the pair of dual-earners undertakes the responsibility to find a job. In Germany, the tax burden on household income rises substantially when a second person is being employed. It happens due to the fact that the tax base for married couples is, roughly, two times bigger than for a single individual. For instance, tax rate starts from 0% up to 45%, if income is up to €53,665 for single person in comparison with the couple (€107,330) it will be taxed with a progressively increasing rate from 14% to 42%. (Bundeszentralamt für Steuern, 2017)

Actually, it is one of the main reasons why the majority of married women would rather take a temporary job and not being heavily taxed in comparison with a permanent employment. Temporarily job refers to a mini-job that is not taxed and has its full exemption up to EUR 450 per month. It should be mentioned that 20% of women work only on a mini-job which accounts for 60% of all people taking mini-jobs. (FORES, 2015)

Reducing regulatory barriers is also highly needed in order to stimulate business investment and by that push up the overall productivity. Less demanding and quite strict regulations will increase the diffusion of knowledge because an investment in knowledge-base capital is comparatively low in the services. Regulations, for example, may concern legal services and notaries may have binding price regulations as well as building engineers. Moreover, there is a shareholder requirement meaning which states that in wide range of professional services, certified professionals, in major cases, must own the business by themselves. Advertising continues to be restricted in some professional areas. Furthermore, in the network industries, sectorial regulators have a lack of power to prevent officials from discriminating against new market entrants. However, the same happens in the most advanced economies of the EU. (OECD, 2016) At this point, when the majority of current issues have been introduced, economic indicators may be assessed then.

2.1 Macroeconomic indicators

Economic growth was maintained by exports and private demand (households). Export has been performing impressively over the past decade, managing to keep the share in domestic value-added at an ordinary high level of 22%. German exporters continued to yield significant market shares.

Demand is moving from external sources to the private sector, both of them are projected to go on being the main driving forces for the development in the short-run. Moreover, the rise of incomes accompanying with the labour market development and also with a gradual decrease in consumer prices in 2015, gave a favourable condition for private households. Today's household consumption will be sustained by a strong real wage growth, because very cheap oil prices damped the consumer prices, whereas the tight labour market and an introduction of minimum wages have pushed up nominal wages. (The Federal Ministry for Economic Affairs and Energy, 2017)

Forecast for the next year is also encouraging and Germany economy should expect the growth of 1.4% in a price-adjusted gross domestic product. It may look like the rise of the overall GDP will be actually lower than in previous year, however, it is not a real decline caused by crumbled economic outlook, it is mainly because of the impact of a fewer working days in 2017.

Therefore, slight rise of GDP is not linked to any economic issue. (The Federal Ministry for Economic Affairs and Energy, 2017)

2.1.1 GDP

As it was stated in the first chapter, there are several ways to compute the GDP, in this part I would like to apply almost all of them, because some information concerning gross domestic product was already discussed. Germany's nominal GDP was US$ 3134.4 billion which makes it fourth largest economy in the world and it is 4.39% of the overall world's GDP. (World Bank Organization, 2016) That is quite impressive because the population of each of two leading countries is several times bigger than Germany's inhabitants. Therefore, it would be reasonable enough for us to use GDP per capita, as it illustrates the purchasing power parity basis divided by population. Recent data shows that in 2016, the GDP per capita was US$ 41,936.059. Since 2001, this indicator has been constantly rising and reached its peak in 2014 with US$ 47,902.053. (World Bank Organization, 2016) It can be noticed that GDP per capita is slightly declining over past couple of years. Nowadays, it is actually at the level of 2009, which is the first year after Global Crisis started. It was mostly caused by a gradual decrease of the country's GDP since the same 2014. However, it was not only because of the shrinking of nominal GDP but also due to the fact that the population has grown up by nearly 1,500,000 people since 2011. Majority of them are immigrants and actually, it did not significantly contribute to the GDP growth. (The World Bank Organization, 2016).

Let's have a look at GDP by composition or in other words the sector of origin because this indicator represents where production takes place in the economy. Here we have a distribution that shows percentage contribution of industry, agriculture and services to the overall GDP. Agriculture contains of forestry, farming and fishing; Industry includes energy production, mining and construction; and the last service that is usually considered as government activities includes transportation, finance and many other private economic activities. Agriculture accounts for only 0.6% of the total GDP, whereas the biggest belongs to the service sector which stands for 69.1% of the overall GDP composition and the industry accounts for 30.3% . (Central Intelligence Agency, 2016)

Moreover, GDP can be also divided in terms of the end using. Basically, it shows us who represent the spending activity in the economy. It might be consumer, government, businessman and foreigners. The classification gives a percentage contribution to total GDP.

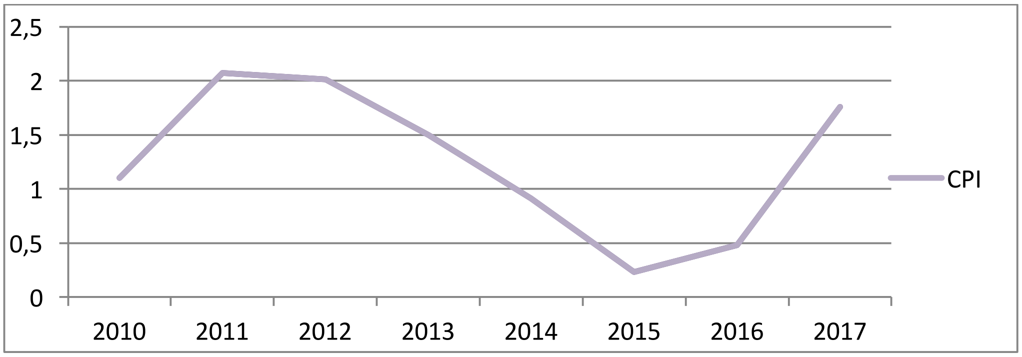
There are many subjects such as households consumption (expenditures of household residents, this also includes consumption of both foreign and domestically produced goods and services), then there is a government consumption (consists of governmental expenditures on services and goods, but this figure exclude the transfer payments, interest on debt, social security and unemployment).

Investment in fixed capital computes the total business spending on the fixed assets such as machinery, equipment and etc. Export of goods and services as well as import of goods and services are the part of the GDP division by end use as well. The biggest share is represented by household's consumption of 53.7%; on the second and the third places are government consumption and investment in fixed assets, 19.9% and 19.7% respectively. Difference between the export and import was 7.5% of the total GDP, which is at the same time country's current account surplus. (Central Intelligence Agency, 2016)

2.1.2 Inflation

The inflation based on the changes in all items over the same period of time should be also considered. In 2015, Germany had a low inflation rate, around zero. Year after that, the country already had 0.5% inflation. During the fourth quarter of 2016, inflation was hovering at the level of 1.1%. From January 2017, inflation was over 1.5% and February ended up with Germany's highest mark of 2.2% of inflation. Inflation is steadily going down since 2012 when it was roughly 2%. The lowest inflation of the last 24 years was witnessed in 2015, where inflation was just 0.234%. (OECD, 2017)

Figure 8. CPI Inflation rate, Germany



Source: (Triami Media BV in cooperation with HomeFinance , 2017)

All items which are considered above are not showing the alterations in some certain sorts of goods. Therefore, it is important to analyse the inflation rate of food that was happening last few years. Actually food inflation was 0.4% in 2015 which is quite the same as the overall inflation rate. In 2016 food prices rose by additional 0.6%, notably, to mention that year's inflation was 0.5%.

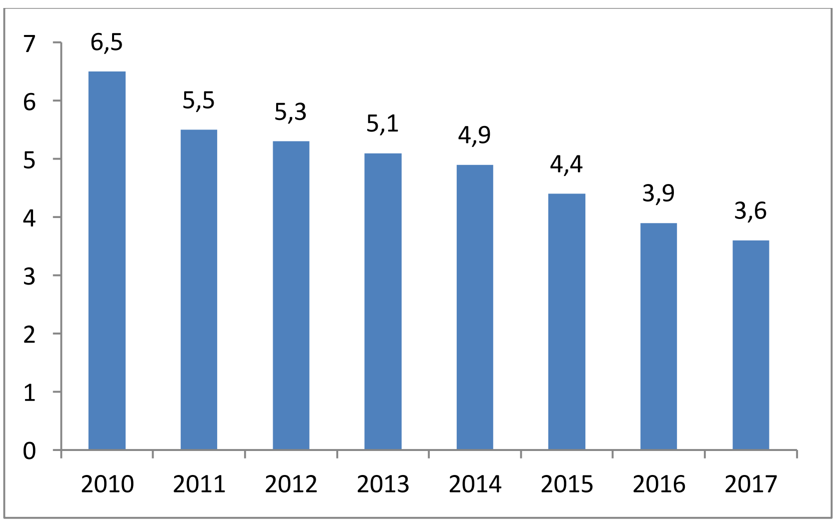
Another issue is inflation of energy, which in this case is a deflation as prices were gradually declining since 2015, however, first quarter of this year started with 6% of energy inflation. Inflation rate can also exclude food and energy, thus, the following marks have occurred. Germany's inflation of non-food and non-energy goods is around 0.5% during last two years.

2.1.3 Unemployment

At this stage, on the one side, the the unemployment rate of Germany should be determined and explained as a meaning. On the other side it should be identified which areas account for people's employment.

Basically, the unemployment consists of the percent of the labour force which is without jobs. The German economy is in a very good shape and GDP is the main proof of that statement. In 2016 country's gross domestic product expanded by 1.9% (price adjusted) that is actually a faster growth since 2011. The increase of employment is considered to be a German success story. In the same year 43.5 million people were in gainful employment, moreover there is a possible trend that this figure is going to increase till the end of 2017 by more than 300 thousand. Additionally, high level of immigration into the labour market of Germany is also going to contribute to the future rise of employment. However, the share of immigrants in the overall labour market is negligible as a result there would be slight change of the overall employment rate. On the contrary, there are people who are only seeking protection through social benefits, thus immigration will cause increase in both employment and unemployment. Anyway, the today's unemployment rate is still at the lowest level for 25 years. The projection that it will be stabilized at 6% seems quite reasonable. Similarly, the youth unemployment rate is the lowest in the European Union. (The Federal Ministry for Economic Affairs and Energy, 2017)

Figure 9. Germany unemployment rate from 2010 to 2017 (in %)



Source: Trading Economics, 2017

The unemployment rate is now at the level of 3.6% which is the lowest number since 1990. Unemployment started to decline from 2009 and since that year unemployment decreased by 3%.

However, nowadays, the country is performing comparatively well but as it was mentioned before, there are some adjustments that need to be done for further encouragement of labour force. Generally, Germany has 45.42 million people in the labour force, 1.4% of them are working in the agricultural sector. Labour force in industry accounts for 24.2% , whereas the rest of 74.3% are hired by various service companies. (Central Intelligence Agency, 2016)

2.2 Foreign trade

Foreign trade is one of the most sophisticated things to compute fairly, because nowadays globalization is playing significant role in the overall situation. However, Germany's foreign trade should be analysed by export and import together; afterward, the evaluation of each of these two elements separately will be provided. Additionally, export and import may be divided into territorial structure and products division, so that countries which import most to Germany and countries which export the most from Germany will be defined and described.

At this point, let's depict today's position of German foreign trade. Germany's exported goods and services have the value of €1,442.21 billion. Goods account for €1,197.16 billion, while services for €245.06 billion. In the same 2016, Germany implemented the imports in the amount of €1,203.46 billion. Goods were imported in the value of €921.9 billion, while services were provided to German residents in the total amount of €283.37 billion. (Federal Ministry for Economic Affairs and Energy, 2017)

Therefore, export is almost 46% of GDP, while the import is a bit less (38.4%), therefore, Germany is currently running Current Account surplus. Germany maintained its position as the third largest exporter of the goods and services in the world, conceding only to the US and China. What else can be derived from the data above, is a so-called "degree of openness", which illustrates an extent in which an economy depends on trade with other countries. In other words, it is a ratio of the total sum of export and import to the overall GDP. Based on this, a degree of openness for Germany is 84.8% that makes the country the most open economy in the G7. Moreover, country is still increasing its share in the global value chains. For instance, foreign value-added share in German export stood at 26%. (Federal Ministry for Economic Affairs and Energy, 2017)

Germany is highly integrated in the global economy, and it is obviously, a logical consequence of such situation with many jobs, which are directly or indirectly connected to the export. In German industry nearly 50% of all jobs are linked to the global trade and, therefore, are being strongly dependent on international trade. China (6.3%) for instance became one of the most important trade partner of Germany and it is the second largest exporter of German goods and services outside the EU, behind the US (8.9%). (Federal Ministry for Economic Affairs and Energy, 2017)

Four largest groups of goods accounted for nearly 50% of the overall German export, vehicles and vehicles parts (18.9%), machinery (14.4%), chemicals (8.9%) and computers and electrical equipment (8.3%) of course each of them is divided into several small groups. For instance: the rope machinery, machinery for processing fat are the parts of the total machinery. (Federal Ministry for Economic Affairs and Energy, 2017)

In 2016, the most imported goods were vehicle parts (11.1%), electrical equipment/computers (10.8%) and machinery (8.0%), low price of commodities was the main reason why the share of the crude oil import went down and drifted off from leading position of the overall German import. The decrease in oil prices slightly caused the price rate to fall and it resulted in the very low inflation rate. (Federal Ministry for Economic Affairs and Energy, 2017)

No wonder, that we cannot neglect the current account surplus of Germany, as it somehow fell, from 8.5% of GDP to 8.3% within twelve months. The trend will continue as many forecasts have projected that surplus might even fall to 7% in 2018. Importantly to mention that eight years in a row German export has been steadily rising from €930.8 billion to €1,442.21 billion between 2009 and 2016. Additionally, we can observe the significant increase in the third countries importance in terms of net export. The reason is that these countries which are outside the EU, now accounted more than ever before for German net export. Today's data shows that this figure became six times bigger, from negligible €29.26 billion in 2009 to €120.34 billion in 2016. (Federal Ministry for Economic Affairs and Energy, 2017)

The following thought can be derived from the above mentioned data, therefore, countries which are not the members of the EU are becoming the main destinations for German export. Thus, economic stability of these regions is quite vital for many German industries.

2.2.1 Export

Germany is the third largest exporter of the world. Country's export begins from the highly sophisticated engine parts, helicopters, packaged medicaments, gas turbines and ends in agricultural products such as chocolate, cheese and pork meat. It is significant to mention the main exported products and their share in the overall German export. To start with, both the vehicles and vehicles parts in combination account for 18.9% of the exported goods.

China, the United Kingdom and the US imported cars and car's parts in the amount of $62.4 billion that is 41.4% of the entire export of cars and their parts. The aircrafts, helicopters and space crafts represent 4 % of country's export, in monetary terms it is almost $58 billion. The leaders are such countries as France, Saudi Arabia and the US as they in total imported technique for nearly 20 billion US dollars. (Federal Ministry for Economic Affairs and Energy, 2017)

As it was mentioned before, Germany is not only producing high-tech production but also has well-structured and advanced agricultural sector. For instance, milk production and its export is well-developed in Germany, as country is being number one in milk export in the world. Country sold milk abroad in the amount of $1.26 billion and the same result might be seen in chocolate industry where Germany is also on the first place. In order to better understand the export, the country's share in global value-added mechanism should be analysed.

World's globalization may blear the view of the real situation concerning export because nowadays country, mostly, sells intermediaries, while adding to the product some certain value. Therefore, mentioning German share of domestic value added in final gross export is quite necessary. Thus, in domestic goods, Germany has added 35% and 39% in domestic services (Federal Ministry for Economic Affairs and Energy, 2017)

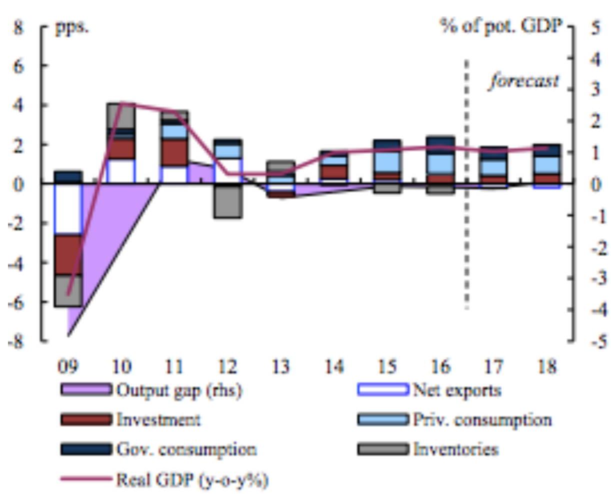
2.2.2 Import

Germany is also on the third place among the largest world importers, it goes behind the US and China. Top 10 imports to Germany accounted for almost 2/3 of the of the total value of its production purchases from other states. German import represents 6.4% of the global imports, from a geographical point of view 72.7% of the imports came from other European countries. Asian trade companions supplied 16.7% of imports to Germany, whereas 5.3% of imported goods were supplied by North American countries. Machinery, including computers, was imported in the amount of $135.5 billion and it is 12.9 of the total import. Mineral fuels and oil represent $77.9 billion, vehicles: $112.8 billion; optical, technical, medical apparatus: $37.8 billion. The vehicles import rose up to 47.8% in a span of 7 years. However, import of mineral fuels, including oil, aircraft, and space craft substantially declined in value from 2009 to 2016, -28.2% and -18.6% respectively. (Workman, 2017)

2.3 Investment

Since the beginning of last decade, the rate of investment in Germany has been pretty lower than in another euro area. In the last few years, investment as a share of GDP in Germany has remained restrained, however, the gap has shirked over recent years (2015-2016) and that is visible in a Figure below.

Figure 12. Investment as a share of GDP in Germany



Source: (European Comission, 2016)

The German economy overcame the crisis period quite well, however investment activity has reached relatively little success to potential growth. The ratio of public investment to GDP in Germany in 2016 was 2.2% and remained stable, in addition, it still appears low in compare to the euro area (2.8 % of GDP without Germany), notwithstanding a downward trend regarding euro area since 2009. (European Comission, 2017)

Considering the discrepancy in dynamics of investment it is significantly to highlight that both private and public investment have substantially grown in 2016 regarding construction sector. Speaking about private investment it should be mentioned that the growth was first of all prompted by dwelling investment since the crisis. Importantly, that investment in machinery and equipment remains subdued, despite support of financing conditions, continued growth and corporate profits. (European Comission, 2017)

2.3.1 FDI inflows

German market has a positive attitude towards foreign direct investment inflows. So far 60,000 foreign companies operate in Germany and every year even more foreign enterprises discover Germany as a very stable and rewarding location for investment. Germany is actually on the 5th place in a global ranking of recipients of foreign direct investment. According to German Central Bank, 60 % (€278 million) of all FDI stock generate from the EU, additional 7% come from other European countries. (Germany Trade & Invest, 2016)

Investments from outside Europe tend to grow, specifically, Asian countries have increased their FDI stocks in the recent period. In 2015, €1.011 billion of FDI stocks were invested in Germany. (GTAI , 2017). It was just a stock market that accounted for roughly 2% of the overall FDI inflows ($52.274 billion) in 2016. Total FDI stabilized after plummeting to the level of $16.721 billion in 2014. Germany has experienced substantial increase of FDI investment at the beginning of a new century. In 2000, FDI value of $247.987 billion was brought into Germany and till now it is the highest number that has ever been invested in Germany. (World Bank Organization, 2017)

2.3.2 Investment incentives

Cash incentives program is one of the most important and is issued by the Federal Ministry of Economic Affairs and Energy. The goal of the particular project is to reduce costs, aimed at a setting up processes of investor's production facility through grants. Basically, state provides financial support for enterprises of all sizes. Incentive amount grant depends on the region and its economic development; according to it, a certain percentage of funding can be granted up to 40%. (Germany Trade and Invest, 2017)

Grants for hiring employees, labour-related support play a significant role in a selection process and this support is provided throughout the whole country and it works universally for the company, despite its size and industry. The program can be easily classified into four main groups. Thus, the program focuses on recruitment support, training support, wages subsidies and on-the-job training.

Considering public loans, it should be highlighted that foreign investors can be a subject to the subsidized loan program. Moreover, usually, these loans are given at rate which is below actual market rate. The investors might also be financed by some State Banks and European Investment Bank. (Germany Trade and Invest, 2017)

2.3.3 Investment Opportunities

Germany may offer myriad of chances to investors that consider entering a country with a plenty of opportunities. Firstly, Germany is the most populated country in the EU, therefore investing in consumer goods might sound as a beginning of the lucrative deal. As it was mentioned before, German high-tech industry is well-structured and advanced. Therefore, upturn in the amount of FDI which was put into these industries did not confuse anyone. Investing in high-tech products can also be profitable. The contribution into environment-friendly products and renewable energy, likewise, is another good possibility to make money. (Santander Trade Portal, 2017)

Investors may also be keen on invest in German education system because the country is becoming European Educational Hub. Therefore, foreign investors would be able to establish new colleges and benefit from that, as liberal government policies effectively promote FDI. Coupled with investment in tourism sector it may cause inevitable success for investors. As Germany is an attractive place to visit with appealing nature sights and magnificent architecture. (Santander Trade Portal, 2017)

3. Business, trade and investment relations between Czech Republic and Germany

3.1 Cooperation

An important program from the side of mutual cooperation of both countries is the Czech-German Young Professionals Program (CGYPP) established in 2008 by the Association for International Affairs (AMO) and German Council on Foreign Relations (DGAP).

"It is an international network for young experts, multipliers, movers and shakers from Germany and the Czech Republic. The program the fields of academia, business, media, politics, public administration and NGO." (Association for International Affairs, 2017).

The program has been supported mostly by the Czech-German Future Fund from the very beginning.Every year the program is aimed at participation of young specialists from both countries in economic, political and social issues.

Since Czech Republic and Bavaria are strong business partners, a project of mutual cooperation has been created. The Bavarian-Czech Academic Agency(Bayerisch-Tschechische Hochschulagentur, BTHA) was launched by the Bavarian State Ministry of Finance, Land Development and Homeland in 2016.

"The Bavarian-Czech Academic Agency is affiliated with the Bavarian Academic Center for Central, Eastern and Southeastern Europe (BAYHOST) as its own department and acts as the central point of contact for all aspects of bilateral cooperation between Bavaria and the Czech Republic in the field of higher education and science." (Czech-Bavarian High School Agency, 2017)

Investment of the project is provided by BTHA (Bayerisch-Tschechische Hochschulagentur) and includes such options as language courses, grants for studying abroad, summer programmes and winter schools. The project operates in both countries and provides mobility grants for internships, research travels and excursions.

The most important point is that project focuses on a support of bilateral academic projects and conferences or mutual cooperation on research projects of some universities in Bavaria and the Czech Republic. (Czech-Bavarian High School Agency, 2017)

Another significant mutual program is the Czech-German Future Fund which helps in building mutual relations between Czechs and Germans. It supports different projects that bring together the people of both countries, who are interested in mutual cooperation, mostly, in cultural aspects. Since 1998, the Fund has approximately implemented around 9,500 projects (€ 54 million). (Czech-German Future Fund,2017).

For instance, the theme of the year 2018 from the Czech side is "What future do we want?" in terms of Czech-German reflection. There is the 20th anniversary of the Czech-German Future Fund in 2018. Together with many individuals and institutions on both sides of the border, Fund has made a significant contribution in mutual understanding and development of friendship relations. A round anniversary should be an incentive for the expression of results achieved on both a small and a large scale as well as a discussion about the future of Czech-German relations in a changing world.

The theme of 2018 is to initiate applicants to reflect on the future of Czech-German relations in their projects and to discuss the meaningful foundations of social coexistence in a globalized world. The project includes such topics as "What forms of cooperation have worked and in what areas are new ideas needed?", " What are the Czech-German visions to meet the future?". (Czech-German Future Fund,2017).

The theme of the year must be the main part of the project's content agenda. The implementation of the project can also be extended until 2019.

There is also a significant cross-border cooperation programme between Czech Republic and Free State of Bavaria from 2014 till 2020. "An amount of EUR 103.4 million from the European Regional Development Fund will be available to assist cooperation projects along the Czech-Bavarian border in the programming period 2014–2020". (Czech-German Future Fund, 2017).

The basic parameter of the programme is to maintain of Czech-German cooperation. This program was previously implemented under such names as Phare CBC, INTERREG and Objective 3.

The programme goal is to provide assistance in a regional and local projects performed by union of Czech and Bavarian partners with a positive impact on the joint territory. Programme should be implemented with regard to the rules of the new legislation, the demand on the quality of cross-border cooperation, emphasising on relevant impact of financial aid in the territory is on the rise. (EU Funds, 2017)

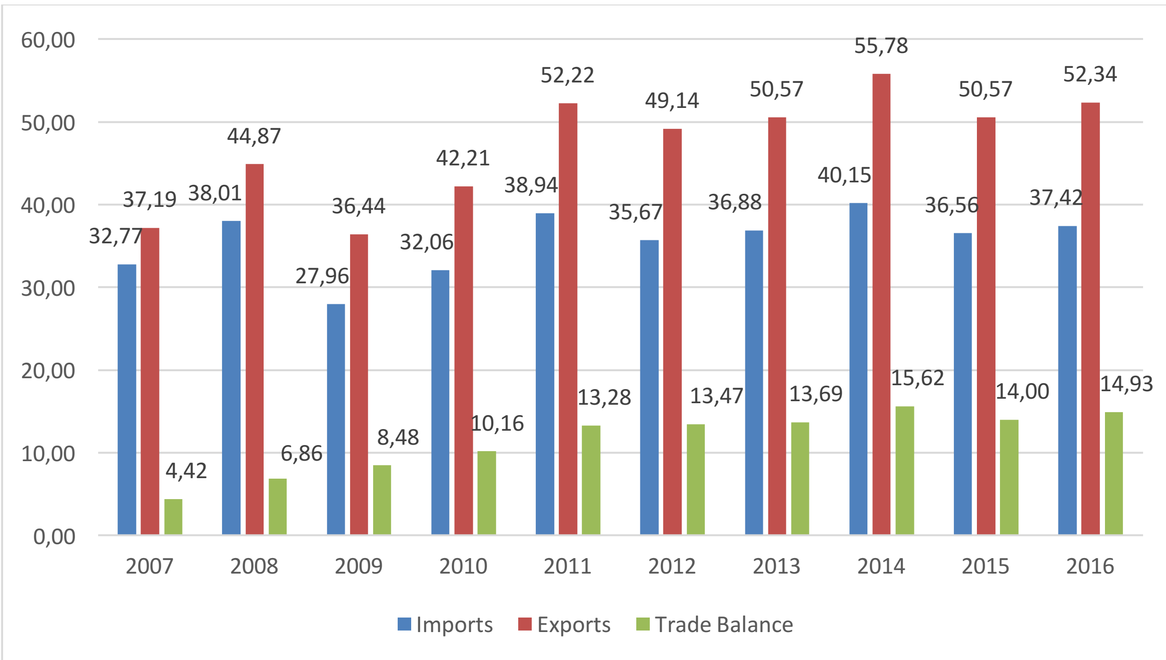
The management structure is a "Programming Group consisting of representatives of the Managing Authority (Bavarian State Ministry of Economic Affairs and Media, Energy and Technology), the National Authority (Ministry of Regional Development of the CR), the programme's Technical Secretariat based at the Government of Upper Franconia, and external experts." (EU Funds, 2017)

The Cross-Border Cooperation Programme Czech Republic – Free State of Bavaria Objective ETC 2014–2020 has a focus on such activities as investing in skills and education **,** enhancing technological development, innovations and research; saving and protecting of eco-system and resource efficiency, strengthening institutional capacity of public authorities as well as entities and efficient public administration which are involved in process, investing small people-to-people projects and support the cross-border cooperation between citizens and institutions. (EU Funds, 2017)

3.1.1 Trade relations

Let's start the analysis of trade relations between the Czech Republic and Germany from the investigation of the recent dynamic of exports and imports between the two countries.

Figure 13. Dynamics of the Czech Republic's trade with Germany, in USD billion

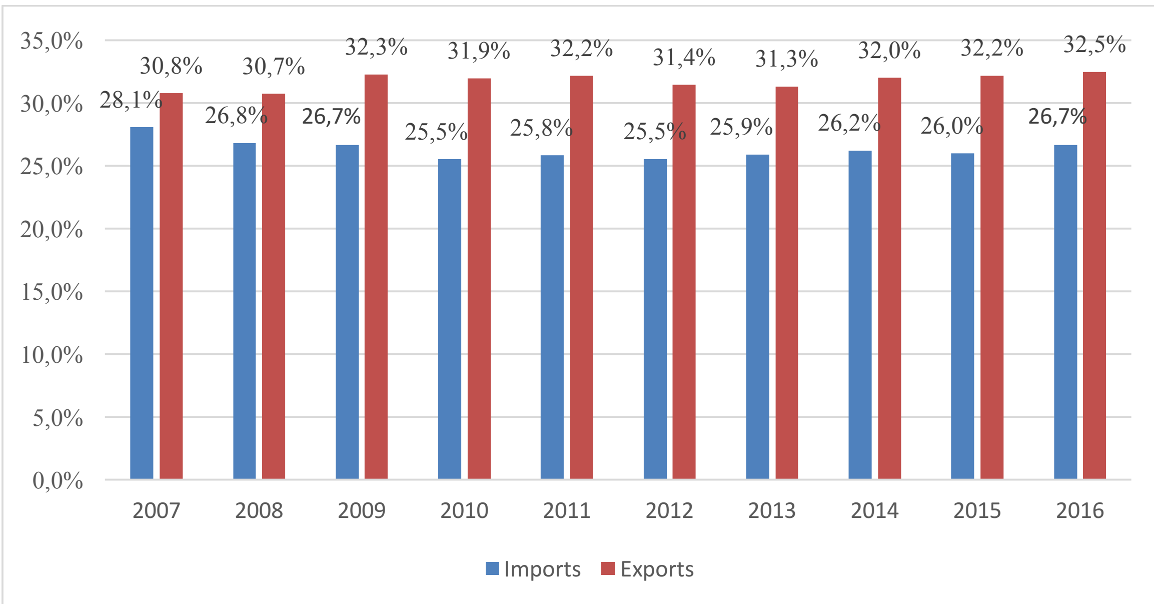


Source: International Trade Centre 2017

As can be seen from Figure 13 above, the worst period for the mutual trade between the Czech Republic and Germany was the year 2008, i.e. the time of the global financial and economic crisis. Obviously, the economic stagnation of the European Union during this time had a direct negative impact on the trade relationships between the Czech Republic and Germany. Thereafter, the mutual trade between the two countries improved. In the last years, we can observe rather plain dynamics, as there is no major growth or decrease in the trade between the two states. The fluctuations are minor, and they are equalized on a several-year perspective.

An important thing to note from the chart is the fact that the Czech Republic exports more to Germany compared to the value if products imported from there. As a result, the Czech Republic has a positive foreign trade balance with Germany.

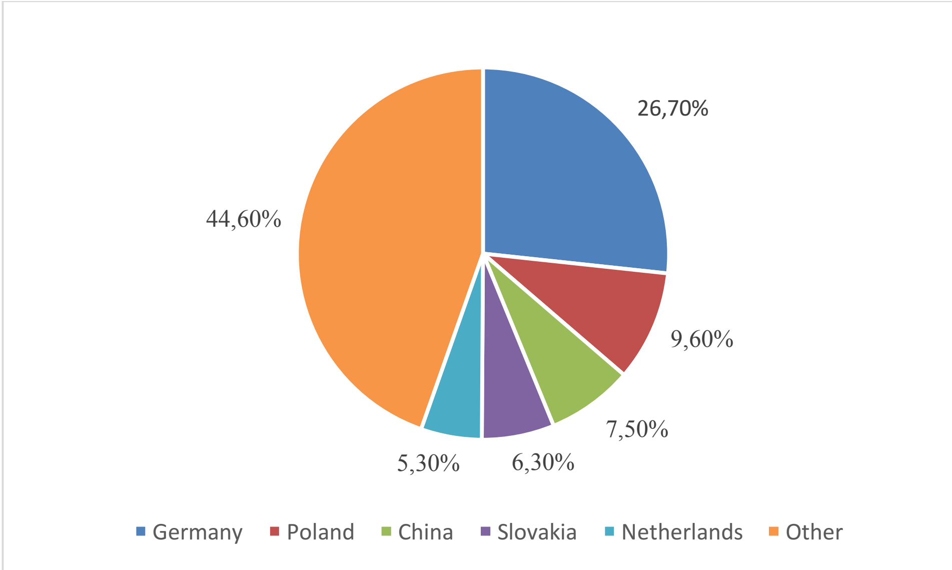
Figure 14. Share of product imports from and exports to Germany in the Czech Republic's total product imports/exports



Source: International Trade Centre, 2017

Figure 14 above illustrates the recent dynamics of the relative share of the Czech Republic's imports from Germany and exports to Germany in the country's total imports/exports. As can be seen from the chart, the fluctuations in the two figures have been rather insignificant earlier. However, both indicators have been growing. As of today, Germany plays an important role in the Czech Republic's foreign trade, and those tendencies are thus worth a more detailed investigation.

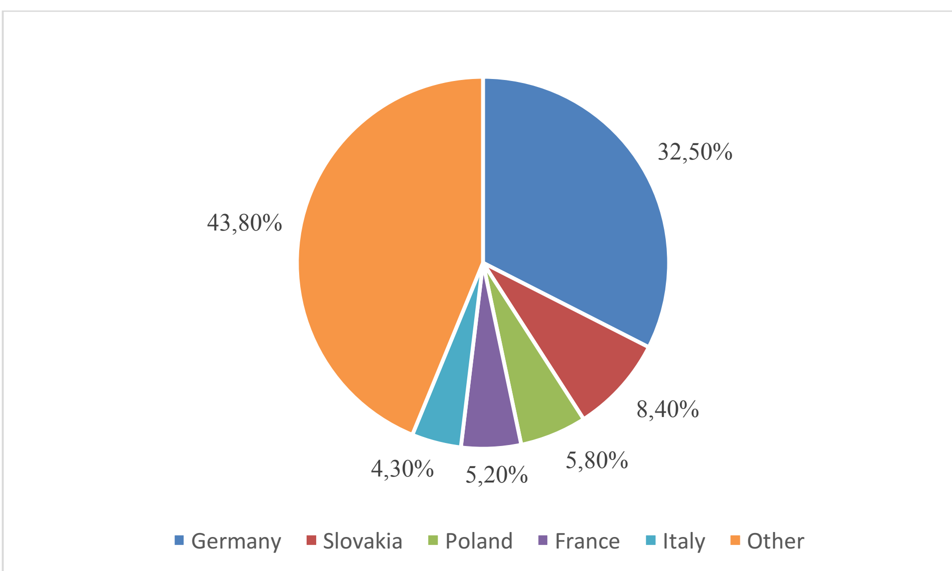
Figure 15. Germany's position in the Czech Republic's imports, as of 2016



Source: International Trade Centre 2017

As can be seen from Figure 15 above, Germany is currently ranked first among the partners of Czech Republic in terms of imports. Germany's aggregate share makes 26.7%, and thus is almost three times higher compared to Poland which is ranked second in those terms. This proves Germany's strategic importance for the Czech Republic as a partner in foreign trade.

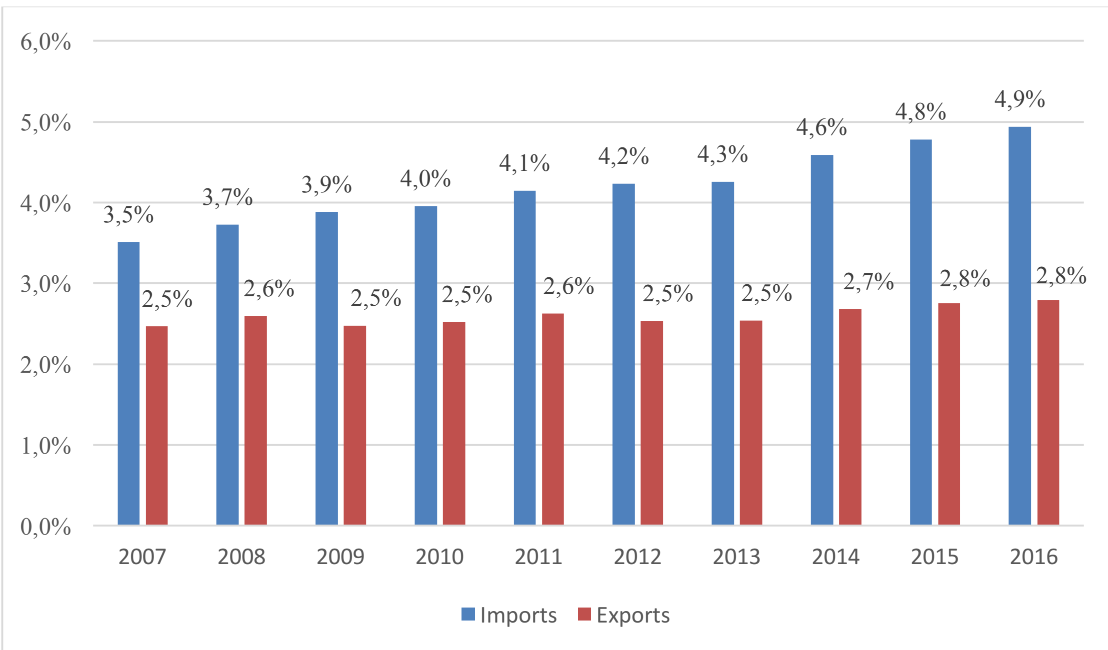
Figure 16. Germany's position in the Czech Republic's exports, as of 2016



Source: International Trade Centre 2017

Figure 16 above demonstrates Germany's share in the Czech Republic's total exports compared to other partner countries. As can be seen from the chart, Germany accounts for 32.5% of Czech product exports, and this figure is almost four times greater compared to Slovakia ranked second. Thus, it can be stated definitely that for the Czech Republic, Germany is the most important foreign trade partner in terms of both imports and exports.

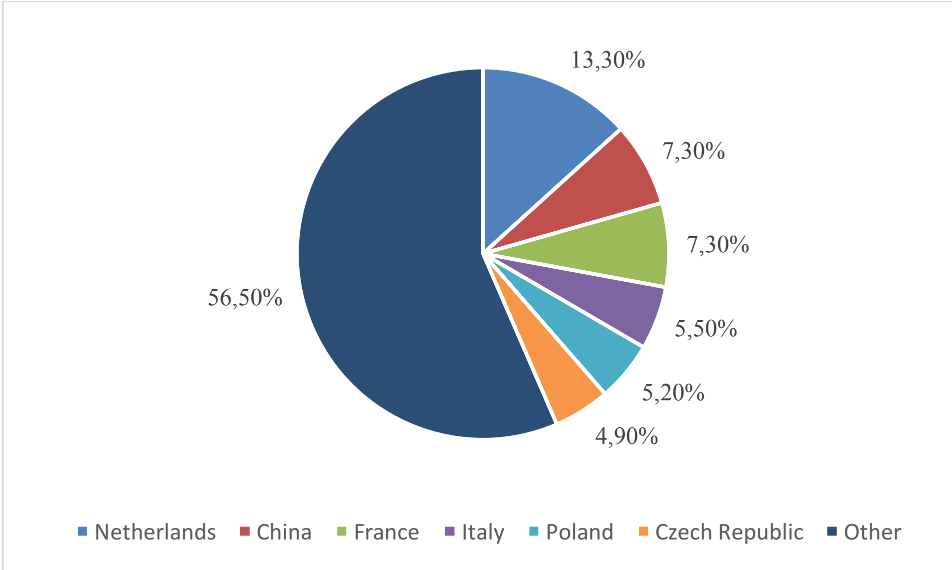
Figure 17. Share of product imports from and exports to the Czech Republic in Germany's total product imports/exports



Source: International Trade Centre 2017

As for Germany, it can be seen from Figure 17 above that the Czech Republic's share in the country's imports and exports has been steadily growing in recent years as well, achieving figures of 4.9% and 2.8% respectively in 2016. This proves that the growing foreign trade turnover is beneficial to both the Czech Republic and Germany, and thus the tendencies described above are positive for the two states.

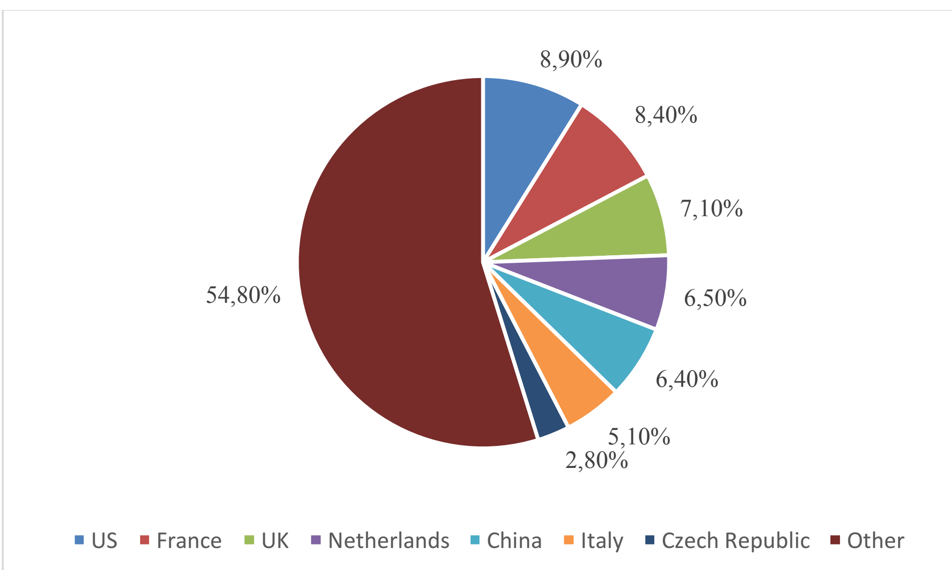
Figure 18. Czech Republic's position in the Germany's imports, as of 2016



Source: International Trade Centre 2017

As can be seen from Figure 18 above, for Germany, the Czech Republic plays a less important role in terms of imports. Namely, the Czech Republic is only the 6th partner for Germany in terms of the aggregate volume of imports, with a share of 4.9%, which is almost 3 times smaller compared to the Netherlands ranked first.

Figure 19. Czech Republic's position in the Germany's exports, as of 2016

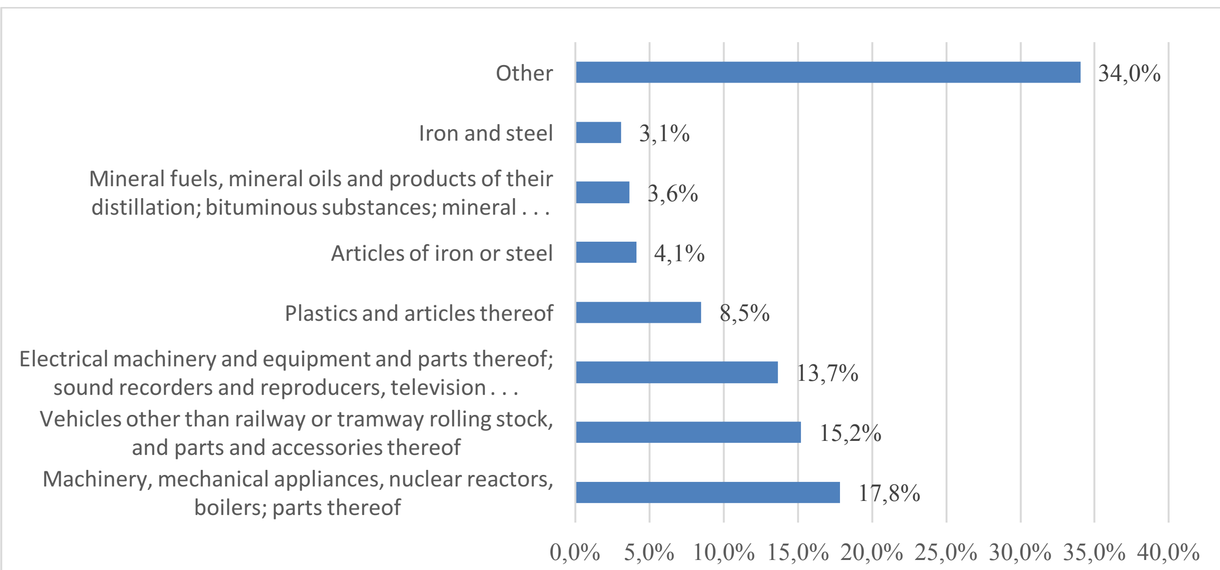


Source: International Trade Centre 2017

As for Germany's exports, the Czech Republic plays an even smaller, being ranked beyond the top 10 partners and accounting for only 2.8% of Germany's total exports.

Based on this information, several conclusions can be drawn. First of all, Germany's structure of exports and imports is more diversified compared to the Czech Republic. This means that the country is not dependent to such a large extent on any of its trade partners, which is good for its national economy in terms of its long-term stability. For the Czech Republic, the dependence on Germany is great, and this might be negative for the country, as its foreign trade is affected largely by the policies of one partner. However, in overall terms, it can be stated that mutual trade is important for both states, and the recent tendencies can rather be deemed positive for the two.

Figure 20. Structure of the Czech Republic's product imports from Germany

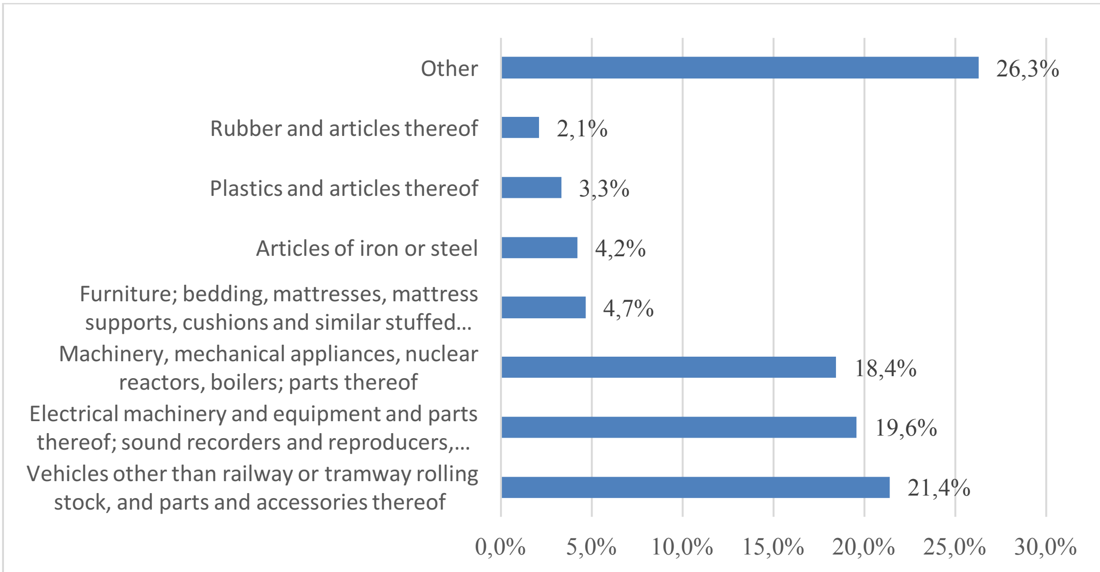


Source: International Trade Centre 2017

Figure 20 above shows the main items of the Czech Republic imports from Germany. As can be seen from the chart, machinery and mechanical appliances account for 17.8% of the Czech republic's imports from Germany, while other important items of imports include vehicles

(15.2%) and electrical machinery (13.7%). Overall, it can be stated that the Czech Republic's imports from Germany are dominated by processed industrial goods.

Figure 21. Structure of the Czech Republic's product exports to Germany



Source: International Trade Centre 2017

As can be seen from Figure 21 above, the structure of the Czech Republic's exports to Germany is dominated by vehicles (21.4%), electrical machinery (19.6%), and machinery and mechanical appliances (18.4%). Therefore, generally, the patterns of trade in terms of its product structure are similar between the Czech Republic and Germany, which proves once again that the two countries are running mutually beneficial trade operations. Now it is worth proceeding to the analysis of investment relations between the two states.

3.1.2 Investment relations

It is important to consider investment of Germany in Czech Republic as well as from Czech Republic to Germany in order to understand the current situation. Concerning German investment in Czech Republic, it should be highlighted that among most crucial areas are the production of motor vehicles, banking, trade and business services, electrical equipment production.

For instance, in 2002, the acquisition of Transgas was implemented and the distribution companies of the RWE Gas AG (Germany) accounted for EUR 4.1 billion. Other German investment projects in the Czech Republic include investments by Siemens, AEG, Continental, Linde, Deutsche Telekom, Robert Bosch, Schoeller, Knauf, Paul Hartmann, Messe Düsseldorf, Schade, TDW, Osram, Hella-Autotechnik, Hebel, Brose, Knorr-Bremse, Webasto, Wacker, Haas Ferzigbau. (Ministry of Foreign Affairs of Czech Republic, 2017)

The high share of German investments in the total amount of foreign direct investment in the Czech Republic can be explained, in addition to the favorable investment climate, partly, due to the fact that multinational companies often invest in the Czech Republic through their branches registered in Germany. In this way, they can use contacts in the Czech environment.

It is also significant to consider German investment in Czech Republic. Among most important areas for investment are the production of motor vehicles, banking, trade and business services, electrical equipment production.

The leading business partner of the Czech Republic is Bavaria, where 29.2% of total exports to Germany are imported and from where we import 16.4% of all German products. The other main export and import destinations are Baden-Württemberg and North Rhine-Westphalia. (Ministry of Foreign Affairs of Czech Republic, 2017)

In recent years, new specific investments have emerged from the Czech Republic in Germany. The most important of them are, for example, the investment of Agrofert Holding in Stickstoffwerke Pisteries and investments of EP Energy, from EP holding into brown coal mine of Mitteldeutsche Braunkohlengesellschaft GmbH (MIBRAG) company, then the Penta investment group in the German firm Gering Technologies (machine tools) and Gimborn Holding GmbH (retail and production of pet food).

In 2013, Czech AGROFERT Holding acquired Lieken-one of the largest bakery groups Germany's (in 2013, the company acquired the Italian Barilla Group). In 2015, CEZ group

(České Energetické Závody) acquired the shares of high-tech companies Sonnenbaterie GmbH (Bavaria) and Sunfire GmbH (Saxony). (Ministry of Foreign Affairs of Czech Republic, 2017)

The analysis of investment relations between the Czech Republic and Germany should reveal the recent dynamics between the two states in terms of the inflows and outflows of foreign direct investment. This is important to understand further to which extent the relations between the two states are beneficial to them both.

Table 1. Czech Republic's net FDI inflows, in current USD billion and %

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Germany	1,21	0,54	-0,93	1,4	1,84	1,64	1,35	1,41	0,11	1,28
World	13,82	8,81	5,27	10,17	4,19	9,43	7,36	8,09	1,7	6,5
Share	8,8%	6,1%	-	13,8%	43,9%	17,4%	18,3%	17,4%	6,5%	19,7%

Source: The World Bank data 2017

As can be seen from Table 1 above, there have been no steady dynamics of net FDI inflows from Germany in the Czech Republic recently. Namely, in 2016, net FDI inflows from Germany amounted to USD 1.28 billion, which was significantly higher compared to the year 2015 but lower compared to 2014 or 2013. The worst period was in 2008-2009, i.e. during the persistence of the global financial and economic crisis, when net FDI inflows in the Czech Republic from Germany even dropped to negative. Overall, despite some fluctuations, it can be stated that the inflow of foreign direct investment in the Czech Republic from Germany is rather steady, and this contributes positively to Czech economic growth and its subsequent opportunities. Also, it should be noted here that as of 2016, net FDI inflows from Germany account for almost 20% of the Czech Republic's aggregate net FDI inflows, which testifies once again the importance of the FDI flows from Germany for the country.

Table 1. Czech Republic's net FDI outflows, in current USD billion and %

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Germany	0,04	0,3	-0,015	0,032	0	0,14	0,37	0,28	0,21	0,04
World	1,31	3,9	0,011	1,45	0,25	0,91	7,73	4,07	3,73	0,65
Share	3,1%	7,7%	-	2,2%	0,0%	15,4%	4,8%	6,9%	5,6%	6,2%

Source: The World Bank data 2017

As can be seen from Table 2 above the absolute amounts of the Czech Republic's net FDI outflows to Germany are significantly lower than net FDI inflows from there. This can be explained by the fact that Germany's economy is significantly greater, and therefore it acts as a net investor of FDI, while the Czech Republic is a net recipient of FDI. However, in the total volume of the Czech Republic's net FDI outflows, Germany account for 6.2%, which can be considered quite a high figure, and thus proves the strong ties existing between the two countries in their investment relations. A negative fact is that the total absolute volume of net FDI outflows from the Czech Republic to Germany has been dropping lately.

Table 3. Germany's net FDI inflows, in current USD billion and %

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Czech Republic	0,04	0,3	-0,015	0,032	0	0,14	0,37	0,28	0,21	0,04
World	50,85	30,93	56,67	86,05	97,48	65,46	67,41	16,72	52,58	52,47
Share	0,1%	1,0%	0,0%	0,0%	0,0%	0,2%	0,5%	1,7%	0,4%	0,1%

Source: The World Bank data 2017

Analyzing the information above from the positions of Germany, we can see clearly that the Czech Republic plays a minor role in Germany's aggregate net FDI inflows. Namely, as can be seen from the table, as of 2016, the Czech Republic accounts for only 0.1% of Germany's net FDI inflows. This allows us making a conclusion that in contrast to the Czech Republic which is dependent on net FDI inflows from Germany, Germany doesn't have any dependence on FDI inflows from the Czech Republic at all.

Table 4. Germany's net FDI outflows, in current USD billion and %

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Czech Republic	1,21	0,54	-0,93	1,4	1,84	1,64	1,35	1,41	0,11	1,28
World	140,67	97,99	99,65	146,69	107,83	99,11	93,45	113,33	112,5	76,26
Share	0,9%	0,6%	-0,9%	1,0%	1,7%	1,7%	1,4%	1,2%	0,1%	1,7%

Source: The World Bank data 2017

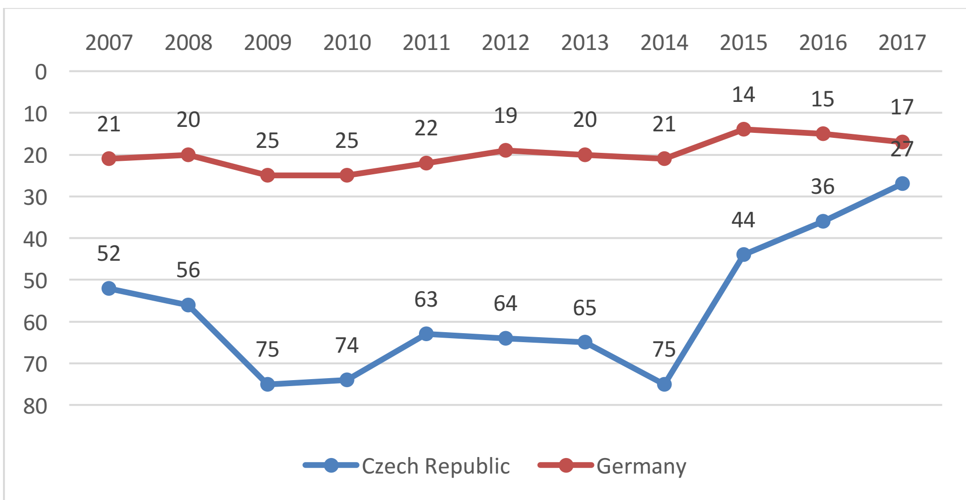
The share of the Czech Republic in Germany's net FDI outflows is higher compared to net FDI inflows, as can be seen from Table 4 above. As of 2016, the share of the Czech Republic in Germany's total FDI outflows is 1.7%.

Thus, based on the findings of this chapter, it can be stated that the investment relationships between Germany and the Czech Republic are quite firm, and are important for the development of bilateral relationships between the two states. However, a pattern which can be identified clearly here is that the Czech Republic acts as a net recipient of foreign direct investment, while Germany acts as its net investor, which means that the Czech Republic is more dependent on those relationships. Now, it is worth proceeding to the analysis of trade and business opportunities in the relations between the two states.

3.1.3 Trade and business opportunities

The investigation of the trade and business opportunities between Germany and the Czech Republic is important in order to understand the prospects of the subsequent development of relations between the two states. First of all, it is worth taking a look at how the two countries are positioned on the global Ease of Doing Business Ranking and what affects particularly their positions.

Figure 22. Positions of the Czech Republic and Germany in the Ease of Doing Business Ranking



Source: The World Bank data 2017

As can be seen from Figure 22 above, Germany has been located higher in the Ease of Doing Business ranking compared to Germany throughout the recent years. However, the Czech Republic has been demonstrating positive movement dynamics in the ranking lately, and this indicates that the country is progressing in terms of the opportunities it provides to both domestic and foreign economic actors to run a business on its territory. As of today, the two states are holding high positions in the ranking, and this creates favorable preconditions for the development of mutually advantageous trade and investment relations between them.

It is also worth noting in particular here that the Czech Republic is holding the 1st position in the world in terms of the ease of cross-border trade, which means the lack of excessive formalities in the case of transborder trade, and minimized levels of corruption. The two states are characterized by a transparent structure of the market and the lack of the government's unauthorized intervention in market regulation, which favors the development of free trade between them.

According to Radio Prague (2017a), a positive factor for the development of mutually effective trade and investment relationships between the Czech Republic and Germany is the steadily raising standards in terms of product quality. In particular, positive prospects exist in the trade in food products, where the two states are constantly increasing bilateral trade.

As stated by the Financial (2017), a particularly important sector of trade between the Czech Republic and Germany is small and medium enterprises, which generate a great turnover of bilateral trade. The favorable conditions created in both Germany and the Czech Republic for the development of SMEs create the favorable precondition for the subsequent growth of trade between SMEs.

Also, as noted by Radio Prague (2017b), merger and acquisition deals between the two states are developing quite effectively. Among the recent deals, it is worth noting the purchase of Czech transportation giant Škoda Transportation by Dutch PPF Group, with German corporation Siemens involved. The positive trends in foreign direct investment outlined earlier in this thesis only further favor the development of such relationships between the two countries.

Therefore, overall, it can be stated that there are favorable preconditions for the growth of trade and investment between the Czech Republic and Germany, and thus the two countries might benefit significantly from the development of such relationships. Now, it is also worth understanding the factors which might potentially hinder such development.

3.1.4 Problematic areas in trade and investment relations

Referring to the Ease of Doing Business Ranking noted above, it is worth noting the weak points of the Czech Republic and Germany. For the Czech Republic, the weakest aspect is paying taxes, which means the ease of procedures for paying taxes combined with the tax rates applicable to economic actors. Also, the country ranks only 62nd in terms of the protection of minority investors and doesn't provide the best conditions for registering property, raising loans and enforcing contracts.

As for Germany, the major problem in terms of the ease of doing business is the complex conditions of starting a business, which comprises the complexity of the procedures for completing registration and the delays for completing those procedures. In terms of this indicator, Germany ranks only 113th in the world. Also, the conditions of registering property are not the best, and there are quite complex conditions for performing the crossborder trade.

Therefore, a problematic area exists for the two countries in terms of their investment. Particularly, for German investors, there are quite unfavorable conditions associated with investment in the Czech Republic. This could be remedied by providing better guarantees to foreign investors on the part of the Czech Government, and by liberalizing investment in the field of construction and real estate.

Figure 23. Dynamics of the Czech koruna's exchange rate against the euro

Source: Bloomberg 2017

As for the trade between the two states, a potential risk factor might be the lack of stability of the Czech koruna. However, it should be noted that in 2017, the Czech koruna has only been increasing its value, which is positive for the Czech Republic. Nevertheless, in case that the negative tendencies return, this might entail significant problems for the Czech Republic in terms of its opportunities to finance experts, and in overall terms, to fund the development of its national economy. Therefore, the Czech government should monitor the tendencies in the market and focus on the maintenance of the current purchasing power of the country's national currency.

Also, it should be noted that a major problem for the Czech Republic is its significant dependence on Germany in terms of both exports and imports. This imposes major threats on the Czech national economy in case that the relationships between the two countries get worse or Germany finds other foreign suppliers for goods dominating in the structure of the Czech Republic's exports. Therefore, in order to overcome those negative tendencies, the Czech Republic should seek developing its foreign trade with other counterparties as well, so as to minimize potential adverse effects in case of the diminishing volumes of trade with Germany. At the same time, the Czech Republic can also focus on finding new markets for selling its products, which can also be done through the improvement of the conditions of doing business in the Czech Republic as stated earlier in this thesis.

However, despite the threats and potential obstacles to the development of mutually effective trade and investment relationships between the Czech Republic and Germany, overall, it can be stated, that there are greater preconditions for the effective development of such relationships, and this might provide great development prospects for the two states in the future.

Conclusion

The Czech Republic and Germany are both developed economies making a part of the European Union. The location in the EU provides the two states with the access to the free trade and crossborder movement of products, people, and capital between the borders of EU member states. Thanks to this, the countries have opportunities to effectively develop their national economy through foreign trade and foreign investment. At the same time, this interdependence between the EU member states might be a factor imposing additional risks on the two states, as their ultimate performance is preconditioned to a large extent by the effective implementation of other EU member states' policies and their ability to overcome the existing negative tendencies in their economic development.

The analysis run within the framework of this thesis proves that as of today, the trade and investment relationships between Germany and the Czech Republic are on a high level, and are important for the effective cooperation between the two states and for the economic development of each of them. Despite slight fluctuations, bilateral trade between the Czech Republic and Germany has rather remained plain in recent years, just as a bilateral investment.

For the Czech Republic, Germany is the most important trade partner in terms of both exports and imports, as its shares in trade exceed significantly the shares of any other trade partners. Also, Germany is the largest foreign direct investor in the Czech Republic. The Czech Republic's shares in Germany's imports and exports, and FDI flows are considerably smaller. Thus, Germany is not so dependent on the Czech Republic in the development of its foreign economic activities, but the Czech Republic is still an important partner for it.

As of today, there are favorable preconditions for the subsequent development of trade relationships and investment flows between the two states. For ensuring it, the two countries should work on improving the ease of registration of economic entities for foreign actors, and on the overall simplification of the accompanying procedures. For the Czech Republic, it can be advised to focus on the development of its foreign trade and investment policies in order to diversify the structure of its partnership ties with foreign countries, and so as to reduce the country's excessive dependence on Germany in overall terms.

All in all, despite the existing obstacles and potential difficulties, the Czech Republic and Germany have great opportunities to develop their bilateral cooperation which would be beneficial to the economic development of both.

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