

Chapter 41

Trade and FDI Between the Czech Republic and Portugal: Analysis of the 2000–2015 Period

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ABSTRACT

With the collapse of communism, some former communist States of Eastern Europe managed to muddle through their way to a market economy and entered the European Union. This brought about the acceleration of Foreign Direct Investment (FDI) among the European economies and accelerated the globalization process. Although there is plenty of research on FDI and trade among countries, the aim of this chapter is to analyze how trade between Portugal and the Czech Republic have evolved over form 2000 until 2015. The chapter seeks to complement previous studies on FDI and trade as Portugal and the Czech Republic are part of the European Union, but have had different historical, cultural, and economic paths. The main conclusion of the chapter is that trade between both countries has grown significantly. The main reason affecting trade between both countries is the economic unrest Portugal has been through since 2008.

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INTRODUCTION

Although FDI and the analysis of trade have been extensively researched among scholars, as well as their effects for both home and host countries, far less attention has been placed on how countries that historically had hardly any trade between them – as they belonged to different economic blocs – have evolved over time, as is the case of the Czech Republic and Portugal, that entered the European Union (EU) in, 2004 and 1986, respectively. As such the purpose of this article is to analyze the commercial trade between the Czech Republic and Portugal between 2000 and 2015, who are the main players participating in this process, and how this has impacted on the Czech firms investing in Portugal and on Portuguese firms investing in the Czech Republic.

The chapter begins with the literature review on Foreign Direct Investment (FDI) and on how Czech firms have managed to internationalize. Afterwards, it is presented a brief presentation of both countries, Portugal and the Czech Republic, economically and culturally. For this the chapter contextualizes the analysis based on the EU context. The third section contains the main factors of trade. The fourth and fifth sections compare both countries historically and economically and evaluate both countries with an analysis of the evolution of the mutual trade during 15 years. Within the analysis two main events are introduced: 2004, when the Czech Republic joined the EU and 2008, when the global economic crisis started. The sixth section presents the main Czech companies operating and investing in Portugal and the main Portuguese companies operating and investing in the Czech Republic. The final section presents the conclusions.

BACKGROUND

Studies about international trade, internationalization and FDI are abundant. Analyzing how the theories about internationalization have evolved, Ribau, Moreira, and Raposo (2015) conclude that for decades theories analyzed how trade and FDI between countries occurred. Subsequently, there was a huge focus on multinational firms, and only after the 1980s onwards focus on internationalization shifted to Small and Medium-sized firms (SMEs) and how important they are to international business.

International trade can be defined as the exchange of goods and services that connect people, businesses, and countries along international borders in global processes of production and consumption influencing, directly and indirectly, the way everybody lives live.

As a result of international trade, FDI has become one of the most significant factors for economic development, as it allows the international flow of goods among countries, enabling the recovery and / or modernization of the economies (Razin & Sadka, 2007). FDI is one of the results and, at the same time, one of the major drivers of international trade, where multinational and small and medium-sized enterprises (SMEs) started to play a leading role.

FDI allows not only the flow of goods but also the creation of jobs. One consequence of this increasing flow of FDI is that countries seek to implement economic policy measures to attract investment flows (Chenaf-Nicet & Ronjier, 2016). Moreover, as FDI embodies technology and know-how, there are potential benefits that are not very explicitly exposed as technology transfers, productivity gains, managerial and know-how transfers, and access to broader markets (Blomström & Kokko, 1998).

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Hanson (2001) supports that FDI generates positive spillovers for host countries. However, Lipsey (2002) finds that there is no consistent relation between the size of inward FDI and GDP or growth. Markusen and Venables (1999) defend that FDI could harm local industry.

Moreira (2008) defends that there are positive effects from FDI as there are positive technology accumulation among SMEs supplying their multinational clients. Görg and Greenway (2004) support that spillovers from foreign to domestically owned firms are mostly negative. Although there appears to be no consensus among scholar about the externalities of FDI, most countries are looking forward to increasing their international trade, as well as their share of FDI activities.

The lack of policy making supporting the internationalization of SMEs led Moini, Kalouda, and Tesar (2008) to propose that government policy makers in the Czech Republic need to understand the necessary linkages between their SMEs foreign market entry modes and the country's future economic growth. For the Czech Republic to improve its economic status in the European Union, it is mandatory to support Czech SMEs in order to underpin their competitiveness in the global marketplace.

Fink, Harms, and Kraus (2008) conclude that 40% of Czech firms enter the German market, followed by the Slovakian market (12%), and the Polish market (11%). Taking into account the different language skills of the old and new generations in the Czech Republic – as the older generation was used to learn only Russian as a second language and the new generation is more akin of learning English or German – they claim that the greatest obstacle for firms to penetrate in foreign markets is the language barrier (Fink, Harms, & Kraus, 2008), as German was selected as the most popular language in terms of international trade in this study, which might explain why Germany is the largest and the most attractive neighbor for the Czechs. Fink, Harms, and Kraus (2008) conclude that that self-commitment is particularly important in international business cooperation, as self-commitment positively influences the performance of both cooperating firms. As such trust-based relationships in the firms' internationalization process is a promising alternative particularly for SMEs.

Musteen and Datta (2011), when analyzing how Czech manufacturing SMEs learn about foreign markets, reinforce the importance of role of knowledge of prospective managers when developing a good understanding of the international markets. The better the improved understanding of the main factors to compete in foreign markets, the better entrepreneurs and SME managers perform in international markets.

Based on a qualitative study among entrepreneurs in the Saxon-Czech border area, Zanger, Hodičová, and Gaus (2008) conclude that entrepreneurs on both sides of the border experience feelings of foreignness towards the corresponding neighboring country, which limits the entrepreneurs' willingness to cooperate with companies from the neighboring country.

Cieślík, Michałek, Michałek, and Mycielski (2015) investigated the determinants of export activity comparing firms from the Baltic States and Central European Countries for three years: 2002, 2005, and 2009. They conclude that the results for both groups of countries are not different as firms' export performance was positively related to the level of productivity, firm size, the share of university graduates in productive employment, investment on R&D activities, and the internalization of firms measured by foreign ownership. Moreover, there are some differences among countries, namely the level of productivity was significant for the Czech Republic. Similarly, they also conclude that it would be advisable to formulate policy recommendations for the development of export promotion strategies as export performance could be improved by attracting export-oriented FDI, which can generate positive spillovers to domestic firms.

Based on the analysis of data collected in interviews with managers and founders of 67 Czech entrepreneurs, Zapletalová (2012) concludes that most of the firms follow a typical stage approach of outward internationalization. Moreover, very few firms follow the “rapid internationalization” approach followed by born-globals, which is a clear indication that internationalization is still a leapfrogging process for most SMEs. Based on the analysis of questionnaire-based research that involved 297, Zapletalová (2015) concludes that the historical context of centrally planned economy in the Czech Republic until 1989 is still affecting negatively the internationalization process of Czech firms, as their degree and level of internationalization is still significantly low.

The lack of language skills of key employees before entering foreign markets, the lack of employee experience with foreign market expansion, the time that elapses between the opening of the business and foreign market expansion, the lack of explicit objectives for export activities, the unclear definition of the strategy to be implemented abroad, and the lack of clear market segment focus are the main difficulties of Czech SMEs when expanding abroad (Kubíčková & Procházková, 2014).

According to Moini, Kalouda, and Tesar (2008), when compared to their non-exporting counterparts, exporting SMEs in the Czech Republic (a) tend to be larger, and more motivated in systematically exploring export opportunities, (b) utilize a larger percentage of their production capacity, and (c) have fewer problems in obtaining financial services. Exporting firms tend to face three major challenges when embracing international business activities: a financial burden, unknown foreign marketing practices, and locating prospective clients.

Símová (2010) follows an inward internationalization perspective and studied how the retailing industry in the Czech Republic went through dramatic changes from the early 1990s to mid-2000s. She concludes that there have been dramatic changes, quantitatively and qualitatively, as the Czech retailing industry has achieved a relatively high level of concentration and internationalization, as many international firms entered the Czech market.

Foreign direct investment in Portugal was analyzed by Moreira and Dias (2008), who concluded that Portugal went through several phases, and FDI skyrocketed since Portugal joined the EU.

The literature on internationalization of Portuguese SMEs is also abundant. For example, Lisboa, Skarmas, and Lages (2011) explore the importance of innovation as a means for developing firm-specific advantages abroad. Moreira and Alves (2016) claim that internationalization is difficult for SMEs even when small psychic distances between countries are present. Carvalheira and Moreira (2016) support the idea that even artisanal firms can internationalize when opportunities arise. However, no single study was found regarding Portuguese SMEs internationalizing to the Czech Republic.

One can conclude that, on the one hand, the perspective towards FDI is multifaceted and, on the other hand, that there is no single study regarding foreign direct investment or trade analyzing how Portugal and the Czech Republic are interrelated. Moreover, the studies on Czech SMEs are almost unanimous referring the difficulties in internationalizing.

BRIEF PRESENTATION OF THE CZECH REPUBLIC ECONOMY

The Czech Republic is a small central European country (about 79,000 km²). As of 2015, it had around 10.5 million inhabitants (EuroStat, 2016a). The Czech currency is the Czech Koruna (CZK) and the GDP in 2015 was €163,948 million (€16,600/per capita) (Countryeconomy.com, 2016). The country’s human development index (HDI) (used by the United Nations to measure the progress of a country),

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was 0.870 points in 2014. As such, the Czech Republic is in the 28th place among 188 countries (CountryEconomy.com, 2016). The Czech Republic holds the 36th position of the Doing Business ranking (The World Bank, 2016).

After joining the EU in 2004, the Czech economy has continuously grown. However, this significant boost was affected by the economic crisis in 2008 and although the Czech economy has recovered quite fast, it has not been able to follow up with the previous, pre-crisis pace. Since joining the EU, the rate of the Czech export within the EU has doubled (81% from all the export) and the surplus of the trade has quintupled. The Czech Republic's main import and export partners are Germany, Slovakia and Poland. Although the Czech and German industries are strongly linked, the Czech economy is very dependent on the German one. Since joining the EU, the Czech Republic has been considered as a recipient of foreign direct investment from the EU. In comparison with the other Central European countries, the Czech Republic has the strongest share of Foreign Direct Investments inflows (Rusnok, 2014).

According to the Eurocentrum Praha seminar, that was held in December of 2014 and where were discussed among others the economic models that would be the most suitable for the Czech Republic, Mr. Ales Chmelar – the Chief Economist at the European Section of the Czech Office of Government – presented various forecasts of economic development, which echoed since 1989. The development of the Czech economy was, as mentioned above, primarily influenced by inflow of foreign investment. The inflow peaked around the time of the entry into the EU in 2004. However, after the last economic crisis broke out, the Czech economy felt a steep fall in 2008. As such, the main objective of the Czech economic policies is the support of a long-term productivity growth (Government of the Czech Republic, 2015).

According to the Economic and Financial Affairs of the European Commission from 2015, the Czech economy returned to growth in 2014, following two years of contraction, and unemployment has been on a declining trend. The return to growth has been largely driven by domestic demand, with investment growing particularly strongly.

The Czech Republic's public finance outturns have improved markedly, but some issues remain in the areas of taxation, fiscal sustainability, and fiscal framework. The country continues to suffer from a relatively high level of tax evasion, although efforts are being made to fight this problem.

There is an overall high level of employment but certain disadvantaged groups remain underrepresented in the labor market. These groups include parents with young children, low-skilled workers, people with disabilities and gypsies.

The general government deficit has improved significantly since 2009 and the Czech public finances do not appear to face sustainability risks in the short term.

Real GDP growth is expected to strengthen further in 2016, although developments in the external environment might have a negative effect (European Commission, 2015).

BRIEF PRESENTATION OF THE PORTUGUESE ECONOMY

Portugal is a small country (around 92,000 km²) situated on the West coast of Europe. Its territory includes two autonomous regions: Azores and Madeira. It is one of the oldest countries in the world. Portugal has a population of around 10.3 million inhabitants (EuroStat, 2016a). Portugal's currency is the Euro (€). The country's GDP (nominal) in 2014 was of €174,385 million (€16,800/per capita). The service sector is the main contributor to the economy.

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The human development index (HDI) (used by the United Nations to measure the progress of a country) was 0.830 points in 2014, 43rd place out of 187 countries. As for the Doing Business Ranking, Portugal occupies the 23rd place (The World Bank, 2016).

The majority of Portugal's commercial trade and foreign direct investment flow happens within the European Union. In 2015, 72.7% of exported goods and 76.4% of imported goods were traded with UE countries. Spain, Germany, and France stand out as the main partners both in terms of imports and exports. Regarding foreign direct investment, the Netherlands and Spain represent both the biggest percentage of inflow and outflow (AICEP, 2016a).

Regarding the most recent members (Bulgaria, Slovakia, Slovenia, Estonia, Hungary, Latvia, Lithuania, Poland, Czech Republic, and Romania), despite the increases caused by their entry in the European Union, they still account for a small part of Portugal's imports and exports (INE, 2008). The Czech Republic and Poland stand out as the main partners amongst this group.

The Portuguese economy has been severely affected by the international economic crisis. However, from 2008 to 2013, it has shown visible signs of international dynamic. Commercial trade and foreign direct investment have both increased. In 2013, exports surpassed imports for the first time in this period, forming 40% of the GDP (€67,000 million in goods and services). Spain, Germany, France, Angola, and the United Kingdom, Portugal's most important partners have seen their percentage in the total export/import reduced (see Table 1), which suggests a tendency to look for new markets.

Portugal has been increasing its investments in foreign countries, although it remains a bigger receiver than investor. As of 2012, Portugal occupied the 9th place amongst the UE27 countries in the FDI intensity index (INE, 2014).

Portuguese technological companies have also developed cooperative actions: 96% of them with national partners, 45% with UE27 partners and 9% with the USA (INE, 2014).

Table 1. Percentage of Portugal's biggest partners in the total imported/exported goods

Country	2008	2009	2010	2011	2012	2013	2014	2015
% of Total Exported Goods								
Spain	27.9	27.2	27.0	24.9	22.5	23.6	23.5	25.0
Germany	12.8	13.0	13.0	13.5	12.4	11.6	11.7	11.8
France	11.8	12.4	12.0	12.2	11.8	11.6	11.7	12.1
Angola	5.8	7.1	5.1	5.4	6.6	6.6	6.6	4.2
United Kingdom	5.5	5.6	5.5	5.2	5.3	5.5	6.1	6.7
Total	63.8	65.3	62.6	61.2	58.6	58.9	59.6	59.8
% of Total Imported Goods								
Spain	30.8	32.8	32.1	32.3	32.0	32.3	32.6	32.8
Germany	13.4	13.2	13.9	12.3	11.4	11.4	12.3	12.9
France	8.1	8.3	7.2	6.8	6.6	6.8	7.1	7.4
Angola	5.4	5.8	5.7	5.4	5.2	5.2	2.7	1.9
Netherlands	4.7	5.3	5.1	4.8	4.8	5.0	5.1	5.1
Total	62.4	65.4	64.0	61.6	60.0	60.7	59.8	60.1

Source: Own preparation based on data from National Institute of Statistics (INE).

THE MAIN FACTORS OF TRADE

In order to understand trade between Portugal and the Czech Republic, it is important first to understand the common market these countries are part of. Both countries have joined the European Union, Portugal in 1986 and the Czech Republic in 2004. This allows for both countries, as well as all countries in the single EU market, to take advantage of the free circulation of goods, capital, people, and services. It also allows goods to travel internally without being subject to customs duties, discriminatory taxes or import quotas. Investment is also made easier.

The Eurozone was created in 1999 (although not all member states joined) introducing a common currency, the Euro (€). This common currency eliminates fluctuations in the exchange rate providing predictability and safety and reducing transaction costs, which facilitates trade and capital movement. However, the Eurozone also has its disadvantages; the economy of a particular country might influence buyers and investors on their decision to buy Euro, thus affecting the Euro exchange rate (Geoghegan, 2014). While Portugal joined the Eurozone, the Czech Republic did not, which is a factor that surely affects trade between the two countries, which will be explored later on.

Various factors affect trade in Europe. While the EU facilitates trade, its member States do not all trade equally amongst themselves. Factors like direction of trade, distance, population, language, legal origins, currency, physical infrastructures, borders, and transport efficiency have an impact on trade between certain countries (Hanousek & Kočenda, 2014). As part of the analysis regarding goods, parts and components, capital goods, and consumer goods, this chapter summarizes them below, noting which factors may influence the trade between Portugal and the Czech Republic.

The direction of trade does matter and we reject the hypothesis of a zero effect. (...) The trade links among the old EU members have been long established (...). The majority of the trade flows in parts and components within the EU is carried along the East–West alignment, as is trade in capital and consumer goods. (Hanousek & Kočenda, 2014, p. 19)

The fact that most of Portugal's trade is carried out with old EU members can be explained by this factor. Commercial trade with its neighbors has been happening for a long time, and they are its biggest partners. Regarding the trade between Portugal and the Czech Republic, it is hard to understand to which extent this tendency affects trade; while Portugal does tend to import more from, than export to, the Czech Republic, the numbers are not so different as to confirm this trend.

Distance negatively affects trade in all four types of goods. (...) However, the economic significance of distance is relatively low. (Hanousek & Kočenda, 2014, p. 15)

While the geographic proximity of European countries is not very significant, it is important to note that most of Portugal's trade (within the EU) is with the countries closest to it like Spain; and Germany and France for the Czech's trade. This can lead us to believe that (cultural and geographic) distance might be one of the factors that explain the low levels of trade amongst the two countries.

Population as a factor exhibits a positive effect on all types of goods. The combined populations of the country pairs represent the size of the market. (Hanousek & Kočenda, 2014, p. 16)

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Portugal and the Czech Republic have a similar number of inhabitants, around 10 million. While not the smallest, each country definitely has a small internal market. The sizes of both markets are one of the strongest reasons responsible for such a small interest in doing business with each other. Small markets can be often unattractive, especially in comparison with the bigger – in this case also closer – markets (Spain and Germany for example) that can provide economies of scale.

A common language does not seem to matter excessively for European trade, (Hanousek & Kočenda, 2014, p. 16),

which is understandable as in the European context there is a large number of different languages and companies deal mostly in English with their European partners.

The effect of a common currency is largely statistically significant, but its economic impact is limited. (Hanousek & Kočenda, 2014, p. 17)

While Portugal adhered to the Eurozone, the Czech Republic did not. This means trade is subject to exchange rates, which can also influence the exchange of goods between the two countries. According to the statistics of the CNB (Czech National Bank) from 2015, the Czech Koruna since 2000 has been significantly strengthening against both Euro (see Table 2) and US Dollar (Mrázek, 2015). The effect of the exchange rate on businesses can depend on several factors, like elasticity of demand, economic growth in other countries, percentage of raw materials imported, reason of an appreciation/depreciation, inflation or fixed contracts (Pettinger, 2013).

The factor of hard physical infrastructure exhibits the lowest coefficients when compared with the rest of the infrastructure measures. (...) High level of physical infrastructure is (...) taken as a standard, despite existing differences between old and new EU countries. (Hanousek & Kočenda, 2014, p. 17)

European countries are generally equipped with good infrastructures. Portugal is equipped with one of the most developed road networks in Europe, 14,310 km long (in the mainland, of which 2,988 km are highways), a railway 2,544 km long, 15 airports (a high number due to the many islands of Azores and Madeira) and 20 ports (AICEP, 2016a).

The Czech Republic possesses one of the most advanced transport networks in Central and Eastern Europe. Its geographical position at the very centre of Europe makes it a natural crossroads for major transit corridors. An extensive network of transport routes serves not only the Czech Republic but also links the country to neighbouring and other European states, and the density of the transport network ranks the Czech Republic among the world's most advanced countries. (CzechInvest, 2013)

Table 2. CZK/EUR exchange rate: annual average

Year	2000	2002	2004	2006	2008	2010	2011	2012	2013	2014
CZK/EUR Exchange Rate	35.61	30.81	31.90	28.34	24.94	25.29	24.59	25.14	25.97	27.53

Source: Own preparation based on data from the Czech Statistical Office.

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The Czech Republic features 9,435 km of railway, 10 airports and 127,693 km of highways.

ICT [Information and communications technology] exerts the most influence on trade in parts and components and in capital goods. (Hanousek & Kočenda, 2014, p. 17)

According to the ICT development index, which monitors and compares developments in information and communication technology across countries, Portugal (49th) and the Czech Republic (38th) are above the global average, while not reaching the European average (International Telecommunication Union, 2014). The two countries rank extremely close to each other. Considering parts and components are some of the most traded goods between both countries, this factor might be quite influential.

Border and transport efficiency is the most influential factor for trade in primary and consumer goods. (Hanousek & Kočenda, 2014, p. 18)

Shipping by sea has always been one of the most important means of transport that the goods exchange has been dependent on. In our case, this plays an inherent role for the Czech-Portuguese trade. The closest Czech ports are either Hamburg, Germany or Naples, Italy, which obviously makes shipping more complicated for the Czechs.

The effect of the business and regulatory environment is quite pronounced for the trade flows of primary goods. (Hanousek & Kočenda, 2014, p. 18)

This factor refers to indicators of irregular payments, favoritism, government transparency, and measures to combat corruption. The transparency index published, which measures how corrupt each country's public sector is perceived, shows that Portugal and the Czech Republic rank on 28th and on 37th position with similar values (Transparency International, 2016a; 2016b).

Clearly, there is no single factor influencing trade between both countries. However, market size, distance, and border and transport efficiency are the strongest arguments speaking against a bright future of the Czech-Portuguese trade.

COMPARING BOTH COUNTRIES. MAIN SIMILARITIES AND DIFFERENCES

Becoming aware of essential similarities and differences between the Czech Republic and Portugal is important to analyze what opportunities and cultural challenges need to be overcome in order to bring these countries together and stimulate trade. This section summarizes them below.

History

During last century both countries went through difficult times with Portugal being ruled by a right wing dictatorship during part of the century and Czech Republic being ruled by a communist dictatorship after the World War II.

Autocratic regimes suffered the influence of international actors that led Portugal to lose their former colonies, on one side, and the Czech Republic to break free from the tight control exercised by the former Soviet Union. With democracy both countries have managed to enter the European Union, and a process of Europeanization, in which the European Monetary Fund has played an important role in the institutional change and policy adjustments to their European counterparts (Petrovic & Solingen, 2005).

Historically, both countries have followed different paths. The Czech Republic has been part of the Duchy of Bohemia under the great Moravian Empire and afterwards of the Holy Roman Empire. In the sixteenth century it was gradually integrated into the Habsburg Monarchy. In the 1800s the Bohemian kingdom became part of the Austrian Empire. With the collapse of the Austro-Hungarian Empire after the World War I it became the Republic of Czechoslovakia in 1918. After the World War II it fell under the soviet influence until 1989 when the communist regime collapsed. In 1993 Czechoslovakia peacefully dissolved into two independent states: the Czech Republic and Slovakia. In 2004 the Czech Republic entered the European Union.

The Roman Empire had a strong influence in Portugal since the first century b. C. In the fifth century, with the decline of the Roman Empire, Iberia in general was influenced by Germans. In the eighth century Arabs occupied Iberia and Christians run away to the north of Iberia.

In 1139, with the Christian conquest, the Kingdom of Portugal was set up. Since 1297 Portugal is the European country that maintains its original frontiers.

As a result of an outward perspective during the XV and XVI Portugal expanded its borders abroad establishing the first global empire with foothold in Africa, South America, Asia and Oceania.

In 1990 a revolution ended the Portuguese monarchy and the first republic was set up. In 1926, due to social conflicts, a dictatorship was established that lasted until 1974, when a military coup ended the colonial war that was taking place since 1961. In 1986 Portugal entered the European Union (at that time European Economic Community).

The support of an industrial strong foothold allowed the Czech economy to withhold the changes it went through over time. Portugal was more outward oriented building an empire offshore which impeded the creation of an industrial network (Soares, 2015).

Economy

Table 3 summarizes the main economic indicators for both countries. Currently in Portugal there is a structural lack of competitiveness, low levels of cooperation and little flexibility in determining wages and productivity. Foreign investment in Portugal has been low. Although the Portuguese economy has been growing, its growth has been slow. As such, Portugal needs to create jobs, readjust social policies, review labor legislation, and bring academia and the business community closer (Valles, 2015).

Portugal and the Czech Republic present the same value in the Global Competitiveness Ranking (4.5). Taking a closer look to each country's specific evaluation, one can find that Portugal surpasses the Czech Republic in most basic requirements: institutions, infrastructure and health and primary education. It is, however, drastically surpassed by the Czech Republic on the macroeconomic environment requirement, occupying the 128th position compared to the Czech Republic's 40th. Most secondary indicators remain close, except for the financial market development requirement, where Portugal is in 104th place versus the Czech Republic's 44th. Furthermore, the countries also vary in labor market efficiency, with Portugal

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Table 3. Comparing the Czech Republic and Portugal

Indicator	Year	Czech Republic	Portugal
GDP at current prices (10 ⁶ €)	2014	154,929	174,384
GDP at current prices (€ per capita)	2014	14,700	16,800
Public Debt (% of GDP)	2013	45.7	128
FDI inflow	2013	4,990 Million USD	6,626 Million EUR
FDI outflow	2013	3,294 Million USD	6,199 Million EUR
Exports (10 ⁶ €)	2014	130,808	48,168
Imports (10 ⁶ €)	2014	114,594	58,708
Trade Balance (10 ⁶ €)	2014	16,172	-10,605
Global Competitiveness Ranking	2016	37 th	36 th
Doing Business Ranking	2015	36 th	23 rd

Sources: Own preparation from EuroStat (2016b), INE (2014), CountryEconomy.com (2015; 2016).

finding itself in 83rd place versus the Czech Republic's 62nd, and market size. While the domestic market size ranking is close for the two countries, foreign market size ranks Portugal in 48th versus the Czech Republic's 27th (World Economic Forum, 2015a; 2015b).

With a GDP per capita in purchasing power parity similar to Portuguese, the minimum wage in the Czech Republic is of 337€ (9200 Czk). Salaries are on average 30% lower in the Czech Republic than in Portugal. The weight of social security in GDP is around 20%, less 6% of recorded between Portuguese (Valles, 2015).

Although some features and indicators are common, currently there are some aspects that distinguish the situation of both countries, such as Portugal's public debt, which has presented levels above 125% of the GDP (AICEP, 2016a), as opposed to the Czech Republic, which maintains levels below 46% (AICEP, 2016b).

In terms of income of the families, while Portugal presents high levels of inequality in income distribution, the Czech Republic exhibits low inequality. However, both countries presented income in Purchasing Power Parity (PPP) per capita that is only slightly more than half of the EU average (INE, 2005, p. 113, 209).

Between 1995 and 2004, the unit labor costs fell 3.6% among the EU15.

While in the Czech Republic this indicator fell as well, Portugal was among the few European countries that saw these costs increased (INE, 2005, p. 220).

The unsustainability forecast of the social protection system has led the Czech government to a strict management of responsibilities and rights, significantly preventing the escalation of its weight in the economy. The contributions of employers, workers and pensioners are financing the system by about 75%. In Portugal, it does not exceed 45%, requiring of the state an additional effort of 12% of GDP. (Valles, 2015)

The contributions are proportionally higher in the Czech Republic (34% employer and 11% employee) than in Portugal (27% employer and 11% employee) (Valles, 2015).

Regarding education, essential to the economy of a country, while Portugal presented the second highest rate of school dropouts in the European Union (EU 25), 38.6% as of 2005, the Czech Republic had one of the best performances in this area, 4.3%. It also surpassed the EU15 average of the percentage of people aged 20-24 that has completed at least secondary education, topping this list (INE, 2005, p. 92). Czech policies are based on incentives to bring universities closer to business, avoiding scenarios where unemployment of young graduates is alarming. These policies aim to increase added value growth in innovation-driven areas where competitive factors are based on design, innovation, research, and development in an economy that started from a strong industrial base. In 2013, the percentage of 30 to 34 year olds who had completed tertiary education increased significantly in comparison to 2002 in both countries, from 13% to 29.2% in Portugal and 12.6% to 26.7%. In the same year, Portugal and the Czech Republic also registered two of the lowest rates of early school dropouts, 5.4% and 19.2%, respectively. The Czech Republic has fulfilled its 2020 national target for this indicator (EuroStat, 2014).

Regarding investment in research and development, Portugal presented a considerable growth in 2004, staying at a top position. However, the Czech Republic surpassed it regarding the percentage of GDP that this investment represented (INE, 2005).

Although, especially due to the crisis, Portugal belongs between the less developed economies of the EU, its economy is growing linearly with its potential. The significant role in Portuguese economy is held by small and middle enterprises that are involved by 80% on the employment creation and by 60% on the Portuguese export. This feature is obvious also on quite high amount of Portuguese FDI abroad. There is a quite high concentration of enterprises especially on the north of Portugal and then around Lisbon. The south of the country is more agricultural and also touristic.

Portugal's trade balance has been historically negative, although this deficit has been decreasing thanks to a growing dynamic of Portuguese exports (BusinessInfo, 2014). "With a vibrant automotive industry, the Czech Republic has established itself as an open and dynamic market economy" (The Heritage Foundation, 2015). The Czech Republic is also strongly characterized as a mature host country for FDI (CzechInvest, 2016).

The most prospective fields where both counties supplement each other very well are: construction/civil engineering, food industry, banking, telecommunications, car industry and tourism (BusinessInfo, 2014).

FDI

Table 4 shows stock of FDI between Portugal and the Czech Republic Million Dollars at current prices and current Exchange rate, between 2000 and 2015. Table 5 shows the stock of FDI in % of gross domestic product. One of the main conclusions is the difference between inward and outward foreign direct investment has grown faster for the Czech Republic than for Portugal. This means that, as outward FDI (OFDI) is larger in Portugal than in the Czech Republic, the Portuguese economy is more outwardly oriented, whereas the Czech economy is still more inwardly oriented with massive FDI from Holland and Germany.

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Table 4. Stock of FDI, in US million dollars at current prices and current exchange rate

	Outward FDI from Czech Rep.	Outward FDI from CZ to PT	Inward FDI to Czech Rep.	IFDI-OFDI	Outward FDI from Portugal	Outward FDI from PT to CZ	Inward FDI to Portugal	IFDI-OFDI
2000	738	-	21,644	20,906	19,794	-	32,043	12,249
2001	1,136	-	27,092	25,956	22,091	1	38,188	16,097
2002	1,473	-	38,669	37,196	20,730	2	47,117	26,387
2003	2,284	18	45,287	43,003	33,914	147	64,589	30,675
2004	3,760	-	57,259	53,499	43,257	160	71,319	28,062
2005	3,610	167	60,662	57,052	40,927	15	66,697	25,770
2006	5,017	198	79,841	74,824	52,063	14	89,596	37,533
2007	8,557	230	112,408	103,851	67,726	22	119,682	51,956
2008	12,531	-	113,174	100,643	62,769	10	105,511	42,742
2009	14,805	-	125,827	111,022	66,988	22	118,299	51,311
2010	14,923	-	128,504	113,581	62,286	39	114,994	52,708
2011	13,214	-	120,569	107,355	64,767	-	103,481	38,714
2012	17,368	-	136,493	119,125	59,992	-	115,599	55,607
2013	20,627	-	134,085	113,458	61,960	-	123,727	61,767
2014	19,041	-	121,530	102,489	58,355	-	108,515	50,160

Source: Own preparation based on UNCTAD Database.

Table 5. Stock of FDI as % of the gross domestic product

	Outward FDI from Czech Rep.	Inward FDI to Czech Rep.	Outward FDI from Portugal	Inward FDI to Portugal
2000	1.2	35.21	16.72	27.07
2001	1.69	40.21	18.18	31.42
2002	1.8	47.33	15.44	35.1
2003	2.3	45.61	20.56	39.15
2004	3.16	48.13	22.86	37.7
2005	2.65	44.61	20.74	33.8
2006	3.23	51.44	24.96	42.96
2007	4.53	59.53	28.2	49.83
2008	5.33	48.12	23.96	40.27
2009	7.2	61.16	27.48	48.54
2010	7.21	62.07	26.14	48.26
2011	5.81	53.04	26.45	42.26
2012	8.4	66.02	27.52	53.03
2013	9.88	64.22	27.26	54.43
2014	9.27	59.14	25.15	46.76

Source: Own preparation based on UNCTAD Database.

When one analyzes OFDI from Czech Republic to Portugal, the total amount invested is 613 Million € highly concentrated between 2005 and 2007. However, the OFDI from Portugal to the Czech Republic is only 431 Million throughout 2001 and 2010, as such, it is possible to conclude that FDI between two countries still have a long margin to grow and that trade between both countries is strongly dependent on exporting activities.

Hofstede's Cultural Dimensions

Hofstede's cultural dimensions (Hofstede Centre, 2016a; 2016b) are important to compare both countries in a cultural and business perspective, as shown in Table 6.

Both countries rank extremely close on Power Distance and Indulgence. This means that there is a clear hierarchical order accepted by society in both countries. It also tells us that both societies are relatively restrained in that they respect social norms and do not focus on leisure time as other self-indulgent countries. This can potentially help business between both countries since they can find a cultural connection and interact better while doing business. A common respect for the rules and the hierarchy of a company, for example, can help build trust and facilitate business.

Individualism, Masculinity and Long Term Orientation present the biggest difference between both countries. While the Czech Republic is closer to an individualistic society, Portugal is clearly collectivist. This could present an obstacle in a business context since Portugal focuses highly on relationship building and the group is more prevalent than the individual, while the Czech society expects the individual to take care of him/herself and those immediately close to them. In a business context, there might be clear differences as trust-commitment relationships might be much more prevalent for Portuguese firms than for Czech firms. Portugal, being a feminine country, values consensus and negotiation, while the Czech Republic, being a masculine country, focuses more on competitiveness and performance. Long Term Orientation is the dimension that polarizes the two countries the most. The Czech Republic is a pragmatic society that aims to achieve results, showing a better ability to adapt than Portugal, a country highly focused on its traditions and on maintaining them, where societal changes are seen with suspicion.

Both countries rank very high on Uncertainty Avoidance, with an extremely high score in Portugal. Both countries rely on rules and security and people focus on working hard. However, Portugal shows more prevalence in maintaining rigid codes of belief and in avoidance of unorthodox behavior.

Table 6. Portugal vs. Czech Republic scores

	Portugal	Czech Republic
Power Distance	63	57
Individualism	27	58
Masculinity	31	57
Uncertainty Avoidance	99	74
Long Term Orientation	28	70
Indulgence	33	29

Source: Own preparation based on data obtained from www.geert-hofstede.com.

EVOLUTION OF THE CZ-PT TRADE

The evolution of the trade between both countries from 2000 until 2014 is shown in Table 7.

Starting the analysis in 2000 allows a brief look at the years before the Czech Republic joined the EU. According to the annual reports on the Foreign Policy of the Czech Republic – published every year by the Ministry of Foreign Affairs of the Czech Republic – and annual statistics reports published by the Portuguese National Institute of Statistics (INE), it is possible to observe a positive, growing trend in the trade evolution between Portugal and the Czech Republic.

Years 2000 to 2004

In 2000, Portugal was holding an important position especially within the EU due to its chairing in the first half of the year. The attention that was paid to the mutual relationships has increased especially because of the planned extension of the EU. This was mirrored in frequent visits (heading mainly to Portugal) and intensive political dialogues of representatives of both countries about intensification of mutual relationships and cooperation. During the year several visits were held in both countries. An important moment was a visit from the prime minister of the Czech Republic, Mr. Miloš Zeman. The evolution of the international trade between the Czech Republic and Portugal shows the growth of the Czech exports. The mutual turnover reached 187.5 million EUR. Czech exports amounted to 124.9 million EUR. Czech imports from Portugal have totaled 62.5 million EUR, which is an increase around 80% from the previous year. The most important Czech exported items were machines and means of transport

Table 7. Evolution of trade between the Czech Republic and Portugal (in 10⁶ €)

	Turnover	Imports	Exports	Balance
2000	187.5	62.5	124.9	62.4
2001	225.9	84.4	141.5	57.1
2002	254.7	98.1	156.6	58.6
2003	239.3	113.6	125.7	12.1
2004	289.5	131.5	158.0	26.5
2005	370.6	136.3	234.2	97.9
2006	467.8	180.3	287.5	107.2
2007	562.3	239.0	323.3	84.3
2008	560.4	230.8	329.6	98.9
2009	518.7	228.6	290.1	61.5
2010	682.0	302.8	379.2	76.4
2011	719.3	326.8	392.5	65.8
2012	676.0	331.7	344.3	12.6
2013	689.7	344.6	345.1	0.5
2014	799.2	372.4	426.8	54.5
2015	862.2	382.8	479.4	96.6

Source: Own preparation based on the Czech Statistical Office's External Trade Database.

(54.7% - especially SKODA cars) followed by export of market products (37.7%) and chemicals (4.2%). Among the Portuguese main exports are machines and transportation equipment (44%), market products (27.9%), chemicals (9.2%) and raw material (8.4%) (Ministry of Foreign Affairs, 2001).

In 2001, the level of Czech-Portuguese relationship had been influenced by the membership of both countries in the North Atlantic Treaty Organization (NATO). Moreover Portugal had been supporting the Czech Republic in its effort to enter the EU. Portugal considered the Czech Republic as its potential ally due to similar geographical and economical extension. One of the most important visits held in this year was an official visit of the Portuguese president Mr. J. Sampaio. The main export commodities from the Czech Republic were again machines, means of transport (30.4% of all export are SKODA cars), metallurgical products – especially concrete steel and rails, tires, machines and devices for energy production, fabric, chemicals and glass-making (Ministry of Foreign Affairs, 2002).

The main commodities imported from Portugal were cork and its products, linen thread and fabric, cloth wear and footwear, electro technical products (Ministry of Foreign Affairs, 2002)

The year 2002 witness an increase in the Czech-Portuguese relations as result of the membership of both countries in NATO, and the preparations of the Czech Republic to enter the EU. Portugal was considered a prospective partner of the Czech Republic in the Union. Due to parliamentary elections (held in both countries in 2002) there were no high-level bilateral visits.

The main imported commodities from the Czech Republic were, much like the previous year, cork and related products, clothing wear, footwear, ball bearings, electro technical products, linen threads, glass-making, chemicals and metalworking machines. Portuguese investors were active in the Czech Republic in several enterprises from the fields of metallurgy and construction industries. Nevertheless, there is room for potential improvements for mutual economic relations (Ministry of Foreign Affairs, 2003).

Czech-Portuguese relations recorded in 2003 a significant boost. Portugal was considered by the Czech Republic as a key partner within the euro-Atlantic alliance, also due to the similar perception of International Policy aspects, as a result of their similar geographical size and geopolitical importance.

Portugal and the Czech Republic kept long-term intensive economic relations and a significant reinforcement was to be expected after the Czech Republic joined the EU. The trade between both countries maintained the same flow of commodities.

Portuguese investors visited the Czech Republic on behalf of many common enterprises from fields of metallurgy and construction (Ministry of Foreign Affairs, 2004).

Years 2004 to 2008

The relationship between Portugal and the Czech Republic had been successfully developing on the bilateral and multinational level in the context of the EU and NATO. Intensive development had been noted also between governments and parliaments, also due to similar experience of both countries with a totalitarian regime, but also because of similar interest in good relationships with neighboring countries, close approach to the transatlantic connection and similar opinions about the arrangement of the EU. Czech-Portuguese relationships were also boosted by visits involving the highest political and diplomatic level.

Portugal and the Czech Republic have a long-term intensive economic relationship that increased significantly after the Czech Republic joined the EU. In 2004 a sharp increase of the Czech exports was registered (29%). Portugal held 33rd position of the foreign trade turnover of the Czech Republic. The

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main Czech export commodities did not change and were: means of transport, metallurgical products, devices and mechanical tools, electronics, glass, plastic products, natural rubber, rubber-based products, and cotton.

Neither the main imported commodities from Portugal changed: TV and car radio components, motor cars, metallurgical products, natural rubber, cork, clothing, footwear, and pharmaceutical products. Following the 2003 trend, an increased interest for textile fibers and metalworking machines was registered (Ministry of Foreign Affairs, 2005)

In 2005, the relationship between the Czech Republic and Portugal, within the EU and the Euro-Atlantic alliance, kept successfully developing bilaterally as well as multilaterally, stimulating mutual communication and parliamentary dialogue. In May 2005, a new honorary Consulate of the Czech Republic started activity in Funchal – the capital of the autonomous region of Madeira. Mutual economic relations proved significantly dynamic, especially after the Czech Republic entered the EU. Both the Czech exports to Portugal and Portuguese exports to the Czech Republic significantly increased and the turnover doubled since the year 2000. The main Czech export commodities are still means of transport, manufactured goods classified by the type of the material, cars and their spare parts, metallurgical products, glass, textile, tires and metalworking tools. The main Portuguese import commodities also did not register significant changes (Ministry of Foreign Affairs, 2006)

In 2006, Portugal and the Czech Republic continued its important partnership, not only within the EU and NATO but also outside of it. The countries are connected by close opinions and positions about some of the European questions as they are for example important supporters of the principle of solidarity. Both countries are recipients of the funds from the Cohesion Fund and the Structural Funds of the EU. During the year 2006 a Bilateral Cultural agreement between Portugal and the Czech Republic was discussed and formed and its signing set out to enable more active cooperation in the area of education, science and research, for example. Mutual economical relationships kept dynamically growing and traded commodities did not change from the previous years (Ministry of Foreign Affairs, 2007).

In March 2007 during the official visit of the Czech Minister of the Interior to Portugal, a software and information about the application of the program 'SIS One 4All' was officially handed by Portugal. The program is related to the integration of the Czech Republic to the Schengen area. Portugal took an important part during enforcement of the enlargement of the Schengen area and supported the entrance of the Czech Republic.

During the second half of 2007 Portugal was holding the Presidency of the Council of the European Union. Within the Presidency there were official visits by the Czech Prime Minister and the Minister of Foreign Affairs to Portugal. Moreover several contacts at the ministry level were established. These bilateral meetings have strengthened the existing alliance between both countries. Also, discussions about the coordination procedures of the institutional reform of the EU were held, while in the end there was an obvious convergence of the positions of both countries.

Mutual economic relations have been growing. In 2007, Portugal held the 31st position of the Czech exports and 34th position of the Czech imports. The main commodities have not changed significantly. Traditionally the highest individual items of the Czech export were personal cars and their components. The radios and sound reproduction devices, chemically produced fibers, pharmaceutical products and wine enriched Portuguese exports (Ministry of Foreign Affairs, 2008).

Between January 2007 and June 2008 a growing tendency was found in the trade between Portugal and the Czech Republic. Regarding imports, these countries were responsible for 945.6 million euros in 2007, 1.7% of total imports. The Czech Republic (ranked at 27th globally) was the main partner then,

despite accounting for less than 0.6%. Regarding exports, in 2007 these countries were responsible for 848.3 million euros, 2.3% of total exports. The Czech Republic (25th) was the second biggest receiver of goods.

In 2008 mutual business relations between the Czech Republic and Portugal were developing very well. Especially since 1997, the Czech Republic registered a surplus and trade balance. Portugal kept the 30th position of the Czech export and 36th position of the Czech imports. The main export commodities from the Czech Republic are among others still machines and transportation. The main exports commodities from Portugal to the Czech Republic are above all machines and transportation, market products, chemicals, raw material (Ministry of Foreign Affairs, 2009).

Years 2009 to 2015

In 2009 the business relations between Portugal and the Czech Republic were affected by the global downturn in economic activity. In regards to the Czech exports, Portugal has moved up from 30th to the 27th position, and from 36th to the 34th position regarding Czech import. The turnover has moved up from 34th to the 32nd position. Among the Czech export, to the commodities previously mentioned have been added products like telecommunications equipment, screens, projectors, devices for heating and cooling, musical instruments, papers and paperboards. The main Portuguese export commodities have been also enriched with products like tobacco, electronics, measuring instruments, metal and plastic products, waste paper, and cork products (Ministry of Foreign Affairs, 2010)

In 2010 trade increased significantly between Portugal and the Czech Republic. From 518.7 million EUR in 2009 the number has increased to 682.0 million EUR in 2010. The export and import commodities have been expanding and have started to vary more than in the past years. The previous Czech export commodities to Portugal have been enriched by the navigational aid apparatus, processing units, TVs, the steel parts of motor vehicles, brakes, tires, speedometers for vehicles, parts of electrical capacitors, seamless pipes. The main Portuguese import commodities to the Czech Republic were enriched as well by audio players for motor vehicles, tire materials, electric capacitors, radios with cassette recorders, bleached wood pulp (cellulose), parts of seats, brakes (Ministry of Foreign Affairs, 2011).

During the last 4 years, Portugal has been strengthening its position considering the Czech trade relations; from the 64th position in 1993 it has moved to the 33rd position (regarding total turnover) from in 2011. The year 2011 has registered a very high turnover of the trade between Portugal and the Czech Republic, 719.3 million EUR. The numbers have proven that the crisis has not affected the CZ-PT trade significantly. However, in 2013 the mutual trade has noticed just an infinitesimal growth, while the balance remained the same. This was a good sign for Portugal. The main commodities of Czech exports for 2013 were, much like previous years, cars (24.6%), electronics (24.3%), mechanical tools (17%), products from steel and iron (4%), metallic products (3.8%), tires and rubber products (3.7%), furniture (2.6%), plastic and its products (2.5%), toys and sport equipment (1.9%), aluminum and its products (1.2%). The main commodities of Portuguese export for 2013 were electronics (23.2%), cars (10.1%), high-strength textiles (9%), unmanufactured tobacco (8%), plastic products (6%), mechanical tools (5.8%), products from steel and iron (5.5%), pharmaceutical products (4.1%), tires and rubber products (3.1%) (BusinessInfo, 2014).

The year of 2014 has shown a significant increase of the Czech export. The turnover has reached the highest number, 799.0 million €, making it obvious that the trade between the Czech Republic and Portugal has been increasing and that the mutual relationships and economies resisted the crisis well.

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The increase is moderated without significant deflections. This can mean a good prognosis of the future trade between those two countries.

As of 2014, the Czech Republic ranked at 18th globally with 0.67% of total Portuguese exports, and at 22nd globally with 0.7% of total Portuguese imports.

For the first time in history, trade between both countries was above the threshold of 800 million EUR.

MAIN CZECH AND PORTUGUESE COMPANIES INVOLVED IN TRADE

Main Czech Companies Trading with Portugal

The main Czech companies operating in Portugal are Skoda Auto and Moravia Steel. Skoda, a Czech car company, founded in 1925, is one of the oldest of this branch in the world. In 1991, became a subsidiary of the Volkswagen Group. In 2015, the company expects to strengthen its presence in the Portuguese market by 50%. «In 2014 the brand sales were slightly above the market average: grew 36.5%, although it has maintained its share compared to 2013. The fleets channel represented approximately 65% of total sales, with special focus on the taxi business, where the Škoda managed to extend their presence by 40% (Rebelo, 2015).

Moravia Steel Iberia is a Czech metallurgical company operating in Portugal, since 1997, based in Lisbon. It trades stainless steel products.

There are several Czech firms working as intermediary between PT and CZ, such as: Likor, Portugalmarket, Kateřina Kročilová, Cerfis Wines, Café Portugal, and Um Porto. Excepting Café Portugal, all of them import Portuguese wines. Portugalmarket and Cerfis Wines also import Portuguese olive oil, and Café Portugal only imports coffee (Ministério dos Negócios Estrangeiros, 2012).

Main Portuguese Companies Trading with the Czech Republic

The main Portuguese companies operating in Czech Republic are Mota-Engil and EFACEC. Mota-Engil, a Portuguese industrial conglomerate, works with civil engineering and construction, energy, steel works, transport concessions, environment and services. It also deals with logistics, retail and warehousing. EFACEC is a Portuguese group working with electro mechanics and electronics; it is the biggest company in this industry.

As Portuguese business established in Czech Republic, there are Café Oliveira and Trindadent. Café Oliveira is a very traditional Portuguese style of café, serving Portuguese snacks and wine. Trindadent is a Portuguese dental office based in Prague (Ministério dos Negócios Estrangeiros, 2012)

In 2013, 850 Portuguese companies exported to the Czech Republic, a number that has escalated from 748 in 2010 (AICEP, 2016b).

SOLUTIONS AND RECOMMENDATIONS

One can describe those markets as economically similar but culturally different. The cooperation and exchange of goods have been significantly growing after the Czech Republic entered to the European Union. However, the 2008 crisis disturbed the dynamic economic trade growth between both countries.

Still, after a small decrease and stagnation of the trade between those two countries, the last years have registered a slow recovery and the prognosis seems to be positive. However, if Portuguese and Czech authorities desire to increase trade and foreign direct investment between the two countries at a more accelerated pace, it is necessary to promote trade fairs among potential investors in order to overcome cultural and economic barriers, as well as the strong feelings of foreignness between both countries.

FUTURE RESEARCH DIRECTIONS

It would be interesting to understand how Portuguese firms are evolving in the Czech Republic and how Czechs firms are evolving in Portugal after their investment abroad. This would be important to understand how foreignness has affected their economic path abroad.

Taking into account the new important roles that have been given to economic diplomacy, it would be important to address how diplomats and economic players of both countries are deploying their strategies, and what resources are using to increase exports and trade.

CONCLUSION

One of the main conclusions is that trade has been increasing over time. Although exports from Portugal to the Czech Republic show an almost constant growth, exports from the Czech Republic to Portugal show several fluctuation, as a result of the economic unrest Portugal has gone through since 2008 financial crisis, which is reflected on the trade balance constant ups and downs favoring the Czech Republic.

Another important conclusion is that despite the heavy historical, cultural and economic differences Portugal and Czech Republic are improving their trade rankings. However, despite their growing trend their main economic partners are the same: Spain, and Germany for Portugal, and Germany, Slovakia, and Poland for the Czech Republic.

As supported in the literature review (Fink, Harms, & Kraus, 2008; Zanger, Hodicová, & Gaus, 2008; Zapletalová, 2012; Kubičková, & Procházková, 2014), Czech firms still follow a traditional sequential path when internationalizing their activities, showing strong feelings of foreignness and lack of understanding of foreign markets. As such, as most of the internationalization of Czech firms is to neighbor countries, the feeling of foreignness and the lack of understanding of foreign markets might be aggravated to far distant countries like Portugal, with which the Czech have more dissimilar cultural attributes.

Another conclusion is that despite this fruitful cooperation, both markets are too small, and possibly unattractive for a huge deeper future cooperation. Clearly, history plays a heavy role: Portugal is still concentrated in its former colonies, with a small psychic distance, common language, and close cultural gap, while the Czech Republic is still concentrated in its close neighbors, with whom they have close affinities.

One thing is clear, joining the EU was an important step for both countries to deepen their relationships. Future policy intervention is necessary to increase trade between both countries, as small and medium-sized firms may find it difficult to overcome their historical and cultural differences. This is tuned with what was proposed by Moini, Kalouda, and Tesar (2008) and by Ciešlik, Michałek, Michałek, and Mycielski, (2015) who propose the formulation of export promotion strategies for SMEs and the attraction of export-oriented FDI.

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There are several areas, such as heavy industries or electronics, which would possibly be attractive and interesting for investments or trade of both countries. For Portugal the wine industry, cork, celluloses and paper, or agricultural (fruits, fish, seafood) products could represent a sizeable source of future income.

For the Czech Republic, as an industrial country, metallic parts, cars, and heavy industries are still representing the most important source of income. However, IT and pharmaceutical industries have good perspectives for growth.

At firm level it is important to emphasize that it is necessary that firms embrace more assertive modes of entry (as foreign direct investment and franchising) in order to control distribution of goods in the recipient country, as for example Skoda is doing in Portugal.

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KEY TERMS AND DEFINITIONS

Balance of Trade (BOT): The difference between a country's imports and its exports. When a country imports more than it exports, one can say that it has a trade deficit. When a country exports more than it imports, one can say that it has a trade surplus.

Culture: Considered the collective programming of the mind. The main consequence of this collective programming is that members of groups, categories, or countries will tend to behave homogeneously among them, but heterogeneously between them. Culture is important in business as firms operating in different countries need to be aware of those differences. Several dimensions – Power Distance Index (PDI), Individualism versus Collectivism (IDV), Masculinity versus Femininity (MAS), Uncertainty Avoidance Index (UAI), Long Term Orientation versus Short Term Normative Orientation (LTO), Indulgence versus Restraint (IND) – have been put forward to meaningfully compare countries

European Single Market: Established by 12 countries in 1993 to ensure the so-called four freedoms: the movement of goods, services, people and money. With the European single market, EU citizens can study, live, shop, work, and retire in any EU country.

European Union (EU): A group of 27 countries (Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom) that operates as a cohesive economic and political block. It was formed in 1993 with the purpose of achieving political and economic integration. Nineteen of the countries use the euro as their official currency.

Exports: An export is a function of international trade whereby goods produced in one country are shipped to another country for future sale or trade. Exports contribute to the producing nation's gross output.

Foreign Direct Investment: A foreign direct investment (FDI) is an investment made by a company or entity based in one country, into a company or entity based in another country. It normally includes mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans.

Imports: A good or service brought into one country, but produced in another country. The higher the value of imports entering a country, compared to the value of exports, the more negative that country's balance of trade becomes.

International Trade: The exchange of goods and services that connect people, businesses and countries along international borders in global processes of production and consumption.

SMEs: Abbreviation of small and medium-sized enterprises. Although there are plenty of definitions across the world, the working definition used in this document is the one that was created by the European Commission, to permit a coherent and effective access of SMEs to European community funds.

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