

Economic Cooperation between Czech Republic and China



Levin Zhu

CEO and President

China International Capital Corporation

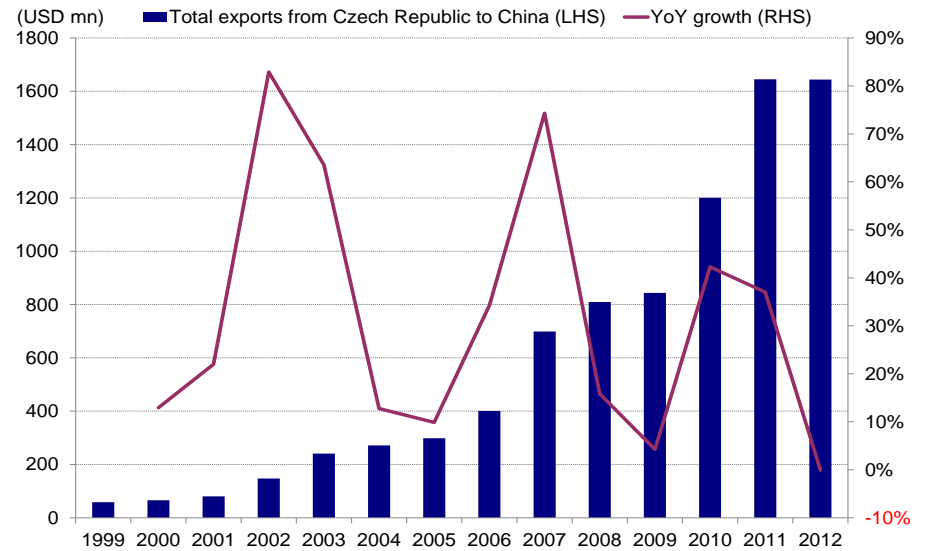
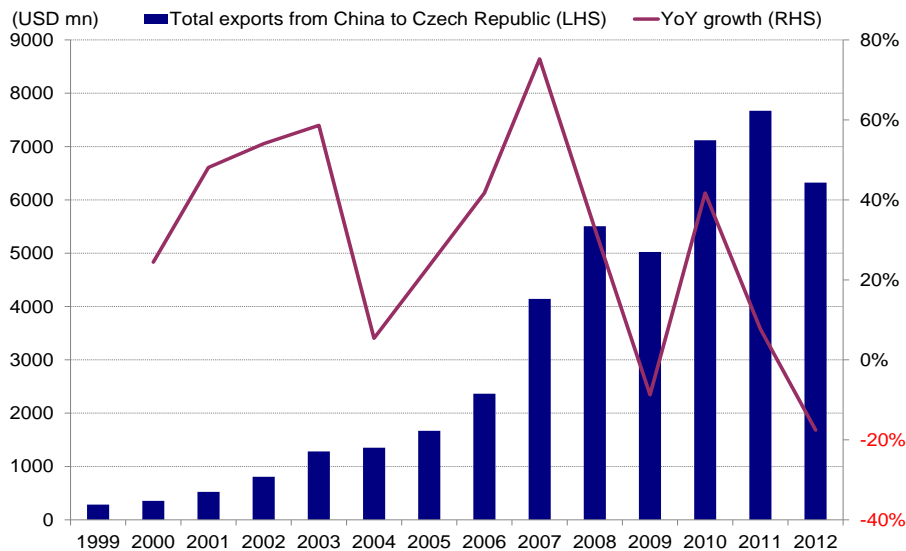
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Bilateral trade increased substantially

- Czech Republic is China's second largest trade partner in Central and Eastern Europe and China is Czech Republic's third largest trade partner
- China's import from Czech Republic mainly includes: industrial machinery and equipment, electrical products and components, power equipment, vehicles and parts, etc.
- Czech Republic's import from China includes: office automation digital processing equipment, communications equipment, electrical appliances, industrial machinery and equipment, etc.

Export from China to Czech Republic increased notably in the past 10 years

Export from Czech Republic to China also witnessed visible growth over the past 10 years



Source: CEIC, CICC Strategy Research

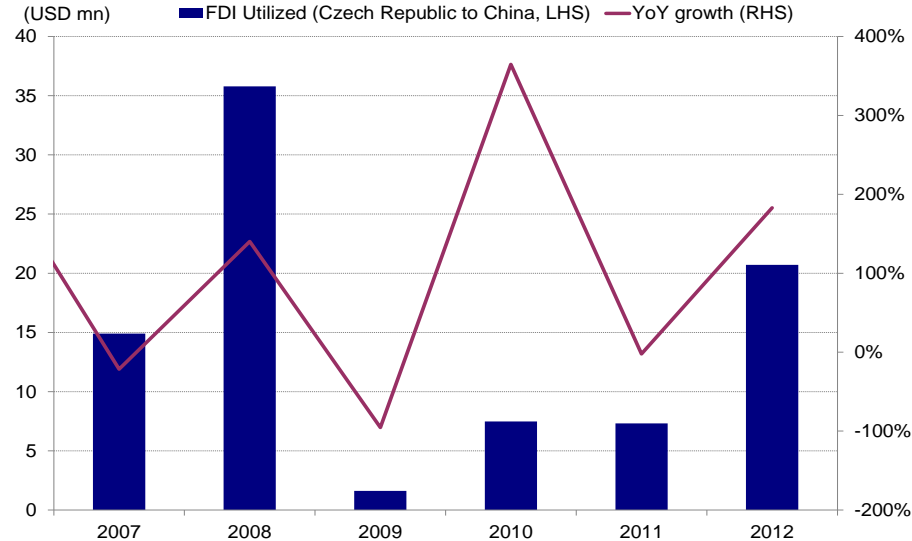
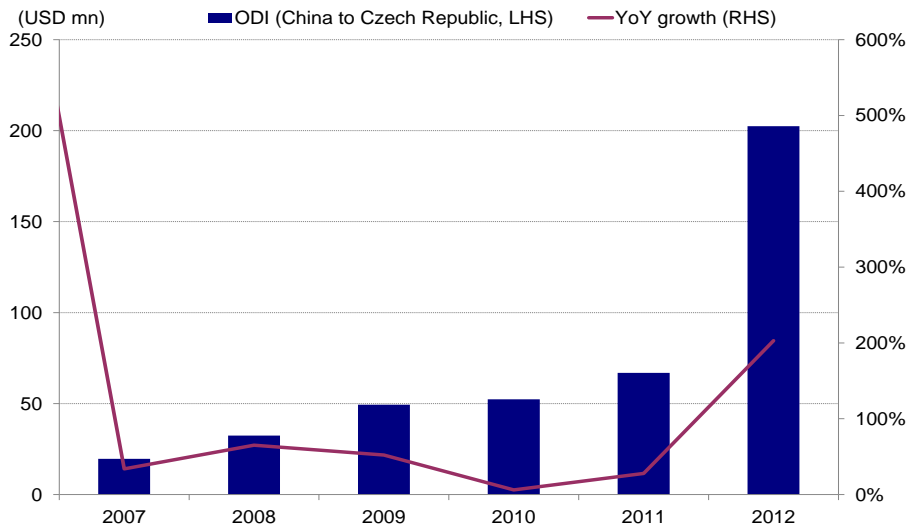
Source: CEIC, CICC Strategy Research

Direct investment also saw strong growth

- Thanks to Chinese government's continuous promotion of the going-out strategy, China's outward investment in Czech Republic expanded significantly
- China's major investors in the Czech Republic includes Huawei Technologies, ZTE, Changhong Electric, etc.
- Czech Republic's investments to China recovered steadily after the Global Financial Crisis

China's outward investment to Czech Republic accelerated

China's utilized FDI from Czech Republic increased over the past few years



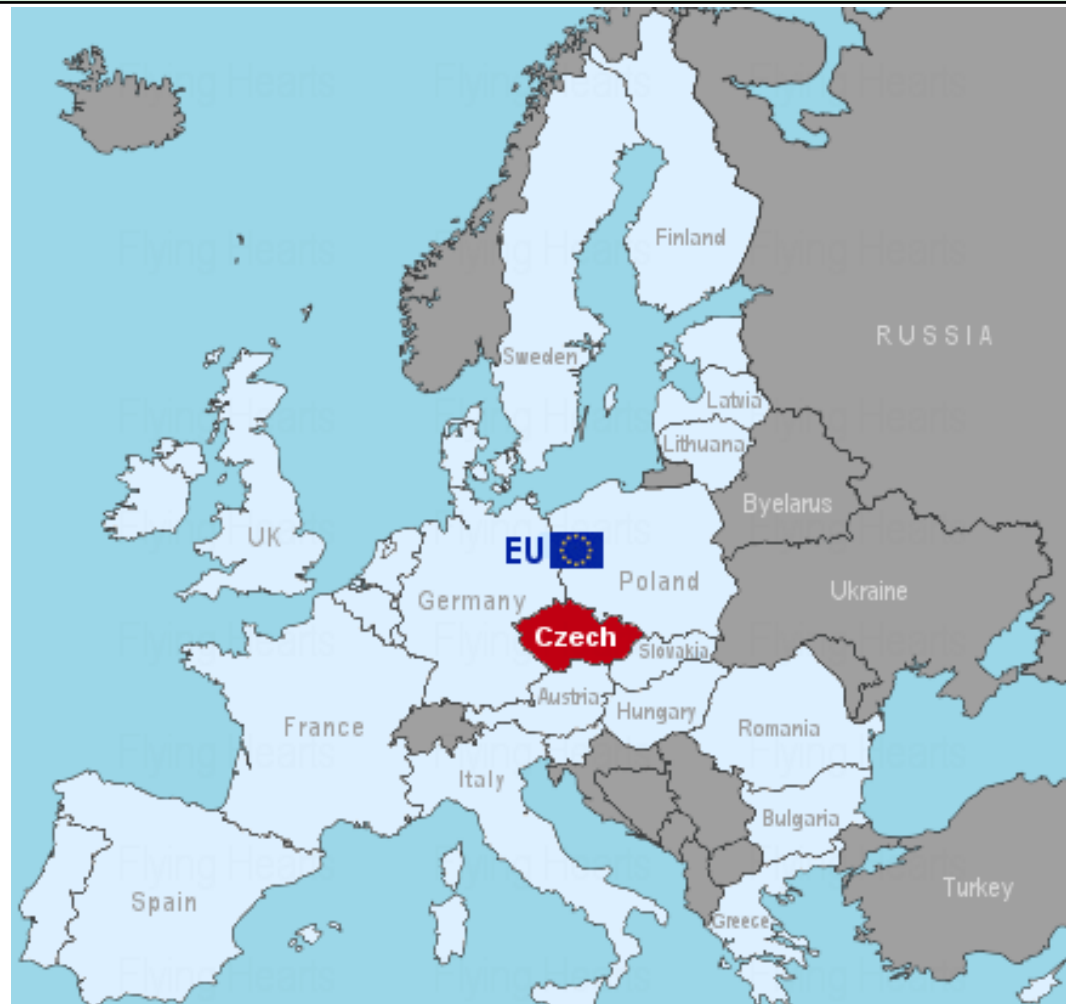
Source: CEIC, CICC Strategy Research

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Czech Republic's strategic location

- Czech links Eastern and Western Europe and is of strategic importance for trade and transport in Europe
- Czech is a strategic partner for China to expand its international trades to both Eastern and Western Europe

Location of Czech Republic



Source: CICC Strategy Research

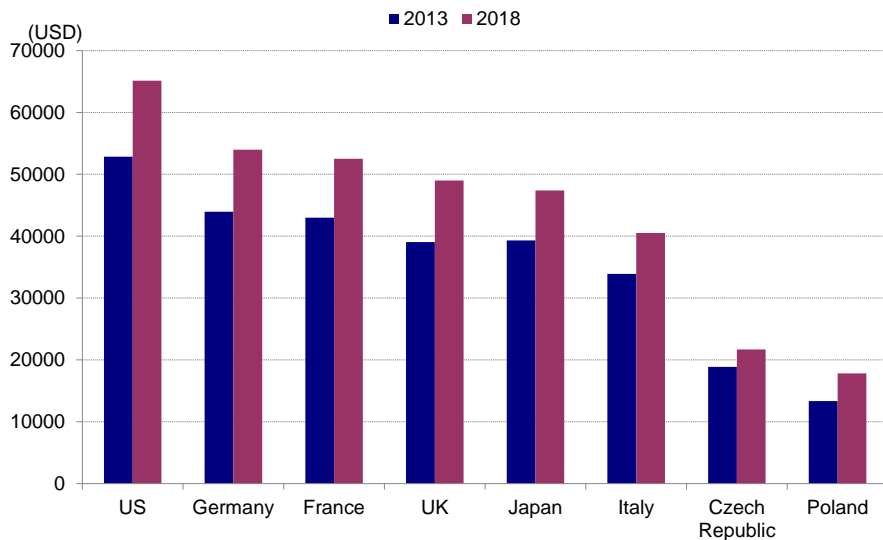


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中國國際金融香港證券有限公司
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Czech Republic's development means opportunities for China

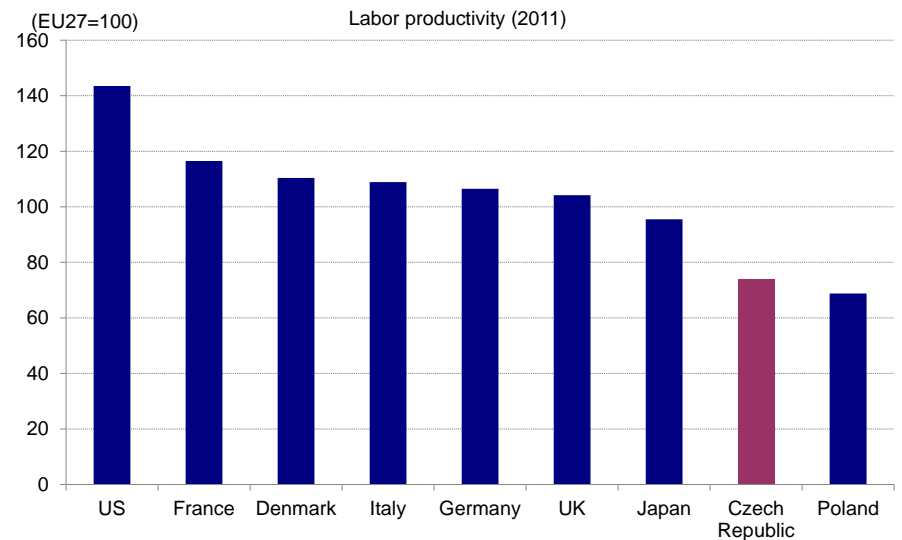
- Compared with other developed economies, Czech Republic lags behind in terms of national income and labor productivity
- This suggests room for improvement and growth potential ahead, which could provide possible investment opportunities for leading Chinese corporations

GDP per capita lags other developed countries but will pick up further



Source: IMF WEO, CICC Strategy Research

Labor productivity looks low compared with other developed economies



Source: Czech Republic Statistics website, CICC Strategy Research

China's expediting reform breeds investment potentials

- We expect China to launch a series of structure reforms to boost growth quality and sustainability
- Possible measures include opening up a range of areas for foreign investors and lowering entry barriers in more industries, making a more friendly environment for foreign investors such as Czech Republic

China's possible forthcoming reform areas and measures

Reform Areas	Possible Measures
Government administration	<ul style="list-style-type: none"> - Streamline government administration and reduce reviews and approvals - Enhance the transparency of government operation and set local government reporting to local NPC regularly
Industrial reform	<ul style="list-style-type: none"> - Lower entrance barrier and exert effective supervision upon some naturally monopolized area - Reorganize telecom industries, spin-off pipelines from oil & gas majors, open investment on railway sector and introduce more competition on electric power generation market
Financial reform	<ul style="list-style-type: none"> - Promote Rmb as a major international currency in 10 years and achieve capital account convertible - Liberalize interest rate and carry forward market-based reform of CD interest rate - Lower the financial industry entrance barriers
SOE reform	<ul style="list-style-type: none"> - Re-define SOE responsibility and better use of state's stake in SOEs - Set up state capital funds to run SOEs according to their responsibilities - Improve SOE's corporate governance and managerial professionalism
Open-up and economic system reform	<ul style="list-style-type: none"> - Open up services industries such as energy, telecommunication and finance and improve trade facilitation to attract high-end industries
Innovation & green development	<ul style="list-style-type: none"> - Form equal and competitive markets and give enough space and trial period to new business format, new business model, new technology on telecom, e-commerce, new energy, electric vehicles and finance sectors - Enhance environment protection and green development by improving competition and employing an incentive scheme
Fiscal & tax reform	<ul style="list-style-type: none"> - Allocate fiscal revenue between central and local government to match their responsibilities - Deploy national social security package that covers pension, health care, education and minimum living allowance with more flexibility and convenience - Expand property and consumption tax to become the main tax category of local tax revenue
Land reform	<ul style="list-style-type: none"> - Give farmers rights on their collective lands and allow collective lands to trade - Form a unified market that both rural and urban lands have equal rights - Set up land property tax system

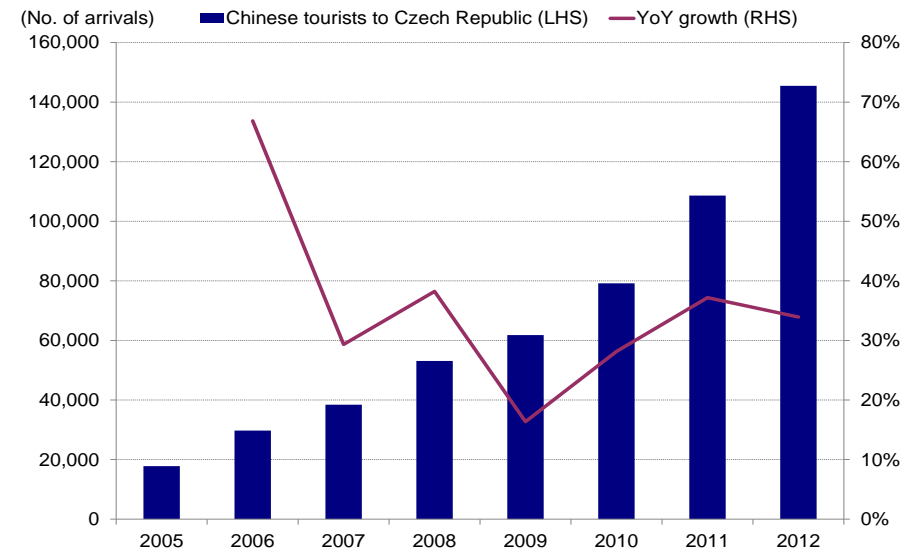
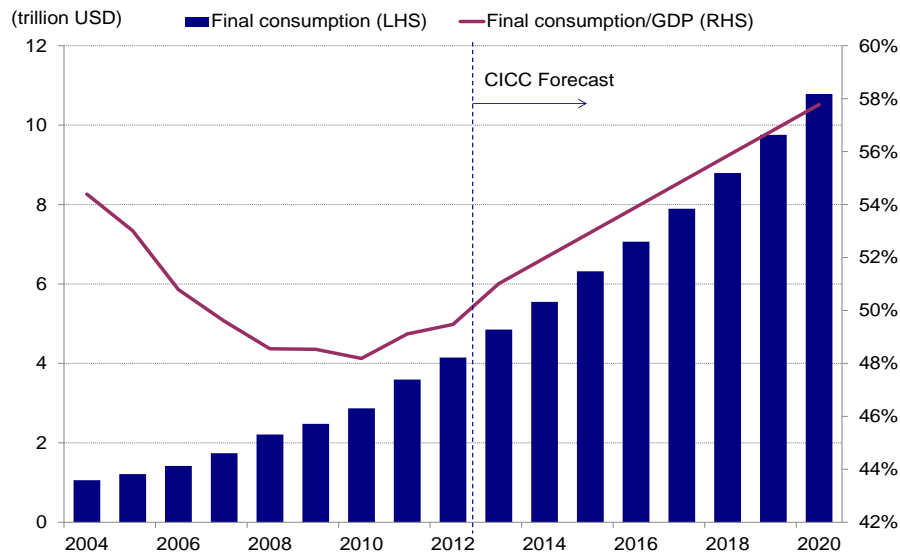
Source: "383" program by Development Research Center of the State Council, CICC Strategy Research

China's structure rebalance could enhance import growth

- With expediting reforms, we expect China to further embrace economic structural adjustment from investment-driven to consumption-based and may surpass Japan to become the world's second-largest consumer in by 2020
- China's burgeoning middle class and potentially strengthening consumption growth could offer enormous opportunities for Czech Republic's exports as well as its domestic tourism business

China is expected to continue promoting structural adjustment towards consumption

Chinese tourists to Czech Republic increased visibly in the past few years



Source: CEIC, CICC Strategy Research

Source: TourMIS, ETC, CICC Strategy Research

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