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**Analysis of the Investment Environment of Chinese
Commercial Properties in Czech Republic**

Master's thesis

IMESS

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Study programme: IMESS

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Year of the defence: 2019

Declaration

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Abstract

Many countries would like to use foreign direct investment to increase the growth of GDP and promote stable development. The Czech Republic is one of the countries having the largest FDI within Central and Eastern Europe. Meanwhile, Chinese investments have increased significantly and already became an important feature of the China-Europe relationships during recent years. The closer cooperation between China and Europe could encourage FDI. Within the kinds of FDI, the real estate industries experienced a rapid increase in many developed and emerging regions. Therefore, the aim of this study is aiming to analyse the investment environment of Chinese commercial properties in the Czech Republic. Two basic research designs will be employed for this research. The first design is focusing on collected recent available data to present the investment climate of the Czech Republic. In this part, we also make comparisons of the Czech Republic with several economies. We found that the relatively low cost of labour, low inflation rate, easier to set-up a business (in terms of both times consuming and cash consuming) make the Czech Republic becomes more attractive. And this is consistent with the empirical analysis. Secondly, the questionnaire method was used for the study and we get back 108 questionnaires. In this part, we include both subjective and objective questions. And we also discuss some interesting responses of the open questions at the end of Chapter.

Abstrakt

Mnoho zemí by chtělo využít přímých zahraničních investic ke zvýšení růstu HDP a podpoře stabilního rozvoje. Česká republika je jednou ze zemí s největšími PZI ve střední a východní Evropě. Mezitím čínské investice významně vzrostly a již v posledních letech se staly důležitým rysem čínsko-evropských vztahů. Užší spolupráce mezi Čínou a Evropou by mohla podpořit přímé zahraniční investice. V rámci druhů přímých zahraničních investic zaznamenaly odvětví nemovitostí v mnoha rozvinutých a rozvíjejících se regionech rychlý nárůst. Cílem této studie je proto analyzovat investiční prostředí čínských komerčních nemovitostí v České republice. Pro tento výzkum budou použity dva základní výzkumné návrhy. První návrh se zaměřuje na shromážděná data, která jsou k dispozici pro prezentaci investičního klimatu České republiky. V této části také porovnáváme Českou republiku s ekonomikou služebních. Zjistili jsme, že relativně nízká cena práce, nízká míra inflace, snazší zřizování podniků (z hlediska času i spotřeby peněz) činí Českou republiku atraktivnější. A to je v souladu s empirickou analýzou. Zadruhé, pro tuto studii byla použita metoda dotazníku a dostáváme zpět 108 dotazníků. V této části se zabýváme jak subjektivními, tak objektivními otázkami. Na konci kapitoly také diskutujeme o zajímavých odpovědích na otevřené otázky.

Keywords

Czech Republic, China, Commercial Properties, FDI, Real estate, Investment climate, Questionnaire, Strategic location, Labour costs, Economic growth

Klíčová slova

Česká republika, Čína, Komerční nemovitosti, PZI, Nemovitosti, Investiční klima, Dotazník, Strategické umístění, Mzdové náklady, Ekonomický růst

Title

Analysis of the Investment Environment of Chinese Commercial Properties in Czech Republic

Název práce

Analýza investičního prostředí čínských komerčních nemovitostí v České republice

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I want to thank my supervisor PhDr. Pavel Vacek of the Faculty of Social Sciences. He provided me with much help on topic selection and has always been willing to assist with precious suggestions and advice. Through this year, I have studied lots of skills that not only improve my ability in the study but also help me in my future career. I still remember the first day we met in university, I felt so stressful of my thesis topic and content, he encouraged me and said that 'you can do this'. This supported me a lot during my study.

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TABLE OF CONTENTS

1.	INTRODUCTION	14
1.1.	The Background of the research	14
1.2.	The overview of the Czech Republic.....	16
1.3.	Investment attitude of China.....	16
1.4.	Chinese Investment in the Czech Republic	18
1.4.1.	Investment Incentives	19
1.5.	Problem Statement.....	20
1.6.	Objectives of the Research.....	21
1.6.1.	Aim	21
1.6.2.	Specific Objectives	21
1.7.	Significance of the Research.....	22
2.	LITERATURE REVIEW	23
2.1.	Theoretical Framework.....	23
2.1.1.	Internationalization Theory.....	23
	Figure 2.1: The Internationalization Theory.....	23
2.1.2.	Global value chains.....	25
2.1.3.	Some background based on the internationalization theory of China and CEE economies.....	26
2.1.4.	Human Capital (HC) theory.....	27
	Figure 2.2: The direct and indirect relations between high level of HC with FDI	30
2.2.	FDI and Economic Growth.....	30
	Figure 2.3: The demand and the supply of property.....	31
2.3.	The background of investment climates of the Czech Republic.....	32
2.3.1.	Investment protection.....	33
2.3.2.	Inflow of FDI.....	33
2.3.3.	Services Surpass Manufacturing.....	33
2.3.4.	Performance of Foreign Companies in the Czech Republic.....	34
2.3.5.	Highly developed property market	34
2.4.	Czech-China Relationship	35
2.5.	Chinese Investments within the Czech Republic.....	37
2.6.	Investing in the Czech Republic	38

2.6.1.	Competitive advantage of the Czech Republic in general	38
	Figure 2.4: GCI of the Czech Republic	38
	Figure 2.5: Competitive advantage	39
2.6.2.	Well established Property Market.....	40
	Figure 2.6: The tax of the real estate per/m2 (CZK).....	41
2.6.3.	Strategic Location	42
2.6.4.	Infrastructure in the Czech Republic	43
	Figure 2.7: Infrastructure in the Czech Republic.....	44
2.7.	Opportunities for Partnership.....	44
2.8.	Categories of Commercial Real Estate in the Czech Republic.....	45
2.8.1.	Industrial and Warehouse Market	46
2.8.2.	Residential property	46
2.8.3.	Office Market.....	47
2.8.4.	Brownfields.....	47
2.8.5.	Competition.....	48
2.9.	Summary	49
3.	METHODOLOGY	50
3.1.	The major data sources in the study.....	50
	Table 3.1: Source of data	50
3.2.	Research Design.....	51
3.3.	More details of the two research methods	52
3.3.1.	Review of available data	52
3.3.2.	Questionnaire	53
4.	FINDINGS AND DISCUSSION.....	59
4.1.	Comparison with the Czech Republic and CEE countries/ Neighbours.....	59
4.1.1.	The comparison of the basic indicators of the economies	59
	Table 4.1: Credit rating comparison	60
	Table 4.2: Macroeconomic factors of the Czech Republ.....	62
4.1.2.	The comparison of the labour costs	63
	Figure 4.1: Nominal and Real wage growth in the Czech Republic.....	64
	Figure 4.2: Net average salary	65
	Figure 4.3: Average gross monthly wages in the regions of the Czech Republic in 2016	66

4.1.3.	The cost of set-up a business in the country	67
	Table 4.3: Cost of business starting-up (% of GNI per capita).....	67
	Figure 4.4: The graph of the Table 4.1	69
4.1.4.	Procedures to set-up a business and the time required to start-up procedure 69	
	Table 4.4: Number of the procedures	70
	Table 4.5: Number of the days needed	71
4.1.5.	The comparison Czech with Europe and North America through the 12 pillars in GCI index.....	71
	Figure 4.5: GCI index relative to Europe and North America.....	72
4.1.6.	Summary	72
4.2.	Findings in the questionnaire	73
4.2.1.	Summary of the survey collection	73
4.2.2.	Demographic features of the respondents.....	73
	Figure 4.6:Demographic description	74
	Table 4.6: Number of the days needed	74
4.2.3.	Company profile (section A of the questionnaire).....	75
	Figure 4.7: Type of Firm.....	75
	Figure 4.8: Number of Employees.....	76
	Figure 4.9: Number of Years in Operation	77
4.2.4.	Real estate operations in Czech	77
	Figure 4.10: Real estate operations in Czech.....	77
	Figure 4.11: Company Profitability	78
4.2.5.	Foreign Direct Investments Determinants	78
	Table 4.7: FDI Determinants	79
4.2.6.	Bivariate Analysis.....	81
	Table 4.8: Bivariate analysis.....	82
4.2.7.	Ranking the most problematic factor for doing business in Czech Republic 83	
	Table 4.9: The most problematic indicators to invests in the Czech Republic.....	85
	Figure 4.12: The weighted value from the table 4.3	85
4.2.8.	Some findings in open questions	86
5.	SUMMARY, CONCLUSION, LIMITATIONS OF THE STUDY AND RECOMMENDATIONS.....	88

5.1.	Summary of the studies.....	88
5.2.	Conclusion	91
5.3.	Limitations of this studies.....	91
5.4.	Recommendations on further studies.....	93
REFERENCES		95
APPENDICES		108
	Appendix 1: Questionnaire	108
	Appendix 2: The GCI in detail.....	111
	Appendix 3: Rents in industrial premises per/m2.....	112
	Appendix 4: class-A office headline rents	113
	Appendix 5: Most problematic factors for doing business	114
	Appendix 6: Dissertation project	115

‘FDI is one of the most relevant aspects of the recent wave of globalization’

—Bajo Rubio, Díaz Mora, and Díaz Roldán (2010).

‘The Czech Republic is one of the most FDI- intensive countries in CEE.’

—Septimiu Szabo (2019)

‘China will promote outbound foreign direct investment transactions that are strategically important to China’s growth and development e.g. Infrastructure projects that are tied of the Belt and Road Initiatives’.

— Le Xia and Betty Huang (2018)

CHAPTER ONE

INTRODUCTION

1.1. The Background of the research

The Czech Republic is by no coincidence one of the countries having the largest foreign direct investment i.e. FDI within the Central and Eastern Europe (Szabo, 2019). The people of this country are well recognized for their keenness on professionalism and quality, a need for learning fresh things as well as their capability for being productive. Such a business environment creates favourable conditions for investors who willing to invest in the country. In addition, investors admire attributes such as low rates of interests, stable business environment as well as apparent legislation. Today, the Czech Republic no longer depends on its inexpensive labour to attract investors to venture in the country. The overall investments volume stretches even to other sectors that are not labour intensive such as research and development (R&D), support services as well as technology centres (Deloitte,2015).

During the recent decade, China experiences a sharp increase in the economy, and it surpasses Japan becoming the second largest economy of the world in 2011. FDI is one of the key factors that promote the development of China. The success of Chinese firms can be attributed to the strong bilateral relations between the nations in return (Bayraktar-Saglam & Böke, 2017). In order to maintain and then improve its significance in the world, the Chinese government proposed a new paradigm of globalization, i.e. the Belt and Road Initiative (B&R), in 2014, and Europe is an important part of this policy.

Most of the economies in the world hope to increase the growth rate if its economy and also maintain the stability of the development. FDI is one of the useful tools that could help them to achieve such goals. There are some pieces of evidence show that it is a significant increase of the proportion of FDI flow in services industries, and it also shows an increasing tendency to supplant

the traditional FDI sectors, i.e. primary areas and manufacturing areas¹. The growing trend of FDI in the services sector is mainly because of the increasing influence of services sectors on GDP in the world and the special feature (unlike goods, most services are not removable) of many services might also lead to the boom of services in the world, especially in the developed region². Within the kinds of the services industry, the real estate industries experienced a rapid increase to greater internationalization level and the influence of FDI in real estates (FDIRE) sectors increased in many developed and emerging region³. For instances, in 2010, FDIRE takes up to more than 20 percent of total FDI inflows of China⁴ and FDIRE accounts for almost 40 percent of total FDI inflows in Spain (Rodríguez and Bustillo, 2010). In India, the real estate sector ranked the 2nd attractive industry in FDI in 2007, which was just it just behind the computer software industry⁵ (Economist Intelligence Unit, 2008).

In Europe, Chinese investments have increased significantly during recent years and already became an important feature of the China-Europe relationships. The closer cooperation between China and Europe could encourage the investments and the Chinese FDI in Europe reached the highest level in 2016, that is about 37 billion Euro (Haneman, Huotari and Kratz, 2019), compared with just 1.6 billion EUR in 2010. From 2016, Chinese FDI in the EU experiences a decreasing trend because of recent change regulatory. However, this is expected to return because of the worse relationships between the United State and China (Haneman, Huotari and Kratz, 2019).

As China continues to focus on developing, growing, and integrating under the global horizon, its global investments expand quickly both in the quality and quantity during recent years. This leads to a more sophisticated economy of China and wider goals on Chinese commercial and policy. In

¹ Source from UNCTAD 2004 project <https://unctad.org/en/Pages/publications.aspx>

² Source from UNCTAD 2004 and 2006 project <https://unctad.org/en/Pages/publications.aspx>

³ Source from UNCTAD 2008 project <https://unctad.org/en/Pages/publications.aspx>

⁴ Source from UNCTAD 2011 project <https://unctad.org/en/Pages/publications.aspx>

⁵ Data collected from Economist Intelligence Unit, 2008.

addition, Chinese investment is creating a new relationship with Europe for better cooperation, which could be convenient and benefit the FDI flowing between China and Europe (de Castro & Hnat, 2016).

1.2. The overview of the Czech Republic

The Czech Republic has been experiencing a successful transition in the national economy with regards to encouraging FDI. According to the Ministry of the Czech Republic (2019), there are foreign capital supports more than 130,000 Czech companies across all industries. In fact, over \$100 billion in FDI in the Czech Republic has been recorded. The Czech Republic is also ranked amongst the top-ranked economies according to surveys with Ernst & Young on European attractiveness. Similarly, the Government for FDI ranks Czech Republic is the first among the CEE nations with regards to per capita inflows and FDI stock. However, recent statistics by the UCTAD world Investment report of 2018, the inflows of FDI to the country have declined from 9.8 billion USD to 7.4 billion USD during the 2017 financial year (Banco Santande, 2019). While the country was ahead of Poland in terms of FDI inflows within Central Europe. As such this market offers various advantages that China can exploit when investing in commercial properties. These advantages include an established real estate market, Czech's Invest support, supplier base, educated workforce, strategic location, investment incentives (Durica, Guttenova, & Svabova, 2018).

1.3. Investment attitude of China

The changes in patterns and motivations of China are consistent with the proposed new policy, i.e. "Reform and opening-up" policy, that is, the Chinese government starts to encourage the nation's abroad investment that connects the Chinese economy with the global economy. However, only the state-owned enterprises (SOEs) allowed investing abroad during the early stage. The sum investment during the early years of the policy was not vast and also concentrated in the neighbouring areas, such as Hong Kong. After 1985, the regulations permitted a wider scope of

firms to join the opening-up policy (such as large private companies). Since 1992, the overseas investments increased significantly after the present Deng made the Southern tour. Since then Chinese firms start to establish oversea divisions. Nevertheless, the FDI of China was about 450 million USD every year on average during the year form 1982 to 1989 summarized by UNCTADstat⁶; however, this number increased to 2.3 billion USD during 1990-99 (Bravi & Rosii, 2012).

Before China joined the WTO, the Chinese government proposed the new policy “go global” (called “zou chu qu” in Chinese). The purpose of this policy is to encourage domestic firms to gain on the global horizon. Following this policy, the government then introduced other policies to support firms to be more globally competitive. In 2001, the government implements the tenth five-year plan, which also emphasizes the importance of worldwide cooperation (Buckley et. al, 2008). The “go global” policy shift became an important aspect of the continuing liberalization and reform of the economy of China. Additionally, it also represents that the Chinese government is willing to set up a number of competitive and famous firms and brands of the world. The next two plans, i.e. 11th and 12th underlined the significance of promoting and expanding FDI again. And nowadays, this already became one of the major aspects of Chinese development strategy on a worldwide view.

The FDI of developed countries shrinks a lot after the global financial crisis, while the outward of Chinese investments increase a lot relative to the past. From the year 2007 to 2011, FDI from developed region decrease more than 30 percent, in contrast, that number increased about 189 percent in China⁷. According to the World Investment Report (2013), China caught up some major developed countries, and changed its status from the sixth to the third largest investors in the year of 2012, in the ranks of top investors after the United States and Japan. As a major investor in the emerging countries, the investment of China increased significantly in developed regions since

⁶ Source from <https://unctadstat.unctad.org/EN/>

⁷ Data collected from UNCTAD 2012.

2008. In 2016, the FDI net outflows of China reached 216.5 million USD⁸. In addition, after analysing the actual FDI final destination, Wang (2013) indicated that 60 percent Chinese FDI came to developed regions (such as HK, Canada and the US). To conclude, the Chinese gradually open its economy to the rest of the world. While, unlike other large economies, SOEs are important for Chinese FDI performance.

As the concept of CEE, it might be too time-extensive and complicated to conduct a study that analyses every country. Thus, we will pay attention to the Czech Republic and its relations to China. The Czech Republic, Bulgaria, Slovakia, Hungary, Poland and Romania are the most developed countries and also the most important parties of CEE. Although there are some differences among these six economies, they still have some common features. In addition, Germany and Austria will also be discussed in Chapter 4. Although they are not belonging to the CEE economies, as the neighbours of the Czech Republic, it might be meaningful to compare the statics in the region study.

1.4. Chinese Investment in the Czech Republic

China started to search for investment opportunities across the world, and the impact of China increasing during recent decades, especially after the present Xi promote the ‘B&R’ in 2013. After Present Xi first visited the Czech Republic in 2016, the cooperation between the two economies became much closer than before. The bilateral investment sharply increases between the two economies. According to the agreements (2017), Chinese investment in the Czech Republic is about 390 million USD⁹. From the first three quarters of 2018, the investment adds 76 million USD, and at that point, the total investment of China in the Czech Republic reached nearly three billion USD. Chinese investment has increased significantly in the Czech Republic during the past three years and these numbers are also expected to increase in the future.

⁸ The source of the data is <https://data.worldbank.org/indicator/BM.KLT.DINV.CD.WD?locations=CN>

⁹ The data collected in the statement of Chinese embassy in Czech Republic.

In general, the FDI of Chins mainly focuses on natural resources, while the portion of other industries also plays an important role, such as commercial real estate. Cushman and Wakefield (2019) study with the growth of investment in commercial real-estate within Europe. In 2019, it becomes the largest part of the investment in Europe.

1.4.1. Investment Incentives

The Czech Republic has a full-grown parliamentary democracy and among the most progressive amidst the CEE nations. The economic policy of the Czech Republic is steady and predictable. In addition, it has an open investment climate consequently it has attracted a lot of FDI inflows since 1990 that has made it as the top CEE nation with regards to FDI per capita (Czechinvest, 2018). This success is a result of various incentives by the government and President Zeman has been mainly focused on attracting Chinese capitals in the country (Seaman, Otero-Iglesias & Huotari, 2017). The initial visit of the Chinese President in the nation led to the signing of agreements and investment memorandums valued at EUR 7.39 billion for the 2016 to 2020 period.

According to Seaman, Otero-Iglesias & Huotari (2017), following this meeting, Chinese investments in the Czech Republic have increased over time. For instance, the Chinese FDI in the Czech Republic is 5 times more than previous years in 2015. According to Czechinvest (2018), China has risen to the fifth place of the top investors in the Czech Republic. Notably, CEFC (China Energy Company Limited) has been at the forefront of investing in real estate and other sectors such as logistics, transport infrastructure and aviation within the Czech Republic. Within commercial real estate, the company deals in the sectors of office, industrial and logistics, prime residential property as well as hotels and leisure. On the other hand, Different entities of China have invested in the Czech Republic market and have experienced different success levels. Some of these entities that have been developed from scratch include the factory Changhong LCD neighbouring the Czech Republic centre that had approximately 35 million euros invested in the country since 2006.

In addition, the logistics and the industrial market have also been experiencing rapid growth. The CEFC China Energy expansion, as well as other entities of China into the Czech Republic, has been facilitated by profound business and political ties with various left-wing leaders within the Czech Republic. In addition, China has been able to gain influence with various former and current politicians belonging to the Czech Social Democratic Party (ČSSD). However, Andrej Babiš the Prime minister was sceptical of the CEFC activities within the country based on the notion of minimal benefits for the economy of Czech as well as the opaqueness of the investments of China.

1.5. Problem Statement

Like other service areas (for example transportation industry and financial sector), FDIRE has also been found as one of the key factors of economic growth, which stimulates activities in its own sector and then further stimulates other related sectors (Msason and Fereidouini, 2012). In addition, Basu and Yao (2009) indicated that FDIRE has favourable influences on the attracting talents who have higher education background. This might mainly because of the high demand for analysts on property and architectures as well as employment in the real estate area. Furthermore, according to Rodríguez and Bustillo (2010), FDIRE could also attract world-wide tourists to the host country because tourism benefits real estate development directly.

While some scholars indicate that FDI in services industry does not enhance the growth at all the time. During the recent decade, there have been increasing interests in a study the effect of outside capital inflows (such as hot money) on prices of assets. The FDI in nonfinancial services sectors (for example in education, real estate and transportation sectors) might drain resources and then harm the manufacturing industry development (Doytch and Uctum, 2016). Although the FDIRE might lead to the growth of economic, the appreciation of property price which is hidden behind cannot be neglected. There are several observers and economists mention that the increased amount of FDIRE do stimulate the price of property increase (Rodríguez and Bustillo, 2010 and Mihaljek, 2019). Therefore, the FDIRE sometimes is considered as one of the responsible reasons

that lead to the increase of the property price in many economies. And the local government started paying more attention to the regulation of FDIRE, since the boom of outside cash flow to real estate industry.

However, other people mention that the FDIRE should not be a major reason for the appreciation of property price (Gholipour, Al-mulali and Mohammed, 2014). This is because that FDIRE usually takes up a small part of the total real estate markets in economies.

1.6. Objectives of the Research

1.6.1. Aim

The purpose of this study is to analyse the investment environment of Chinese commercial properties in Czech Republic.

1.6.2. Specific Objectives

- 1) To assess the investment environment in the Czech Republic. Data that collected in Chapter 4 first state the basic information of the Czech Republic and then make a series comparison with its neighbours and some CEE countries. This could guidance for the Chinese investors to better understand the investment climate of the Czech Republic. By doing this, investors could hold a more general view on the investment in this country. From this perspective the analysis is also suitable for other investors who are not Chinese;
- 2) To investigate the real estate categories that are most commonly invested in the Czech Republic. This turn to discuss the choices of the investment of real estate. By doing this, investors could hold a more specific view of this area. This part mainly wrote in Chapter 2;

- 3) And to explore the characteristics of FDI in the Czech Republic. The question used in this study and hoping to collect investors views on the FDI. Then, it will follow a discussion of that part in Chapter 4.

1.7. Significance of the Research

The results of this paper might be useful for policy-makers to hold a more integrated, precise and objective view of whether FDI in the Czech Republic can contribute to economic growth (Chapter 2). It would also inform investors the investment climates of the Czech Republic in a broad view as well as the specific areas to invest in the country and all other available opportunities. Although this paper is based on the investment climates in the Czech Republic for Chinese investors, it might be still useful for other investors who interest to invest in the Czech Republic. In addition, it could also be a guidance for them to better know the past, current and forecast situations, comparing with its neighbours and some CEE economies (Chapter 4, section 1), which also shows the relative advantages and disadvantages of Czech with the comparison countries. Finally, this study also performs a questionnaire method to collect data from the Chinese who already live in Prague, which is supposed to be a useful way to collect data (Chapter 4, section 2). And results analysed from this method is also supposed meaningful for potential investors.

CHAPTER TWO LITERATURE REVIEW

2.1. Theoretical Framework

2.1.1. *Internationalization Theory*

According to Pilinkiene (2008), internationalization concept is explained as the company's expansion, penetration to the new markets at the same time passing to the new product life cycle stages. The optimal decision for FDI should be taken after evaluation of the stage of the product life cycle, the company's competitive advantages and alternative projects costs. According to the "Uppsala" model, which is one of the main models, explaining internationalization theories, the company's internationalization could be explained as a process when the company consistently increases its internationalization involvement. This process appears as knowledge about international markets changes, operation in them as well as increasing commitment to these foreign markets' resources (Forsgren, 2002).

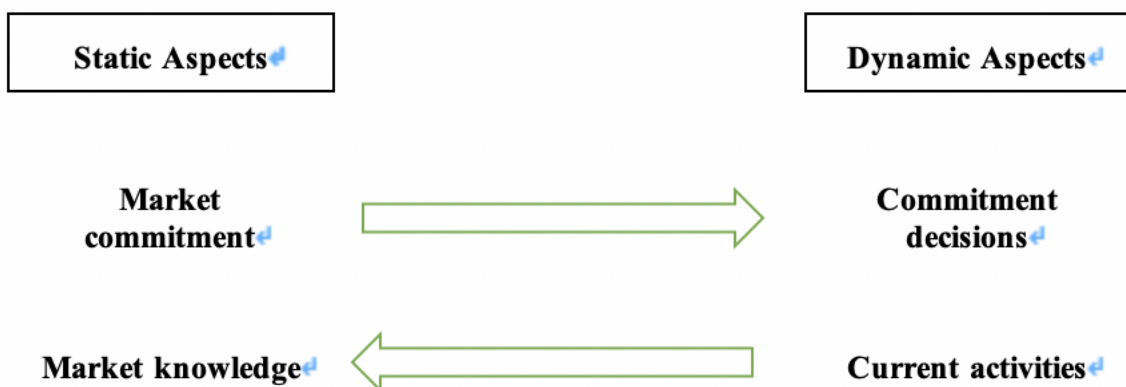


Figure 2.1: The Internationalization Theory

Moreover, according to Vabinskaite (2009), for decision increase commitments to the foreign market and operation model, it mostly has influence knowledge about the market and existing commitments to the market and contrariwise – company gain new knowledge operating current activities and then make the decision to increase current commitments. According to Rupliene et al. (2008), Uppsala theory also describes stages for entering foreign markets, but it does not explain why it does so. According to this theory, companies, which have decided to go abroad very rarely make at once huge investments in foreign markets, more often company enter foreign markets through a few stages.

The OLI model¹⁰ proposed by Dunning (1979) is widely used when studying the motivation of FDI. It is further progress of the internalization theory. The OLI is the abbreviation of Ownership, Location, and Internalization.

Ownership(O): Refer to the competitive advantages of firms exploring to engage FDI. Firms that have higher ownership advantage, the high chance they join foreign production;

Location(L): Usually infer to the multinational enterprises (MNEs). Companies need to use resources combined with their competitive advantages, favour the presence outside the host country. The more immobile, natural or created these resources are, the more companies will choose to augment or exploit their specific advantages in FDI activities.

Internalization (I): Companies could organize core competence. They will more willing to join the foreign production if they could get high benefits of internalizing cross-border intermediate products market.

¹⁰ Also named as the eclectic paradigm or OLI Framework

According to Dunning (2008), there are four types of investment incentives, that are resource-seeking, market-seeking, asset-seeking and efficiency-seeking and asset-seeking. According to Leitao and Faustino (2010) and Buckley et al. (2007), most of the researches and studies are based on FDI outflows from developed countries. And the two major types of FDI is efficiency-seeking and market-seeking.

The high growth rate of FDI economies in the worldwide leads to further studies, and a number of them based on the OLI model. Mathew (2006) further discussed the OLI mode with linking, leverage, learning framework (LLL). He tried to analyse the reasons for the high speed of companies¹¹ from Asia. Unlike Mathew, Lundan and Dunning (2008) focused on the institution-based location advantages. They indicated that the development of institutions shaped the geographical scope and also meaningful to improve the effectiveness of multination corporations (MNCs) organization. Kalotay and Sulstarova (2015 and 2002) added the fourth pillar ‘H’——home country when he analysed the state helped firms in Russian, which had some common features with China.

2.1.2. Global value chains

The impacts of MNCs enlargement reflected in the strength of trade and international trade through the global production networks has increased significantly. According to the report of UNCTAD, about 80% of global trade is related to the multinational companies¹². As a result, the studies on global value chains (GVCs) proliferated. Four main streams include in this theory.

Stream 1: Study the GVC development refer to developing regions¹³;

¹¹ The special name for these companies is ‘Dragon multinationals’

¹² Source from the UNCTAD report 2013.

¹³ Studies such as the chapter 1 of the book ‘Global value chains in a changing world’ named ‘Global supply chains: why they emerged, why they matter, and where they are going’ by Richard Baldwin and chapter 14 named ‘Global value chains and

Stream 2: The discussion of the governance of GVCs¹⁴;

Stream 3: The upgrading of the GVCs¹⁵;

And stream 4: The discussion of the measurement in trade.

2.1.3. Some background based on the internationalization theory of China and CEE economies

CEE countries experienced a radical change that mainly induced by the FDI during the transition to the market economy. The investment projects that proposed by the foreign MNCs stimulate the rapid development. According to Timmer (2012), the production structure experience drastic changes after the CEE countries integrate the GVCs. The inflow of the investment contributed to the export restructuring of CEE economies, although the impacts are different among the countries.

Several comprehensive studies on the relationships between CEE and China. There are three major aspects discussed under this relation: the economic and/or political relationships (Éltető and Szunomár 2015); investment issues of the two parties (Szunomára, Völgyi and Matura, 2014) and the third is about trade relations (Éltető and Völgyi, 2013).

industrial policy: the role of emerging economies' by Gary Gereffi and Timothy Sturgen. Online resource is at https://www.wto.org/english/res_e/booksp_e/aid4tradeglobalvalue13_e.pdf

14 For example, Gary Gereffi and Timothy Sturgen published the article named 'The governance of global value chains' in 2005. http://www.fao.org/fileadmin/user_upload/fisheries/docs/GVC_Governance.pdf

15 Such as the studies of William Milberg and Deborah Winkler named 'Economic and social upgrading in global production networks: Problems of theory and measurement', which published in 2011. http://www.cepn-paris13.fr/epog/wp-content/uploads/2014/10/DURAND_MILBERG_WINKLER-Economic_and_social_upgrading.pdf

The studies of Tuszynski (2016) present the CEE economies attitude towards China, which is based on the Polish aspect. Pencea and Oehler-Şincai (2015) analyse the investment relationship between China and Romanian, which shows a closer cooperation between the two economies. Szunomár (2014) mentioned more general about the Chinese FDI in Visegrad countries (V4). Additionally, the author also studied the political interests of the two parties and the societies of V4's attitude on Chinese increasing influence on capital.

Toporowski and Artur (2013) studies the trade between the Asian regions and V4 during the period 2000-2012. The findings show that Asia paly on important role of the V4 countries as the integration into the GVCs. In addition, Ando and Kimura (2013) also shown some findings about trade and production agreements between Asia and CEE regions.

2.1.4. Human Capital (HC) theory

HC origins from macroeconomic development theory. Becker (1993) and Mincer (1962b) both mentioned that the main factors of production are labour, physical capital, land and management in the 1950s. However, since the 1960s, scholars cannot fully explain the US economic growth based on the above factors (Schultz, 1961). Therefore, there are some empirical works of Becker (1964), Schultz (1961) and Mincer (1974) that questioned the prevailing assumption that the growth rate of physical capital is paramount to economic success.

Bapna, Langer, Mehra, Gopal, & Gupta, (2013) indicate that the basic assumption behind HC is that the learning ability of people it could also be analysed like fundamental factor listed before. This theory also indicates that people who invest in training and education courses could enhance their abilities and skills, and they are more productive than people who pay less attention to human capital improvement. Becker (1993) mentions '*schooling raises earnings and productivity mainly by providing knowledge, skills and a way of analysing problems.*' He strengthens that HC theory fuels the view that people's skills and knowledge could be developed through investment in

training and education, that is, learning. Becker (1964) also argues that investments in training and education could improve productivity;

The standard methods in labour economics view HC as a set of characteristics and skills (Nafukho, Hairston and Brooks, 2014) that enhanced employees' productivity, which is a practical purpose as a useful starting point. We list some of the major classes of HC.

***Becker's view**¹⁶: HC is helpful during the production process, as it enhances the productivity of workers. Although the role of HC might be complicated, there is a sense that we could think of the way it is represented, such as the knowledge on stock which is a part of the economies.*

***Gardener's view**: unlike Becker, Gardener does not think the HC is unidimensional because there are different types and dimensions of skills. For example, he emphasizes the difference between mental and physical abilities.*

***Schult and Nelson-Phelps' view**: HC shows one's capacity to adapt. Under this view, HC is most useful when dealing with 'disequilibrium' problems. In other words, it shows the ability to adapt to the changing environment.*

***Bowles and Gintis's view**: HC is an ability for people to work in the organizations and adapt to a hierarchical society. He also strengthens that the main role of schools is to teach the approach towards life and "correct" ideology.*

¹⁶ Becker, G. S., Murphy, K. M. and Tamura, R. (1990) 'Human capital, fertility and economic growth', Journal of Political Economy 98: 2 – 37.

Spence's view: HC is the ability which is useful in the production process.

Although there are some differences, the former three opinions are similar, that is HC should be valued in the market as it enhances the profit of firms. In fact, scholars' view of HC would be a mixture of these 3 opinions. There also are similar implications of Bowles-Gintis view. Firms will pay higher payments to educated workers as they are more meaningful for the firms as well as they will obey orders better. However, the Spence's view is different, as he thinks HC should be rewarded as it a sign of the special characteristic of people.

These are series of sources that HC: Innate ability¹⁷; Schooling¹⁸; The quality of school and non-schooling investment; Training¹⁹ and Pre-labour market influence.

The HC indicates the importance of high-educated and high-skilled employment, and it could attract capital inflows both through the direct and indirect way. This relationship is concluded in Figure 2.2. The indirect way that the high level of HC of the country could stimulate economic growth, which further attracts the FDI. On the other hand, high-skilled and high-educated employment could also attract the capital inflow directly, if the investors are looking for specific kinds of the labours.

¹⁷ Innate differences lead to people have different amounts of skills.

¹⁸ It is the most observably part of HC.

¹⁹ Similar as schooling, while are the courses that people take after school.

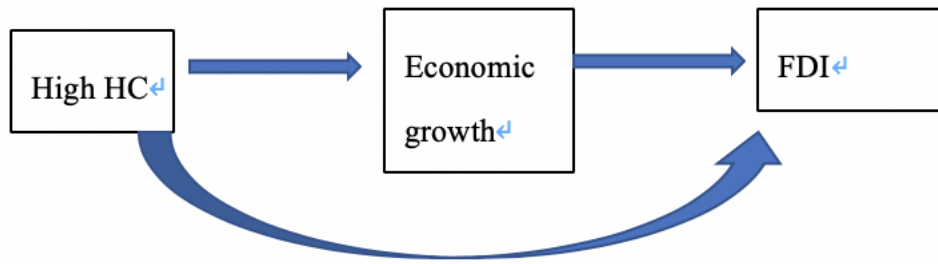


Figure 2.2: The direct and indirect relations between high level of HC with FDI²⁰

2.2. FDI and Economic Growth

During the past decades, there are a series of studies discussed and analysed the interrelations between the economic growth, property prices and FDI. During recent years, more scholars add some new factors to the early approaches, such as the inflation rate and interest rate, to analyse the dynamic correlation between these factors. There are generally four research strands in nowadays analysing in this area. This sector will discuss these views in brief.

The first strand of the study is focusing on the relation between FDI and economic growth. Most of the analysts believed that there is a positive influence of economic growth on FDI. As one of the key determinants, the higher growth rate of the economy reflects the potential of the financial market in the future, and thus that nation becomes more attracted. According to Gholipour, and Masron (2011), the market size shows a significant positive impact on FDIRE among the OECD economies. As an important source of capital for nations, FDI increases the job opportunities and support the transfer of technology, and then increases the overall economic level of the base country (Chowdhury and Mavrotas 2006).

²⁰ Self-analyzing and drawn

The second strand mainly discusses the relationship between property prices and FDI. Some people indicate that the inflow of the money could help to increase the price of the real estates of the base nations (Kim and Yang, 2011). In their point of view, the FDI could boost the property price through three channels: a) the increase of the direct demand; b) liquidity and c) economic booms. These three channels could be summarized that the increasing level of FDI into the host country, which increases the demand needs. However, unlike normal products such as the articles of daily use, the supply of the property is relatively fixed in a short time. Therefore, based on the relationship between supply and demand theory, the rapid increase of FDI could push the price up (Kim and Yang 2009). Figure 2.3 shows this process graphically. The initial line is D_l and the inflow of FDI push the line shift upward to D_h ²¹. As the special feature of the real estate, i.e. the vertical supply curve, the price of the property will increase from P_l to P_h . However, some empirical studies found that in reality, the FDI do not lead to the increase of the property price significantly in OECD countries (Gholipour, Al-mulali and Mohammed, 2014).

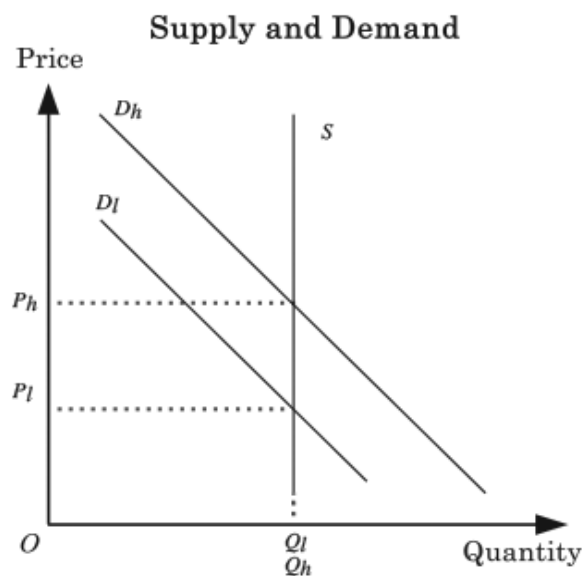


Figure 2.3: The demand and the supply of property

²¹ The footnote of 'l' means 'low' and 'h' means 'high'.

In addition, the third part is usually talking about the relation between property prices and the output. Stronger performance of the economies' output activities, such as increasing the employment²² and the fast development of the real industries production increase the need for the property. Similar to the second strand, as the limited amount of the real estate supply during a shorter period, the price will be pushed up (Adams and Füss 2010). According to Demary (2010), as a direct result of the high-speed development on economic output, the higher wages of people could also show that they have a higher ability to get a loan from the financial intermediates, which process could finally lead to a high prices level of the real estate. In return, the property is one of the most important parts of people's wealth. Demary (2010) also indicates that the increase of the households' wealth as the price of the property keeps increasing, could finally lead to higher expenditures²³, and therefore in case the higher aggregate demand and economies' total output.

And the last strand of studies become popular after people turn to investigate the dynamic relations between the nexus in the former passage with the more macroeconomic factors. There are various factors discussed during the recent ten years. For example, Kim and Yang (2011) investigate the impacts of the FDI on asset price level²⁴ in Asia. The empirical results from the country such as Indonesia, Thailand and Malaysia show that FDI subsidizes the appreciations of the asset price.

2.3. The background of investment climates of the Czech Republic

The Czech Republic is under a parliamentary democracy policy structure. As an advanced country in CEE region, it has stable and predictable policies. Since the 1990s, the Czech Republic holds open attitudes towards the world, which attracted a numerous amount of FDI. This is one of

²² That results in an increase of the households' labor income and then impacts the willingness of purchasing property.

²³ More specific, is talking about the consumption here. And this is the most important part of the output formula.

The general output equation is following: $Output (Y) = Consumption (C) + Investment (I) + Government\ spending (G) + Export (E) - Import (I)$.

²⁴ The price level here is not just price of the real estate properties, but also about the stock, land and nominal/real exchange rate.

the key factors that cause the Czech Republic becomes the most successful economies among CEE in terms of FDI per capita.

2.3.1. Investment protection

The Czech Republic is a member of the Multilateral Investment Guarantee Agency (MIGA) and signed many bilateral agreements to support, encourage and protect foreign investments. According to Elteto and Szunomar (2016), the Czech Republic also proposed agreements to avoid double-taxation.

2.3.2. Inflow of FDI

Regarding to the ability to attract foreign capitals, the Czech Republic has been one of the best among CEE countries. A total amount of over 110 billion Euro worth of FDI has been recorded started from 1993, as reported by the Czech National Bank. One of the main stimulations of massive FDI inflows into the Czech Republic's greenfield projects is the introduction of investment incentives. After that, the amendments of legislation on investment incentives also attract more investment from abroad. Among various investments, it is noteworthy that the rate of FDI per capita has been reached high levels consistently, which illustrates great attraction of the Czech Republic to foreign investors²⁵. According to Kim and Song (2018), relatively low inflation rate, stable currency modest interest rates and economic growth rate provide a favourable condition for people are all the characteristics for the Czech Republic to be a mature host country for FDI.

2.3.3. Services Surpass Manufacturing

²⁵ Source form the Vienna Institute for International Economics Studies

There have been substantial variations in the structure of FDI inflow into the Czech Republic and this trend is expected to intensify in the coming years. Since in the Czech Republic, the investments in R&D and business support services have outweighed those in manufacturing projects, the nation experiences an introduction of a new and very valuable type of economy (Li, Chen, Hui, & Xiao, 2014).

2.3.4. Performance of Foreign Companies in the Czech Republic

There are nearly 100,000 foreign companies of all sizes from all over the world chose the Czech Republic as the host country. According to Mintah, Higgins and Callanan (2018), a variety of well-known multinational companies have significant subsidiaries in the Czech Republic such as ABB, Nestlé, IBM, DHL, Honeywell, Amazon and Volkswagen.

2.3.5. Highly developed property market

The excellent economic conditions and continuous interest of investors in real estate lead to a highly developed real estate market in the Czech Republic. The major government programme aimed to support the developments of municipal industrial properties and zones has stimulated the availability of space for production facilities. Another main focus of the aforementioned programme currently is the regeneration of brownfield for further commercial use (Mintah, Higgins, Callanan, & Wakefield, 2018).

In 2017, the CEE nations attracted a number of property investments, because of the increasing economic power in this area. Take the Czech Republic as an example. The total of 3.2 billion EUR ranking Czech at the top in CEE in terms of the investment per capita (Mintah, Higgins, Callanan, & Wakefield, 2018). The industrial property sectors play a significant role in the investment activities that investors and firms both appreciate the availability of technical and transport infrastructure.

2.4. Czech-China Relationship

Relations between China and the Czech Republic were initially established formally in October 1949 with the intention of increasing tourism, security and trade. Formerly, the USSR had been influencing the foreign Policy of Czech until 1991 however the split between the membership of European Union and the Soviet Union altered a lot of aspects between the partners (Lambert, 2017). Currently, Czechia and China place the attention of their partnership on tourism and trade since security no longer is a concern following the integration of NATO. The special attention of China in the Czech Republic lies in the Czech's specific location between Eastern Europe and Western Europe considering that establishing business facilities in markets such as France and German are expensive.

Moreover, the Czech Republic is one of the nations that first support the "One China Policy". After the Czech Republic broke from the Soviet Union, the investment from China started flowing here. In 2014, the president of the Czech Republic Miloš Zeman was invited to Beijing and held a meeting with the president of China Xi Jinping. The aim of this meeting is to strengthen cooperation on bilateral tourism and business cooperation. President Zeman also suggested the direct flight between Shanghai and Prague, and the former city is one of the main economic centres in China. This propose is aiming to attract more investments opportunities. Moreover, he also signed the permanent settlement for the Bank of China (BOC) in Prague, which suggests a closer connection between the two economies. The Czech strategy of the BOC is almost the same as the strategy of the UK with the HSBC. However, the main location of HSBC in EU is British, while the BOC usually invests in France and V4. It is essential to well-understand that Chinese investors are investing abroad only if they have the capabilities to doing so, and BOC is providing loans and cash to them, thus investors don not heavily dependent on the foreign banks except for small amounts of money.

In 2016, President Xi visited the Czech Republic and then made a compare between Prague to Paris. He promoted the 'B&R' before, and during this visit President Xi emphasized the policy again. According to his speech, Prague could be one of the most important places of Asian-African and Russian-European roads (part of the B&R). The results are impressive so far with the total trade of €280 million between China and the Czech Republic in 1993, EUR 550 million in 2001 (before the Czech Republic becomes the member of EU) and more than EUR 8 billion in 2006²⁶.

It is essential to pinpoint that China has been one of the initial countries that supported the One China Policy within a post-Soviet surrounding. As such, the political behaviour of the country was highly valued in Beijing in addition to the non-acknowledgment of Tiber and Beijing. Consequently, the investments of China commenced placing their attention on the area of Prague after the Soviet Union breakup. Subsequently, the president of the nation Zeman met with Jinping in China to formally grow tourism and business between the two nations in October 2014. Zeman even proposed for direct flights between Shanghai and Prague to encourage investments. He also suggested a lasting BOC settlement within Prague. Later in 2017 Czechinvest representative visited Chinese firms in 2017 and initiated negotiations on establishing investment projects within the Czech Republic (CzechInvest, 2019). Furthermore, CzechInvest has organized for investments emanating from Chinese firms worth CZK 5.8 billion and the investments volume have risen ominously over the years. Over time, the development of bilateral relationships between China and the Czech Republic is a continuous and gradual process. Both nations afford the project of B&R that has been at the centre of economic diplomacy of China unprecedented attention level due to their zeal to augment their strategic partnerships.

The investments and Trade are also connected to the Chinese diaspora with the Czech Republic, especially in Prague. Generally speaking, there are over 6,000 Chinese are officially living in the Czech Republic and helping Chinese investors to invest here. However, the Czech language remains difficult for Chinese, because most Chinese people only learn English, and basic Spanish, French and German. Thus, the Government of the Czech Republic might need to focus on teaching

²⁶ Sources are collected from National Bureau of Statics. <http://www.stats.gov.cn/english/>

Czech language courses for Chinese speakers (in fact, Charles University already has Czech languages courses for Chinese speakers now) and providing more programs for the potential Chinese investors in the near future.

2.5. Chinese Investments within the Czech Republic

The largest group of real estate acquirers comprises of financial investors who seek objects offering a great return in their asset portfolio. CEFC has dominated as a Chinese investment locus within the Czech Republic. The company had accumulated an assets portfolio worth 1.5 billion euros as of 2015. Majority of these assets was within real estate and purchases of different operating companies within the Czech Republic (Dębiec & Jakóbowski, 2018). The purchase of operating countries was mainly for companies within the financial and banking sector and tourism businesses. Through the opening of the Czech's market to Chinese capital by Czech authorities relied on Chinese companies' investments creating high value as well as on special conditions for local companies to access the Chinese market that is highly regulated. Chinese developers such as Wanda and Greenland are shopping for real estate in the Czech Republic and they focus on constructing residential or commercial buildings intending to sell them later at a higher price (Meyer, 2016). On the other hand, business groups such as HNA and Fosuna are expanding overseas with a keen eye on both potential synergies and investment returns with their additional assets.

Chinese investment now almost equal in the V4 and the EaP. The Czech Government should keep in mind that Chinese investors could be easily move to other economies such as Slovakia. Although Prague still locates in the most centre place to connect the OBOR, it still possible that Chinese government choose others instead. The competition from others capital cities is important for Czech Republic and the government should also considered a more attractive labour policy than competitors. In addition, Bulgaria and Romania are also interesting in OBOR, as the Government of China also prefer to build some new infrastructures on the border of the Black Sea.

2.6. Investing in the Czech Republic

2.6.1. Competitive advantage of the Czech Republic in general

According to the Global Competitiveness Report²⁷ (2018), the Czech Republic ranks the 31st among total 137 economies in terms of global competitiveness index (GCI). The details are shown in Figure 2.4. In the Appendix 2, more detailed aspects are summarized. The Figure 2.5 also shows more detailed competitive advantages of the Czech Republic. In Chapter 4, more detailed analysis will be presented.

Index Component	Rank/137	Score (1-7)	Trend	Distance from best
Global Competitiveness Index	31	4.8		
Subindex A: Basic requirements	30	5.4		
1st pillar: Institutions	52	4.2		
2nd pillar: Infrastructure	49	4.6		
3rd pillar: Macroeconomic environment	8	6.2		
4th pillar: Health and primary education	23	6.4		
Subindex B: Efficiency enhancers	29	4.9		
5th pillar: Higher education and training	27	5.2		
6th pillar: Goods market efficiency	38	4.7		
7th pillar: Labor market efficiency	41	4.5		
8th pillar: Financial market development	23	4.8		
9th pillar: Technological readiness	33	5.5		
10th pillar: Market size	46	4.5		
Subindex C: Innovation and sophistication factors	32	4.2		
11th pillar: Business sophistication	30	4.6		
12th pillar: Innovation	36	3.9		

Figure 2.4: GCI of the Czech Republic

²⁷ Source published by World Economic Forum: <http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017-2018.pdf>

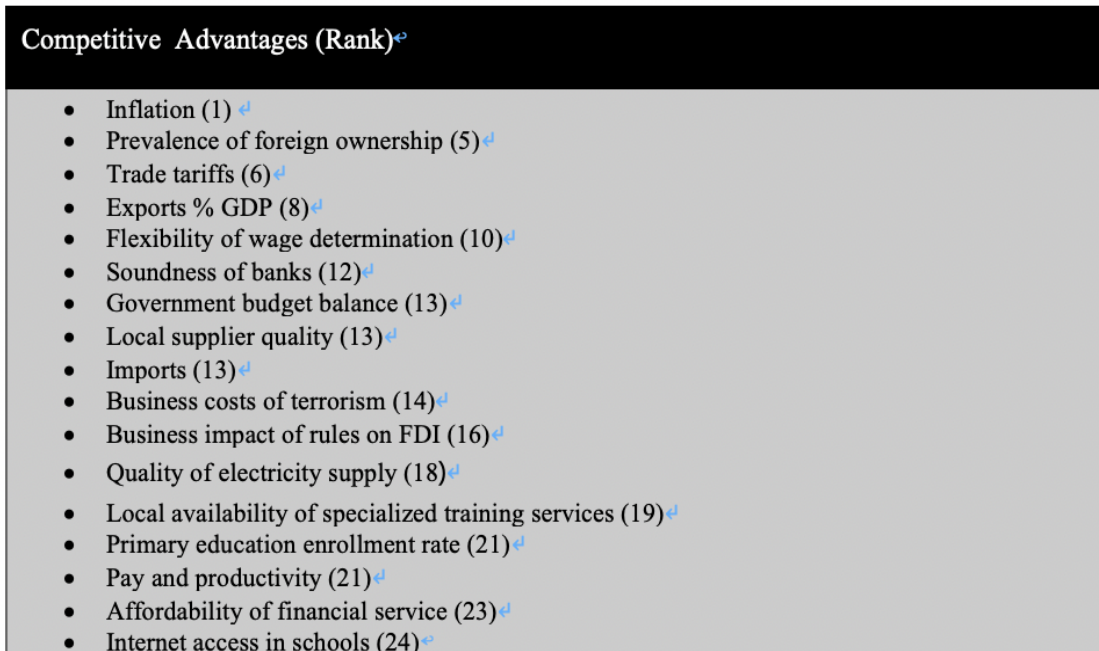


Figure 2.5: Competitive advantage

The Czech Republic is among the most post-communist states that are prosperous and stable. The country survived the credit crunch because of its privatized banks having robust capitalization and sturdy deposit base (Jakubík & Heřmánek, 2008). Its growth has principally emanated from FDI, tourism and exports. On the other hand, in a similar way to other nations its Eurozone reliance has limited performance and despite such risk investing in the nation can be counterbalanced by adequate opportunity.

More specifically, the incentives for investment within commercial real-estate include relief of corporate income tax for a period that does not exceed ten years and employment subsidies that take the form of cash grants for the creation of jobs as well as training that is available in regions with high rates of unemployment (KPMG, 2016). The land is also available at discounted rates and companies and investors are exempted from real estate tax within industrial zones. The nation belongs to MIGA (Multilateral Investment Guarantee Agency), which safeguards investments. It has been involved in various bilateral treaties that support as well as safeguard foreign investments with nations such as China, Belgium, United States and, Belgium among

others. Other advantages relevant to China investing in the country include social stability and, the competitiveness of cost. Furthermore, the country does not impose any limitations on the ownership of the real estate.

Nations or companies investing in the Czech Republic need to take note of the investment climate in the Czech Republic. For instance, the Country belongs to the European Union and not the Eurozone. The central bank of the country is resilient and self-governing and is in charge of a stable currency (Banco Santande, 2019). As such, the country can well access the European market as well as have constructive and reliable international relations. It also has a stable sector of banking that has indicated resilience amidst emerging crises. The public spending is at a regulated and acceptable level. In addition, the country exhibits the lowest rates of unemployment in Europe that create a healthy and optimum business climate. The country's market also has minimized its reliance on its trading partners from Europe through government reforms established between 2011 and 2012 with the intention of diversifying the export opportunities of the country as well as its export and economic fabric. Furthermore, in July 2013 CzechInvest and ministry of Industry and Trade launched a 'welcome Package' as an initiative to attract foreign investors.

2.6.2. Well established Property Market

The growing interest of real estate investors, as well as the ideal economic conditions, have led to a real sophisticated and fast-changing real estate market within the Czech Republic. In addition, space for establishing facilities for production in the country has been boosted over the years through a key program of the government that had been developed to facilitate the establishment of municipal zones and properties. This program is still in progress; however, it has shifted to brown fields' regeneration in order to further enhance the commercial use of these fields. Another key aspect that may have led to the investment of the Czech Republic in commercial real estate is the growing economic power of the CEE region where the Czech Republic having investments of 3.3 billion euros in 2017 making the nation top within this region with regard to per capita

income²⁸. However, German Metrics Institute indicates that the overall Chinese investment volume within the Czech Republic is the smallest amidst the V4 nations. Notably, the majority of these investments stems from the sector of industrial property whereby manufacturing companies and investors enjoy the transport and technical infrastructure as well as the proximity to the Western and the German markets. According to Czechinvest (2018), such features explains the reason for prospects of demand for industrial zones as well as vacant plots growing among the investors specializing within the fields of research and development, research as well as manufacturing. As such, the state, as well as private property owners, have an opportunity to grow and improve this sector for the purpose of supplying such properties for fresh investors in the countries and the existing investors within the real estate sector within the country or foreign investors such as China. It is also important to mention that some ambitious Czech companies such as Preciosa and Lasvit have also taken advantage of the good relationship between the Czech Republic and China to establish themselves within Hongkong.

Another aspect to consider is that the Czech Republic has a tax on immovable property that is considerably lower than what is found in other developed countries. However, various rates apply to buildings and land, for instance, the property tax that is imposed on buildings being utilized for business purposes lays basis on the buildings area as shown in the Figure 2.6 below (KPMG, 2016). In the case that the real estate is transferred as a portion of a certain enterprise the base of tax will lay basis on the valuation of an expert.

	CZK/m ²
Residential and agricultural	2
Industrial	10
Other business	10

Figure 2.6: The tax of the real estate per/m² (CZK)

²⁸ The sources are collected form the World Bank.

CzechInvest also administers an all-encompassing properties database where it provides over 700 business properties that includes science parks, office buildings, brownfields, industrial zones and industrial parks. Some of the rents within the industrial premises and office headline rents are attached in the Appendix part. To summarize the data collected the rents within the industrial premises shows the average month industrial premises rent of different cities in the Czech Republic in the year of 2018. There is no significant difference between the different regions and Prague is just a little higher than the rests. The results are different for the office headline rents, we found that through 2013 to 2017 the rent of class-A office headline of Prague than the others, even in the outlier of Prague (CzechInvest, 2018).

2.6.3. Strategic Location

The CEE is strategically positioned in Europe with countries such as Romania, Czech Republic, Slovakia and Hungary setting yearly records within their respective volumes of commercial real estate (Karczewicz et al., 2016). The growing confidence in the CEE economy has increased the number of investments in the region. Investors have indicated shown a great interest for the Czech Republic. On the other hand, the Czech investors have been taking their investment elsewhere. According to Karczewicz et al., (2016), the region has been regarded as a safe and attractive region by various institutional property investors assessing their risks in an attempt to look for yields. In addition, the key Western European markets give limited trophy assets, hence, investors are being lured by CEE that depicts long-term profits and profitable yields. Thus, it is not surprising hearing that the Czech Republic and Poland have been the biggest contributors to an extraordinary overall volume of investment in commercial real estate across the CEE prior to 2016. Besides, Czech is a relatively small nation that has been suitable for the Chinese strategy of quiet approach.

The IMD world talent indicates that the education system of Czech addresses the needs of an economy that is competitive. The report published by the IMD competitiveness centre indicates that over 850000 students between 2017 and 2018 had been enrolled for technical subjects at the nation's universities (Czechinvest, 2018). As such, the educated population can provide

manufacturing companies with skilled labour hence promoting foreign investors within the fields of manufacturing to invest in commercial real estate. It may be argued that cost of a investment may be one of the key factors that investors within the realm of commercial real estate may be interested in, however, education is an additional feature that influences where these investors locate their investments. An education that produces a competent workforce with specialized skills leads to high living standards as well as enhances the capacity for innovation. As such, the education system in the Czech Republic promotes commercial real estate in the sense that the educated workforce wants to live in houses that exhibit a high living standard. In addition, the skilled workforce can be employed by the companies investing in various projects, for instance, they can be deployed within brownfields' regeneration.

The location of the Czech Republic is one of the reasons why China is very interested in this area. It locates between Eastern Europe (+Eastern Partnership countries, ie.EaP) and Western Europe (+ UK). Poland, the Czech Republic and Slovakia are considered as the best choices because of their locations in close proximity to Bavaria²⁹ and affordable wages.

2.6.4. Infrastructure in the Czech Republic

As mentioned in the last part, the location advantages make the Czech Republic become more attractive (Czechinvest, 2018). It is really convenient to approach to both the established Western and developing regions of Eastern. Prague, which is the capital of the Czech Republic within the two-hours flight circle to the majority large European cities. Figure 2.7 shows the infrastructure of the Czech Republic. This figure also highlights the highways (both established & planned) and motorways. According to Czechinvest (2018), the total distance of the motorway and road network is about 56,000 km. This shows the Czech Republic has as one of densest transport networks in CEE. And now, the Czech Republic joins the projects of pan-European network of the

²⁹ Germany's richest lander with industries such as BMW

high speed-railways, this could also be a positive signal of a more convenient transport environment of the Czech Republic in the future.

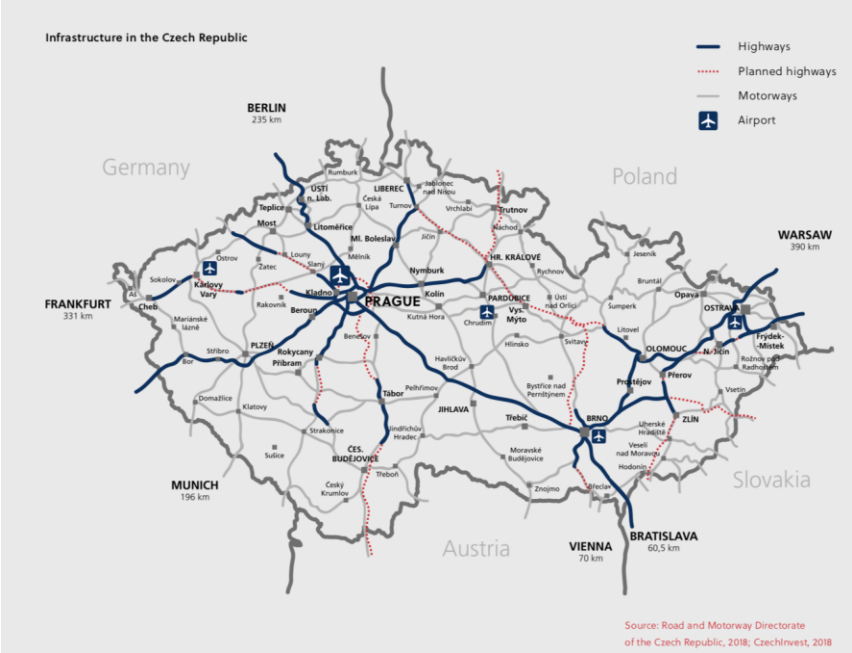


Figure 2.7: Infrastructure in the Czech Republic

2.7. Opportunities for Partnership

Companies and investors entering a new market require fresh networks in the market they are entering. As Chinese companies enter the Czech market of commercial real estate, they will get assistance for choosing the appropriate Czech partners. Buying real estate is not an easy task and requires a team of different experts including technical experts, tax consultants, and lawyers to purchase the right kind of property. Czechinvest always provides a comprehensive list of potential suppliers and partners with regards to one’s specifications (Czechinvest, 2018). Besides, there are companies that offer various consulting services for new companies entering the Chinese market. Such services include assessment and organizing of acquisitions and sales, strategic consulting as well as targeted market campaigns. Other aspects of concern for companies investing in commercial real estate in the Czech Republic include financial modelling, review of the market

sector, evaluation of budgets of capital expenditure as well as an audit of the overall operational income.

Conventionally real estate is acquired through a direct purchase that occurs through a real estate deal or through shares acquisition within the company that holds the real estate deal. According to the law, the assets that are considered real estate include underground structures, temporary constructions, engineering networks, both residential and non-residential units as well as land (Wilson et al., 2019). In addition, rights such as the right to build and easements are also regarded as real estate. Usually, companies hold real estate or land through ownership means where the owner usually has an unlimited title for disposing of the real estate.

The relationship between China-Czech was formally established between China and Czechoslovakia in 1949. And the aims of creating this relation is hoping to increase bilateral trade, tourism, as well as the security aspect. The Union of Soviet Socialist Republics, i.e. USSR significantly influenced the Czech Republic's foreign policy, and this impact sustained until 1991. The break-up from the Soviet Union and join in the EU changed the bilateral relationship between China-Czech. And now, China and the Czech Republic just mainly focus on trade and tourism cooperation.

2.8. Categories of Commercial Real Estate in the Czech Republic

There is a significant increase in investment on commercial real estate in the first two quarters of 2017, that reach the total amount of 2.2 billion EUR (World Bank, 2017). Premises vacancy for the office lease keep declining for the first time since the fourth quarter of 2008 (declined below 10 percent). That number of the second quarter of 2017 is 8.6%. the demand from the tenants led to a year-to-year increase in the net volume of rentals by eleven percent. Regarding industrial segment of real estate, the low rate of speculative construction and high demand from the tenants continues maintains free premises for lease at a low level, which is about 4.1 percent in the second

quarter in 2017. The relatively fixed supply of the stock in the short run indicates that large occupiers' investment might be limited.

2.8.1. Industrial and Warehouse Market

The industrial market of Czech Republic comprises of about 5.69 million square meters of contemporary A-class space of the warehouse. (CBRE, 2018) Around ninety per cent of the total space of the warehouse in the Czech Republic is located within four key regions that include a large part of Prague, Ostrava, Brno, Plzen.

The average rates of headline rents at euros 3.75 to 4.25 q m/month that is stable within most regions. As investors and banks seek longer lease lengths, landlords continuously face pressure from tenants to offer shorter leases. Despite the costs of wage rising in Czech companies in the country are still expanding which is positive is a positive indicator of the industrial and office sectors (CBRE, 2018). With wages rising at a faster rate than inflation means that people will have additional disposable income that can positively influence the real estate market. The underlying reason behind the investment of industrial real estate and warehouses within these regions is the way they are strategically positioned as well as well connected to good transport infrastructure that plays the most crucial role. Hence, these locations are ideal for foreign investment since they are likely to have high rates of vacancy.

2.8.2. Residential property

Residential property is a hot market for Chinese investors especially in Prague, the Czech capital. Estimates indicate that the availability of individual housing within the Czech Republic slightly dropped in 2018 (Malysa & Kolder, 2018). It is a result of a rise in prices and demand of residential markets within the country predominantly because of the inadequacy of fresh flats on the market,

the regulation of mortgage, lengthy process of approval, buyers' sentiments as well as high taxation.

2.8.3. Office Market

Office markets are mainly concentrated within Prague with 3.51 million square meters of contemporary office space being monitored.³⁰ Elsewhere the stock of modern office is concentrated predominantly within Ostrava and Brno. The modern office stock of Brno currently holds a total of 482,900 square meters while the stock of modern office in Ostrava comprises of 205,400 square meters (Czech Business Web portal, 2018). Overall, the office market within regional cities is driven by demand. The rent for these properties is usually decreased because of the different incentives that are usually provided by landlords. The incentives typically include a rent-free period of one to two months every year.

2.8.4. Brownfields

Brownfields are usually neglected, abandoned or likely contaminated property that consists of either building or land plot that cannot be utilized effectively devoid of a regeneration process. The Brownfields are sites that find no use following a stop in residential, agricultural, industrial or military activities. 2800 brownfields have been mapped since 2007. These fields span an area of over 14000 ha (Czech Business Web portal, 2018). As previously stated, through opening up the market of the Czech market to the capital of China, that encompasses investment from Chinese firms created high values especially brownfield types. However, recently the anticipations for similar investments have been successful minimally.

³⁰ The data is collected from CERE. <https://www.cbre.cz/en/research-and-reports/Prague-Office-MarketView-2019-Q1>

2.8.5. *Competition*

Czech investors take up for a large portion of the investments in the Czech Republic. According to Cushman and Wakefield (2019)³¹, the portion of the investment in commercial real estate of Czech investors in the Czech Republic is 65 per cent. Overall, the investors have invested 2 billion euros in the market both in their country and other regions across the world. Out of their overall volume of investment, sixty per cent is in Prague while the rest has been invested in other regions. The office market of Prague has been encountering an awfully active period and as has been enhanced by a progressive economic outlook, it is expected that the trend will continue in the coming years. Speculations for 2019 indicate that the majority of the transactions will be attributed to offices while capital Asia will affirm itself strongly along with its counterparts the Western and Czech capital. This indicates that Chinese firms entering the commercial real estate market of the Czech Republic will encounter competition from the local and existing firms that have already been established within this market.

One of the companies that have already established itself in this market is Daramis. This private company that deals in real estate are focused on purchasing, building as well as managing real estate investment. The company that was established in the Czech Republic back in 2000 has been involved in various endeavours in the country, for instance, the company has a track record of 24 finished projects, over 2,900 finished residential units and 4 projects still underway (Daramis, 2018). With this in mind, companies entering the sector will have to create houses with exceptionally high quality in combination with inventive architecture and original design. In addition, the developers can seek the services of various consulting companies within the real estate sphere for construction management, project management, as well as marketing and other pertinent services.

³¹ Collected on the official website: https://www.czech-industrial.cz/?gclid=EAIaIQobChMIn4SapoWc4gIV2uF3Ch1leQzpEAAYASAAEgJsyPD_BwE

2.9. Summary

To conclude, there are two major parts in this of this Chapter. In the first part, we introduce some theories which are related to the global investment activities and the economic growth of the country. The theoretical framework could provide the readers with an academic view of this area.

In the second part of this Chapter, we discuss more the Chinese investment activities, the Czech Republic investment climates as well as the categories of the commercial real estate in the Czech Republic. The increasing capitals flow from China to the Czech Republic, because the government supporting, i.e. B&R, and some attracting indicators in the Czech Republic. Some of these factors include strategic location, educated workforce, investor incentives, and well-developed real estate markets. These factors all contribute to the success of the investments in the country however the most profound factor is a well-developed property market. In light of that, different nations and companies have invested in this market that means new entrants in the market will encounter severe competition when establishing themselves in this market. As such, it is recommended that new entrants do intensive research as well as use consulting services to ensure that they become and remain competitive in the market.

CHAPTER THREE

METHODOLOGY

An appropriate of this study was informed by the research problem- investigating the factors that inform Chinese commercial real estate investments in the Czech Republic. This section provides a discussion of the proposed methodology which was employed in this research. There are four sections of this part. In the first section, it will list a table of the main data resources that we used in this paper mainly in Chapter 4. This is following the research design for the study. In the third section, more detailed discussion on the research will be stated. In the last section of the paper data collection methods which were employed for the research are discussed.

3.1. The major data sources in the study

The table 3.1 shows the major official website we use when data collecting. It is useful to summarize the data form such website as the completed and precise resources are provided.

UNCTAD	Embassy of China in Czech Republic
Economist Intelligence Unit	Czech National bank
World Bank	National Bureau of Statistics
Czechinvest	IMF
CBRE	Eurostat
OECD	

Table 3.1: Source of data

3.2. Research Design

Two basic research designs will be employed for this research.

The first design is focusing on collected recent available data which could present the investment climate of the Czech Republic. To start with a systematic literature review were used in gathering data relating to the research topic as documented by scholar's experts who have in the past conducted research in this area. Essentially, the systematic literature review will entail reviewing the information contained in materials such as peer reviewed journals, reports, official websites and books. To find relevant data and statistics, key words such 'FDI', 'Real estate Commercial' 'Chinese investment' among others were fed into the URL and the search engine allowed searching for relevant information from available databases. This was followed by the researcher closely going through the information followed by the documenting the information down. This practice was adopted to ensure that all relevant information was kept into perspective during the analysis stage. However, just presenting the data of the Czech Republic is less meaningful. This is because investors not only care about absolute advantages but the relative advantages. This is the reason why we also include more comparison results of Czech Republic with its neighbours or similar economies in Chapter 4. The aim of doing so is trying to present a more subjective overview of the Czech investment climates for potential investors.

Secondly, the questionnaire method was used for the study. Here the process involved structuring questions followed by issuing out the questions to relevant respondents. The questionnaires were then handpicked ready for analysis. Unlike the analysing in the last part, the results in this part might be more objective. Although we already try to get more precise findings in this method, it might be still unavoidable risks of the response. However, it still useful as a tool that could help potential Chinese investors to know more details of the investment climates in the Czech Republic. This is because the target group of this study is mainly for the Chinese and their relatives.

3.3. More details of the two research methods

3.3.1. Review of available data

In the past several scholars have delved in researching related topics to this research. As such, there is a rich source of documented data in secondly sources which were employed in the research. On this note, qualitative research methods were extensively employed in the research. Equally, drawing from Kothari (2004) observation which holds that the qualitative study is most appropriate when attempting to understand the relationship which exists between the variables, reviewing the available data provided insights of understanding the relationship that exists between micro and macro factors and how they influence Chinese investments in the Czech Republic.

Specifically, the literature review method was used in the research. Here secondly sources such as peer-reviewed journals, official reports- such as the report from Chinese and Czech Republic ministries of industrialization was be employed for this research. One of the reasons which informed the selection of this methodology is that it is easy to access and gather the required information (Aish & Tomlinson, 2012). Besides, this method is less costly since expenses such as travelling expenses are not incurred by the researcher. However, the main drawback which is associated with such data collecting method is that some of it may be rendered irrelevant with the passage of time. Equally, some of the information is gathered from research conducted in the context of other countries – this might render their applicability in this research irrelevant.

In Chapter 4, a series of data about the past, current and forecast of the future that related to the Czech Republic investment climates will be used. The kinds of data will be selected according to the theories mentioned in the Literature Review part of Chapter two. As a set of factors that discussed in the last section, the comparison of these data between the Czech Republic with its neighbours and the similar economies could then show its comparative advantages with the potential competitors. In general, it seems that it is not directly focusing on the commercial

properties, however, the analysing of the overall investment climate is meaningful, which is one of the key determinants attract foreign investors to choose host countries.

For this method, most of the results will be present through graphs and tables (that are all produced by self), in order to provide a more straightforward, clear and comprehensive study base on the comparison that might be useful for the interest parties or investors.

3.3.2. Questionnaire

Questionnaire as a data collection method for this research will involve preparing relevant questions and followed by issuing them to the respondents. Specifically, for this research both semi-structured and self-administered questionnaires were used for the research. The choice of this type of questionnaire was based on the fact that it would provide respondents with an opportunity of providing details of the required information which would be basic in improving the quality of the research during the analysis phase. Equally, the choice of questionnaire as a research method for this study is based on the fact that both verbal and non-verbal responses from the respondents will be gathered and this will improve the validity of the research.

The content of the final version of the questionnaire is attached in the Appendix part. The questions in it refer to a set of works, such as structures of the GCI survey, which will be also be discussed in Chapter 4. Both the Discussion of the distribution of the answers and the bilateral correlations will be a discussion. And we will also try to find some supporting data and studies to see whether the results are consistent with our expectations and empirical world.

Major aspects of the structure the questionnaire is following:

1) Assumptions of the questionnaire method

- i. The researcher was able to access all necessary secondary materials required for research;
- ii. The respondents answered the questions in a candid and honest manner;
- iii. The participants had a sincere motive of participating in the research;
- iv. The inclusion criteria of the sample are appropriate, and participants had sufficient information of sort in the research.

2) The structure and content of the questionnaire

There are five parts of the questionnaire:

The first part is about the basic information, such as the age and gender of the respondents;

And then is about the company information, such the number of employees;

In the third part, we list some factors that are always discussed by the analysts and respondents should choose whether they (strong) agree/ (strong) disagree/ neither such factor is determinant of the FDI;

In the fourth part, we hope to use ranking-order questions to study the respondents' attitudes on investing in the Czech Republic. To be more specific, we try to study which is the most problematic indicators of the people doing business in the Czech Republic. The structure and the choices of this section are referring to the survey done by the World Economic Forum;

And the last part of the questionnaire are some open questions. We suppose to get at least some of the response of this part. The answer to this part is much more

subjective, while it might still be useful as we could know the view of respondents on our research questions in detail.

3) The population of this method

Individuals drawn from the owner of the commercial property from China were used as the population for this research. The choice of this population was based on the fact that they were the relevant individuals who could provide the information required for the research. According to Welman, Kruger, Mitchell and Huysamen (2011) the ability of the researcher to select the appropriate population and sample population is central in improving on validity and consequently reliability of the research. Welman, Kruger, Mitchell and Huysamen (2011) holds that when an appropriate population is selected for the purpose of research study, then relevant data which informs the research can be gathered and consequently critical insights can be drawn after the findings and analysis phases. In light of these findings, this section provides a discussion of the population and sample population which was used for the research.

4) The sample population

From the population, a sample population made of 10% of the population was always used in the survey study. According to Welman, Kruger, Mitchell and Huysamen (2011) choosing an appropriate sample population is central in ensuring that results of the study mirror the real characteristics of the population. On this light they further argue that a sample of more than 10% of the population is an adequate representative of the population. Based on their observation a 15% of the population was used as an appropriate representation of the population.

However, it is difficult to define the total population of this study as the limited data. This cause the sample population is also hard to define. Thus, this study aims to investigate about 150 people for the questionnaire³².

5) Pre-testing and piloting study

Validity: This was achieved through content analysis of the questionnaire and cross checking then comparing it to other studies that are related to the study. The survey references some questions of the GCI questionnaire, in order to show more precise questions to get both relatively objective and comprehensive results of this method

Reliability: The Lee Cronbach alpha test was used to test for reliability in the questionnaires from the pilot study for the third part of the questionnaire. A Cronbach Alpha of 0.7 and above is considered as an appropriate threshold. Poor reliability scores, therefore, demans the precision of the questionnaire.

Ways to distribute questionnaire: A few of the approaches are used in this method to distribute questionnaire and collect data. 1) we will first try to collect data online. As joined a few online groups of QQ and WeChat ³³, we get access to a number of Chinese and ethnic Chinese who already lived in Czech for serval years. And many of them do business here or as the employees of the companies that have a similar feature as our target; 2) another way to collect the information through the interview with the employees who work in the target firms. For example, I do this survey in the local Chinese restaurants in Prague and also some Chinese supermarket in Prague 4 and 8 regions; 3) the last way to distribute the survey is based on the help of the people

³² There are ten subjective questions included in the questionnaire, which exclude the questions of asking basic questions, such as the number of the staffs, the type of firms and so on. We aim to keep the sample population 10-15 times of the subjective questions.

³³ They are similar as the Message group, but they are the special chat app in China.

who I know in the former two approaches. With their support, additional results could be gathered, which are difficult to get by ourselves.

6) Data Management

Data entry and cleaning: Accuracy was ensured through checking the completed questionnaire before they are entered in SPSS software (test the bivariate analysis) or EXCEL (weighted and summarized the value of respondents' answers about the indicators that most problematic of doing business in the Czech Republic). Incomplete questionnaires were excluded during data analysis.

Data analysis: The distribution of the results will be analyzed. And we also prepare to use SPSS for analysis from which descriptive statistics were achieved through frequencies and percentages while inferential statistics was attained through correlation analysis to determine the relationship between the variables. The level of statistical significance was set at $p < 0.05$.

Data presentation and reporting: Data in this thesis was summarized by the use of frequency distribution tables, graphs and charts. The answers that are collected in the open questions will also be discussed in the end of Chapter 4.

7) The time length of the distribution

There are three stages of the distribution of the questionnaire. In the first stage, the draft of the questionnaires prepares to finish in the early of the year 2019, and we could attempt to get some feedback then. The main purpose of this stage is hoping to collect some suggestions for the structure and form of the content. Thus, only a few surveys need to do in this stage and the data perhaps is not appropriate after revising the draft survey.

The main results of the questionnaire will be collected in this stage. After revising the former survey. The new questionnaire might be more useful and the data that we collected from this stage also supposed to be more informative. Due to the difficulties of this process, this stage might last about three to four weeks.

In the third stage, we might need to redistribute some surveys, as the invalid questionnaire collected from the second stage. This stage will not take up too much time as majority data is expected to be meaningful.

Summarized the answer of the questionnaire is quite a difficult work, which is supposed taking up two to three weeks.

8) The limitations of this method

The limitations might mainly come through three ways: Firstly, the accuracy of the assumptions is not guaranteed. This will be discussed in detail in Chapter 5. The second is that the sample group might not represent the total population. As the main method of distribution is collecting data on the online chat group or simply drop in. This might lead to the sample is not well-diversified, which causes deviation with real situations. And lastly, the content of the questionnaire might be still not completed, even after revised during the second stage. This perhaps then leads to the results are not as comprehensive as we expect.

CHAPTER FOUR

FINDINGS AND DISCUSSION

This chapter will mainly discuss the findings of this topic. It has two sections. Data collected from the official databases, website and studies from other analysts will be analysed first. And then, it will present the discussion on the results and findings from the questionnaire. These two methods divide our aim into two parts: analyse the investment environment of the Czech Republic and discuss the commercial property industry based on the answer of the questionnaires. In general, the first section is more objectively than the second one, while these two methods stand at the different levels that are both meaningful for this study.

4.1. Comparison with the Czech Republic and CEE countries/ Neighbours

In this part, it will present a series set of data to show the investment climates of the Czech Republic. In order to better show the relative advantages or disadvantages of the target economics, that is the Czech Republic, the data of other countries are also used in the section.

This section presents some aspects that might be important when investors analyse and decide which country to choose to invest. Therefore, although it seems that this part is discussing a more general area rather than the specific real estate industry, it is still meaningful for investors to first get to know the general climates of the target economy. In addition, because this part is more focus on the overall investment climates of the Czech Republic. Therefore, the findings will also be useful for investors who are not Chinese.

4.1.1. The comparison of the basic indicators of the economies

4.1.1.1. *The country credit rating*

Table 4.1 shows the credit rating of the Czech Republic compare with 7 target countries we chose from Europe. The credit rating of the economies could represent the overall overview of the companies' development in the future. This is a broader view that help investors first get to know and compare countries. Form the table, it is obvious that the Czech Republic has a much higher rating relative to the rest countries, except for Austria and Germany. The gaps with these two countries could be explained by the more developed level of them. Although it seems that the Czech Republic does not have a comparative advantage with Austria and Germany, it has a significantly higher rating than the CEE countries that mentioned in the table.

<i>Country Name</i>	<i>Standard and Poor's</i>	<i>Fitch</i>	<i>Moody's</i>
<i>Czech Republic</i>	AA	AA-	A1
<i>Neighbours of CZ</i>			
<i>Austria</i>	AA+	AA+	Aa1
<i>Germany</i>	AAA	AAA	Aaa
<i>Poland</i>	BBB+	BBB-	Ba1
<i>Slovak Republic</i>	A+	A+	A2
<i>Other CEE countries</i>			
<i>Hungary</i>	BBB-	BBB-	Baa3
<i>Bulgaria</i>	BBB-	BBB-	Baa2
<i>Romania</i>	BBB-	BBB	Baa3

Results collected form the Czechinvest (2018)

Table 4.1: Credit rating comparison

4.1.1.2. *Macroeconomic factors*

Table 4.2 summarized some macroeconomic factors for the Czech Republic. Refer to the Literature review in Chapter 2. We select four indicators here from 2014 to 2020 (forecast), which are GDP growth rate, inflation rate, labour productivity rate and the unemployment rate.

The GDP growth rate stays in the range between 2.7 to 5.3 percent. And the forecast of that for 2019 is about 3.3 percentage. In general, the economy of the Czech Republic experiences a satisfying level. And the performance of the Czech Republic is outstanding among CEE countries. For example, according to the World Bank statistics, the GDP growth rate for Hungary in 2016 and 2017 is about 2.281% and 4.137% respectively. From the knowledge of Chapter two, a better performance of the host country could usually attract more capital inflows, which could in return accelerate the growth of the economy.

The second indicator shows that the inflation rate is relatively low in from 2014 to 2016, and then increase a bit in the following year. However, the recent inflation rate is still low as it maintains the level around two percentage. Compared with some other countries such as Romania (the recent three years inflation rates stay in the range from 2.6 percent to 4.6 percent) and Hungary (the average rate of the past five years is about 2.5 percent), Czech Republic faces less pressure on the inflation³⁴.

The third indicator is about the growth rate of labour productivity, which is not mentioned in Chapter 2 while still meaningful as it is an important measure of the GDP growth rate³⁵. The HC

³⁴ Source form the World Bank database <https://data.worldbank.org/indicator/NY.GDP.DEFL.KD.ZG>

³⁵ $Y = y \times L$, where Y is the total output of the economies, y measure the labor productivity and L measures the total employment.

After take ln of the equation on both sides, we could get the relationship between the growth rate.

The equation now changing to $g(Y) = g(y) + g(L)$

That is the growth rate of output of the economy is equal to the growth rate of labor productivity plus the growth rate of labor force.

theory mentioned in Chapter 2 also related to this indicator, that is, higher education and skills of the employment, the higher level of labour productivity.

And the last indicator also shows the economic performance of the Czech Republic. The unemployment rate decreases from 6.1 percent to 2.3 percent, which shows a good performance of the economy.

<i>Factors</i>	2014	2015	2016	2017	2018	2019 forecast
<i>GDP growth (constant prices, %)</i>	2.7	5.3	2.6	4.4	3.6	3.3
<i>Average inflation rate (%)</i>	0.4	0.3	0.7	2.5	2.1	1.9
<i>Labour productivity (increase in %)</i>	2.2	3.8	1.3	2.8	3.0	3.2
<i>Unemployment rate (avg., %)</i>	6.1	5.1	4.0	2.9	2.4	2.3

Results collected from the Czechinvest (2018) and World bank

Table 4.2: Macroeconomic factors of the Czech Republic

4.1.2. *The comparison of the labour costs*

Labour is one of the key factors during the investment process. As mention in the literature review in chapter 2, the human capital (high-educated and skilled people) is already become an important part of the economic activities, which then influence the FDI. However, this does not mean that the higher human capital, the better for the investors. This is because people should balance the benefit and cost of the high-skilled labours. Therefore, we will discuss the other side of the human capital, that is the cost of labours. In this part, we collect some basic factors of the labour and try to illustrate the environment of labour of the Czech Republic relative to other countries. This might help people to hold a more comprehensive view on the impact of labour factor which is important for making decisions on investment.

4.1.2.1. *Nominal and Real wage growth in the Czech Republic*

Figure 4.1 shows the real and nominal wage growth in the Czech Republic since 2010 and its projection in 2019 and 2020. Except for the year 2012 and 2013, there are positive results on both nominal and real growth rate (the nominal growth rate in 2012 is also positive). After 2013, there is an increasing tendency for the next 5 years, and both the real and nominal rate reached their highest level in 2018, that is 7.2 percent of nominal rate and 4.6 percent of the real growth rate. However, after 2018, the growth rates are expected to decline. These might not good for the workers, but on the other hand, might be good news for the owner of a firm as the increasing rate of labour cost decline (keep all else equal).

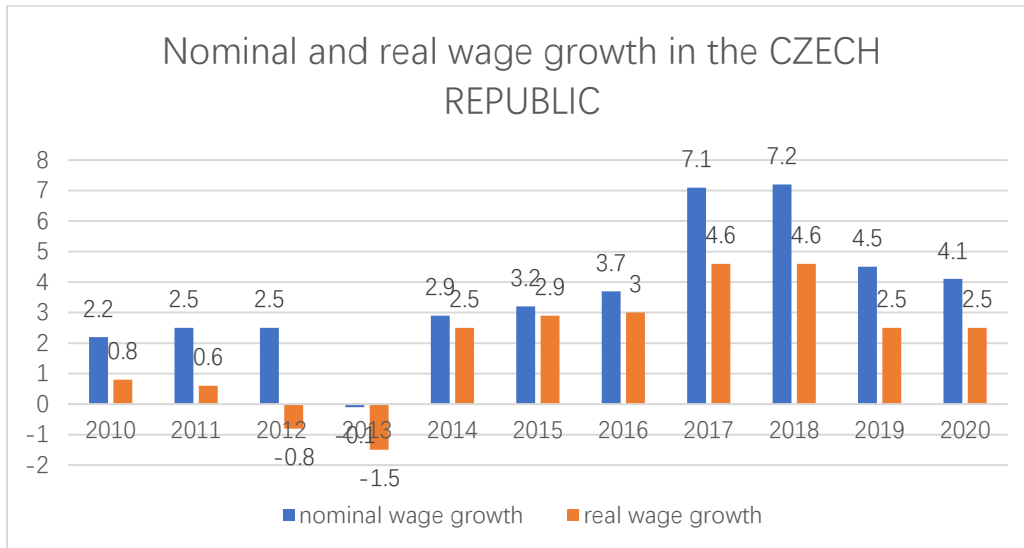


Figure 4.1: Nominal and Real wage growth in the Czech Republic³⁶

4.1.2.2. Comparison with European economies

Figure 4.2 shows the general net month salary on average in 2018. All of the data in the graph are adjusted after PPP. The data shows that the Czech Republic belongs to the yellow regions, that is the wage between 1500 to 2499 USD, which is relatively low in Europe. This figure indicates the comparative advantage of the Czech Republic within Europe. However, it should also mention that in the yellow region (most of the CEE economies), the average wage of Czech is relatively higher.

³⁶ The source of the data form macroeconomic forecast November 2017, Ministry of Finance, 2017.



Bright Purple	above 3,500 USD
Bright Blue	Between 2,500 and 3,499 USD
yellow	Between 1,500 USD and 2,499 USD
Red	Under 1,500 USD

Figure 4.2: Net average salary³⁷

4.1.2.3. Average gross monthly wages in the regions of the Czech Republic

³⁷ The source of the graph is from: https://en.wikipedia.org/wiki/List_of_European_countries_by_average_wage

After compared the wage level in a broader region, then the data of wage within the Czech Republic are summarized in Figure 4.3. It shows the monthly wages in the different cities in the Czech Republic in 2016. Although it is not the recent data, it still useful if we just focus on the relative gap between the different cities. This is important, as investors not only need to choose the country, but also the specific conditions of the cities need to investigate.

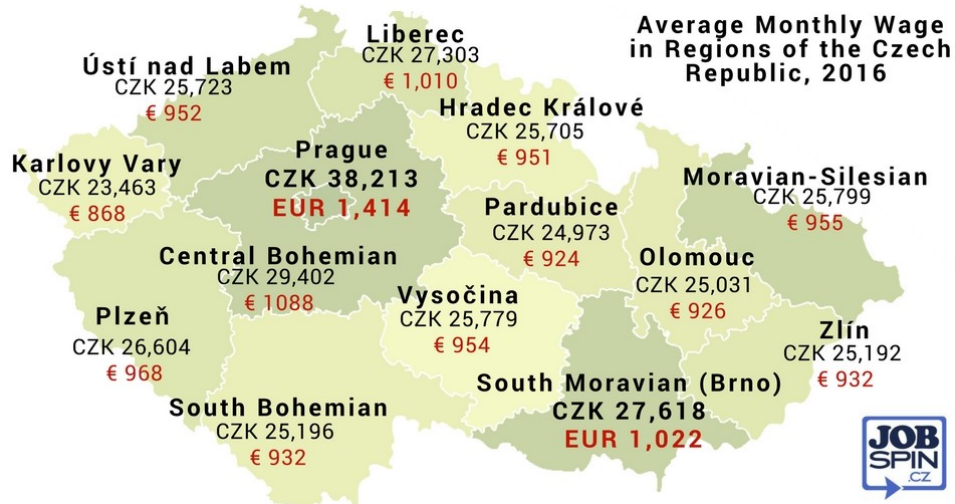


Figure 4.3: Average gross monthly wages in the regions of the Czech Republic in 2016

4.1.3. The cost of set-up a business in the country

Cost of business to start-up procedure (% of GNI per capita)

<i>Country Name</i>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<i>Czech Republic</i>	9.2	9.3	8.1	8.1	7	6.9	6.7	5.7	1	1
<i>Neighbours of CZ</i>										
<i>Austria</i>	5.1	5.2	5.2	4.9	4.8	5.5	5.3	5.2	5.1	4.8
<i>Germany</i>	4.9	5	4.8	5	5	8.9	7	6.8	7	6.7
<i>Poland</i>	16.7	16.3	16	13.2	13.1	12.9	12.2	12.1	12	11.8
<i>Slovak Republic</i>	2	1.9	1.8	1.8	1.5	1.5	1.5	1.1	1.1	1
<i>Other CEE countries</i>										
<i>Hungary</i>	8	8.2	7.6	8.9	8.8	8.5	7.5	7.1	5.4	4.9
<i>Bulgaria</i>	2.6	2.5	2.3	1.9	1.8	1.5	1.4	1.3	1.2	1.1
<i>Romania</i>	2.9	2.8	3.1	2.9	2.5	2.2	2.1	2	0.4	0.4

Recent Data updated date is 4/24/2019³⁸

Table 4.3: Cost of business starting-up (% of GNI per capita)

The data collected in the table shows the cost of nations set up a business in the host country. The time horizon of this set of data is recent ten years, that is from 2008-2018. In the first column, we first mention the Czech Republic as it is our target in this study. Following that, we then list the neighbours of the Czech Republic. Although both Germany and Austria are not belonging to CEE regions, and the economic feature and investment climates of these two countries are different from the Czech Republic. We still collect the data, as it is still meaningful if we want to compare the relative advantages or disadvantages of the Czech Republic in the region analysis. After that, we then list some other CEE nations, i.e. Bulgaria, Romania and Hungary. These countries are also

³⁸ The data are collected on the World Bank https://data.worldbank.org/indicator/IC.REG.COST.PC.ZS?end=2018&locations=CZ-HU-PL-RS-DE-AT&name_desc=false&start=2007.

closed to the Czech Republic, and also play an important role in Europe. As we mentioned in the former chapter, the increasing investment from China to the worldwide, this figure might show one of the aspects of the investors from China to measure the investment climates of the Czech Republic and the comparative economies. On the other hand, during the progress of the B&R progress, the Chinese government might also need to pay attention to how easy to set up businesses in the cooperation economies. And the attitudes and supporting of the government could also be a factor that impacts Chinese investors choice.

From Table 4.3, we could find that the Czech Republic experienced a relatively high level in the former years. Although the number is lower than that of Poland, it remains high through the target time horizon, and relative similar to Hungary. Good news is that this number declines significantly during the recent years, which is almost the same as Bulgaria (whose ration remain stable during the recent decade) and a bit higher than Romania and the Slovak Republic.

We then graph the figure for this table, aiming to show the tendency more clearly. From Figure 4.4, we could clearly find that the ratio of the Czech Republic shows a decreasing tendency, especially in 2016. Although is still higher than the Romania and Bulgaria, it still shows a comparative advantage relative to its neighbours, such as Poland, Germany and Austria. Comparing with Hungary, the Czech Republic is less attractive during the year 2009 to 2011, however, it changed after 2011 and the largest gap is about 4.4. percent in the year 2017.

However, further discussion is still needed that is the forecast of this ratio. The reason is that there are still a number of potential investors, and what they care about is the cost of set-up in the future. While this does not mean the presence of the past year data is not meaningful. It still a guideline for the investors to hold a basic view of this aspect.

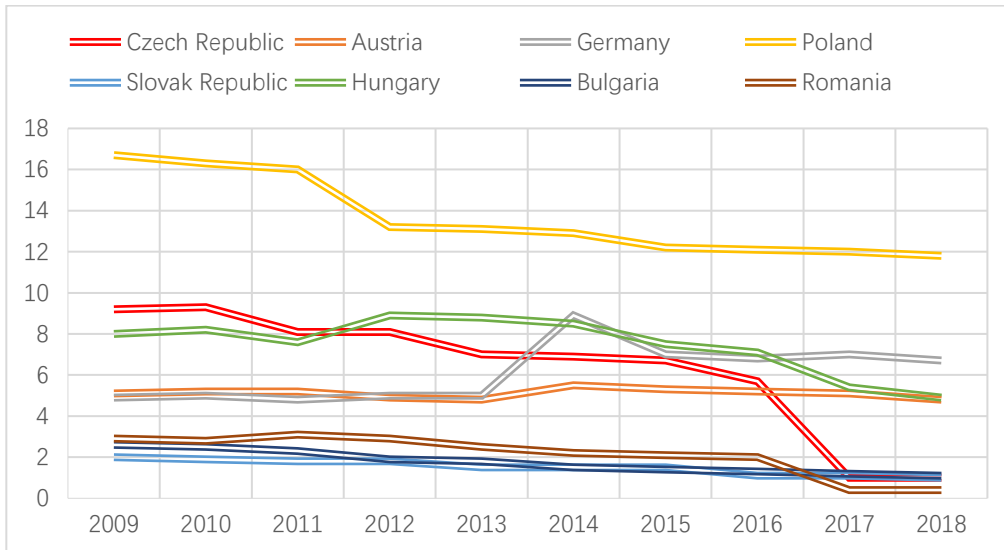


Figure 4.4: The graph of the Table 4.3³⁹

4.1.4. Procedures to set-up a business and the time required to start-up procedure

The following two tables summarized the information of basic procedures of the Czech Republic and some other countries on running businesses. In this part, we aim to use these two tables to represent the willingness of the target countries of the investors. This is because of the simpler procedures of run a business show the government views on investment both for domestic and worldwide investors. Although we want to discuss the investment climates in the Czech Republic, it still meaningful for us to compare its convenience of the investment procedures with other countries.

The numbers in Table 4.4 is relatively stable for most of the countries. This might because of the policy on the procedure usually same during the time unless some events happened that impact the current environment. Form this table, in general, the Czech Republic does not show comparative advantages relative to the others. However, this difference is not large.

³⁹ Construct self by using the data form the World Bank.

Number of the procedures

<i>Country Name</i>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<i>Czech Republic</i>	8	8	8	8	8	8	8	8	8	8
<i>Neighbours of CZ</i>										
<i>Austria</i>	8	8	8	8	8	8	8	8	8	8
<i>Germany</i>	9	9	9	9	9	9	9	9	9	9
<i>Poland</i>	11	7	7	7	5	5	5	5	5	5
<i>Slovak Republic</i>	7	7	7	7	9	9	7	7	7	7
<i>Other CEE countries</i>										
<i>Hungary</i>	5	5	5	6	6	6	6	6	6	6
<i>Bulgaria</i>	7	7	7	7	7	7	7	7	7	7
<i>Romania</i>	6	6	6	7	7	7	6	6	6	6

Recent Data updated date is 4/24/2019⁴⁰

Table 4.4: Number of the procedures

⁴⁰ The data are collected on the World Bank

https://data.worldbank.org/indicator/IC.REG.COST.PC.ZS?end=2018&locations=CZ-HU-PL-RS-DE-AT&name_desc=false&start=2007.

The following table shows the days that need to start a business on the average form the year 2012 to 2018. In this part, it could be found that the average days for the Czech Republic is relatively high than the other countries in the table (except for Poland and the Slovak Republic). Germany and especially Hungary show a significant advantage in this aspect.

The number of days needed to set-up businesses

Country Name	2012	2013	2014	2015	2016	2017	2018
<i>Czech Republic</i>	30.5	30.5	30.5	30.5	24.5	24.5	24.5
Neighbours of CZ							
<i>Austria</i>	25	25	22	22	21	21	21
<i>Germany</i>	14.5	14.5	14.5	10.5	8	8	8
<i>Poland</i>	39	37	37	37	37	37	37
<i>Slovak Republic</i>	28.5	33.5	26.5	26.5	26.5	26.5	26.5
Other CEE countries							
<i>Hungary</i>	7	7	7	7	7	7	7
<i>Bulgaria</i>	25	25	25	25	23	23	23
<i>Romania</i>	8	8	8	8	12	12	35

Recent Data updated date is 4/24/2019⁴¹

Table 4.5: Number of the days needed

4.1.5. The comparison Czech with Europe and North America through the 12 pillars in GCI index

⁴¹ The statistics are collected on World Development Indicators:

https://data.worldbank.org/indicator/IC.REG.DURS?end=2018&locations=HU-AT-SK-RO-BG-CZ&name_desc=false&start=2008

From the figure, it is obvious that the Czech Republic has comparative advantages on the third pillar (Macroeconomic environment) and the ninth pillar (Technological readiness). Relative to North America and Europe, it has weaknesses on the first pillar (institutions) the second pillar (Infrastructure) and the 12th pillar (Innovation), while the institution pillar shows an increasing trend during the recent years that shown in Figure 2.4 in Chapter 2.

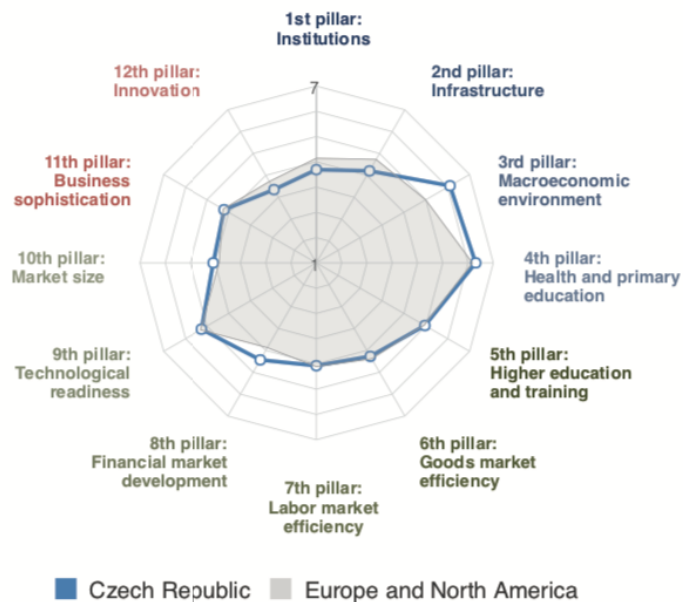


Figure 4.5: GCI index relative to Europe and North America

4.1.6. Summary

To conclude, in this section, we make comparisons of the Czech Republic with several economies. The relatively low cost of labour, low inflation rate, easier to set-up a business (in terms of both time consuming and cash consuming) make it becomes more attractive among CEE countries and its neighbours, while the government still need to pay more attention to some areas, such as infrastructure, to build a more developed investment climates that could attract more capital inflows.

One point should also be mentioned is that the policy makers should also pay attention to the regulation of the capital inflow. It does not mean they should implement strict policies, but it is important to avoid the dramatic inflow of the capitals, which is dangerous for the host economies and then harm the interests of both domestic and foreign investors.

4.2. Findings in the questionnaire

4.2.1. Summary of the survey collection

According to the schedule in the methodology part in Chapter 3. We distribute 148 numbers of questionnaire through the online distribution or directly interview with them. However, 30 of the survey show a less meaningful because of a partial answer. Therefore, we delete these parts of the results from our studies.

In addition, when we do the interview with the people, we also ask some general open questions. Some of the answers might present useful opinions that could complete our analysis than just focus on the choice questions or ranking-order questions. However, the collection of the open answers is much more difficult than the others (both times consuming and most of the people are not willing to answer more), therefore, we only collect about 35 responses for this part, and we will strengthen some interesting findings of that at the end of this Chapter.

4.2.2. Demographic features of the respondents

Figure 4.6 shows the detailed of the age distribution of our respondents. After excluding two respondents who are unwilling to say their age, the remaining answers show a rough symmetric distribution. Most of the respondents are aged between 25-50 years old. These results might

represent the potential Chinese investors for two reasons. Firstly, comparing with the people above 50 years old, these group of people experienced the transformation of China (reform and open policy) during a younger age. This might lead them to hold a more open view on doing business abroad and thus willing to invest outside of China. On the other hand, comparing with the respondents who below 25 years old, people who age from 25-50 years old have more assets in general. In other words, they have a higher ability to diversify their investment portfolios and put more assets in the international markets.

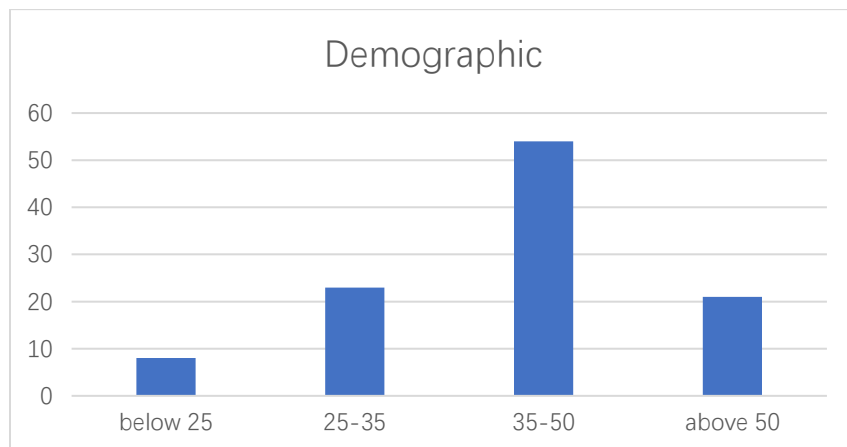


Figure 4.6: Demographic description

Table 4.6 shows that there are 36 (one-third of the total) respondents are female and a 72 of them are male. This might be because of the different characteristics between the male and female, while this is just a hypothesis and it was not tested in this study.

Gender	Number
Female	36
Male	72

Table 4.6: Number of the days needed

4.2.3. Company profile (section A of the questionnaire)

4.2.3.1. Type of Firm

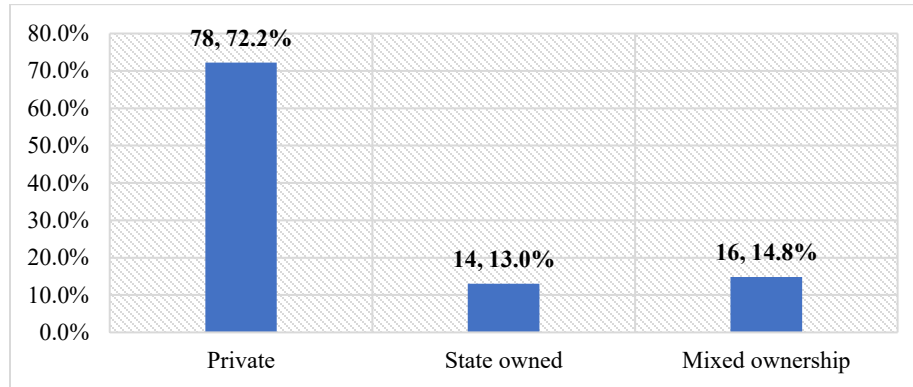


Figure 4.7: Type of Firm

According to the findings, a majority of the firms were privately owned (n=78, 72.2%); the least was owned by the state of China (n=14, 13.0%), and 16 respondents said that their companies are mixed ownership. As mentioned in Chapter 3, QQ and WeChat are the main ways to collect information online. It is interesting that many Chinese who already live in the Czech Republic show a different feature with the Chinese in other developed countries such as Canada, the United States and Australia. That a large proportion of the people in our sample pool stay in the Czech Republic because they decided to run a business here, that is they own their own firms here. The kinds of businesses are various, such as the supermarkets, restaurants, IT sellers, KTV, travel agency, physical distribution and so on⁴². Although the features are different among these firms, the common characteristics from them are all related to the commercial real estate markets and significantly impacted by the investment environment of the Czech Republic. This is also the reason why the analysis of the questionnaire is meaningful for the potential Chinese investors who hope to invest in the commercial properties in Europe while not yet decide the country.

⁴² These data are collected

4.2.3.2. *Number of Employees*

The following table shows the number of employees in the firms. The majority of the companies have 30 to 100 employees (n=44, 40.7%), and the second larger kind is that employees of the firms are over 100. However, there are only 2 firms that have less than 10 workers. The different sizes and levels of the country might lead them to consider differently in terms of the cost of workers, the skilled/ educated employment and so on. I interviewed one ethnic Chinese who own his own travel agency in Prague. His agency mainly services for Chinese students who study in Europe and large tour groups come from Chinese. Therefore, in his terms of view, a people who are good at on communicating, good at speaking Chinese/ Czech and well-known about the culture of Europe are the three main points that he cares about. On the contrast, I also interview a woman who comes from the Slovak Republic and married with a Chinese who come from the middle and West of China. They run a restaurant that mainly sells the specials Chinese food of the husband's hometown. The store is small and just start-up; therefore, they do not need to employ too many workers and relative to the former case, they do not need relatively high-skilled workers but the cheap labour.

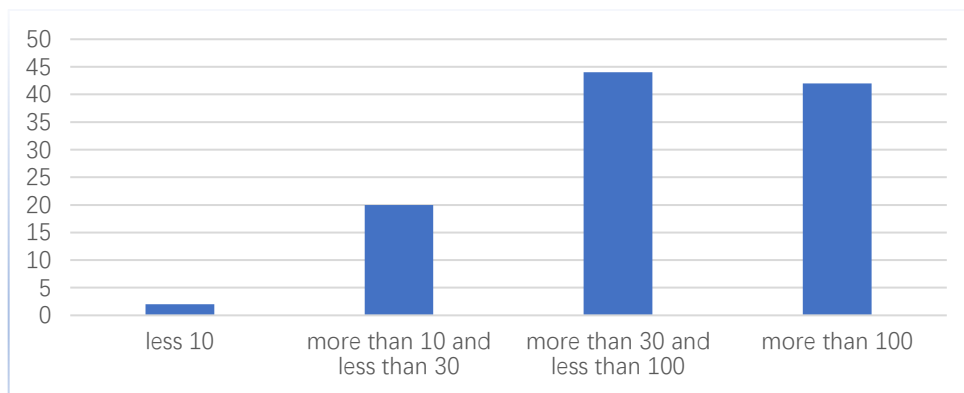


Figure 4.8: *Number of Employees*

4.2.3.3. *Number of years the company has been in operation*

A majority of companies had been in operation for at 6-10 (n=74, 68.5%) years while the least number of companies was that had been in the county for less than 2 years (n=1, 0.9%) as shown in Figure 4.9. majority of the companies had invested in industrial warehouse markets (39.8%) and residential properties. Although it seems that only one firm set up in the recent two years in our sample.

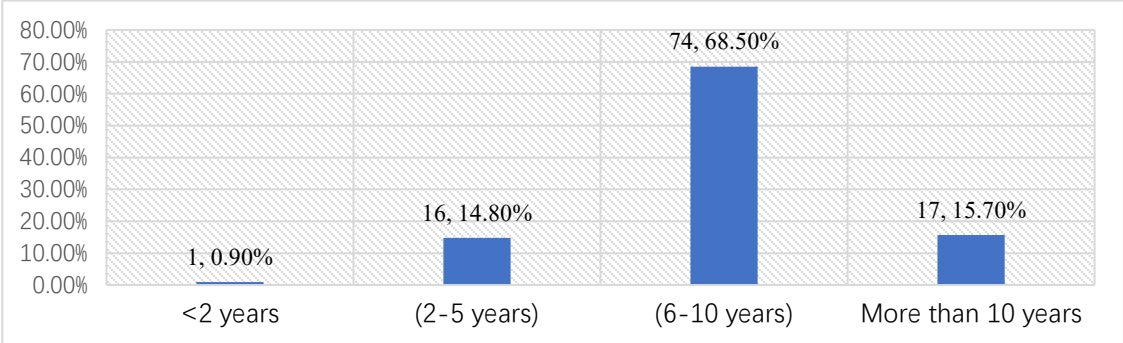


Figure 4.9: Number of Years in Operation

4.2.4. Real estate operations in Czech

A majority of the companies had invested in industrial ware house markets (39.8%) and residential properties (30.6%)

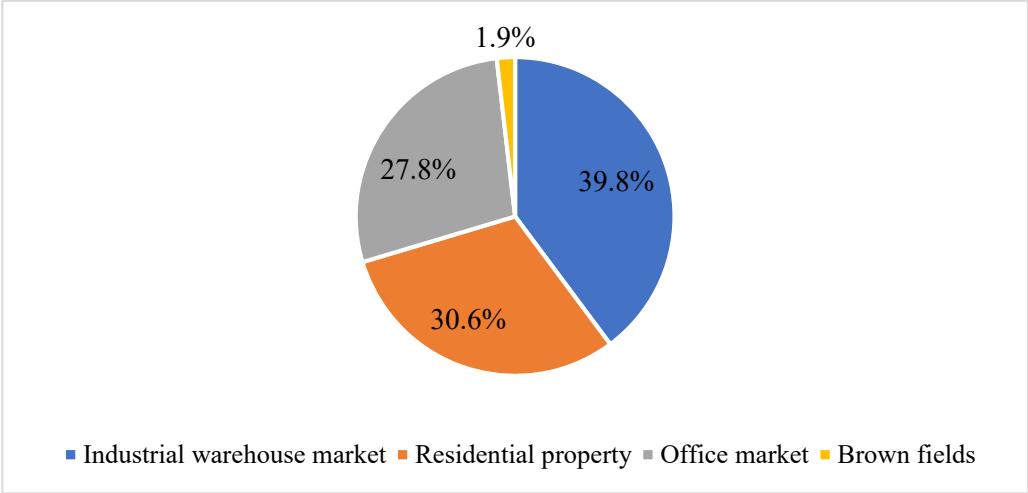


Figure 4.10: Real estate operations in Czech

4.2.4.1. Company Meets profitability

More than three-quarters of the companies noted that they registered profits (97%) from the real estate business in Czech.

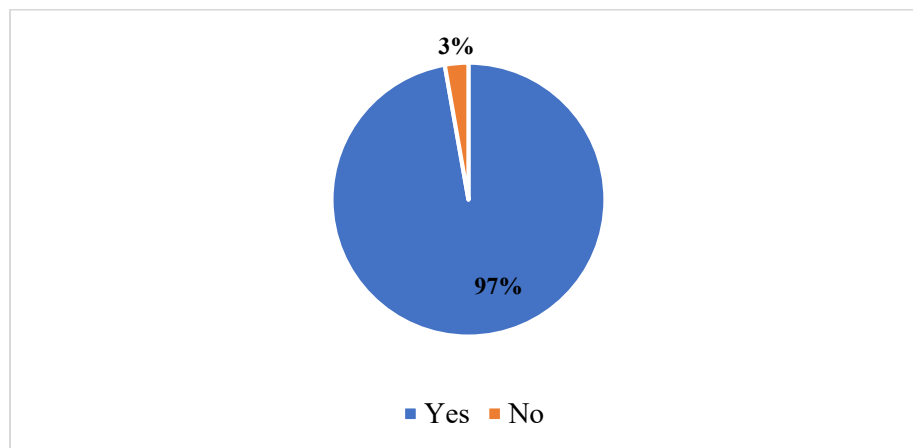


Figure 4.11: Company Profitability

4.2.5. Foreign Direct Investments Determinants

Table 4.7 shows the respondents reactions in relation to foreign direct investments, which is section C in the questionnaire. There are five different kinds of choices, that is from strongly agree to strongly disagree.

Factors	Category	<i>f</i>	%
Policy Frameworks	Agree	62	57.4
	Strongly Agree	46	42.6
Cost of business	Agree	44	40.7
	Strongly Agree	64	59.3
Highly developed property Market	Agree	87	80.6
	Strongly Agree	21	19.4
Growth Rate	Strongly Disagree	2	1.9
	Disagree	2	1.9
	Agree	83	76.9
	Strongly Agree	21	19.4
Strategic location	Disagree	2	1.9
	Agree	85	78.7
	Strongly Agree	21	19.4
Infrastructure facilities	Disagree	2	1.9
	Agree	85	78.7
	Strongly Agree	21	19.4
Level of competition	Disagree	3	2.8
	Agree	85	78.7
	Strongly Agree	20	18.5

Table 4.7: FDI Determinants

The first factor is the policy framework, which is on a top level's view of foreign investment. In Chapter 2, is briefly discussed about this and conclude that a more openness policy on the capital control could encourage investment inflow.

It can be seen that the cost set-up a business is also important from the answer of respondents. The cost we mention here is not only considered the physical costs, but also labour costs, which is also be discussed in section 4.1.2 to 4.1.4.

Then, the highly developed property market also shows a positive relation. We include this sector because as studying in the former chapter, the Czech Republic presents a good performance on this aspect.

The response of the former three factors is similar as everyone chose at least 'Agree' option. However, the distribution of the answer shows a different feature in terms of the growth rate of the economy. Two respondents strongly disagree and two disagree with the positive relation to the FDI.

Two people disagree that the strategic location is an important factor. One of the respondents further indicates that in his point of the cost of running a business is more important. Although located in a more centre places might create more profits, the costs of doing are also high. As an owner of a large industrial warehouse, he thinks the most important thing is to balance the cost and benefit i.e. profits, not just focus on the increase in revenue.

Two of the respondents do not agree with the role of infrastructure facilities on the FDI. One of the respondents said that this is dependent on the feature of the business.

The last indicator considered in Section C is the level of the competition. Three people chose the 'disagree' and also explain more during the interview. One named Zhang, coming from Wen Zhou⁴³ city of China thinks that a high level of competition could lead to the high potential costs

⁴³ Wen Zhou is a city of Zhe Jiang province. The common feature of the products in this city is 'low yield, low costs but high output'. Products here are almost perfect substitute and the product intensive feature present a high competition level.

for the foreigners, which lead to a lower profit. He further mentioned that he had this conclusion because he experiences a financial crisis before in China. And the reason for that crisis is because of the higher level of competition in his hometown. The rest of the two respondents also hold a similar view, although they did not experience the fail as Zhang did.

4.2.6. Bivariate Analysis⁴⁴

According to the bivariate analysis conducted bilateral analysis in Table 4.8, we could find the correlation between the factors listed in section C of the questionnaire. It could be concluded that cost of business, highly developed property market, strategic location, infrastructure facilities and level of competition were found to be significant at $P=0.01$ while the growth rate was found to be significant at 0.05.

44 **. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

		1	2	3	4	5	6	7	8	9	10
1.	Type of Firm	1									
2.	Company meets profitability	.362**	1								
3.	Incentives	-.204*	.012	1							
4.	Policy Frameworks	.061	-.146	-.080	1						
5.	Cost of business	-.135	-.204*	-.366**	.295**	1					
6.	Highly developed property Market	-.285**	-.083	.382**	.523**	-.069	1				
7.	Growth Rate	-.168	-.026	.159*	.239*	.114**	.677**	1			
8.	Strategic location	-.287**	-.054	.413**	.332**	-.117	.838**	.670**	1		
9.	Infrastructure facilities	-.287**	-.054	.413**	.332**	-.117	.838**	.670**	1.000 **	1	
10.	Level of competition	-.237*	-.041	.304**	.249**	-.046*	.676**	.553**	.844**	.844**	1

Table 4.8: Bivariate analysis

4.2.7. Ranking the most problematic factor for doing business in Czech Republic

Questions in this section refer to the survey done by the World Economic Forum for the year 2017-2018⁴⁵. The main procedure of this survey of World Economic Forum is asking people to think about the factors that are the most problematic of running firms. Among the 16 indicators, respondents need to choose five of them and ranking these five factors. And finally, the result will be summarized after weighing the ranks. The detailed results of this survey are attached in the Appendix section.

In order to simplify the work of this paper respondent just needs to choose three factors and then rank them through 1 (most problematic) to 3.

The results of section D of the questionnaire are summarized in Table 4.9.

⁴⁵ The statistics are collected on World Development Indicators:

https://data.worldbank.org/indicator/IC.REG.DURS?end=2018&locations=HU-AT-SK-RO-BG-CZ&name_desc=false&start=2008

Indicators	The numbers of people who choose such indicator (RANK):			Weighted value⁴⁶
	1 (most problematic)	2	3	
Tax regulations	44	34	18	218
Inefficient government bureaucracy	23	19	5	112
Tax rates	20	29	21	139
Policy instability	5	6	12	39
Corruption	2	2	9	19
Restrictive labour regulations	6	7	13	45
Insufficient capacity to innovate	1	5	4	17
Inadequately educated workforce	2	0	8	14
Access to financing	3	3	5	20
Government instability/coups	1	1	2	7
Poor work ethic in national labour force	0	1	2	4
Crime and theft	1	1	4	9
Foreign currency regulations	0	0	3	3
Inflation	0	0	1	1
Poor public health	0	0	1	1

⁴⁶ Different ranks will be valued for different numbers. To be more specific, the rank 1 will be valued 3, rank 2 will be valued 2 and the rank 3 will be valued as 1.

Table 4.9: The most problematic indicators to invest in the Czech Republic

The respondents are relatively concentrated. ‘The tax regulations’, ‘Inefficient government bureaucracy’ and ‘tax rates’ are selected frequently in all of the three ranks. For some of the sectors such as ‘inflation’ and ‘poor public health’ are rarely chosen.

According to this table, in the last column, we weighted the value of the rank should clearly find that the three major problem factors for our sample group are the former three. In order to show this graphically, we then prepare Figure 4.12 base on the data of Table 4.9.

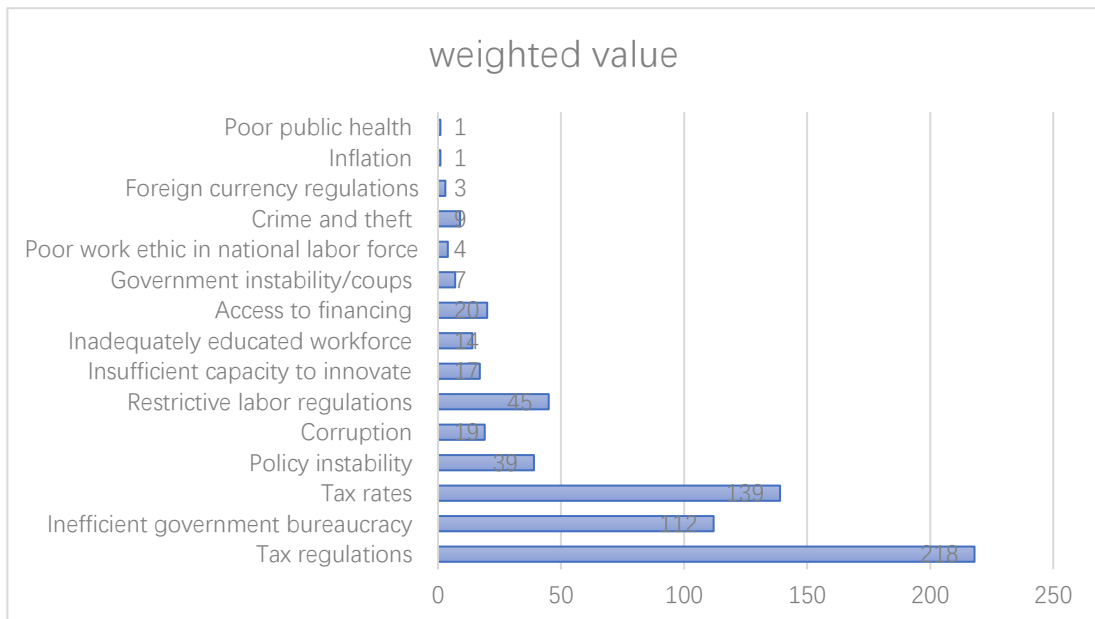


Figure 4.12: The weighted value from the Table 4.9

Comparing with the results of the World Economic Forum, which attached in the Appendix, the general distribution is similar. That shows a decreasing trend from the indicator 1 to 16.

4.2.8. Some findings in open questions

4.2.8.1. Does the Good trade relationship between the Czech Republic and China have informed your investment in here?

One respondent strongly agrees with that. He informed that as the relationship between the Czech Republic with China become closer, there are more and more people get to well-known about the Czech Republic. He mentioned that when he first came and lived in Prague ten years ago. The Chinese community is really small relative to nowadays. However, the situation is changing. As he also doing a part-time job for some travelling agencies in China as a driver or tourist guidance for Chinese. He found that there an increasing number of Chinese asking for investment here, especially on the commercial properties. And this also inspires him to focus on this industry, as he thinking it has a bright future.

4.2.8.2. What attitude do you have towards Chinese investment in the Czech Republic?

Most of the respondents who answer this question hold positive attitudes, except for two people hold negative/neutral view because they think that the more strict capital restriction now in China could limited private ability to invest in the Czech Republic. This is consistent with the view of Hanemann, Huotari and Kraatz (2019), who believe that the decrease of Chinese FDI to EU in recent two years is mainly because of the growing regulatory scrutiny.

4.2.8.3. What do you think the impacts of Chinese investor on the real estate market on the Czech Republic?

Most of them think the impacts will be significant at least in the future. One respondent Xiong indicates that investment actions of Chinese on real estate in Europe cannot be ignored. For example, there is already a large investment from China on the real estate markets in Hungary, which is another V4 countries. She further strengthens that the passion to invest in this area of China is mainly because the boom of the domestic market⁴⁷ is one of the drivers lead the Chinese investors to turn to the international real estate market. In addition, a respondent who works for a real estate agent says that ‘Don’t underestimate the ability and willingness of Chinese on investing housing in the world.’ However, another respondent questions the positive impacts of FDIRE, because he thinks this might lead to unwanted sharp appreciation on the property price. He is afraid of the real estate bubbles to happen in the Czech Republic, such as the boom in Sydney⁴⁸. And this view is consistent with some analysts as we already mentioned in Chapter 2.

⁴⁷ Since 2008, the property price in China almost increase five times more.

⁴⁸ He though the FDIRE is the key factor that push up the price of real estate market in Sydney, and Chinese investor one of the most influenced party.

CHAPTER FIVE

5. SUMMARY, CONCLUSION, LIMITATIONS OF THE STUDY AND RECOMMENDATIONS

In this Chapter, we will first summarize the content of the former Chapters. And then we will draw the conclusion of the studies on the second part. In the third part, the limitations of this study will be discussed. And finally, we will list some recommendation for further studies in this area.

5.1. Summary of the studies

Chapter one is the introduction of the studies, which present the background of investment climates of the Czech Republic and the investment actions of China. From the angle of the Czech Republic, it has been experiencing a successful transition in the national economy with regards to encouraging FDI. For instances, there are over \$100 billion in FDI in the Czech Republic has been recorded (Czech Foreign Ministry, 2019). The stable business environment, high quality while relative low costs workers, the centre location of Europe are the three well-known factors that attract foreigner to invest in this country. After Present Deng proposed “Reform and opening-up” policy in 1992 and China join the WTO in 2001, China becomes increasingly significant in the world investment. The relationship between China and the Czech Republic becomes closer during recent years, especially after the present Xi promotes the ‘R&E’ that further promote the cooperation between the two economies. As FDI becoming more and more important, specific aspects of foreign investment have been discussed during recent years. And that leads to our studies of paper—the investment environment of Chinese commercial properties in the Czech Republic.

In Chapter two, we first discussed a series of theories which relate to the global investment. For example, the OLI model and its extended models are studied. It is further progress of the internalization theory and it is the abbreviation of Ownership, Location, and Internalization, which are the three major motivations of the FDI (Dunning, 1979). Later on, the human capital theory also mentioned in the Literature Review. This is because the human capital could increase the attractiveness of the FDI both through the direct and indirect way. In Chapter three, we also mention more about the investment climates of the Czech Republic in detailed, which shows some aspects of that might impact the choice of China investment. Some of these factors include strategic location, educated workforce, investor incentives, and well-developed real estate markets. These factors all contribute to the success of the investments to the country. However, the most profound factor is a well-developed property market.

The third Chapter focus on the methodology of the study. Review and analyse the available data from official data website and scholar's experts who have in the past conducted research in this area is the first method we use in this paper. For this method, most of the results will be present through graphs and tables, which could provide more straightforward, clear and comprehensive results for the potential investors. The second method of this study is to collecting data from the questionnaire. There are several types of questions such as ranking the choices and verbal question. The assumptions, sample population, ways to collect and analyse data the plan of distribution are all discussed in this sector. EXCEL and SPSS software will also be used under this method. Furthermore, we also list three limitations of this method, such as the limited and under-diversified population sample.

Chapter 4 is really important as it shows the results of our study. In the first part of this Chapter present a series set of data to show the investment climates of the Czech Republic compared with its neighbours (Austria, Germany, Poland and the Slovak Republic) and three of the CEE countries (Hungary, Bulgaria and Romania). In this part, we hope to compare the relative advantages of the Czech Republic, and the results could also present the investment climate which could impact the FDI. Indicators such are labour costs, the cost of set-up business and macroeconomic factors discussed in this part. The relatively low cost of labour, low inflation rate, easier to set-up a business make the Czech Republic become more attractive among CEE countries and its neighbours. In the second of this part, data collected from the questionnaire are used. We first use the graph and frequency table to present the general results and then do a bivariate analysis. Company meeting profitability, cost of business, highly developed property market, strategic location, infrastructure facilities and level of competition were found to be significant at 1% while the growth rate was found to be significant at 5%. Except for this, we also use the result of the ranking questions and it is similar to the survey done by GCI. At the end of Chapter, we also discuss three open questions.

The high economic growth rate, increasing the export and the relatively low unemployment rate shows the advantage of the Czech Republic. Moreover, this country also under a relatively stable political environment. Furthermore, the location of it is also attracted. Compared with the neighbouring, such as Germany, the Czech Republic has a relatively cheaper labour force, while maintaining the high skilled and well-educated feature. As the Czech Republic joins a number of economic cooperation such as involving German-led supply chains, the environment the Czech Republic of development as well. And these factors have been critical in the provision of opportunities for other countries like China.

On the other hand, the results of the questionnaire show the respondents view of real estate markets and FDI determinants. In general, the response of the questionnaire is consistent with the empirical results such as the importance of the developed property market, location and cost of business. In addition, section 4.2.7 further test the problematic indicators of investment in the Czech Republic. ‘Tax regulations’, ‘inefficient government bureaucracy’ and ‘Tax rates’ are the three factors that most problematic, which is consistent with the results of executive opinion survey that done by World Economic Forum.

5.2. Conclusion

After comparing the Czech Republic with the with several economies in Section 4.1, we found that the relatively low cost of labour, low inflation rate, easier to set-up a business (in terms of both time-consuming and cash consuming) make the Czech Republic becomes more attractive. And this is consistent with the empirical analysis in Chapter 2. The results of Section 4.2 also show the similar features in general (although some opposite answers are also founded in the questionnaires). However, we still hold a positive view of the Chinese investments in the commercial properties in the Czech Republic.

5.3. Limitations of this studies

There are some limitations of this work which might need to study further on the area.

Firstly, the data of section 4.2 are collected through the questionnaire, that might lead to subjective responses. As people are not rational (although we always hold this in many economic and financial models), they might occur cognitive errors and emotional bias. As in the methodology part, we assume that people will answer the question objectively, however, it is hard to achieve in reality. These might lead to the data are not as precise as we suppose.

Another limitation of our work is that we mainly discuss the Czech-China in this study, this might show limited guidance to the investors who want to invest in other counties. For instance, there are many economies join the B&R program of China, and there are differences between the economies' competitive advantages. Generally speaking, it is well known that the Czech Republic and some of its neighbours all present the advantages on labour costs, free investment climates, relative stable development environment and other factors that impact the investment environment. It still needs to investigate each country much more detailed if the Chinese government and investors want to gain more through the investment procedure.

The limitation of the sample population should also be stressed here. Although we want to study the general of the Czech Republic, most of the respondents in this study coming from Prague.

The last limitation of this thesis is that most of the data are based on the past performance of Czech or comparing counties. While for the potential investor, they do not only care about the current situation, but also the future of the country.

5.4. Recommendations on further studies

Finally, we will discuss the recommendations that could be considered if we do further study in this area.

- 1) We should do more studies FDI on company performance and then we should also need to contrast the findings with that of emerging countries.

In this paper, we mainly use the data from the questionnaire, which might be not comprehensive. The number of samples might not large enough to present the overall situations. Therefore, a more detailed study is needed in this area.

- 2) As mentioned in the limitation part before, the concentrated location of the respondents might not provide enough information. Therefore, further studies in this area could focus on more cities of the Czech Republic. And it might be also meaningful if they get some conclusion for each specific city, to see is there any difference between the regions. However, the number of Chinese who already or prepare to invest in commercial properties might be limited in some small cities in the Czech Republic. The total population could enlarge to a more foreign investor, such as Korean, Japanese and Vietnamese.
- 3) Further studies should be conducted on the role of FDI determinant on company performance.

In this paper, we discuss the determinant of the FDI in a broad way, in the first part of Chapter 4. And following that, we also discuss that based on the results

from the questionnaire. Further study could focus on the data at a firm-level to try to use some regression on this topic.

- 4) As this study wants to discuss the commercial property, thus more research on the FDIRE should be done.

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APPENDICES

Appendix 1: Questionnaire

Section A: General Information:

General in formation				
Age (optional, circle one)	Below 25	25-35	35-45	Above 45
Gender	Male	Female	Not to say	
Nationality				
Section A company profile				
Type of firm	Private			
	State owned			
	Mixed ownership			
Number of employees	Less than 10			
	10-50			
	50-250			
	>250			
Number of years of company operation	<2 years			
	2-5 years			
	6-10 years			
	More than 10 years			
Section B: Real Estate operation				
		Industrial warehouse market		

Real estate investment of the company	Residential property				
	Office market				
	Brown fields				
Company meets profitability	Yes				
	No				
Section C: Foreign direct Investments Select the most appropriate in relation to the most that impacts foreign direct investments (SD=Strongly Disagree, D=Disagree, N=Neither, A=Agree and SA=Strongly Agree)					
	SD	D	N	A	SA
Policy Frameworks					
Cost of business					
Highly developed property Market					
Growth Rate					
Strategic location					
Infrastructure facilities					
Level of competition					
Section D: Choose three most problematic indicators to invest in Czech Republic, and then rank them from 1 (the most problematic) to 3					
Tax regulations					
Inefficient government bureaucracy					
Tax rates					
Policy instability					

Corruption	
Restrictive labour regulations	
Insufficient capacity to innovate	
Inadequately educated workforce	
Access to financing	
Government instability/coups	
Poor work ethic in national labour force	
Section E: Open questions (Optional)	
Does stability of Czech Republic financial system inform your investment Decision in the country?	
What competitive advantages do you perceive Czech Republic has which informs your investment decisions?	
Does the Good trade relationship Czech Republic and China have informed your investment here?	
What value do you get in investing in real estate investments in the Czech Republic relative to investing in other countries?	
What attitude do you have towards Chinese investment in Czech Republic?	
What do you think the impacts of Chinese investor on the real estate market on the Czech Republic?	

Appendix 2: The GCI in detail

The Global Competitiveness Index in detail

Index Component	Rank/137	Value	Trend
1st pillar: Institutions	52	4.2	
1.01 Property rights	48	4.6	
1.02 Intellectual property protection	31	5.0	
1.03 Diversion of public funds	99	2.9	
1.04 Public trust in politicians	89	2.6	
1.05 Irregular payments and bribes	46	4.7	
1.06 Judicial independence	45	4.5	
1.07 Favoritism in decisions of government officials	95	2.6	
1.08 Efficiency of government spending	81	3.0	
1.09 Burden of government regulation	119	2.6	
1.10 Efficiency of legal framework in settling disputes	94	3.1	
1.11 Efficiency of legal framework in challenging regulations	112	2.6	
1.12 Transparency of government policymaking	73	4.0	
1.13 Business costs of terrorism	14	6.0	
1.14 Business costs of crime and violence	19	5.5	
1.15 Organized crime	16	5.9	
1.16 Reliability of police services	52	4.8	
1.17 Ethical behavior of firms	60	4.0	
1.18 Strength of auditing and reporting standards	31	5.4	
1.19 Efficacy of corporate boards	20	5.7	
1.20 Protection of minority shareholders' interests	48	4.4	
1.21 Strength of investor protection 0-10 (best)	51	6.0	
2nd pillar: Infrastructure	49	4.6	
2.01 Quality of overall infrastructure	43	4.6	
2.02 Quality of roads	74	4.0	
2.03 Quality of railroad infrastructure	26	4.4	
2.04 Quality of port infrastructure	94	3.5	
2.05 Quality of air transport infrastructure	35	5.3	
2.06 Available airline seat kilometers millions/week	63	267.6	
2.07 Quality of electricity supply	18	6.5	
2.08 Mobile-cellular telephone subscriptions /100 pop.	72	115.5	
2.09 Fixed-telephone lines /100 pop.	66	15.6	
3rd pillar: Macroeconomic environment	8	6.2	
3.01 Government budget balance % GDP	13	0.2	
3.02 Gross national savings % GDP	36	27.3	
3.03 Inflation annual % change	1	0.7	
3.04 Government debt % GDP	42	37.7	
3.05 Country credit rating 0-100 (best)	22	78.4	
4th pillar: Health and primary education	23	6.4	
4.01 Malaria incidence cases/100,000 pop.	n/a	s.l.	
4.02 Business impact of malaria	n/a	6.9	
4.03 Tuberculosis incidence cases/100,000 pop.	8	5.2	
4.04 Business impact of tuberculosis	9	6.8	
4.05 HIV prevalence % adult pop.	1	<0.1	
4.06 Business impact of HIV/AIDS	4	6.8	
4.07 Infant mortality deaths/1,000 live births	12	2.8	
4.08 Life expectancy years	34	79.5	
4.09 Quality of primary education	28	4.9	
4.10 Primary education enrolment rate net %	21	98.9	
5th pillar: Higher education and training	27	5.2	
5.01 Secondary education enrollment rate gross %	29	105.6	
5.02 Tertiary education enrolment rate gross %	36	65.0	
5.03 Quality of the education system	59	3.8	
5.04 Quality of math and science education	48	4.5	
5.05 Quality of management schools	61	4.3	
5.06 Internet access in schools	24	5.3	
5.07 Local availability of specialized training services	19	5.5	
5.08 Extent of staff training	29	4.7	

Czech Republic

Index Component	Rank/137	Value	Trend
6th pillar: Goods market efficiency	38	4.7	
6.01 Intensity of local competition	14	5.8	
6.02 Extent of market dominance	31	4.3	
6.03 Effectiveness of anti-monopoly policy	46	4.0	
6.04 Effect of taxation on incentives to invest	48	3.9	
6.05 Total tax rate % profits	110	50.0	
6.06 No. of procedures to start a business	91	8	
6.07 Time to start a business days	53	9.0	
6.08 Agricultural policy costs	93	3.5	
6.09 Prevalence of non-tariff barriers	14	5.1	
6.10 Trade tariffs % duty	6	1.1	
6.11 Prevalence of foreign ownership	5	6.0	
6.12 Business impact of rules on FDI	16	5.5	
6.13 Burden of customs procedures	34	4.9	
6.14 Imports % GDP	13	83.9	
6.15 Degree of customer orientation	43	5.0	
6.16 Buyer sophistication	106	2.9	
7th pillar: Labor market efficiency	41	4.5	
7.01 Cooperation in labor-employer relations	34	4.8	
7.02 Flexibility of wage determination	10	5.9	
7.03 Hiring and firing practices	108	3.3	
7.04 Redundancy costs weeks of salary	86	20.2	
7.05 Effect of taxation on incentives to work	113	3.1	
7.06 Pay and productivity	21	4.7	
7.07 Reliance on professional management	26	5.4	
7.08 Country capacity to retain talent	51	3.7	
7.09 Country capacity to attract talent	74	3.3	
7.10 Female participation in the labor force ratio to men	64	0.82	
8th pillar: Financial market development	23	4.8	
8.01 Availability of financial services	28	5.0	
8.02 Affordability of financial services	23	4.8	
8.03 Financing through local equity market	63	3.7	
8.04 Ease of access to loans	32	4.5	
8.05 Venture capital availability	36	3.4	
8.06 Soundness of banks	12	6.0	
8.07 Regulation of securities exchanges	26	5.4	
8.08 Legal rights index 0-10 (best)	30	7	
9th pillar: Technological readiness	33	5.5	
9.01 Availability of latest technologies	32	5.6	
9.02 Firm-level technology absorption	33	5.1	
9.03 FDI and technology transfer	30	5.0	
9.04 Internet users % pop.	37	76.5	
9.05 Fixed-broadband Internet subscriptions /100 pop.	32	27.7	
9.06 Internet bandwidth kb/s/user	24	180.7	
9.07 Mobile-broadband subscriptions /100 pop.	46	76.0	
10th pillar: Market size	46	4.5	
10.01 Domestic market size index	53	4.1	
10.02 Foreign market size index	28	5.6	
10.03 GDP (PPP) PPP \$ billions	49	350.7	
10.04 Exports % GDP	8	96.7	
11th pillar: Business sophistication	30	4.6	
11.01 Local supplier quantity	20	4.9	
11.02 Local supplier quality	13	5.5	
11.03 State of cluster development	52	3.9	
11.04 Nature of competitive advantage	53	3.9	
11.05 Value chain breadth	42	4.3	
11.06 Control of international distribution	37	4.2	
11.07 Production process sophistication	31	4.8	
11.08 Extent of marketing	43	4.7	
11.09 Willingness to delegate authority	27	5.0	
12th pillar: Innovation	36	3.9	
12.01 Capacity for innovation	27	4.9	
12.02 Quality of scientific research institutions	27	5.0	
12.03 Company spending on R&D	34	4.2	
12.04 University-industry collaboration in R&D	41	3.9	
12.05 Gov't procurement of advanced technology products	97	3.0	
12.06 Availability of scientists and engineers	73	3.8	
12.07 PCT patents applications/million pop.	29	24.4	

Appendix 3: Rents in industrial premises per/m2

Rents in Industrial Premises, by Region (EUR/m²/month)

Region	Rent* (EUR/m ² /month)
Central Bohemia	3.9 - 4.35
Hradec Kralove	4.0 - 4.35
Karlovy Vary	3.8 - 4.2
Liberec	4.0 - 4.5
Moravia-Silesia	3.8 - 4.15
Olomouc	3.8 - 4.0
Pardubice	3.8 - 4.2
Plzen	3.8 - 4.35
Prague	4.1 - 5.5
South Bohemia	3.8 - 4.15
South Moravia	3.8 - 4.3
Usti	3.75 - 4.25
Vysocina	4.0 - 4.25
Zlin	3.0 - 3.5

Source: CBRE Research, 2018

* 2,000-5,000 m2

Appendix 4: class-A office headline rents

Class-A Office Headline Rents (EUR/m²/month)

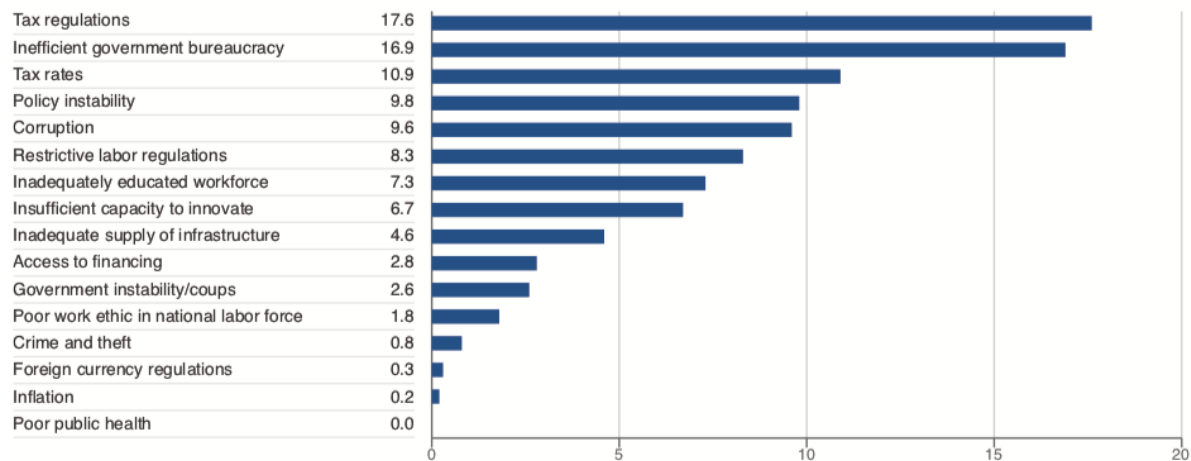
Location	2013	2014	2015	2016	2017
Prague city center	19.50-20.5	18.5-19.5	18.5-19.5	18.5-19.5	19.5-20.5
Prague inner city	15-17.5	15-17.0	15-16.5	15.0-16.5	15.5-16.9
Prague outer city	13-14.5	13-14.5	13-14.5	13.0-14.5	14.0-14.9
Brno	10-13.50	10-12.5	11-13	11.0-13.0	13.6
Ostrava	10-11.50	10-11.5	10-11.5	10.0-11.5	10.50-11.2
Plzen	10-11	10-10.5	10-10.5	10.0-10.5	13.2
Olomouc	9-10	9-10	9-10	9.0-10.0	9.5-10.0
Hradec Kralove	9-11.50	9-10.50	9-10.50	9.0-10.5	9.0-10.5
Usti nad Labem	9-10	9-10	9-10	9.0-10.5	9.0-10.5

Source: CBRE Research, 2018

Appendix 5: Most problematic factors for doing business

Most problematic factors for doing business

Source: World Economic Forum, Executive Opinion Survey 2017



Appendix 6: Dissertation project

DISSERTATION PROJECT
Name: WANG, YINING
Programme: IMESS
E-mail: yining.wang.17@ucl.ac.uk or tjmsyw4@ucl.ac.uk
Academic year: 2 017-2019
Dissertation title: Analysis of the Investment Environment of Chinese Commercial Properties in Czech Republic
Expected date of submitting: 2019.5.17
Head of the seminar: PhDr. Jiří Vykoukal
Supervisor: PhDr. Pavel Vacek
Title: Analysis of the Investment Environment of Chinese Commercial Properties in Czech Republic
Short description of the topic: The aim of this study is to analyse the investment environment of Chinese commercial properties in CZ. Specific Objectives: To assess the real estate investment climate in Czech Republic To investigate the real estate categories that are mostly commonly invested in Czech

To explore the characteristics of foreign direct investment in Czech

Proposed structure:

There are five chapters of this thesis:

Introduction; Literature review; Methodology; Findings and discussion;
Summary, conclusion and recommendation

Sources (basic selection):

To start with a systematic literature review were used in gathering data relating to the research topic as documented by scholar's experts who have in the past conducted research in this area.

Secondly, the questionnaire method was used for the study. Here the process involved structuring questions followed by issuing out the questions to relevant respondents.