Chapter 10
Trade and FDI Between the Czech Republic and Portugal:
Analysis of the 2000–2015 Period

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ABSTRACT

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

INTRODUCTION

Although FDI and the analysis of trade have been extensively researched among scholars, as well as their effects for both home and host countries, far less attention has been placed on how countries that historically had hardly any trade between them – as they belonged to different economic blocs – have evolved over time, as is the case of the Czech Republic and Portugal, that entered the European Union

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(EU) in, 2004 and 1986, respectively. As such the purpose of this article is to analyze the commercial trade between the Czech Republic and Portugal between 2000 and 2015, who are the main players participating in this process, and how this has impacted on the Czech firms investing in Portugal and on Portuguese firms investing in the Czech Republic.

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

BACKGROUND

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

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

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

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

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

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