

EXPORT PROMOTION FRAMEWORK OF THE CZECH REPUBLIC

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Abstract

This article elaborates the export promotion framework in the Czech Republic. It reviews the current literature and introduces the basic approaches and objectives that should be followed by a properly established export promotion system and describes the historical as well as contemporary development of the export support scheme in the Czech Republic. Subsequent research was then conducted in order to obtain a basic idea how the awareness about export support is spread among Czech companies. Outcomes of the survey are then used as inputs to suggest how to increase the effectiveness of export support.

Keywords: Export promotion; Czech export strategy; CzechTrade

JEL classification: F13, F14, F23.

Introduction and Literature Overview

As Janda claims (2008), state export support carried out through deliberately created agencies is a standard feature of the economies of a vast majority of countries, including the Czech Republic. Janda, in his article (2010), examines the impacts and efficiency of state export credits on the economy as a whole based on the gravity model introduced earlier by Tinbergenem (1962) and Pöyhönenem (1963) which empirically analyzes the flows of international trade. This research is particularly important for finding out the economic multiplication effects of state export credit support; however, we lack comprehensive studies investigating other parts of export promotion. Some studies on export promotion programs and their benefits on companies in initial exporting stages have been conducted for instance by Freixanet (2012), as well as by Wilkinson and Brouthers (2006). They concentrated on the implications of state-sponsored export promotion activities on the international marketing efforts of small to medium-sized enterprises, whereas Fisher and Reuber (2003) more elaborated the issue of targeting the export support to SMEs. Furthermore, Ascari (2007) elaborated the topic of Export Credit Agencies (ECAs). He claims that rationale for establishment of ECAs has never been explicitly spelled out and relevant economic literature dealing with purpose, empirical results scrutiny and future direction of support has almost disappeared. Articles or working papers dealing with such a topic in the Czech environment, apart from master theses, are difficult to find.

On the other hand, a few surveys that deal with the topic of export information promotion can be found. Among the most relevant in the Czech Republic we can list the research of the Ministry of Industry and Trade (2011) that was conducted in December 2010 examining the general awareness of institutions providing export support. Another survey and article devoted to pro-export services and activities was performed by the Association of Small and Medium-sized Enterprises (2010) focused on the overall framework, and was aptly complemented by subsequent research made by the same organization (2012) analyzing the respective institutions in more detail.

This article elaborates and defines the gradual evolution of the export support framework, describes its cornerstones, current stage and concept while striving to determine and interpret the general awareness among potential receivers of such a support and draw conclusions based on this data.

The State Export Promotion

State business support can be defined as a “mix of tools focusing on various areas of the economy, whose goal is to create trade and investment for appropriate economic, legislative, fiscal and social environment not only at domestic markets, but also work to support the commercial and business activities abroad” (Černohlávková, Sato, and Taušer, 2007, p. 158).

According to the Ministry of Industry and Trade (2012b) support of export, investments and active trade policy are among key priorities of economic policy of the government of the Czech Republic when coping with the impacts of the global economic crisis and the comeback from recession to upturn. The task of the State in this difficult situation is to assist Czech companies in the fight for world markets and support Czech exporters to ensure comparable conditions for competition in the international market. Thus state support for exporters of goods and services is mainly focused on small and medium enterprises.

Štouračová (2008, p. 91) stated that export support is one of the sub elements, while also one of the most significant parts of economic diplomacy. Its importance is given by its basic goal wherefrom other goals are derived and meeting them involves existence of an export strategy and working system of export support. The main goal, from a quantitative aspect is to achieve, maintain and improve export growth with all its positive implications. From the qualitative point of view then the goal is to achieve, maintain and improve the competitiveness of domestic companies and the whole economy in the international environment. And the balance aspect pursues to achieve, maintain and improve macroeconomic equilibrium and external stability.

Derived from the previous section, it is clear then that a system of state export support should follow two basic rules. The first is to provide support for companies, which assures for them comparable conditions while entering new markets and enhances their competitiveness in order to establish themselves successfully. The second one is to safeguard the highest degree of efficiency possible, which in return will be reflected in improved macroeconomic indicators. When following these rules, both the State and companies will gain from the cooperation. “Ultimately, what makes the difference between successful and unsuccessful trade promotion schemes is the degree of coordination and coherence of objectives among agencies. Irrespective of the actual organizational structure of individual agencies, or their nature and responsibilities, what really matters is whether the responsibilities and activities of each organization are clearly defined and assigned. Therefore there must be an efficient mechanism of coordination among various institutions” (United Nations, 2001).

Brief History and Current Development of the State Export Support in the Czech Republic

The gradual creation of the export support framework in the Czech Republic is dated into the nineties, when more or less randomly, not purposefully individual institutions with a pro-export focus by different ministries as its authority were established. The uncoordinated approach of government officials and lack of clarity of government policy attitudes in export support and creation of this program was a characteristic attribute of this process. The main reason for that was the adverse attitude of government members to any activities including just a hint of interventionism. The state export support was not created as any comprehensive concept nor as a government program supporting export activities of Czech companies and the Czech economy, but more represented individual goals, commitments and initiatives.

The first institution with a solely export support mission was founded in 1992. It was the Export Guarantee and Insurance Corporation (EGAP). Thereafter, in 1993, the Center of External Economic Relations (later in 1997 renamed and restructured into CzechTade – Czech TPO) followed. In 1995, the Czech Export Bank (CEB) and Czech Investment and Business Development Agency (CzechInvest) were created. In the same year, by the transformation of cultural centers, The Czech Centers abroad were founded and Czech Tourist Authority (later CzechTourism) as well. All of the institutions were dedicated to a different extent for export support activities and investments acquisition (Stouracova, 2008, p. 92).

The current practice of Czech trade and export support development policy strives to adjust the active instruments according to the systematic principle to create a coherent and complementary set of institutions with multilateral effect. The coordination of export activities is being clarified step by step. A systematic solution was adopted in April 1999, when the Ministry of Industry and Trade submitted a concept of “export policy”. Since that time for each particular period an export strategy is being prepared in continuity with the competitiveness strategy, and reviews on implementation are being carried out each year with outlining possible adjustments (Benes, 2004).

In the following parts, the whole system of state export support that is available will be broken down into different segments according to the role and nature it represents in export support strategy.

Czech Export Strategy 2012 – 2020

Since 1999, as mentioned, the export support is being carried out a bit more systematically than in previous years. Several export strategies were introduced, including a strategy for years 2003 to 2006, 2006 to 2010 and the latest one for the period 2012 to 2020, which seems to be the most comprehensive (MIT, 2012a). It has ambitions to exploit to the highest possible degree all synergies, which arise from various export support activities realized under public institutions, including the Ministry of Foreign Affairs, Ministry of Industry and Trade, Ministry of Finance and Ministry of Regional Development with their subordinated agencies. This was based from the very beginning on the Competitiveness Strategy of the Czech Republic for 2012 - 2020, which had been approved earlier, and attempts to incorporate findings and priorities presented. The ultimate goal is to become one of the 20 most competitive countries of the world by the end of this period, while

currently being 39th (WEF, 2012). The Ministry of Industry and Trade is responsible for the preparation of this strategy in cooperation with several other institutions such as the Ministry of Foreign Affairs, Chambers of Commerce, Business Unions and many others.

The strategy provides three main pillars of the export strategy, which should secure its success and fulfillment of the specific goals. These can be observed in Figure 1, with their particular fields of interest. Each pillar takes into account the existing services of public and private institutions in the area of internationalization and export promotion, but also includes new types of export services that have been proven abroad and for which there is demand by exporters.

Figure 1 | Czech Export Strategy 2012 – 2020 and its Three Main Pillars

| I. Pillar Information for export | II. Pillar Export development | III. Pillar Business opp. development |
|--|--|--|
| Simplifying access to information for export | Readiness to export and export education | Expanding the demand for Czech export |
| Business contacts and statistics | Advisory services for export | Investments for export |
| Market news and market analysis | Export financing | Marketing, branding and lobbying |
| Infrastructure and HR for export | Export eco-system | |

Source: Ministry of Industry and Trade (2012), Czech export strategy 2012 - 2020

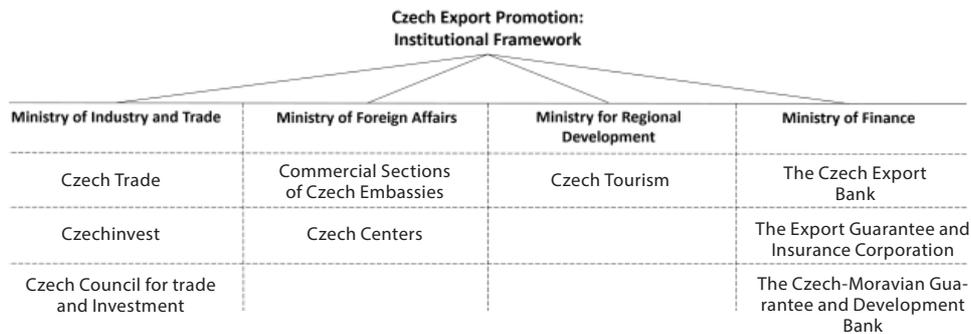
Under the three pillars, twelve particular projects with different focuses and aims are being carried out and thus contribute to the strategy. The first pillar “Information for export” should cover creation of a center for shared services and export information (back office in the Czech Republic), one-stop-shop (synergies of existing support) and global diversification of control (information about markets outside the EU). The second pillar “Export development” covers services for exporters (front office, foreign countries), export financing and insurance (special export credits and guarantees), international sources of finance and development cooperation (financing from EBRD, EIB and EU Structural funds), clusters and export promotion initiatives (clusters in regions to establish cooperation with locals) and a control and communication platform (interconnection and coordination of implementation of the strategy). The last pillar “Business opportunities development” takes care of implementation of the EU trade policy and export to the EU internal market (facilitates access to the single market), optimization of the foreign institution network (revision and restructuring of the territorially unbalanced network), foreign network services (consolidation and customization of services) and investment and innovation for export of goods and services (to obtain investments into domestic export industries).

Institutional Scheme of Export Promotion

This part of the article strives to introduce and briefly present the main institutions and stakeholders involved in the export promotion scheme. There is not enough room to present a profound study of each and every single agency, so the basic information and

objectives will be stated according to the relevance of the organization in the export promotion framework. Figure 2 provides a basic institutional framework breakdown. The most relevant institutions will be discussed more in more detail.

Figure 2 | Czech Export Promotion - Institutional Framework Breakdown



Source: Own research

Ministry of Industry and Trade

The Ministry of Industry and Trade (MIT), as a central state administration authority in questions of international trade, owns the tools to coordinate the whole system of foreign trade policy and export support of the Czech Republic. Therefore, it is the core institution that governs, directly or indirectly, most of the subordinate institutions for export support. Among the most important are the trade promotion organizations CzechTrade and CzechInvest as well as finance-related institutions CEB, EGAP and CMZRB, which will be described later on.

CzechTrade

The CzechTrade - Trade Promotion Agency (TPO) was established by the Ministry of Industry and Trade of the Czech Republic in May 1997. Its main objective is to promote the internationalization of Czech companies by facilitating cooperation links with foreign entrepreneurs. The agency's head office is located in Prague and other domestic branches are located in different regions. The network of CzechTrade's foreign offices provides practical assistance to Czech exporters abroad, and represents a unique contribution to the promotion of Czech exports. CzechTrade provides Czech companies, especially SMEs, with foreign market advisory, information, assistance and educational services (CzechTrade, 2013). CzechTrade, as a pure TPO can be compared to TPOs usually established for export support by governments in foreign countries.

Certain services are provided exclusively to Czech companies free of charge. Some more specialized and resource demanding ones such as consultancy services of foreign branches or foreign market analyses are paid. The services are divided into three packages and are paid in the form of a flat fee reflecting the size of the company and required services. Among the most frequently used services, according to CzechTrade, are list verification of the interest in the product, business contacts, export assistance, marketing abroad support, database of exporters, export alliances and so forth (MIT, 2013).

CzechInvest

CzechInvest is a state agency subordinate to the Ministry of Industry and Trade. Apart from attracting incoming investors and FDI, the agency generally strives to constantly increase the competitiveness of the Czech economy and supports SMEs, innovation and development of business infrastructure. Furthermore, it supports Czech firms which are interested in becoming involved in the supply chains of multinational companies and carries out activities connected with the preparation, introduction and administration of projects supported with funding from the European Union and from the state budget (CzechInvest, 2012).

The most important services provided by CzechInvest in regards to export promotion are: CzechAccelerator 2011–2014 (dispatching of Czech companies abroad) and support for exporting investments from the Czech Republic (provides domestic companies with assistance in establishing branches and production capacities in foreign markets via the network of foreign offices).

Ministry of Foreign Affairs

Closely behind the MIT, as measured by importance in state export support, is the Ministry of Foreign Affairs, as it is in charge of international relations with other countries and international organizations come under its competencies, in addition to the embassies of Czech Republic with their commercial sections. Czech Centers, whose mission is to promote the goodwill of the Czech Republic on the international scene mainly in culture, business and tourism also come under Ministry of Foreign Affairs (MFA). The agreement on cooperation in export assistance was signed between MIT and MFA in 1998. The problem is that both institutions are in charge of allocation of assignments to the commercial section's employees and their concepts differ significantly according to their interests.

Commercial Sections of Embassies of the Czech Republic

The activities of commercial sections are described by Petříček (2007, p. 116) in the following way. "The field of activity of the commercial sections is to support the Czech authorities and institutions and other entities in the development of bilateral contacts, transfer and exchange of information, lobbying in favor of Czech entities in the promotion of priority interests and the development of economic competition."

Kalínská et al. (2010, p. 148) then introduces three basic categories of services which are provided by the commercial sections. The first category of services provides basic information and business as well as political contacts, suggests services of local chambers of commerce, banks and actively supports the business missions. The second category stands for organizational and more individually customized services concerning participation at local exhibitions and possible business opportunities. The third one includes services, which would otherwise be provided by CzechTrade for a fee. Territorial scans are then done once a year. Currently 98 economic diplomats are present at the commercial sections of Czech embassies in 89 countries around the world (MIT, 2014).

Ministry of Finance

The Ministry of Finance does not have any direct export support instruments nor does it govern any export supporting organization as other ministries do, but it is a shareholder in the Export Guarantee and Insurance Corporation as well as the Czech Export Bank. It owns 40% of the shares in EGAP, 20% of the shares in CEB and 23.83% in CMZRB, which makes MF the greatest financial contributor of Czech export support. Further, the Ministry of Agriculture is a shareholder of both EGAP and CEB, but with substantially fewer shares.

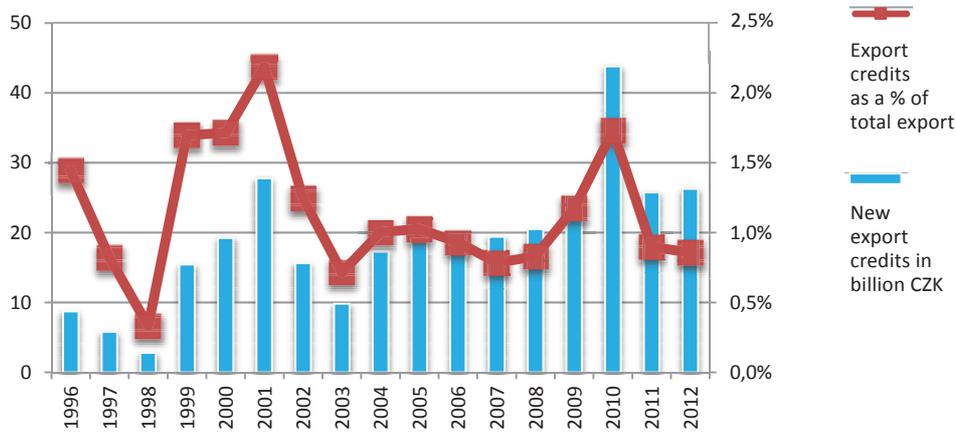
The Czech Export Bank

The Czech Export Bank (CEB) is a specialized banking institution, directly (80%: Ministry of Finance – 41%, Ministry of Industry and Trade – 24%, Ministry of Foreign Affairs – 10%, Ministry of Agriculture – 5%) and indirectly (20%: EGAP) state-owned, for the state support of exports with 4 billion CZK owner's equity. Established in 1995, it is one of the pillars of the state export strategy. The goals of CEB are to provide export credit financing and other services that supplement the services offered by the domestic banking system by financing export operations that require long-term financing at interest rates and in volumes that are not available to exporters on the banking market under the current domestic conditions. One of the predominant CEB roles is to satisfy the needs for export financing to countries with high market, political and territorial risks. This insures, for Czech companies, fair competition in world markets under comparable conditions. Entities registered in Czech Republic or their customers are eligible for support. The CEB operates under strict surveillance of the WTO, OECD and the European Union. It has to be secured that conditions in the market are not distorted, and therefore, following the strict terms under OECD Consensus must be followed:

- Minimum loan repayment period 2 years or more
- Maximum loan repayment period 8 years (relatively rich country) 10 years (relatively poor)
- At least 15% of the contract price paid upon acceptance
- Fixed interest rates according to CIRR

The aggregated volume of new commitments for financing loans with official support (new export credits) has been gradually growing over the existence of the CEB since 1996. Figure 3 captures the evolution of new export credits in absolute values as well in relative as a share on overall exports. The highest volume of new export credits was provided in year 2010, amounting 43.8 billion CZK. The lowest support was provided in year 1998 amounting 2.8 billion CZK. In total, the CEB had provided during its operation export credits for 322.3 billion CZK, as to the end of year 2012. Contrasted with total exports over the same period, it equals average share of 1.1% of exports credits on total exports. The share for all the years had been oscillating around 1% for most of the years, except years 1999, 2000, 2001 and 2010 where the share was considerably higher, mainly because of an abrupt upsurge of new export credits, which outweighed more than the 10% pace of exports growth. Generally, the share varied from 0.3% in year 1998 to 2.2% in year 2010.

Figure 3 | New Export Credits Provided by CEB in billion CZK and as a Share of Total Exports in % (1996 - 2012)



Source: CEB (2013), Czech Statistical Office (2013a, 2013b)

The Export Guarantee and Insurance Corporation

The Export Guarantee and Insurance Corporation (EGAP) was founded in June 1992 as a state-owned ECA, whose mission is to protect the exporters and banks financing export against the risk of non-payment by foreign contractors due to commercial and territorial (political) reasons. It operates in compliance with Act. No. 58/1995 Coll. It is directly owned by the State (Ministry of Finance – 40%, Ministry of Industry and Trade – 36%, Ministry of Foreign Affairs – 12%, Ministry of Agriculture – 12%). EGAP also owns 20% of the CEB. The main field of activity is insurance of export credits and political and other non-marketable commercial risks, with state support in the form of guarantee for EGAP’s obligations arising from this insurance.

By its activities specialized in insurance of products and territories where the commercial credit insurance companies are not interested to operate (long-term credits, political and territorial risks) it performs a role of ECA with specialization to insurance and guarantees. Its involvement in overall insured exports represented a 54% share in year 2012. The remaining exports were insured by commercial banks.

As a state institution, EGAP’s primary goal is not to make profits, but rather support the competitiveness of Czech exporters abroad. By setting optimal credit conditions, it contributes to competitiveness while respecting the rules of self-financing. However, as the role of ECAs has altered from pure state-owned institutions to more market driven companies, both CEB and EGAP are mostly self-sufficient institutions that finance their operational expenses as well as all indemnities by earnings from their operation activities. This makes them pillars and most efficient export support oriented institutions.

Figure 4 | New Insured Volume by EGAP in billion CZK and as a Share of Total Exports in % (1993 - 2012)



Source: EGAP (2013), Czech Statistical Office (2013a, 2013b)

Similar to the CEB, EGAP’s newly insured export volumes have been gradually increasing over time. Figure 4 represents EGAP’s operations since its establishment in 1993. The pace of growth, as in the case of CEB, was slightly interrupted after the year 2001, because of a slump of Czech exports and an overall slowdown of economic growth. Despite the fact that the highest volume of insured exports was in year 2012, amounting to 72 billion CZK, the highest shares of newly insured exports of 3% took place in year 2000. The period from 1996 to 2001 compared with the period from 2002 to 2008 is characterized with a higher share, mainly because of lower volumes of overall exports. The recent situation has been improving over the last few years, with higher absolute volumes in insured exports, but still lacks behind in relative ones.

The Czech-Moravian Guarantee and Development Bank

The mission of CMZRB is to primarily focus on providing assistance to SMEs with the aim to facilitate easier access to financial capital, to share their business risk and to reduce their operational costs through a system of different types of soft loans, preferential loans, financial subsidies and guarantees. It has owner’s equity of 2 billion CZK and 72.33% of the shares are owned by the State through different ministries. The rest is controlled by three private banks. The CMZRB is the only Czech development bank, because CMZRB is, from the three financially related assistance providers, the most focused on the SME segment (CMZRB, 2014).

Export Promotion Framework Awareness Survey

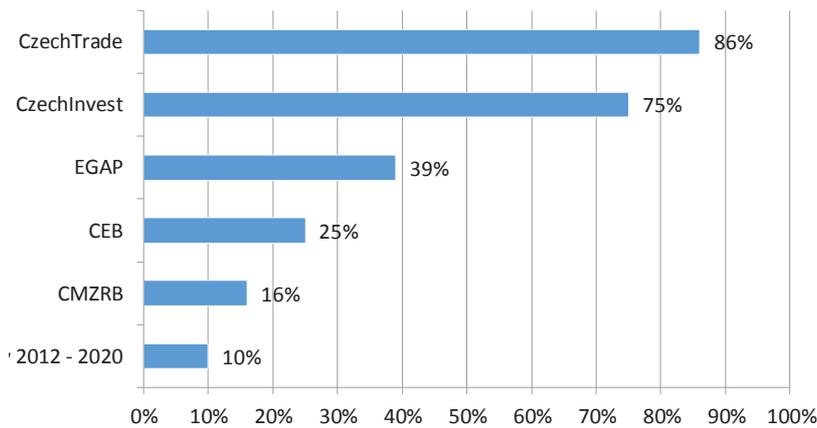
An export support survey was conducted to determine how well Czech companies are aware of the institutional framework providing export assistance and services. The research took place in autumn 2012 and encompassed addressing of 491 companies (drawn at random), which were current-time exporters meeting the criterion of SMEs introduced previously in the paper. Exactly 57 responses were gathered, representing an

11.6% conversion rate. The selection mode and fact that companies participated voluntarily in the research should not have any negative influence on the research's validity and reliability and should not cause any serious survey errors.

Responses from SMEs in particular categories were gathered and analyzed as follows: micro companies 11 responses, small companies 21 responses and medium-sized companies 25 responses, representing 19%, 37% and 44% share respectively. The following figures then represent the answers that were obtained from 57 respondents considering their perception and experience with state provided information oriented export promotion.

The gathered data only proves the dominant position of CzechTrade as a central pillar of the whole export support system. The vast majority of the companies are familiar with the services and functions of this organization (86%) as well as with the services of CzechInvest (75%). On the other hand, financially oriented support represented by EGAP (39%), CEB (25%) and CMZRB (16%) scored fairly bad results and the state initiative that should link the whole system and provide companies with a complete framework in the form of export support strategy for years 2012 - 2020 (10%) is not known by the general public. The export support system suffers in certain parts by low awareness and this fact has to be reversed by a clear set of promotional actions.

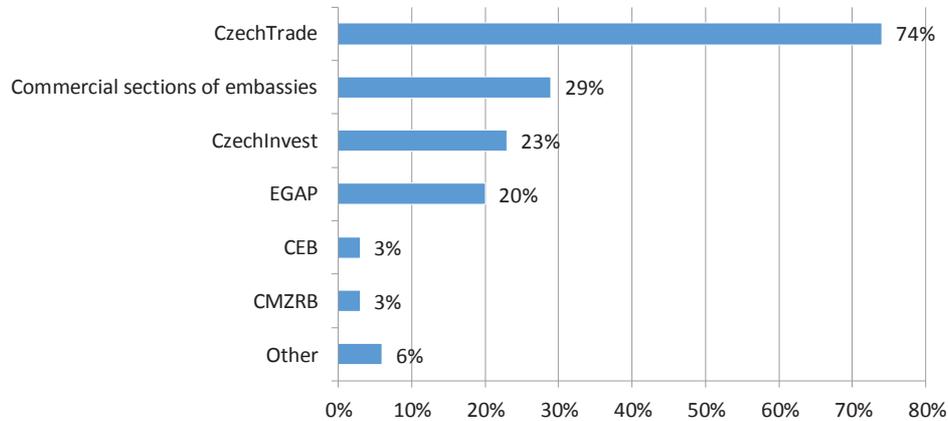
Figure 5 | General Awareness among SMEs of the State Export Support System



Source: Own research

From 57 companies involved in the research, more than half (53%) have experienced at least some form of state export support. Figure 6 shows which organizations and services were used.

Figure 6 | Usage of Services of the State Export Support System Institutional Framework



Source: Own research

From the data obtained we see that services provided by CzechTrade are among the most popular (74%). Here we can include services such as verification of the interest in a product, market research, joint participation at specialized exhibitions and trade fairs abroad, financial contribution to the exhibition and contacts and meetings intermediation. Commercial sections of embassies were used in 29% of the cases, mainly in order to get business contacts or market information. CzechInvest was predominantly used for receiving funds from the EU. EGAP proved that its services are used most frequently among the financial institutions of state export support, while CEB and CMZRB drop behind with not so useful services for SMEs.

Only 11% of the companies were fully satisfied with the services provided, 78% were barely satisfied and the rest – 11%, were not satisfied at all. Despite these facts, 74% of the companies stated that they would use the same service again.

Conclusions

The rapid and uncontrolled development of the export promotion framework has caused the whole scheme to appear fragmented and inconsistent. Various institutions overlap each other with provided services and some operate inefficiently. However, a massive and complex system to promote Czech exports has been created. In this article, the strengths (CzechTrade, self-sustainability of CEB and EGAP, etc.) of the export support framework have emerged as well as particular weaknesses (low awareness of certain institutions, overlaps in provided services/covered services, low usage of financial services – CEB, EGAP, etc.). It requires further research on the effectiveness, efficiency and benefits of specific adaptations of the strategy in upcoming papers. In particular, a detailed analysis of the CzechTrade operations and management as well as international comparison of the export support frameworks would be of significant value for future scheme shaping and setting.

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