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Chinese Investments in Czechia

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AUTHOR:
MICHAEL ERIC LAMBERT

WWW.POLITIKASPOLECNOST.CZ

OFFICE@POLITICSANDSOCIETY.CZ

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China-Czech relations were formally established between Czechoslovakia and the People's Republic of China on October 6, 1949 with the aims to increase tourism, trade, and security. The USSR influenced Czech Foreign Policy until 1991 but the break-up of the Soviet Union and European Union (EU) membership changed pretty much everything between the two partners. Nowadays, China and Czechia focus on trade and tourism partnerships because security is not a focus anymore with NATO integration.

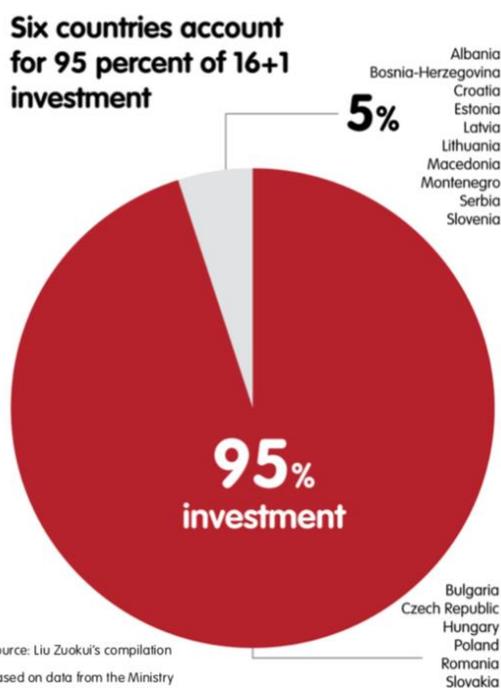
China is especially interested in Czechia because of its specific location between Western Europe (+UK) and Eastern Europe (+EaP). Markets such as Germany and France are expensive to establish business facilities in contrast to Moldova, Ukraine, and the Caucasus. However, China would like to invest in the EU and not

in Eastern Partnership countries (EaP) to have access to the European single market. Countries such as Poland, the Czech Republic and Slovakia are considered as the best options due to their locations in close proximity to Bavaria – Germany's richest lander with industries such as BMW – and affordable wages. The Czech Republic is also considered to be a small country which fits with a usual the Chinese strategy that can be called a quiet approach.

China-Czech relationship

Czechia was one of the first countries to support the "One China Policy" in a post-Soviet environment (early 1996). Such political behaviour is usually highly appreciated and rewarded in Beijing as well as the non-recognition of Taiwan and Tibet. As a consequence, Chinese investments started to focus on the Prague area following the break-up of the Soviet Union.

In October 2014, Czech president Miloš Zeman met Xi Jinping in China to officially increase "business and tourism". Zeman also proposed direct flight connections between Prague and Shanghai - the main economic center in China - to stimulate investments and suggested a permanent settlement for the Bank of China in Prague. The Czech strategy regarding the Bank of China is similar to the UK strategy with the HSBC. HSBC's main location in Europe is the UK whilst the Bank of China is investing more in the Visegrad and France. It is very important to understand that Chinese businessmen are investing abroad only if they have the capabilities to do so, and Chinese banks are providing loans and cash



Source: Liu Zuokui's compilation based on data from the Ministry of Commerce and the National Statistics Bureau

to them as they usually don't rely on foreign banks except for small amounts of cash.

In April 2016, the President of China visited the Czech Republic and compared the city of Prague to Paris. The President also promoted *the One Road and One Belt Initiative* (OBOR). According to his speech, Prague will be the place where Asian-African and Russian-European roads will meet in the future. Prague will have to be ready to welcome industries to transform manufactured products before sending them back to Eurasia and Africa. The results are impressive so far with 280 million € trade between Czechia and China in 1993, 550 million € in 2001 (before EU membership) and more than 8 billion € in 2006.

Trade and investments are also connected to the Chinese diaspora in Prague. Overall, more than 5,500 Chinese people are officially living in the Czech Republic and helping Chinese businessmen to invest in the area. Nevertheless, the Czech language remains an issue because most Chinese people only learn English, and basic French and German (the two main languages after English in Chinese universities). Therefore, the Czech Government should definitely focus on teaching English and Chinese language courses and providing programmes in both Chinese and English in local universities in order to increase investment in the future.

Czech Strategy in China

The Czech Embassy in China is the main door for Chinese people to Czechia. Besides visa applications, the Embassy in Beijing is using the prestigious Charles University to attract Chinese students. A soft power strategy already used by many other European countries and the US. Nowadays, Chinese students are more interested in the

UK, however, Brexit is providing a unique opportunity for the Czech Republic.

First of all, Chinese people have to apply for a Schengen Visa if they study in the UK and it can be an issue for them. Above that, European (EU) universities are more affordable and relevant to discover Europe, and thus, they might offer better services compared to the UK academic system post-Brexit. In this sense, Czechia is very competitive compared to France or Germany not only because of the range of courses which are taught in English at Charles University, but also because of the affordable prices in Prague.

Moreover, Chinese students look forward to discovering Europe and Central Europe is the perfect location to do so because major European cities are close by. A good thing is that Chinese people don't have the "psychological border" between Western and Eastern Europe, and so most of them enjoy a Middle Age castle in Poland just as much as one in France or Germany. The Czech Embassy is organizing major events to attract students because they are investing in Europe. The Czech strategy based on young people is relevant because young entrepreneurs are investing in Europe and the US in contrast to older entrepreneurs in Europe who are historically more risk averse. The Chinese see a land of opportunities in the post-Communist environment in contrast to the Western entrepreneurs focusing more on Asia.

What are the Chinese currently interested in? Education is one aspect but investors are also looking for skilled workers to produce car components and medical material. Likewise an alcohol is one of the main targets for the Chinese, and Czech beers are quite successful in China. Czech beers are more affordable compared to beers from Belgium, and priced similarly to

Bavarian pils. Germany and the Czech Republic are a great competitors in China when it comes to the beer market. However, the demand is high enough to provide business opportunities to both providers for the next decade. Moreover, glass, porcelain, ceramics and giftware provide additional opportunities for exports from the Czech Republic. As will medical equipment which is becoming increasingly important as the Chinese population ages.

Nevertheless, the Czech currency is probably the main issue for tourists and businesses. Chinese investors are sometimes going to Slovakia because of this issue as the Czech crown is not attractive if you want to settle a company or open a bank account, and thus, the Czech Government should focus on Eurozone membership as soon as possible or may risk losing potential investors as the Yuan, US Dollar, and Euro are the only interesting currencies to trade with worldwide. Also, the Czech Embassy in China, which provides information and reports such as the « Doing Business in the Czech Republic » report published in 2014, could improve its image by having an updated and better website with more information.

The Czech Republic is performing well in mechanics, located next to Bavaria, and selling tasty beers but countries such as Poland are doing the same. In comparison, Bulgaria is performing even better than the Czech Republic due to its strategic location on the border of the Black Sea. Fortunately, Czechia can rely on its tremendous prestige of Prague compared to Bratislava or Sofia, which poses a great advantage for benefiting from this new trade opportunity.

Chinese Strategy in Czechia?

One question remains: What are the Chinese people doing in Czechia and do they have a long term goal ?

China is currently investing equally in all Visegrad countries and the EaP. The Czech Government should keep in mind that Chinese investors can easily move to Slovakia because they don't pay much attention to the cultural background and the location. Prague still represents the most convenient way to connect the New Silk Road, however, it would not be a big issue for the Chinese to choose Bratislava or Vienna instead. Competition from these other capital cities makes it important for Czechia to be considered more attractive with a relevant labor policy and Eurozone membership as soon as possible.

In addition, the Czech Government should be careful with euro-scepticism as it might be an issue in the long run. Czech people should keep in mind the OBOR is not done yet and some countries can easily lose opportunities as the Chinese entrepreneurs do not see the Czech Republic like a country but more as a "province" or "lander."

Furthermore, Romania and Bulgaria are also interesting because the Chinese Government sometimes prefer to build new infrastructures from scratch on the border of the Black Sea. However, the Czech Republic is interesting for tourism, the proximity with Bavaria and Poland, and the affordable labor force. The size of the country makes it more interesting compared to France or Poland because it is easier to influence and will rely on Chinese economy once the OBOR is signed.

Countries like France and Germany can try to be equal partners with China. By contrast, Czechia will accept most of China's requirements to see economic advantages. The Czech Government should not be naive and must understand that opportunities from China also mean less flexibility in domestic and foreign policy. If the Czech Government agrees, it can expect to be the most prosperous country in

Chinese investment in 16 CEE countries in 2009 and 2014 (stock/USD m)								
	2009	2010	2011	2012	2013	2014	2009-2014 growth	Share of total Chinese investment in CEE (2014)
Hungary	97.41	465.70	475.35	507.41	532.35	556.35	471.14%	32.79%
Poland	120.30	140.31	201.26	208.11	257.04	329.35	173.77%	19.41%
Czech Republic	49.34	52.33	66.83	202.45	204.68	242.69	391.87%	14.31%
Romania	93.34	124.95	125.83	161.09	145.13	191.37	105.02%	11.28%
Bulgaria	2.31	18.60	72.56	126.74	149.85	170.27	7271.00%	10.04%
Slovakia	9.36	9.82	25.78	86.01	82.77	127.79	1265.28%	7.53%
Serbia	2.68	4.84	5.05	6.57	18.54	29.71	1008.58%	1.75%
Lithuania	3.93	3.93	3.93	6.97	12.48	12.48	217.56%	0.74%
Croatia	8.10	8.13	8.18	8.63	8.31	11.87	46.54%	0.70%
Albania	4.35	4.43	4.43	4.43	7.03	7.03	61.61%	0.41%
Bosnia-Herzegovina	5.92	5.98	6.01	6.07	6.13	6.13	3.55%	0.36%
Slovenia	5.00	5.00	5.00	5.00	5.00	5.00	0.00%	0.29%
Estonia	7.50	7.50	7.50	3.50	3.50	3.50	-53.33%	0.21%
Macedonia	0.20	0.20	0.20	0.26	2.09	2.11	955.00%	0.12%
Latvia	0.54	0.54	0.54	0.54	0.54	0.54	0.00%	0.03%
Montenegro	0.32	0.32	0.32	0.32	0.32	0.32	0.00%	0.02%
Total	410.60	852.58	1008.77	1334.00	1435.76	1696.51	3.13	100%

Source: Liu Zuokui's compilation based on data from the Ministry of Commerce and the National Statistics Bureau

Central Europe. Countries such as Bulgaria are willing to focus on China, whereas some other states such as Abkhazia have already refused the Chinese offer.

Conclusion

Are Chinese investments a threat or an opportunity? Maybe both? China is definitely interested in Czechia, however, this interest is equal to Slovakia (see graph) and even higher in regards to Bulgaria. If the Chinese government is ready to invest in Europe, the Czech people should keep in

mind it will lead to competition between them and other countries in Eastern Europe. The Czech policy regarding Eurozone membership and labor flexibility will undoubtedly determine to a large extent which future opportunities will be provided to the country. To be successful, Czechia will also have to target on the improvement of its education policy with focus on providing English and Chinese programmes at Charles University, increase its expertise on China in local research centres, and have a more relevant communication strategy with China itself.

If the Czech Republic succeeds in attracting the Chinese businessmen, it may lead to a significant increase in exports for Czech companies in general. Nevertheless, having a friend such as China leads to certain responsibilities and less autonomy both at home and abroad. China will have an impact on labor law, as well as on Czech security issues. It would be very naive to assume no political or military interests from China in the long run.

Key Recommendations

EU member states should rethink the way they deal with China in the Eastern Partnership countries but also inside the European Union. It would be valuable to increase economic cooperation and invest more in Polish and Czech infrastructures to connect Western Europe with Central and Eastern Europe in a more relevant way. The EU should avoid another division caused by a Western Europe relying on the US and the “New Europe” on China.

The Czech Ministry of Foreign Affairs should develop expertise in the field of Chinese studies and rely on China to improve the economic situation and its strength in Europe. With relevant management, Czechia could become the bridge between Germany and China for trade. Some companies such as Bank of China are already interested in Prague more than other places in Western Europe. The Eurozone membership is one of the most important aspects to attract Chinese investment and tourists (not just from China).

The Czech Ministry of Defence should see China as a major opportunity to settle new Defence companies in the Prague area. China is looking for new markets to produce weapon systems and might like the opportunity to produce “Made in Europe” for an affordable price. The EU is currently

not able to produce Fifth Generation Fighter Jets and relies on American technology for security (F-35). China will be able to provide the same technology at an affordable price and might be a valuable option for EU member states and Czechia very soon. Many companies are already producing in China (BMW, Skoda, VW) including Military (Airbus) and Czechia should not miss out on such an opportunity.

The Ministry of Foreign Affairs of the People’s Republic of China have an opportunity to invest more in CzechiaThe Czech Republic and increase trade between Europe, Russia, and China. Prague is the historical place where the West and the East meet. The Czech Republic is ready to support Chinese initiatives and investments with good infrastructures, universities and research centres. Contrary to Western Europe who focus on the US and face difficulties with protectionism and populism, the Visegrad countries and Czechia are open to new partnerships and dialogue to become a bridge between the Far East and Europe.

Michael Eric Lambert received a Ph.D. in History & International Relations from Sorbonne University (France). He is the Director of the Black Sea Institute (France and Canada) and former Visegrad Fellow at the Institute of International Relations in Prague (Czech Republic).

Michael is working on EU Foreign and Security Policy, Sino-Russian relations in Central and Eastern Europe, and theories and practice of soft power and smart power. Prior to that, he published at the Ministry of French Armed Forces (2014) and has been a Visiting Researcher at the Center for International Policy Studies at the University of Ottawa (2015).

Email: lambert.michaeric@gmail.com

Twitter: @M_Eric_Lambert