

# CHINA'S INVESTMENT IN THE CZECH REPUBLIC: MUCH ADO ABOUT NOTHING?<sup>1</sup>

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China is a relative newcomer to Central Europe and as such could not utilize previously established links or knowledge of local languages or the political and economic environment. However, it has been using a variety of tools in order to increase its visibility and establish its positive image, including foreign direct investment (FDI).

This article provides a brief assessment of China's recent political and economic performance in the Czech Republic and debates the opportunities and challenges the Czech experience with China provides to other Asian (mostly Japanese and South Korean) investors.

## China in the Czech political discourse till 2015: from pariah to paragon

After 1989, Czechoslovakia and China started to build their bilateral relations with historical baggage stemming from the Cold War and without previously established links or a detailed knowledge of the political processes of the other. While open hostility to China was rare in the country, Czech Republic's first president Václav Havel met frequently with the Dalai Lama and pursued a policy of political and economic negligence of China.

The discourse on China at the Chamber of Deputies of the Parliament of the Czech Republic followed the same pattern. While China was not a subject of much interest at the Chamber of Deputies of the Parliament

of the Czech Republic in the 1990s in comparison to other regional or global powers or the European Union it was hardly ever referred to in a positive manner. The debate started to change during the slow-down of the Czech economy in 1996-1998, when the country started to first look to China as a potential export market. A narrative which looked at China as a potential economic opportunity reoccurred at times of Czech economy's slow-downs and was most notably expressed during and after the global financial crisis. It was during the Civic Democratic Party (*Občanská demokratická strana*, ODS) government of Petr Nečas from the when the discourse in the Czech Republic started to visibly swing towards a decidedly more positive account of China.

The Prime Minister's speech against 'Dalai-Lamaism'<sup>2</sup> represented the first account of a politician in the Czech government who actively pushed for the intensification of bilateral relations with China. The gradual move towards favoring an economic agenda in Czech relations with China was completed by the government of Bohuslav Sobotka (2014-2017) which redefined the Czech foreign policy agenda on the matter and verbally abandoned the policy of human rights promotion in favor of improved economic relations with China.

The trend was further reinforced by the election of Miloš Zeman as the Czech President in 2013. Since his election, Zeman referred to China frequently and favorably. In October 2014, he appeared on Chinese CCTV, stating that China could help teach the Czech Republic to "stabilize society".<sup>3</sup> In September 2015, Zeman travelled to Beijing again, this time to commemorate the 60th anniversary of the end of World War II in Asia, as the only head of the state from the European Union and despite criticism from Western statesmen, Czech political opposition and media. The visit apparently made a favorable impression on the host and in return, Zeman invited Xi Jinping to visit Prague.

The historical first visit of the Chinese head of state to the Czech Republic took place in March 2016. Preceding the visit, President Miloš Zeman gave an interview to CCTV where he claimed that Czech-Chinese relations had undergone 'a restart', based on the fact that the new government was no longer subservient to the interests

of the United States and the European Union but followed a new independent policy. While both sides signed a strategic partnership, the visit came to be known for the clashes between Chinese citizens welcoming Xi and pro-Tibet (mainly Czech) protesters.

The narratives which occurred in the media between 2012 and 2016 focused on the notions of economic opportunities for Czech companies in China's market. Still, in comparison to the remaining V4 countries, Czech media discourse at the time did not focus predominantly on economic issues. On the contrary, Czech media paid unparalleled (in comparison to Polish, Hungarian or Slovak media discourses) attention to the issues of human rights, Tibet, Taiwan and the problem of censorship in the PRC.

Despite the critical approach by mainstream media, the ruling political elite kept pushing a more favorable narrative. Through Zeman's speech to CCTV in 2014 regarding the stabilization of Czech society according to China's model, China started to be portrayed as not only a business opportunity, but as a normative model. The media research and mapping of Zeman's proclamations on China reveal that his positive view of China was not directed exclusively at the Chinese audience. Using the discourse of economic profitability, Zeman and a section of the Czech political and economic elite began promoting not only opportunities for Czech businessmen in China but also Chinese investment in the Czech Republic – a move which followed similar foreign policy U-turns exhibited by other EU member states. As a component of the whole process, these protagonists have undeniably, openly, but not successfully strived for a categorical improvement of Beijing's image in Czech public discourse.

## Falling from grace: the battle over China's image after 2015

At first glance, this policy seemed to bear fruit. In 2015, the allegedly private Chinese company China Energy Company Limited (CEFC) announced its interest to found its headquarters in Prague. During its

shopping spree in 2015, it acquired a stake in the airline company Travel Service (which co-owns the national carrier Czech Airlines) and invested in a soccer club, the retail sector, a brewery and media company Empresa Media. Its chairman Ye Jianming was appointed Zeman's China advisor. Zeman told Týden (one of the outlets co-owned by the Chinese company) "the Czech Republic could be a kind of secure heaven for the expansion of Chinese investment. Every ship needs a harbor where it can return and which does not endanger it. And given the Czech Republic's attitude towards China, which is much more accommodating than that of some other European Union countries, I think that the Czech Republic could be such an unsinkable aircraft carrier of Chinese investment expansion".

Nonetheless, the dichotomy between the public perception of China and policies promoted by the Czech policy players still existed and manifested itself during Xi Jinping's visit to Prague in 2016 and the controversies surrounding its handling (including the use of the Czech police against pro-Tibet demonstrators). The visit arguably turned the attention to the China issue in the Czech Republic beyond the realm confined to Czech China scholars. It more than tripled the number of instances China was mentioned in the debates at the Chamber of Deputies and led to a sharp increase in the coverage and reporting on China by the Czech media. In most cases, the mentions on China were critical. As a result of the heightened attention by the Czech media and an impression that China grew closer to the Czech Republic, parliamentarians, for the first time, began to perceive China not as a mere point of reference, but as a topic in its own right.

Commencing in 2012, Chinese espionage activities in the Czech Republic were being frequently reported by the civil counterintelligence service (*Bezpečnostní informační služba*, BIS). As the annual reports show, the tone shifted and increased warnings have been issued regarding the allegedly increased assertiveness of Chinese intelligence services. A year before the Czech 'restart' of relations with China, the 2011 annual report describes Chinese activities as not crossing the boundaries of usual Chinese diplomatic behavior. However, since 2012 (the year of the Czech U-turn in its foreign policy on China), the BIS has warned against military and civil espionage, Huawei and ZTE products and disloyalty and collaboration shown by various Czech citizens.

## The CEFC scandal: bursting the China bubble

The restart of Czech-Chinese relations provoked a rise of proclamations and subsequent expectations regarding an influx of future Chinese investment. However, two years after CEFC established its headquarters in Prague, in 2017, it was rumored to be near bankruptcy and subsequently had to be bailed out by the Chinese state-owned CITIC group. Ye Jianming, the chairman of CEFC, disappeared in China in what seems to have been a corruption probe. His company turned out to be allegedly built on a Ponzi scheme.

Even accounting for the money channelled via CEFC, Chinese investment in the Czech Republic remained rather marginal. Moreover, economic data shows that while exports to China have risen over recent years, so have the imports from the PRC, resulting in the continuation of a trade deficit on the Czech side.<sup>4</sup> However, it is difficult to come up with specific numbers regarding the Chinese FDI in the Czech Republic due to unclear methodology for statistical data collection (which is, in some form or another, true for the majority of Central and Eastern European countries). CzechInvest, an investment agency under the Ministry of Trade and Industry, states that the People's Republic of China invested 600 mil. EUR in the Czech Republic from 1993 to 2018.<sup>5</sup> Different data were released by the presidential office based on calculations from investment agreements (not actual deals). In 2016, the office expected deals worth 3.517 billion EUR and, between 2016 and 2020, another investment worth 5.068 billion EUR.

Despite uncertainty pertaining to the data, in comparison to the Chinese FDI flows to Western European countries, Central and Eastern Europe altogether absorbed very little Chinese investment. Despite this fact, countries in the region remain of interest to China<sup>6</sup> considering them politically and economically stable, close to Western markets, part of German supply chains and also sources of skilled, relatively inexpensive labour. In the specific case of the Czech Republic, investment mostly came in the form of mergers and acquisitions, not as investment in infrastructure, and

did not contribute significantly to the increased rates of employment or creation of new jobs. In contrast to China, Japan and South Korea represent traditional Asian investors in the Czech Republic. In 1993–2019, Japan was the second biggest investor in the Czech Republic, investing altogether 4 billion USD. Until today, the biggest Japanese investment has been a joint project of Toyota and Peugeot Citroen in Kolín, a city in the Central Bohemia region. Other significant Japanese investments include the manufacturing facilities of Panasonic, Daikin, Denso, Toyoda Gosei, Hitachi, Mitsubishi Electric, JTEKT, KYB, Olympus and Shimano. Others, such as Yamazaki Mazak, Rigaku or Konica Minolta, operate their research and development facilities in the Czech Republic. Altogether, 266 Japanese companies employ more than 50,000 people in the country. In 2017, Asahi bought Pilsen Brewery and other Central and Western European branches of the company for 7.3 billion EUR, making it the biggest acquisition for Asahi abroad. Moreover, Japanese visitors to the Czech Republic play an important role in revenues from tourism.

Similarly, South Korea has been a traditional investor in the Czech Republic with an 8 percent share in total inbound FDI. It has been constantly surpassed only by Germany (23 percent share), Japan (13 percent) and the United States (9 percent). The biggest investment is connected to the activities of Hyundai with other significant investments coming from the tyre manufacturer Nexen Tire which opened a new manufacturing factory in Žatec and Doosan Heavy Industries, which carries Škoda Power in its portfolio, for 631 million USD. Korean investors also show interest in retail and logistic centers, e.g. investing 800 million. EUR in 2019 alone.

Despite the lack of comparative research on Japan's and South Korea's image in the perception of the Czech public, it is safe to claim that companies from both countries have not been connected to any notable scandal in the country. On the contrary, Japanese and South Korean investors seem to be underreported in Czech media. This has led to a strange situation where major political and media attention has been paid to a less significant investor—China. A logical

explanation of this trend could be based on three different factors. First, the activities of the Czech political and economic elites who invested personal capital in the China issue which increased the PRC's profile (though not necessarily in a positive way in the end). Second, the focus on China has been further fueled by the spillover of attention and media coverage devoted to the increasingly assertive China by the United States and Europe. Finally, while Japan and South Korea are not primarily associated with the character of their political system, research on media narratives revealed that, indeed, the image of China in the Czech Republic has been reflexively linked to its authoritarian regime and communist ideology – two topics which are specifically important for the country's post-communist heritage.

## Conclusion

The unfulfilled expectations of an influx of Chinese investment in the Czech Republic and the specific bad experience with the CEFC company have had a profound impact on China's perception in the Czech Republic. More generally, the developments may also alter the prospects of other (Asian) investors. The Czech debate on China's (limited) investment naturally brought to the fore the role played by Japanese and South Korean companies in the Czech Republic. Contrasting their image with the Chinese competition, the remaining investors were quite frequently mentioned as a 'gold standard' against which the success or failure of any Chinese future investment should be measured. This reflected positively on Japan and South Korea's image in the Czech Republic. On the other hand, it does not seem that either of the two countries has been able to capitalize on the trend, perhaps because the scope for the intensification of their economic engagement in the Czech Republic is limited. Recent negative experience with China and a certain level of securitization of Chinese activities also contributed to the adoption of mechanisms which shield the country from unwanted investment – mechanisms such as the national investment screening regulation ('FIR Act') – membership of the Clean Networks initiative regarding the exclusion of untrusted vendors from the construction of 5G networks

or the exclusion of companies from non-democratic countries from involvement in critical infrastructure (such as the Dukovany nuclear power plant tender). This development should not harm responsible investors in the Czech Republic, yet the mechanisms create an obstacle for Chinese companies. On the political front, together with a new emphasis on the Indo-Pacific area by the European Union, the Czech Republic started to show a renewed interest in Japan, South Korea and also India. The Czech Ministry of Foreign Affairs' treatment of the region seems to be developing towards a more holistic approach, seeking the prospect of developing bilateral ties with other Asian countries beyond China. This trend in Czech foreign policy will likely persist as the country prepares to hold the EU presidency in the second half of 2022, thus counting with its new responsibilities regarding the continuation of the EU Indo-Pacific agenda.



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## Endnotes

- 1 The article uses excerpts from the unpublished manuscript Karásková (2019).
- 2 Nečas created the neologism in his speech to businessmen at a trade fair in Brno where he argued that the support of the Tibetan spiritual leader "could jeopardize relations with China, Czech Republic's strategic export partner" (cit. in ČT 24, 2012).
- 3 Video is no longer available, cit. in e.g. Novinky.cz (2014).
- 4 It is worth noticing, however, that the Czech Republic has a trade deficit not only with China, but also with Japan and South Korea. On trade deficit with China e.g. Garlick (2015), BusinessInfo (2019a).
- 5 CzechInvest monitors only projects which received investment incentives, i.e. not acquisitions (Business, Info, 2019a).