

# The Relations between the Czech Republic and the PRC: Some Key Issues

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# Break in 1989

- since the end of 1980s, the trade relations between Czech Republic and China were gradually reduced
  - transformation of the Czech economy
  - unwillingness of the PRC to abandon barter trading for standard means of international trade.
- fall of communism: the official gov-to-gov contacts cooled down – no high-level official visit between the representatives of the Czech Republic and China till 2004: maintaining **routine bilateral agenda**, motivated by economic interests on both sides.
  - Politically speaking, we may observe certain **estrangement**
    - REORIENTATION OF FP: new/different priorities
    - RESHUFFLE OF THE FP APPARATUS:
    - NEW TOPICS: arms embargo, human rights
    - VACLAV HAVEL
    - PUBLIC OPINION – Tiananmen, anti-communism

# Sustaining the relationship

## trade & economy vs. politics

- political and economic contacts survived the pressure of the chaotic times
- 1991:
  - general interest in economic and trade cooperation confirmed during a meeting between the PRC's foreign minister Qian Qi-chen with the Deputy Foreign Minister of Czechoslovakia Martin Palous in February 1991.
  - Mr. Qian made an official visit to Prague during which he met with President Havel – **PRAGMATIC BASIS**
  - Czechoslovak prime minister Marian Calfa to Beijing: General Secretary Jiang Zemin and Chairman of the Standing Committee Yang Shang-kun: **Investment Protection and Trade Promotion Agreement.**
  - **These 1991 meetings established a basic platform for the bilateral relations which was maintained for more than 10 years - occasional visits by ministers.**
- **1995: Tensions over Czech support for Taiwan's (Lee Teng-hui's) pragmatic diplomacy.**
  - Vice president Lian Chan - unofficial trip to the Czech Republic, meeting with President Vaclav Havel and Prime Minister Vaclav Klaus while PRC's minister of education was also visiting the Czech Republic.
  - Background: 1995 Taiwan Strait Crisis – US vs. China
  - Motivation behind the meetings unclear: inexperience? **Lack of coordination?**
  - Havel's idealism - balanced by pragmatic posture by the government and business circles who were seeking way of expanding the trade and investments into China.
  - Aftermath – relations go back to normal

# Expanding the relationship

- 1999 Minister of Industry and Trade Miroslav Gregr – talks on finishing Shen-tou power plant
- 1999: military delegation with Jiri Sedivy
- 12/1999 Primer Minister Zeman to China – confirms respect for „one China principle“, NO political topics, focus on economy and trade
- 2001 Agreement on Military Cooperation (Vladimir Vetchy, defense minister) – military sales? NATO?
- 11/2004 President Klaus to China – 11-day trip to China, met with Wen Jiabao, Wu Bangguo, signed 3 documents ( economic cooperation, cultural cooperation, cooperation on protecting environment).
  - **Economic Joint Council** (Ekonomický smíšený výbor)
- 2005 Prime Minister Paroubek to China
- 2005 Wen Jiabao to Prague for 1 day visit – signs new agreement on investment protection and promotion.
  
- CRITICAL VOICES FROM CHINA EXPERTS – POLITICAL NEGOTIATIONS DO NOT BEAR ANY FRUIT, THERE ARE TOO MANY TRIPS TO CHINA WITH NO EFFECT.

# China = Opportunity?

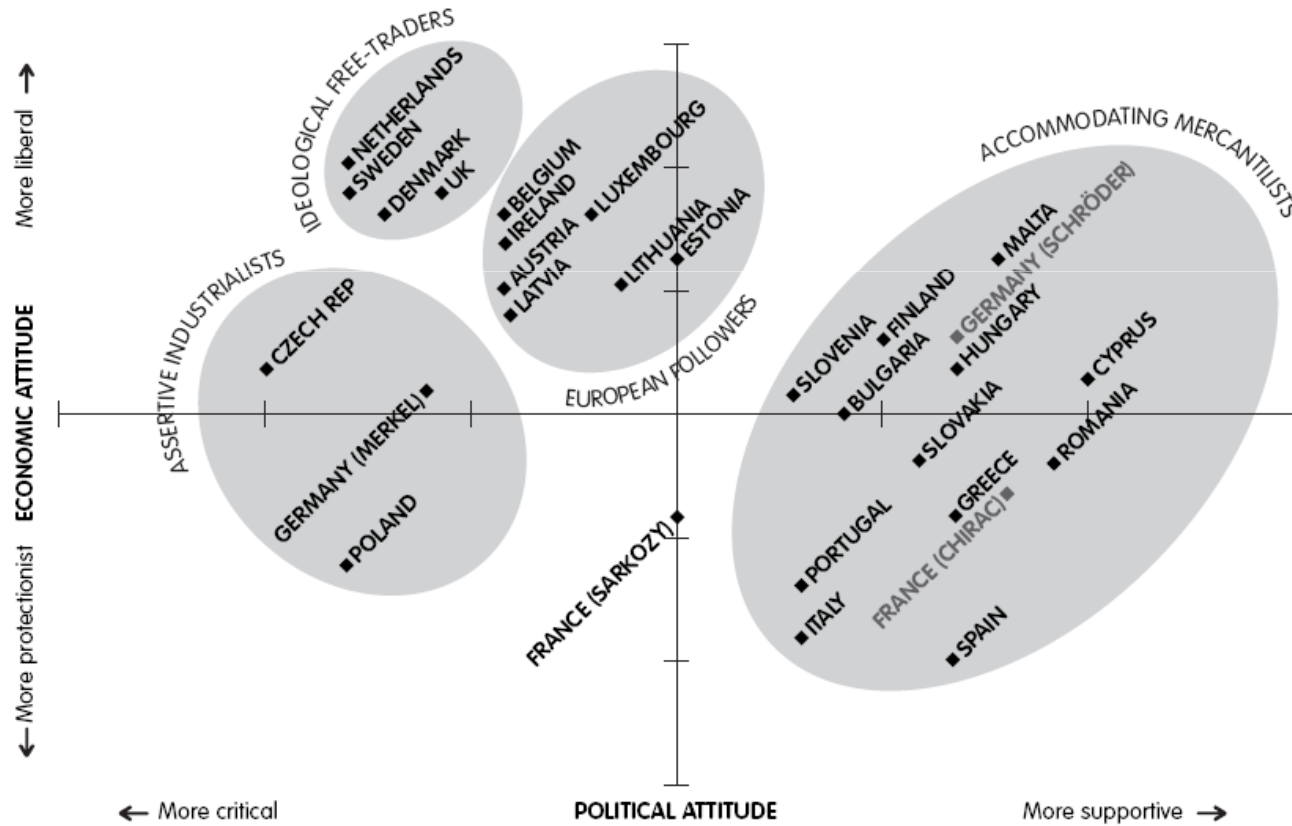
- At the beginning of 2000s, increasing talk about China becoming a country of economic opportunity
- Czech media paint positive perspectives for Czech business in China.
- change in the public's attitudes.
- Pro-China lobby enjoys substantial influence with some Czech ministries, particularly the Ministry of Industry and Trade.

# Czech Republic heading to the EU

- accession of the Czech Republic to the EU changed the optics through which it is perceived by the PRC?
- Increase in importance?
- Czech Republic's approach to the PRC now falls under the EU laws and regulations – more comprehensible?
- Fostering relations with the Czech Republic becomes part of the overall strategy of building closer strategic partnership between the EU and the PRC.
  
- All of this contributed to increased contacts between the PRC and the CR

# CR & China

EU Member State attitudes towards China



# Trade with the PRC

- Currently, the PRC is currently the fourth largest trade partner of the Czech Republic.
- From 2005 to 2009, the import from China to the Czech Republic doubled from 5,1 to 10 percent.



# PRC-CR Trade

Trade between the PRC and the CR								
Year	Export from CR to the PRC		Import from the PRC to the CR		Turnaround		Balance	
	mil. USD	%	mil. USD	%	mil. USD	%	mil. USD	%
2009	914,026	19,7	11 497,551	-7,8	12 411,577	-6,3	-10 583,525	-9,3
2008	773,013	11,8	12 470,949	36,4	13 243,962	34,7	-11 667,936	38,0
2007	691,653	78,1	9 144,046	65,0	9 835,699	65,9	-8 452,393	64,1
2006	388,360	27,3	5 540,227	38,4	5 928,587	37,6	-5 151,867	39,3
2005	304,974	14,3	4 002,232	15,2	4 307,206	15,2	-3 697,258	15,3
2004	266,819	12,9	3 472,947	33,0	3 739,766	31,3	-3 206,128	3

# Trade in 2000s

- **New era for trade relations between the CR and the PRC in 2000s**
  - **PRC joins the WTO**
  - **CR joins the EU.**
  - **Bilateral agreements:**
    - Agreement on Economic Cooperation Between the Government of the PRC and the Government of the Czech Republic (signed in April 2005),
    - Investment Protection and Trade Promotion Agreement (signed in 1991, updated in 2005, ratified in 2006).
    - In 2009, Beijing and Prague signed Agreement preventing double taxation.
- The general volume of Sino-Czech trade has been increasing.
- commodity structure has been improving
- However, adverse balance remains a problem in bilateral trade relations.
- According to the Ministry of Trade and Industry, China is one of the priority countries for Czech export

# Czech Companies in the Chinese Market

- Skoda Praha - Energy engineering
- Vitkovice a.s. - Heavy engineering
- **Skoda auto**, a.s. (Licence to Sino-German joint venture Shanghai Volkswagen, car production)
- **PPF, a.s** (Financial services, the biggest Czech investor)
- Škoda Machine Tools (Dalian, cutting machinery)
- LINET - Electric hospital beds (provided to about 70 hospitals throughout China)
- **AGROFERT** - Chemicals export (the biggest exporters to China)
- První brněnská strojírna Velká Bíteš, a.s. Turbines (aircraft, A/C)
- TEDOM, s.r.o. Biofuel production projects
- ZPS Prefix, a.s. Shoe-making machinery
- Evektor-Aerotechnik Qingdao, sold licence for production of ultralight aircraft EV-97
- BVV Veletrhy Brno represented by Taiwanese company Kaigo in Shanghai, promotion of trade fairs
- Moser crystal
- VAE CONTROLS Ostrava - petrochemicals
- Chemoprojekt (Projects and technology supply for chemical and petrochemical industry)
- ECM Group - developers
- Ferrit (mining equipment)
- Green Gas International BV (renewable resources)
- WIKOV (wind energy)
- Albion Group (Becherovka liquor)
- Kallibra service Ltd. (import of Zubr Beer)
- LASVIT (glass works)

# Czech Projects in China

- Lang Fang PAN Vítkovice Environmental Engineering, Langfang – joint venture for eco technologies (worth 1,9 mil. USD)
- Eastern Skoda Machine Tool Modernization Co. - modernization of cutting machinery
- KOH-I-NOOR (Nanjing) – pencils – one of the three largest producers in the world
- Hong Ye SVIT Machinery Co., Ltd. – provide machinery for shoe making factories
- Tangshan Broumov Cleaning Machinery Co. Ltd. – production of car wash machinery
- TOS Kunming – cutting machinery
- Shanghai Bathroom Equipment – bathrooms
- TESCAN – Shanghai, production of microscopes

# Chinese Projects in the CR

- CITIC MARMES BICYCLES CZ,s.r.o. – bike design and production
- Changhong – TV production, recently started massive PR campaign in the CR, aims to produce 1 million TV per yea.
- Shanghai Maling Aquarius – food production
- Huawei - telecommunications
- ZTE – telecommunications
- Shanxi Yuncheng Plating Group – printing machinery.
- Shandong Linyi Yuli Foodnuts
- Beijing Fight Company – crystal production

# Trade Issues

- **BALANCE OF TRADE**
  - does not seem to concern Czech politicians that much.
  - Czech membership in the EU is mitigating the concern?
  - Expectations: as China gradually opens its market, the trade will become more balanced
- **BARRIERS TO CZECH EXPORT AND INVESTMENTS IN China**
  - formal framework is in place: close Czech-China cooperation via so-called Czech-China Joint Council for Economy and Trade,
  - Czech Republic has several trade offices in China (CzechTrade in Shanghai, Chengdu).
- **Ministry of Trade and Industry identifies several issues that make export/investment to China more difficult:**
  - IPRs
  - missing institutional and legal environment
  - non-tariff barriers (import licences, certificates, etc.)
  - lack of knowledge of the environment on part of many Czech entrepreneurs
  - highly competitive market
  - ongoing transformation of the Chinese market and decentralization – difficult to follow

# Taiwan

- All the EU countries, including the Czech Republic, adhere to „one China principle“
- The issue of Taiwan does not loom large in EU-China relations,
- EU has been following hands-off Taiwan policy.
- all the EU countries, including the Czech Republic, have unofficial relations with Taiwan.
  - Czech Economic and Cultural Office in Taiwan.
  - Taipei Economic and Cultural Office in the Czech Republic.
  - EU has established its own trade representative office in Taiwan in 2003.
- EU does recognize Taiwan as an economic and commercial entity, has solid relations with it in non-political areas

# Czech Republic and Taiwan

- Czech Republic sought to develop economic relations with Taipei without endangering its relations with Beijing. (currently Taiwan - 29th biggest trading partner)
- Taiwan active in Central and Eastern Europe after 1989:
  - new markets
  - target for flexible diplomacy
  - numerous visits as well as through work of its offices in Germany and Austria
- Contacts between Czech Republic and Taiwan can be described as very active.



# Czech Republic and Taiwan

- Taiwan finds many supporters in the CR – which is partly result of Taiwan's proactive, outgoing policies
- 1994: Czech-Taiwan Friendship Group. (*European Parliament (EP)-Taiwan Friendship Group* since 1991, has more than 130 members)
- 1995 Czech prime minister Klaus met with Chiang Ping-kung (Minister of Trade) at Crans Montana Forum to talk mutual trade and the possibility of Taiwan investments in the CR.
- Investments in Czech Republic in the 1990s
  - Czech labor skilled and relatively cheap,
  - Czech Republic's geographic position offered a gate into the EU, prospect of CR's admission into the EU
- Investments started to flow in at the end of 1990s – successful projects attract other investors from Asia.
- TECO: emphasis on building personal relations across the political spectrum, media, academia, financial resources to bringing Czech VIPs to Taiwan.

## Trade with Taiwan 2004-2009 (mil. CZK)

<b>Year</b>	<b>Turnover</b>	<b>Export</b>	<b>Import</b>	<b>Balance</b>
<b>2004</b>	17 998,6	960,7	17 037,9	-16 077,2
<b>2005</b>	19 846,4	1 227,5	18 618,8	-17 391,3
<b>2006</b>	26 902,2	1 262,0	25 640,2	-24 378,1
<b>2007</b>	26 732,2	1 490,3	25 241,9	-23 751,5
<b>2008</b>	23 453,3	1 327,1	22 126,2	-20 799,0
<b>2009</b>	18 922,1	1 122,3	17 799,8	-16 677,5

# Czech Republic and Taiwan

- Major Taiwanese investments in the CR:
  - Foxconn (Kutna Hora, 1500 employees)
  - FIC (First International Computer), Rudna u Prahy
  - Acer (Brno)
  - Asustek (Ostrava, 1000 employees)
  - Tatung (Plzen, 1200 employees)
  - Ibis Aerospace Lts. (coop with Sikorski, Boeing, etc.)

# Taiwanese companies in the Czech Republic:

- FOXCONN CZ (Hon Hai Precision Industry Co.)
- HBC- Europe s.r.o. (distribution of multimedia and electronics)
- DanFu s.r.o.
- Pegatron Czech s.r.o.
- Asus Czech s.r.o.
- Asus Czech s.r.o.
- ZyXEL Communications Czech s.r.o.
- Tatung Czech s.r.o.
- Chicony Electronics
- CEZ s.r.o.
- Maintenance Representative in Prague Airport,
- China Airlines
- Qisda Czech s.r.o.
- Inventec(Czech) s.r.o.
- A-DATA Technology (Europe) Co. Ltd.
- Innolux Wistron Corporation GeoVision Inc.
- AUO Optronics
- Gemtek

# Arms Embargo

- introduced in 1989, signed by 12 countries of the EC
- not legally binding, not subject to annual revisions, repeal requires unanimous agreement of all the EU members
- “...interruption by the Member States of the Community of military cooperation and an embargo on trade in arms with China.” -- general and ambiguous
- EU, including the CR: the fundamental precondition for the arms sales embargo to be lifted is that China must verifiably show greater respect for human rights and adopt UN International Covenant on Civil and Political Rights – general and ambiguous.
- arms embargo against China has not been interpreted uniformly by the EU members. :
  - 1. lack of specific instructions,
  - 2. absence of legally binding document
  - 3. existing loopholes in the EU arms control system.

# Embargo in the name only?

Year	Country	Total value of export licenses (in euros)
2002	France	105,431,246
	United Kingdom	79,500,000
	Italy	22,836,976
	Austria	2,025,925
	<b>All EU Countries</b>	<b>209,794,157</b>
2003	France	171,530,641
	Italy	127,128,192
	United Kingdom	112,455,000
	Czech Republic	3,610,819
	Germany	1,096,261
	<b>All EU countries</b>	<b>415,820,913</b>

# Czech Republic and Military Sales to the PRC

- Czech Republic does not permit any export of lethal weapons or any deliveries that may essentially strengthen the military power of China. This position applies especially to advanced technology.
- However, the Czech Republic allows limited export of ,some categories‘ of military equipment.

**Utilization of Licenses for the Export (Sale) of Military Equipment in the Period 2003 – 2009  
(approx. value in euro, in thousands)**

	2009	2008	2007	2006	2005	2004	2003
China	44	189		2266	2162	3006	100
Taiwan		334	202			1	

# Arms Sales Embargo Debate in 2004-2005

- Jacques Chirac and German Chancellor Schroeder:
- Embargo:
  - outdated and out-of-place at times when the EU and China became major trade partners,
  - Also response to PRC criticism of the embargo: puts the PRC on the same list as some of the world's worst dictatorships.
- EU not completely united in its position towards lifting the embargo.
  - France and Germany supportive
    - commercial opportunity:
    - pros: defense firms supportive: at a time of shrinking European defence budgets, Chinese market is becoming increasingly appealing,
    - cons: may jeopardize lucrative business with the U.S. – not worth taking the risk (BAE, EADS)
  - cause of concern over the impact on relations with the U.S.
  - **New member countries in Central and Eastern Europe, including the Czech Republic: worried over Washington's reaction.**
  - Netherlands, Finland, Belgium, Portugal and Sweden voiced concerns over lifting the ban without significant improvements in China's human rights.



# U.S. Pressure

- strong opposition from Washington DC,
- U.S. Secretary of State Condoleezza Rice:
  - region regarded as an area of U.S. own security interests, which could be conflicted with EU arms sales.
  - lifting the ban would be inappropriate while there are still human rights concerns.
  - concern on the U.S. side is the possibility of selling some dual-use technologies,
- HoR: Resolution on Feb 2, 2005 urging President Bush to pressure European leaders to reconsider the plan
- S: Resolution on March 17, 2005
- U.S. legislators threatened with retaliation by blocking purchases of European military equipment for American forces.

# Czech Republic and U.S. Pressure

- In April 2004 the import-export company Omnipol of the Czech Republic tried to sell Vera-Epassive surveillance systems (PSSs) to China (negotiated in 2001?)
  - radar systems equipped with a range of 450-500 km and the ability to monitor several dozen vessels and aircraft simultaneously
  - the radar would have given China the capacity to identify and locate U.S. stealth bombers.
- Due to U.S. pressure, public's opposition the intention to sell was abandoned.
- Still, there are supporters of increased arms sales to China:  
***Association of the Defense Industry of the Czech Republic***
  - its pressure and lobbying not „focused, continuous and organized
  - concerns about possible patent, copyright and IPR violation.

# Embargo on Ice

- Embargo remained at the bottom of the priorities list
- Recent presidencies of the Czech Republic and Sweden not interested in the issue
- 2010: Spanish presidency willing to reopen the discussion again?
- Given the previous experience, the question is why?
  - Pros:
    - Lifting the embargo would strengthen the effort to build strong strategic partnership.
    - boost in EU-China trade – impact on negative balance
  - Cons: even stronger U.S. opposition (latest DOD reports on the PLA)
  - Embargo – considered one of the last playing cards of the EU

# Conclusion

- Approach to the PRC is often based on unrealistic expectations.
- In our perception, the importance of the CR increased as it became a member of the EU with which China is building a strategic relations.
- Czech priority vis a vis China is **trade**.
- The Czech approach towards China experiences numerous weaknesses:
  - lack of coordination and lack of overall strategy.
- Human rights issues do not influence business as much as it is sometimes thought.
  - The CR, with the exception of occasional protests, relies primarily on the EU, which has more resources and leverage to negotiate on this issue.
- In the context of Central and Eastern Europe, the relations between the PRC and the CR are good, but nothing exceptional.

**Thank you for your attention!**