



Weekly Briefing

**Czech External Relations briefing:
The Czech Foreign Policy in 2017**
Zuzana Stuchlíková


China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

The Czech Foreign Policy in 2017

The Czech Republic's foreign policy is defined by the Concept, approved in July 2015. This Concept defines three main global goals which are "*security, prosperity and sustainable development, and human dignity including human rights; and two national goals: service to its citizens and reputation of the Czech Republic abroad*". The country wants to be actively involved in the European Union, the North Atlantic Treaty Organization (NATO), the United Nations, the Organization for Security and Co-operation in Europe (OSCE) and other multilateral structures (see Ministry of Foreign Affairs 2015).

The membership in the EU has been the main element of Czech foreign policy. In 2017, two major issues dominated the foreign political agenda, particularly the aftermath of the migration crisis and negotiations on the UK leaving the EU (Brexit). Regarding migration and reform of immigration policy of the EU, the Czech Republic stressed several times it does not agree with the system of transfer quota for immigrants across the EU proposed by the European Commission. This issue has been also reflected during meetings of the Visegrad Group (Czech Republic, Poland, Hungary and Slovakia). The V4 Group agreed on common positions towards the proposed changes in the EU immigration policy.

As for Brexit, the Czech government adopted its negotiating position putting emphasis on four crucial issues. The Czech government stressed it has been insisting on preserving the free movement of people between the UK and EU and right of the Czech citizens living and working in the UK. The Czech Republic wants the mutual trade relations to stay as undistorted as possible. Other priorities include the fair financial settlement of all liabilities the UK has towards the EU and continuity of the legal order.

In 2017, the Czech officials continued to support economic ties to other countries fulfilling the pledges given to Czech businesses to develop the economic diplomacy. The top officials visited important countries for Czech

exports with the large delegations of business representatives. For example, President Zeman visited Vietnam and Kazakhstan, where he attended the world exposition Expo 2017. During the official visit to Berlin, Czech Prime Minister Bohuslav Sobotka met with the German chancellor Angela Merkel. Together with the Slovak Prime Minister Robert Fico, they celebrated the 25th anniversary of signing the Treaty on Good Neighbourhood and Friendly Cooperation between Czech and Slovak Federal Republic and Federal Republic of Germany.

One of the keystones of the Czech foreign policy in 2017 was again improving and building a good relationship with China. Intensive development of Czech-China relations continued also on the level of regions. For example, officials of the region of Southern Moravia met with the delegation coming from the Hebei province, discussing particularly the cooperation in spa industry. Economic and cultural ties were discussed during visits of delegations from Jiangsu, Hebei and Henan province in the region of Moravia and Silesia, Southern Bohemia and Central Bohemia.

Main Trends in Czech External Trade in 2017

In 2017, the Czech foreign trade has experienced a solid growth due to accelerating foreign demand (including growing European car markets). Expected strengthening of the Czech Crown (the koruna) after the end of the exchange rate commitment has affected the results of foreign trade slightly from the second quarter of 2017.

As the Czech economy is a medium-sized, export driven and very open (the ratio of trade to GDP was 78%; trade per capita was 14 498 USD in 2014-2016; WTO 2017), the strength of global trade and favourable outlooks of its main trading partners are very important. The large share of exports to GDP in the Czech Republic is associated with its integration into the global value chains, which is among the highest in the world (more than 70% of Czech exports either contain foreign value added or are intermediate products that are further processed and exported by a third country; Vlčková 2017). In 2016, the Czech

Republic ranked 28th in world merchandise exports and 29th in world merchandise imports; and 39th in world commercial services exports and 40th in services imports (including intra-EU trade). The average applied tariff rate was 1.5% (WTO 2017).

The Czech Republic has strong economic and trade ties with the EU member states¹ (more than 80% of the trade is conducted with intra-EU partners; more than 32% of Czech exports are shipped to the Czech Republic's largest trading partner, Germany); the mutual trade turnover accounts for 76 % of the total trade in goods. In 2017, the country's top export partners were also Poland, China, Slovakia and France – see Table 1.

Table 1: Czech Republic – Foreign Trade by Selected Countries (January – November 2017)

	Country	Turnover			Exports			Imports			Balance
		1-11/2017		index	1-11/2017		index	1-11/2017		index	1-11/17
		CZK mill.	%	17/16	CZK mill.	%	17/16	CZK mill.	%	17/16	CZK mill.
1	Germany	2 178 896	29 .6	106. 7	1 280 256	32. 9	107 .5	898 640	25 .8	105 .6	381 616
2	Poland	503 992	6. 8	105. 6	234 279	6.0	111 .3	269 713	7. 8	101 .2	-35 434
3	China	482 163	6. 5	111. 0	51 675	1.3	123 .4	430 487	12 .4	109 .7	-378 812
4	Slovakia	467 663	6. 3	100. 0	300 019	7.7	98. 4	167 644	4. 8	103 .0	132 375
5	France	309 927	4. 2	105. 7	200 248	5.1	104 .8	109 680	3. 2	107 .4	90 568
6	Italy	305 463	4. 1	103. 0	159 379	4.1	101 .0	146 085	4. 2	105 .4	13 294
7	United Kingdom	285 952	3. 9	102. 5	195 974	5.0	101 .2	89 978	2. 6	105 .2	105 996

¹ The Czech Republic has been a WTO member since 1 January 1995 and a Member State of the EU since 1 May 2004. As an EU Member State, the Czech Republic has to follow rules of the Common Commercial Policy of the EU, a legal framework for the EU trade with third countries. The Czech Republic is not yet part of the European Monetary Union (Eurozone) even though the country is ready to adopt the single currency on the basis of macroeconomic development. The decision to join the Eurozone has been subject of political debate in the Czech Republic, i.e. it will depend on the political development after the general elections in 2017.

8	Austria	273 448	3. 7	110. 4	171 934	4.4	111 .0	101 514	2. 9	109 .3	70 419
9	Netherlan ds	208 296	2. 8	106. 5	111 951	2.9	107 .7	96 345	2. 8	105 .2	15 606
1 0	Hungary	196 395	2. 7	108. 5	112 760	2.9	106 .7	83 635	2. 4	110 .9	29 126
1 1	Russia	183 104	2. 5	126. 4	75 783	1.9	110 .3	107 321	3. 1	140 .9	-31 538
1 2	Spain	178 015	2. 4	108. 7	111 983	2.9	107 .2	66 032	1. 9	111 .2	45 952
1 3	USA	167 369	2. 3	109. 2	80 945	2.1	102 .0	86 424	2. 5	117 .0	-5 479
1 4	Belgium	145 485	2. 0	103. 6	90 122	2.3	104 .7	55 362	1. 6	101 .9	34 760
1 5	Romania	101 628	1. 4	113. 9	53 914	1.4	113 .4	47 714	1. 4	114 .5	6 200
1 6	South Korea	101 611	1. 4	115. 8	9 802	0.3	102 .6	91 809	2. 6	117 .4	-82 008
1 7	Romania	89 013	1. 2	106. 1	55 464	1.4	105 .1	33 549	1. 0	107 .8	21 915
1 8	Turkey	88 786	1. 2	110. 7	61 120	1.6	111 .1	27 666	0. 8	110 .0	33 454
1 9	Switzerla nd	82 453	1. 1	100. 5	48 845	1.3	98. 4	33 609	1. 0	103 .8	15 236
2 0	Japan	78 125	1. 1	102. 3	16 692	0.4	80. 5	61 433	1. 8	110 .4	-44 741

Source: Ministry of Industry and Foreign Trade (2017b).

The Czech Republic's Relations with China in 2017

Economic relations between the Czech Republic and China have become more important and are likely to increase thanks to the potential of the Czech market, its proximity to the EU markets etc. Today, China is the 3rd most important trading partner of the Czech Republic in general and the most important Asian trading partner. In 2017, China accounted almost 7% of Czech foreign trade turnover (trade in goods). The share of Czech goods exports to China was only 1.3%. On the other hand, this proportion was the highest in the Czech history (and Czech exports to China grew 3 times between 2007 and 2016, Businessinfo 2017). Out of all its trading partners, the Czech Republic's trade deficit with China was the highest and still rising – see Table 1 and Table 2.

Transport equipment (vehicle parts, liquid pumps) and machinery, followed by other industrial products are the largest items of Czech exports to China. Goods imports from China to the Czech Republic are dominated by computers, broadcasting equipment, office machine parts, and telephones (with a high part of intermediate products in general). A large proportion of Chinese value added is further processed in the Czech Republic and used in exports to third countries (De Castro, Vlčková, Hnát 2017).

Table 2: Foreign Trade, Czech Republic and China, bill. EUR

Year	Export		Import		Turnover		Balanc e
	Value	Index	Value	Index	Value	Index	Value
2012	1,301	108.5	12,191	89.6	13,492	91.1	-10,890
2013	1,447	111.2	11,680	95.8	13,128	97.3	-10,234
2014	1,537	106.2	13,027	111.5	14,564	110.9	-11,490
2015	1,669	108.2	17,041	129.3	18,710	127.1	-15,372
2016	1,734	103.9	15,971	93.7	17,706	94.63	-14,236

Source: Businessinfo (2017), based on data of Czech Statistical Office and Ministry of Industry and Foreign Trade.

The trade in services between the Czech Republic and China has been growing significantly. The Czech Republic has become a very popular destination for Chinese tourists. Especially the capital and the largest city in the country, Prague, is very attractive for Chinese travellers – it is responsible for majority of Chinese arrivals (mostly of group tourists, travelling with Chinese outbound tour operators). In 2016, Prague overtook London as destination for Chinese tourists. In 2017 (1st to 3rd quarter), the number of Chinese visitors increased year-on-year by 44.2% (to 386,124 visitors), which is the highest increase among foreign tourist in the Czech Republic in total. The number of Chinese tourists in the Czech Republic is expected to increase to 500,000 in 2017 (a tenfold increase from 2012; CzechTourism 2017).

The increase in tourists' numbers has been massive since the visit of President Xi Jinping in 2016. Their spending has risen as well despite Chinese

tourists usually spend only 2.5 days in the Czech Republic. Another increase is expected, due to new regular line Prague-Xi'an (China Eastern), as a follow-up to direct lines from Beijing, Shanghai and Chengdu. Prague will be connected to China with other direct flights from Kunming and Shenzhen too.

The shares of the Czech inward stock of Chinese FDI have been rising, however, the volume of Chinese capital subscribed in Czech companies is still low (in comparison with direct investments from Germany or the Netherlands). The largest Chinese investor in the Czech Republic is CEFC China (CEFC China Energy Company Limited). This Shanghai-based company is a key driving force behind many M&A transaction in the Czech Republic since 2015. Chinese investors in the Czech Republic may, among others; reduce transport costs by locating plant in close proximity of Western European markets (in a country with long industrial tradition, especially in the automotive industry, mechanical engineering and electrical engineering); employ relatively cheap and skilled labour; avoid tariffs and quotas by producing directly in the Czech Republic. Of course, they may generate a solid income in the Czech market too. In 2015, the Czech Republic provided the highest average rates of return² for foreign investors in the European Union (12.2%; the second highest rate was for investors was provided by Lithuania, 11.1%; the EU28 average was about 3.8%; see Eurostat 2017).

Czech companies are interested in new partnerships with Chinese investors. This is evident from several top-level business meetings and official events last year. For example, in July 2017, the 8th China Investment Forum was held in Prague. This Forum has been an official platform for 16+1 economic cooperation as well (in accordance with “Riga Guidelines on cooperation between China and Central and Eastern European Countries”, adopted in 2016).

² The rate of return is calculated as net income on investment / net investment position.