Chapter 14
The Economic Dimension of the Czech Foreign Policy

STILL PROACTIVE, UNCERTAIN AGAIN?

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Executive Summary: In 2017, the domestic support of the Czech Republic’s external economic relations (EER) maintained its continuity and corresponded with the recent developments in the world economy and the EU’s proactive policies in the internal market. It derived from the recent updates of the Export Strategy of the Czech Republic for 2012–2020 and the Map of Global Export Opportunities 2016/17 and profited from the improved relations between the relevant stakeholders and their ever-extending activities as well as newly introduced export and investment promotion tools.

The period was successful in terms of performance as the Czech Republic achieved both an extraordinary increase in exports and a remarkable rate of GDP growth. This was combined with a growing emphasis on sustainable development. On the other hand, several questions relating to the institutional architecture remained. The adaptation of the system to the needs of a 21st century small open economy will be a challenge, and its possible failure one of the main risks in the future.

INTRODUCTION

2017 was the last year of Bohuslav Sobotka’s government. Thus, the support of external economic relations followed the line previously set by this government and was among the undisturbed elements of Czech foreign policy. During the last three years, the programming background remained stable. The ongoing moderation of relations among the core state institutions involved in EER support, and their effort toward a clear division of competencies, contributed both to a better performance of the support system because of reduced duplicities and to a slightly increased satisfaction of Czech exporters with the available service portfolio. However, despite all the efforts,
some shortcomings remained. As in the previous period, the presidential line of support was the most visible, with its own priority set and activities outside governmental control. In addition, some new questions emerged with the external audit of the system assigned by MFA. Others were raised during the campaign prior to the autumn parliamentary elections.

After a long period marked by crises and negative shocks, 2017 was also a positive year for the world economy. It seemed to have finally escaped from a decade of stagnation and experienced an upswing in the rate of global growth, which was now at 3.8%\(^\text{1}\). Moreover, the growth – the highest since 2011 – was also expected to remain steady in 2018–2019. To some extent, the improvements resulted from the fact that most of the major fears about 2017’s expected developments (related to, e.g., Trump’s election, Brexit or the possible collapse of the Eurozone) failed to materialize. At the same time, the improvements resulted from the continuous recovery of investment, manufacturing and trade.\(^\text{2}\)

Within this positive external environment the Czech economy also performed well. It achieved a strong GDP growth of 4.5% that resulted especially from the following drivers: the external sector, dynamic private demand, an inflation rate close to 2%, one of the lowest unemployment rates in the EU (at 3.3%), a vigorous increase in wages, healthy public finances and low public debt.\(^\text{3}\) However, in the long-term perspective, the roots of the success were simultaneously considered a risk, as they resulted from a heavy reliance on manufacturing and its exports to the rest of the EU.\(^\text{4}\) For some considerable time, this has made the country dependent on the situation in the internal EU market and the condition of other European economies. Moreover, as a recent OECD study revealed,\(^\text{5}\) unless jobs in manufacturing are shifted to services and the country turns from an assembly centre for Europe to a knowledge-based economy, the Czech Republic will face a serious risk of job losses resulting from automation.

In the short term, the rapid appreciation of the Czech crown, labour market tension and the increase in wages represented the main economic risks,\(^\text{6}\) whereas politically significant fears for the country’s future performance were linked to the political uncertainty resulting from the autumn parliamentary election. It was also assumed that both public procurements and investment activity could decrease substantially if there was an insufficient response to the spring governmental crisis, and later, the leader of the winning political party ANO, Andrej Babiš, was not able to garner a majority to form a government after the autumn parliamentary elections.\(^\text{7}\)

**BACKGROUND AND POLITICAL CONTEXT**

As the term of Sobotka’s cabinet only ended before mid-December, the EER support resulted from the same programming background as in the previous years. Its core was comprised of the *Programme Statement of the Government*, the 2015 *Concept of the Foreign Policy of the Czech Republic* and the *Priorities of the Czech Republic in the Agenda of the Internal Market*. 
In terms of content, the programme statements of the main political parties in the parliamentary races indicated that the then current direction would be maintained after the October parliamentary elections. With the exception of TOP 09 and the Mayors and Independents (STAN), who gave priority to other topics in the foreign policy sections of their programmes, all the main political players agreed upon the liberal course of the Czech trade policy and the importance of further development of the EER support system, including economic diplomacy. Differences between them persisted mainly in their particular emphases on selected aspects of this broad area – such as science diplomacy, which was stressed by the Social Democrats (ČSSD), or the training of ambassadors before their appointment, which was highlighted by Freedom and Direct Democracy (SPD). As in the past, the newcomers, this time especially the Pirate Party, introduced some bracing moments into the debate – e.g., the requirement of fairness in international trade, including transparency in trade negotiations and non-exploitation of the Global South.

In contrast, seen from the institutional perspective, the parliamentary race revealed that, despite the enormous efforts of Sobotka’s government, the architecture of EER support still remains a relevant issue, and its reforms will probably also stay high on the agenda in the upcoming period. The Christian Democrats called for changes in the state-established agencies for export financing and insurance, i.e., the Czech Export Bank (Česká exportní banka – ČEB), the Export Guarantee and Insurance Corporation (Exportní a garanční pojišťovací agentura – EGAP), the Czech-Moravian Guarantee and Development Bank (Českomoravská záruční a garanční banka), which is the only development bank in the Czech Republic, and the investment promotion agency CzechInvest. In turn, Babiš’s winning ANO party proposed a unification of the state agencies CzechTrade and CzechInvest under the umbrella of the Ministry of Foreign Affairs. As a consequence, the first draft of the Programme Statement, approved by Babiš’s interim government without parliamentary backing on 18 December, announced a new round of institutional changes, the third one already in this decade. On the one hand, this could promise that the so-far pro-active course towards adapting the system to the new challenges resulting from the on-going processes of economic globalisation could continue. On the other hand, as the prospects for a new government being formed remain uncertain there is a risk that the after several quiet years, the past turmoil could return in the future.

At the conceptual level, the EER support in 2017 derived from the recent updates of the Export Strategy of the Czech Republic 2012–2020 and the Map of Global Sector Opportunities 2016/17, with an obvious shift from territorial priorities to sectoral ones. The Export Strategy newly highlighted the innovative potential of business export activities and the digital economy. Meanwhile, the update of the Map included export opportunities related to development assistance for the first time.

Similarly to the domestic context, there were only slight changes in the external environment. The 11th WTO Ministerial Conference in Buenos Aires confirmed the ongoing weakening of the multilateral trade system and the sharpening relations among the largest economies, as it ended without any significant agreement and without even the usual Ministerial Declaration. This, together with Donald Trump’s economic na-
tionalism, might predict a shift from multilateralism to plurilateral and bilateral deals in global trade negotiations.

The EU has continuously followed the ten priorities announced by Juncker’s Commission in 2014, the subsequent Investment Plan for Europe, the single market strategy Upgrading the Single Market: More Opportunities for People and Businesses, the external market programme Trade for All: Towards a More Responsible Trade and Investment and the 2016 Global Strategy for Europe. Moreover, as indicated in Juncker’s State of the Union speech, since September 2017 the EU’s trade agenda has been strengthened by the trade package outlined in the Commission’s communication A balanced and progressive trade policy to harness globalisation, with the aim to make sure that any foreign direct investment to the EU is not in breach of the EU’s essential interests, increase transparency in trade negotiations, establish a multilateral court for the settlement of investment disputes, start trade negotiations with Australia and New Zealand and create an Advisory Group on EU trade agreements.14

As previously mentioned, the EU also strongly emphasised the ethical dimension of its external economic relations. This was obvious from the first Trade for All progress report15 with an extensive chapter on anchoring trade and investment policy in global values. At the operational level, the adoption of the new Conflict Mineral Regulation, to be applied from 2021, is an important step forward to ensuring responsible supply-chain management by European firms.16 Furthermore, in a broader perspective, the EU repeatedly confirmed its commitment to the UN Sustainable Development Goals (SDGs).

The growing emphasis on the SDGs was fully in line both with the current priorities of the Czech foreign policy and with the new governmental sustainable development strategic framework, The Czech Republic 2030, approved in April 2017.17 Furthermore, as the successful Czech presentation on the implementation of Agenda 2030 at the High-Level Political Forum 2017 and the Czech Republic’s fifth rank (among 157 states) in the first edition of the global SDGs index18 revealed, the SDGs could turn into one of the profile areas shaping the country’s image abroad in the future.

AGENDA AND EVENTS

From the institutional perspective, the everyday business of EER support relied on the improving relations between the key ministries, the MFA and the MIT, as well as on the extended co-operation with other governmental and state bodies. Regarding the usual service for Czech entrepreneurs operating abroad, conducted by the joint Client Centre for Export and the unified network of embassies and foreign branches of export promotion agencies, the priority was given to their further coordination, standardisation of outputs, staffing and quality management.

However, it is a recent trend in the EER support of numerous highly developed countries that they attempt not only to promote but also to create the export, i.e. to mobilise prospective domestic entrepreneurs for foreign market entry. The Czech Republic has been responding to this shift since 2016. In 2017, the MFA also established
the foundations for a closer co-operation with regional authorities in the **Memorandum on Co-operation within the Field of Economic Diplomacy between the Ministry of Foreign Affairs of the Czech Republic and the Association of Regions of the Czech Republic** (signed in June 2017). It should contribute to improving their communication as well as to a more systematic presentation of the economic potential of the Czech regions abroad. Besides the increase of its presence in the Czech regions, a strengthening of Czech representation in international economic bodies was among the MFA’s 2017 priorities as well. This effort included the staffing of the managerial segment of the OECD Secretariat, the campaign for the election to the ILO Governing Body and the presidencies in UN ECOSOC and the OECD Budget Committee in the second half of 2017.

At the operational level, both the MFA and the MIT have continued their hitherto pro-active approaches and their co-operation with other governmental bodies. Together with the MIT, the Ministry of Agriculture, the Ministry of Regional Development, the Ministry of Defence and the Office of the Government of the Czech Republic, the MFA multiplied the budget for the financial support of the Economic Diplomacy Projects (PROPED) – from 16 million CZK in 2016 to 50,8 million CZK in 2017. Consequently, the number of the accepted projects almost doubled in comparison to the previous year and the thematic portfolio also broadened substantially, reaching from traditional workshops, missions and joint participation in trades and exhibitions to very specific events focussed on science, research, and innovations.

In October 2017, the MFA introduced a new export journal, *Modern Economic Diplomacy*, to inform of innovations of the EER support portfolio as well as opportunities and threats in preferential foreign territories. In addition, it published the fourth edition of the *Map of Global Sector Opportunities*. The map maintained the synthesis between territorial and sectoral approaches; the practice of publishing it in both electronic and print versions was also preserved. The territorial information included data about the main macroeconomic trends, EU trade agreements in force, and a list of opportunities in promising export areas for Czech exporters.

As usual, the MFA conducted several government-to-business negotiations focussed on sectoral export priorities, and the annual conference of economic diplomats accompanied by consultations of the diplomats with businesspersons interested in foreign markets. The MFA’s co-operation with academia was also maintained. A conference on the changes of economic diplomacy in today’s world was prepared by the MFA and the College of International and Public Relations, Prague. Also, together with the Faculty of International Relations of the University of Economics, Prague, the MFA organised presentations of students’ papers on commercial diplomacy systems abroad.

The MIT promoted the EER with a new digital presentation tool comprised of twelve videos that introduce the strategic industries of the Czech Republic. Together with MFA and other ministeries MIT also actively supported the participation of Czech export companies at various specialised exhibitions and trade fairs, such as EXPO 2017, and hosted several export seminars.
In both ministries, the debate on the future strategic and operative management of the governmental export promotion system launched in the previous period continued. This time it responded primarily to the external audit of the EER system conducted by PwC and returned from the recent conceptual issues back to a possible revision of the 1969 arrangement. To satisfy the demand for increased efficiency of the export promotion system and the current needs of the Czech economy, the introduction of elements of network diplomacy has been considered. It would increase openness and flatten the hierarchy of the EER support system, and contribute to a more efficient cooperation among the MFA, the MIT, export promotion agencies and businesses and it could result in the strengthened competitiveness of the Czech Republic.

Last, but not least, in accordance with the recent macroeconomic trends, there has been a call for an increased emphasis on the added value of exports in the governmental EER support system. This would require two strategies – support of products with a higher technical added value, and an optimisation of the participation of Czech entrepreneurs in global and European supply chains. One of the first steps in this direction was the autumn governmental decision on the amendment of the Investment Incentives Act, which should be prepared by the MIT in co-operation with CzechInvest. According to the outcomes of the conceptual debate between the MIT and CzechInvest, the amendment should lead to an increase in financial assistance for investment projects with a high added value, especially those of technology centres and centres for strategic services. Regarding technological centres, more extensive financial support for property procurement is expected, whereas the activity of centres for strategic services should focus on manufacturing industries with a long-term specialisation in research and development.

IDENTIFICATION AND CHARACTERISTICS OF KEY ACTORS

Similarly to the agendas of the MFA and MIT in 2017, the approaches of other actors in EER support were pro-active as well. The state export and investment promotion agencies, CzechTrade and CzechInvest, extended their service portfolios to satisfy the growing demands of small and medium pro-export companies, better exploit the research and development potential of the Czech Republic and intensify their operations in foreign territories. CzechTrade newly opened a Czech Business Incubator in Bangalore, which was designed mainly to meet the needs of companies in the areas of engineering, aerospace, medical technologies, automotive industries, environmental protection and biotechnologies. Furthermore, requirements of small and medium enterprises (SMEs) were also taken into account. CzechInvest focussed on the promotion of research and development capacities of the Czech Republic. It started four new projects for business start-ups, which reflected its desired shift to activities with a substantial added value. The CzechInvest projects CzechStarter and CzechAccelerator focussed on mentoring and networking at business incubation centres in the USA and in the UK.
Two other CzechInvest projects, CzechMatch\textsuperscript{40} and CzechDemo,\textsuperscript{41} promoted the internationalisation of small and medium business activities during international trade fairs. CzechInvest also intensified its co-operation with the Technological Agency of the Czech Republic in the regions of the Czech Republic.\textsuperscript{42}

The position of the governmental agencies for export financing and insurance, the Czech Export Bank (ČEB) and the Export Guarantee and Insurance Corporation (EGAP), was subject to a conceptual debate as, according to Prime Minister Babiš, the new government “inherited the ČEB and the EGAP in a pitiful state”.\textsuperscript{43} During a meeting with the representatives of the best Czech export companies, Babiš (ANO),\textsuperscript{44} who was then the Minister of Finance, suggested that the agencies should merge into one under the exclusive supervision of the Ministry of Finance. Nevertheless, the agencies continued their standard operations and were even able to extend their service portfolio. The ČEB focussed on the promotion of small and medium businesses in agriculture and the food industry.\textsuperscript{45} The EGAP strengthened the background of its services for small and medium companies in foreign development assistance via the co-operation memorandum between the Czech Development Agency, the Czech-Moravian Guarantee and Development Bank and itself.\textsuperscript{46}

The agencies also negotiated several agreements with foreign partners. Whereas the ČEB concluded agreements with export promotion banks in Cuba\textsuperscript{47} and Angola,\textsuperscript{48} the EGAP launched co-operations with partner institutions in Japan\textsuperscript{49} and Kazakhstan.\textsuperscript{50}

As in the previous four years, an offensive proactive approach was typical for the president of the Czech Republic, Miloš Zeman, and his official visits abroad. Yet again, he conducted the EER agenda at the expense of normative policy issues. This was the most obvious during his official trip to the People’s Republic of China, where he visited the China Investment Forum 2017 and was the only head of state from the EU to participate in a round table on the Belt and Road Initiative.\textsuperscript{51} During an official speech, Zeman promoted the One Belt One Road Initiative without taking into consideration the warnings about the free trade infringement risks and the possible increase in territorial disputes.

The official presidential visits abroad reflected to some extent the current version of the Export Strategy of the Czech Republic 2012–2020, because from the eleven official foreign presidential visits in 2017 five led to priority and target territories. Business delegations participated in six of the official visits. The presidential visit to the Russian Federation, co-organised by the Confederation of Industry of the Czech Republic and composed of business delegates from both traditional business sectors (the engineering and energy sectors) and more common ones (e.g. tourism and legal consulting), was the largest one in the last twenty-five years.\textsuperscript{52} The visit’s results encompassed trade contracts with a total value of 20 billion CZK.\textsuperscript{53} In Vietnam, the Czech delegation participated in two business forums, which led to seven business contracts in the areas of pharmaceutics, digitalisation of public services and optical fibre technologies.\textsuperscript{54} In Kazakhstan Zeman and the business delegation accompanying him visited the opening ceremony of EXPO 2017, and the president also negotiated investments with the heads of several Central Asian republics.\textsuperscript{55} In Croatia, the business negotiations focussed on tourism, energy, and financial services. Contrastingly, in
2017, the importance of incoming official state visits slightly decreased in comparison to previous years, as only two out of the nine high level visits to the Czech Republic included a business delegation.

As was traditionally the case, in 2017, President Zeman actively participated in a set of domestic events, including, e.g., the International Engineering Fair, the Žofín Forum and a reception with the heads of the diplomatic missions of the Czech Republic. During his official speeches he stressed his interest in extending governmental export promotion activities and demanded that the export promotion agencies meet the needs of Industry 4.0. He also welcomed the FDI inflow to the Czech Republic and pledged to fight against the economic sanctions imposed on Russia.

MEDIA AND PUBLIC SPACE

As before, the stand-alone presidential line of economic diplomacy remained one of the key topics in public and media debates relating to EER support. In part this was given by President Zeman’s ongoing emphasis on co-operation with the East, especially Russia and China, which was mitigated only during his campaign before the presidential election. In summer 2017, much criticism was raised by an affair concerning letters of recommendation to the Kyrgyz government in favour of the unknown company Liglass Trade CZ in the field of hydro-energy, which were signed by Zeman’s counsellor, Vratislav Mynář, and the Deputy-Minister of Industry and Trade, Vladimír Bártl. In addition, Zeman was reproached for his lack of interest in the regions of Africa and Latin America as well as his overemphasis on industrial production at the expense of technologies.

In contrast, the pro-active approach of the government, key ministries and the export promotion agencies in the common EER support agenda, was perceived much more positively due to their increased advocacy and awareness-raising efforts. These were achieved by several tools, such as public speeches of government officials, media releases, public presentations and the new journal Modern Economic Diplomacy. In early 2017, the video clip Czechia Has Marvellous People, which was designed to promote the Czech Republic abroad, met with a positive response. During the year the overall image of EER promotion was also improved by the country’s good export performance and the publication of several success stories of Czech companies in foreign markets, such as ELLA-CZ in Brazil and Japan, or Aero Vodochody in Arab countries. The focal points of the related debate included exports to highly challenging territories and the necessity to increase high-tech exports and exports with high added value. Hand in hand with the recent introduction of the new agricultural diplomacy posts at Czech embassies, the interest in opportunities and performance within the agricultural sector has increased, and their media coverage has increased, too. It should also be mentioned that in early summer, the media reported on the appointment of the second Czech science diplomat, Luděk Moravec, to the United States of America.

Regarding the longer debate on the institutional architecture of EER support, a new round was stimulated by the race before the autumn parliamentary election,
and an external audit of the current system conducted by PwC for the MFA. The audit of the EER support system concluded that, despite all the improvements made so far, the remaining duplicities and overlaps still hinder its effectiveness. On the one hand, the persisting problems can be attributed to the absence of a legal conceptualisation of ‘economic diplomacy’ and, thus, to the unsystematic division of the competences between the MFA and the MIT in the current Czech legislation. On the other hand, the performance is also limited by insufficiencies in the export finance and insurance system, which has been running without substantial changes since 1995 and does not meet the current needs of the Czech economy. Furthermore, the problems are also related to the current EER support system evaluation methodology, which is overly focussed on human resources. Last, but not least, a lack of interconnectedness between export promotion and official development assistance was also criticised. A more intensive participation of the Czech Development Agency in EER support was recommended in business-to-business (B2B) export promotion activities, which could lead to the realisation of trilateral development projects in co-operation with the European Commission.

CONCLUSION AND RECOMMENDATIONS

In terms of performance, 2017 was a successful year in EER support, as the Czech Republic achieved both an extraordinary increase in exports and a remarkable rate of GDP growth. Largely, this was caused by favourable external conditions, especially the recovery of the world economy and the growing demand in European markets. In some part, the stabilisation, activation and de-politicisation of the EER support system also contributed to this, as they led to more transparency and several extensions to the service provided to Czech entrepreneurs.

However, particularly as the race before the parliamentary election revealed, the current situation might not be permanent, as the issue of the institutional reforms remains on the agenda. It would be very unfavourable for future developments of the Czech economy if it resulted in renewed political and inter-institutional disputes instead of further improvements. As the disputes characterised the system for many years, it was proven repeatedly that they are at the expense of the smooth functioning of the EER and do not help them in any way.

Thus, if a reform of the EER support system is to take place, it must be problem-oriented, unambiguously directed toward the elimination of the remaining shortcomings and overlaps, and far from the power struggle of various parties, opinion streams and interest groups on the Czech political and economic scene, as was the case before. At the same time, if successful, the improved institutional architecture of the EER promotion system would need a clear legal anchoring to achieve its stability, as both a peaceful course of possible reforms and a long-term sustainability of their outcomes might be critical for the country’s prosperity and its desired transition to a knowledge-based economy in the future.
Despite the currently good economic performance of the country, the necessity of further innovations of the EER promotion tools also remains. Facing the magnitude of challenges resulting from globalisation, the sharpening competition in the world markets as well as growing economic nationalism and protectionism, a well-performing mix of domestic and foreign services will gain importance for the Czech export-oriented entrepreneurs. A search for new creative ways of export and investment promotion is now common for most open economies, and an effective and targeted support of businesses has been increasingly affecting their competitiveness.

Finally yet importantly, the Czech Republic has not fulfilled one of the crucial goals in this area, which is the re-orientation of a substantial part of its external economic activity outside the internal market of the EU. Although its urgency somewhat diminished during the times of prosperity, the risk of negative economic spill-overs from the European market, which the Czech Republic faced in the past, has not disappeared.

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**Endnotes**


PART III: SECURITY, PROSPERITY AND FOREIGN POLICY TOOLS


12 ANO (2017).

13 For details on the past developments see the previous volumes of the Czech Foreign Policy Analysis.


For details on the PROPEDE projects see the previous volumes of the Czech Foreign Policy Analysis.


27 Ministry of Industry and Trade of the Czech Republic (2017) *Představení strategických oborů českého průmyslu ve video spotech* [A Presentation of Strategic Industries of the Czech Republic


největší podnikatelská delegace za 25 let zeman se v ruském medvedem


63 Ibid.