



‘Asia in Focus’ Autumn Seminar Series

Concluding Report

Institute of Asian Studies

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INTRODUCTION

The project 'Asia in Focus' was a series of four seminars and a round-table discussion (October - December 2017) for professionals (state officials, politicians, media, academics, businessmen) and students with the aim of providing the audience with the insights into 21st century East Asia and its economic, political and security developments. An important aspect of project was discussing the position and perspectives Slovakia with regards the development in East Asia.

The project's main aim was to improve the understanding of the region and offer practical recommendation for policy makers and businessmen in Slovakia. Sixteen students from the Faculty of International Relations of the University of Economics in Bratislava had the opportunity to receive credits for participating in the program after attending the seminars and writing an essay on a relevant issue dealing with the relations of Slovakia with East Asia.

Each seminar included an initial presentation of an invited expert, followed by a commentary of a moderator and the open floor discussion. Each session lasted about two hours and took place in Bratislava at the UNESCO Information and Documentation Center's seminar hall.

The project as such contributed to developing of a strategy of Slovakia towards this extremely important part of the world by creating a network of relevant people and initiating the discussion on various important and practical issues.

Topics of the seminars:

- ❖ Asia as a Major Security Flashpoint in 21st Century: Cross-Straits Relations, North Korea, South/East China Seas
- ❖ The East Asian Economic Miracle and the Case of Taiwan
- ❖ How to make business in and with East Asia?
- ❖ Political and Economic Relations between Central and Eastern Europe and East Asia
- ❖ Slovak-Chinese Relations: strategy and media coverage

FIRST SEMINAR

Asia as a Major Security Flashpoint in 21st Century: Cross-Straits Relations, North Korea, South/East China Seas

- ❖ **Topic:** Asia as a Major Security Flashpoint in 21st Century: Cross-Straits Relations, North Korea, South/East China Seas
- ❖ **Speaker:** Mag. Dr. ALFRED GERSTL, MIR, Lecturer & Researcher at the Department of East Asian Studies/East Asian Economy and Society, University of Vienna
- ❖ **Date:** 12 October 2017, 17:30

The seminar dealt with the major security issues in East Asia that have been going on for decades. Cross-Strait relations and North Korea have long complicated international relations in the region. The South China Sea and the East China Sea with their tiny islands and rock formations are subject to competing claims of sovereignty by several countries.

South China Sea

The South China Sea is part of the wider Pacific Ocean, encompassing the area between the Malacca Straits and the Strait of Taiwan. About 30% of the world's shipping traffic passes through it carrying over 3 trillion USD in trade each year. It also contains lucrative fisheries crucial for the food security in Southeast Asia. Also, significant oil and gas reserves are believed to lie beneath its seabed.

There are hundreds of small islands in the sea, which are subject to competing claims of sovereignty by several countries. The biggest of the archipelagos and also the one with the most complex situation are the Spratly Islands, which are disputed between China (the government of the People's Republic of China), Philippines, Vietnam, Taiwan (the government of the Republic of China in Taipei), Malaysia and Brunei.

From the perspective of China, an important concept to keep in mind when understanding the importance of the South China Sea is the so-called „two island chains“. Although Mainland China has thousands of kilometers

access to the sea, it misses the direct access to the open ocean. To be able to reach the Pacific or Indian Oceans, Chinese vessels must pass islands of other countries, most of them with friendly relations with the U.S. The land features forming the first island chain are Korea, Japan, Taiwan, Philippines, Malaysia, Singapore and Indonesia. The second island chain is much 'weaker' and is formed of the Northern Mariana Islands, Guam, and Palau. From a geopolitical perspective, these two island chains form a geographic basis for China's maritime defensive perimeter.

Selected events in the South China Sea:

1951: San Francisco Peace Treaty: "Japan renounces all right, title and claim to the Spratly Islands and to the Paracel Islands."

1974: China seizes all Paracel Islands from Vietnam.

1988: China clashes with Vietnam in the Spratlys (since then there is Chinese military presence in the area).

1992: ASEAN Declaration on the Conduct of Parties in South China Sea.

1994/95: China establishes control over Mischief Reef, claimed also by the Philippines.

2002: ASEAN-China Declaration on the Conduct of Parties with the aim of forming the legally binding Code of Conduct in the future.

2004/05–08: Tripartite Agreement among China, Vietnam and the Philippines over joint development of the maritime region.

Since 2008: There is a growing perception of increased Chinese assertiveness.

2012: Failure of ASEAN foreign ministers' meeting to issue a joint communiqué (for the first time in ASEAN history), reportedly after pressure from China on Cambodia.

2012: China-Philippines standoff at the Scarborough Shoal with the result of China taking control over the area.

2013: The Philippines start unilaterally the international arbitration based on UNCLOS treaty at the Permanent Arbitration Court in The Hague.

2013-2014: China–Philippines standoff at the Second Thomas Shoal.

2014: China–Vietnam oil-rig incident.

2014: Start of another round of Code of Conduct negotiations.

2016: The Hague court ruling announced most of the Chinese maritime claims are seen as not compatible with UNCLOS.

There are three possible scenarios of how the South China Sea disputes will develop in future. First, there could be a negotiated agreement between the claimants, involving at least the legally binding Code of Conduct. Even the most optimistic scenarios, however, do not foresee that the claimants would be able to solve the dispute entirely. Second, without any agreement, we will look into more of the same

development, in effect meaning growing Chinese control over the area and attempts of the remaining claimants to preserve their control and claim over the region. It is likely that external players would intervene on behalf of the ASEAN claimants, such as the U.S. FONOP operations, joint patrols (including Japan, India, Australia, etc.). Third, there will be an open conflict. Although this is currently seen as unlikely and not in the interest of any of the involved countries, it cannot be ruled out.

East China Sea

The East China Sea is a part of the Pacific Ocean; the countries, which border the sea, include South Korea, Japan, Taiwan and China. The sea is believed to have considerable oil and gas reserves and is the source of huge amounts of fish and seafood. There are disputes in the area between China, Japan and South Korea over the extent of their respective exclusive economic zones. The most important and potentially explosive dispute is over the Diaoyu/Senkaku islands, which are claimed by China, Japan and Taiwan.

Diaoyu/Senkaku Islands are a disputed archipelago claimed by China, Japan, and Taiwan; and is currently under Japanese administration. In 1895, it was occupied by Japan, who claims it was then „terra nullius“. However, China and Taiwan assert that Japan got the islands under control as part of the results of the First China-Japan war, which ended in 1895 and since which Japan had controlled Taiwan. Both China and Taiwan claim that the Diaoyu islands (the islands' name in Chinese) are part of Taiwan (with China claiming Taiwan as part of China).

According to the San Francisco Peace Treaty, Japan renounced all right, title and claim to Taiwan, yet the Diaoyu/Senkaku islands are not explicitly mentioned in the treaty. The islands themselves were under the U.S. administration until 1972, when the U.S. gave

the administration to Japan, although without formally recognizing the Japanese claim. The islands were owned by a private Japanese citizen and in 2012 they were nationalized by the central government.

According to China, the Diaoyu Islands had been discovered by Chinese sailors and has been China's inherent territory ever since. Taiwan has similar arguments as China. Since 2012, when the dispute attracted lots of attention, the situation calmed down considerably, yet the area has seen the increased patrolling of China, to which Japan responds with its own patrols preventing the access to the territorial waters of the islands. Taiwan is considerably less active since it reached an agreement with Japan over shelving dispute and sharing resources.

Korean Peninsula

There has been a dramatic missile progress in the region in 2017 since North Korea's efforts to develop a nuclear intercontinental ballistic missile capable of hitting the U.S. have accelerated during the first year of Donald Trump's presidency. The country's leader, Kim Jong-un, has presided over a series of successful missile and nuclear tests. Kim also keeps rattling his near-neighbors and missiles flew over Japan during some of the tests. Nuclear tests are also getting bigger and have triggered earthquakes felt in neighboring countries.

There is a pattern of tensions. Since 2006, the nuclear tests in North Korea have gained on magnitude, reaching 6.3 in September 2017 after a hydrogen bomb test in Punggye-ri nuclear test site. There have been several tests in 2017 only, while before there were tests only about every three years.

There were high expectations when Kim Jong-un took power, since he was young and seen as westernized (he went to school in Switzerland). He initiated gradual and cautious

economic reforms (farmers were allowed to sell their surplus at the market) and created Special Economic Zones, such as Kisong for example, which was closed down by South Korea as a protest to nuclear tests. Pyongyang has changed considerably in the last 15 years; you see people in the streets with mobiles and tablets. There are also shopping malls and Western food. Since 2013, there has been some ideological change. Before 2013, the military came first in everything, now it is the development of the economy and the development of the army, which are both equally important.

The question often heard is whether Kim's regime is rational. While we often hear 'hard-to-believe' stories from the country, its international positioning and development of the nuclear and missile technology makes relatively good logical sense as the only absolute guarantee to preserve its own political system facing powerful international adversaries.

It is difficult to get reliable data on the North Korean economy. The major export and import partner is China (in the past Russia). It is difficult to see a leverage of the sanctions from Western countries, especially since it is almost impossible to guarantee the isolation of the border with China and Russia. Moreover, economic sanctions often backfire; they rarely change the regime type.

Military capabilities of the North Korea are outdated, although even they alone are capable of posing vast destruction over the South Korea. The main threat, however, are the nuclear weapons and the missile technology, which pose a real danger not only to the regional countries, but perhaps even to the U.S. mainland.

There are three different scenarios of how the situation with the North Korea could develop:

Scenario 1: Continuation of the presence situation of the 'war of words'. Result: North Korea as a nuclear power with deterrence potential which represents a permanent threat.

Scenario 2: Peaceful settlement. Negotiations are initiated through effective sanctions (Six Party Talks, ARF, EU, U.S.-North Korea; but Kim is so far not interested). Result: opening up of North Korea, gradual peaceful integration in global economy.

Scenario 3: Military confrontation between North Korea and the U.S. and its allies. China and Russia are worried about the threat of war on the Korean peninsula because the collapse of North Korea would mean regional instability and perhaps American military presence on the Chinese and Russian border, mass migration into South Korea and China, and rebuilding costs. It is generally understood that no acceptable military solution is possible.

Cross-strait relations

Cross-Strait relations are the relations between the PRC, commonly known as "China", and the ROC, commonly known as "Taiwan". In 1949, with the Chinese Civil War turning in favor of the Communist Party of China (CPC), the Republic of China (ROC) government led by the Kuomintang Party (KMT) retreated to Taiwan and established the provisional capital in Taipei, while the CPC proclaimed the People's Republic of China (PRC) government in Beijing. Since then, the relations between China and Taiwan have been characterized by limited contact, tensions, and instability. The Civil War stopped without formal signing of any peace treaty and the two sides are technically still in a state of (civil) war. On the other hand, in the 21st century, and especially since 2008, non-governmental and semi-governmental exchanges between the two sides have been increasing.

The history of the island of Taiwan is rather complex. After the Dutch and Spanish

presence in the 17th century, the Qing Dynasty in the 17-19th centuries, and the Japanese occupation from 1895 to 1945, the KMT under Chiang Kai-shek together with about two million Chinese retreated to the island of Taiwan after the KMT lost the civil war in Mainland China. Chiang Kai-shek established an authoritarian regime on the island, which only democratized in the late 1980s. In the 1970s, U.S.-PRC relations normalized and the two countries established diplomatic relations (although Taiwan has ever since enjoyed an 'informal' support from the U.S.). ROC/Taiwan lost its presence at the UN Security Council. In 1991, Taiwan and China reached a consensus on the One China Policy: there is one China, but two sides have different interpretations of what is meant by this.

The cross-strait relations reached a crisis in 1995/96 due to Lee Tenghui's speech, the U.S. weapons deal, and the 1996 democratic elections in Taiwan. In 2005, China adopted the Anti-Secession Law, which effectively authorizes it to any means, including military ones, were the Taiwan move towards the independence. Since 2000, relations have normalized and in 2008, direct ship and flight connections started. The countries are economically interdependent, although the much smaller Taiwan is probably much more dependent on China than vice versa. The 2014 Sunflower Movement was an obstacle for agreements with China, when various civil society movements opposed what they saw as getting too close to China by the administration of President Ma Ying-jeou. With the new administration of the President Tsai Ing-wen since 2016, Taipei revived its past 'Go South Policy' as the 'New Southbound Policy' with the goal of reorienting its economy from China towards Southeast and South Asia. On the other hand, there is another pattern - closer relations with China mean more strategic leeway for Taipei since it is easier for other nations to collaborate with Taiwan.

There are three scenarios of cross-strait relations:

Scenario 1: test balloons of de facto independence – but no formal declaration. This would, however,

mean lack of international support and the dependence of the goodwill of Chinese, since most countries in the world would prioritize their relations with Beijing. Moreover, China has been moving towards international marginalization of Taiwan.

Scenario 2: Rapprochement Taiwan–China: Pressure from business circles revolting against Taiwanese marginalization in East Asia leading to the electoral gains KMT, favoring closer relations with the Mainland China.

Scenario 3: Formal declaration of independence: Unlikely, since it may lead to the military reaction from Beijing. It would also mean a major international crisis since Chinese military intervention might provoke military interventions of the U.S., Japan and perhaps other players.

DISCUSSION:

1. What is the future of the South/East China Sea dispute? More of the same, meaning that China will conduct some provocations and will check the reaction of the U.S. and Southeast Asian countries, such as Vietnam or the Philippines. There is a struggle for influence in Southeast Asia and China is getting stronger due to its no interference policy.

2. The PRC replaced the ROC in the UN Security Council - what leverage did the PRC have? China started diplomatic relations with many countries. Based on *Real Politik*, China was stronger and had to be accepted by most international players. The ROC was a founding member of the UN (and still is), however, in 1971 it had been replaced by the PRC.

3. Can you tell us more about the North Korean export and import? Russians have replaced China as North Korean major trade partner. Russia is still delivering certain goods. Their influence in North Korea is, however, limited, although many Western countries often blame them.



SECOND SEMINAR

The East Asian Economic Miracle and the Case of Taiwan

- ❖ **Topic:** The East Asian Economic Miracle and the Case of Taiwan
- ❖ **Speaker:** Larry Tseng, Head of Taipei Representative Office in Bratislava
- ❖ **Date:** 26 October 2017, 17:30

The seminar dealt with the economic development Taiwan, including the historical and political issues such as the civil war and the ROC's de facto separation from the Mainland and its democratic transformation; and the economic development from the Dutch Occupation to the Japanese Colonial Period. The speaker concluded by describing Taiwan's current economic performance and global ranking and spoke about some of Taiwan's future challenges.

Western Europe became the dominant global economic force after the Industrial Revolution and that was the time when China fell from this position. In the second half of the 20th century, the world saw the Japanese miraculous development. Japan was the first to develop economically in the region and was followed in the second wave by the four Asian Tigers (South Korea, Taiwan, Hong Kong, Singapore). Another wave with Asian countries such as Malaysia, Thailand and Indonesia followed the suit even later on. What made this "miraculous" development in Asia possible when also other developing countries in Latin America and Africa were trying to develop, but did not succeed? The answer can be divided into six main points:

1. a successful agriculture and land reform (including the stable ownership structure);
2. infrastructure building (roads, bridges, railways, education systems, legal systems);
3. education support;
4. macroeconomic stability (low inflation, environment for formation of capital, available credits with affordable interest

rates, undistorted market prices, business friendly incentives);

5. opening up to the world and export (started with agriculture, then industrialization, and at last technology);
6. climbing the technology ladder.

Taiwan Political Development

The Republic of China (ROC) was founded in 1912 by Dr. Sun Yat-sen. After the civil war, the ROC government relocated in 1949 to the island of Taiwan and the Communist Party declared the establishment of the People's Republic of China. On 20 May 1949, martial law was declared on Taiwan and continued to be in force until 1987, when the ROC started its political transformation towards democracy. In 1971, the ROC lost its seat in the UN. In 1978, the U.S. severed official diplomatic relations with the ROC. In 1987, the ban on organizing political party was lifted. Today, there are 313 registered political parties. In 1996, Taiwan held its first direct presidential election and followed every four years since then. In 2016, the Taiwanese elected their first female president Dr. Tsai Ing-wen (Democratic Progressive Party). In 2000, the first political

power transfer took place between the two major parties and up to now, there have been three of them. Today, Taiwan encompasses 36,000 square kilometers and is the home to 23 million inhabitants. According to the American Freedom House, it is one of the freest countries in the world and ranks second in press freedom in Asia.

Taiwan Economic Development

The Dutch as well as the Spanish formally colonized Taiwan in the 17th century as an outpost to trade with China and Japan. Export items included buckskin, venison, dried fish and sugar. During the Cheng (Koxinga) period (1663-1683), the main trade partners were Japanese, English and others, excluding China and Holland. Export items included sugar, buckskin, silk products and herbal medicines. What followed is the Qing dynasty government (1683-1895). However, from 1683 to 1760 Taiwan was virtually under an autarky system, and from 1760-1860 Taiwan traded exclusively with China. Taiwan exported rice, sugar, jute, rattan, camphor wood to China and imported cotton fabric, cloth, paper, porcelain, wine and agriculture equipment. Taiwan was reintroduced to international trade after 1860 also due to British activities there.

The modernization of the Taiwanese economy and society came under the Japanese Colonial period after 1895, and massive industrialization started during that time with the help of resources imported from Japan, China and Southeast Asia. Major agricultural products included rice, sugar, tea and tinder. During that period, roads, drainage, irrigation and power structures were constructed; farmer associations were established; and experimental stations for agriculture research were created. By the early 1950s, thanks to primary education, 60% of the population was literate.

The Land Reforms after 1951 were crucial in Taiwan's development. Farming land rent was

reduced by 37,5% and over 139,000 hectares of public land was released and sold to farmers.

More than 280,000 farming households benefited from this policy. Another important factor in Taiwan's developments was the American Aid. It was the main external aid, which had three very positive manifestations: budget support, lending/donations for the "19-Point Economic and Financial Reform Program", and the establishment of the Joint Commission on Rural Reconstruction, as well as farmers' associations. During this period Taiwan has received 14.8 billion USD economic aid and tens of billion dollars of military aid.

Starting in the 1950s, six Four-Year Economic Develop Plans (1953-1976) have been developed. From the 1950s up to early 1960s the Import Substitution Policy had been promoted, which developed agriculture productivity and helped create domestic industries. From the 1960s to the 1970s, an Export Orientation Policy had been promoted to encourage small and medium enterprise investments and develop value-added industries. During this time, primary heavy industries and Export Processing Zones were created (1966 Kaohsiung Export Processing Zone, 1968 Nanzih Export Processing Zone, 1971 Taichung Export Processing Zone).

In the 1970s, there were ten Major Construction Projects: North-South Freeway (National Highway No. 1), Electrification of Western Line Railway, North-Link Line Railway, Chiang Kai-shek International Airport, Taichung Port, Su-ao Port, Kaohsiung Shipyard of China Shipbuilding Corporation, China Steel Corporation, Kaohsiung Refinery CPC Corporation, Jinshan Nuclear Power Plant.

Taiwan's GDP per capita rose from 153 USD in 1951 to 22,530 USD in 2016. The total GDP in 2016 was, based in IMF, 529 billion USD. The country ranks 18th largest on export and import

and is overall the 26th largest economy in the world.

Although cross-strait relations are complicated, there have been several semi-official negotiations between both sides of the Taiwan straits and there are several agreements in place now. While in 2001 the major trade partner of Taiwan was the U.S., since 2015, China has taken its place. Not only investments and trade between the two sides rose, there are also more flights (890 flights per week in

2015) and visitors (3.5 million Mainland visitors in Taiwan in 2015). Since 40% of Taiwan trade relies on China, people are encouraged to invest also elsewhere to diversify Taiwan's economy. The New Southbound policy (2016) promotes cooperation with 16 other nations in Southeast Asia. 140 billion USD will be allocated from 2018-2021 into this forward-looking infrastructure program. Future challenges for Taiwan's economic development include the lack of free trade agreements, low wages and brain drain.

DISCUSSION:

1. Can you, please mention major investments between Taiwan and Slovakia? There are four major Taiwanese investments in Slovakia: Delta Electronics in Trenčín produces supplies for hospitals; Foxconn, which bought Sony in Nitra 10 years ago and continues to produce LCDs; AU Optronics, which originally planned to invest 2,000 million and wants to produce spare parts for cars and TVs; and another Taiwanese company which also specializes in spare car parts.

2. How many countries recognize Taiwan as a separate state? Is there a larger group of Taiwanese citizens, who believe Taiwan is part of Mainland China? 21 countries recognize ROC, in Europe it is only Vatican, other countries are in South Pacific and Latin America. In Taiwan, approximately 10% of the population wants to reunite with the Mainland, 80% want to stay separate, 10% wants to declare formally independence.

3. What is the biggest Taiwanese achievement in any area in the 20th-21st century? Most importantly, it is the political transformation, democracy, human rights, and thanks to this also a successful economic development.

4. Since there is a lack of free trade agreements and other problems stemming from the complicated cross-strait relations, what kind of domestic reforms is Taiwan currently undergoing to improve international competitiveness and its economic position? It has many elements. The government is trying to govern the trade. It is difficult to decide which industry needs to be focused on more at the moment – Taiwan went from agriculture to technology and was lucky that the government made many right decisions, which helped it to become one of the four Tigers of Asia.



THIRD SEMINAR

How to make business in and with East Asia?

- ❖ **Topic:** How to make business in and with East Asia?
- ❖ **Speaker:** Mgr. Tomáš Murgaš, Regional Director for Asian Markets, Photoneo
- ❖ **Date:** 15 November 2017, 17:30

The seminar dealt with business culture in Asian countries and was very practical. The speaker spoke about his experience in China and other countries of East Asia. He explained some of the obstacles to doing business in the countries with different cultural values and gave recommendations.

Asia is the world's most populated part of the world. If you decide to do business and sell your product for 10 cents to everybody in Slovakia, you will get 500 000 EUR. If you use this business model in China, you will get 130 Million EUR. Generally, the potential in such a market is huge when compared to Slovakia or even the EU.

Asian countries have great strength, both inside and outside, and they tend to regulate their business. China has a rather aggressive policy regulating import duties and introducing regulations. It is difficult to find a political counter-balance that would force it to change these rules. A good example is the Slovak company Rajo: they wanted to expand to China but failed to persuade them politically to change China's regulation to allow them to import their products.

The EU has relatively similar values between various countries, but this does not apply in Asia where the differences between countries are much bigger. For example values in Japan are very different than in China, the Philippines, etc. Each country has its own history, language, religion and culture, which you have to take into consideration. Obviously, in a Muslim country you will not sell alcohol or pork products. One

Czechoslovak micro-financing company, when it was deciding where to go, they took various factors into consideration. For example religion: if people have similar values, it is easier for the company to succeed. That is why they decided to go to the Philippines - it is a catholic country, which made the company feel culturally closer. Eventually they succeeded in their business, perhaps as part of this affinity.

Southeast Asian countries are fast developing markets. The countries get richer and their inhabitants expect a higher living standard in future. This, however, means that many people have non-realistic expectations when it comes to their salaries and it is hard to find hard-working people as workers for a company.

Money can be a problem since you need capital for the start of every business. Getting it into the country is no problem, however, moving money out can sometimes be tough. When a country protects its capital flow, bureaucratic procedures and different financial systems will make your life difficult.

There are big differences also when it comes to paying culture within Asia and with Europe. In China nobody carries cash these days, everybody uses Wechat Pay, an application

connected to your bank account. Taxis, dinners, or even street food can all be paid by simply scanning the QR code by the application. China also uses Alipay as a payment system from Alibaba. They have their own bankcards, different from the European ones. Another extreme is Myanmar where everything works based on cash. Only 8% of the population owns a bank account. The money has little value and if you buy expensive goods, you will need a bag full of cash. In Cambodia you will have to use American dollars for most business transactions, although that is not their legal currency.

Financial literacy in some countries is very low and people do not know how to deal with money. If your business model depends on that, you will not succeed. For example, the Czech slevomat.cz wanted to expand with its business model to Myanmar, but did not succeed because it is not possible to pay by card there.

Another obstacle can be the Internet. It is important to check the Internet situation beforehand. For example in China Facebook, YouTube or Google do not work without a VPN connection. China has its own equivalents, such as Wechat, Taobao or Baidu where most people are active.

Transportation: you need to plan ahead and be realistic. Meetings can be a problem, because people are sometimes not able to get from one side of the city to the other on time. Business development can take much longer than expected. Yet, once it starts moving the process can be very dynamic.

Accommodation: the price is generally lower than in Europe (except for Japan, Singapore and major Chinese cities), although it depends a lot on the standards as well. Some hotels in China do not accept foreigners.

It is important to choose well the province where you want to do business and think ahead about the labor force and possibilities in the province. For example in Shanghai, the quality labor is expensive. In Hubei Province, as well as many other provinces in China, the regional governments are trying to attract investments and supports trade, which may mean that you can receive some interesting support.

Many Chinese speak a limited English and in any case appreciate if you speak Chinese with them. Also you have to be careful with the mentality. A Chinese person will not want to show you that he or she does not know something. During a job interview he or she will not do everything in order not to lose face.

Prices have been rising in China recently. A Big Mac costs 28 RMB while a coffee Latte 34 RMB. Local food and drinks are much cheaper than imported foreign goods.

Business culture varies from country to country, although in general you should get ready for rather formal dealings according to status and hierarchy. If you get a gift at a business meeting, do not open it right away. Clocks and watches are a big no when you want to give gift to your business partner. Also do not discuss politics.

Guanxi is a Chinese concept of friends for benefits. A Chinese business partner will want to meet you and build a relationship before moving on to real business.

DISCUSSION:

1. It is a *faux pas* if we cannot recognize Chinese from Japanese or Koreans. Are there any tricks? After some time it is possible to recognize people not only according to their features but also their style and clothing, but overall we should not be worried too much about this.

2. Many people think they will go to China and earn millions, but the opposite is true. What are the most common problems or misconceptions? If you want to succeed in China, you have to be patient. You will not see any rewards within a few months. HomeCredit had to invest during 8 years in China before they earned in their ninth year a huge amount of money. The worst is if you implement things as you would in Europe; the market there is very different.

3. Could you give us a regional overview of the business perspective? Where can our firms succeed? Many companies are currently moving their factories from China to Vietnam. Singapore is also an attractive business destination, but the market there is limited. On the other hand, their business thinking is similar to ours. It really depends - you have to know well your product.

4. Most foreign companies successful in China deal with sophisticated technologies. Did it ever happen to you, that the Chinese stole your technology? Everybody thinks that in China, they will steal your technology. It is not true that it is not enforceable by law. Surprisingly, most such law cases are in China. There are specialized courts that deal with such issues. On the other hand, our product is thus far not copyable, my colleagues did their job well. It depends on the product and precaution is always a good thing.



FOURTH SEMINAR

Political and Economic Relations between Central and Eastern Europe and East Asia

- ❖ **Topic:** Political and Economic Relations between Central and Eastern Europe and East Asia
- ❖ **Speaker:** Václav Kopecký, Analyst of the Association for International Affairs, and external lecturer at the Institute of International Studies at the Faculty of Social Sciences, Charles University
- ❖ **Date:** 21 November 2017, 17:30

The seminar dealt with the current relations of the V4 countries with countries of East Asia. China is a newcomer in the region; countries like South Korea or Japan have been active for a long time. The speaker explained how do relations with these countries evolve and what are their prospects for the future.

The V4 is in East Asia considered an interesting region within the EU: it has 60 million inhabitants, a relatively cheap labor force of relatively good quality, access to other European markets, and membership in the EU. There has been a high investment activity in three waves: Japan, South Korea, Taiwan, and now China, but also a relatively small presence of V4 states in the Asian markets. Currently, there is a growing interest in hi-tech import. Collaboration has long been seen as apolitical and politically there have been good relationships, but in the future this may be complicated.

Japan has the longest presence in the V4 region - first via ODA (still visible in the countries of Eastern Europe and the Balkans), then as FDI. There has been an institutional cooperation with V4 since 2004. In 2006, Foreign Minister Taro Aso spoke about the "Arc of Freedom" - democratization and the free market in Central Europe, a region prosperous with Japan. All V4 states have negative trade balances with Japan and Japan is an important investor (for the Czech

Republic 2nd largest - about 5 billion EUR in investments, the third largest in Poland) - mainly the automotive industry and electronics. There has been a renewed interest in the region - noticeable in Slovakia, less so in the Czech Republic.

South Korea belongs (after Japan) to the second wave of interest in the region (but in Poland already since the 1990s). The relationship is regulated by the EU's Free Trade Agreement (2015). South Korea has a similar economic model as Japan being well linked to global value chains. There are occasionally political issues - the Czech Republic provides information on North Korea through its diplomatic representation there. South Korea is interested in the experience with economic transformation for an eventual change of the regime in the DPRK. In 2012, the Eurasian Railroad project has been proposed to link the EU and Korea - now uncertainty due to China's initiatives and the new leadership in Seoul. South Korea is an important investor in Slovakia and the Czech Republic.

The 16+1 Platform of China and Central and Eastern Europe was founded in Warsaw in 2012. It includes EU countries, but also outside the EU; Moldova, Ukraine and Belarus are not members. Its Secretariat is at the Chinese Ministry of Foreign Affairs. There are annual meetings of Heads of State and Ministers. The project focuses on infrastructural projects, trade facilitation and cultural exchange. At the moment, it is a bit in the background due to OBOR and it serves as a facilitator of broader OBOR agenda.

The OBOR Initiative was introduced in 2013. It has an infinite concept and currently includes 60+ countries. It is perceived in the EU more positively than the 16+1 Platform, but with certain reservations. It plays a key role in bilateral relations between the V4 countries and China. V4 states expect from OBOR more Chinese investments (infrastructure - Hungary; the financial sector and transport - the Czech Republic; logistics - Poland; Slovakia did not participate so actively), access to the Chinese market, joint projects in third countries (mainly the Czech Republic), funds for student exchange, research, education, and an increasing tourism sector. Potential risks include too much emphasis on one state, security risks and propaganda, impact on relations with the EU and Western states, lack of knowledge of the Chinese environment and China as such.

Hungary is probably the most China-active country in the region and recently elevated its relations with China to the level of 'comprehensive strategic partnership'. Well known is the project Railway Budapest-Belgrade (formerly to be finished in 2017 but not started yet and under EC investigation). China wants to provide a long-term loan, but the conditions are unknown. This project is in line with Chinese goals of connecting the port in Piraeus with Central Europe. It does not have so many benefits for Hungary (estimated that project costs will return in 2 400 years). Hungary is home to the Central

and Eastern European Countries' Tourism Coordination Center (TCC). It has not joined AIIB. Local companies do not have so many opportunities to participate in OBOR. Hungary has no explicit China strategy.

Poland is a strategic partner of China and as the only one of the V4 countries joined AIIB. Poland has defined four pillars in dealing with China – bilateral relations, cooperation between regions and authorities, cooperation within the 16+1 and within China-EU framework. A Memorandum of Understanding on OBOR was signed in November 2015 although the country has bad experiences with Chinese infrastructural projects in the past. There is a train connection from Warsaw to Suzhou and Lodz to Chengdu/Xiamen. The Polish are actively lobbying for better infrastructure and business opportunities (e.g. Lodz's representation in Chengdu). There are many plans for logistics projects – e.g. Multinational logistic hub in Lodz and industrial-technological parks. Poland is trying to become the 'Gate to Europe'.

China has the lowest presence in Slovakia from all V4 countries and also in Slovakia, China is generally not taken as a priority, although it may currently changing. Recently a deal on steelworks acquired from Americans is being discussed. There has been an interesting change – in the 1990s, there was a very friendly approach towards China in Slovakia, later Slovakia showed its cold shoulder, and now it is slowly turning to China again.

The Czech Republic is a Strategic Partner and currently probably the most pro-Chinese country in the EU, it made a huge U-turn in foreign policy in last 3-5 years. The foreign policy is shaped by several factors, as well as interest groups (big companies, such as Škoda and PPF; ideological change with the new government and Minister of Foreign Affairs as well as President Zeman). The role of CEFC, which so far constitutes the majority

of financial transactions with no clear business logic, is questionable. President Xi Jinping came to the country as the first in Central Europe (prominent role in President's inner circle). There have been talks about 200 to 300 billion CZK (7.4 to 11.1 billion EUR) of

incoming investments (or rather money flows) but the majority of it is far away from coming into existence. There are high expectations and huge political investments, but so far low returns.

DISCUSSION:

1. CEFC came to this region, but there has been little investment so far. Does it make any sense to attract Chinese investment? In the Czech Republic, China wants namely quality things such as research centers. The Czech example is very specific, since the government was pushing for cooperation. What the Czechs want is a better access to the Chinese market, but the companies that would actually be able to compete on the Chinese market are very few. My recommendation for Slovakia and other states in the region is that it makes no sense to push cooperation with Chinese at any cost, since there are always certain risks. On the other hand, even an acquisition can bear its fruits in a few years.

2. I want to ask regarding the Chinese investment into U.S. Steel in Kosice. Some say the Chinese are going to acquire the company, some say they are not. Do you have more details on this? I do not have the answer. Chinese companies are very active in this regard and have already acquired a steel company in Serbia. If the deal in Slovakia goes through or not, is hard to say.

3. How do you see the concept of the Chinese threat - China is slowly creeping onto our markets and invests in strategic areas and thus slowly creates a dependence on Chinese investment. Is such a fear real or do current activities simply belong under China's „soft power“? This is a very good question and a highly discussed one in the Czech Republic. I think that the Chinese threat in the V4 region is minimal; we are not dependent on China. That goes also for exports, not only investments. A problem would occur if China owned a substantial part of the existing infrastructure.

4. Our politicians often criticize human rights in China, and they speak a lot about President Kiska's meeting with the Dalai Lama. Do such events have any impact on Slovak-Chinese economic relations? From a long-term perspective I would say no. There is usually a short impact. The key question is whether these countries have something that China wants. It is interesting to look at examples from Western Europe, such as Finland or Netherlands where they have a certain human rights agenda when dealing with China. The Netherlands, for example, supports in China sexual minorities and activists. In our countries it is a little different and a meeting with Dalai Lama has more of a symbolic meaning. It angers the Chinese, but does not have any real impact on economic relations.

5. Regarding the trains and the OBOR Initiative - isn't there a danger that we already have a high volume of import from China and with this new initiative it will further increase? Certainly this is a legitimate question. However, politicians do not discuss this question and rather work with expectations - more opportunities for exporting machinery and parts, but most probably it will not be so.

6. China thinks ahead, makes plans for many years into the future. In Slovakia we plan for a maximum of four years. Can you, please comment on this? China's planning is a bit overrated, because people who do not have any experience with China think Chinese are great planners. The truth is that they are great at improvising. The long-term plan often helps, but it is the improvisation that at the end of the day gets things done.



ROUND-TABLE DISCUSSION

Slovak-Chinese Relations: Strategy and Media Coverage

- ❖ **Topic:** Slovak-Chinese Relations: Strategy and Media coverage
- ❖ **Speaker:** Kristína Kironská (Institute of Asian Studies), Matej Šimalčík (Institute of Asian Studies) and invited guests
- ❖ **Date:** 6 December 2017, 16:00 - 18:30

In this expert round-table discussion about current relations between Slovakia and China, after a short presentation of research results of the Institute of Asian Studies, people from various ministries, academic institutions, and the business sector discussed how Slovakia should approach China. The round-table discussion was attended by various experts: Dana Meager (State Secretary, Ministry of Finance), Martin Slobodník (Comenius University), Dušan Marušák (Ministry of Transport), Peter Hrapko (Ministry of Transport), Michal Géci (businessman, Slovak Research and Development), Tomáš Murgaš (businessman, Photoneo), Kamil Boroš (analyst, X-Trade Brokers), Pavol Marušinec (Ministry of Transport), Dušan Novotny (Ministry of Economy), Drahomír Štos (Ministry of Foreign Affairs). Richard Turcsányi from the Institute of Asian Studies was the moderator of this event.

The Slovak media discourse of China predominantly focuses on topics relating to the Chinese economy and economic policy. They not only dominate the discussion, but in case of essential events influencing the Chinese economy they also drive the growth in media coverage volume. Political topics, including the bilateral Sino-Slovak relations, receive comparatively less attention by Slovak media. A domination of a single topic cluster in the media discourse contributes to the skewing of the public debate, which in turn lacks key questions on Slovakia's bilateral relations with China. To illustrate, over the course of seven years, bilateral Slovak-Chinese ties received less attention in Slovak media than Chinese banking sector. It can be seen positively that the Slovak media discourse (unlike the Czech one) is not overly polarized. Even though the share of negative articles is higher than that of the positive articles, the discourse is clearly dominated by neutral pieces. Only the tabloids differ in this regard, but their share on the overall volume

of all articles discussing either Chinese economy or Chinese politics is less than 2.5 percent of the total volume.

Although Slovakia was among the first countries to sign the memorandum with China the OBOR initiative in 2015, the involvement of Slovakia in the initiative has been minimal until now. As a comparison, its three partners in the so-called Visegrad Group (V4) have been much further in developing relations with China. However, there seem to be changes taking place in 2017 in Slovakia when it comes to its relations with China. In April, the country's government approved a 37-page long 'Strategy of Development Economic Relations with China for 2017-2010' and at the moment an even longer 'Action plan' of this strategy is under negotiation and soon to be approved. At the same time, Slovakia might soon receive some significant Chinese investments. We have invited specialists on China and OBOR to

discuss the initiative and opportunities for Slovakia in this regard.

Dana Meager

State Secretary, Ministry of Finance

Economic corridors are opening up and diplomatic relations are important, because they connect us with other, for us unknown, regions. For Slovaks, China is very far and unknown, and that is why the media do not write so much about this country.

OBOR is not only about transit corridors but also about economic corridors, where investments are interconnected and flow both directions. This makes these countries more visible and has the ability to attract, for example, more tourists. In Prague, in the past you could hear the Russian language, now it is Chinese.

OBOR and China are both important for Slovakia. It is a geopolitically important project for us. In the radius of 2,000 km from Slovakia, we can serve 600 million people - potential customers.

The sea route from China to Europe takes 45 days. The train from Dalian to Slovakia takes now 16 days. We have the potential to become an important player in the OBOR initiative. We have competitors, Poland and Hungary, but we have the fastest route - about 9,700 km, and once the electronic locks are in operation in trains, the journey could be managed in 8 days.

Unfortunately, in the 16+1 platform, there is a rivalry instead of cooperation between the countries. It would be better to work together and coordinate. After all, we are all in a global economic world.

Dušan Novotný

Ministry of Economy

The Ministry of Economy has coordinated the drafting of the two strategic documents on developing economic relations with China, but also other ministries and institutes have worked on it. We are hopeful that the second document, the Action Plan, will be approved by the end of the year.

According to statistics, China has 4 trillion USD in foreign reserves, and these have to be placed somewhere. China does not want to keep these reserves only in USD and thus offers them up for investment abroad.

The Czech Republic is paying more attention to the OBOR Initiative than Slovakia. An example of that is the China Investment Forum that has met already four times in Prague. Nevertheless, Slovakia will definitely profit from OBOR.

Peter Hrapko

Ministry of Transport

There are several railway corridors between China and Europe, however, the main ones are China-Russia, China-Mongolia-Russia, China-Kazakhstan-Russia; and from Russia through Belarus to Poland, or through Ukraine to Slovakia and further on to Western Europe. There is also a route that bypasses Russia; this one is the least known one: Kazakhstan-Caspian Sea-Azerbaijan-Georgia-Black Sea-Bulgaria/Romania. This route has not yet been tested, but it is prepared. An alternative is turning from Azerbaijan to Turkey and through Istanbul to Europe. This route has already been tested and was successful.

In 2016, there were 1881 trains from China. In 2017, we expect 2500-3000 trains (in July it was 1800). The plan for 2020 is 5000 trains. In 2014 and 2015, trains passed 50/50 through Poland and Slovakia. In August 2015, a regular train started running once-twice a week from Yingkou (China) to Dobrá (Slovakia). Then problems started in Ukraine

and the train was redirected through Belarus to Poland. If we do not make any promotion in China, China will forget about us.

Dušan Marušák

Ministry of Transport

Last week, there was a meeting of the 16+1 platform in Sarajevo. Slovakia is, unfortunately, with its activities in this initiative the second last. The first, most active, is Bosnia. What we can export, under the OBOR initiative, is tourism.

Peter Hrapko

Ministry of Transport

OBOR could help Slovakia export to the Chinese market. But let's not forget, in China, there is a 100% customs duty on foreign cars. In 2014, China for us was only Dalai Lama and Tibet. With the OBOR initiative we started establishing business relations.

Last year in Chengdu at a railway conference, a five-year plan was introduced promising 10,000 km of new railways in China. They managed to build them in three years and thus increased the plan by another 5,000 km. Chinese take a long time to discuss things, but when they decide, they do it quickly.

Tomáš Murgaš

businessman, Photoneo

It is true that we, business people, besides introducing our product have to explain every time where we are from. The Czechs do not have this problem. If there were a business hub in Slovakia, I would not have to explain where I come from. For us, business people, it would be a great starting point.

Michal Géci

businessman, Slovak Research and Development

China knows it cannot follow the model of the Asian Tigers and is forced to spend money on already existing patents. There is an increased interest from the Chinese side and that is an opportunity for us. But we have to understand what they are looking for and not just simply offer what we are best at.

Drahomír Štos

Ministry of Foreign Affairs

The countries of the EU and OECD take 90% of our exports. The biggest companies that export are VW, Samsung, Kia, and Železiarne Podbrezová; for these companies we do economic diplomacy. At the ministry we have only about 50 registered companies that are interested in exporting to China.

As for agricultural production, only 1% is for export; that will not make a big difference in China. Moreover, we are trying to get agricultural product export through the 16+1 platform. Also, it is important to note that, for example the dairy factory in Hriňová does not want to be dependent on one buyer - and China wants huge amounts - they would be producing 30-40% only for them.

I don't agree with the argument that Chinese do not know about us. We have huge Korean, Japanese and Taiwanese investments in Slovakia; they were also able to find us. Nonetheless, we welcome OBOR - for better connectivity between Europe and Asia.

Kamil Boroš

analyst, X-Trade Brokers

Many people think China is export-oriented, but it is not entirely true. In 2016, it exported 19,6% of its GDP, while Slovakia 94%. In general, countries far away from each other, such as Slovakia and the U.S. for example, do not trade a lot, and a new railway will not help. I see the potential in IT products and services.

Martin Slobodník
professor, Comenius University

In my opinion, the state and the ministries are opening doors for imaginary economic opportunities. Just look at the trains going back to China - they are only 50% full. Moreover, Chinese economic and political rules are unacceptable. A quickly attained target of 10,000 km of railways only means there has been no public discussion in China (such as this one). China is a difficult partner and a very different one. It would be better to focus on more compatible countries such as Korea, Taiwan or Japan. Let's keep the fingers crossed for the business sector; there

it makes sense to cooperate and engage with china. Yet, to deal with OBOR on a governmental level means only building castles in the air.

Pavol Marušinec
Ministry of Transport

Thus far we had air transport and transport by sea. The first one is the most expensive one and suitable for goods with a high added value. The latter is the cheapest and suitable for goods with the lowest added value. The middle segment was until now missing and this is where the new train connection makes business sense.







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