

REPORT

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# HOW TO PROTECT THE CZECH ECONOMY FROM FOREIGN PREDATORS AND MALIGN INFLUENCE



EUROPEAN VALUES

*Protecting Freedom*



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## EUROPEAN VALUES CENTER FOR SECURITY POLICY

European Values Center for Security Policy is a non-governmental, non-partisan institute defending freedom and sovereignty. We protect liberal democracy, the rule of law, and the transatlantic alliance of the Czech Republic. We help defend Europe especially from the malign influences of Russia, China, and Islamic extremists.

We envision a free, safe, and prosperous Czechia within a vibrant Central Europe that is an integral part of the transatlantic community and is based on a firm alliance with the USA.

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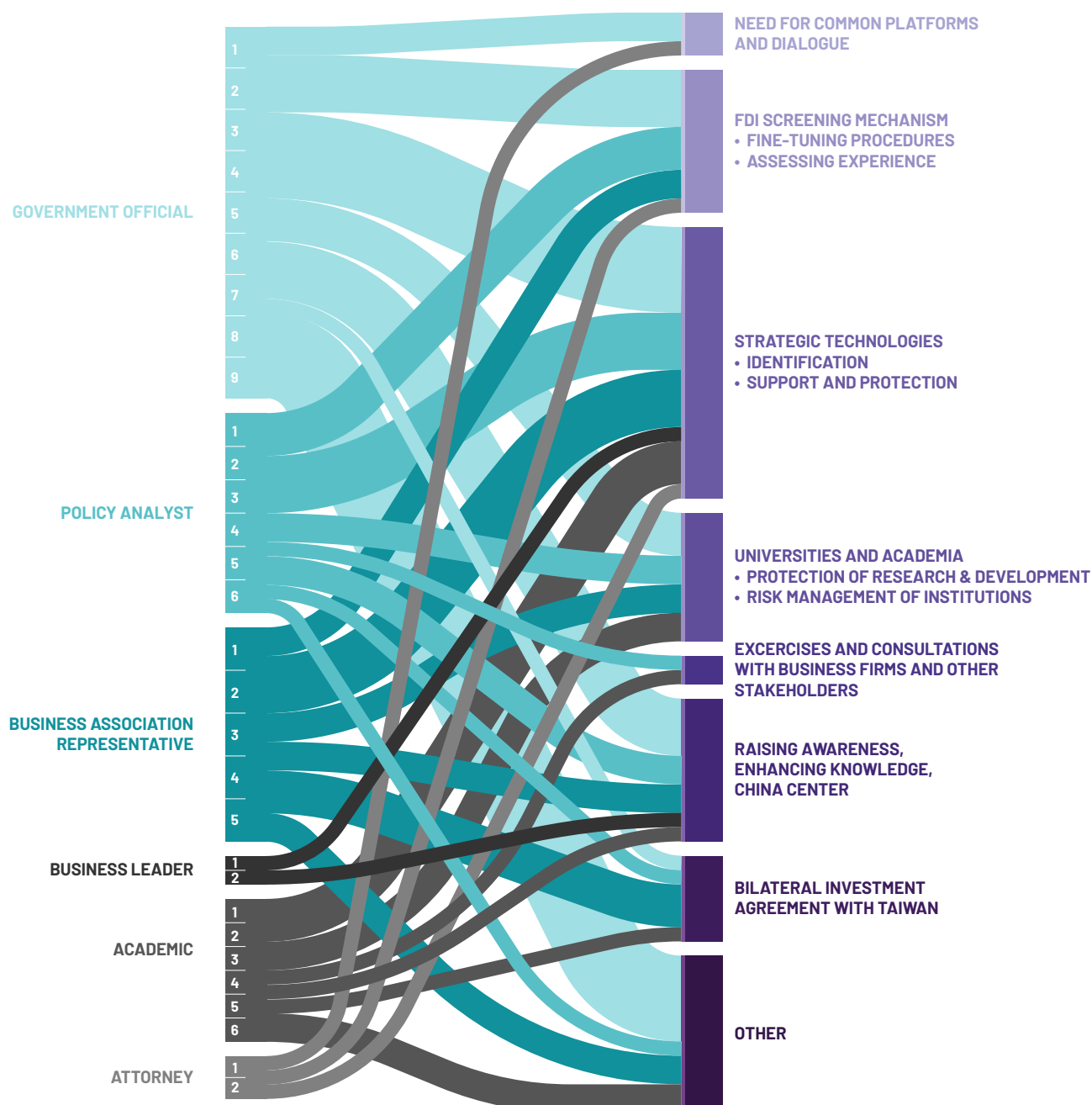
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## EXECUTIVE SUMMARY

- Over the last decade Chinese economic malign influence, interference, and coercion have grown globally. The accompanying corrosive capital has sown its seeds in the Czech economy.
- Understanding the People's Republic of China's (PRC) key objectives and tools of economic influence is key for designing a correct and effective policy response.
- During the summer of 2021, the European Values Center for Security Policy (EVC) identified and interviewed 30 Czech and international stakeholders with expertise in business development, China's foreign policy, and national security.
- The interviewees included private sector leaders; business association representatives; attorneys; government officials from the Czech Ministries of Foreign Affairs, Defense, and Industry and Trade; scholars; and national security experts.
- Based on the findings of these interviews and the supporting open-source research, the EVC formulated a comprehensive set of potential countermeasures that can and should be adopted by the Czech Republic or advocated for by the Czech Republic in the EU. These measures are intended to help protect businesses, university research, and technologies.
- The EVC has determined four priority issues that need to be tackled first and foremost:
  - 1) **Fine-tuning the Czech Republic's foreign investment screening mechanism.** The passage of the 2020 Czech foreign investment screening law is an important but only initial step in safeguarding the security of the Czech state, economy, and infrastructure. Significant work remains in implementing it and in engaging the private sector in the screening and implementation process. Greater business community involvement should entail the fine-tuning of the mechanism's procedure and its monitoring; an assessment of regional actors' experiences; and measures intended to build confidence between business and government actors via a closed platform for consultations and the sharing of lessons learned from other countries and known cases.
  - 2) **Protecting strategic, dual-use, and emerging and disruptive technologies (EDT).** Policies need be developed based on the identification of strategic technologies, followed by a vulnerabilities assessment, and then formulating the means whereby the state can support and protect these technologies in concert with the business community. To build consensus, a closed-door discussion should be held among business leaders, state agencies, and national security experts on what constitutes strategic technologies. This discussion needs to be linked to the ongoing policy debates on regulating the export of EDT and dual-use technology.
  - 3) **Protecting universities and research institutions from foreign predatory practices.** A trustworthy, informal platform within which government, academic, and business community stakeholders can communicate knowledge and experience regarding the modus operandi of malign foreign actors targeting universities and research. Such a platform may conduct analyses of other malign interventions in foreign academia, as well as provide a forum for stakeholder discussion. Additionally, a manual for safeguarding universities against foreign interference should be created.
  - 4) **Enhancing economic cooperation with Taiwan.** Steps toward enhancement may include a possible future EU–Taiwan bilateral investment agreement, building on like-mindedness, lively economic relations, and favorable political momentum and also guided by pragmatic reasons such as helping diversify and safeguard the supply of strategic technologies.

## CONCEPTUAL DIAGRAM: WHAT THE INTERVIEWED STAKEHOLDERS SEE AS THE MOST URGENT MEASURES TO BE TAKEN



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## INTRODUCTION

In recent years, malign foreign actors have been engaging in numerous predatory practices in their overt and covert dealings with businesses globally. Corrosive capital is the currency in which authoritarian states trade. From cyber-warfare and intellectual property theft to economic coercion, these malign actors have shown their prowess by pursuing any means necessary to expand market shares and political influence. Europe's industry has been a prime target. Hundreds of millions of euros have been lost by European firms whose business dealings—and the norms around them—have been upended by the growing anti-democratic nexus between illicit business and authoritarian governments. In some sectors, there has been both a loss of property and significant detriments to national security.

European businesses and governments have only recently begun to contemplate and implement new mechanisms designed to withstand these malign economic influences. In the EU, for example, a new framework for screening of foreign investments was introduced in 2020. Within this framework, member states gradually adopt such mechanisms or adapt their existing national laws and regulations to safeguard against corrosive capital inflow to sensitive industries, especially capital from foreign state-controlled or state-influenced investors that ultimately threatens national security or public order and disrupts the sound functioning of the economy. Such a mechanism has been in force in the Czech Republic since spring 2021. Other measures are currently being discussed at the national and EU levels.

Introducing investment screening mechanisms is now accelerating in light of the PRC's increasingly hostile foreign and economic policies. Amid trade disputes and concerns about the PRC's militaristic posture in its backyard, its coercive economic expansionism, and its gross human rights violations, the EU has labeled the PRC a strategic rival (European Commission 2019). This classification marked a significant paradigm shift from the long-lasting optimistic era in which the EU hoped for beneficial interaction and engagement.

Around this time, the Czech Republic faced hostile and coercive acts carried out by the PRC government and nongovernmental Chinese actors. Of particular note were Beijing's vociferous protests over a visit by the speaker of the Czech Senate to Taiwan and over the mayor of Prague's policy toward sister city agreements with Beijing and Shanghai. In response, the Chinese Communist Party (CCP) leadership threatened political-economic retaliation against Czech business and nonprofit entities. Simultaneously, Czech businesses are struggling in China's adverse business environment, where regulations hamper foreign access to their markets. This is further exacerbated by the domestic risk of cyber-attacks and industrial espionage emanating from China. Research and innovation processes at Czech research and academic institutions are now prime targets.

In response, the European Values Center for Security Policy (EVC) embarked on an initiative whereby it identifies, assesses and categorizes the tools of economic influence that the PRC and its proxies deploy against their rivals. The EVC's efforts focus especially on manifestations of such influence and interference in the Czech Republic that target domestic companies and thwart national economic interests.

To identify protective measures the EVC conducted a series of semi-structured interviews with 30 relevant stakeholders, including business leaders and entrepreneurs with experience dealing with China; business association representatives; attorneys from leading law firms; government officials from the Czech Ministries of Foreign Affairs, Defense, and Industry and Trade; academics; policy analysts; and security experts, as well as counterparts from Germany, France, the United Kingdom (UK) and the United States (US). These stakeholders described the malign economic influences they see manifesting in their spheres of activity. They further gave their perspectives on potential countermeasures to be taken in response.

Based on these consultations and supporting open-source research, the EVC has formulated broad policy options for countermeasures that could and should be adopted in the Czech Republic or be advocated for

by the Czech Republic in international fora, mainly the EU. These measures are intended to help protect businesses, university research, and technologies. Based on the stakeholders' inputs, the EVC has determined priority areas that should be tackled first and foremost.

For a correct reading of this text, it must be noted that the involvement of private actors in advancing the CCP's agenda may not be constant, assiduous or otherwise absolute. Some private actors in the PRC may act independently without the knowledge or consent of the CCP (e.g., oligarchs seeking individual favors or companies launching cyber-attacks to gain a competitive advantage). Therefore, the party-state's capacity to control all processes and actors within the PRC should not be overestimated.

Nonetheless, the totalitarian nature of the CCP's political system coupled with the hybrid model of the Chinese economy implies that all processes at various levels are interconnected with the state's power. Overall, the CCP has the ability to use private companies for state purposes (e.g., to coerce, obtain information, exert pressure on, or simply destroy any company under its authority), be it a Chinese one or a foreign investor operating in the PRC. For example, the government in Beijing can use CCP members employed by a Western company operating in the PRC to perform specific tasks such as corporate espionage or sabotage. Alternatively, it can establish a CCP-member cell within a foreign company's corporate hierarchy and directly assign it tasks. Therefore, efforts to make decisive distinctions between public and private are challenging at best and extend beyond this paper's scope.<sup>1</sup>

## PRC OBJECTIVES AND TOOLS OF ECONOMIC INFLUENCE

### PRC Objectives

The tools of economic influence that the PRC uses in the economic domain are inseparable from the objectives of the party-state.

Distinguished scholars and policy makers are building consensus around the idea that the PRC has a grand comprehensive strategy for building its hegemony, while abandoning the idea that the CCP's exclusive goal is to stay in power.<sup>2</sup> Several authors have recently addressed this topic, including Pottinger (Pottinger 2021), Doshi (Doshi 2021), Tobin (Tobin 2020), and Mattis (Mattis and Carson 2019). These authors argue that the PRC / CCP seeks to

- build a great, strong, rich, and culturally advanced nation abounding in glory (Mattis 2021);
- achieve the comprehensive unification of China, on the political, territorial, economic, social, and cultural levels (Mattis 2021);
- displace America within the global and Asian regional order through three sequential "strategies of displacement" pursued at the military, political, and economic levels (Doshi 2021);
- reshape global institutions, norms, and the rules of the modern international system (Richardson 2020); and
- ultimately undermine or replace universal values as the core principles of the international order

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<sup>1</sup> Please note that this report uses the collective terms *PRC* and *PRC entities* to refer not only to various actors that are primarily of a state or public nature, but also to quasi-private entities. This is due to the fact that the boundaries between individual and private and public and state activities are very blurred in the PRC. Also, the PRC government itself struggles with this distinction, as it, for instance, punishes foreign private companies for independent decisions made by the government and political leaders of their respective countries.

<sup>2</sup> Or simply to make "a world safe for autocracy" (Tobin 2020).

(Doshi 2021), and in its place found a China-centric global order (Tobin 2020) that might represent a governance model that is not merely authoritarian,<sup>3</sup> but “neo-totalitarian” (Pottinger 2021).

Within the economic domain, this strategy involves undermining the economic and financial hegemony of the US and EU and replacing both powers, becoming the global leader in advanced manufacturing and emerging technologies. As a result, the CCP aims to field a world-class military capable of operating on a global scale (Doshi 2021). To this end, the CCP has called on China’s private sector to engage.

When this economic strategy is taken into account together with the PRC’s *modus operandi*, it follows that the PRC uses economic leverage to advance the CCP’s political objectives worldwide (Pottinger 2021).

## **PRC Tools of Economic Influence**

### **Acquisition**

The PRC primarily expands its politico-economic influence through acquiring Western strategic infrastructure nodes, critical natural resources and raw materials, and means of production, as well as media and financial assets. These acquisitions can be characterized as follows:

- 1) Strategic acquisitions. The targets are technology, the energy sector, media, and financial institutions.
- 2) Predatory acquisitions. The targets are small and medium enterprises, many of which are vulnerable due to the COVID-19 pandemic.
- 3) Influence acquisitions. The targets are other types of companies and assets, or new structures are founded, in order to establish a politico-economic presence for conducting influence operations.<sup>4</sup>

PRC acquisitions occur through the following:

- 1) Investments and purchases by “private” Chinese companies often directly or indirectly linked to the CCP or the People’s Liberation Army (PLA).
- 2) Purchases via sovereign funds and state-owned companies.
- 3) The mobilization of PRC diplomats and private citizens for the purchase of critical goods.<sup>5</sup>
- 4) The purchase and financing of Western debt.<sup>6</sup>

### **Dumping**

The (economic) dumping of production that exceeds domestic demand in the PRC, through government subsidies or interest-free loans, is a common and long-standing practice.<sup>7</sup> Social dumping is also practiced; it consists in significantly reduced standards of working conditions and the use of forced labor.

### **Theft**

Chinese businesses routinely steal trade secrets, intellectual property, and proprietary manufacturing processes. They do so through industrial and economic espionage. The same goals (especially collecting technological know-how) can also be achieved legally through acquisitions or deceitfully through joint research and

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3 Since the order abroad is often a reflection of the order at home, China’s order-building would be distinctly illiberal relative to the current US order-building (Doshi 2021).

4 E.g., the China Energy Fund Committee (CEFC) structures in the Czech Republic.

5 E.g., PRC citizens and diplomats purchased medical supplies en masse during the COVID-19 pandemic across the world, including in the Czech Republic, in order to ship them to the PRC (Kundra 2020). There was later a critical shortage of these medical supplies in the Czech Republic, and the Ministry of Health attempted to buy them in the PRC, at prices often several times higher than the usual pre-crisis costs (Valášek 2020).

6 The PRC holds approximately \$1 trillion in US treasury bonds (Brettel and Pierog 2021).

7 A recent example of economic dumping in the EU was the construction of the Piljesac bridge in Croatia (Pejič 2021).

university projects. The open nature of the Western academic ecosystem allows United Front<sup>8</sup> organizations to deceitfully infiltrate and exploit others' accomplishments.

### **Personal Data Capture**

PRC state actors and private firms maliciously and often illegally harvest and transfer personal data—including foreign individuals' biometric data and DNA. This is a relatively new concern that correlates with recent technological advances in the PRC. Motives range from fortifying Chinese artificial intelligence (AI) and machine learning capacities to those more sinister, such as developing cutting-edge biological weapons.<sup>9</sup> Concern about purloining confidential data became pronounced around the world with the PRC's 2017 legislation. While the National Security Law demand that all Chinese citizens collaborate with intelligence agencies when requested, the National Intelligence Law effectively gives Beijing authority to order Chinese companies to carry out espionage for national security purposes (Burton 2020). Therefore, companies like Huawei or Xiaomi could be compelled to hand over data to the Chinese party-state.

### **Debt Servicing**

Cases of "debt trap diplomacy" are common worldwide. The PRC leverages its financial institutions and sovereign wealth resources to provide other countries' governments with loans seemingly too advantageous to be rejected, only to turn them into means of financial coercion toward political ends. In sum, this is predatory lending. When a country finds itself unable to repay in currency, it ultimately cedes part of its sovereignty and/or territory or transfers strategic assets to PRC authorities.<sup>10</sup>

### **Corruption, Malign Finance and Market Distortion**

Corruption and covert financing are other classical elements in the PRC's toolkit. There have been cases of

- 1) illegal financial flows or in-kind support (e.g., corruption – bribery, money laundering); and
- 2) illegitimate financial flows or in-kind support (e.g., sinecures, cultivation trips, caviar diplomacy).

A common PRC practice across all domains is using proxy entities and straw persons to obscure ownership structures and consequently circumvent transparency regimes and screening mechanisms.

In recent decades, PRC companies became accustomed to obtaining funding for their development and operations in Western capital markets. There are numerous problems associated with this activity. For example, Chinese companies financed through Western investors' money - including retail investors' money (households and small businesses) - may well be linked to the PLA, nuclear armament research, human rights abuses, the militarization of the South China Sea, or the construction of the surveillance state, among other things. Another set of problems lies in due diligence, corporate governance, disclosure, financial engineering (e.g., listing PRC companies through tax-haven entities), regulatory fillings, which ultimately make these PRC entities listed on the Western stock exchanges a high financial risk to investors.

The PRC also unscrupulously manipulates its currency's value through its monetary and exchange rate policy, as is illustrated by the long-term dispute with the US over the renminbi's value. Another concern linked to the central bank's balance sheet is the building of a digital currency that is set to become a PRC network instrument of a predatory nature with high risks of personal data harvesting (see above) rather than a pure payment simplification tool.

<sup>8</sup> The United Front Work Department of the Central Committee of the CCP is one of the most important components of the central party apparatus responsible for gathering intelligence on, managing relations with, and attempting to influence elite individuals and organizations inside and outside China, especially in the overseas Chinese community.

<sup>9</sup> For details and sources, please see the Annex.

<sup>10</sup> Montenegro, where the financing of a highway project with a massive Chinese loan has led to financial hardship, is a case in point. As a result, Montenegro may be forced to cede part of its territory to Beijing (Sukheja 2021).

Unfair competition and market distortion caused by PRC actors occur via numerous vehicles:

- 1) state subsidies and other non-market support for PRC exports;
- 2) business models and PRC companies' corporate governance strategies that reflect the goals of the party-state;
- 3) the party-state's promotion of the interests of PRC companies;
- 4) PRC state-owned companies' failure to disclose regarding operations and actual management structures and composition;
- 5) the underestimation of the risks associated with PRC companies and their preferential treatment on Western capital markets (see above); and
- 6) the production of goods intentionally destined for illicit markets.

In recent years many countries have borne the brunt of the PRC's weaponization of trade policy and its firmly protectionist policies. The tools of such aggressive trade policy and economic coercion include tariff barriers, non-tariff and bureaucratic obstacles, and outright restrictions on the transport, tourism, and cultural sectors.

### *Trade Restrictions and Boycotts*

Concerning the latter, in recent years, the PRC government has restricted trade and tourism with Canada, Japan, Mongolia, Norway, the Philippines, South Korea, and other countries in an effort to force changes in these countries' laws and domestic political and judicial processes (Pottinger 2021). The most pronounced case of China's coercive trade policies was its targeted trade embargo against Australia. In April 2020, the Canberra government proposed that the World Health Organization (WHO) investigate the origins of the COVID-19 pandemic around Wuhan. In an effort to quash the proposed inquiry, the PRC responded by restricting imports of Australian beef, barley, wine, coal, and Western rock lobster. In tandem, Beijing released a list of 14 "disputes" that were, in effect, political demands made of the Australian government (Pottinger 2021).

Australia is not the only victim. The CCP has boycotted several Western companies and brands in retaliation for their governments' policies. The most pronounced cases in recent years were state-sanctioned boycotts of H&M and Nike for expressing concerns about forced labor in the PRC. In the case of H&M, the PRC also maneuvered Vietnam (Huang 2021) to join the boycott with a public campaign designed to generate opposition toward the brand. Adidas, Burberry, and Ericsson have also been subject to Beijing's wrath.

Czech businesses are no exception. The PRC has sought to punish several Czech companies and nonprofits due to the Taiwanese government's welcoming of a business delegation accompanying the speaker of the Czech Senate on a visit to Taiwan. The Prague mayor's eventual retraction of sister city agreements with Beijing and Shanghai further provoked the CCP's ire (iRozhlas 2020 a).

### *Domestic Regulation of Foreign Firms*

The almost openly hostile regulatory environment in the PRC is a long-term challenge that Western businesses face when trying to enter and operate on the Chinese market. Such regulations include the following:

- 1) non-tariff restrictions and related regulatory obstacles to PRC market access, including blockage of foreign companies to public procurement opportunities;
- 2) market access based on political conditionality;
- 3) forced mergers with the PRC companies; and
- 4) forced transfers of technology and know-how.

The PRC's non-reciprocity permeates many domains. In the economic sense, it can be encountered in the areas of

- 1) acquisitions;
- 2) investments;
- 3) public procurement;
- 4) biological data transfer;
- 5) access to mineral wealth; and
- 6) academic cooperation.

An illustrative overview of these tools of economic influence, the PRC's objectives behind using them, and examples can be found in a table in the annex to this report.

### **Cases of the PRC's Economic Influence in the Czech Republic**

There are dozens of publicly known cases of the PRC exerting malign influence in the Czech Republic. The cases described below are among the most severe examples in that they had the greatest the economic and political impacts. These cases presented here comprise an illustrative but not comprehensive list of such activities.

#### **PRC Business Proxies**

Several business entities, mostly those founded and coordinated by prominent Czech Social Democrat Party (ČSSD) politicians, serve as proxies, fulfilling a key role by gatekeeping and mediating PRC and Czech business connections on multiple levels. To this end, the China Investment Forum (CIF) was founded by Jaroslav Tvrdík, Czech president Miloš Zeman's adviser and the former minister of defense for ČSSD (Lomová 2020), as a platform for businesspeople and investors from the PRC and the Central Eastern European (CEE) region related to the PRC–CEE initiative 16+1 (Sinopsis 2016). Tvrdík also founded the Czech–China Chamber of Collaboration (Smíšená česko-čínská komora vzájemné spolupráce) together with Jan Birke, the former mayor of the town of Náchod and ČSSD campaign manager. Both Tvrdík and Birke worked for PPF Holding as lobbyists in the PRC (Hála 2019). In 2015, the New Silk Road Institute Prague, whose mission was to promote increasing mutually beneficial cooperation between Asian and European countries, was founded by the former minister of foreign affairs for ČSSD, Jan Kohout. The Czech–China Center (Česko-čínské centrum), which aims to support and develop relations between the Czech Republic and the PRC, was established by lawyer and former deputy minister of the environment for ČSSD Petr Petřílek.

#### **PPF, Home Credit, and a PR Campaign for the PRC**

PPF Holding's Home Credit International's<sup>11</sup> largest market after the Czech Republic is the PRC (PPF 2021). Home Credit is among the biggest non-PRC finance actors in China. In 2014 it was allowed access to the domestic financial market in the PRC and entered the market with great success. In 2019, the company provided loans with a total value of 300 billion CZK (€13 billion) to more than 52 million Chinese citizens; in 2020 the loan value dropped to €7.5 billion primarily due to the COVID-19 pandemic (PPF 2021).

In 2019, investigative journalists at the Czech online daily Aktuálně.cz reported that Home Credit paid a Czech PR agency, C&B Reputation Management, to improve the PRC's media image in the Czech Republic (Horák and Valášek 2019 a). From April to May 2019 C&B charged for 2,000 hours of work. Per the terms of engagement, the agency targeted and monitored ten prominent Czech politicians critical of the PRC's ac-

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11 The former founder and overwhelming majority PPF shareholder, Petr Kellner, died in a helicopter accident while skiing in Alaska in April 2021. PPF Holding is now being run by Ladislav Bartoníček, who is one of PPF's two minority shareholders.

tivities, including Pavel Fischer, chairman of the Senate Committee on Foreign Affairs, Defense, and Security (iRohzlas 2019). C&B further promoted a purportedly independent and expert outfit known as Sinoskop, which was in reality a PR project aimed at improving the PRC's reputation in the Czech Republic (Horák and Valášek 2019 a). Following these revelations, the organization was renamed Asiaskop (Deník N 2020); however, its mission "to balance the polarized debate on China in the Czech Republic" (Sinoskop – Institut pro současnou Čínu, z.s. n.d.) remained the same.

### **CEFC and Prague Castle Connections**

One year after the PPF's successful entrance into the Chinese market, a hitherto unknown Chinese conglomerate, CEFC (China Energy Fund Committee), chose Prague as its headquarters for European activities, establishing its legal presence in the Czech Republic (Sinopsis 2016). Not long after, CEFC's chairman Ye Jianming became an economic adviser to President Zeman, while PPF lobbyist Jaroslav Tvrdík was named the head of CEFC's "European" headquarters in the Czech Republic (Sinopsis 2016). Very soon afterward, CEFC bought the Slavia Praha football club and its home Eden stadium, Travel Service airlines, the Invia.cz travel agency, Pivovary Lobkowicz Group breweries, the engineering and metallurgical company Žďas Žďár nad Sázavou, several prominent real estate properties, and the media conglomerate Médea, as well as shares in several other Czech companies (Hála 2015). CEFC Europe eventually managed Czech assets valued over €1.5 billion (38.34 billion CZK) (ČTK 2018). In 2018, CEFC fell into trouble due to high debt, Ye Jianming disappeared (he was allegedly detained in China over corruption charges), and the company's assets were acquired by CITIC, a PRC state-owned investment company.

### **Protest Letter to Czech Senate Speaker over Planned Taiwan Visit**

In January 2020, a threatening letter was received by the speaker of the Czech Senate, Jaroslav Kubera, one week before his sudden death of a heart attack (Truchlá and Valášek 2020). The letter contained a dense list of the allegedly dire economic implications of Kubera's then planned visit to Taiwan. The letter was found by Kubera's wife following his death, leading to speculation that the stress generated by these threats worsened the Senate president's heart condition (Lulu and Sinopsis 2020). The letter specifically named Czech companies operating in the PRC that would be subject to retaliation in the event that Kubera undertook the planned trip to Taipei. Among those firms were Škoda Auto, piano manufacturer Petrof, and Home Credit (Truchlá and Valášek 2020).

Neither details about the delivery of the letter—composed in unprecedentedly non-diplomatic language—nor the subjects of the two behind closed-door meetings between Kubera and the Chinese ambassador to the Czech Republic, occurring one week before Kubera's death, are known (Truchlá and Valášek 2020). However, a stamp from the Office of the President of the Czech Republic was present on the letter (Truchlá and Valášek 2020), indicating that Zeman's office had been involved.

### **Vystrčil's Delegation to Taiwan**

Kubera's successor, Miloš Vystrčil, followed through with Kubera's intention and decided to travel to Taiwan regardless of PRC threats and potential repercussions (Senate of the Parliament of the Czech Republic 2020). The business delegation visited in August 2020 (ČTK 2020). Afterward, the PRC announced its planned reprisals. According to the news outlet China Daily, all 89 members of the delegation are barred from entry to mainland China, and all 36 companies whose representatives took part in the mission were banned from the PRC market (iRohzlas 2020 b).

Beijing followed through to some extent. The overall performance of the Czech companies on the PRC market was significantly impacted in 2020. However, due to the COVID-19 pandemic and related major restrictions, it is impossible to distinguish what part—if any—of such development was caused by the direct political punishment meted out by PRC authorities. Although the PRC warned that the Czech Senate speaker

Miloš Vystrčil would “pay a heavy price” for making an official trip to Taiwan (Blanchard and Tian 2020), according to the Czech investment support state agency CzechInvest, the PRC’s counteraction had almost no noticeable impact (iRozhlas 2020 c).<sup>12</sup>

### **Collecting Data on Public Figures**

With the publication of the Overseas Key Individuals Database (OKIDB)—also known as the Zhenhua Data Technology leak—it was revealed that a private PRC firm was automatically collecting data on numerous public figures, their relatives, and close associates worldwide. Among the targeted individuals—and their children—were 700 Czech citizens, including the head of the Czech counterintelligence service BIS, Michal Koudelka; Minister of Defense Lubomír Metnar; former Minister of Justice Robert Pelikán; and President Miloš Zeman, as well as tens of diplomats and security officials (Horák and Valášek 2020).

### **Czech Universities and Their “Partnership” with Chinese Counterparts**

To improve its image in academia, the PRC secretly paid a private company owned and run by several academics to organize conferences at Prague’s Charles University with the approval of Rector Tomáš Zima (Valášek and Horák 2019 b). At these conferences, prominent Czech personalities, politicians, scientists, and security experts debated whether the PRC was a threat. The main organizer and moderator of the conferences was the former head of the Czech–Chinese Center of Charles University, Miloš Balabán (Valášek 2021)<sup>13</sup>.

The PRC successfully accessed a wealth of valuable information about Charles University. The same academics paid by the Chinese embassy were receiving millions of Czech crowns from the Ministry of the Interior for security research. One of the research topics was protecting academic institutions from foreign influence. Balabán also taught a subject about the PRC and the benefits of the Belt Road Initiative at the university. The PRC government not only paid the costs associated with holding the course but also paid for a trip to the PRC for selected students. The program was put together in cooperation with PRC government agencies to portray China in the best possible way. Thanks to this, the PRC was also able to identify potential collaborators who might hold important positions later in their careers. For example, one of the graduates subsequently joined the Czech Ministry of Interior (Valášek and Horák 2019 b).

### **Dual-use Export Control Mechanism**

In 2021, several PRC companies attempted to buy specific IT systems produced by the Czech branch of the German company Rohde & Schwarz in Vimperk. These IT systems should have included satellite-communication-monitoring programs that could be used to monitor and repress Chinese citizens. The Czech Ministry of Foreign Affairs considered these technologies “dual-use,” that is, civilian goods and technologies with possible military or security uses that potentially have broad consequences for public safety. Their export was therefore banned by the Czech authorities for suspicion of potential direct misapplication and human rights encroachment (Prchal 2021).

### **Municipalities and Chinese Czech-based Travel Agencies**

The case of several Prague-based travel agencies owned by PRC businesses sheds light on PRC entities’ physical access to the Schengen area. Over the years since 2010, a PRC municipality’s local CCP branch contacted a Czech-based PRC travel agencies whose employees speak Czech, and sent in a list of participants from the PRC with a request for an invitation letter drawn. Municipalities well proven to do the job, such as the towns of Mělník and Český Brod, provided the needed documentation thereby obtaining EU landing cards for Shengen-visa restricted area. Once present in the EU, CCP members are able to travel throughout the EU unmolested. It concerned about 100 delegations and therefore several hundred members of the CCP since 2010 (Zelenka 2021).

<sup>12</sup> E.g., 11 pianos produced by the Czech company Petrof valued at €8 million were rejected by their Chinese buyer.

<sup>13</sup> Balabán is currently the head of ČSSD’s defense committee.

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## POLICY OPTIONS FOR COUNTERMEASURES IN THE CZECH REPUBLIC

Based on the institutional and academic literature and inputs from dozens of relevant stakeholders, this section summarizes what can be done to shield our businesses, academic institutions, and the legitimate economic interests of the state from the PRC's corrosive capital, economic interference, and malign practices described above. Incorporating these policy suggestions into relevant institutions' policies can help improve the response to the PRC's economic ambitions, protect our interests, and promote our values.

Please note that the following policy options are in different states of play, ranging from non-existent (where their general adoption is being proposed) to being discussed at the EU level (with a course of action being recommended) or having been already implemented (with adjustments or fine-tuning being recommended). The following policy options are grouped into seven main areas.

### 1. MEASURES TO PREVENT CORROSIVE CAPITAL FROM PENETRATING THE CZECH ECONOMY

#### 1.1. Foreign Direct Investment Screening Mechanism

The EU framework for screening foreign direct investment (FDI) became operational on October 11, 2020, following the adoption of the FDI Screening Regulation in March 2019. Generally, the FDI screening mechanism aims to safeguard against the inflow of corrosive capital to the sensitive industries, especially capital from foreign state-controlled or state-influenced investors, which will ultimately threaten national security or public order and disrupt the sound functioning of the economy.

Prior to this regulation, the EU had no comprehensive framework for tackling concerns regarding certain non-EU foreign investors seeking to acquire control of or influence in European firms whose activities have repercussions on technologies, infrastructure, inputs, or sensitive information critical for more than one member state or on a project of EU interest, while EU's major trading partners already had such frameworks in place (European Commission Services 2019). In the US, the vetting process of certain transactions involving FDI with national security implications is carried out through the interagency Committee on Foreign Investment (CFIUS), initially established in 1975 to study foreign investments and since 1988 empowered to reject deals. In 2018, the Foreign Investment Risk Review Modernization Act (FIRRMA) modernized and strengthened CFIUS to address national security concerns more effectively, mainly those related to China and technology (Hanke 2021).

Since EU member states retain sovereignty over national security issues, the EU regulation merely established a cooperation mechanism between EU member states and the European Commission to address cross-border impacts, while it remains up to individual states to decide about FDIs or whether they will set up a screening mechanism at all. By the end of September 2021, 18 of the EU's 27 member states had already reformed their existing screening mechanisms or adopted new mechanisms based on the regulation (European Commission 2021 a), including the Czech Republic where the mechanism has been in force since spring 2021.<sup>14</sup>

It is critical to fine-tune these mechanisms for effectiveness and building up strong capacities and good practice based on the lessons learned. To help this process, good cooperation is necessary and best practices should be shared among partner FDI screening offices. It is also important to raise awareness of the mechanism's rationale and operation while building trust among the key stakeholders involved. Building the stakeholders' functional networks is therefore needed, possibly with the help of a common, more or less formal platform. The end goal of dialogue between the state and private sector is for FDI screening be seen and understood by the business community as a legitimate tool used by the government to protect the economy against corrosive capital and foreign predators, while reassuring that the door remains open

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<sup>14</sup> Act No. 34/2021 on screening of foreign direct investments.

to constructive capital. Ideally, the mechanism should be seen as a service through which the state provides domestic companies its opinion on the safety of particular injections of capital. Furthermore, once screened, a foreign company may use the positive result as a certification or guarantee of its clean and sound capital structure and ownership, which in turn may help it access other developed markets in countries that attach considerable importance to the integrity of supply chains, like the US (Ministry of Industry and Trade 2021).

The mechanism's functionality should be subject to ongoing assessment by nongovernmental actors—a parliamentary committee, chambers of commerce, media outlets, or NGOs. For this to be possible, the screening authority (in the case of the Czech Republic, it is the Ministry of Industry and Trade) should issue regular reports on screening operations. However, under the EU regulation, EU member states are only obliged to submit annual reports to the European Commission and not to make them publicly available due to the likely sensitive information they contain. Therefore, publishing only basic data on negative verdicts might be one option, even though such information can be misleading as the problematic investments could have been discouraged in the process (withdrawing its application), or dissuaded from investing at all. This in fact is one of the screening mechanism's implicit purposes. Nonetheless, at least basic data and statistics on the number of cases assessed and respective verdicts would constitute valuable information which the media and NGOs can try to contextualize using available open-source information on corrosive capital inflows. This would serve the purpose of informing the public about the issue of corrosive capital and raising awareness, also within the private sector.

The disclosure of the ultimate beneficial owners (UBOs) is perhaps the greatest challenge in screening FDI. With their identities obscured, the knowledge of a given source of corrosive capital is obscured. Since there are myriad ways to conceal UBOs, specialized legal expertise combined with relevant information access is needed to ultimately discover malign sources of capital. Specialized private companies, be they financial, legal, or audit firms, might have the needed expertise when corporate law and registrations are concerned, and could serve as good partners for the job, if the screening authority wishes to enhance its capacities on revealing UBOs. There are also nonprofit organizations capable of providing instruments that could be of use to companies seeking a certified trademark confirming that a particular company has a proven ownership structure or a disclosed beneficial owner, does not reside in a tax haven, and so forth.<sup>15</sup> Relevant institutions and supervisory agencies, such as a financial intelligence unit (FIU) or a screening authority, or the reporting entities, such as credit institutions, are therefore encouraged to make use of such instruments and specialized companies' expertise as additional to their proceedings.

Furthermore, the related Czech law on UBO registration requires certain amendments. The registry must offer a search function. Moreover, penalties need to be introduced for the submission of incorrect or falsified data, which is currently not the case.<sup>16</sup> In addition, the use of internationally recognized standards for transcribing and transliterating individual languages should be required and enforced, as with transliterations foreign owners deliberately manipulate their names so that they cannot be easily traced. Also, for the sake of transparency, the Czech Broadcasting Council (RRTV) needs to be notified of changes in the ownership of and shareholders' rights in media companies. Currently, the ownership structure of domestic media outlets needs to be declared to the RRTV only at the time of application, leaving the ownership of some Czech media entities undisclosed to the public.

Finally, line ministries should be empowered to initiate FDI screening of specific firms or call on the screening authority to act when a potential investment impacts their sector and state security. Introducing an explicit responsibility to initiate screening proceedings would motivate individual ministries to fully opt-in to the monitoring process. Accordingly, such ministries must build the internal capacity to monitor their sector's engagement with foreign business and finances. An effective monitoring system will keep statistics on natural

15 See, e.g., CERTIFIX, a tool developed by a Czech nonprofit: <https://www.certifix.eu/> (Certifix n.d.).

16 These recommendations are put forward by Transparency International CZ (Transparency International 2021).

resource availability and identify strategic technologies and companies.

To this end, a list of assets critical to Czech national security should be produced from a government-coordinated process with the involvement of the private sector and civil society. Industries and technologies thus identified might then fall into a special regime or categories.

## **1.2. Defining Strategically Important Technologies**

It is crucial for the state to maintain a list of critical, emerging, or otherwise strategically important companies, technologies, know-how, and capacities. Such a list would further include other key assets such as raw materials and various natural resources that go beyond currently regulated and (export-)controlled items such as military equipment, dual-use goods, or certain elements of critical infrastructure.

Many technologies or sectors might be considered critical: AI, robotics, smart grids, cloud computing, quantum computing, sensitive data processing and storage, energy storage, cyber security, semiconductors, aviation, space, nanotechnology, medical research, and biotechnology, among others. Related products and services need be newly defined as strategically important technologies that need to be considered at high risk to national security if compromised. The classification system should allow for sufficient flexibility so that items can be added or removed for defined reasons, in tandem with technological progress. Only on the basis of such a list is it possible for the state to articulate and develop a vision for a technology policy that ensures sectors can grow in a secure environment.

Having been identified as critical, a special regime could then be introduced for targeted technologies in terms of benefits, conditions, and obligations. This regime would aim to increase the resilience and sustainability of critical segments of the economy, while preventing the loss of valuable know-how through various covert and corrupt practices undertaken by foreign actors.

The benefits for industry lie in the state's increased protection, more direct cooperation with the state, and enhanced information exchange. In return, the state holds firms in critical sectors at a higher standard of accountability by requiring transparent ownership structures, the automatic initiation of the FDI screening process in the event of changes in the ownership structure, guidelines on conduct and a supply chain policy,<sup>17</sup> tax domicile and at least partial production in the Czech Republic, verifiable cyber security protocols, and other potential safeguards.

Foreign-directed cyber-warfare tactics and espionage operations are especially challenging. Raising awareness about these risks among critical sector firms and research centers is vital. In particular, smaller companies may underestimate security risks while lacking sufficient resources necessary for effective cybersecurity.

Therefore, the government should reach out to startups and spin-offs as much as possible and be a good partner for this sector in this area. A special ambassador for technology should be appointed at the Ministry of Foreign Affairs with a real apparatus to support their work and mission.<sup>18</sup> Moreover, the Czech Republic's national security would benefit from mandatory cyber security standards for companies active in critical sectors. These standards could be further presented as requirements for doing business with the government in general. Simultaneously, the Czech government should incentivize companies to develop and update their cyber security systems, for example, through tax incentives.

Overall, more direct public–private cooperation is recommended, not only vis-à-vis foreign corrosive capital, but also in crises such as the COVID-19 pandemic. With the aforementioned categorization of critical sector goods and services, a closed-door discussion among business leaders, state agencies, and national security

17 E.g., the introduction of anti-corruption and anti-human-rights-violation obligations for subcontractors within supply chains.

18 Such a position exists in Denmark's Ministry of Foreign Affairs: <https://techamb.um.dk/> (Office of Denmark's Tech Ambassador n.d.).

experts on what constitutes strategic technologies would be beneficial to reach a consensus at least among the most relevant stakeholders. Similar discussions are currently held within NATO and the military and defense community about emerging and disruptive technologies (EDT). As elements of these two policy discussions overlap, it would be beneficial to connect them, in both Prague and Brussels.

On dual-use goods: The export control of dual-use technologies and FDI screening are items on the agenda of a new EU–US platform, the Trade and Technology Council (TTC). This is a unique opportunity to connect on common challenges. The Czech Presidency of the Council of the EU in the second half of 2022 will also be a great opportunity for the Czech Republic to play a proactive role in this area.

## 2. EU RESPONSES TO ECONOMIC PRESSURE AND DISRUPTIVE PRACTICES

Trade policy is the exclusive competence of the EU; accordingly, measures to counter malign FDI are being developed and amended in Brussels. Consequently, the Czech Republic cannot adopt countermeasures on its own but must rather advocate for a particular policy within the EU framework.

### 2.1. Anti-Coercion Instrument

The EU is currently developing an Anti-Coercion Instrument (ACI) for foreign hostile economic and trade policies directed against the EU. This instrument aims to answer malign actions with responsive economic weaponry that dissuades or offsets coercive practices by non-EU countries. Meaningful countermeasures include export and import restrictions on goods (e.g., counter-tariffs) and limits on trade in services, investments, public procurement, and so forth. An ACI would be a more readily applicable alternative to lengthy WTO procedures. At the end of June 2021, the EU's public consultation was completed (European Commission 2021 b); the European Commission is to produce a legislative proposal by the end of 2021.

The Commission intends that the ACI will be consistent with other EU policies and strengthen the internal market; however, the objectives of such an instrument need to be defined more clearly. Besides the objectives, other important aspects such as automaticity, other instrument triggers, and related decision-making processes need to be carefully calibrated. Since the instrument will deal with the security dimension of trade relations, an appropriate voting procedure in the EU Council needs to be established. A situation should be avoided whereby particular member states could seize the ACI and project their parochial interests through it. It is also necessary to mitigate the risk of turning the ACI against like-minded partners and allies, such as the US.<sup>19</sup> On the other hand, requiring unanimity may be too strict and risky since one EU member state with divergent interests—namely, to curry favor with a given government—might bury the triggering of the ACI.<sup>20</sup>

Erecting barriers to trade is typically a lose–lose policy from the classical economic perspective. To avoid unnecessary losses, this instrument must not be misused to introduce tariffs and other trade barriers on a widespread basis. Rather, surgical countermeasures should be applied that hurt the opponent in specifically identified areas while limiting damage to domestic industry (Hackenbroich and Zerka 2021). These countermeasures could come in the form of regulation, investment restrictions, sectoral sanctions, tariffs, public procurement restrictions, intellectual property rights suspension, export controls, and exclusion from EU initiatives.

The creation of an institutional agency to oversee and coordinate an ACI should be considered (e.g., something akin to an “EU OFAC”;<sup>21</sup> see (Hackenbroich and Zerka 2021). This agency may serve as a consensus-building platform providing member states with expertise, monitoring coercive actions against the EU,

19 In fact, this instrument began to be considered in the EU first as a response to the trade dispute with the US (under the Trump administration), with the PRC development following only later.

20 A major concern here is Hungary, the base for Russian and Chinese interests and operations in the EU.

21 OFAC is the US sanctions office at the Department of Commerce.

coordinating options for response, and calibrating surgical countermeasures among member states and different instruments.

Finally, a compensation scheme for European businesses affected by anti-coercion countermeasures should be considered. Although such a scheme may alleviate some of the pressures businesses put on governments pursuing unpopular countermeasures, it must be carefully weighed, for instance, against the risk of moral hazard (businesses feeling insured against the risks of their activities in high-risk and hostile jurisdictions). While state compensation might be a good idea in the academic domain (e.g., government compensation for decoupling costs related to a terminated research project), it should not serve as insurance to businesses against the high risks involved in working with adversarial states or firms based in them.

## **2.2. International Procurement Instrument**

Another emerging EU instrument for tackling adversarial foreign investors is the new International Procurement Instrument (IPI), which demands reciprocity from states participating in EU procurement tenders and improves access to public procurement opportunities beyond the EU's borders. The instrument will permit EU member states to limit or, in extreme cases, exclude non-reciprocating states from EU tenders.<sup>22</sup> The IPI is expected to enter into force in 2022.<sup>23</sup>

Within this instrument, excluding jurisdiction from access to a public contract is an "extreme case" (Council of the European Union 2021 a), however, it seems important for this instrument to have the desired impacts, the exclusion option should be a standard part of the IPI toolkit. Also, the "strict" conditions that allow for IPI exemptions should not be easily circumvented by referring to "public policy needs" or "disproportionate price or cost increases" (as proposed) since thus defined exemptions can be relatively easily achieved.

## **2.3. Trade Disputes: Regulatory Enforcement**

In 2021, the EU amended its rights for the application and enforcement of international trade rules under its Enforcement Regulation which enables the EU to suspend or withdraw concessions or other obligations under international trade agreements in response to breaches by non-EU countries of international trade rules that affect the EU's commercial interests (European Parliament Think Thank 2021). These amendments empowered the EU to impose countermeasures against trade partners who violate those rules and block efforts at dispute settlement (European Parliament Think Thank 2021).

## **2.4. Blocking Statute**

The blocking statute is an EU regulation that aims to protect EU operators from the extra-territorial application of third country laws and sanctions (European Commission 2021 c). In effect, it shields entities within the EU from sanctions imposed by non-EU states by not recognizing the decisions of foreign courts that enforce them.<sup>24</sup>

Within the coordination mechanism for FDI screening the European Commission will consider, among other things, the likelihood that a particular transaction results in the unlawful extra-territorial application of sanctions adopted by any third country to an EU target. For example, the Commission may need to assess, in cooperation with EU member states' national authorities, whether the acquisition of control over an EU target

22 The IPI will not tackle distortions of procurement processes in the internal market arising from foreign subsidies granted to enterprises participating in EU procurement markets (European Commission 2021); these are tackled by the regulation against market disruption.

23 There have been efforts in the EU to implement the IPI since 2012. The first proposal in 2012 did not receive support. The Commission followed up in 2016 with a modified proposal. In June 2021, the "general approach" was agreed upon in the EU Council, and trialogues should follow.

24 In 2018, a delegated act blocked the effects of US sanctions on Iran. In January 2021, the Commission announced the possibility of strengthening the regulation, and in August 2021, it prepared an impact assessment.

company would render it more prone to abide by such extra-territorial sanctions (McCann FitzGerald 2021).

## **2.5. Regulation Against Market Disruption**

EU efforts to regulate distortions caused by foreign subsidies in the EU single market are materializing in a new legislative proposal issued by the Commission in May 2020. The proposed law aims to rectify the distortive effects of certain foreign subsidies in the single market. At present, the Commission has the tools to protect against the imports of subsidized goods; however, it lacks similar instruments for foreign investments, acquisitions, services or tenders.

Under the proposed regulation, the Commission will have the power to investigate financial contributions received from public authorities in a non-EU country that benefit companies engaging in an economic activity in the EU and redress their distortive effects, as relevant. For example, if passed, the proposed legislation would permit the Commission to order the entities concerned divest of certain assets, dissolve a merger, or repay a foreign subsidy with interest. This proposed regulation complements the FDI screening regulation in that it specifically tackles the issue of distortions to the level playing field caused by foreign subsidized investments in the EU internal market, including in strategic industries and critical assets and technologies (European Commission 2021 c).

In the Czech Republic, there is a specific issue with public procurement processes. It is common that procurement contracts go to the lowest bidder, in practice meaning that Chinese firms often win tenders unfairly due to state subsidies, the use of forced labor, and currency manipulation, among other unfair advantages. Although it is possible to construct the tenders with certain security parameters, the reality is that government offices outside of the security sector are not able and are afraid to do so because of the litigation risks (a non-winning company may sue for discrimination). To remedy this, the Czech government should create a working group of security sector stakeholders, with legal counsel, which should be tasked with developing and implementing a training curriculum for state and local officials on how to process tenders with security parameters under the Czech Public Procurement Act.

## **2.6. Expanding Trade Relations with Allies**

The EU should pursue investment and free trade agreements with as wide a network of like-minded partners as possible to strengthen its economic resilience and security. Sector-specific treaties or partnerships are advisable for certain strategic assets like semiconductors and other critical materials or technologies. Key partners in these fields are the US and Taiwan, among others.

Overall, it is critical to ensure the new EU instruments will effectively mitigate efforts at malign economic interventions by states adversarial to transatlantic interests. Liberal democracies—on both sides of the Atlantic and elsewhere—should work together to realize these measures' ultimate potential as well as to prevent their misuse to serve parochial interests. The Czech Republic should help navigate such emerging EU trade regulation and attendant amendment efforts.

# **3. MEASURES TO DIVERSIFY SUPPLY CHAINS**

## **3.1. Economic Vulnerability Audits**

Supply chain diversification of late has become a growing concern in contemporary EU and national fora. Pandemic-borne challenges to global transport coupled with the persistent threat of Beijing using the PRC's manufacturing sector as a means of economic coercion reveal the vulnerability of supply chains on which individual states' security and prosperity depend. Identifying the level of risk with subsequent awareness-raising efforts are crucial first steps.

To this end, the European Commission should assess the following: 1) The potential for supply chain diversification; 2) options for relocating (or re-shoring) production facilities; 3) possible incentives for such relocation (e.g., corporate tax incentives, subsidies), or sanctions; and 4) related investments to affect regional supply chain dispersion.

The Czech government should conduct a national supply chain audit as well as analyze the country's economic exposure to individual non-EU countries on which Czech industry and economy relies. On the basis of this assessment, the Czech government should formulate a feasible yet expeditious supply chain diversification strategy that will cut out risky and unreliable states.

The private sector's role is acute. Businesses should be encouraged to invest in data, technologies, human research, and communication to help them create an agile and geographically diversified supply sources that can quickly replace unrealized deliveries (Rovný 2021). Chambers of commerce and other business associations can assist by working on appropriate solutions and providing guidance.

### **3.2. EU–Taiwan Trade Relations**

In line with the recommended expansion of trade relations noted above: Taiwan is a like-minded partner country that shares our democratic values and boasts an innovative economy producing a wide spectrum of strategic technologies. Notably, Taiwan is the world leader in chip manufacturing with more than half of the global market share (Lee 2021). The EU economy would be seriously hampered if the microchip supply chain were interrupted or held hostage. With this much at stake, it would behoove the EU to strengthen its trade, investments, and technological partnerships with Taiwan.

The total amount of bilateral trade between the EU and Taiwan reached €51 billion in 2019 with Taiwan being the EU's fifth largest trading partner in Asia (European Parliament - Committee on Foreign Affairs 2021). However, no comprehensive bilateral economic agreement between the EU and Taiwan exists. Current calls for a bilateral investment agreement with Taiwan—such as those contained in the European Parliament's recent Foreign Affairs Committee report adopted in September 2021 (European Parliament 2021)—should be amplified together with the commencement of the due process: assessing impacts and public consultation.

The Czech presidency of the EU in 2022 presents the government in Prague with the opportunity to facilitate greater economic ties with Taiwan. Well-established Czech–Taiwanese relations exist on many levels. Taiwan has a significant economic presence in the country. Taiwanese investment in the Czech manufacturing industry totals 5.69 billion CZK, which is roughly 14 times greater than the PRC's investments (iRozhlas 2020 a).<sup>25</sup> The Czech public polls favorably on Taiwan, which maintains good relations with the media and political parties. The Czech Republic is well positioned to seize the political momentum provided by the EU presidency to strengthen Czech–Taiwanese cooperation and promote its benefits and expansion in Brussels. It should aim to lay the groundwork necessary for an EU–Taiwan investment agreement, the first step before concluding any future trade agreement.

### **3.3. Bureau for Industry and Security at the Ministry of Industry and Trade**

The Czech government should establish a unit within the Czech Ministry of Industry and Trade (or an affiliated agency) that would be responsible for promoting national security, foreign policy, and the economic goals of the country at once, inspired by the Bureau of Industry and Security (BIS) of the US Department of Commerce.

Among other things, this agency would be responsible for the economic protection of critical sectors and strategic assets in the Czech Republic. Like its US counterpart, the bureau would be charged with administering entity lists stating which businesses are barred from investing in or trading with firms active in sensitive

<sup>25</sup> Of the Asian countries, only South Korea and Japan have invested more in Czech industry (iRozhlas 2020 a).

sectors. Furthermore, there would be many opportunities for this agency to cooperate, share information, and coordinate with the proposed governmental center dedicated to the full-spectrum monitoring and study of China.

Among other things, this agency would be responsible for the economic protection of critical sectors and strategic assets in the Czech Republic. In cooperation with the National Cyber and Information Security Agency (NÚKIB), the bureau could help reduce the vulnerability of national infrastructure and industry to a variety of threats, such as terrorism, espionage, and sabotage. These two agencies could be responsible, in cooperation with the special ambassador for technology, for creating a dedicated website with security guidance mainly for founders or CEOs of innovative startups to help protect these businesses' technologies, competitive advantage, and reputation, inspired by the UK joint campaign Secure Innovation between the Centre for the Protection of National Infrastructure (CPNI) and the National Cyber Security Centre (NCSC).<sup>26</sup>

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### **3.4. Notification of Purchases of Land and Natural Resources**

State governments should categorize and rank agricultural land assets, natural resources, and sensitive territories based on their strategic significance for national security. The proposed bureau (above) should play a central role in this exercise as the main responsible authority and stock-taking coordinator. One of the agency's outcomes should be a regularly updated tally of domestic resources whose availability is dependent on the listed lands. This data, in turn, would contribute to a sufficiency index that would evaluate and report on the current and future availability of related critical necessities.

To help the stock-taking process, a notification scheme should be introduced for the purchase of land or natural resources by foreign entities that are wholly or partly controlled by a non-EU country's government. Subsequent regulation should allow for the possibility to block risk-inducing purchases.

### **3.5. Measures Covering Raw Materials for Energy and Manufacturing**

Dependence on existing supplies of critical raw materials—particularly those exported from the PRC—must be reduced, through a combination of greater import diversification, the identification of technological alternatives, and the creation of new supply chains.

Domestic sources of critical raw materials, such as lithium, cobalt, nickel, and silicon, should be explored. If feasible means of extraction and processing are found, a dialogue with local communities should be initiated with the aim of mitigating any NIMBY protests<sup>28</sup> that may well derail such a project.

At the same time, a relevant government agency (e.g., the proposed bureau for industry and security) should thoroughly map the current supply chains of critical raw materials as well as of the components needed for producing strategic goods and technologies. Such stock-taking would serve as a basis for a subsequent strat-

26 CPNI – Secure Innovation: <https://www.cpni.gov.uk/secure-innovation> (Centre for the Protection of National Infrastructure n.d.).

27 The US Federal Bureau of Investigation (FBI) has produced several resources for businesses that provide an overview of the risks partners face from China and the steps they can take to protect themselves from counterintelligence threats, including a primer called “China: The Risk to Corporate America” (FBI 2019 a).

28 Acronym for “Not in My Back Yard” that is used to characterize the opposition of residents to a proposed public good development plan in their area.

egy for diversifying the supply chains of these resources and components, ideally in cooperation with partner and allied countries.

Investments in applied methods of material efficiency, recycling, urban mining, and upcycling might perceptibly increase material self-reliance and provide other benefits, be they economic or environmental. Accordingly, via the Technology Agency of the Czech Republic (TAČR), the Czech Science Foundation (GAČR), the Ministry of Industry and Trade, and CzechInvest, the Czech government should allocate significant financial resources to research and development programs that will have substantial measurable impact on and applicability for the private sector. Various forms of non-financial support, such as enhanced information exchange with the state or organizing joint business and academic delegations to partner countries, should be made available by state institutions for private innovation centers, scientists from academia, and companies.

Finally, the Czech government and state R&D institutions should also seek alternative ways to acquire required resources, products, services, functionalities, and technologies. For example, rare earths might potentially be “mined” in alternative ways (e.g., from seawater), while certain synthetic materials might perfectly substitute the classic rare earth elements in several ways. This means that essential new resources might become available in an acceptable time frame.

## **4. MEASURES TO PREVENT ILLEGAL AND ILLEGITIMATE FINANCING**

### **4.1. Transparency and Notification**

EU institutions and national governments would benefit from a transparency and notification system that monitors financial and non-financial support for political parties, media outlets, and NGOs provided by non-EU country government-linked entities. Such a regulation would obligate these entities to disclose information about the nature of their relationship with the state actor. Requested information could include income, activities, and payments related to those activities. The US Foreign Agents Registration Act (FARA) and the Australian Foreign Influence Transparency Scheme (FITS) are good models.

The EU and the Czech government should also modernize public-to-private “revolving door” regulation, setting clear rules for the movement of personnel between state and private employment, with the focus on those employments involving doing business with or in jurisdictions of high risk and with weak measures to combat money laundering and terrorism financing that are identified by the Financial Action Task Force (FATF 2021), or with or in non-cooperative jurisdictions identified by the EU (Council of the European Union 2021 b).

### **4.2. Terminating European Financing of PRC Bad Actors**

The EU should restrict or ban the use of European capital to finance problematic PRC entities and firms lacking compliance and transparency. Of a particular concern are those “bad actors” directly contributing to China’s building and militarizing of illegally claimed islands in the South China Sea, human rights abuses, the construction of the “surveillance state,” and so forth (Kramer and Robinson 2021). From a financial standpoint, the participation of such entities in European stock exchanges threatens serious damage to the value and reputation of the passive and active investment portfolios of European investors (Kramer and Robinson 2021).

Qualified investment advisers would be wise to draw their clients’ attention to the risks associated with investments in PRC entities. These risks include the exposure inherent when investing in politically motivated, state-controlled enterprises and markets; the imposition of sanctions or other restrictions on “doing business”; and the deficiencies of closed markets, such as lack of disclosure, ownership opacity, and poor governance practices.

A good source of inspiration for an appropriate government policy is the US Holding Foreign Companies Accountable Act,<sup>29</sup> yet a definitive delisting of bad actors from European exchanges would probably need to be done by blacklisting them within a sanction regime.

## 5. ECONOMIC MEASURES TARGETING CORRUPTION AND HUMAN RIGHTS VIOLATIONS

### 5.1. Magnitsky Act

The US's Magnitsky Act legally affords a sanctions mechanism that enables targeted actions against people and state and non-state actors that are responsible for, involved in, or associated with serious corruption or human rights violations anywhere in the world. In recent years, several countries adopted similar legislation, including Canada, the UK, and the Baltic states.

Following suit, the EU adopted the Magnitsky Act-inspired EU Global Human Rights Sanctions Regime (EU-GHRSR), which bans violators of fundamental individual rights from entering the EU and prohibits EU citizens from making available to them any funds and economic resources. It further permits the seizure of violators' assets within the EU. While highly valuable, the EUGHRSR—unlike the US law—does not include corruption as a criterion for sanctions despite the European Parliament's requests otherwise (Wahl 2021).

The Czech Republic should adopt its own version of the law in line with the EU's and should explicitly add significantly corrupt practices as grounds for levying sanctions. In tandem, the government in Prague should proactively propose to the EU Council the inclusion of relevant violating entities or individuals on the EU-GHRSR list.

### 5.2. Commitment to Due Diligence

Businesses are the first line of defense when it comes to tackling risks associated with corrosive capital. In an acknowledgment of the broader economic and societal consequences of engaging "bad actors," firms' corporate governance and internal compliance mechanisms should reflect best practices embodying the principles of fairness, transparency, accountability, and responsibility.

Specifically, businesses should integrate responsible business conduct into policies and management systems, in line with European Commission's business guidelines concerning forced labor in their operations and supply chains (European Commission 2021 d), as well as those governing the export of cyber-surveillance technologies.<sup>30</sup> Businesses operating from EU territory would further benefit in applying the OECD Due Diligence Framework. It is important that companies uphold these principles and practices for subcontractors within their supply chains as well, yet proportionality would need to be considered.

The implementation of these and related due diligence practices produces practical benefits for European companies. They allow for their exculpation from criminal charges if particular activity committed by an employee is criminalized or sanctioned in the future.

The Czech government should motivate and support the incorporation of due diligence into policies and management systems. With the direct involvement from chambers of commerce and business associations, the necessary public-private dialogues would ideally lead to consensus on the requisite conditions for doing business with the Czech state while engaging risky foreign actors. Relatedly, the protection of strategic technologies and other critical sectors may demand specific measures whose effectiveness is indeterminable without businesses' candid input.

29 Public Law No: 116-222 (12/18/2020) – Holding Foreign Companies Accountable Act: <https://www.congress.gov/bill/116th-congress/senate-bill/945> (US Congress 2020).

30 The latter is currently under preparatory stages at the European Commission.

## 6. MEASURES TO STRENGTHEN THE KNOWLEDGE AND UNDERSTANDING OF PRC ECONOMIC ACTIVITY ABROAD

As has been shown throughout this report, many recent malign economic activities have originated from PRC entities. Given the PRC's rising economic and political importance and the role it plays in economically influencing other countries and in shaping the global economic order in general, there is an acute need to step up efforts to understand China in its entirety.

Building resilience against malign economic influence requires a thorough analysis of China's objectives and modus operandi across all domains, including the economic one. For example, understanding the PRC and its objectives allows us to 1) understand why a given practice or tool of economic influence is used, since the reason may not be obvious especially from a commercial perspective; 2) be able to assess the legitimacy of using particular tools; and 3) calibrate a functional counterstrategy. Therefore, proper knowledge would allow us to correctly frame an issue that needs to be addressed and derive effective policy implications.

### 6.1. National Center for China

The Czech government should enhance its knowledge of the PRC, both in the past and the present, by creating a National Center for China that will be dedicated to the full-spectrum monitoring and study of China. This center's focus would include Beijing's tools of economic influence deployed abroad. Moreover, the center would be an invaluable resource, providing companies, business associations, universities, and media with accurate and up-to-date information and analysis about the PRC's domestic and international affairs.

The center would be established either within the Office of the Government or at the Ministry of Foreign Affairs (MFA). Wherever it is placed, however, the center would function independently of other bureaus and departments so that it avoids departmentalism and ensures a coordinated all-government approach. Such a horizontal approach allows for cooperation with the NGO sector, in a structured way, and for building an internal network across sectors.<sup>31</sup> The Czech center could be modeled on the National China Center recently established in Sweden.<sup>32</sup>

Alternatively, the Czech government may create an interagency working group. This working group would establish, within ongoing defense research at the Ministry of Defense (MoD) and security research at the Ministry of Interior (Mol), a multi-annual plan to fund China research. The group would be a coordinative body for research teams based in academia or independent research outfits providing reports and analysis of PRC-related issues as prioritized by the group's leadership. Ideally, a government resolution would task the Mol, the MoD, the MFA, the Ministry of Industry and Trade (MIT), the NÚKIB, and intelligence services to set up such a working group.

Another option would be to empower legislators by placing a China center or working group under parliamentary authority and oversight. One good example is the US Congress's US–China Economic and Security Review Commission established in 2000 (US Congress n.d.). This bipartisan commission is mandated to monitor, investigate, and submit to Congress annual reports on the national security implications of bilateral trade and economic relations between the US and the PRC. The commission further provides recommendations, where appropriate, to Congress for legislative and administrative action.

31 The UK government's Russia Unit at the Foreign and Commonwealth Office could serve as a good example of such a team operating across/above individual departments while also engaging NGOs: <https://openinformationpartnership.org/> (Open Information Partnership n.d.).

32 See Nationellt kunskapscentrum för Kina: <https://fokuskina.se/artiklar-i-urval-samhalle-historia-ekonomi-politik/nationellt-kunskapscentrum> (FokusKina n.d.). It is financed through the government with the following budget plan: €390,000 in 2021, €780,000 in 2022 and €1.17 million in 2023, with a corresponding expansion of the center's activities.

## **6.2. Working Group on China within the EEAS StratCom Division**

Until recently, the EU External Action Service's (EEAS) StratCom division employed only two people focusing on Chinese information operations. Currently, three people with knowledge of Chinese language work there, and more are being hired. At the very least, 20 experts with knowledge of Mandarin are needed. Researchers would be focused exclusively on monitoring, collecting, and analyzing information about the PRC, PRC entities, their activities, information operations, and so forth, primarily via open-source intelligence sources as these are underutilized. The Czech Republic should proactively call for such a strengthening of the EEAS working group, using its coming EU presidency to facilitate this process.

## **7. MEASURES TO PROTECT CZECH UNIVERSITIES AND RESEARCH CENTERS**

Due to their openness and collaborative nature, universities in the Czech Republic and elsewhere in Europe are targets of authoritarian governments, particularly China. Through academic partnerships and the PRC's Confucius Institute network, PRC agents steal the intellectual property of others while using their physical presence to promote the CCP's foreign agenda when possible. As a consequence of the former, stolen cutting-edge technologies are adapted and reproduced in substandard quality by PRC firms.

Currently in the Czech Republic, virtually no policies exist to protect academic or research centers' work from foreign theft; those that do exist are insufficient.

### **7.1. Information Campaigns and Public–Private Partnerships**

Universities in cooperation with business associations and relevant state agencies should organize and execute a general information campaign about the nature and extent of PRC malign influence at universities.

Universities and research institutions (both public and private) should hold, in cooperation with the Mol Centre Against Terrorism and Hybrid Threats (CTHH) and intelligence services, a series of mandatory training sessions for their staff and researchers. FAQs and other awareness-raising initiatives and information for researchers and university staff should be published on the websites of individual institutions.

In addition, employees, researchers, and students should regularly receive training about IT security and secure data storage, among other prophylactic basics.

University leaders, together with relevant industry sector heads, should form a private platform where stakeholders can gather to deliberate potential threats, share lessons learned, and be briefed by security authorities about related risks and developments.

### **7.2. Rules of Engagement with Non-EU Universities**

Rules on foreign cooperation and partnerships should be introduced, based on the already existing CTHH manual and the Financial Analytical Office's (FAÚ) guidelines for universities regarding involvement in international research, foreign funding (Ministersvo vnitřa ČR 2021), intangible technology transfers, and international sanction regimes (Finanční analytický úřad 2021).<sup>33</sup>

Control mechanisms should be implemented to ensure compliance with these guidelines. Creating a department or commission for "compliance" should be considered. Such a body would be responsible for regular internal and external checks. Thorough vetting of partner institutions and visiting researchers is likewise necessary and should be subject to this department's or commission's oversight.

Furthermore, intelligence services should issue warnings to academia informing about relevant risks and threats.

<sup>33</sup> The US FBI produced several resources for universities and research institutions that provide an overview of the risks partners face from China and the steps to be taken to protect themselves from counterintelligence threats, including a primer called "China: The Risk to Academia" (FBI 2019 b).

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### 7.3. Protection of Research and Development in Strategic Sectors

State security institutions, mainly the MIT, the Mol, and the MFA, in cooperation with the private sector and with support from the Ministry of Education, should identify key areas of research and development. These identified strategic research sectors would receive greater support (information, grant benefits, support by the relevant ministry) in exchange for compliance with selected commitments.

Universities should be required to conduct a regular internal audit of existing international research cooperation with foreign entities and adjust the cooperation accordingly in cases where a reasonable suspicion arises. Cooperation with state and state-related actors, such as entities with a direct link to the military of an adversarial state, should be prohibited.

The thorough vetting (ideally in cooperation with domestic intelligence agencies) of incoming students from non-EU and non-NATO countries should be instituted, budgetary and other resources permitting.

The management of universities should mandate IT departments to improve protection against cyber espionage, focusing primarily on sensitive information (personal data, biometric data, etc.). Cyber security should be improved with the help of the Czech government and the NÚKIB. The government should increase funding for university cyber security systems, also with the help of EU funds, if available.

A responsible person should be designated at each university/faculty/department to 1) deal with the risks of the illicit transfer of intangible technologies, 2) ensure compliance of the institution with relevant legal acts and international sanctions, and 3) serve as a point of contact for relevant national authorities (FAÚ, Mol, MIT, State Office for Nuclear Safety).

### 7.4. Capacity Building for Independent Research on China

Two existing Confucius Institutes at Czech universities should be closed, and Czech participation in the program permanently terminated. As an alternative, Czech universities should develop and expand Chinese language and cultural studies in cooperation with Taiwanese academic institutions.

### 7.5. Reform of Academic Funding and Grant Conditions

University and research institute budgets should be planned as if no PRC financial inflows, including tuition fees, take place in order to decrease reliance on foreign corruptive financial inflows and avoid budgetary reliance on the PRC.

State scientific research grant agencies (TAČR and GAČR) should conduct mandatory comprehensive national security risk assessments on funding requests submitted by university researchers to avoid transferring important data and technology to the PRC in research partnerships—specifically to its military and security apparatus (Chase and Fife 2021). If the risk of a particular project is considered to be higher by the granting agencies, a national review will be conducted by a commission composed of security agencies and scientists. If such a commission confirms the higher risk assessment, the project shall not receive public funding.<sup>34</sup> In cases where the risk is perceived lower than high, but non-zero, risk-mitigation measures would be required (Chase and Fife 2021). This process should be assisted by national security agencies and be applicable at least for research partnerships involving technology that has both civilian and military value.

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34 Such a system has been recently imposed by the Canadian government on the Natural Sciences and Engineering Research Council (NSERC), with planned expansion to all federal granting councils, in response to the repeated warnings by the Canadian Security Intelligence Service (CSIS) that Canada is being targeted by sophisticated state-sponsored actors attempting to steal information and intelligence from researchers and companies (Chase and Fife 2021).

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## CONCLUSIONS

This report builds on interviews with stakeholders with expertise in business development, China's foreign policy, and national security. They include private sector leaders; business association representatives; attorneys; government officials from the Czech Ministries of Foreign Affairs, Defense, and Industry and Trade; scholars; and national security experts.

The EVC identified, assessed, and categorized the tools of economic influence that the PRC and its proxies deploy against their rivals. The EVC's efforts focus especially on the manifestation of such influence and interference in the Czech Republic that target domestic companies and thwart national economic interests. The interviewed stakeholders described malign means of economic influence they see manifesting in their respective spheres. They further gave their perspectives on potential countermeasures to be taken in response to them.

Based on these consultations and supporting open-source research, the EVC has formulated broad policy options for countermeasures that can and should be adopted within the Czech Republic or be advocated for by the Czech Republic in relevant international fora, mainly the EU. These measures stand to help protect businesses, university research, and technologies. These measures are elaborated in detail in this report in the form of concrete steps to be taken by concrete actors and institutions.

Based on the stakeholders' inputs, the EVC has determined priority areas that should be tackled first and foremost:

- 1) Fine-tuning the Czech Republic's foreign investment screening mechanism;
- 2) Protecting strategic, dual-use, and emerging and disruptive technologies (EDT);
- 3) Protecting universities and research institutions from foreign predatory practices; and
- 4) Enhancing economic cooperation with Taiwan.

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## ANNEX

### PRC Geostrategic Objectives and Tools of Economic Influence

↓ Tools / General objectives →	<p>China's gaining of global economic dominance over the Western world and its ability to strategically blackmail (offensive decoupling)</p> <p>Reducing the PRC's own dependence on the Western world</p> <p>Increasing dependence of the Western world on the PRC</p> <p>Collecting of technological know-how</p> <p><b>Using economic power to achieve political and strategic goals</b></p> <p>Economic (trade, financial, acquisition, technological) policy as a tool of espionage, political influence, control, deterrence, or demonstration of power</p>	Examples
<p><b>Acquisition of Western strategic infrastructure nodes, (critically) important resources and raw materials (critical minerals), production capacities, products, media and financial assets</b></p> <ul style="list-style-type: none"> <li>– investments or purchases by PRC companies</li> <li>– activity of sovereign funds and quasi-private entities with ties to the CCP</li> <li>– mobilization of PRC embassies and citizens to purchase select products</li> <li>– investment in Western debt</li> </ul>	<p>Increasing self-sufficiency; reducing the PRC's own dependence on the Western world; growing dependence of the Western world's trade, ownership, and debt on the PRC; acquiring key assets to increase strategic blackmail; agenda and discourse manipulation.</p>	<p>Ports (e.g., <a href="#">Sri Lanka-Hambantota</a>, <a href="#">Greece-Pireus</a>); energy (e.g., <a href="#">UK-Hinkley Point C</a>); timber, media, and advertising (e.g., <a href="#">PPF-C&amp;B-Sinoskop</a>); agricultural land (e.g., <a href="#">USA-Smithfield Foods</a>); <a href="#">medical supplies during the COVID-19 pandemic</a> (e.g., <a href="#">Czechia</a>); <a href="#">gaming industry</a>, <a href="#">\$1 trillion in US Treasury Bonds</a>.</p>
<p><b>Illegitimate acquisitions</b></p> <ul style="list-style-type: none"> <li>– strategic acquisitions (technology: energy, raw materials, media)</li> <li>– predatory acquisitions (small companies weakened by the COVID-19 crisis)</li> <li>– acquisitions to establish a business and political presence and to conduct influence operations</li> </ul>	<p>Growing dependence of Western trade, ownership, and debt on the PRC; acquiring key assets to increase the capacity for strategic blackmail.</p>	<p><a href="#">Nexperia – Newsport Wafer Fab</a>, <a href="#">CEFC – Florentinum</a>, <a href="#">Slavia Football Club</a>, <a href="#">2nd largest PV power plant in Czechia</a>, <a href="#">global dependence on solar panel production</a>, acquiring mines and quarries in Africa, <a href="#">holding most of the world's rare earth resources</a>, media purchases, etc.</p>
<p><b>Economic and social dumping</b></p> <ul style="list-style-type: none"> <li>– state subsidies, interest-free loans</li> <li>– forced labor</li> </ul>	<p>Market capturing and creating business dependence.</p>	<p>Among others, <a href="#">in solar panel production, tomato production, and the cotton textile industry</a>.</p>
<p><b>Illegal or illegitimate harvesting and transferring of personal data, incl. biometric data and DNA</b></p>	<p>Collecting of technological know-how for building economic and medical (hence military) dominance. Use of data and DNA for the development of biological weapons.</p>	<p>TikTok, <a href="#">BGI Genomics</a>, Huawei, ZTE, <a href="#">digital renminbi</a>, developing <a href="#">bioweapons able to target specific ethnic or racial groups</a>.</p>
<p><b>Provision of disadvantageous loans (predatory lending, debt trap diplomacy)</b></p>	<p>Creating political dependence and acquisitions of strategic assets.</p>	<p><a href="#">Hambantota port (Sri Lanka)</a>, <a href="#">highway in Montenegro</a>, hundreds of millions CZK loan to Agrofert (concern owned by the Czech Prime Minister Babiš) from the Bank of China.</p>

<p><b>Theft of trade secrets, intellectual property, and proprietary manufacturing processes</b></p> <ul style="list-style-type: none"> <li>– corruption, corporate/industrial espionage, cyber-attacks, academic espionage, cultivation and recruitment of Western academics</li> </ul> <p><b>Getting the same but legally</b></p> <ul style="list-style-type: none"> <li>– acquisitions, joint research and university projects, infiltration of universities through United Front organizations</li> <li>– awarding European companies that are long-term contractors of European security forces with contracts to gain information about them and break in naturally</li> </ul>	<p>Integrating civil innovation and research into military development (military-civil fusion).</p> <p>Collecting of technological know-how for building economic (hence military) dominance and reducing the PRC's own technological, communication, and logistical dependence.</p>	<p><a href="#">Nortel, espionage at Western universities</a> (e.g., <a href="#">Czechia</a>), infiltration of academic structures carrying out strategically important research, <a href="#">Newsport Wafer Fab</a>, <a href="#">Thousand Talents Plan connected to fraud, espionage, and intellectual property theft</a>.</p>
<p><b>Corruption, covert financing</b></p> <ul style="list-style-type: none"> <li>– illegal financial flows or in-kind support (illegal corruption: bribery, money laundering)</li> <li>– illegitimate financial flows or in-kind support (sinécures, cultivation trips, caviar diplomacy)</li> <li>– use of proxy entities and white horses, to hide ownership structure and circumvent transparency regimes and screening mechanisms</li> </ul>	<p>Elite/state capture. Financial or non-financial (in-kind) support of all the above objectives.</p>	<p>Covert funding – in Czechia – <a href="#">case Balabán</a>, US – Harvard, <a href="#">Lieber case</a>. Sinécures – in Czechia – ex-PMs Paroubek, Nečas, Sobotka. <a href="#">Vaccines corruption</a>.</p>
<p><b>Use of Western capital markets</b></p>	<p>Financing the PRC's geostrategic objectives, including the development of the military industry, with Western private money. Creating the West's property dependence on the PRC and reducing the West's motivation for economic decoupling.</p>	<p>Presence of PRC companies in Western investment portfolios (including through indices) and pension schemes (e.g., <a href="#">CalPERS</a>, <a href="#">Federal Thrift Retirement System</a>, <a href="#">Railroad Retirement Program</a>).</p>
<p><b>Unfair competition and market distortion</b></p> <ul style="list-style-type: none"> <li>– subsidies, non-market support for PRC exports,</li> <li>– business models and governance of Chinese companies reflecting the goals of the state / CCP, and vice versa - promotion of the interests of Chinese companies by the state,</li> <li>– non-disclosure of information by Chinese state-owned companies on their operation and real management structures,</li> <li>– underestimation of risks associated with the Chinese companies and their preferential treatment on Western capital markets</li> <li>– release of production destined for the black market</li> </ul>	<p>Markets capturing and creating trade and ownership dependence. Promoting the goals of the PRC through the economic activity of Chinese companies. Disruption of the economic model based on the free market, autonomous activity of companies and comparative advantages in international trade.</p>	<p>Huawei – 5G (dumping and state protection/CCP – increasing technological, telecommunications, and logistical dependence), participation in human rights violations (unequal conditions in terms of due diligence).</p> <p><a href="#">CNTC – releasing of cigarettes to the black market (e.g., in South America) as a state-sponsored strategy, non-disclosure of information (unlevel playing field compared to Western companies)</a>.</p>
<p><b>Unfair monetary / exchange rate policy</b></p> <ul style="list-style-type: none"> <li>– currency value manipulation</li> <li>– building CBDC as a network instrument</li> </ul>	<p>PRC export support – conquering markets and creating trade and payment dependency. Strengthening the role of the renminbi as an international (reserve) currency.</p>	<p>Artificial undervaluation of the renminbi in the past and devaluation of the yuan (2015), <a href="#">digital renminbi</a> (DCEP).</p>

<p><b>Weaponization of trade policy and protectionism</b></p> <ul style="list-style-type: none"> <li>– <b>tariff barriers (duties, quotas) – protective, deterrent, enforcement/coercive, retaliatory</b></li> <li>– <b>non-tariff restrictions (bureaucratic procedures, licenses, etc.)</b></li> <li>– <b>outright restrictions on transport, tourism, and cultural activities</b></li> </ul>	<p>Protectionism with the aim to build its own industrial and technological capacities, reducing the PRC's own dependence on the Western world. Political coercion (deterrence, enforcement restrictions - black-mail) and demonstration of force (retaliation).</p>	<p><a href="#">Beijing's economic coercion campaign against Australia for a call to investigate the origin of COVID-19</a>, protectionist initiative "Made in China 2025" or <a href="#">Buy China</a> policy, suspension of negotiations on trade involving Czech civil aircraft by the PRC, canceled direct flights Prague-Beijing and Prague-Shanghai by the PRC, stopping preparations for the fifth direct flight Prague-PRC, <a href="#">cancellation of a tour of the Prague Philharmonic</a> and <a href="#">Czech writers, cancellation of China Investment Forum 2019</a>.</p>
<p><b>Adverse domestic business environment and regulation</b></p> <ul style="list-style-type: none"> <li>– <b>non-tariff restrictions and difficulties to access the PRC market, incl. non-admission of foreign companies to public procurement process</b></li> <li>– <b>political conditionality of economic processes</b></li> <li>– <b>forced mergers with Chinese companies, forced transfers of technology and know-how</b></li> <li>– <b>restriction of business of specific companies, boycotts of selected brands, incl. maneuvering other countries into such boycotts</b></li> <li>– <b>using CCP members employed by a Western company operating in the PRC to perform specific tasks such as corporate espionage or sabotage, or tasking directly the existing CCP cell within the foreign company's corporate hierarchy</b></li> </ul>	<p>Protectionism with the aim to build its own industrial, technological capacities, reducing the PRC's own dependence on the Western world.</p> <p>Political coercion (deterrence, enforcement restrictions – black-mail) and demonstration of force (retaliation).</p> <p>Intelligence gathering.</p>	<p><a href="#">Boycott of H&amp;M and Nike for expressing concerns about forced labor</a>, Burberry, Ericsson, HomeCredit, Adidas, Petrof, <a href="#">manipulation of Vietnam into H&amp;M boycott</a>.</p>
<p><b>Unfair non-reciprocity in many areas</b></p> <ul style="list-style-type: none"> <li>– <b>acquisitions</b></li> <li>– <b>investments</b></li> <li>– <b>public procurement</b></li> <li>– <b>academic cooperation</b></li> <li>– <b>biological data transfer</b></li> <li>– <b>access to mineral wealth</b></li> </ul>	<p>Unilateral gaining of an advantage at the expense of the counterparty (partner or opponent).</p> <p>Protectionism with the aim to build its own industrial, technological, and research capacities, reducing the PRC's own dependence on the Western world.</p>	<p>The PRC is able to buy plum properties around the world (e.g., the Belfast consulate is a listed building, in the Republic of Ireland it owns massive places in the most exclusive part of town called Ballsbridge, and Xinhua bought a posh residence in Killiney, a posh southern seaside suburb), but other countries cannot buy their embassies or residences in China.</p> <p>The PRC practically does not admit foreign companies to public procurement processes.</p> <p>In France, visiting Chinese professors regularly lecture at the military academy, yet the Chinese partner university does not allow French professors to teach there.</p> <p>Preferential access of Chinese companies to the PRC's mineral wealth.</p> <p>The PRC government has clamped down on any <a href="#">access to their biological data or their biological samples</a> while collecting it from all over the world.</p>