Chapter 3.

Economic Integration and Interdependence in the Czech Republic

At the Heart of Europe: The Czech Republic and Economic Integration with the EU

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Introduction

Situated at the heart of Europe, Czechs are fond of noting that Prague is further west than Vienna. This geographic fact has been mirrored in the policies of the post-communist Czech Republic, policies which have had been consistently oriented towards European integration and towards the EU in particular. The results of these policies, enabled by the approach the Czech Republic took at the beginning of its transformation, have been remarkable: since 1989 (the beginning of the transformation) and accelerating since 1993 (the Velvet Divorce with the Slovak Republic), the country has undergone an impressive economic restructuring, embedding itself in regional and global value chains, seeing a constant increase in living standards (Figure 1), and placing itself firmly at the centre of European integration efforts. While the country has suffered setbacks and crises (1998 and 2008 as the major shocks experienced by the Republic), the Czech Republic has benefitted greatly from its move to the west. By any metric, the Czech Republic's transformation from communism to capitalism, and from a Russian dependency to a vibrant market economy at the heart of Europe, has been a success.

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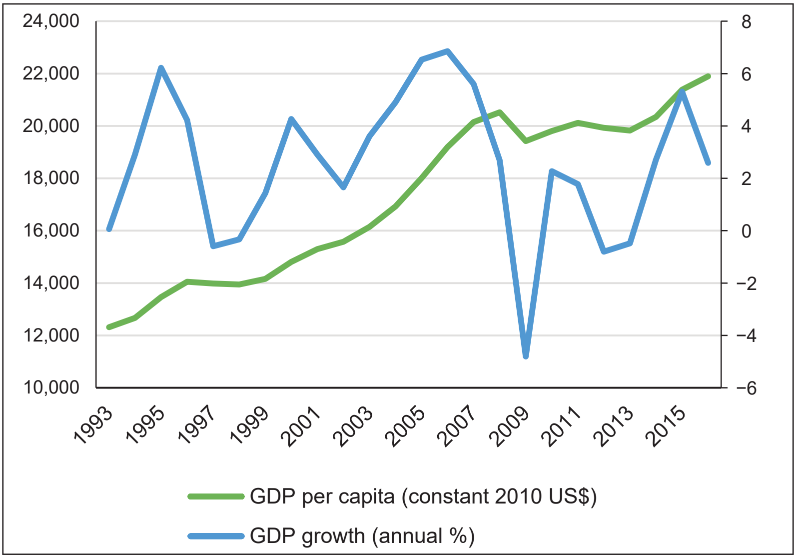

Figure 1.
Growth in the Czech Republic

Source: WB[1] s. a.

The road to this success has not been easy, however, and appears to be more fragile from the vantage point of 2018 than in years past. While the first post-communist governments were able to implement wide-reaching macroeconomic and institutional reforms, the country has remained plagued by some forms of institutional malaise and issues such as corruption and a business environment which should be far easier. Moreover, despite being a champion of European integration, Czechs are also uniformly against adopting the euro and have remained a thorn in the side of France and Germany in their drive to harmonise EU institutions with euro area ones. Also, like their Polish neighbours, a strain of populism has recently emerged in Czech politics, bringing some measure of Euroscepticism and promises by incoming Prime Minister Andrej Babiš for reform of the overall legislative and institutional environment.

[1] WB: The World Bank.

This chapter examines the economic development and integration of the Czech Republic with the EU via an institutional lens, tracing out the changes in major economic and political institutions in the country over 1989–2016 and how they contributed to economic success in the country. In particular, the chapter examines the shifting role of Czech politics, property rights and trade, and how these fundamental economic mechanisms evolved both towards and after EU accession. Additionally, I also show how the process of integration itself has impacted the institutional development of the country, influencing policymakers in favour of some market-supporting institutions and away from others. Using this framework as a basis, I also show the changing nature of investment (both foreign and domestic) in the country, trends in labour and demography, and an overall appraisal of the process of European integration on the Republic in the recent past and for the near future.

The result of this analysis is that the Czech Republic remains at the heart of Europe in many ways, and European integration has aided its post-communist transformation. However, the Czech Republic has remained aloof on some aspects of institutional change and has gone against European trends in others, leaving its economy still needing to overcome periodic bouts of structural inaction to fully reap the benefits of integration. Recent political trends do not bode well for these fundamental economic institutions, as the populist wave in Central and Eastern Europe is, at its heart, inimical to appropriate market-supporting institutional reforms. Succumbing to the siren song of populism may, in turn, harm the country's economic growth in the long run as well as lead to some institutional de-coupling with the European Union. While the Czech Republic remains an economic success story, it appears that the achievements of the past quarter-century are still in many ways not assured, especially with regard to its economic integration with Europe.

The Start of Economic Integration

The transition of then-communist Czechoslovakia into the free-market Czech Republic is one of the better-known and rightly celebrated success stories of the transformation in Central and Eastern Europe. With the fall of communism and the removal of the communist regime in 1989, the Czecho-slovak Federal Republic (CSFR) undertook an ambitious and far-reaching set of reforms to bring the economy from plan to market. This program has been amply documented elsewhere (see especially Svejnar [1995] for a comprehensive early assessment) and need not be revisited here; suffice it to say, authorities in Prague following restrictive fiscal and monetary policies to break the back of inflationary pressures (including the institution of a fixed exchange rate) while undertaking broad structural reforms such as voucher privatisation and a phased elimination of the state's monopoly on foreign trade. (Hanel 1992) By 1992, a nascent economic recovery could be seen as the pace of economic decline slowed, foreign trade began to reorient away from the former Council for Mutual Economic Assistance (CMEA or COMECON) countries, and unemployment started to fall. Across the board, macroeconomic stabilisation resulted in an improvement in economic and social conditions in the country, albeit from a fairly low base (Table 1).

A key tenet of the reforms undertaken by the government of democratically-elected Prime Minister Petr Pithart (and driven heavily, if not exclusively, by Finance Minister Vaclav Klaus) was an explicit focus on achieving European integration, including (but not limited to) membership in the European Union. Relations with the then-EC were incredibly poor in the late communist period, as even the conclusion of a trade agreement in 1988 fell far short of similar agreements with Poland and Hungary; perhaps more obviously, the EC's PHARE program, set up to provide technical assistance to Central and Eastern Europe (CEE) countries transitioning from communism, pointedly excluded the CSFR in 1989. (Hanley 2002) Despite these rocky beginnings, negotiations with the EU began in December 1990 (at the same time as they did between Poland, Hungary and the EU) resulting in the CSFR's inclusion in PHARE and, more importantly, a Europe Agreement in December 1991 (which formed the legal basis and structure for eventual EU accession—a revised Agreement was signed in December 1993 after the break-up of the CSFR). By 1997, the Czech Republic (along with former countrymates Slovakia and fellow transition countries Poland and Hungary) were invited to start negotiations for membership, focused on the steps necessary in each country to ensure compliance with the adoption of the *acquis communautaire.* (Staehr 2011)

Table 1.
Economic and Social Conditions in Czechoslovakia, 1990
(Cross-National Time-Series data set)

Index numbers	1990
GDP per capita, constant US 1990 dollars	3,100
Human Development Index	0.761
Number of cars per 1,000 people	206
Maximum decline in GDP during the transition	–21.10%
Women as % of the labour force	44.30%
Inflation, annual % change	10.80%
Unemployment rate (1991, %)	6.60%
Net FDI (US$ millions)	207

Source: Hardt–Kaufman 1995

To achieve the overarching goal of European integration, a goal supported (after a brief interlude) by all political actors in the country, (Baun et al. 2006) nearly every reform which was undertaken in Czechoslovakia and then the Czech Republic was oriented towards European models and institutions. Starting from the push for macroeconomic stabilisation to the broader structural and political reforms taken in subsequent waves in the country, "the process of institutional alignment with the requirements of the acquis served as a basis for domestic transition in [Central and Eastern European] countries towards a market-based economy". (Kaminski 2001, 7.) However, this did not mean that the EU served as the only vehicle for economic integration, as the Czechs pursued a multi-pronged strategy that involved enmeshing the country in various international organisations such as the OECD and the General Agreement on Tariffs and Trade (GATT) as well as pursuing EU accession. (Hanley 2002) As Haughton (2007, 236) noted, "the key motivation of the trail-blazing marketizers in the early 1990s in CEE such as […] Václav Klaus in Czechoslovakia/Czech Republic […] [was his] ideological beliefs and wish to replicate certain Western economic models, rather than a more specific desire to prepare for membership of the European club".

Regardless of the initial divergence between the Czechs' desire for European integration and the more haphazard approach to EU accession pursued in the 1990s, as EU accession came closer and more chapters of the *acquis* were closed, Czech politicians became more "Europeanised" than they had initially been. (Baun et al. 2006) And from a practical standpoint, there was already a substantial amount of overlap in terms of the institutional structures pursued by Czech authorities as part of their desire to move West. A prominent example was the drive for the development of private property rights in the Czech Republic, moving away from the socialist communal property system to one favouring and protecting individual rights. In 1989, Czechoslovakia had one of the smallest private sectors across transition economies, "employing only about 1.2% of the labour force and producing a negligible fraction of national output". (Kočenda 1999, 6.) Despite not having the same advantages as, say, Poland, (Hartwell 2016) "the Czech authorities have consistently pursued policies to create the market institutions supporting the effectiveness of modern property rights". (Rapaczynski 1996, 100.)

Two major reforms supported this move towards property rights: first, the development of a legal framework and independent judiciary to enforce said rights along EU best practice, and second, the institution of a mass privatisation scheme to remove ownership of state-owned enterprises from the government and transfer it to a decentralised mass of private investors. With regard to the reforms towards property rights, EU accession and the adoption of a rules-based regime such as the *acquis* made a significant difference in enshrining the principle of private property into Czech law. This was complicated in the Czech case (as elsewhere in transition) by the communist takeover of the 1940s, which expropriated private property and put it in service of the state; understanding these historical property rights became both a necessity for protecting rights going forward and creating a viable land administration system sufficient for EU entry. (Bogaerts et al. 2002) This does not mean that the approach was non-controversial: as Appel (1994, 22) wrote: "While the establishment of a liberal economic system constitutes the end goal of Czech privatization, the present government's means of achieving this goal diverge from liberal economic logic and prevailing property rights theories. In addition to economic considerations, moral and political imperatives drive the process of redefining property rights in the Czech Republic. Thus, contrary to dominant theories of property rights, a particular notion of corrective justice not only legitimates new Czech property rights but inspires their creation as well." But with restitution for previous claims a key part of the development of the property rights regime in the country from a political and moral standpoint, the Czech authorities worked hard to balance the possible delays or re-expropriations needed to redress previous injustice with the benefits of creating a rules-based rights regime of EU quality. (Karadjova 2004)

The issue of restitution also became intimately entwined with the second issue, that of privatisation, where sometimes conflicting claims to assets arose. As amply detailed elsewhere, (Brada 1996) the Czech Republic underwent voucher privatisation to sell off state "assets" as quickly as possible. While, in the land sphere, this resulted in some ludicrous results,[2] on the whole, this approach was successful, especially in privatising small and medium-sized businesses. (Brada 1996) Similarly, Gupta et al. (2008) found that the firms which were privatised relatively quickly also ended up being more profitable than those which remained in the government's hands; other firms, which had a "strategic" angle, saw their privatisation delayed, and it took EU intervention and the prospect of delaying accession to finally force privatisation.[3]

Similarly to its economic growth path, the reforms in property rights had a substantial measure of success, especially given the low level of such rights informally pre-transition. As Figure 2 shows, using the International Country Risk Guide's (ICRG) "investment profile" measure (a commonly-used metric for property rights), the country saw constant improvement throughout the 1990s and early 2000s in its perceived protection of these rights, peaking at the highest-ranking available just before accession in 2004. After accession, as we will see, property rights protection did erode somewhat, following a general pattern in Europe after the global financial crisis and (especially) after the Eurozone sovereign debt debacle. (Hartwell 2013) However, even with this erosion, typical of a middle-income country, the Czech Republic had made impressive progress in such a short amount of time. This can also be seen in the share of GDP dedicated to the private sector which, starting from a very low 10% in 1990 (the lowest amongst all transition economies in Central and Eastern Europe), reached 80% by the time of EU accession, equalled only by Slovakia and Estonia. (Estrin et al. 2009)

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[2] Bogaerts et al. (2002) detail how privatisation of some land parcels in Czechoslovakia resulted in each owner receiving the equivalent of a sheet of A4 paper's worth of land.

[3] The steel sector in the Czech Republic was the key sector in which EU intervention was instrumental for privatisation, see Sznajder (2006).

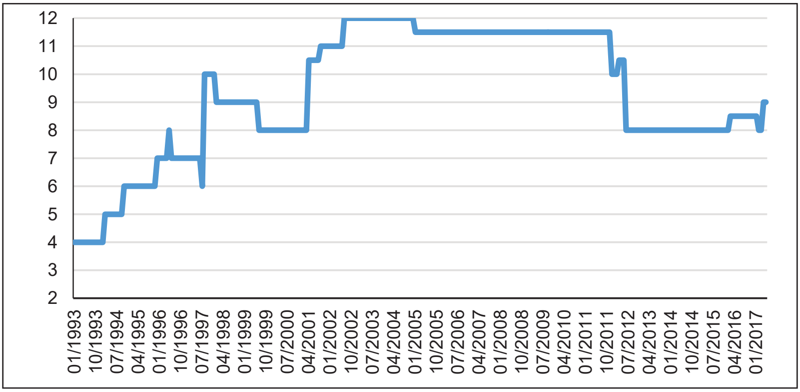

Figure 2.

ICRG Measure of Property Rights in the Czech Republic

Note: The scale is from 0 to 12, with a higher number signifying higher levels of property rights. An index comprised of three sub-components: contract viability, profit repatriation and payment delays.

Source: PRS[4] s. a.

In other institutional arenas, the process of EU accession played a much more explicit role in institutional reform, with the example of the Czech Republic's foreign trade institutions being most relevant. In reality, EU accession helped to pry open the foreign trade regime of then-Czecho-Slovakia in the first instance, allowing it to reorient towards Western Europe and its "natural" trading partners as a second-order effect. As noted above, Czechoslovakia had a much slower liberalisation of its foreign trade regime than either Poland or Hungary, keeping its state monopoly and licensing system for longer. With the signing of the Europe Agreement in 1991, however, a process was put in place for liberalising trade with the EU over a ten-year period, comprising elimination of tariffs and quantitative restrictions but with a more gradual phasing-out of restrictions on "sensitive" industries. (Mastropasqua–Rolli 1994) The EU's insistence on full trade liberalisation helped to disrupt the domestic interests which were dead-set against liberalisation, while the fig leaf of gradualism was enough of a concession to enable the reforms to be carried out successfully. Such an approach was crucial for the Czech Republic, which did not have the same

[4] PRS: The PRS Group, Inc.

"big bang" in trade liberalisation as had occurred in Poland (Hartwell 2016) and, as noted, still had heavy state involvement in the steel sector.

Interdependence and Economic Penetration

The reorientation towards European integration and away from the forced exchange of the CMEA group led not only to a boom in trade and concomitant rise in economic growth, but it also occasioned a massive restructuring of the Czech Republic's economic base.[5] The move towards the CMEA bloc in 1949 had created a major disruption in traditional Czech exports, as the Soviet Union required an "extensive retooling of factories, increased consumption of scarce iron and non-ferrous metals, and recruitment of adolescents, housewives, and farmers into the work force". (Metcalf 1993, 1073) With the removal of planned trade, the Czech economy reverted to its transitional strengths in trade and, more dramatically, to its traditional trade patterns with neighbours, above all Germany (Figure 3).

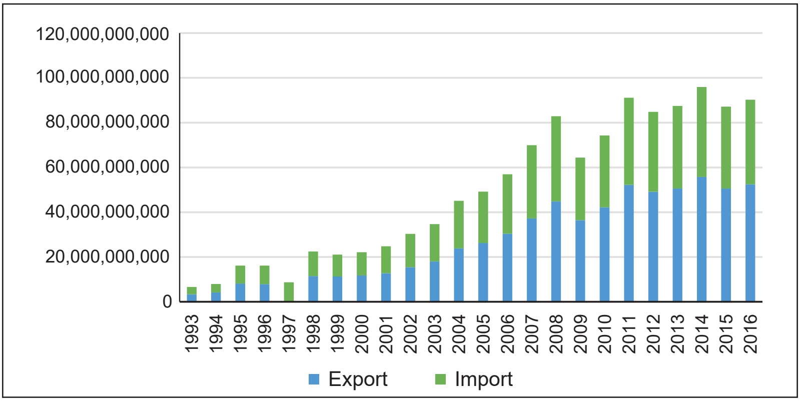

Figure 3.

Value of Czech Trade with Germany (USD), 1993–2016

Note: No data are available for Czech exports to Germany in 1997.

Source: Based on UN Comtrade s. a.

[5] Econometric evidence has also shown that this turn towards openness and especially in the direction of the EU has caused growth in the Czech Republic that was absent during the closed years of late communism. (Awokuse 2007)

Moreover, the pattern of industrial production within the country shifted, as the Czech Republic was now making goods in which it had a comparative advantage for markets that were willing (rather than being told what to do): this has resulted in the motor vehicle industry becoming the reigning champion of Czech exports, ahead of industrial and electrical machinery. More impressively, accession to the EU may have done wonders for the demand for the Czech automotive industry, as, by 2011, manufacturers (predominantly Škoda Auto, with 60% of the Czech car market) were producing double the number of cars they were in the first full year of EU accession (2005). While some have noted that the automotive industry has had little spillover effects in the country, due to the weak position of Czech suppliers *vis à vis* multinational suppliers to the car industry, (Rugraff 2010) other firm-level data has confirmed the importance of foreign companies in the restructuring of the economy of the Czech Republic, including knowledge spillovers. (Kosova 2010)

European integration has also driven a process of convergence in growth and production between the Czech Republic and EU members (in particular with the euro area countries), with cycles (if not necessarily magnitude) becoming more aligned (Figure 4). Indeed, an analysis from the Czech National Bank (2015) notes that only Germany displays a higher correlation with the broader euro area than the Czech Republic, while the country also has some correlation with euro area trends but (as Figure 3 shows) has far outpaced the performance in the EU. This cyclical convergence has been driven mainly by design, as the accession of the country to the EU in 2004 created a natural synchronisation of business cycles, while the Czech flirtation with the euro area and original plans to enter the euro in 2007 (then 2010, then 2012 and now to be determined) meant the country pursued macroeconomic policies designed to meet the Maastricht criteria (although not budget deficits). The intense correlation of activity with Germany has also driven this cyclical convergence.

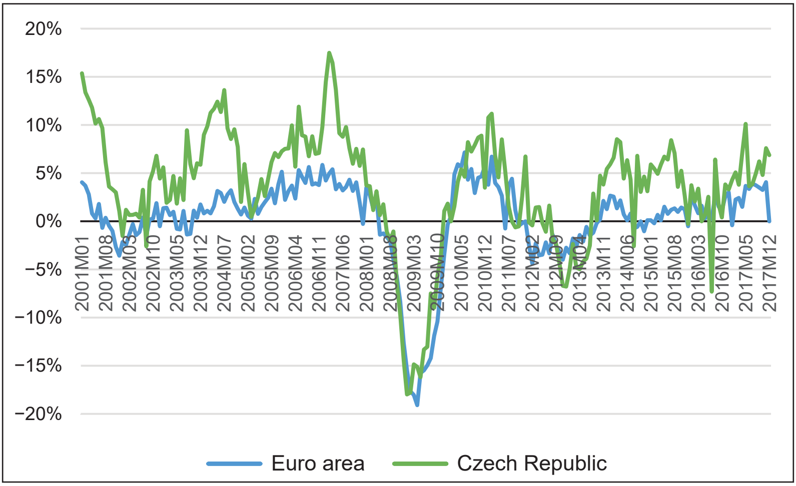

Figure 4.

Convergence between the Czech Republic and the euro area in Industrial Production Trends

Note: The figure shows the industrial production change year on year.

Source: Author's calculations based on Eurostat 2019

Indeed, the most dramatic indicator of interdependence between the Czech Republic and the EU was the massive influx of foreign direct investment which accompanied transition, peaking around the time of EU accession, and, to a large extent, never going away (Figure 5). The Foreign Direct Investments (FDI) which arrived in the transition period played a major role in restructuring the economies of the CEE region and in particular the Czech Republic, as foreign investors did not invest in favoured industries from the communist era but in industries which had perceived medium-term benefits. (Hoekman–Djankov 1997) This selection of new industries for investment eventually also drove the reorientation of trade flows within the Czech Republic, with new products coming on-line, new links with international supply chains forged, and beneficial effects from competition pushing Czech producers to improve their own processes. (Djankov–Hoekman 2000; Kosová 2010) In addition, these results hold not only in traditional goods markets, but there is substantial evidence that investment in services and the concomitant liberalisation in services markets in the Czech Republic also drove productivity gains. (Arnold et al. 2011)

As can be expected, given the advanced reforms of the Czech Republic and its proximity to Germany, the Czech Republic was a natural candidate for an influx of investment from its neighbour. By 1999 (according to United Nations Conference of Trade and Development data), Germany was already responsible for 29.6% of all FDI inflows into the country (the Czech Republic made up 19.55% of all German FDI to the CEE region from 1993 to 2001). Moreover, the linkages between German firms and their investment in the Czech Republic have extended throughout the country and are not just concentrated in major population centres. (Schäffler et al. 2017) While such an eventuality was likely to occur even if the Czech Republic had remained outside the EU, the volumes would most likely have been much smaller; indeed, the performance of German FDI since EU accession shows just how important joining the EU has been to Czech investment flows, as Germany has slipped to third in the rankings of top investors in the Czech Republic, behind the Netherlands and Austria. Such an eventuality would have been patently unlikely in the absence of the Czech Republic joining the EU.

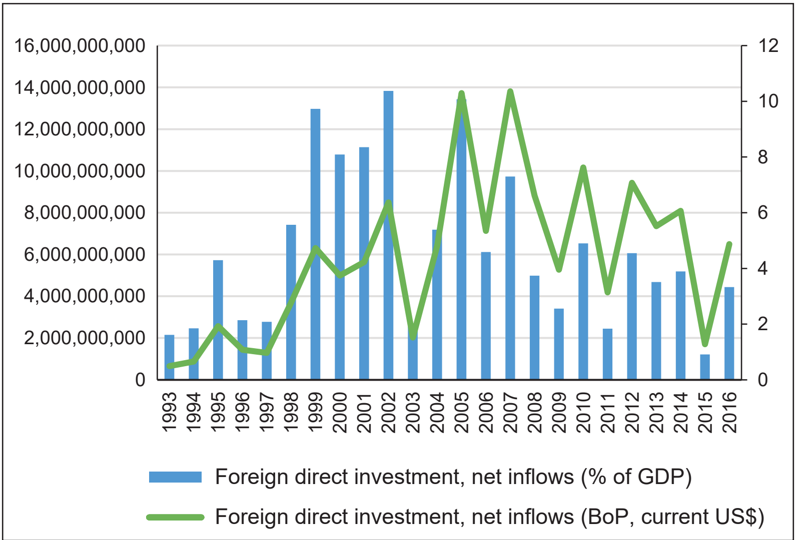

Figure 5.

Net FDI flows into the Czech Republic, 1993–2016

Source: WB s. a.

EU Funds: A Double-Edged Sword

Like many of the EU accession countries of the CEE region, the Czech Republic has benefited mightily in terms of the volumes of EU financial and technical assistance, as well as in its effects on growth. (Becker et al. 2010) Even before accession, the country received a total of EUR 1.062 billion pre-accession financial assistance under the PHARE technical assistance program from 1990 to approximately 2006, an amount far below that of Poland (EUR 3.99 billion) or Romania (EUR 3.67 billion) but ahead of Slovakia (EUR 805 million), according to data provided by Europeaid (2015).[6] After accession, these transfers increased substantially and across a broad range of projects, rising from EUR 2.6 billion from the years 2004 to 2006 to EUR 26.7 billion from 2007 to 2013 and falling slightly to EUR 24.2 billion in the current program (2014 to 2020). The number is projected to fall even more in the coming program, mainly due to the Czech Republic being a victim of its own success, but also due to the lingering effects of Brexit, which will change the calculation of the EU average used in determining the allocation of funds.

While the volume of funds flowing to the Czech Republic has been impressive, a salient question is whether or not the funds have been used to further development (and, by extension, integration with the rest of Europe). Concerns were raised as early as 2002–2003 about the absorptive capacity of the country and the quality of its administration to handle these funds, with the Czech Republic looking better-situated than other accession countries but still underprepared. (Horvat 2005) More recent data, looking at the funding disbursed during 2004–2006 in the new member states, found that countries such as the Czech Republic actually did rather well, outperforming higher-income countries in their absorption. (Tosun 2013) There have been difficulties, however, as, in particular, regional policies were more likely to be small-scale due to the unprepared nature of local administration, meaning that monies were focused on large population centres and highly visible infrastructure projects rather than regional development.[7] (Bachtler–McMaster 2008) While Becker et al. (2010) shows that, on

[6] Data runs through 2006 due to projects starting pre-accession and completing post-accession.

[7] Evidence from Mohl and Hagen (2010) shows that some EU funding could be linked to higher growth in regions of the new EU members, but on the whole, growth was uncorrelated with total amounts spent.

average, structural funds have increased growth in EU accession countries, and especially in the Czech case, they also have had little effect on labour markets or employment.

A somewhat underexplored facet of EU structural funds is how they have impacted the institutional structure of the recipient countries. Of course, it was hoped that the funds would have a beneficial effect, "Europeanising" the institutions of new EU members via conditionality (Haughton 2007) and helping them along with their institutional transformations. (Schimmelfennig–Sedelmeier 2005) The channels in which the funds operated were not always apparent, however, and the aforementioned use of funds for regional development is an instructive case. As Debus et al. (2011) notes, a solution was found at the sub-national level in the Czech Republic for accessing structural funds, with political coalitions forming at the regional level precisely to better obtain funding (put another way, regional political parties often created coalitions based on the need to cooperate with neighbouring regions and thus obtain structural funds). In this manner, not only did EU funding contribute to some measure of development, they also influenced government formation precisely to obtain this funding, an institutional side-effect which was likely unforeseen in the EU's decision to allocate monies.

Beyond this subtle measure of influence on Czech politics, an additional issue regarding the use of structural funds and their institutional impact has been their contribution to corruption, especially in underdeveloped administrative structures such as prevailed in 2004. In particular, a well-developed theme in the foreign aid literature has been the possible deleterious effects of large amounts of aid targeted at sectors where there is cronyism or lingering state involvement; with increasing amounts of public discretion on how and where funds are spent, it is more likely that rents will be extracted and interest groups will pressure for accessing these funds. (Mungiu-Pippidi 2013) In the Czech Republic, there is some evidence that public procurement processes were "bent" in order to advantage favoured clients with EU structural funds, while EU funding faced more incidences of corruption than even nationally-generated procurement. (Fazekas et al. 2014) Moreover, there was a limit to what European integration could do for internal institutions in this realm, as the country's vaunted anti-corruption unit, founded in the run-up to accession, was shuttered immediately upon accession. (Mungiu-Pippidi 2014) In sum, it is easy to see how EU funding may have actually retarded the fight against corruption in the Czech Republic rather than enabling it, a by-product of structural funding which has a lingering effect in Czech politics today.

The Socioeconomic Effects of Integration

Unlike other countries further east or countries which have faced the prospect of EU accession post-Eurozone crisis, there has been both a political and popular consensus for European integration, manifested in support of formal accession to the EU and for stronger Euro-Atlantic ties in the security and political spheres. As Hanley (2004) noted, despite the presence of two prominent Eurosceptic parties in the referendum on EU accession, the "yes" crowd won the day due to longstanding positive association with the idea of "Europe", with EU accession seen as a logical next step in the country's post-communist transformation.

Ironically, this support of Europe has blossomed even as the country has not availed itself of one of the key tenets of the EU (or at least has not utilised it as much as its neighbour Poland): free movement of people. The Czech Republic, unlike many other countries in the CEE region (or, for that matter, Western Europe) has a fairly stable population, projected to grow slightly (0.1%, according to the OECD) in coming years before falling near the end of the century. A driving force behind the country's population stability has been generally muted migration; according to UNICEF, in 2013 the Czech Republic had lost a mere 2.9% of its population to migration, with the vast majority (62%) of emigrants heading to either Germany or Slovakia. Moreover, out-migration has been almost entirely exactly balanced by inward migration from Ukraine, Slovakia, Russia, Poland, and (somewhat surprisingly) Vietnam, as immigrants in 2013 numbered 314,029 while emigrants totalled 315,148.[8] By 2017, according to Eurostat data, the number of immigrants had increased to approximately 4.3% of the Czech population (approximately 465,000), a number which surpassed by 20,100 the number of out-migrants.[9]

8 For more data see the UNICEF's "Migration Profile" of the Czech Republic. (UNICEF s. a.)

9 Data obtained from Eurostat tables "Population change—Demographic balance and crude rates at national level" (demo_gind) and "Foreign-born population by country of birth" (migr_pop3ctb) (Eurostat s. a.)

While some Czechs have gone into the EU neighbourhood to seek their fortune, the Czech experience is wholly different from that of CEE countries such as Poland and Romania, which have seen a much larger brain drain. In fact, the Czechs have seen more "brain circulation", with those going abroad returning home in much larger numbers than other CEE countries. This does not mean that there have not been localised shortages of workers in particular sectors, however, and it is has been noted for some time (Wiskow 2006) that doctors are becoming in short supply in the country. According to the President of the Czech Medical Chamber, in 2015, 20% of doctors granted degrees promptly left to take up positions in foreign countries, with some of the vacancies (but not all) being filled by Slovak, Ukrainian and Russian doctors.[10] Similarly, IT firms have also faced labour shortages due to migration, (Vavrečková–Baštýř 2009) but, as Bernard et al. (2014) details, the Czech Republic has been very successful in attracting skilled professionals to its "islands of innovation". In sum, it remains the medical profession which is under stress, as other facets of brain drain appear to have passed the country by.

Conclusions: An Unavoidable Integration

This chapter has examined the integration processes of the Czech Republic with an eye on its institutional development in the post-communist transition. Despite recent political shifts, the Czechs remain firmly ensconced in Europe geographically and economically, with intense relationships developed with other European countries within the EU. Given these complex interrelationships and benefits accruing to the country (and a generally favourable attitude towards the EU as an economic union), it is unlikely that there will be substantial changes in the Czech Republic's relationship with Brussels in the future. In fact, despite having less favourable initial conditions than other CEE countries, the Republic has thrived and successfully integrated into the European project […] but only up to a point of Prague's choosing.

[10] Based on an interview with Czech Medical Chamber President Milan Kubek. (Radio Praha 2016)

In reality, the gradual shift towards a more Eurosceptic orientation in the Czech Republic regarding the political aspirations of the euro area has occurred alongside changes in Central Europe more generally (i.e. in Hungary and then Poland), but must also be seen in light of a longstanding tradition in Czech politics. It has been a tenet of post-communist policymaking that the Czech polity has split in favour of the EU's economic benefits while against EU political aspirations and talk of closer political union. (Havlik 2011) In part, this has been due to the tight economic intertwining of the Czech Republic with Germany, meaning that economic issues are seen as bound to the EU, coupled with the reality that Czech security policy is not guaranteed by the EU but instead by NATO and the transatlantic alliance. Such an approach has led to seemingly contradictory policies: for example, the current Czech stance towards adopting the euro appears to go against the economic interests of the country with regard to its main trading partners. Indeed, while former countrymate Slovakia adopted the euro as soon as it was able (2009), the Czech Republic and its citizens have shifted from the optimism of the early 2000s to be stalwartly against the common currency. However, seen through the political/economic prism, there is a widespread consensus in the Czech Republic (one that is close to the truth) that the euro is not an economic project but is a political one, and thus the country should maintain a degree of policy independence rather than subordinate decision-making to Brussels and Frankfurt. (Pechova 2012)

The recent political successes of President Miloš Zeman and Prime Minister Andrej Babiš can be seen in this larger context of Czech approaches to European integration but, like their nationalist/populist counterparts in Hungary and Poland, there is a possibility that such reflexive anti-EU stances can go too far. As noted earlier, the Czech Republic has benefited extensively from being an EU member, and while European integration is not synonymous with the EU, there is a large amount of overlap. Even though the European experiment has somewhat gone off the rails since the global financial crisis (and recent policy proposals have attempted to make "the euro area" synonymous with "the EU"), the Czech Republic must keep its eyes focused on making the union a better economic vehicle. This approach, remaining aloof from political diktats but playing a constructive role in economic policymaking, will have continued benefits for the country in the future.

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