

**THE CHARACTER AND MOTIVES OF FOREIGN TRADE
OF CZECHOSLOVAKIA AND THE CZECH REPUBLIC
IN ITS DEVELOPMENT IN TERMS
OF MAJOR STRUCTURAL AND BALANCE REVERSALS**

J. DEMEL

(Department of International Trade, Faculty of Economics,
Technical University of Liberec, Czech Republic)
E-mail: office@msta.ac.ru

Pre-war and post-war Czechoslovakia and later on also independent Czech Republic, whether they were in any stage of development and any political establishment, always showed to the business world the character of country that wishes to participate in international trade as much as possible, and whose motivation is a growing number of foreign trade turnover of the country, a continuous effort to balanced or even an active trade balance, where export covers rising import level. Currently, this export is precisely one of the key factors, that helps the Czech Republic to return to economic growth during the economic recession.

Keywords: czechoslovakia, czech republic, turnover of foreign trade, trade balance, export, import, territorial structure, commodity structure.

If the country of a small area and population reaches a certain level of relatively high standard of its economy (and this level was certainly reached in the post-war Czechoslovakia), there exists a move towards the implementation of economic and commercial potential in the interaction with the external environment in any political constitution, and under any foreign policy. Therefore, such a country is then encouraged to participate in the most possible extent of the international division of labour (international trade) to open its economy, and not just at the directive elected group.

However, it is clear that the country pertinence into a closed community of states is reflected either in the balance of trade of the country or in the territorial and commodity structure of foreign trade. If then the centrally controlled community lapses, trade is becoming freer, the level of foreign trade turnover of the country is growing continuously on, balance and structure is changing again and the trade capacity is shifting according to market needs and business opportunities.

Growing export of a small, technological-ly relatively advanced country can never exists without a corresponding import, though

the bullionists might once wanted it and, on the contrary, every even jump of import growth should be the most possibly covered by country export. That is always the incentive for the country to get involved in international trade, the fundamental driver of international trade processes.

Thus, even under complicated conditions of years 1948 - 1989 Czechoslovakia had to be and now the Czech Republic still is a country focused on export. That is why at the time of the monopoly of foreign trade and international business organisations with the exclusive right to commerce in a respective commodity group (the pros and cons of this system have not been objectively and comprehensively evaluated yet) there was raising a significant power of export workers skilled in foreign languages who were able to maintain export of the country despite badly defined tasks in the 70s and 80s and in 90s they were able to start to develop an international business with a support of new firms and export-motivated traders, to re-structure a foreign trade of the Czech Republic under pressure of the international trade market and to return the country's trade balance to active numbers.

Despite the fact that the economic theory of international trade from the 80s was still full of “pioneering” slogans, fulfilments of 5-year plans and propositions on the need for centralized control of foreign trade of the country, some of the principles of foreign trade policy did not differ from current thoughts. The transformation and growth functions of international trade were also acknowledged, and for a small country with relatively advanced economy (and Czechoslovakia from the period of the “First Republic” was always such a country) the same need was valid for the most possible participation in international trade, as it is today and will continue.

“Foreign trade of a certain country reflects its integration into the international division of labour. Its size and structure depends on many factors, which include mainly the structure of a country's economy and achieved economic level. As a result of the involvement of countries in the international division of labour the process of reproduction does not proceed in isolation in the process of the national economy.”²

Based on this thesis it is possible to imagine several motives for participation in the international trade - such as dependence on raw material source and, conversely, the need for the implementation value-added products, therefore such involvement into the process of reproduction, which allows completion of missing parts.

In the time of “pioneering of socialism” there was a big part of the openness of the Czechoslovak economy directed to the COMECON camp and its co-operating countries, while creating a kind of group division of labour or the international trade bloc which was determined by an area of socialist countries. The fundamental problem of the balance and structure of Czechoslovak foreign trade was central “management” of the division of labour, from headquarters, COMECON, which often did not allow Czechoslovakia to proceed comparative advantages. There was also the fact, partly consciously ignored, that

the price and quality of products had to go into a confrontation with foreign production, to avoid ageing process, price increases and small competitiveness. This meant that only a small part of the Czechoslovak production entered free market and the price and quality confrontation with the competition. Most of the products were made to qualitatively less demanding group of socialist allies, in addition, due to the above given directing of the division of labour without the presence of competing products. Obviously this must have led to technical, technological and qualitative gap.

“Overall, the coordinated economic policy within the COMECON ignoring the comparative advantages of the Czechoslovak economy, the growth of coupling trades between Member States of the COMECON and the loss of competitiveness of products in developed Western markets were the main symptoms of the development of Czechoslovak foreign trade in this period.”³

Despite this fact, however, at least a small part of foreign trade in Czechoslovakia was always carried out in the countries with developed market economies, of course, with the high reliance on trade policies of these countries, which often responded to the tightness of the socialist countries by an application of the hardest protectionist trade instruments. For instance in 1951 the United States, entirely against the principles of GATT, withdrew the MFN treatment to goods imported from Czechoslovakia and spontaneously set much higher duty.

But Czechoslovakia was never deprived of its international business motivation and character due to these factors and obstacles mentioned above.

“Czechoslovakia was always considered more to be a country implementing a liberal trade policy and low tariffs in the international environment. These liberal steps were caused by multilateral commitments to Czechoslovakia resulted from membership in international organizations, especially as a party to the GATT, but also by the fact that

² Introduction to the Economics of Foreign Trade Organizations, doc.Ing. Eva Cernohlavkova, Ph.D. and team, Statni pedagogicke nakladatelstvi, Prague 1985.

³ Fojtikova, L. The Foreign Trade Policy of the Czech Republic, History and Present (1945-2008), 1st edition, Prague, C.H. Beck, 2009, ISBN 978-80-7400-128-4.

the duty was not collected in Czechoslovakia in the socialist era until 1983.”

Turnovers and balances. According to the view on the composition of the relevant data and information and the comments on them, the following parameters have always been considered the most important - steady growth of trade turnover, rather active trade balance or at least the smallest fluctuation in passive balance with a vision for balanced status in future. However, in terms of product coverage and territorial terms, foreign trade of Czechoslovakia and the Czech Republic have gone through significant reversals.

Some of the following tables are derived from the contemporary documents, therefore

we can expect them to levy certain slant, to have excessive emphasis on some numbers and omissions of some others. This text does not attempt to compare the country's trade in a time schedule, in fact the differences in modes of prices quotations and the effects and sets of exchange rates do not even permit it. Far more this text refers to the movement and structural balance and the way how the potential of the economy of the country is released abroad by those paths which are actually given or less limited. The important findings are that this movement in the history of Czechoslovak and Czech foreign trade has never stopped or slowed significantly.

Table 1

Development of the Czechoslovak Foreign Trade in Billions of KCS						
Year	1960	1965	1970	1975	1980	1982
Export	13,9	19,4	27,3	46,7	80,2	95,3
Import	13,1	19,2	26,6	50,7	81,6	94,2
Turnover	27,0	38,6	53,9	97,4	161,7	189,5
Trade balance	0,8	0,2	0,7	-4	-1,4	1,1

(Spravocnik cechoslovackoj vnesnej trgovli, CSOPK, various years - taken from the Introduction to the Economics of Foreign Trade Organizations, doc. Ing. Eva Cernohlavkova, PhD. and team, Statni pedagogicke nakladatelstvi, Prague 1985)

The table begins in 1960 therefore it is not possible to record a development of turnover of international trade first years after 1948.

The development of turnover is relatively smooth, passive trade balance in 1975 CZK 4

billion does not look disastrous, but this represents a deviation of 4% of total turnover. That should be considered in view of the liabilities in 90s.

Table 2

Total Turnover of Foreign Trade of CSSR (in billions of KCS fco exported country)						
Year	1970	1975	1980	1985*	1989	1990**
Turnover	53,9	97,4	161,7	240,1	432,2	453,5

* Figures are in so-called official rate of Czechoslovak Crown to foreign currencies forced until December 31, 1988.
 ** The 1989 data are converted at exchange rate of 1989, since 1989 are in the ordinary course according to exchange rate of SBCS.
 (Statistical Yearbook of Czechoslovakia (1990 and 1992) and author's calculations - taken from Fojtikova, L., The Foreign Trade Policy of the Czech Republic, History and Present (1945-2008), 1st edition, Prague, C.H. Beck, 2009, ISBN 978-80-7400-128-4).

This extract coming from the more comprehensive tables clearly identifies a very significant acceleration of growth in trade turno-

ver of Czechoslovakia in 1985. When considering the very slow and pent growth of prices, the reality of this reversal is even harsher.

Table 3

Foreign Trade of Czech Republic in 1991-1992 (in billions of CZK, in %)		
Year	1991	1992
Turnover	442,2	481,4
Export	233,6	229,4
Import	208,8	252,0
Trade balance	24,8	-22,6

(Dvorak and team, 1993 - taken from Fojtikova, L. The Foreign Trade Policy of the Czech Republic, History and Present (1945-2008), 1st edition. Prague, C.H. Beck, 2009, ISBN 978-80-7400-128-4).

In the period 1990 - 1992 the first fall in turnover of international trade of Czechoslovakia happened, but it began to grow again. However, import, which of course corresponded to a hunger for new, especially the missing top quality consumer products from developed market countries, became a great

contributor to turnover. The year 1992 ended with the passive balance of 22, 6 billion of CZK and this state was settled into the results of foreign trade of Czechoslovakia and later the independent Czech Republic for more than ten years. This is confirmed in the following table:

Table 4

Foreign Trade of the Czech Republic in 1993 - 2007 (in billions of CZK, current prices)															
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Turnover	847,7	957,2	1231,9	1356,4	1569,0	1748,7	1881,9	2363,0	2653,7	2580,5	2811,7	3471,8	3698,5	4249,4	4870,6
Export	421,6	458,8	566,2	601,7	709,3	834,2	908,8	1121,1	1268,1	1254,9	1370,9	1722,7	1868,6	2144,6	2479,2
Import	426,1	498,4	665,7	754,7	859,7	914,5	973,2	1241,9	1385,6	1325,7	1440,7	1749,1	1830,0	2104,8	2391,3
Trade balance	-4,5	-39,5	-99,6	-153,0	-150,5	-80,2	-64,4	-120,8	-117,4	-70,8	-69,8	-26,4	38,6	39,8	87,9

(Long-term Development of the International Trade of the Czech Republic, Statistical Office, Prague, October 6, 2008 presentation)

The splitting of Czechoslovakia into two independent states is hidden in the massive increase in both export and import values in 1993, the internal trade with Slovakia thus became a foreign trade. There is also an interesting feature which is almost balanced trade balance, that in subsequent years, however, failed to keep. The Czech production joined a long way to reach strong position in foreign markets and thus to offset the trade balance. Shock of the terrorist attack in September

2001 in New York, which caused the slowdown in economic growth worldwide, influenced the numbers of Czech international trade first in December of 2001 and then throughout the year 2002. But it spoke much more up to Czech import and, on the contrary, Czech export reversed a long trend of widening passive trade deficit, the result of this reversal was a return to active trade balance of the Czech Republic in 2005.

Table 5

Territorial Structure of Czechoslovak Foreign Trade - in % of Total Turnover					
	1948	1960	1970	1980	1982
Total turnover	100	100	100	100	100
In it					
Socialist countries (COMECON and allies)	39,6	71,8	70,0	69,9	75,2
Advanced capitalist countries (with devel.mark.econ.)	45,7	17,8	22,4	23,1	18,4
Developing countries	17,7	10,4	7,6	7	6,4

(Spravocnik cechoslovackoj vnesnej trgovli, CSOPK, various years - taken from the Introduction to the Economics of Foreign Trade Organizations, doc. Ing. Eva Cernohlavkova, PhD. and team, Statni pedagogicke nakladatelstvi, Prague 1985).

Table 6

Territorial Structure of Foreign Trade of Czechoslovakia in %				
	1948	1953	1957	1977
Socialist countries (COMECON and allies)	39	79	68	72
Advanced capitalist countries (with devel.mark.econ.)	46	15	20	21
Developing countries	15	7	12	7

(Spravocnik cechoslovackoj vnesnej trgovli, Rapid Prague - taken from the Economics of Foreign Trade - Repetition of a Short Course, doc. Ing. Alois Bauer, PhD. and team, SPN Praha 1981).

The two tables coming from different sources describe the essential change in the

territorial structure of foreign trade of Czechoslovakia after 1948. Table 6 shows that this

change occurred within a very short period of several years. In this process it was necessary to position the production, although damaged by the war, but with a certain development from Western to Eastern Market. From this perspective it seems almost impossible, as it

was completely unique, but unfortunately directive forced redirection of significant part of foreign trade of the country, which apparently did not cause any serious fluctuation in the relatively steady growth of foreign trade turnover of the Czech Republic.

Table 7

The Structure of World Exports and Imports in 1976 in millions of USD compared to 1970 in%			
	1976	1970 - 1976	
Total world exports	643 344,2	100	
Socialist countries (COMECON and allies)	37 225,2	4,5	5,8
COMECON	28 702,1	3	4,5
Advanced capitalist countries (with devel.mark.econ.)	453 670,3	76	70,5
EEC	244 637,8	38,5	38
Developing countries and other	152 438,7	19,5	23,7
Total world imports	697 707,5	100	
Socialist countries (COMECON and allies)	27 002,8	3,5	3,9
COMECON	21 460,9	2,9	3,1
Advanced capitalist countries (with devel.mark.econ.)	471 990,0	76,2	67,6
EEC	248 573,9	38,5	35,6
Developing countries and other	198 802,7	20,3	28,5

(VÚZO, Economic Information No. 121 V/78 – taken, calculated and adapted from the Economics of Foreign Trade - Repetition of a Short course, doc. Ing. Alois Bauer, PhD. And team, SPN Praha 1981)

It is clearly seen that in terms of world trade the group of COMECON and its allies was not a major player on the global competition. This confirms that significant numbers were directed inward the group, which attempted to create a kind of self-contained unit with protectionist elements, particularly by the detention of commodity competition.

“The core of commercial relations with the socialist countries of Czechoslovakia formed relations within COMECON. The focus of Czechoslovak exports and imports on

the socialist countries allowed, according to contemporary authors, to alleviate the economic blockade of the developed western countries and gain necessary resources of minerals and materials for the Czechoslovak production. From 50s of the 20th century there was a rise in the proportion of the Member States of the COMECON in total trade turnover of the country.”⁴

Nevertheless the business finally found the way that is confirmed by the following table:

Table 8

The Share of Turnover of the Socialist Countries in Total Foreign Trade of Czechoslovakia in 1970 - 1990 (in billions of CZK, FCO exporting country and in %)					
Year	Total turnover	COMECON	% COMECON	In it % of USSR	% of other soc.countries
1970	53,9	34,6	64,2	32,5	5,8
1975	97,4	64,3	66,0	32,5	4,6
1980	161,7	106,0	65,5	35,8	4,4
1985*	240,1	177,9	74,1	44,8	4,8
1989	432,2	239,9	55,5	30,1	6,1
1990**	453,5	199,2	43,9	23,3	6,2

⁴ Fojtikova, L. The Foreign Trade Policy of the Czech Republic, History and Present (1945-2008), 1st edition, Prague, C.H. Beck, 2009, ISBN 978-80-7400-128-4.

Table 9

The Share of Turnover of Non-socialist (countries with developed market economies) Countries in Total Foreign Trade of Czechoslovakia in 1970 - 1990 (in billions of CZK FCO exporting country and in %)					
Year	Total turnover	Non-soc.c.	% of EEC	In it % of BRD	% of other non-soc.c.
1970	53,9	12,1	11,0	5,6	12,4
1975	97,4	21,7	13,5	6,0	22,3
1980	161,7	37,3	12,9	5,9	23,1
1985*	240,1	37,3	8,9	4,4	15,5
1989	432,2	134,5	18	8,8	31,1
1990*	453,5	192,8	25,1	13,1	42,5

Table 10

Foreign Trade with Developing Countries in 1970 - 1990 (in billions of CZK and in %)				
Year	1970	1975	1980	1985
Total turnover	53,9	97,4	161,7	240,1
Turnover with developing countries in bn	4,1	6,9	11,4	13,5
Turnover with developing countries in %	7,6	7,0	7,0	5,6

Once again it shows that the share of countries with developed market economies on the Czech foreign trade began to increase significantly in 1985, in the period known as perestroika, when the market of COMECON

was unable to absorb a big percentage of Czech products and therefore some release of market opportunities to countries of EEC appeared, with not so important yet, but growing share of Western Germany.

Table 11

Commodity Structure of Czechoslovak Foreign Trade in%								
	import				export			
	1937	1948	1953	1977	1937	1948	1953	1977
Machinery and equipment	10	7	14	39	6	20	42	51
Fuel, raw materials, semi-products	68	56	54	45	47	43	37	28
Food including raw food materials	16	34	30	10	10	6	9	3
Consumer goods of non-food character	6	3	2	6	37	31	12	18

(Spravocnik cechoslovackoj vnesnej trgovli, Rapid Prague - taken from the Economics of Foreign Trade - Repetition of a Short Course, doc. Ing. Alois Bauer, PhD. and team, SPN Praha 1981).

Table 12

Commodity Structure of Czechoslovak Exports in% of Total Exports						
	1960	1965	1970	1975	1980	1982
Total export	100	100	100	100	100	100
In it:						
Machinery and equipment	45,1	48,5	50,2	48,0	50,2	53,1
Fuel and raw materials	29,6	30,4	29,4	30,3	29,7	26,5
Cattle and other livestock breeding	0,1	0,2	0,1	0,1	0,1	0,1
Food including raw food materials	5,2	4,4	3,8	4,2	4,2	3,5
Consumer goods of non-food character	20,0	16,5	16,5	17,4	15,8	16,8
Commodity Structure of Czechoslovak Imports in % of Total Imports						
Total import	100	100	100	100	100	100
In it:						
Machinery and equipment	21,6	29,9	33,3	36,9	36,6	33,1
Fuel and raw materials	52,9	48,9	43,1	46,6	48,7	53,6
Cattle and other livestock breeding	0,1	0,1	0,3	0,1	0,1	0,1
Food including raw food materials	22,0	15,9	14,8	9,2	8,7	7,7
Consumer goods of non-food character	3,4	5,2	8,5	7,2	5,9	5,5

(Spravocnik cechoslovackoj vnesnej trgovli, CSOPK, various years - taken from the Introduction to the Economics of Foreign Trade Organizations, doc. Ing. Eva Cernohlavkova, PhD. and team, Statni pedagogicke nakladatelstvi, Prague 1985).

The table points to the exceptional economic transformation of Czechoslovakia from the country with significant production and export of consumer goods to a massive producer and exporter of machinery and mechanical equipment. This transformation took place, of course, already during the World War II, when Czechoslovakia used to be a weapon producer, but it continued even after 1948 until the late 80s. This is shown in the table below.

The massive pre-war fuel consumption reflecting the high percentage of imports of these commodities in total imports declined steadily

until the early 60s, when the rate became stable. Production of consumer goods decreased mainly in the post-war period, then it remained at the levels that allowed a market supply of COMECON. By contrast, the percentage of imports of consumer goods throughout the period of the communist regime was very low, representing a kind of 'artificial' economic self-sufficiency in this commodity. It had to lead inevitably to a decline in the quality and competitiveness of consumer products. What was a division of labour and "internal trade" of group of the European COMECON countries is as follows:

Table 13

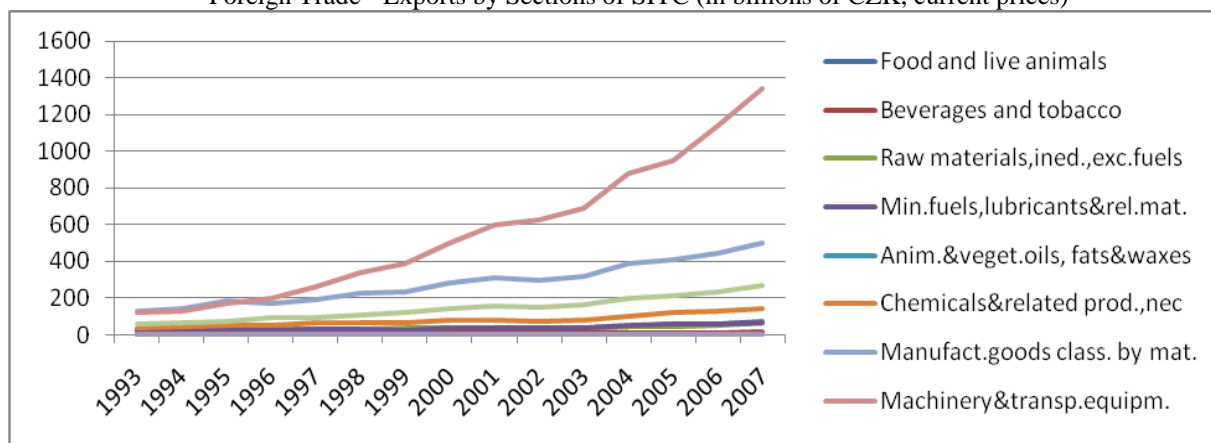
Commodity Structure of Mutual Exports of the COMECON Countries in 1960-1970 in %							
Commodities	BLR	MLR	NDR	PLR	RSR	SSSR	ČSSR
Machinery and equipment							
1960	12,9	38,6	49	28,3	16,7	20,7	45,7
1970	29,0	32,6	51,7	38,5	22,8	21,5	50,4
Fuels, mineral raw materials and metals							
1960	9,2	12,8	15,7	34,0	36,9	37,6	19,1
1970	8,1	14,4	10,1	23,9	22,7	38,2	18,6
Food including raw food materials							
1960	56,4	27,4	5,9	23,0	35,9	27,3	10,4
1970	43,4	26,7	7,4	15,9	26,8	19,5	7,3
Consumer goods							
1960	17,9	17,8	15,1	10,1	5,8	2,9	20,4
1970	14,7	21,3	20,2	16,1	18,1	2,7	16,6
Commodity Structure of Mutual Imports of the COMECON Countries in 1960-1970 in %							
Commodities	BLR	MLR	NDR	PLR	RSR	SSSR	ČSSR
Machinery and equipment							
1960	43,9	28,5	12,7	27,1	33,6	31,0	21,7
1970	40,6	30,9	34,2	36,2	40,3	35,5	33,4
Fuels, mineral raw materials and metals							
1960	24,3	27,7	38,3	25,3	34,3	20,0	27,9
1970	29,1	23,6	27,6	26,6	30,4	11,8	23,5
Food including raw food materials							
1960	16,7	29,2	39,2	33,9	18,1	23,7	37,1
1970	15,9	24,4	28,1	21,4	15,4	24,8	24,1
Consumer goods							
1960	7,6	5,1	5,3	5,5	5,2	16,9	3,4
1970	5,7	7,7	4,5	6,4	5,5	18,3	8,5

(Kves 1974 - taken from Fojtikova, L. The Foreign Trade Policy of the Czech Republic, History and Present (1945-2008), 1st edition, Prague, C.H. Beck, 2009, ISBN 978-80-7400-128-4).

It is obvious that the production of consumer goods from Czechoslovakia, Hungary and East Germany ended mainly in the USSR, the largest exporters of machinery and equipment were Czechoslovakia and East Germany, but gradually all countries were industrialized, however the product quality, without comparison to global competitors, fell strongly below average.

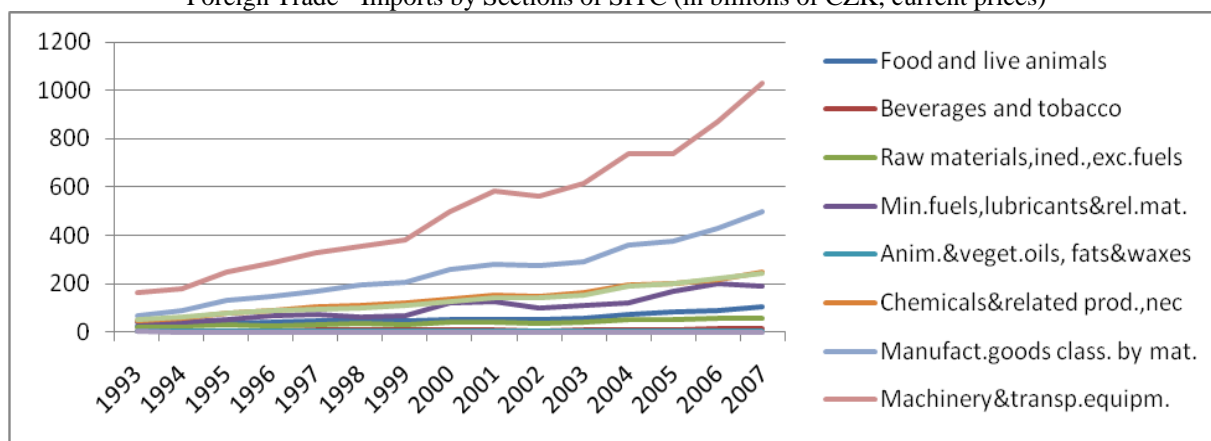
That was the starting line of Czechoslovakia and the Czech Republic to the new conditions of 90s. The following graphs show how the individual commodities of Czech production succeeded in foreign markets in the next period and vice versa, what were the most sought-after commodity groups in the Czech market:

Foreign Trade - Exports by Sections of SITC (in billions of CZK, current prices)



Picture 1

Foreign Trade - Imports by Sections of SITC (in billions of CZK, current prices)



Picture 2

(The Long-term Flowchart of Foreign Trade of the Czech Republic, Statistical Office, Prague, October 6, 2008 presentation).

In fact, the ratio of 1:1 in value between the two largest exported commodity groups – Manufactured (consumer) goods and Machinery and Transport Equipment within over fifteen years of the Czech Republic with a market economy has changed into the ratio of 3:1 in favour of the second group, while the original ratio of imports of the same two groups of 1:2 in the same period essentially remained the same. Such is the force of Czech production and exports of machinery, mainly for automotive production with entire networks of all production-related components.

Present. “In 2009, a significant drop came up in the field of foreign trade for the first time in the history of the Czech Republic. The result of the decrease of exports and imports in comparison to the year 2008, was particularly lower foreign trade turnover by 16 per-

cent. The value of foreign trade therefore returned approximately to the level reached in the year 2006 (4 249, 4 billion CZK). In 2009 foreign trade balance ended in its highest surplus since 2005, when foreign trade showed a positive balance for the first time after the foundation of the Czech Republic. Although the foreign trade of Czech Republic showed the largest drop in the history of the independent republic, in 2009 the balance ended with the highest surplus (CZK 153.2 billion) in the history of the Czech Republic”.⁵

Current situation is unprecedented in the development of foreign trade of Czechoslovakia and the independent Czech Republic. Less similarity can be seen with the year 2002, when the foreign trade turnover of the Czech Republic also decreased due to global economic movements, the same as now in the time of economic recession. Just like that

⁵ www.businessinfo.cz - part of the website dated February 18, 2010 - Source: Czech Statistical Office.

year, when export was the main deviser of return of the trade balance of the Czech Republic into the active condition, also today export belongs to one of the main guides through the labyrinth of the downturn of the economy. The commodity group Machinery and Transport Equipment still remains the key factor in export, heading its massive majority of products into the countries within the European Union and particularly in neighbouring Germany. This territorial, but in particular commodity set up will certainly bring some changes over the time as it already happened in past development of foreign trade in Czechoslovakia and the Czech republic ac-

ording to the data and information mentioned above. The global economic conditions are changing, the power of competitors in international trade too. But what should remain the same is character and motives of the Czech foreign trade - the effort and proactive approach to international trade, covering the growing needs of imported high-quality commodity groups by high – quality product exports of the commodities, which are actually demanded and sought after wars.

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