

## CZECH TRADE INTEGRATION OVER THE LAST TWO DECADES

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**Received: August 31, 2011**

### Abstract

ŽÍDEK, L.: *Czech trade integration over the last two decades*. Acta univ. agric. et silvic. Mendel. Brun., 2011, LIX, No. 7, pp. 507–518

Development of international trade is (in our view) one of the greatest achievements of the transformation process in Eastern Europe. In the paper we illustrate this achievement by the example of the Czech Republic. We conclude that the economy has enormously changed from closed one with backward production and orientation towards the Eastern markets to one that is among the most open economies in the world, with nearly entire orientation towards the developed markets and with relatively advanced production. This development was partly a result of quick (and in our view brave) liberalization at the beginning of the transformation process. At the same time, we have to conclude that the level of dependency has enormously increased in the course of the respective period and the Czech economy is now highly dependent on the economic development of the main trading partners – foremost the other European countries. This dependency is largely positive but can bring negative aspects in the periods of economic decline.

Czech Republic, international trade, economic transformation

In the last 20 years, an economic transformation from the centrally planned system to market economy has been carried out in the Czech economy. Integration into the world markets has been, in our view, one of the main vehicles that has helped the economy to achieve reasonable economic results. We would like to argue that a quick and relatively bold opening of the Czech (oslovak) markets at the beginning of the 1990s was one of the key factors on the way to integration. We will see that the economy has enormously changed from a closed economy with backward production to one of the most integrated economies in the world, able to produce internationally competitive goods.

### MATERIALS AND METHODS

The aim of this paper is to evaluate the development of Czech foreign trade during the transformation process. The subject of the analysis is the identification of the most important causes that had impact on the development and evaluation

of the changes. The paper is based on relevant analytical studies, statistical data and author's research.

The structure of the paper is following. We concentrate on analysing the environment in international trade at the end of the 1980s in the first subchapter in Results. Then we try to show the role of international trade in the whole transformation concept. In the following chapter we describe the main specific steps in trade liberalization that were applied at the beginning of the 1990s. And we point at the difficult international conditions at that time in the following part. Next, we sum up results and achievements of Czech international trade. We refer to pros and cons of the contemporary situation in the last chapter – Discussion. In general, we analyse the most important aspects of the whole transition in international trade during the last 20 years with focus on the period till the EU admission. We stop at all the crucial steps on the way to give the reader an overall view of this development.

## RESULTS

### Starting conditions of international trade

The state of Czech(oslovak) trade at the end of the communist reign was poor if we consider any aspect of it. The state was determined by low quality of the production. According to one survey, already in 1979 only 2 % of Czechoslovak goods were internationally competitive (Steiner, Krol, 1997).<sup>1</sup> The consequence was that the trade was orientated towards "easier" eastern markets. It was a remarkable change in the attitude towards trade compare to the beginning of the communist regime. At that time the producers were forced to sell their goods to the markets of the other centrally planned economies. This change happened very quickly after 1948. In the 1980s the situation was already different. The communist government would have liked to export goods to the western markets but the producers on the contrary to the situation at the end of the 1940s were not able to provide goods that would have been able to stand international competition. This is an indirect proof of the general deteriorating of the quality of the production during the communist reign. As a result, there was a lack of convertible currencies in the economy because trade was (de facto) the only way how to gain them. The following table provides a comparison of the situation at the end of the communist reign with the relatively normal situation in the 1920s.

The commodity structure of Czech(oslovak) exports was shaped by quality as well. The economy was able to export to the developed markets in most of the cases only goods with lower added value in the form of raw materials or semi-manufactured goods. Machinery and equipment (generally goods with higher added value) were exported to the other centrally planned economies or to developing countries. On the contrary, the country imported raw materials and semi-manufactured goods

from the other centrally planned economies and machinery and equipment from the developed countries (Jonáš, 1997). This was the only way how to try to overcome the backwardness of the Czech(oslovak) production.

There were other unfavourable specifics of the trade. The trade was not carried out by the companies themselves but via special monopolistic organizations so-called foreign trade companies. The consequence was that companies on their own did not have experience in negotiation on the markets and it would later create problems during the transformation process. Trade with the developed countries was even more distorted by exchange rates that used to be individual for individual transactions and specific tariffs (Jirges, Plchová, 1996). The whole trade with the other centrally planned economies was organized by the Council for Mutual Economic Assistance (COMECON). The organization (of course) did not create anything close to a market. It just provided a place for bilateral agreements among the countries (Kaplan, 1995).

The last highly important point was that the economy was relatively closed. The communist government generally attempted to be self-sufficient. If we consider the size of the Czechoslovak economy then it was a highly difficult task because in the course of time the country was always depended on international trade. The level of openness (measured as exports to GDP) reached only something around 20 % at the end of the 1980s. This is a very small number if we compare it to similar sized economies among the developed countries.

On the other hand, we should be aware of specific and favourable conditions in trade with the Soviet Union – for example price of oil was counted as five year moving averages. And what was also important for the following development were natural (and lasting) advantages of the country (or economy). We should mention foremost its geographical position

I: *Eastern Europe: regional structure of exports (in %) in 1928 and 1989*

		EC*	EFTA**	Ex-CPE***	North America	the rest of the world	in total
Czechoslovakia	1928	43.9	20	21.9	5.6	8.6	100
	1989	16.5	5	59.6	0.6	18.3	100
Bulgaria	1928	64.5	15.8	11.8	1.3	6.6	100
	1989	7.8	1	75.5	0.9	14.8	100
Hungary	1928	25	38.1	34	0.8	2.1	100
	1989	24.2	8.9	42.7	2.8	21.4	100
Poland	1928	55.9	19.3	18.3	0.8	5.7	100
	1989	30.4	10.1	39.1	2.7	17.7	100

\* EC – European Community; \*\* EFTA – European Free Trade Association; \*\*\* Ex-CPE – ex Centrally planned economies  
Source: Jonáš, Ekonomická transformace v České republice, 1997

1 It had a connection with low level of competition on the inner market – there were often large companies and quite often just a single producer.

with long borders with Germany and Austria; industrial history of the country; skilful labour force that had experience with industrial production; and “natural” memories of the functioning of the market economy from the period of the first republic.

### Broader transformation picture

The transformation process is generally a highly difficult task. Liberation of trade was one of the most significant parts. Before we concentrate on the specific steps we would like to put it into a broader framework of the whole process. The Czech(oslovak) reformers had two main worries at the beginning of the transformation process. They were afraid of inflationary pressures (among others due to the situation in Poland that started its reform a year before). The second worry was connected with the instability of the balance of payment. These two main worries were interconnected and the core problem was in the setting of the exchange rate.

There were different opinions about liberalization of the trade among the reformers. Two reform blueprints were issued in the first half of 1990.<sup>2</sup> The proposal of the Czech government was generally more gradualist and the reformers offered two proposals about trade liberalization – one of them was relatively slow (Šulc, 1998). The second proposal was provided by the federal government and it supposed among others quick trade liberalization. These two proposals were expressions of different attitudes towards international competition among the reformers. The Czech government blueprint expressed (especially in the more protectionist form) worries about the state of Czech(oslovak) companies at the beginning of the 1990s. The proposal tried to shield the companies from international competition. The reformers connected with the federal proposal did not have illusions about the state of the companies but at the same time believed that only competition pressures could pacify the state monopolies. They expected that the large state companies might be able to abuse the situation after planned price liberalization and increase domestic prices nearly indefinitely. At the same time it would be highly improbable that newly founded companies would be able to compete with these large state companies during the first transformation years. Under these circumstances only international competition was supposed to be able to curb the large domestic companies and was to play the role of corrector for the economic environment. At the same time the reformers expected that state companies would be worried about their development and would cry for lasting protection.

### Specific liberalization steps

We consider the main measures which had an impact on the international trade in the following subchapter. The position of the Czech(oslovak) companies at the beginning of the transformation process with respect to international trade was mixed. We can find measures that (temporarily) shielded the companies from international competition as well as measures that increased pressure on the companies from abroad. Such situation was the intention of the reformers. We should analyse the position of the companies from both of the sides.

The government prepared a blueprint of the economic reform already during 1990 as we mentioned. Several important transformation steps were implemented already in this year. From the institutional point of view we should mention the change of the legal environment that allowed private business. The most important step with impact on international trade was unifying and devaluation of the currency. It was then fixed to a basket of western currencies. The devaluation was deep and the currency was probably undervalued as a consequence. This development is sometimes described as creation of a kind of transformation pillow (or buffer) that gave the companies temporary support for the first years of the transformation. The help was by definition only temporary because appreciation of the real exchange rate was in progress in the following months and years. But these devaluations helped the companies at the initial phases of the transformation. This help was needed because the government decided to open the Czech(oslovak) market immediately at the beginning of 1991 when the main bunch of the transformation measures was applied in the country (this included foremost price liberalization). The most important measure with respect to international trade was establishing of inner convertibility of the Czechoslovak currency. The measure had an immediate impact on the functioning of the markets because it allowed any company to import anything they wanted to be sold in the inner market. The companies had the right to purchase any amount of convertible currency.<sup>3</sup> This measure created instant pressure on the established Czech(oslovak) companies. At the same time, tariffs declined to average level around 5 % points – lower than was the average among the OECD countries at that time (Plchova, 2001). But the government had its second worry about the stability of the exchange rate at the same time. The truth is that the set of the (hopefully balanced) exchange rate was a wild estimation. Foreign advisers gave the government

<sup>2</sup> There were three governments in Czechoslovakia at that time – the Czech, the Slovak and the Federal government.

<sup>3</sup> At the same time, any company that sold their goods abroad had obligation to sell all foreign currencies that they gained from this trade to the central bank.

a wide range of recommendations about it. Klaus<sup>4</sup> still claims that the setting of the exchange rate was the most difficult task in the whole transformation process. The government was not sure about the value of the korunas and only hoped that this would not lead to immediate outflow of the currency reserves that were needed to defend the fixed exchange rate regime. This was the main reason for establishing the temporary import surcharge at the value of 20 %. During the following year the government realized that this additional help was not needed and that the Czechoslovak currency reserves were not leaking. As a consequence the surcharge was gradually dismantling during the following 2 years (till the end of 1992).

To sum it up we can see that the first measures applied in the field of international trade were mixed – some of them increased competition on the inner market – currency convertibility and declining of tariffs. But others gave the companies time to adapt to the new situation by steep devaluation of the currency and the temporary import surcharge. In comparison to other countries this mixture was relatively bold especially if we take into consideration that the import surcharge quickly disappeared and the currency was continuously appreciating in the real terms.

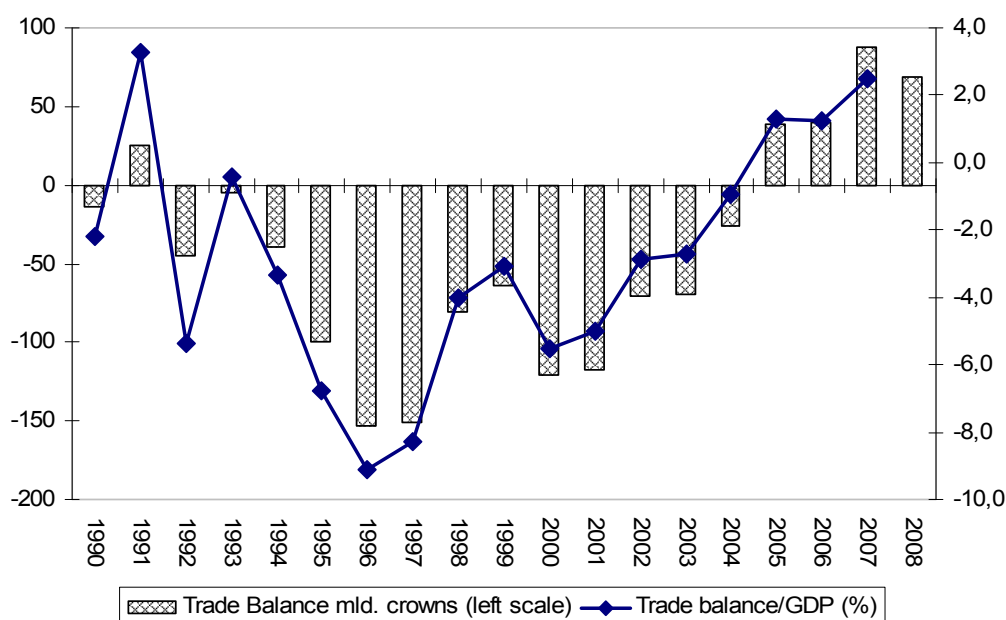
Do we have any evidence of the strength of these measures? Was the environment too tough or too weak? The evidence is only indirect and the answer

is unclear. Foremost we should stress that the trade balance was roughly in order. There was even a small surplus in 1991 and it was followed by a small deficit in the following year. This could be the main proof that the initial settings were reasonable.

It is true that the trade balance in the middle of the first transformation decade fell into deficit and it can be considered as one of the causes of the outflow of foreign capital that induced the currency crisis in 1997. But it seems that the currency crisis was more a result of overvalued currency and insisting on keeping of the fix exchange rate than a general problem of trade. The initial settings of the trade environment had only limited effect on the situation in 1996. Additionally the currency crisis brought only relatively small devaluation to the previous central parity and the koruna quickly returned to its previous state. In the following years the koruna appreciated in nominal terms.<sup>5</sup> The development of the trade balance can be seen in the following figure.

Furthermore, the deficits of the current account were typical for all the transforming countries (with the exception of Slovenia) regardless of their attitude towards trade policy, as we can see in the following table. It seems that the deficit is natural during a period of necessary improvement of technological state of the economy during transformation.

On the other hand, we can even see indirect evidence that the initial conditions were too weak for the companies. The proof could be found in



1: Balance of trade (billions of korunas; and to GDP in %) 1990–2008

Source: Czech Statistical Office, Statistical yearbooks

<sup>4</sup> Klaus, at that time Ministry of Finance; later on the prime minister and the contemporary president of the Czech Republic.

<sup>5</sup> Trade is in surplus even if currency is still appreciating recently.

II: *The share of the current account balance to GDP between 1990 and 2004 (in %)*

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Czech R.						-2.5	-6.7	-6.3	-2.1	-2.4	-4.7	-5.3	-5.7	-6.3	-5.3
Hungary	1.1	1.2	0.9	-10.8	-9.5	-3.6	-3.8	-4.3	-7.0	-7.7	-8.5	-6.0	-7.0	-8.0	-8.4
Poland	1.9	-0.4	1.0	-1.3	5.3	0.6	-2.1	-3.7	-4.0	-7.4	-6.0	-3.1	-2.8	-2.5	-4.0
Slovakia				-4.9	4.3	2.0	-9.9	-8.5	-8.9	-4.8	-3.5	-8.3	-7.9	-5.9	-7.8
Slovenia			5.8	1.7	4.3	-1.5	0.3	0.3	-0.7	-4.0	-3.2	0.2	1.1	-0.8	-2.7

Source: IMF: World Economic Outlook Database, 2011

the development of the Czech unemployment rate. Trade was deemed to be one of the sources of the restructuring for the economy that it badly needed. As a consequence, we should be able to detect quick growth of unemployment since the beginning of the transformation process. On the contrary, unemployment rate in the Czech Republic was very low in the first years (de facto till the economic crisis in 1997). But the unemployment rate is again a consequence of a mixture of different aspects and slow restructuring is only one of them.

To sum it up, if we take into consideration quick growth of both of exports and imports since the very beginning of the transformation process and low deficit in the trade balance at that time, it seems that the economy (the producers) was able to quickly adapt to the new situation and the initial settings helped it.

### Changing international conditions

The situation of Czech(oslovak) trade was complicated due to unfavourable international conditions. That was foremost decline in trade among the members of the COMECON that affected all the countries of the Eastern block. The most important cause was in our point of view in the transformation recession that occurred, with different strength, in all the countries. They (of course) suffered from direct impact of the disintegration of the COMECON as well. On the other hand, the organization had hardly any purpose under the new economic conditions. And there were additional factors in the form of decline in demand for goods from other ex-centrally planned economies caused by hunger for goods from the developed countries or the shift in the payment conditions to convertible currencies. The data about the situation at the beginning of

the 1990s are notoriously problematic but it seems that Czechoslovakia was one of the most affected countries in the region as we can see in the following table.

At the same time exporters had problems to adapt to the situation in the developed markets because of lack of knowledge about the functioning of these markets and lack of basic skills (marketing for example). The whole structure of so-called foreign trade companies was dismissed because the production companies were not willing to pay them any more. This institutional shift had negative impact on exports. At the same time, the access to the developed markets was generally not easy at the beginning. But there was one utmost problem obstructing Czech(oslovak) exports to the developed markets and it was the quality of the production, that we have already mentioned.

In the following years, the economy was more and more integrated into the world markets. There were positive aspects of the membership in the WTO and other international organizations as well as agreement with the EC (later the EU) among others about liberalization of the trade. There was an aspect of nominal increase in international trade as an indirect consequence of the splitting of Czechoslovakia in 1993. It meant that former inner trade became international. The successional countries held a tariff union till their entrance to the EU in 2004.

All the Czech governments were generally keeping liberal trade policy during the transformation years. The following table with average tariffs can be used as evidence.

The indirect proof of liberal trade policy can be seen in the following table that shows importance of tariffs on the incomes of the central governments in Central and Eastern European countries in 1998.

III: *Exports to COMECON markets (mil. USD)*

	1989	1990	1991	1992	1993	% decline between 1989 and 1993
Czech Republic*	5 103	3 422	2 045	1 103	1 009	80,2
Bulgaria	7 967	5 887	1 892	1 103	1 009	87,3
Hungary	4 009	2 933	2 710	2 981	3 122	22,1
Poland	4 395	4 000	1 799	1 476	1 461	66,8
Rumania	3 890	2 083	1 089	702	720	81,5
Slovakia	1 827	1 169	1 376	1 200	1 130	38,1

\* without inter Czechoslovak trade

Source: Jonáš, Ekonomická transformace v České republice, 1997; own calculation



## IV: The development of average tariffs (unweighted in %)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Czech R.	5.3	-	-	4.8	4.8	5.0	7.7	7.3	6.9	6.8	6.5	6.1	6.0	6.0
Hungary	-	12.7	12.6	8.5	8.5	-	15.2	14.3	13.3	12.4	11.9	11.7	9.5	9.5
Poland	-	12.2	11.7	8.5	8.5	11.6	18.7	13.1	-	15.9	14.5	12.6	13.9	13.9
Slovakia	-	-	-	-	-	8.0	-	8.1	6.9	6.4	6.1	6.1	5.0	5.0

Source: Jandova, Komparace zahraničního obchodu Maďarska a Polska (1990–2006), 2007

## V: The share of tariffs on the incomes of the central governments in 1998 (in %)

Bulgaria	6.0
Czech Republic	2.3
Hungary	3.6
Poland	3.1
Rumania	5.6
Slovakia	5.2
Russia	8.7

Source: Gros, Steinherr, Economic Transition in Central and Eastern Europe, 2004

The last significant aspect of trade was membership of the country in the EU. It was another additional reason for deepening of economic integration.

In the last part of the text we tried to show the most important aspects of the international conditions that affected Czech trade. Now we can concentrate on general results of the trade development.

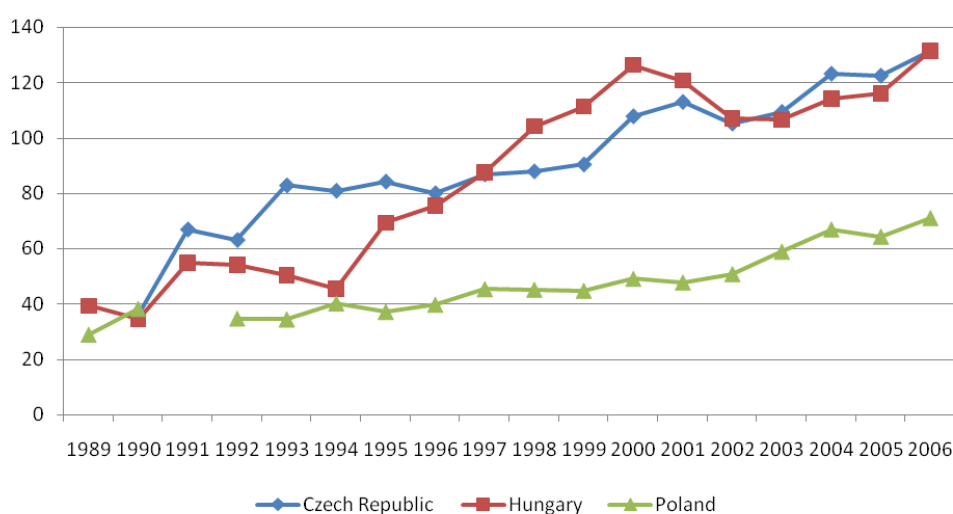
### Integration into the world economy

The transformation period is foremost a period of opening and integration into the world markets. In this subchapter, we concentrate on the main statistical indicators of this development. We analyse the changes in the volume, territorial and commodity structure in specific. The initial quick liberalization of international trade led to growth

in exports and imports. We can see in the following chart that the level of openness quickly (within 3 years) increased to 80 % of GDP. This process slowed down later on but accelerated again at the turn of the century and then again after the admission to the EU. The volume of trade increased from 339 billion CZK in 1990 to over 4,870 billion in 2007 (ČSÚ, www.czso.cz).

The economy turned from closed at the end of the communist regime to one of the most open economies in the world – see the following table. This state is of course partly a consequence of a relatively small size of the Czech economy. Regardless of this, the economy had to go a long way in the process of integration into the world markets. Meanwhile, improvements of the quality of the production needed to be high because the producers were able to stand competitive pressures after the admission to the EU, even if the currency was continuously appreciating in real and mostly even in nominal terms.

After showing general growth in the volume of trade, we can turn our attention towards territorial and commodity structure of Czech trade. Important changes took place in both of the aspects. Territorial structure of trade quickly changed from the Eastern to the Western markets as we can see in the following chart. The importance of the Eastern markets declined already at the beginning of the 1990s as a consequence of the events that we have already described on the previous pages. International



2: The share of trade (exports plus imports) in GDP (in %)

Source: EBRD: Selected economic indicators data

VI: Exports of goods and services (% of GDP) in 2008

Rank	Country Name	2008
1	Singapore	220.5
2	Hong Kong SAR, China	212.5
3	Luxembourg	179.8
5	Malaysia	103.3
8	Belgium	85.7
10	Slovak Republic	83.0
11	Ireland	82.6
12	Hungary	81.4
17	Czech Republic	77.1
18	Netherlands	76.6
21	Estonia	75.6
29	Slovenia	67.7
43	Bulgaria	58.2
49	Denmark	55.2
53	Sweden	53.3
55	Korea, Rep.	53.0
66	Germany	47.5
68	Finland	47.0
83	Euro area	41.7
88	Poland	40.0
119	Russian Federation	31.2
129	World	29.3
131	United Kingdom	29.2
182	United States	12.8

Source: World Bank, 2011

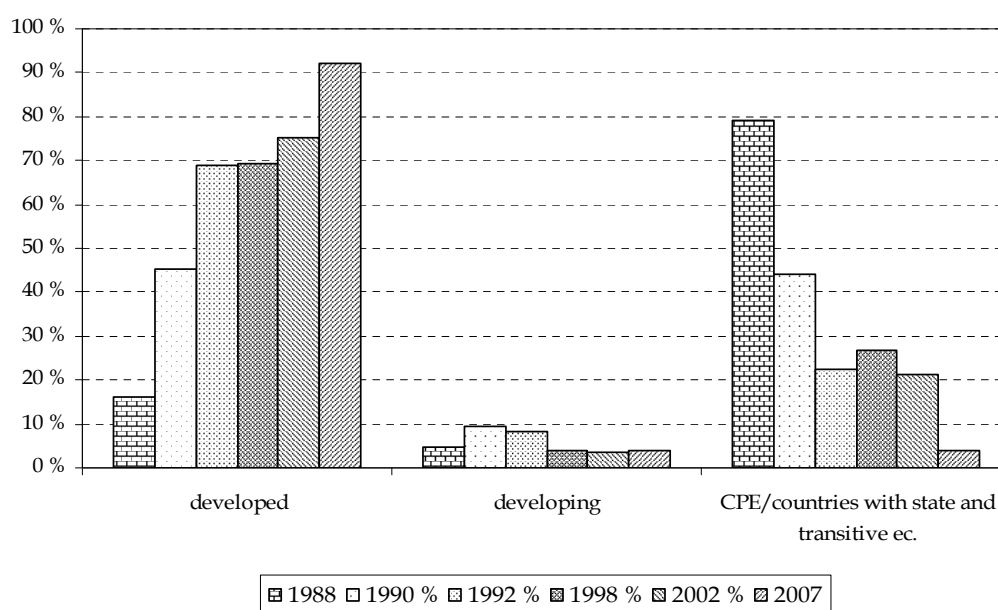
exchange pointed at the developed markets with Germany as the main trading partner for Czech exports (as well as the biggest importer). At the

same time, we can recognize decline in the share of trade with the post-communist countries. This trend continued in the following years and growing share of trade was carried out with the developed countries.

We can detect similar trends in imports as in exports. It means growing share of the developed countries that account for more than 80 % of all imports. The main difference is in the role of China that is counted among countries with state and transitive economies. As a consequence, the share of these countries imports is slightly bigger than their share of exports.

The state of the trading partners before the world economic crisis can be seen in the following table. We can recognize the importance of Germany for the Czech economy. The other notable partners are among the neighbouring countries. The country has deficits with Russia due to imports of raw materials and foremost energies and with China.

The third view on international trade can be seen through the lens of commodity structure. The development of this aspect is interesting as well – especially on the side of Czech exports. There were discussions and criticism in the first years of the 1990s about changing the structure towards exporting of raw materials and semi-manufactured goods or generally goods with lower added value. At the same time, there was a drop in Czech traditional export (machinery and vehicles – SITC 7). This development can be seen in the following chart. There were worries that this trend was permanent and the Czech Republic had become a producer of “stone and woods”. These worries turned out to be false and the trend was reversed in the following years. Later on, the share of exports in the form



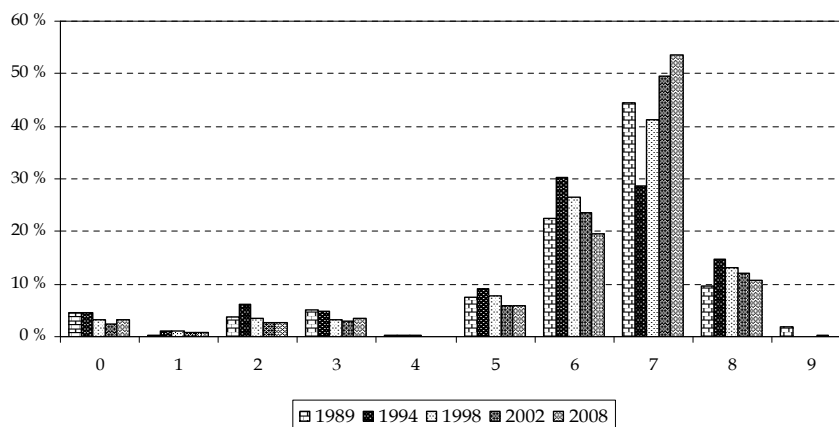
3: Territorial structure of exports from the CR in 1988–2007 (in %)

Source: Czech Statistical Office, Statistical yearbooks

VII: *Main trade partners in 2008*

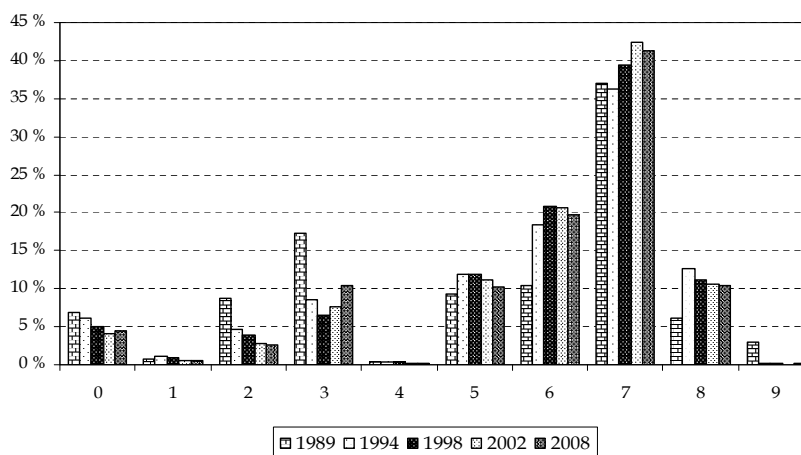
Country	Turnover		Exports		Imports		Balance
	mil. CZK	%	mil. CZK	%	mil. CZK	%	mil. CZK
Germany	1 397 869	28.70	758 001	30.7	639 868	26.7	118 133
Slovakia	361 621	7.40	227 574	9.2	134 047	5.6	93 527
Poland	299 231	6.15	159 334	6.5	139 897	5.8	19 437
France	229 551	4.75	131 941	5.4	97 610	4.1	34 331
GB	176 238	3.60	118 273	4.8	57 965	2.4	60 308
Austria	205 781	4.25	117 111	4.8	88 670	3.7	28 441
Italy	222 132	4.60	114 833	4.7	107 299	4.5	7 534
Holland	169 921	3.50	96 163	3.9	73 758	3.1	22 405
Hungary	135 064	2.75	70 083	2.8	64 981	2.7	5 102
Russia	220 901	4.55	67 538	2.7	153 363	6.4	-85 825
China	225 525	4.70	13 163	0.5	212 362	8.9	-199 199
USA	93 548	1.95	43 191	1.8	50 357	2.1	-7 166

Source: Czech Statistical Office, 2011



Classification to SITC groups is the following: 0 – food and animals; 1 – drinks and tobacco; 2 – raw materials (excluding fuels); 3 – mineral fuels; 4 – animal and plant fats; 5 – chemicals; 6 – intermediate products; 7 – machinery and vehicles; 8 – various industrial products; 9 – other.

Source: Czech Statistical Office, Statistical yearbooks



Source: Czech Statistical Office, Statistical yearbooks



of machinery and vehicles even overcame the percentage from the end of the communist period.

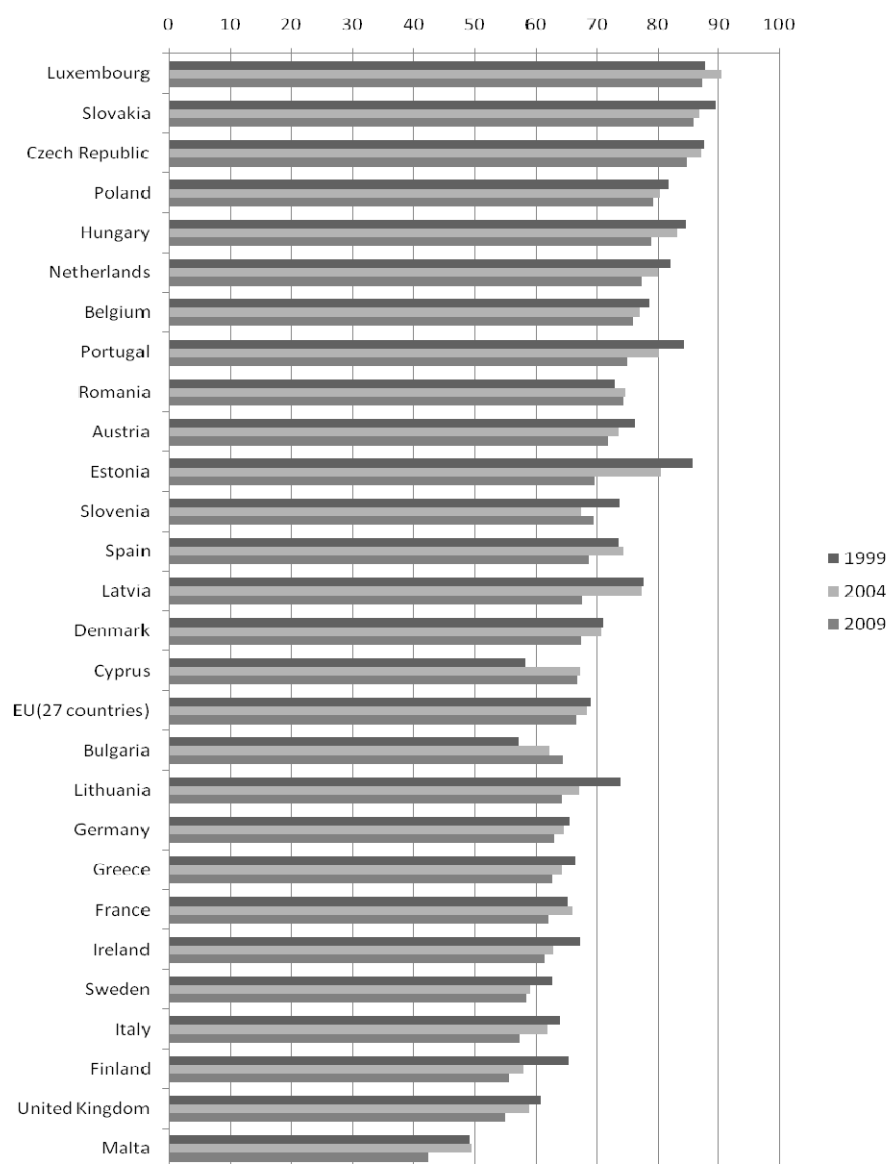
The development of imports structure was less dramatic. We can see general trends in increasing of the share of machinery and vehicles and decline in the role of raw materials in Czech imports. The exception is the SITC category 3 that covers mineral fuels. Not surprisingly, the importance of this category was increasing with growing price of petrol on the world markets.

To summarize the development, we could see that all the aspects of international trade were enormously changing during the transformation period. Foremost the economy opened. At the same time, companies targeted most of their exports at the demanding markets of the developed countries. And commodity structure shows that the economy is

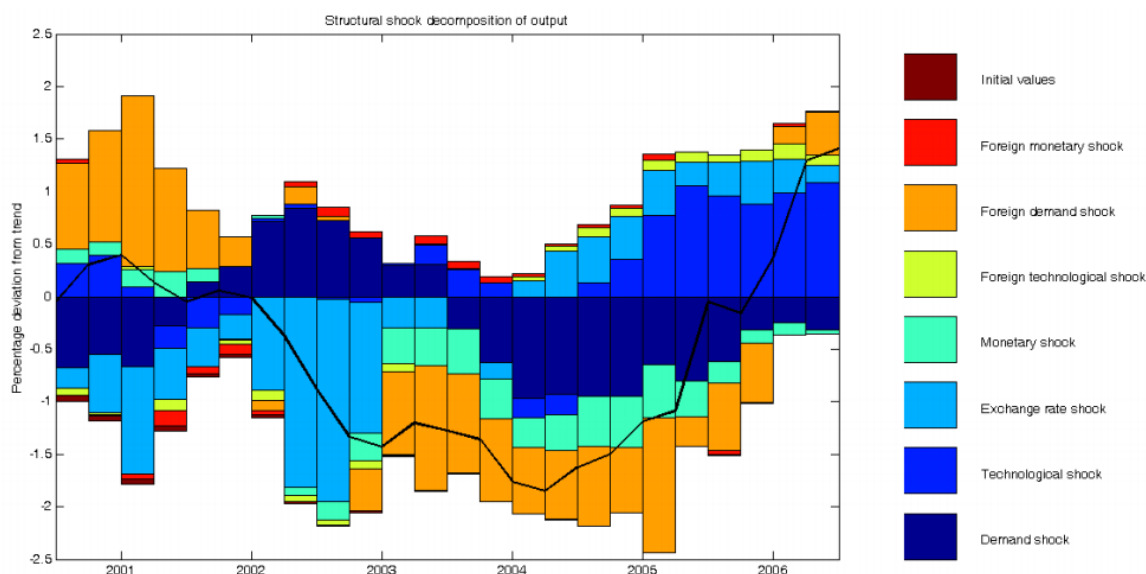
producing (and exporting) goods with higher added value (it is not depended on exporting raw materials or semi-manufactured goods). These points could be taken as an indirect proof of enormous structural changes that have taken place in the Czech economy following 1990. But at the same time there is an aspect that is more problematic and should not be omitted.

### DISCUSSION – PROS AND CONS OF HIGH DEPENDENCY

The main advantage and at the same time the main disadvantage of the contemporary state is the dependence on the outside world. The level of dependency is clearly visible from the previous pages. We can add the following table that shows the



6: Share of exports to EU in total exports (%) in 1999, 2004 and 2009  
Source: Eurostat, 2011



7: *Decomposition of Czech GDP per capita shock 2001–2006*

Source: Motl, Vašíček: *The structural View of the Czech Business Cycle*, 2011

share of exports that go to the EU markets. We can see that the Czech Republic is one of the countries with the highest dependency.

In most cases growth in trading partners' economies (Germany) leads to positive results for the economy and the economy follows the path of the export led growth (Němec, Žídek, 2011). But at the same time, negative world environment projects into the Czech economy. The importance of the foreign markets was of course enormously increased with growing share of trade to GDP. An example can be the recent economic crisis because it seems that there were negligible domestic causes for the crisis and it was de facto imported from abroad. We can see the dependency and the growing impact of the foreign influences in the following figure. This trend is without any doubt the fate of all small open economies all around the world especially if their growth is export driven.

## CONCLUSIONS

The Czech economy has made enormous progress in the last 20 years. One of the achievements and (causes of it) is the development of trade. The Czech economy has deeply integrated into the world economy. The foundations of this development were laid already at the beginning of the transformation process when the reformers decided for a quick opening of the economy to international competition. This risky step led to an increase in both exports and imports and it was one of the sources of economic growth for the country in the following years. But at the same, it led to growing dependency on the outside world especially on the countries of the European Union. This dependency became clearly visible in the course of the recent world crisis, when the economy was pulled down.

## SUMMARY

The aim of the paper is to evaluate the development of Czech trade in the last twenty years. The economy has enormously changed during the time and in the author's view this change often remains unnoticed. In the first chapter we remind that the economy was significantly closed at the end of the communist reign – exports to GDP reached barely 20 %. Additionally, most of the trade was directed to the COMECOM markets (more than 80 %) because the exporters were not able to sell Czech(oslovak) production in the demanding western markets. Most of the exports to the west consisted of goods with low added value in the form of raw materials or semi-manufactured goods. In the following subchapter, the paper describes the most important steps taken on the way to open and highly integrated contemporary Czech economy. We argue that foundations of these changes were laid already at the beginning of the transformation process when the reformers decided for quick opening of the economy as a tool to increase competitive pressure on the domestic monopolies. This (brave) step was not self-evident because there was discussion about this decision among the economists at that time. The Czechoslovak and later on the Czech governments kept the path of low barriers for

international trade and deepening integration into the world economy during the whole period, despite the fact that the international conditions were (especially in the first half of the 1990s) difficult. In the next subchapter we come to conclusions about the overall changes of the state of Czech trade. Foremost, the economy has fully integrated into the world economy and today represents one of the most open economies (exports to GDP achieve 70 %). At the same time, absolute majority of exports (more than 90 %) are targeted at the demanding western markets. And the structure of the trade reveals that the country is mostly exporting goods with higher added value. The author would like to stress these achievements, believing that they are at minimum indirect proof of enormous structural changes in the Czech economy. At the same time, there are pros and cons of the contemporary state of high level of integration. The pros appear predominantly when the economy is pulled up by the growing economies of the trading partners. The cons are visible during periods of low or declining economic growth (or the recent world economic crisis) that pull the Czech economy down.

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