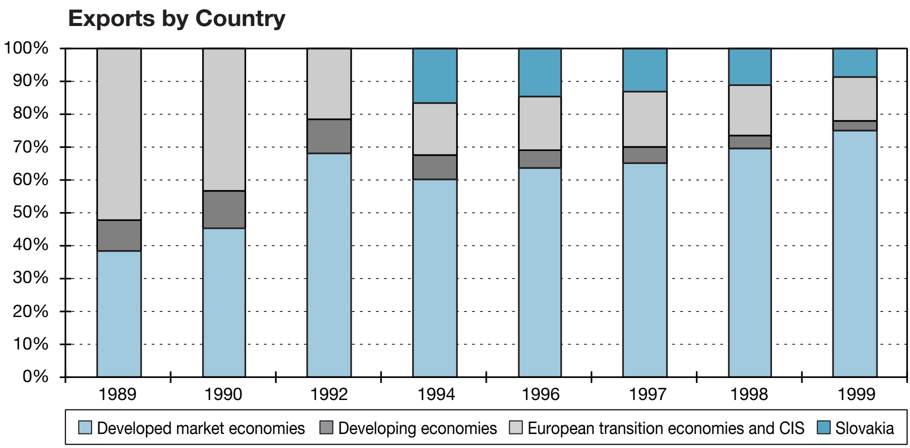
V. FOREIGN TRADE

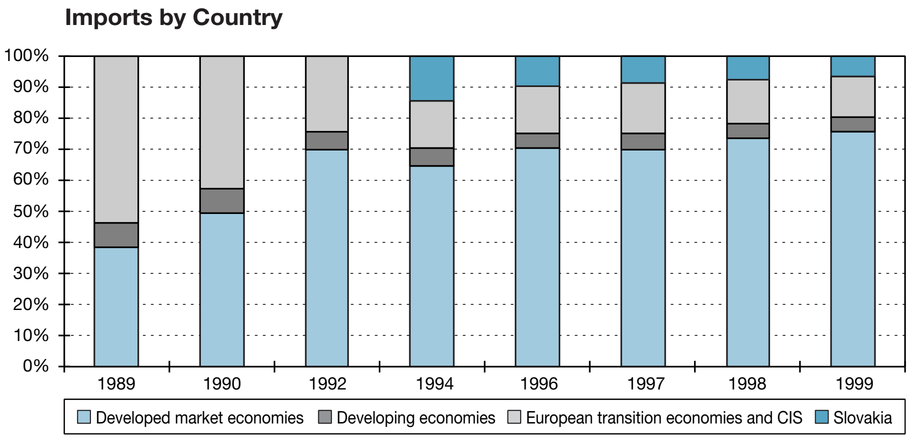
For the Czech Republic, international trade is a very important issue. The openness measured as a ratio of trade volume (imports and exports) to GDP is quite high at 1.1 (This ratio for the USA is around 0.2). This implies that outside factors, such as economic growth of major trading partners, play a very important role in the Czech economy. At the beginning of the transition the current account was positive. However, since 1994 the trade situation has deteriorated and there has been a permanent trade deficit throughout the recent years. Recent trends in the data show that the Czech foreign trade is improving (the growth of exports has been higher than the growth of imports for several quarters) even though the trade deficit in 1999 (January – November) is 51.8 billion CZK, and in 2000 the current account might be even positive.

V.1 Exports and Imports by Groups of Countries



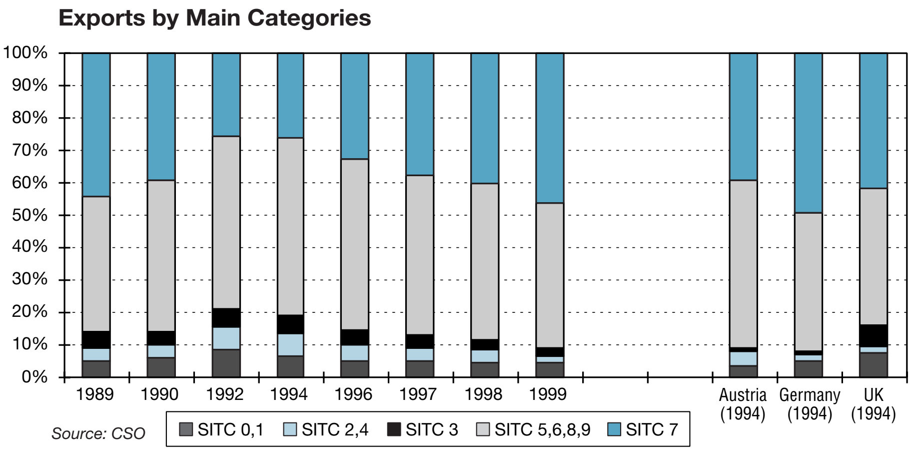
Source: CSO

The regional composition has changed drastically since 1989. The EU countries, especially Germany, completely replaced previous trading partners from the CEE and the former Soviet Union and currently account for about 75 per cent of total trade. The next major trading partners are developing countries with about a 20 per cent share, in which the Slovak Republic (SR has special trade regime with the Czech Republic) accounts for 7 per cent and the former Soviet Union for 5 per cent. The role of countries other than the EU in Czech exports and imports is slowly decreasing over time.



Source: CSO

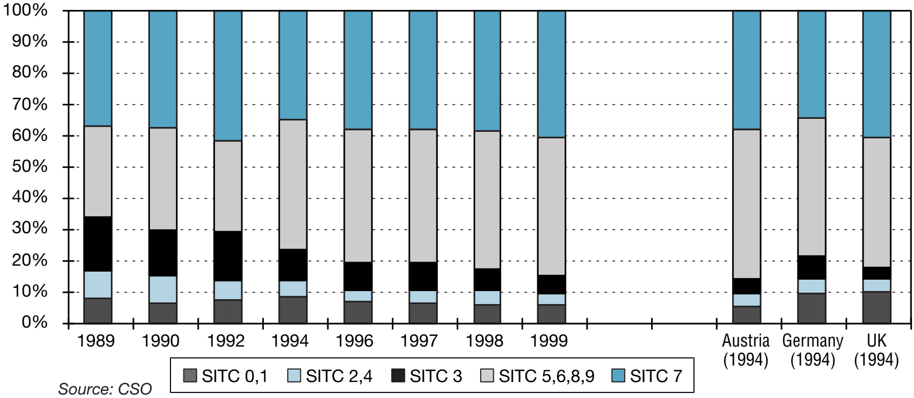
V.2 Export and Import by Commodity Groups



Source: CSO

The share of labor intensive goods (SITC 0 – SITC 4) out of total imports is decreasing over time. The only exception is the group which represents oil, gas and electricity. This group, by far the biggest (between 10 and 8 per cent) of labor intensive goods, has experienced a sharp contraction of its share since the end of 1997. However, this trend was reversed in the second quarter of 1999 as a reaction to an agreement among OPEC countries. The share of capital intensive goods (SITC 5 – SITC 9) out of

Imports by Main Categories



Source: CSO

total imports is slightly increasing. The share of labor intensive goods out of total exports has decreased (SITC 0, 2 and 3 – from 6 to 3 per cent). On the contrary, capital intensive goods are increasing their proportion of total exports. There is a profound upward trend in the group with the highest share – SITC 7, manufacturing and transport equipment (from 30 to 45 per cent of total exports).

Classification Scheme of the SITC, rev. 3

Category	
0	Food and live animals
1	Beverages and tobacco
2	Crude materials
3	Fuels and related products
4	Animals and plant oils, fats and wachs
5	Chemicals and related products
6	Intermediate manufactured products
7	Machinery and transport equipment
8	Miscellaneous manufactured articles
9	Other commodities and products of trade

Source: External Trade in 1998 (CSO publication)

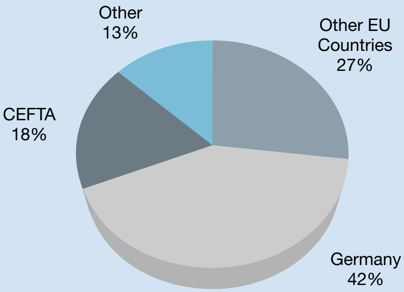
For an overall picture, it is better to see how exports and imports evolve together over time. First, the ratio of exports to imports of capital intensive goods has fallen below one, which means that the Czech Republic has been importing more than exporting. The fall of this ratio is easily observable until the end of 1996. Since then the ratio started to grow again, crossing the "magic" level of one near the end of 1999. The group of labor intensive goods behaved rather similarly, except that there was no rebound, and after the fall the ratio stabilized at around 0.6 and remained steady with only minor fluctuations between 1997 and 1999.

From the above mentioned facts one could observe that the Czech Republic is exporting more and more goods with high value added, and it is no longer seen as a country having a comparative advantage only in cheap labor, which is certainly a good sign for the economy.

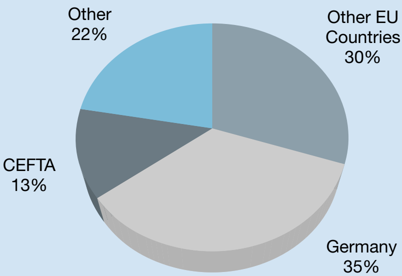
Central European Free Trade Agreement (CEFTA)

As a parallel process to European East-West integration, liberalization among the CEECs took place. All CEECs governments, despite the overwhelming differences in their approaches are stressing the importance of liberalization. Although formal cooperation among the CEECs and their links to the European Union could develop into an analogy of the European Economic Area, it is expected that this development would not lower the interests of the CEECs in full membership in the European Union.

Czech Exports by Group in 1999



Czech Imports by Group in 1999



The original agreement, signed in Kraków, Poland in December of 1992, went into effect in March 1993, with four member states: Czech Republic, Hungary, Poland and Slovakia. The aim is to support mutual trade in both agricultural and industrial products leading to the creation of a free trade zone among member states by the year 2001. Since that time, Slovenia, Romania and Bulgaria have joined the trade agreement. The present agreement covers a landmass stretching from the Baltic to the Adriatic Sea, and encompasses 100 million people.

Many other countries seem likely candidates for CEFTA membership. Notables have been the Baltic States who already meet the criteria for CEFTA membership. However, these states already have their own regional agreement (BFTA), so the question becomes would they be interested in joining CEFTA. Many of the countries of the former Yugoslavia have expressed interest such as Croatia, Bosnia and Herzegovina, Macedonia, Serbia and Montenegro. However, as of now these countries do not meet all the requirements.

The founding charter of CEFTA sought a complete free trade zone, but as we enter the new millenium, we see no clear results. In the area of industrial goods, only 10 per cent of products are still subject to customs duties. However, this group includes essential industrial components such as motor cars, textiles and steel. Full liberalization of the industrial sector is envisioned between 2000-2004. 80 per cent of all *protectionist trade measures instituted by CEFTA states are on agricultural goods. However, the removal of trade barriers in the agricultural sector has been very slow to come and no single agreement was reached at the recent agro-talks which ended with in-fighting. Czech agricultural trade with the six CEFTA countries currently accounts for 10 per cent of total trade. While the sector is currently slated for full liberalization by 2004, the prospects of reaching this goal are diminishing rapidly.*

The Czech Republic imports only 13 per cent of all goods from CEFTA states, whereas it imports 35 per cent of all goods from Germany alone. With regard to exports, only 18 per cent go to CEFTA countries whereas 69 per cent go to EU states. Much of these patterns could be attributed to the difference in products produced by the CEFTA states and the EU states. In absolute terms, trade between the CEFTA nations has increased. However, in relative terms, the trade among CEFTA nations has become stagnate, whereas each CEFTA nation has increased their trade with the EU-15 in both absolute and relative terms.

With each country's economy focusing on different sectors, high levels of protectionism and different levels of development will persist. The situation may only get worse as the race to EU membership heats up as the final stages of ascension talks draw near.

Intra-CEFTA Trade (millions of USD)

	1993	1994	1995	1996	1997	Index 97/93
Czech Rep.						
Export	3,488.9	3,258.5	4,348.3	4,943.6	4,907.1	140.7
Import	2,745.7	2,718.1	3,883.3	3,886.4	3,645.9	132.8
Hungary						
Export	461.6	565.2	757.4	1,162.9	1,387.2	300.5
Import	655.3	900.3	982.3	1,253.8	1,377.7	210.2
Poland						
Export	680.4	823.0	1,244.9	1,490.8	1,738.1	255.5
Import	682.2	918.5	1,624.0	2,160.5	2,652.2	388.8
Slovakia						
Export	2,716.0	3,057.0	3,778.0	3,656.0	3,419.0	125.9
Import	2,483.0	222.6	2,757.0	3,225.0	2,931.0	118.0
Slovenia						
Export			403.2	450.7	504.2	
Import			633.7	615.8	704.9	
Romania						
Export				293.6	341.7	
Import				540.9	641.5	

Source: The Role of CEFTA in the Process of EU Enlargement, Institute of International Relations, Prague 1999.