

Development of the Czech **International Trade**

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The structure of the lecture

- A. Theory
 - economic theory and international trade
 - factors with impact on the trade
- B. Development of Czech (oslovak) trade
- C. Comparison of changes in trade

A. Economic theory

- trade \Rightarrow \uparrow division of labour \Rightarrow specialization \Rightarrow better use of our sources \Rightarrow \uparrow productivity
- + trade deals are voluntary = both sides are better off (otherwise they don't do it)

balance of payment

- current account (CA)
 - trade balance
 - balance of services
 - transfers
- capital account
- financial account
 - foreign direct investment
- +/- reserves of foreign currency

- generally speaking there is nothing wrong with DEF of the CA

- **measure opening of the economy -**
EX/GDP*100 or IM/GDP*100 or
EX+IM/GDP*100
- **absolute advantage** country A produces a commodity more effectively than country B
- **comparative advantage** – trade is positive even for countries without absolute advantage

	x	y	x*	y*
A	8	6	16	0
B	2	3	0	6
C	2	3	0	6
D	2	3	0	6
SUM	14	15	16	18

	product	consumption	export	final consumption
A	16x	9	7	$9x + 8,4y$
B	6y	3,2	2,8	$2,33 + 3,2y$
C	6y	3,2	2,8	$2,33 + 3,2y$
D	6y	3,2	2,8	$2,33 + 3,2y$

Factors with impact on trade

- **trade policy**
 - liberalism X protectionisms
 - tariffs and quotas
 - antidumping (social or ecological antidumping)
- **economic development** inside and outside the country
 - economic $\uparrow \Rightarrow \uparrow$ IM
 - economic \uparrow in main trade partners $\Rightarrow \uparrow$ EX
 - economic policy expansive X restrictive
- **economic integration (CEFTA)**

- international organization (WTO) or agreements (CR and EU)
- **exchange rate**
 - **convertibility of currency** – ability to exchange it to other currencies
 - **system** \Rightarrow fix/ float
 - development of inflation (Π)
 - impact of changes on international trade
 - devaluation \Rightarrow
- terms of trade
 - $R_c = I_e / I_i * 100$
 - I_e -index of export prices
 - I_i - index of import prices

B. Development of Czech trade

- **1. Situation before 1989**
- **2. Liberalization of trade**
- **3. Following development**

1. Situation before 1989

- during the socialist period:
 - commodity: traditional light industry \Leftrightarrow heavy
 - from western markets \Leftrightarrow members of the Council for Mutual Economic Assistance - COMECON (especially the Soviet Union)
 - export and import were under state plan
 - home prices were disconnected from the world prices

Before 1989

- about 60% of EX and IM to the countries without convertible currency – CPE, developing ones
- EX to the East - goods with relatively higher added value
 - X to the West with relatively low processing
- IM from the East raw materials
 - X from the West machinery and vehicles
- strict control of the trade
 - 50 organizations controlling international trade
- ratio turnover/GDP relatively high, but the economy in fact closed

2. Liberalization of international trade

- 1990
 - steps to relax business environment including international trade – end of trade monopoly
 - Czechoslovak crown 3 times devaluated
 - crown undervalued \Rightarrow ”exchange rate pillow”
 - fixed exchange rate (!)

1991

- quarrels about trade liberalization at the beginning of the transition
 - „+“ X monopolistic structure of the economy – worries of inflation pressures
 - „-“ ↓ in demand because households would buy foreign production ⇔ ↓ in domestic production
- liberalization at the beginning of 1991
 - since 1st of January 1991 every firm could acquire foreign (hard) currency
 - ↓ of most tariffs – (average tariff 5%)
 - but simultaneously IM tariff (20%) on most of the IM of consumption goods (soon ↓) – worries of outflow of reserves
 - + IM and EX licences on some commodities (drugs, weapons, ...)

3. Following development

- reorientation of the trade \Rightarrow \downarrow IM from the East strong \uparrow \uparrow IM from the West \Rightarrow def CA
- \uparrow EX to the West
- \uparrow IM of machinery, vehicles, industrial products and finished goods
- \downarrow EX machinery, vehicles and \uparrow raw materials
- end of 1991 European treaties – with EC
 - asymmetric – EC liberalized 70% (5-6 year the rest) of cs IM and CSR 20-25% of European IM (9 year)
- since 1992 permanent \downarrow in protection
 - GATT, WTO, EU

Decline of trade with ex-CPE

- break up of the Council of Mutual Economic assistance (1991)
- change of the paying conditions to hard currencies (\$, DM, ...) – universal shortage
- economic decline in ex CPE \Rightarrow \downarrow IM
- substitution of IM goods from CPE to developed countries

- 1993 splitting of Czechoslovakia
 - nominal \uparrow of trade because inner trade became international $\Rightarrow \uparrow$ EX 25% and IM 21%
 - but another trade barrier even if there was custom union (common duty policy against third parties and no tariffs between the CR and the SR)
- 1995 strong increase in GDP
 - \Rightarrow trade imbalance = DEF of trade balance 7% of GDP
 - \Rightarrow DEF CA 2,6% GDP
- 1996 – \uparrow imbalance
 - \uparrow EX only 3,5% X \uparrow IM 12,2% \Rightarrow DEF CA = 7,4% GDP $\Rightarrow \Rightarrow$ DEF whole BP

financial crisis 1997

- \uparrow imbalance
 - \downarrow dynamic of EX \Rightarrow \uparrow DEF CA $\Rightarrow \Rightarrow$ attack on crown \Rightarrow floating currency + monetary and fiscal tightening $\Rightarrow \Rightarrow$ \downarrow of economic growth + \downarrow of foreign imbalance
 - since 2nd quarter $\uparrow \uparrow$ of EX $>$ \uparrow IM \Rightarrow \downarrow DEF CA = 6,1% GDP but still DEF BP
- 1998 - consolidation
 - \uparrow EX 17.7% and \uparrow IM 7.8%
 - \downarrow DEF CA (only 1.9%)
- 2000 \uparrow of oil prices + depreciation against \$

Czech trade

	export mld. Kč	import mld. Kč	balance mld. Kč	turnover mld. Kč	change EX %	change IM %	change turnover %	GDP mld. Kč	EX/GDP %	IM/GDP %	turn/GDP %	balance TB/GDP %	CA mld Kč	CA/GD %
1990	162,5	176,2	-13,7	338,7				626,2	26,0	28,1	54,1	-2,2		
1991	233,6	208,8	24,8	442,4	43,8	18,5	30,6	753,8	31,0	27,7	58,7	3,3		
1992	248,1	293,4	-45,3	541,5	6,2	40,5	22,4	842,6	29,4	34,8	64,3	-5,4		
1993	421,6	426,1	-4,5	847,7	69,9	45,2	56,5	1 020,3	41,3	41,8	83,1	-0,4	13,3	1,3
1994	458,8	498,4	-39,6	957,2	8,8	17,0	12,9	1 182,8	38,8	42,1	80,9	-3,3	-22,6	-1,9
1995	566,2	665,8	-99,6	1232	23,4	33,6	28,7	1381	41,0	48,2	89,2	-7,2	-36,3	-2,6
1996	601,7	754,7	-153	1356	6,3	13,4	10,1	1567	38,4	48,2	86,6	-9,8	-111,9	-7,1
1997	709,3	859,7	-150,4	1569	17,9	13,9	15,7	1679,9	42,2	51,2	93,4	-9,0	-113	-6,7
1998	834,2	914,5	-80,3	1749	17,6	6,4	11,5	1839,1	45,4	49,7	95,1	-4,4	-40,5	-2,2
1999	908,8	973,2	-64,4	1882	8,9	6,4	7,6	1902,3	47,8	51,2	98,9	-3,4	-50,6	-2,7
2000	1121	1242	-120,8	2363	23,4	27,6	25,6	1984,8	56,5	62,6	119,1	-6,1	-104,9	-5,3
2001	1270	1386	-116,8	2656	13,2	11,6	12,4	2175,2	58,4	63,7	122,1	-5,4	-99,8	-4,6
2002	1250	1325	-74,9	2576	-1,5	-4,4	-3,0	2275,6	54,9	58,2	113,2	-3,3	-144,5	-6,3

1990-1992 without Slovakia

C. Comparison of changes in **trade**

- 1. Volume of trade
 - factors of growth
- 2. Territorial structure
 - factors of changes
- 3. Commodity structure

1. Volume of trade

- ↑ in the volume
 - ↑ turnover from 339 bil. Kč in 1990 to 2 357 bil. Kč in 2000
 - ↑ of turnover /GDP from 54% \Rightarrow > 100% GDP
 - the country one of the most open in the world

k1

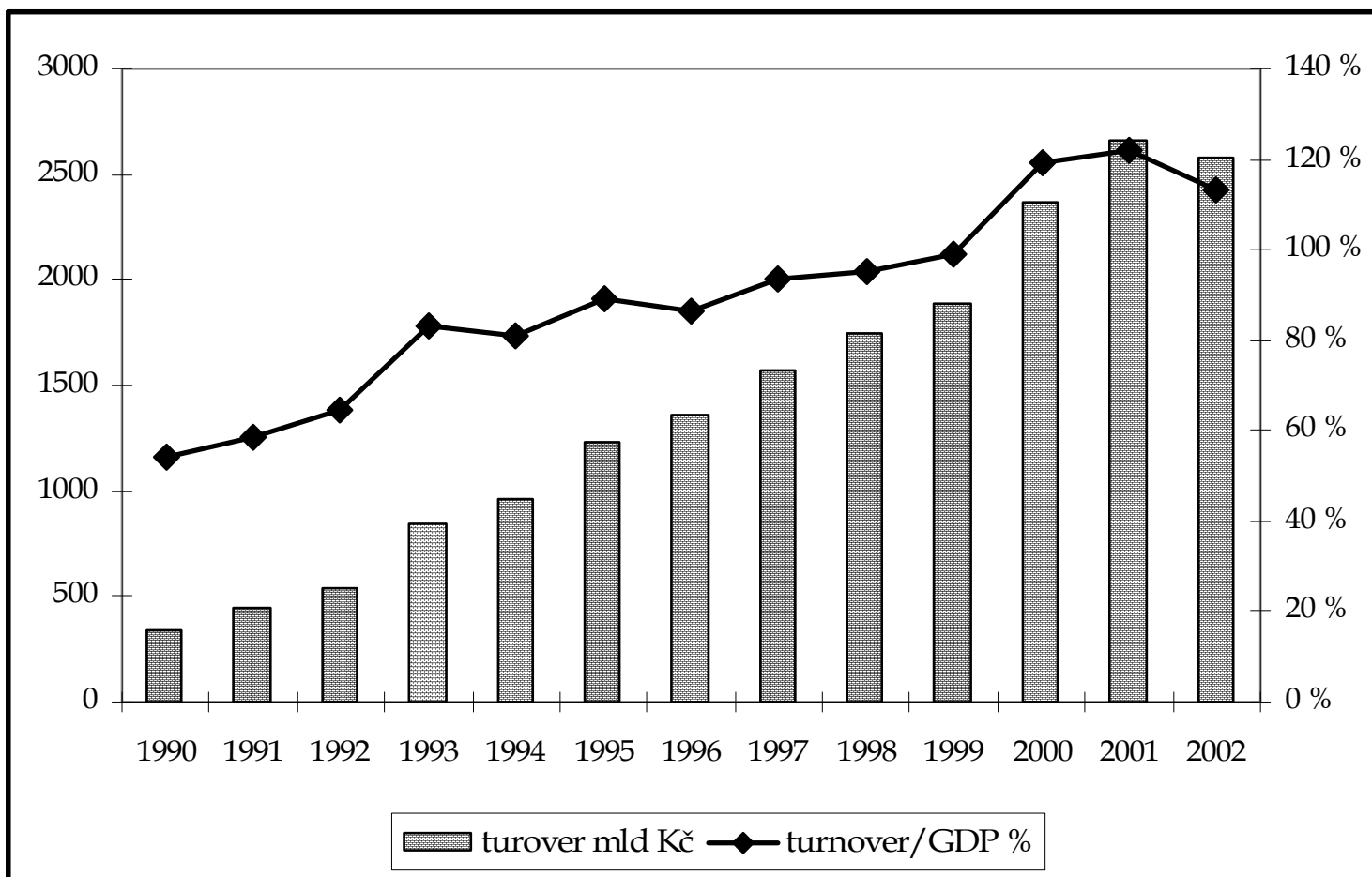
Snímek 20

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Dal bych přednost stylu CZK 339 bil i v tabulce na předchozí straně

kleo, 9/14/2006

Turnover of Czech trade



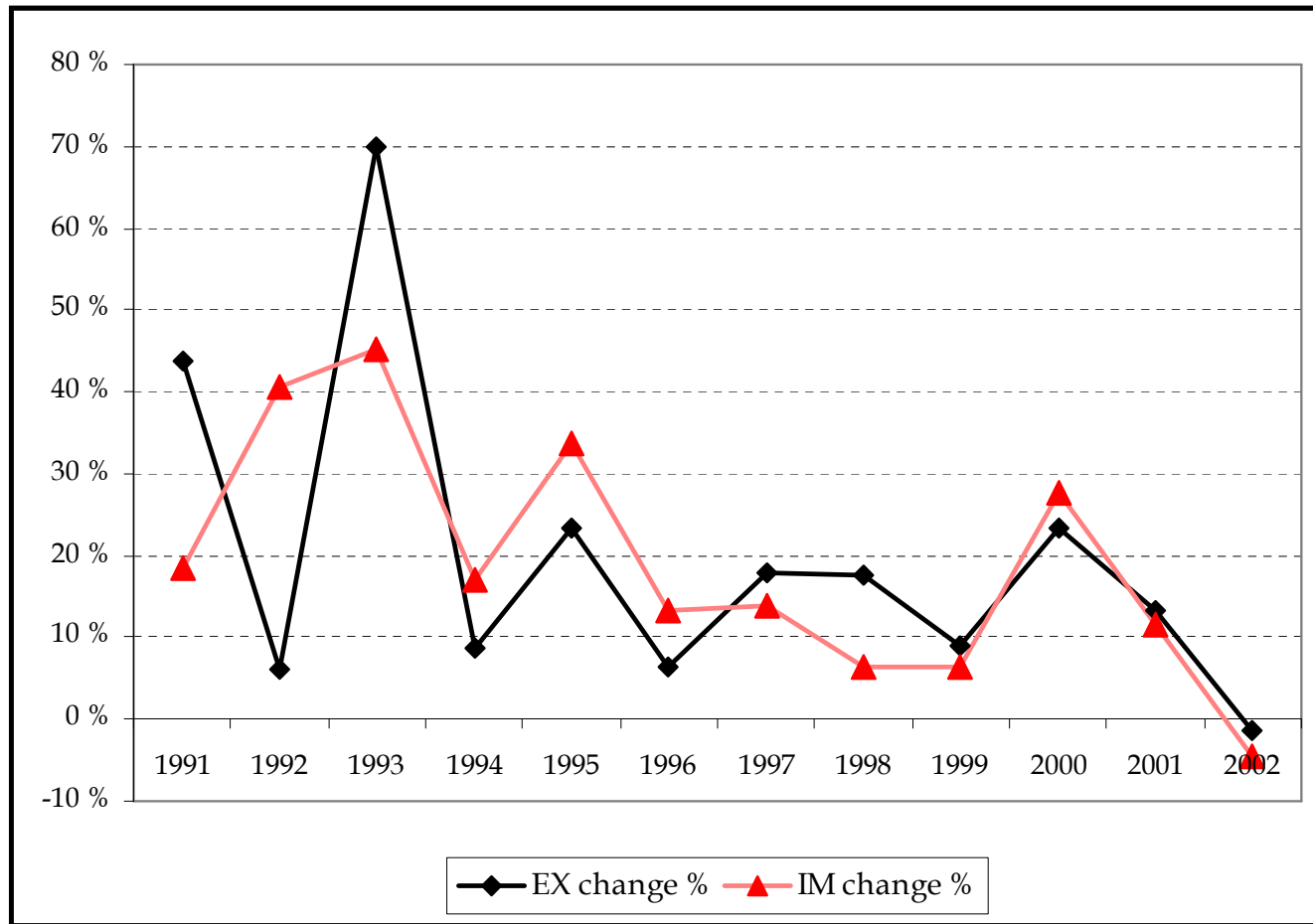
Factors with impact on Czech trade

- positive factors
 - liberal trade policy
 - fixed exchange rate till 1997
 - low wages
 - improving quality
 - inflow of the FDI
 - CEFTA, WTO, ...
- negative factors
 - ↓ in trade with the ex-CPE
 - appreciation of real exchange rate (↑ inflation at home > than abroad)
 - barriers in entering the western markets

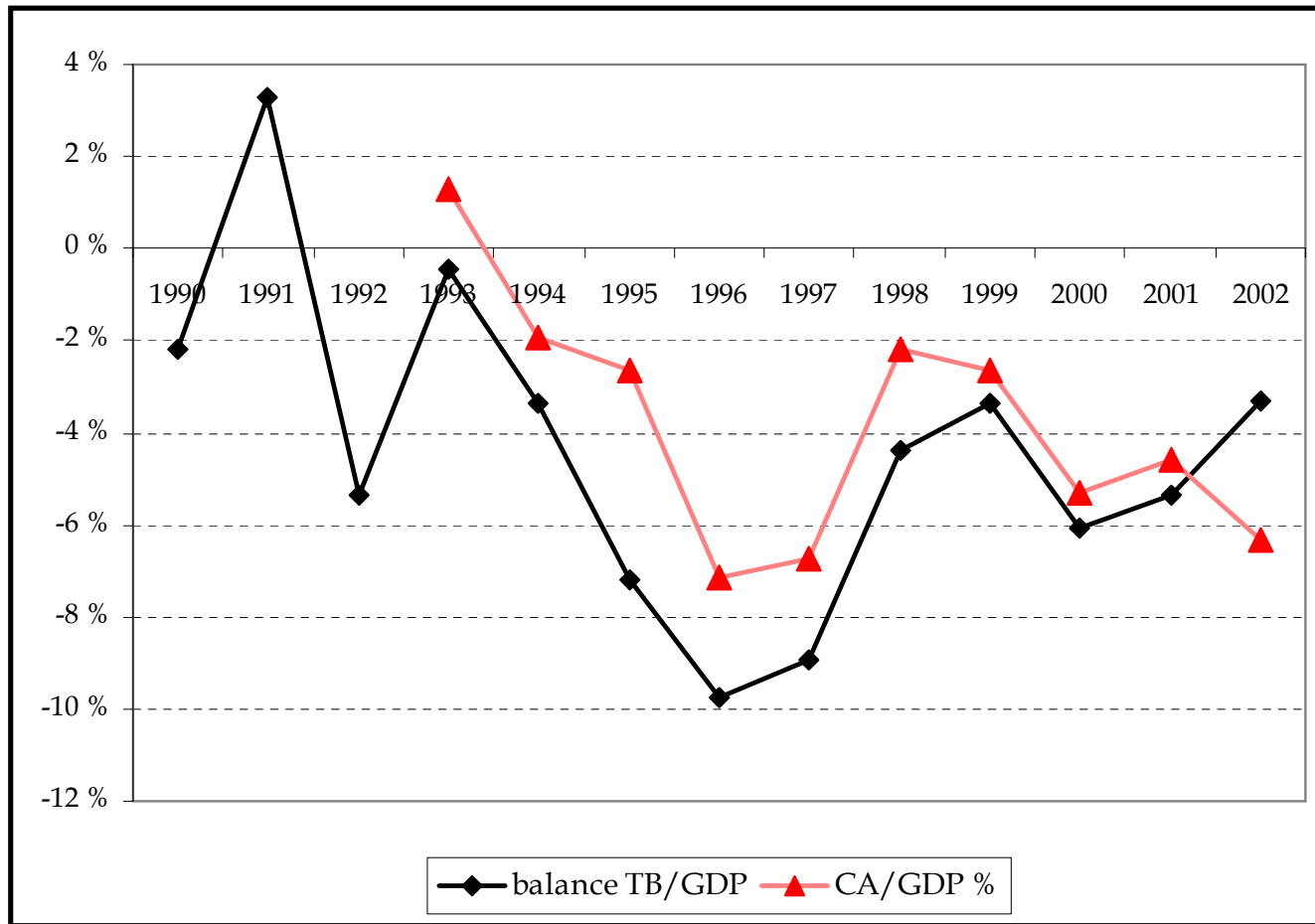
- ambiguous impact

- ec. development in Czechoslovakia (Czech rep) (\uparrow GDP 1995 \Rightarrow \uparrow IM)
- ec. development in the countries of our main trading partners (\uparrow in Germany \Rightarrow \uparrow Czech EX)
- economic policy (restrictive policy eg after 1997 \Rightarrow \downarrow IM)
- after 1997 changes in nominal exchange rate (\$ X DM)
- development of terms of trade (\downarrow eg in 2000)

Changes in EX and IM



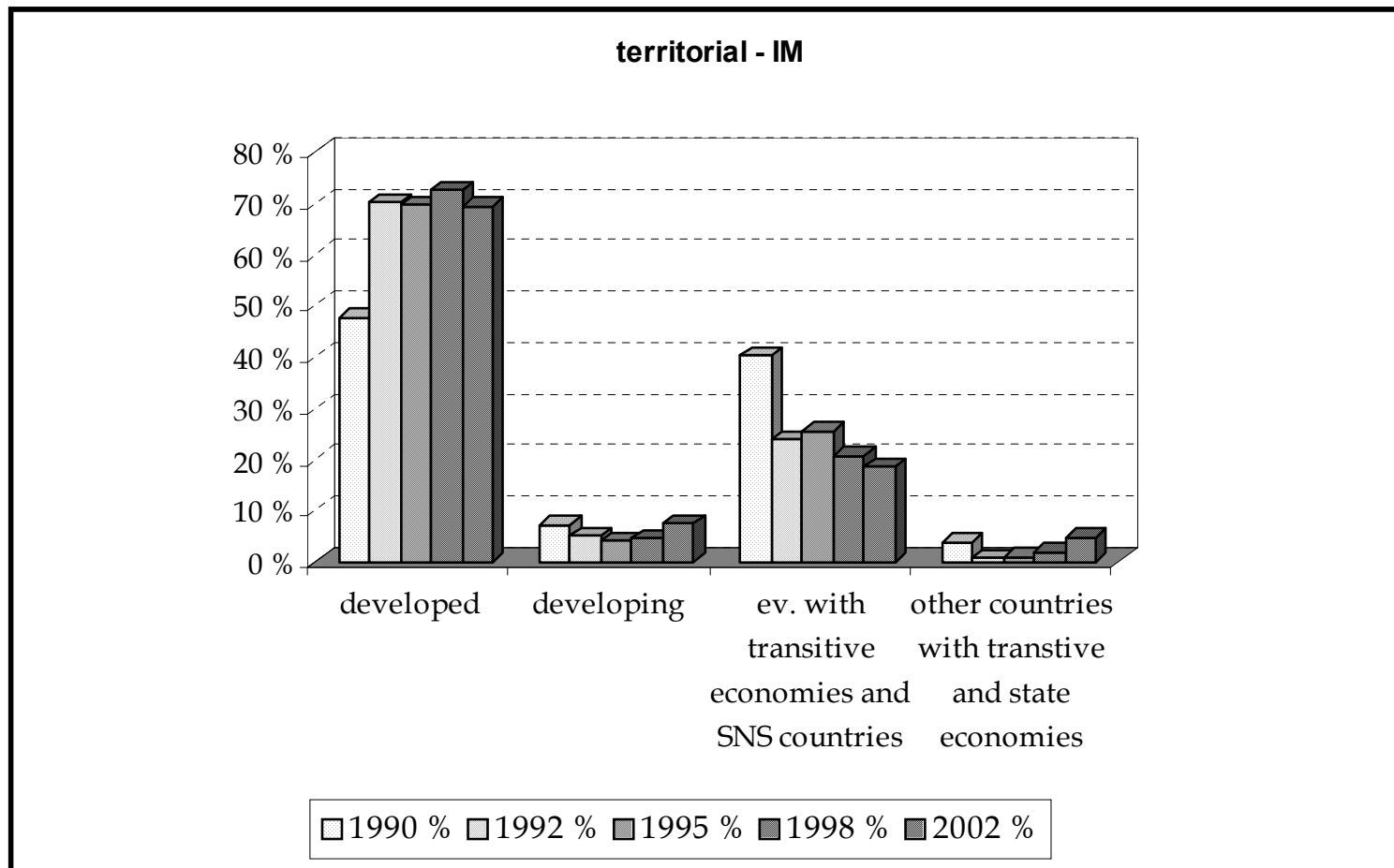
Trade balance 1990-2002



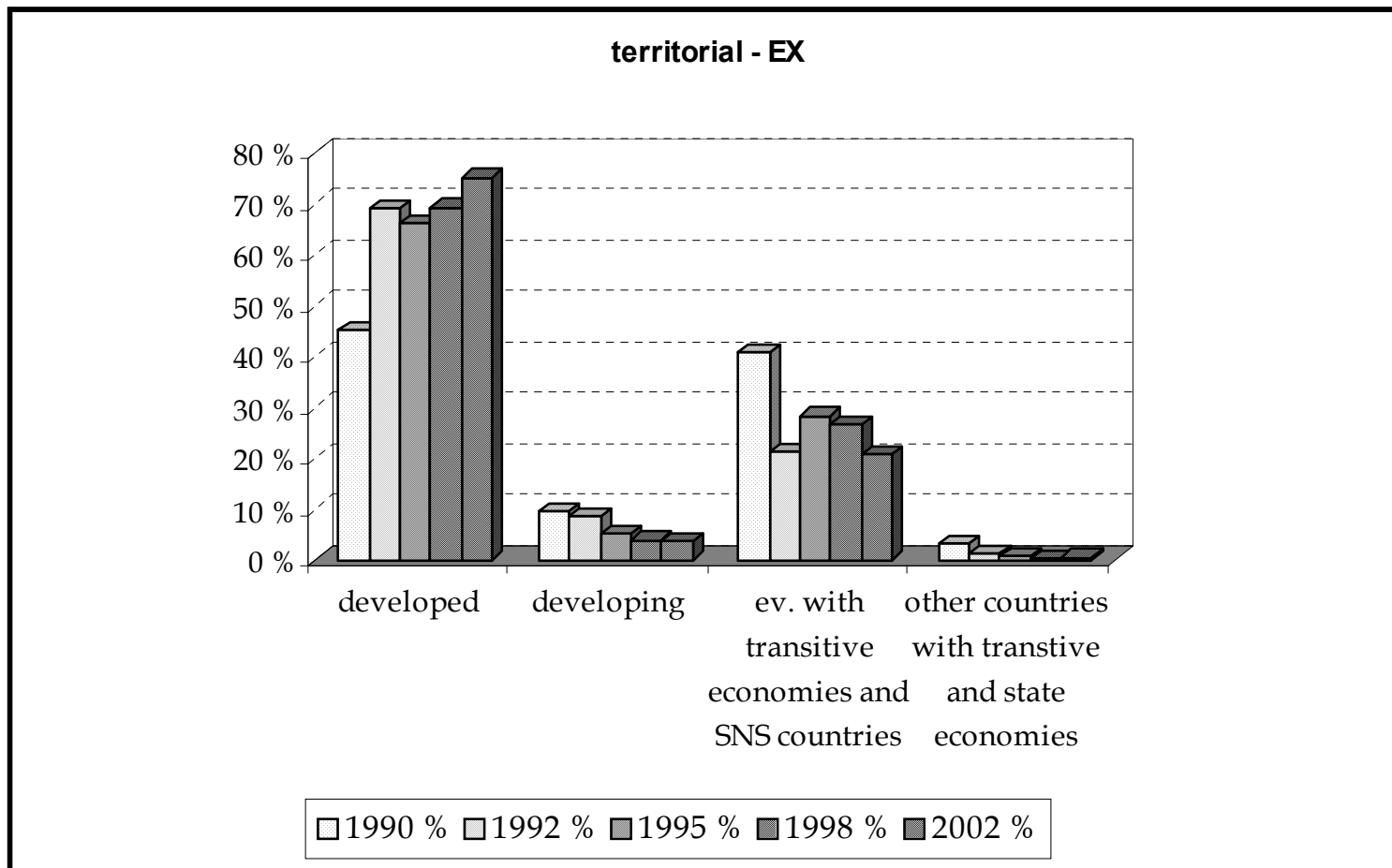
2. Territorial structure

- main changes
 - ↑ in trade with developed countries
 - ↓ in the share of ex centrally planed economies
 - ↓ in the share of developing economies

Territorial structure of IM



Territorial structure of EX



causes of changes in territorial structure

- decline in trade with ex CPE X CEFTA
- growth impact in trade with developed
 - geography
 - agreements with international organizations: European community + European Free Trade Area + joining GATT ...
- ⇒⇒ ↑ of Czech dependence on European economy (into the EU 2/3 Czech's EX) especially Germany

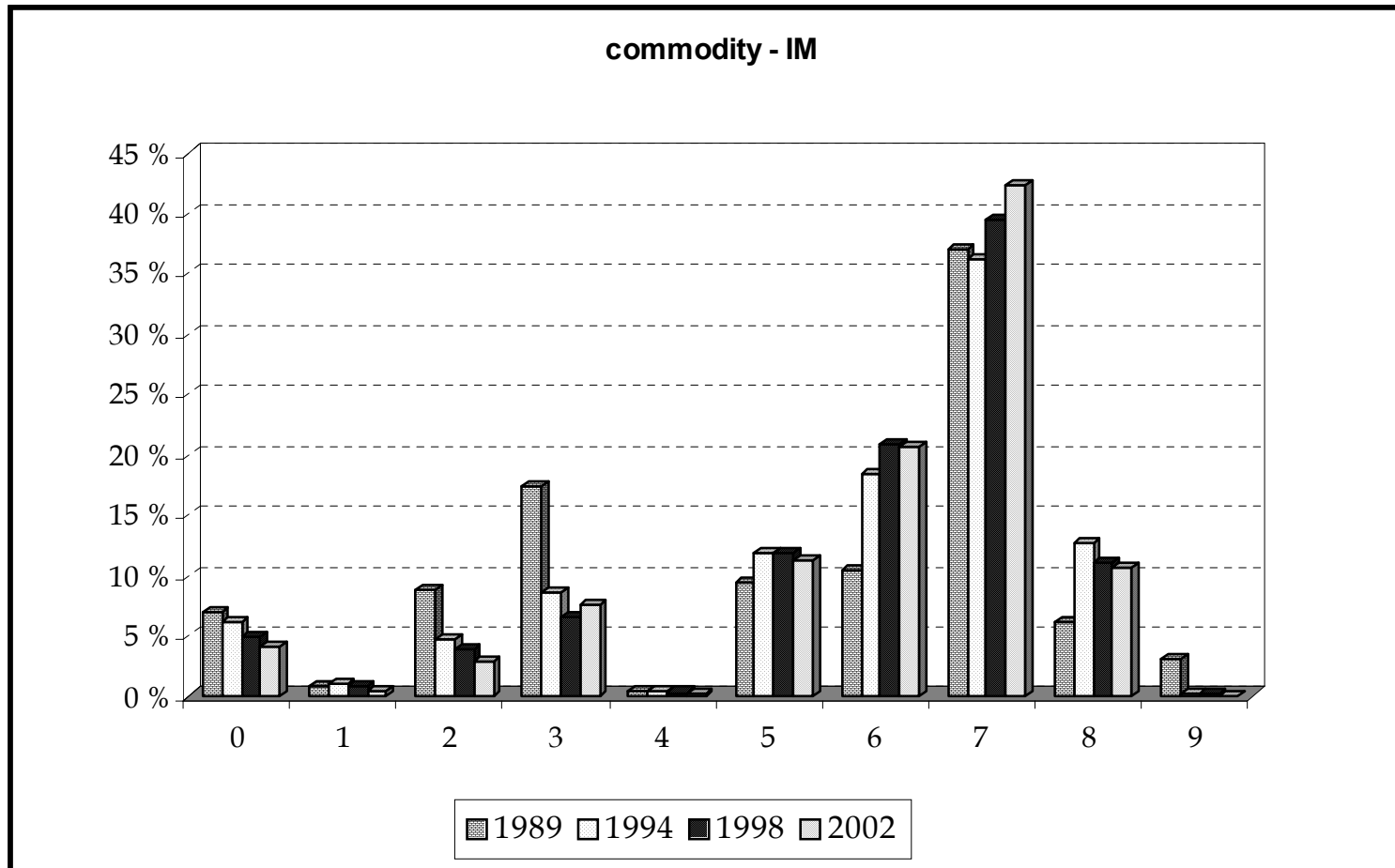
Main trading partners 1.-10. 2005

Country	Turnover		Exports		Imports		Balance
	mil. Kč	%	mil. Kč	%	mil. Kč	%	
Germany	975 331	32,01	520 628	33,68	454 703	30,28	65 925
Slovakia	212 441	6,97	131 693	8,52	80 748	5,38	50 945
Austria	145 816	4,78	86 212	5,58	59 604	3,97	26 608
Poland	156 391	5,13	83 524	5,40	72 867	4,85	10 657
Italy	137 568	4,51	65 317	4,23	72 251	4,81	-6 934
France	149 916	4,92	81 793	5,29	68 123	4,54	13 670
GB	110 595	3,63	72 937	4,72	37 658	2,51	35 279
Holland	121 486	3,99	62 184	4,02	59 302	3,95	2 882
Russia	109 926	3,61	26 660	1,72	83 266	5,54	-56 606
China	79 421	2,61	5 737	0,37	73 684	4,91	-67 947
USA	79 449	2,61	39 497	2,56	39 952	2,66	-455
Hungary	72 620	2,38	40 257	2,60	32 363	2,16	7 894

3. Commodity structure

- IM (changes in proportions)
 - ↓ food + ↓ raw materials
 - ↑ industrial goods + ↑ chemical goods and machinery and vehicles
 - ⇒ from raw materials to more sophisticated products

Changes in IM

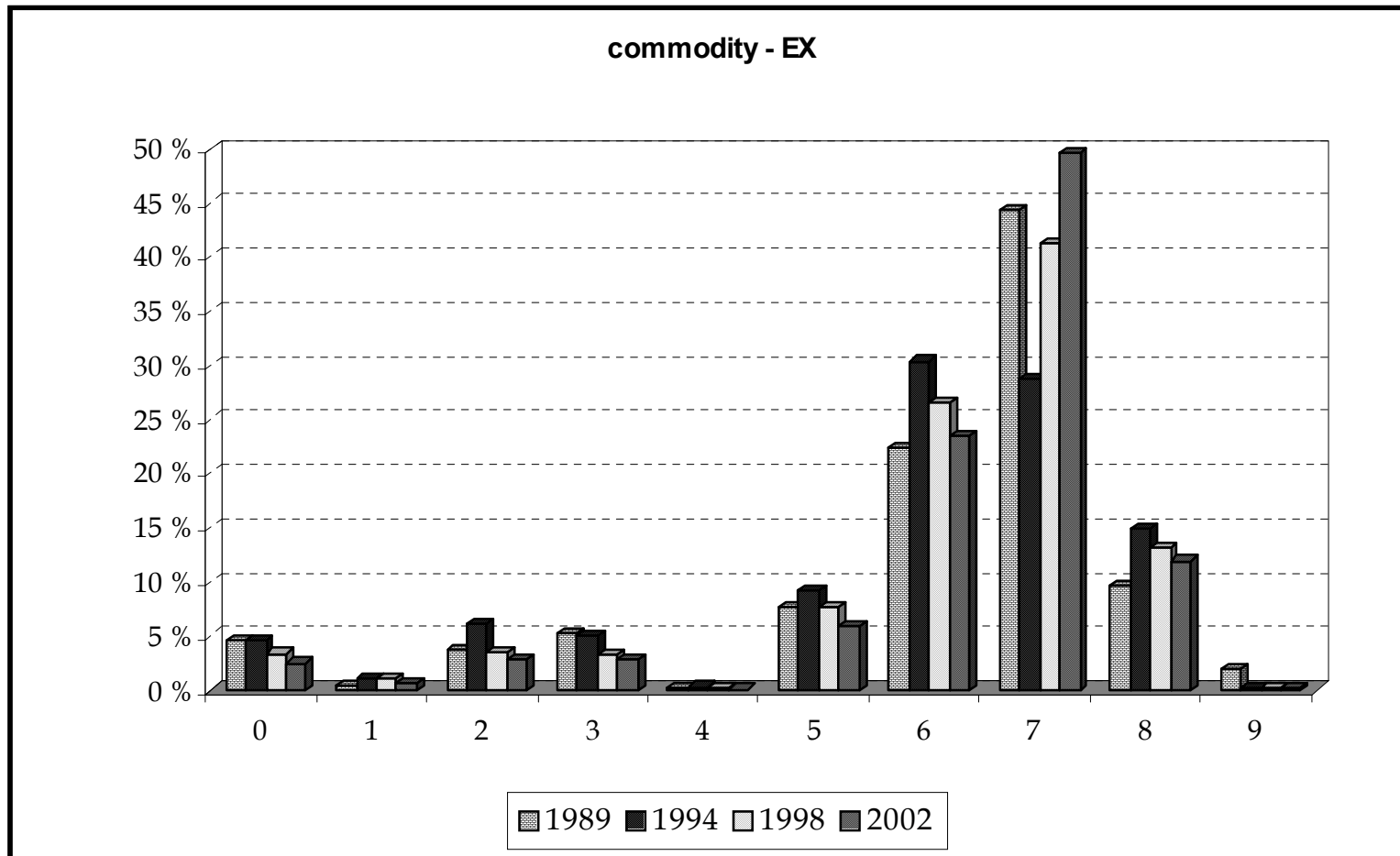


SITC

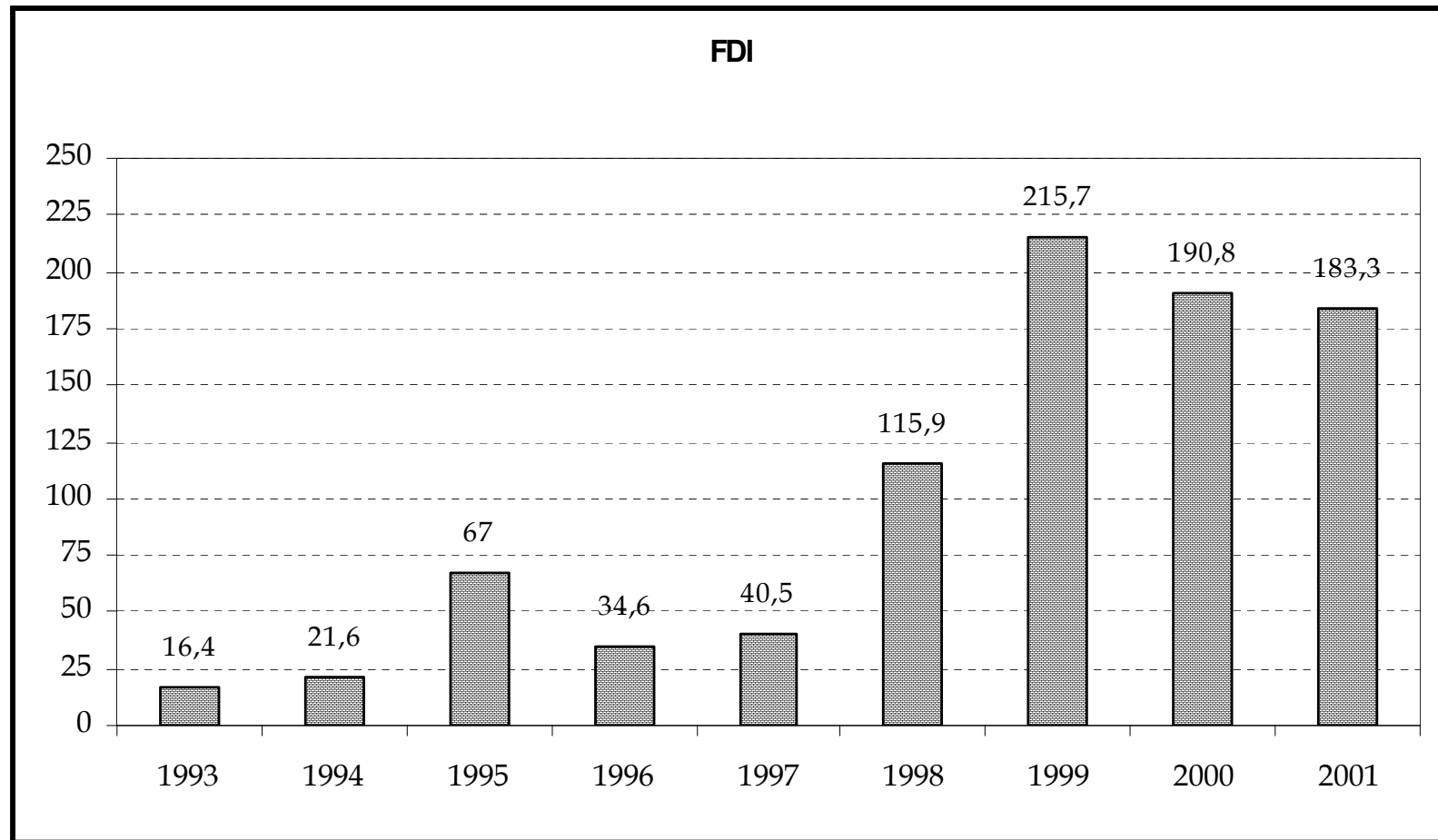
- 0 – food and livestock
- 1 – beverage and tobacco
- 2 – raw materials without fuels
- 3 – mineral fuels and lubricants
- 4 – animals and vegetable oils, fats and waxes
- 5 – chemicals
- 6 – industrial products
- 7 – machinery and vehicles
- 8 – various finished products
- 9 – goods unspecified in other categories

- EX (changes in proportions)
 - first \uparrow of the share of raw materials and chemical products later on \downarrow
 - vehicles \downarrow and \uparrow
 - industrial products \uparrow
- \Rightarrow return to the long run structure

Changes in EX



Foreign Direct Investment



Comparison of the FDI - Cumulative inflow per person 1990 - 2000

