

NATO-EAPC Research Fellowship

**NATO Enlargement:
Economic Aspects of Czech Republic's
Co-operation with other PfP Countries**

Final Report

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This report was prepared by a team of graduate students, led by Dr. Štěpán Müller. Originally the report was to be prepared in the Czech Management Centre, Graduate School of Business, where Dr. Müller was the Academic Dean. He resigned at his position as of September 1999 and joined CA IB Securities, an investment bank of the Bank Austria – Creditanstalt Group as Managing Director. Therefore a new team was formed, consisting of Radim Habartík, Megan King and Christina Plašek, that prepared this report. Final responsibility remains, of course, with Dr. Müller.

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Annex

Introduction

Following the downfall of the communist regimes in Central and Eastern Europe (CEE)¹ in 1989, the long-term pattern of trade relations and established flow of goods has changed beyond recognition in this region. From their previous near absolute dependence on East European and above all the Soviet market, these countries have had to re-orient production from relatively soft and not demanding eastern markets to the competitive and unforgiving western ones, with very little time for adjustment and even less for learning. Some countries, especially the focus countries of this study have fared better, others have been less fortunate.

In this study we will illustrate, by the way of analyses of statistical evidence, that the four core CEE countries transformed their territorial and commodity external trade structure relatively successfully. We will show that these core countries were able to establish – within a few years of the complete dismantling of their previous economic ties – a functional trade pattern, similar in structure to that of western countries of comparable economic potential. The pattern of goods in their mutual trade could be considered among the major development of the countries in question. As the statistical evidence will show, it now reflects, much better than before, the economic development of the CEE countries. On the other hand, statistical data and its comparability was the major obstacle from the very beginning. In order to achieve desired level of comparability, we relied on the data supplied by CzechTrade, a governmental promotional agency for enhancement of foreign trade of the Czech Republic. The database not only provided us with data that was comparable from one year to the other, but it also enabled us to use international statistics for comparisons between individual CEE countries, because they were based on the same international classification of goods and services.

¹ The abbreviation „CEE“ will be used throughout this study for the „core“ countries of the former Eastern block, namely Poland, Czechoslovakia (Czech and Slovak Republic as of 1993) and Hungary, although we realize that other countries are usually included under such heading, especially countries of South-East Europe, such as Romania and Bulgaria.

New regional integration that has been developing among CEE countries could play an increasingly important role. In this respect the Central European Free Trade Agreement (CEFTA) is being analyzed, as it provides for most of the data that can be used to such purpose.

The Partnership for Peace Accord was introduced at the January 1994 Brussels Summit Meeting of the North Atlantic Council, and it undoubtedly had a significant economic (and above all political) effect on all countries concerned. The added security for the CEE countries that became partners to the Accord gave the necessary assurance to the investors, who in turn brought to these countries increased stability through investments into the economies of these countries. To quantify or otherwise uncover the dimension of this economic effect, based on the mutual exchange of goods and services, with our present databases is very difficult, and we can find only some indirect evidence of it. If and when the CEE countries are gradually integrated also into the structure of the NATO defense industry, there may be more clear evidence of this aspect of the strengthening of the trade relationship between CEE and NATO member countries.²

We felt that a more transparent correlation could be found between the timing of the PfP Accord and the inflow of Direct Foreign Investments (DFI) into the CEE countries. We will attempt to bring some evidence of this in Chapter 3.

Since there is hardly any evidence, statistical or factual, of how the PfP membership helped the countries in question in developing their external trade relations, we will rely in the following analyses on the CEFTA data, with the underlying understanding that it is also because of the PfP accord that the CEE countries re-established their economic ties.

Although CEFTA will be the focus of our analyses and most of the statistical data used will relate to this grouping of countries, the origins of CEFTA require some introduction.

² One such opportunity may arise quite soon, based on the purchase of advanced supersonic jets for the Czech Air Force. All of the four western companies that offer their products, promise as part of the deal (and also because they know that the Czech economy cannot finance the enormous costs associated with the purchase) sizeable off-sets. The economic gains, brought to the country through technology transfer, direct investments and marketing and management know-how as part of these off-set deals could be to a large extent attributed to the changed political situation, including the Partnership for Peace Accord.

CEFTA itself is a product of political endeavors of several countries that tried to move out of the shadow of their former association with the Soviet Union. In February 1991, the heads of Poland, Hungary and Czechoslovakia signed a declaration that became later known according to the place of the summit as 'Visegrad Alliance'. From the very beginning economic co-operation was among the top priorities of the countries. Though many ambitious plans (international bank, joint production, etc.) were never realized, the document on the foundation of the Central European Free Trade Agreement, as the most visible outcome of the Visegrad summit, was signed in November 1992 and came into effect four month later.

The break-up of Czechoslovakia in December 1992 was a major setback for Visegrad initiative and froze the organization`s progress for much of the 90`s. It was only in 1998, after the shakeup in government in the Czech Republic, that Visegrad was reborn. Until today, although enlargement had been discussed several times, the Visegrad Alliance has remained between its original three (since 1993 four) founders.

At a recent June 2000 meeting at Stirin, Czech Republic, prime ministers of Visegrad countries met on two important issues. One concerned the foundation of the Common Fund for Agricultural Products,³ the other one was the call towards EU to clearly state the timetable for the EU accession. Three of the four Visegrad countries are the frontrunners for the EU entry and their joint effort could most likely enhance their stakes. Visegrad could easily become a political platform for the three countries to make their voice lauder, providing for the candidate countries a similar platform that the Nordic Council (consisting of Denmark, Finland and Sweden) gives to the smaller EU countries in Brussels.

In the meantime, however, one of the Visegrad activities, CEFTA, has grown significantly in its importance for the countries involved. Also, the number of these countries grew from the original three (four since 1993), i.e. Czechoslovakia (from 1993 Czech and Slovak Republics), Poland and Hungary to seven, as other countries of the region expressed their interest and willingness to co-operate under CEFTA agreement. Slovenia joined CEFTA in 1996, Romania became the sixth member country in 1997 and Bulgaria seventh in 1999.

³ Interestingly enough, at the Stirin meeting was accepted for the first time in the history of Visegrad that a formal office be formed, because until now, Visegrad has had no official seat, no paid employees and no formal organization. As the seat for the Fund Bratislava, capital of Slovakia, was chosen.

In the following chapters we will attempt to illustrate the changes that the countries in question underwent during the nineties, related to the introduction of the new pattern of trade flows and economic co-operation between the CEFTA countries, but also in relation to the outside world, especially the developed market economies.

1. Regional Integration: CEFTA

1.1 Historical overview

External economic relations of all the countries of the former Council of Mutual Economic Co-operation (CMEA, Comecon) were heavily distorted in favor of intra-regional trade flows and strong dependence on the Soviet Union, especially for raw materials and certain strategic goods. After the political collapse of the Soviet block, mutual trade dropped very quickly to a historical low at the beginning of the 90's, and the flow of trade started to change profoundly. During the last decade, the external trade relations of all the CEFTA countries underwent an unprecedented change, with the shares of different regions of the world, namely the former CMEA and Developed Market Economies (ME), especially the European Union (EU), practically switching their weight and importance in the total trade of these countries. Tables 1 and 2 give the evidence of that on the example of the Czech Republic (CR). While the imports of the CR from ME grew almost 2,5 times from 1985, the share of imports from the former Eastern Europe and USSR to approximately one third during the same time period. Similar pattern can be traced in exports. During the same time period, exports from the Czech Republic to ME more than doubled, while exports to the former Soviet trading block dropped by 50 %.

With the growing share of mutual trade with ME, especially the EU, much less importance was given to the intra-CEE trade at that time. The role of state institutions in the mutual trade of these countries - distorted pricing and relying on nonstandard settlement of the trade due to the lack of convertible currencies, exchange of goods on barter terms or on some unrealistic conditions - caused diminished interest in developing intra-CEE trade in the first place. The image (often well-deserved) of second-rate goods that were earmarked for exports to "Eastern", i.e. soft markets, did not help either.

Dissolvment of the CMEA in July 1991 led very quickly also to profound changes in the conduct of mutual business among the former CMEA member countries. Payments in hard currencies, market prices and international standards were introduced, including the Most Favorite Nation clause. It was at this time that the CEFTA concept, based on the creation of a free trade area rather than on some institutionalization of regional co-operation, was created.

The principal objective of CEFTA was the gradual establishment of a free trade area, in accordance with the Article XXIV of GATT. A transition period, ending on January 1, 2001 was stated in the general framework agreement. Industrial goods and agricultural products were dealt with separately, in Chapters 1 and 2 of the Agreement. CEFTA envisaged the abolishment of all barriers to mutual trade in the industrial commodities sector. Bilateral protocols contain several lists of products, grouped according to the pace of tariff reductions.

Industrial goods were divided into three categories. Group A listed those products in mutual trade among the CEFTA countries, where the sensitivity to potentially harmful effects on the economies of the other partner countries was the lowest. This group represented about 25 % of all the goods exchanged in mutual trade, and the tariffs were abolished on March 1, 1993, when the agreement entered into force.

Group B of industrial goods, with a medium sensitivity, was to have the tariffs lowered by one third each year, starting in July 1994. As for the most sensitive group of products, such as automotive industry, the tariffs were supposed to be lowered by one quarter each year, so as to completely abolish them by the beginning of 1998. All member countries have included into bilateral lists such products that they perceived to be important for their external trade, therefore the bilateral lists did not reflect the group of the most sensitive products evenly.

Originally, the transition period was slated to end in 2001. However, mostly on the insistence of the Czech Republic, additional protocol to the Agreement, signed on April 29, 1994 in Budapest, shortened the period from 8 to 5 years.

The original agreement did not envisage any free trade in agricultural commodities, the partners were to grant concessions to each other bilaterally and include them in protocols. The particular conditions of liberalization thus differ across the bilateral relations. Generally the stipulations of the Agreement do not restrict the respective countries in pursuance of their national agricultural policies.⁴

1.2. Does CEFTA have a future?

CEFTA is the most important regional integration established after the downfall of CMEA. Its foundation was supported by the EU, because through CEFTA, the member countries should graduate to EU membership.

There are several important functions that CEFTA fulfills:

- It is a forum for political dialogue that helps to overcome some friction between member states, i.e. Slovak – Hungarian or Hungarian – Romanian relations
- It helps to open dialogue between member countries and potential candidates, such as Ukraine and Latvia (and their relations with Poland) and also helps to solve some open matters concerning debts among the former CMEA member countries
- CEFTA co-operation increases the stability and security of the region, and increases the regional identity. This is exactly why countries like Croatia or Lithuania also show an interest in joining, because their membership would also increase their credibility in international relations
- CEFTA plays an informal role of a “training camp” for all countries interested in joining the EU
- Last, but not least, CEFTA represents a very interesting market, with a dynamically growing mutual trade

⁴ Agricultural trade between the EU countries and the 9 accession countries (where all core CEFTA countries also belong) should be liberated as of July 1, 2000 in such a way that up to 77 % of agricultural exports from the accession countries will be liberated (up from 37 now) and the EU will be able to export freely into these countries 37 % of their agricultural exports (up from 20 %). Besides import taxes the EU will also cancel their export subsidies for products within the allowed quantitative restrictions. CR expects to increase its exports of agricultural products to the EU by more than half a billion of crowns (about USD 140 million). This new agricultural trade policy will most likely also influence intra-CEFTA trade, as many products that were prohibited by taxes to be exported into the EU became part of CEFTA agricultural exchange. Detailed analyses of agricultural trade between the EU and CEFTA countries and intra-CEFTA trade may confirm this next year.

CEFTA is now in the stage when it will have to re-define its purpose and goals. Four of the seven member countries of CEFTA are negotiating their accession with the EU, hopefully within 3-5 years. CEFTA can certainly play a similar role for this transition period that EFTA had, preparing its members for accession. The problem of those countries that have not even started the dialogue with EU yet remains, and will not be easy to solve.

In any case, the importance of CEFTA as a first step towards full EU membership remains. This is also why other countries from Eastern Europe show such interest in joining CEFTA. In the Brno Summit of CEFTA in 1995 three preconditions for joining this integration were declared:

- A candidate country must be a member of the World Trade Organization
- A candidate country must have a bilateral agreement on free trade signed with all CEFTA member countries (Associated membership status allows for this agreement to be signed with at least one member country)
- A candidate country must have an association agreement signed with the EU, declaring thus its preparedness for future membership
- A consensus of all member countries in accepting a new candidate, a condition that should prevent the enlargement of CEFTA against the interest of any individual member

It seems to be quite clear that CEFTA will not become an alternative to the EU. Nevertheless, it does not disqualify it as a useful regional integration. Assessments usually point out its achievement in both political and economics areas, and its preparedness for further enlargement of mutual trade. There are still many areas in which CEFTA can increase its usefulness. It seems, however, that it is viewed by many, including the member countries, as a transitional step on the road to the EU.

2. Trade Relations between Principal CEFTA Countries

It was very tempting to cover the complete trade structure of all the 7 CEFTA countries. However, after some initial attempts and analyses it became obvious that the obstacles are too many, the incompatibility of statistical data being one of the major ones. Therefore, we concentrated on the mutual trade of the four core countries, because their share of the total is crucial (and these four countries - by no accident - form also the political body of the Visegrad Alliance). The distortion of the complete picture is thus in our view smaller than it could be, if incompatible statistical data were being used.

The importance of foreign trade for individual CEFTA countries is demonstrated in Table 3 in the Annex. It gives the absolute figures for exports, imports and trade balance of six CEFTA countries. All of them run a deficit of foreign trade, and any lifting of trade barriers, such as creation of free trade area in their neighborhood, must be perceived as a positive development.

Table 4 shows the shares of trade CEFTA countries in their total foreign trade, while Table 5 gives the same picture in absolute terms. There are several conclusions that can be drawn from the data in these tables:

- Exports of the CEFTA countries have expanded quite rapidly (with the exception of Romania), and their trade balances are being kept under control, with only Polish balance showing a negative upward trend
- Czech Republic (CR) and Slovak Republic (SR) are the two countries dependent on mutual CEFTA trade the most. This dependence is given by their previous history as one economy, but is clearly diminishing, as both countries, especially SR, are finding new trading partners and markets

- If mutual trade between CR and SR is disregarded, the share of CEFTA trade in total foreign trade of all CEFTA countries is gradually growing, in the case of newly admitted countries more rapidly, reflecting the advantages of the free trade area
- With the exception of CR and SR (and lately also Hungary), the other countries are not covering their imports from CEFTA countries with their exports.

It may be generally considered a sign of a developed market economy, if the share of higher value-added products, such as those listed in the trade classification under SITC group 5 to SITC 8, in the total trade of a given country is growing. We shall also test the mutual trade between the four CEE countries also according to this criterion.

2.1 CR: Trade Relations with Poland

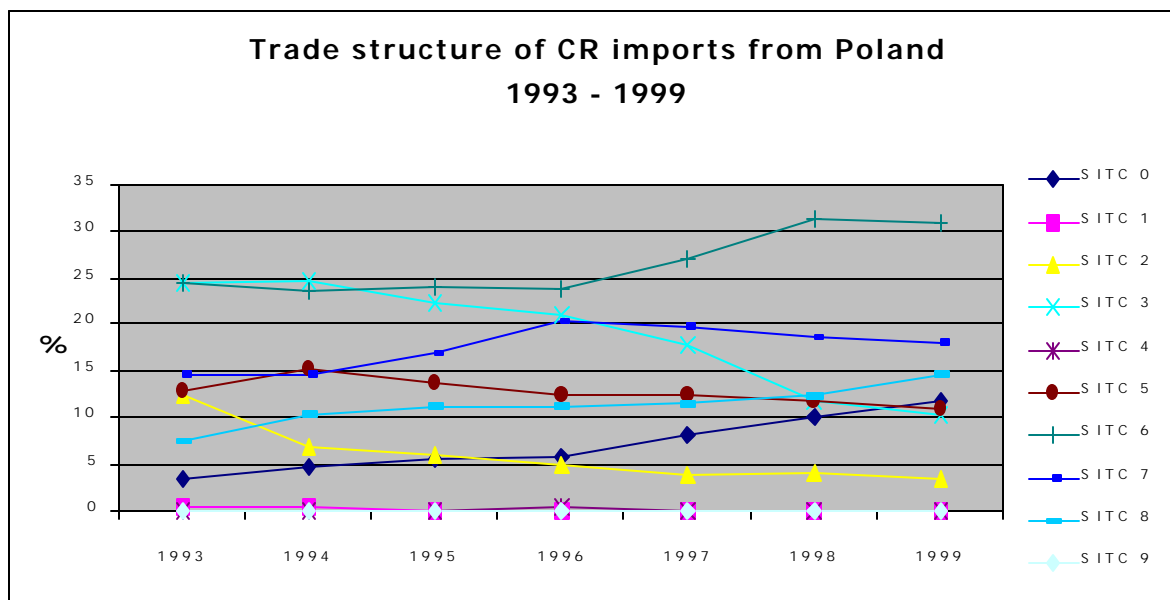
Poland and CR play a significant role in the economic potential of CEFTA. These two countries account for almost 50 % of the total population of CEFTA 7 (including Slovenia, Romania and Bulgaria) and for over 50 % of the total foreign trade of these seven countries. If we take into consideration only the four core countries, as suggested, then Poland alone covers 60 % of the combined population of CEFTA 4, and CR about 15 %. In terms of foreign trade, Poland accounts for close to 40 % of the total foreign trade of CEFTA 4, CR almost 30 %.

It is therefore no surprise that the mutual relations of these two countries influence, to a large extent, the statistics of CEFTA as a whole.

In order to find out about the extent to which CEFTA, as personification of the new economic relations between CEE countries after the signing of the Visegrad Alliance, influenced the mutual trade between individual CEFTA 4 countries, we had to go into the commodity structure of this trade and its development over time.

Imports:

First we shall analyze the structure of Czech imports from Poland. Graph 1 gives a quick overview of the development of individual SITC groups over the past seven years. Table 6 in the Annex corresponds with the charts in this graph and gives a more statistically detailed picture. Table 7 on the other hand specifies the “winners” and “losers” over the 1993-99 period among the individual groups of products, imported from Poland to CR.

Graph 1: Trade Structure of CR Imports from Poland, 1993-99

Source: CzechTrade

While in relative terms the fastest growing group of goods was SITC 0, foodstuffs, followed by miscellaneous manufactured goods (SITC 8) and manufactured goods classified chiefly by material (SITC 6), a general conclusion can be drawn from the picture: imports of commodities in the groups of goods with a higher value added (SITC 5-8) is growing, the role of raw materials, such as coal (SITC 3), is diminishing.

The total share of commodities listed under the SITC 5-8 was 60 % of the total CR's imports from Poland in 1993, and this share rose to 75 % in 1999. There may be more reasons for this growth than just CEFTA (foreign investments into Polish companies that enlarged the export capacities, for instance), but it undoubtedly contributed significantly to this development.

The growth of Polish agricultural exports to CR is also among important and positive development, as it makes up for the difficulties experienced by Polish exporters of these products to the EU.

While analyzing the statistics, we looked also in more detail into the individual products that influenced the gains or losses in their particular groups the most. Thus the commodity group SITC 0 (Food and Live Animals) that gained the most percentage points between 1993-99 in CR's imports from Poland (8,08%) was influenced the most by imports of Chocolate and Cocoa Products (SITC 073) that represent in the total gain 27,5 %, i.e. over

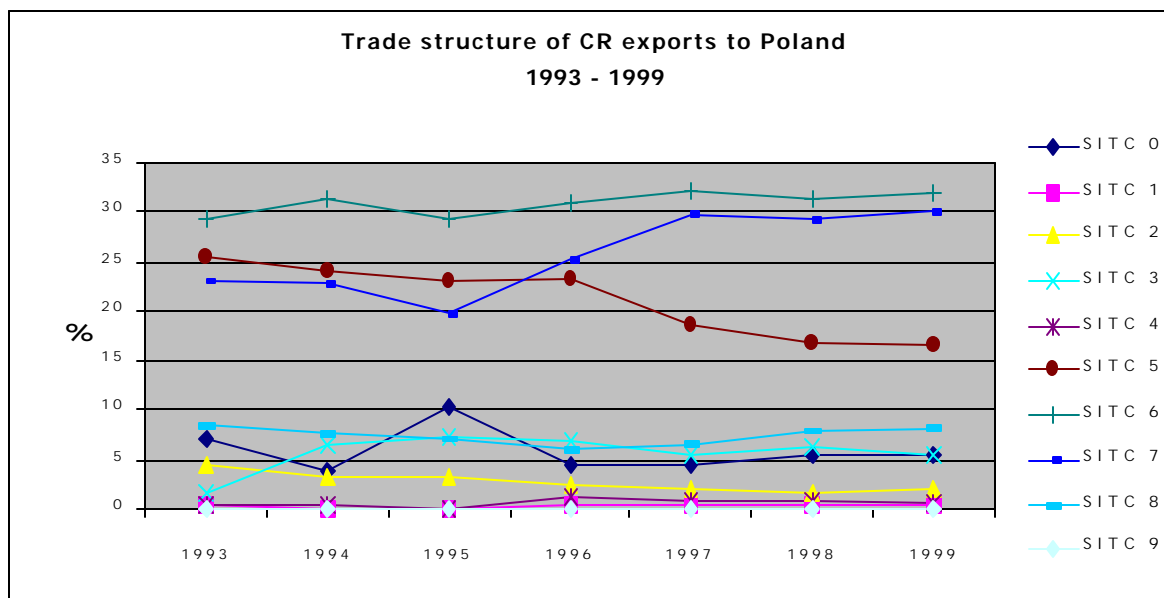
one quarter of it. Those who shop in Czech supermarkets will not be surprised because the production strategy of multinational companies allocated the production of certain chocolate products and chocolate-covered wafers to Poland, from which it is distributed to neighboring countries in large quantities. The individual products that effect the gains in other commodity groups may not be as visible in the shops as chocolate bars, but they also account for a large proportion of the total gain (or loss, as in the case of SITC 3 and 2). In the case of the decrease of imports of Polish coal and coke (SITC 32) the total loss of this commodity represents, for instance, full 30 % of the decrease of SITC 3 between 1993-99 (loss of 14 %). For more detailed information on goods that influenced the imports OF CR from Poland the most (in the way of both gains and losses) see Table 8 in the Annex.

Exports:

Development of Czech exports to Poland confirms the expectations concerning the trade pattern. The fastest growing product groups are those with the high value-added, such as Machinery and Transport Equipment (SITC 7), that gained over the course of seven years 7,14 %, but also other goods from the value-added groups were gaining.

Unlike the situation in CR's imports from Poland, where the higher value-added group of products (SITC 5-8) rose in seven years from 60 % to 75 % of the total imports, CR exports to Poland in the same group of products practically have not changed. This group represented 86,2 % in 1993 and 86,9 % in 1999. Behind these figures - suggesting an even development - are, however, significant changes in individual groups of products. Especially Machinery and Transport Equipment (SITC 7) and Chemicals (SITC 5), experienced a very different development with 7 percentage points growth between 1993-99 of the former group of commodities and almost 9 percent points drop in the latter.

The situation of Czech exports to Poland is demonstrated in Graph 2 and supported by the Tables 9 and 10 in the Annex.

Graph 2: Trade Structure of CR Exports to Poland, 1993-99

Source: CzechTrade

The structure of Czech exports to Poland has changed over the course of seven years between 1993-99 mainly in the category of SITC 7. The single most significant item in the exports of this group of commodities is clearly exports of passenger cars (SITC 78) that accounted for one sixth of the total increase of exports in this category, followed by power generating machinery (SITC 71). The slight increase in the exports of Czech coal and coke to Poland is also interesting, especially in comparison with the rather sizeable decrease of imports of Polish coal to CR.

Poland plays a very significant role in foreign trade of all CEFTA countries, and in mutual trade with the CR its role seems to intensify. The transformation of industries of these two countries, in which foreign direct investment (FDI – see chapter 3) is often the decisive factor in restructuring and hence export potential of many industries in both of these countries, creates enough space for future enhancement of these contacts.

2.2 CR: Trade Relations with Hungary

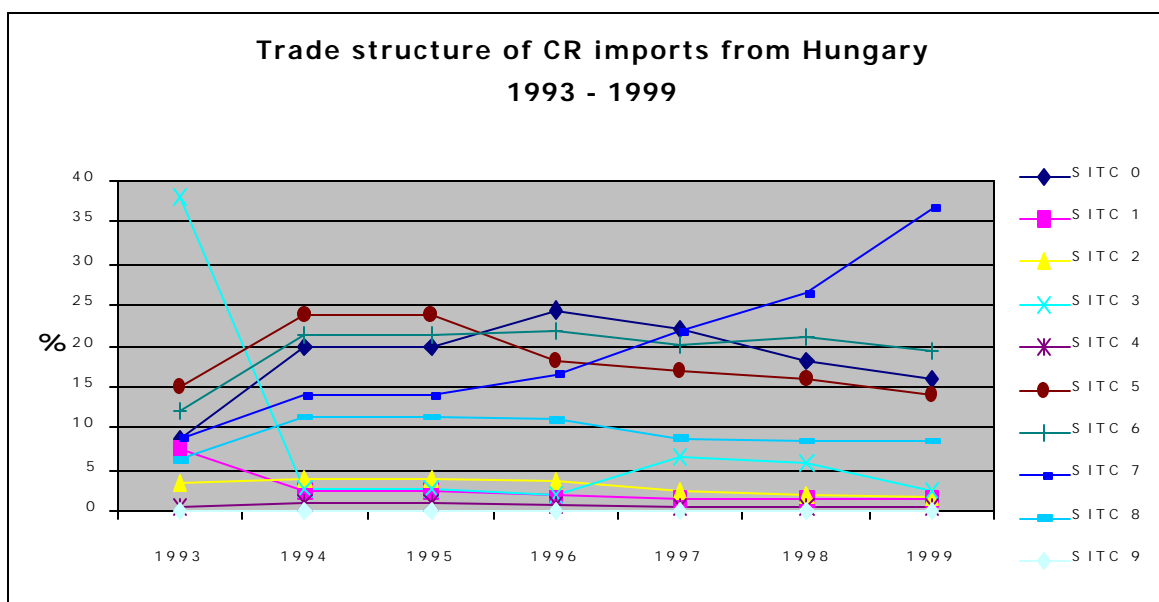
The development of Hungarian foreign trade may serve as a clear example of the advantages CEFTA offers to its active member countries. Especially Hungarian trade with CR in machinery and transport equipment took off to new heights, with both countries profiting from this development.

Imports:

The structure of CR imports from Hungary is shown in Graph 3. What strikes immediately is the practically unprecedented growth of the SITC 7 group (Machinery and Transport Equipment) between the seven years covered by the statistics. The import of this group of commodities rose between the 1993-99 by a staggering 30 %, and the share of CR's imports of the SITC 5-8 group rose from 42 to almost 80 % between the same years. This alone confirms the expected advantages of free trade zone created by the foundation of CEFTA.

Tables 11 and 12 in the Annex give further evidence to the facts mentioned above and shown in the Graph 3.

Graph 3: Trade Structure of CR Imports from Hungary:



Source: CzechTrade

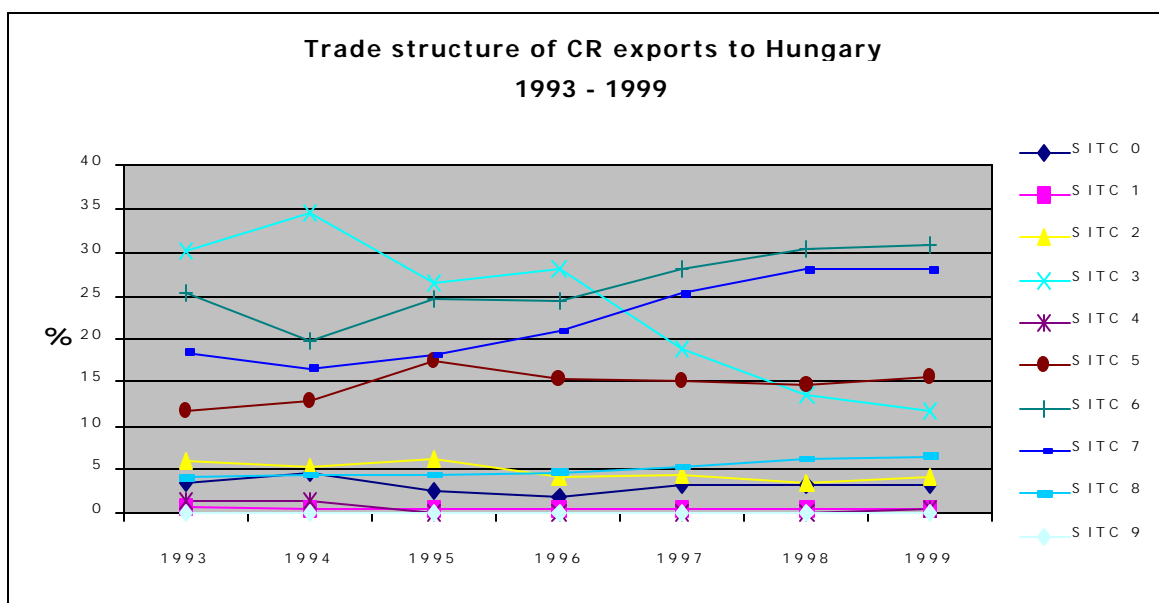
Power generating machinery was behind the sizeable increase of CR's imports from Hungary. These machines accounted for a full 50 % increase of the SITC 7 group as a whole, with paper, paperboard (SITC 64) and metal products (SITC 69) also contributing to the growth. The biggest drop in imports appears in the group SITC 33, where a significant reduction of CR's imports of refinery products (SITC 33 – Petroleum, petroleum products) lowered the amount imported by more than one third during the years 1993-99. (See Table 13 in the Annex).

Exports:

A situation similar in the structure to imports from Hungary repeats on the side of CR exports to this country. This time, however, there was an initial drop in the relative share of goods with higher value-added in the first year of CEFTA existence, because of the extremely high share of fuel exports (SITC 3). From 1994 on, the high value-added product groups, such as Machinery and Transport Equipment (SITC 7) and Manufactured Goods Classified by Material (SITC 6), predominated. The structure of foreign trade between these two countries followed the trade structure typical of that of developed market economies.

The total share of higher value-added goods in CR's exports to Hungary rose from almost 60 % in 1993 to over 80 % in 1999, bringing it to about the same level as this group of products achieves in the imports from Hungary.

Graph 4 depicts the development of CR's exports to Hungary, with supporting statistical data provided by Tables 14 and 15 in the Annex.

Graph 4: Trade Structure of CR Exports to Hungary:

Source: CzechTrade

On the side of CR's exports to Hungary, the leading role is played by SITC 7, represented mainly by passenger cars, but also by power generating machinery. A surprise may come in the fact that this group of products (SITC 71) increased in importance in CR – Hungarian trade on both sides, as did the group SITC 64 (Paper, paperboard).

The only group of products that decreased significantly during the 1993-99 period on the side of CR's exports to Hungary is trade with coal and coke. For more details see Table 16 in the Annex.

2.3 CR: Trade Relations with Slovakia

Hundreds of articles were written and lectures given on the Czech – Slovak partition and the repercussions it had on the political scene and the economies of both newly created countries. It may be still too early to write a comprehensive analysis of the peaceful partition of the country and above all its economy. It was only a coincidence that the ratio of 2 : 1 for dividing practically everything, all the assets within the formerly united country could be used, as such was the distribution of population between Czechs and Slovaks. However, it probably helped to better understand and also to persuade most of the citizens that there is some relative justice in the division, because the ratio was strictly followed⁵.

Although the country was peacefully divided and new governments could resume their responsibilities, many companies of the new country got into a very difficult situation starting on day one. Especially for large companies that used to have branches and daughter companies dispersed in all parts of the country, their formerly intra-company co-operation became overnight a part of their foreign trade operations.

It is interesting to follow the development of these relations, as reflected in the statistical figures. Some companies simply compensated their product lines relatively quickly, so as not to rely on their former subsidiaries in Slovakia that now operated as independent companies; these companies are now without any direct production ties to Slovakia. Other companies continued their co-operation and even expanded it, when they found it to be mutually beneficial trade, using, among other things, the advantages extended by the existing customs union between the two countries. There are, however, many companies that did not survive the partition, (or privatization), and have ended up in bankruptcy.

Although it would most likely deserve a separate study, one cannot help but to comment on the strong survival performance of the industries of both the Czech and Slovak Republics. The division of the unified Czechoslovakia was done on purely political grounds, without much respect being paid to economic consequences, which were considered as secondary

at that moment. The very fact of keeping the economy running may be also perceived as a tribute to the strength and resilience of the many companies that not only survived, but came out of this process restructured into modern entities, capable of competition on the world markets. There were, of course, other companies, often the largest conglomerates, geared towards producing huge quantities of substandard goods for Eastern markets that could not have survived in the new conditions of market economy, and failed. Some may still be resuscitated with the help of foreign investors (and attempts are being made in this direction for companies like CKD, Tatra, Zetor in the CR, or VSZ and ZTS in Slovakia), others are already doomed (Poldi Steel in CR is probably the best known example).

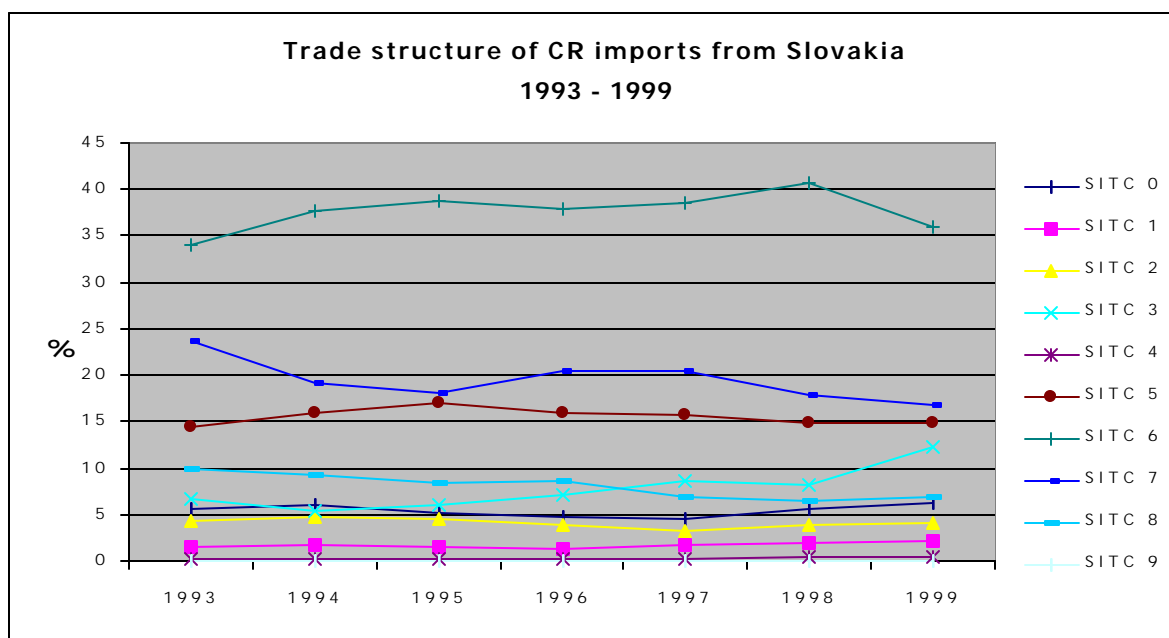
Imports:

Unlike other trade relations, the structure of imports from Slovakia (see Graph 5) does not repeat the trade pattern typical for the trade relations with other CEE countries, such as a strong reliance on goods with a higher value-added. With the exception of the group SITC 6 (Manufactured Goods Classified by Material) that upholds its predominant position in the mutual trade (and relates to the times of united economy of both countries), other groups of goods stagnated or even lowered their share in the total trade. Quite surprisingly, the chief example of this development is the group SITC 7 (Machinery and Transport Equipment). It is exceptionally (compared with the other trade relations among developed countries generally, and trade relations among the other CEE countries in particular) the main "loser" among the other groups of goods.

We believe that the partition of the Czechoslovak economy and its consequences, mentioned above, are the main reason for such development. The pattern found in the SITC 7 group can be extended to the whole SITC 5-8. While in 1993 CR's imports of these commodities from Slovakia represented 82 % of the total (i.e. way above the similar share for Poland and Hungary), in 1999 the percentage went down to about 75 %, already comparable within a few percentage points with the share of the two other countries.

Graph 5 below, together with the Tables 17 and 18 in the Annex, shows the development of CR's imports from Slovakia.

⁵ Sometimes even to such absurd details such as partition of archives.

Graph 5: Trade Structure of CR Imports from Slovakia:

Source: CzechTrade

The group of products that accounts for the largest increase in imports (albeit modest in comparison with the trade with other CEFTA countries) during the 1993-99 period was SITC 3, i.e. Fuels, Lubricants and Related Materials. If we go deeper into the statistics, then is the increased imports of petrol from the Slovnaft refinery quite clearly the major factor.

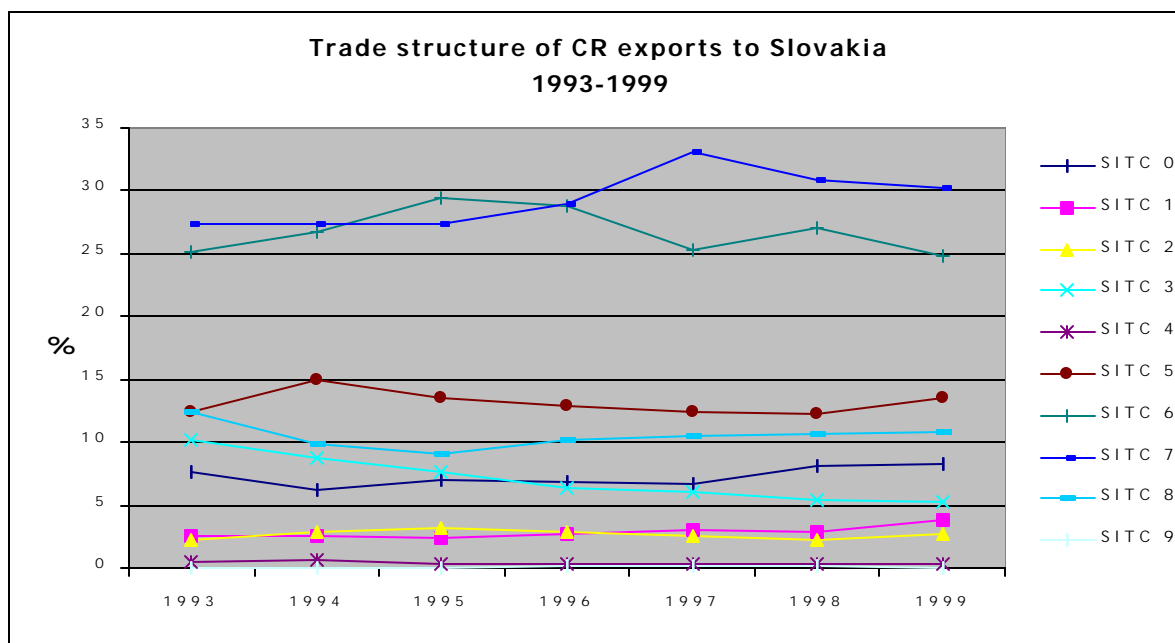
On the opposite side, the group of products, imports of which shrank by 7 % during the period was electrical machinery, apparatuses and appliances (SITC 77). More details are provided in Table 19 in the Annex.

Exports:

When compared with the situation in imports, the commodity structure of Czech exports to Slovakia has not undergone any major changes in the past eight years. Export of machines and transport equipment, both summarized under the SITC 7 group of goods, continues to dominate the exports and accounts for almost one third of the total. The only other commodity group that comes close in absolute terms is SITC 6, Manufactured Goods Classified by Material. These two groups represent more than one half of all the CR's exports to Slovakia, with the share of these commodity groups on the total export changing only slightly, from 77 % in 1993 to almost 80 % in 1999.

Graph 6 and Tables 20 and 21 in the Annex give some further evidence to the described development.

Graph 6: Trade Structure of CR Exports to Slovakia:



Source: CzechTrade

The group of products that gained the most in CR's exports to all the countries in question is without exception SITC 7, and, more specifically, the export of road vehicles (SITC 78). In the case of CR, it is the exceptional performance of the major passenger car maker in the CR, Skoda Auto, part of the Volkswagen Group, that accounts for this increase. The fact that the export of Skoda cars represents more than 10 % of total exports of the CR speaks for itself, not to mention the fact that it also helped to improve the quality and overall performance of local suppliers of parts, who now export part of their production.

In the case of trade with Slovakia both the "winners" and "losers" gained and lost relatively small percentage of the total trade, as the structure (perhaps with the exception of the passenger cars) remained quite flat. (See Table 22 in the Annex).

Unlike the other two CEFTA countries, Slovakia enjoys the advantage of customs union in the mutual economic relations with CR. This undoubtedly opens more room for trade expansion between these two countries, but on the other hand creates friction in contacts with the EU. There is little evidence that the customs union generally influences trade of

the CR and Slovakia in a way that would negatively affect the trade relations with other countries. The customs union is basically a tool that allows these two countries and their companies to overcome the negative effects of the division of the country. If and when one or both of CR or SR enter the EU, the question of customs union will be solved by itself, if it has not already been solved.

2.4 Conclusions

Even with the limited evidence we have from the analyses of the mutual trade between Czech Republic and its three major trading partners among the CEFTA countries it is quite safe to conclude that CEFTA represents a welcome alternative to the orientation of trade flows, easing a somewhat one-sided reliance on trade with the EU (and Germany, in particular).

However, even with that in mind, foreign trade of CR can still be characterized as heavily dependent on trade with EU countries, especially Germany (over one third of all CR's imports and almost 40 % of exports go to this country alone). CEFTA trade and its development thus offers a chance to a better geographical distribution of the flow of trade, decreasing the negative effects of pegging one country's economy too closely to an economic cycle of another one at the same time also.

Another conclusion that comes out of the analyses is the dependence of CR exports on only a few commodities. The 20 most important export commodities account for almost 60 % of all exports, passenger cars covering 11 % themselves. While it is a positive result in the fact that most of these commodities are from the higher value-added groups, sensitivity to shifts in demand on world markets would call for a broadening of the number of exportable products and more even distribution of the risk of a drop in demand for these products.

3. Foreign Direct Investments in CEE

While we were able to compare the pattern of foreign trade relations of individual CEE countries with their previous performance and assess the changes brought about by the transformation of their economies, foreign direct investment (FDI) is a phenomenon almost unknown (with some exception for Poland) in the former socialist countries of Central and Eastern Europe. It was only during the nineties that the inflow of FDI into the CEE countries made it possible to measure it as to its quantity, distribution according to industries and country of origin.

Another important difference between analyses of statistical data on foreign trade of individual countries or trading blocks and information on FDI is that published data for FDI has a much lower level of compatibility. In order to reach some comparable results, we have been using the standard methodological procedure, used by the Czech National Bank, as described below.

Foreign Direct Investment represents a share of at least 10 % or higher of a foreign investor in the equity capital company, in which the investor has a lasting interest and participates in the management of that company. It means that a foreign direct investor does not need to own the controlling stake or the largest stake in the company. Reinvested earnings and other capital are also considered an integral part of FDI. The composition of FDI can thus be expressed by the following relationship:

$$\text{FDI} = \text{equity capital} + \text{reinvested earnings} + \text{other capital}$$

- Equity capital includes a non-resident's share of equity in the company and all the shares in its subsidiaries
- Reinvested earnings consist of current year's profit after tax, plus retained profit from previous years, minus current year's loss and accumulated losses from previous years minus dividends

- Other capital consists of accepted and provided credits, including debt securities and supplier's credits between direct investors and companies in which they have ownership interests (including subsidiaries).

An important difference between foreign trade of the CEE countries and their FDI is the gap between “imports” and “exports” of FDI. While in foreign trade relations the balance between inflow and outflow of goods is relatively even and countries are usually trying to keep this balance within certain boundaries, in the case of CEE countries the inflow of FDI is a multiple of the outflow.

This net inflow of FDI represents an important factor for the manageability of external imbalances, especially the current account deficit. Especially in Hungary and Poland, and since 1998 also in CR, the net inflow of FDI has helped these countries to balance their trade deficits.

All CEE countries have a shortage of domestic capital, and without foreign financial resources they could hardly achieve sustainable long-term economic growth. Moreover, evidence indicates that FDI inflows complement, rather than substitute, for domestic investments.

FDI therefore contributes to the transition and economic development of CEE in three major ways:

- FDI directly increase capital accumulation
- FDI raise the productivity and are beneficial for export performance of the economy
- FDI generate technological and organizational benefits for domestic enterprises.

The positive influence of FDI on the domestic economy is not only in the quantity of FDI inflows, but also in their quality. Most important are the areas of enterprise restructuring and increased productivity, marketing and corporate governance. Foreign investors tend to restructure companies faster, they invest more, operate capital more intensively and have a higher labor productivity. They usually pay better wages, and through attracting more qualified workers, have a better human capital to support their activities.

According to the World Development Indicators published by the World Bank, only two CEE countries had any FDI in 1990, Poland and CR. In 1998 for three of them, Poland, Hungary and CR, FDI represented almost one sixth of their total gross domestic investments, with Slovakia still lacking behind with only 7 %. For further detail see Table 24 in Annex.

3.1. Foreign Direct Investment position of CR

Statistical evidence about the FDI position of the CR does not usually go back beyond 1993. Before that date there was very little FDI, and the division of Czechoslovakia allowed for the two new countries to start their statistics anew.

The macroeconomic situation in CR, with depressed prices on the stock exchange, a well-educated and cheap work force, a strategic location on the crossroads of Europe and the probability of relatively quick accession into the EU made CR an interesting location for foreign investors. After some changes in the investment climate, it seems that the following actions need to be addressed more actively in order to persuade foreign investors to bring more capital:

- Complete the privatization of banking system
- Strengthen corporate governance, make managers responsible to owners
- Better protect minority investors
- Improve and apply bankruptcy law and procedures
- Strengthen capital markets regulations
- Enforce recent legal, policy and institutional reforms
- Improve the investment promotion program

The social-democratic government, formed after the elections in July 1998 intensified the effort of previous caretaker government of Prime Minister Tošovský, who came into power after the center-right government of PM Klaus was dismissed in 1997. While PM Klaus considered any investment incentives for foreign investors as not important, the new government put a strong emphasis on bringing in more FDI and offering the same amount of incentives as other CEE countries, to which CR was loosing most of the investors.

The incentive package to promote investment, and above all FDI, was introduced in the Spring of 1998. After several minor improvements the program offers the following incentives to manufacturing investors:

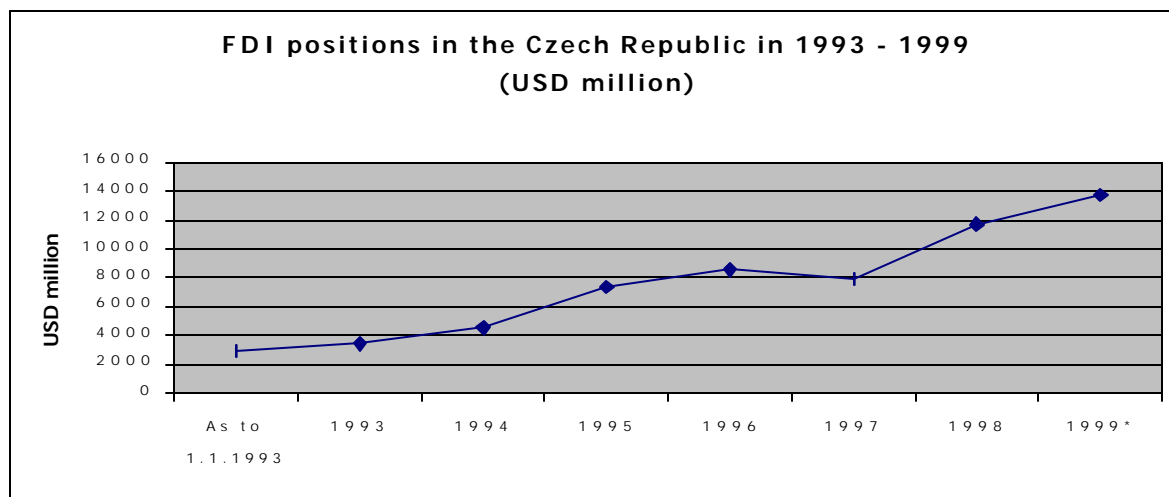
- Corporate tax relief for up to 10 years
- Location in customs-free zones
- Duty free imports of machinery and equipment
- Job-creation grants (up to 50 % of training costs, depending on the unemployment in the location)
- Provision of low-cost building/land and/or infrastructure

In order to be eligible for any of the incentives, an investor has to meet certain criteria, specified by the government. The recent development showed that the incentive program works.

3.1.1. FDI Inward Flow

The Czech National Bank (CNB) statistical survey reports for January 1, 1993, when the CR was founded, the FDI position as USD 2,889 billion. Over the years this position continued to grow and the preliminary figure for 1999 stands already at USD 13,75 billion, i.e. almost fivefold increase. Quite interesting is also the development of this position over the years. The increased inflow clearly intensified after the government approved incentives for foreign investors in 1998 and put CR on par with the other CEE countries that have been offering incentives to foreign investors already from the beginning. (See Graph 7 and also Table 25 in the Annex).

Graph 7: FDI Positions in the CR in 1993-99



*preliminary data

Source: Czech National Bank

Graph 7 allows for several comments on the development of FDI positions:

Firstly, there is a significant increase in the total amount of FDI inflow into CR between 1994 and 95. There is not enough evidence to support the suggestion that one of the factors that may have raised the confidence of foreign investors to invest more heavily into CR is the signing of the Partnership for Peace Accord that brought about the sense of higher political stability in the countries of the accord. It is very tempting, however, to speculate about this possibility, especially since we have some other supporting evidence, such as practically similar development in other CEE countries that also signed the PfP accord, especially Poland and Hungary.

One of the supporting facts may be the same increase in the FDI inflow, experienced in CR, and also in other countries.

Statistics on the development of Polish FDI inflow, if we take the year 1993 as equal 100, would give the following evidence:

1993	100
1994	161
1995	319
1996	513

The twofold increase between 1994 (the year of signing of the PfP accord) may have been caused by other factors, such as the growth of the economy, economic situation in the region and in the world economy, etc. However, in Hungary the FDI inflow experienced a similar development to that in CR and Poland. Again, if FDI in 1993 equals 100 %, then the situation in the following years show a similar pattern to that described above:

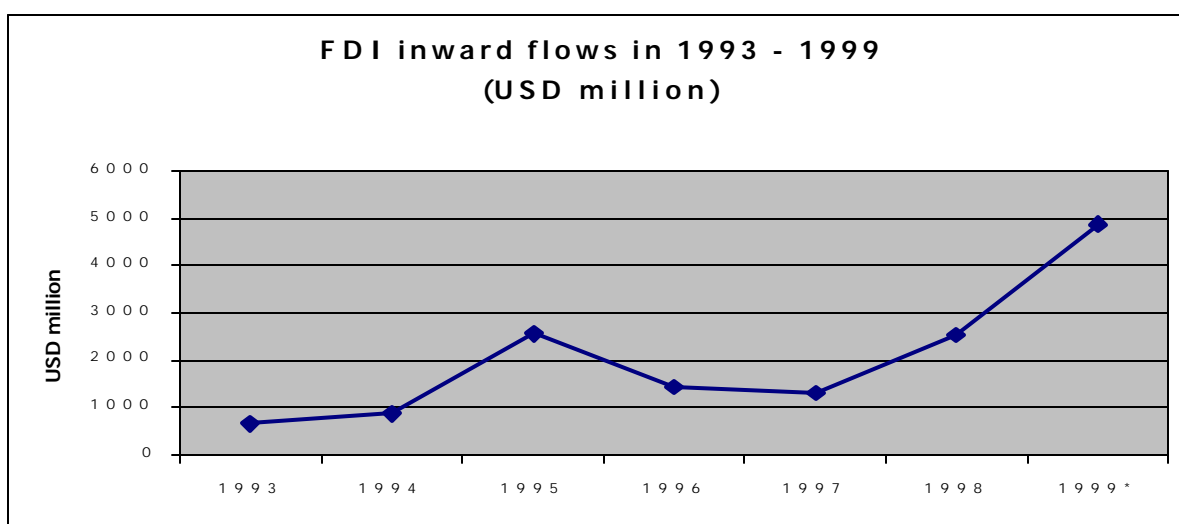
1993	100
1994	127
1995	214
1996	263

Even if we take into consideration that there are undoubtedly other factors that also could have contributed to the fact that FDI inflow into the CEE countries rose so significantly during the year of the signing of the PfP accord, we claim that this was also one of the

contributing factors. Without more detailed study it would be, however, difficult to give more concrete evidence.

Secondly, the curve in Graph 7 draws attention to the dramatic increase in amounts of FDI flowing into CR after 1997. It was the year of significant political changes in CR and also a year of complete revision of incentive plans for foreign investors. The evidence in the form of dramatic increase of FDI inflow in 1998 and especially 1999 testifies that the steps were taken in the right direction. (See Graph 8 and also Table 26 in the Annex).

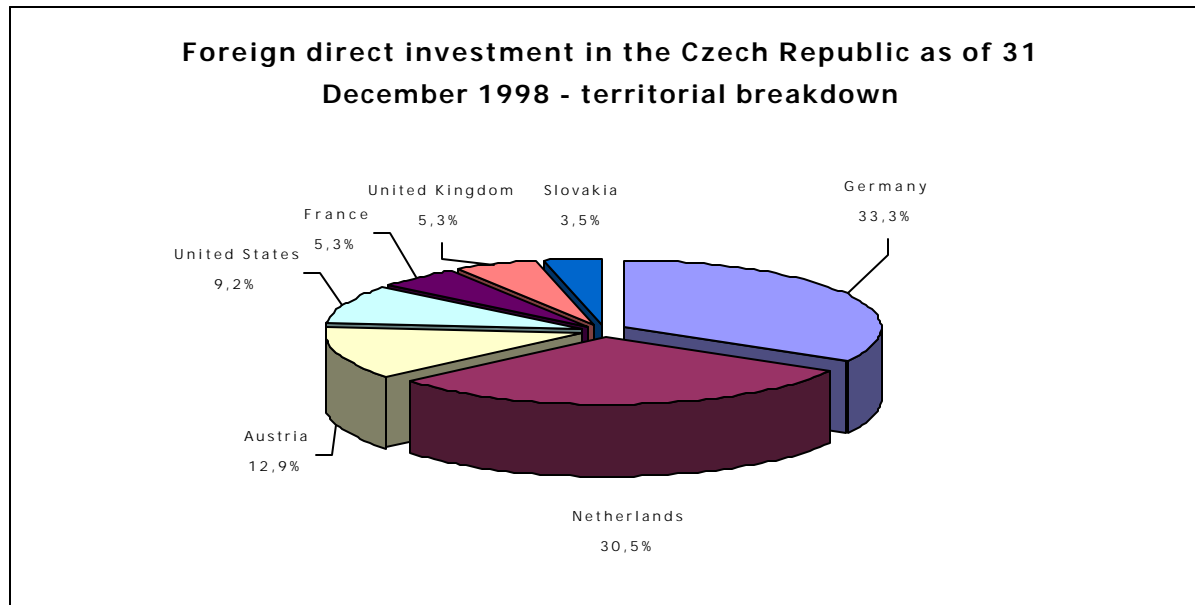
Graph 8: FDI Inward Flows into CR in 1993-99



Source: Czech National Bank

While absolute amounts of FDI have grown, it may also be worth looking into the geographical distribution of these investments. The latest available data allows for the structure only till the end of 1998, when Germany and The Netherlands dominated the scene. In 1999 several new important investors appeared, among them the KBC Bank from Belgium, with USD 1,1 billion invested into the purchase of the third largest Czech bank, CSOB, by far the largest single investor in that year and Austrian Erste Bank that bought in privatization second largest Czech bank, Česká spořitelna (for much less money, due to bad loans in the portfolio).

The geographical distribution of countries with the largest export of capital into CR appears on Graph 9, which follows.

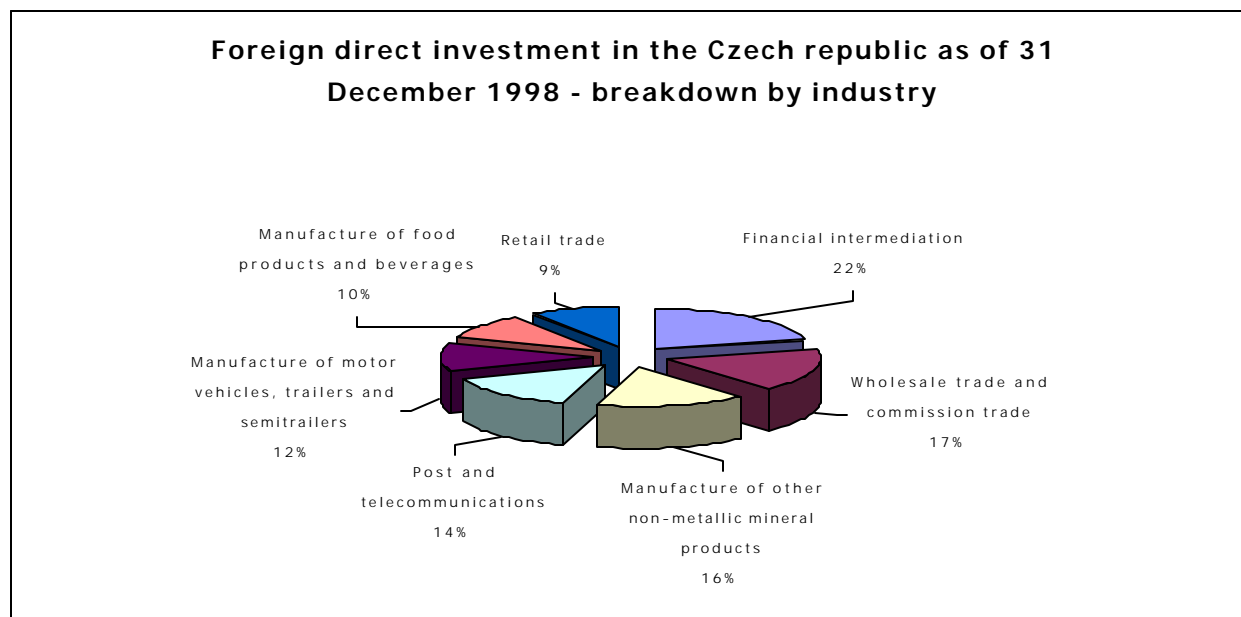
Graph 9: Territorial Breakdown of FDI in CR as of end 1998

Source: Czech National Bank

The EU countries and USA are not surprisingly the largest foreign investors, and their continued interest will probably only strengthen this picture in the years to come. Slovakia, with USD 169 million invested into Czech economy so far, benefits to a large extent from the previous years of a united economy, and it is not expected that its share of FDI will rise.

A breakdown of FDI in CR according to the industries shows the preferences foreign investors have in their investments. Financial intermediation is clearly one of the favorite branches of industry, and its share will most likely grow after the privatization of CSOB, that took place in 1999 and the prepared privatization of Komerční banka - the single largest bank still in state hands - some time in 2000. It is quite safe to assume that the share of telecommunication will grow, because of the privatization of the two largest communications companies, SPT Telecom and české radiokomunikace, is already under way.

The structure of FDI in CR according to industrial breakdown appears in Graph 10:

Graph 10: Breakdown by Industry of FDI in CR as of end 1998

Source: Czech National Bank

The latest data available for 1999 are still only preliminary, but they confirm the positive development of FDI in CR. The total of FDI for the year is a record USD 4,88 billion and in the territorial breakdown, Belgium already assumes its position given by the purchase of CSOB bank. The breakdown by industry financial institutions appears among the leading branches as well.

There may be an additional supporting argument for a record inflow of FDI to CR in 1999. This is the year when CR (and Poland and Hungary) joined NATO. It may be argued that again, as in 1994, when PfP accord was signed, this additional tie towards the politically and economically stable organization of NATO brought the necessary assurance to the investors that their capital will be safe and that they will understand the laws under which the investment is made.

It is clearly only a speculation that would need to be supported by some statistical evidence in the years to come, but even in the absence of such evidence it makes sense to assume that such an important political step, as joining of NATO undoubtedly represents, will have positive economic aspects.

Tables 27 and 28 in the Annex give the territorial and industrial breakdown of FDI into CR in 1999.

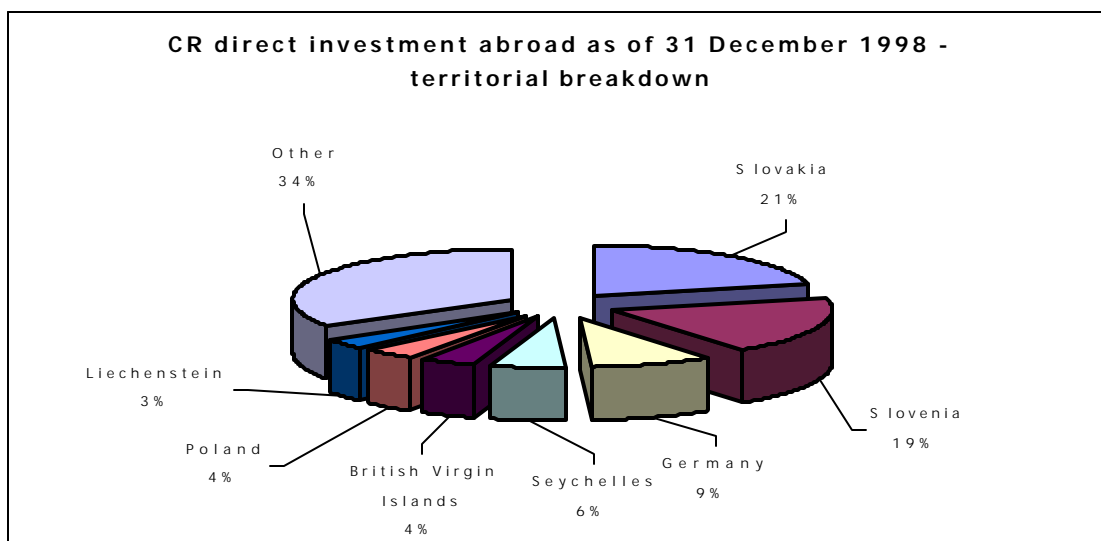
3.1.2. FDI Outward Flow

The situation in 1993 was such that the newly established state had right from the very beginning some FDI abroad, due to the cross-ownership between the Czech and Slovak governments and companies. Therefore, the initial position of Czech FDI abroad was USD 91,2 million as of January 1, 1993. This position grew over years to preliminary figure for 1999 of USD 908,1 million.

None of the CEE countries, CR notwithstanding, has been a major exporter of capital to other countries. Nevertheless, there are some interesting data providing more insight into the outflow of FDI from CR during the past years.

From the data shown in Graph 11, it is quite clear that Slovakia is the single largest recipient of Czech FDI. Perhaps surprisingly Slovenia ranks second, followed by country that one would expect on such a list, Germany.

Graph 11: CR Direct Investments Abroad as of End 1998 – Territorial Breakdown



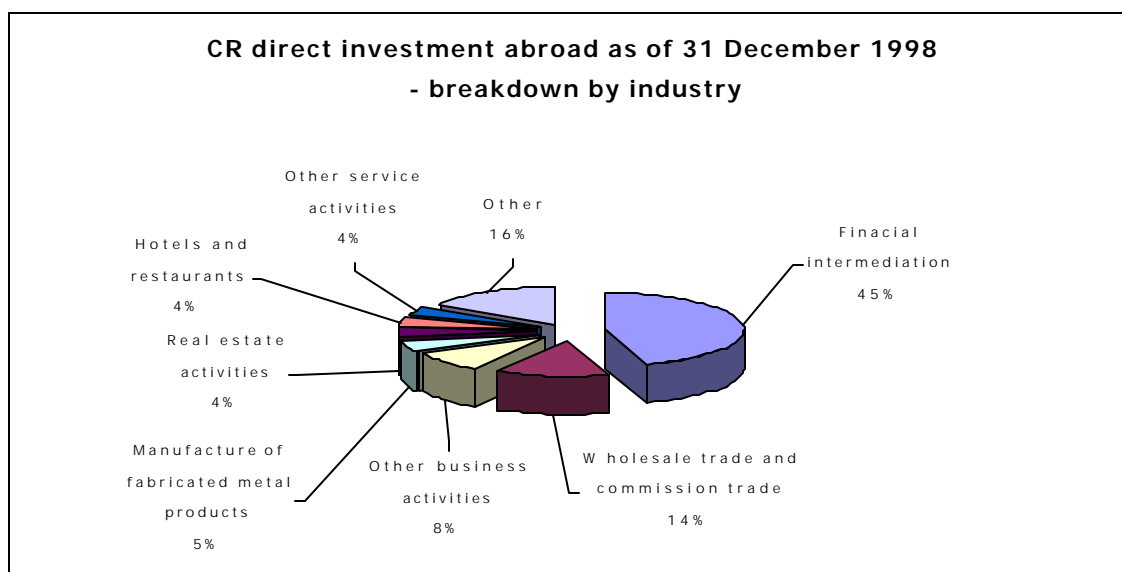
Source: Czech National Bank

However, quite interesting is another fact: Slovakia and Poland accounted in 1998 for 25 % of all Czech FDI, and if we include Slovenia and Hungary, CEFTA countries represent

45 % of FDI of CR abroad. The other more significant recipient countries (with the exception of Germany) in the statistics suggest that rather than capital input into economies of these countries there is more speculative investment and/or tax optimization behind such FDI. Clearly countries such as Seychelles, British Virgin Islands or Liechtenstein do not belong among the standard FDI recipients, especially in the case of capital exports from the capital starved countries of CEE.

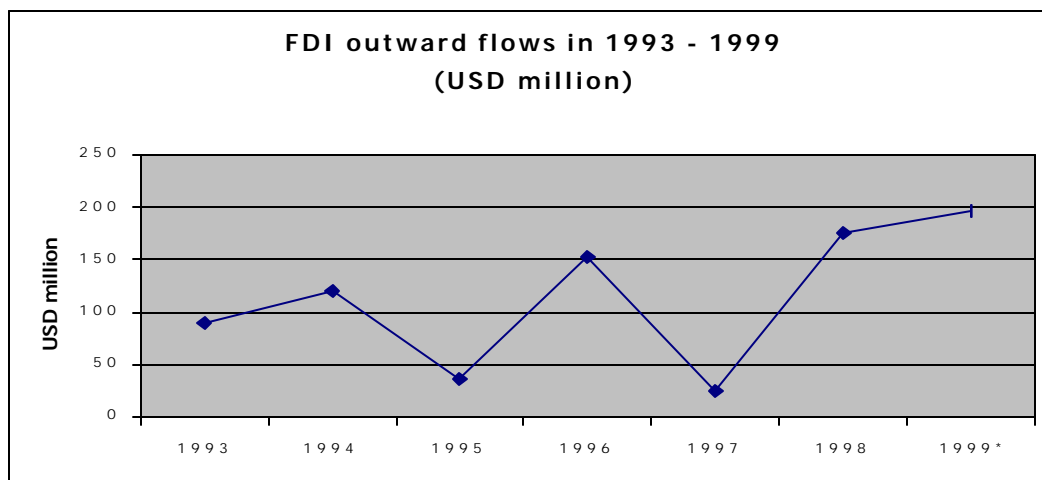
A breakdown by industry of the direct investments abroad support the idea of the rather unusual character of capital exports from CR, as almost half of all outflows goes into financial institutions, and only slightly over 5 % into manufacturing industries (See Graph 12)

Graph 12: CR Direct Investment Abroad as of End 1998 – Breakdown by Industries



Source: Czech National Bank

The outflow of capital from CR does not allow for much explanation. Graph 13 shows the erratic performance of the data, with very little evidence so far for explaining it.

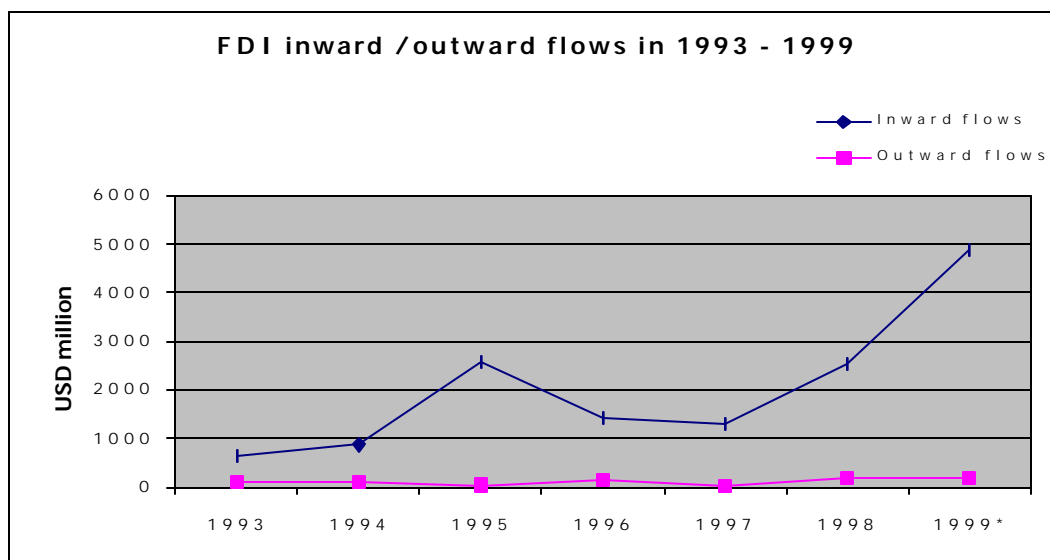
Graph 13: CR FDI Outflows in 1993-99

Source: Czech National Bank

*preliminary data

The following graph compares the inward flows of capital with the outflows. As was suggested before, the amounts of inflow capital outnumber the outflows, which at this stage of development and transformation of the economy of CEFTA countries is definitely a positive and stabilizing factor. Problems may arise, when the investors start repatriating their invested capital, if by that time the countries in question will not be capable of generating a similar inflow of dividends from their own capital invested abroad.

Graph 14 depicts the growing gap between inflow and outflow of FDI into CR.

Graph 14: FDI Inward/Outward Flows in 1993-99

Source: Czech National Bank

*preliminary data

3.2. FDI of other CEFTA Countries

Statistical evidence of FDI for most of the CEFTA countries is even more scarce than in the case of foreign trade statistics. Therefore we will present only some basic data to show that the underlying tendencies are similar in all CEFTA countries, especially after CR accepted also the philosophy that FDI need some incentives to be attracted.

Poland has been the recipient of the largest amount of FDI among the CEFTA countries. By the end of 1998, to which comparable data for all CEFTA countries exist, Poland attracted more than USD 30,7 million and according to the preliminary data for 1999, the total FDI in Poland between 1990-99 amount to USD 38,9 billion, with 1999 alone accounting for almost USD 8,3 billion.

89 % of all FDI to Poland come from OECD countries, with 59,3 % belonging to EU countries. Unlike CR, quite large investors on Polish territory are Russian companies, with Gazprom being the third largest investor, due to the continued pipeline construction.

Almost half of all FDI is invested into manufacturing industries (foodstuffs, transport equipment), the financial sector being second with some 15 % of the total.

Hungary still leads CEFTA countries in FDI inflow per capita (USD 1 940 according to the latest data from the Vienna Institute for Comparative Studies), but it is being quickly followed by CR (USD 1 654 in 1999) and Slovenia (USD 1 508).

Hungary is further ahead in privatization of utilities than the other CEFTA countries and therefore their share of FDI in this part of their economy is much higher than in Poland, CR and Slovakia. (14,5 % in the case of Hungary and less than 5 % in all the other countries).

Territorial distribution of FDI into Hungary is similar to the other CEFTA countries, with the predominance of EU and US investments. The only country that records more investments into Hungary than into other CEE countries is Switzerland, with sizeable FDI into Hungarian pharmaceutical industry.

Slovakia has the smallest amount of FDI (with less than USD 2 billion) among all CEE countries, partly due to the uncertainties connected with the political situation. This has been solved in the last few years and the new democratic government is eager to bring into the country more capital from abroad. The other unusual feature than distinguishes Slovakia is the fact that it is the only CEE country to list another CEE country (CR) as one of the larger FDI contributors. Otherwise the main FDI providers are the same as in other CEE countries, i.e. Germany, Austria, USA and The Netherlands. Half of all FDI in Slovakia went into manufacturing industries, the second largest recipient of FDI being financial sector.

3.3 Conclusions:

FDI has been a success story for most of the CEE countries. There is enough evidence to prove that companies under foreign ownership perform better in most indicators, such as productivity of labor, export performance, etc. Does that mean that attracting more foreign capital would solve all the CEE problems? Certainly not likely.

First of all, there have been different approaches to FDI in different CEE countries (or other countries of the world, such as in South East Asia) and it is impossible to say where the maximum benefits for the host country start. Countries cannot rely on FDI alone, as this could create a dual economy, with modern, performing enterprises belonging to foreign capital and slowly dying old companies, unable to transform themselves without an inflow of fresh capital.

There are interesting similarities in all CEE countries in regards to FDI:

- FDI was directed to similar industries, above all into automotive sector
- Most of the industries of FDI interest were dominated by multinationals
- All CEE countries introduced a number of incentives in order to attract FDI
- Privatization was often the key according to which industries attracted FDI

FDI offers an interesting tool to measure the level of participation of a given country in the processes of internationalization. The amount of FDI depends on a number of factors, such as

- Political situation and risks associated with investments in the given country
- Efficiency of the recipient economy and its overall development
- Rating of the country and its image
- Membership in international organizations and regional associations

There are other, more refined factors, according to which the country is being considered as a potential recipient of FDI, but the above mentioned are probably the most universal ones. It is also according to them that the individual CEE countries are being assessed and found worthy of FDI. The competition for available capital is enormous, and many investors take only a short-term view.

We believe that if all the factors, including the medium to long term ones are being taken into consideration, CEE countries stand a good chance of becoming one of the sought after areas of capital investments, because they have several factors speaking in their favor that may not be easily found in other regions of the world:

- Long industrial tradition with well educated work force
- Political stability given also by their acceptance into NATO (Slovakia excluded)
- EU accession within a foreseeable future that would immediately move them into another category of developed countries
- Policy coordination through CEFTA that should assure a more advantageous treatment in dealings on international stage.

4. Concluding Remarks

When we discussed the possible topic for a study that would cover some issues related to the NATO and its partnership with CEE countries, the economic aspects of such a relationship seemed to be an obvious choice.

As we progressed towards finding some concrete evidence, it became obvious that some direct correlation between the economic aspects of the development between NATO and the Partnership for Peace Accord will be very difficult to find. This is not because we would not believe into such correlation, but because the evidence is too scarce and dispersed among other data in such a way that it practically does not allow for any statistical research.

We have tried to prove that:

- There is some evidence of the signing of the PfP Accord influencing the economic performance of the CEE countries that were part of the agreement
- The increased security that was brought about by the signing of PfP accord by the CEE countries and strengthened in 1999 by joining of NATO increased the attractiveness of CEE countries as trading partners.

Although we could not bring enough evidence of such shift in the international position of CEE countries that would confirm the correctness of the hypothesis, we feel that there are some conclusions that may justify the effort being taken in preparing this report.

We brought the evidence of positive development of CEFTA 4 intra-trade relations, as well as the improved position of the CEE countries within the international trade, supported by statistical data. While it may be too early to prove on some time series the envisaged correlation this report may serve as a stepping stone for some further research later, when the data will be available and more clear for interpretation.

Similar expectation went into the FDI analyses that were analyzed in order to bring some evidence of a positive development after the signing of the PfP accord. Although in the case of some countries, CR being one of them, the correlation seemed to apply, there are many other factors that could override and indeed completely reverse the suggested trends. Also in this case it seems to be too early to bring any concrete conclusions as to the effects of the PfP accord on the economic performance of individual countries.

We believe, however, that with the CEE countries (except for Slovakia) being members of NATO (as of 1999) the international situation of the CEE countries and their trading position will gradually be changing, as these countries will become more and more recognized as standard partners both politically and economically.

It is difficult now and will be difficult also in the future to distinguish between the effects brought about by NATO membership and by EU accession, as NATO will probably play more important role in the politically based decision of economic relations of CEE countries. The overall effects should, however, lead to noticeably improved performance of the CEE countries, this improvement being attributable to a certain degree to NATO. How large this proportion would be is practically impossible to say, but further analyses later on could bring more evidence.

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SITC 0 – Food and live animals
 SITC 1 – Beverages and tobacco
 SITC 2 – Crude materials, inedible, except fuels
 SITC 3 – Mineral fuels, lubricants and related materials
 SITC 4 – Animal and vegetable oils, fats and waxes
 SITC 5 – Chemicals and related products, n.e.s.
 SITC 6 – Manufactured goods classified chiefly by material
 SITC 7 – Machinery and transport equipment
 SITC 8 – Miscellaneous manufactured articles
 SITC 9 – Commodities and transactions not classified elsewhere in SITC

Table 1: Development of Imports of Czech Republic with Selected Regions of the World (%):

	1985	1989	1991	1993	1995	1998
ME	30,5	37,3	57,5	64,2	69,2	72,1
of which EU	25,3	31,8	49,9	56,2	61,1	63,4
DE	5,9	7,6	8,4	4,5	4,4	4,9
CEE+CIS	60,7	51,3	32,9	30,7	25,5	21,0
CEFTA	-	-	-	20,2	16,4	14,0
Slovakia	-	-	-	15,9	11,8	7,2

Notes: ME = Developed Market Economies

DE = Developing Economies

CEE+CIS = former East Europe + USSR

Percentage points remaining to 100 reflect the share of countries with state trading system, especially China.

From 1993 figures include also Slovak Republic.

Source: Czech Statistical Office, Statistical Yearbook 1999

Table 2: Development of Exports of Czech Republic with Selected Regions of the World (%):

	1985	1989	1991	1993	1995	1998
ME	31,8	37,0	55,2	57,5	66,0	69,1
of which EU	26,8	31,9	50,8	52,7	60,9	64,2
DE	10,0	8,9	8,6	7,8	5,4	4,2
CEE+CIS	54,7	49,8	34,8	32,6	28,0	26,3
CEFTA	-	-	-	25,8	21,6	19,9
Slovakia	-	-	-	21,6	13,9	10,6

Notes: See Table 1

Source: Czech Statistical Office, Statistical Yearbook 1999

Table 3: Foreign trade of individual member countries of CEFTA

Country	Exports			Imports			Trade Balance		
	1996	1997	1998	1996	1997	1998	1996	1997	1998
	USD billion (current prices)								
Czech Republic	21,91	22,78	26,36	27,72	27,17	28,82	-5,81	-4,39	-2,46
Hungary	15,70	19,10	23,01	18,14	21,23	27,71	-2,44	-2,13	-2,70
Poland	24,44	25,75	28,23	37,14	42,31	47,05	-12,70	-16,56	-18,82
Romania	8,08	8,43	8,30	11,43	11,28	11,82	-3,35	-2,85	-3,52
Slovakia	8,83	8,25	10,67	11,12	10,26	12,96	-2,29	-2,01	-2,29
Slovenia	8,31	8,37	9,05	9,42	9,37	10,10	-1,11	-1,00	-1,05

Source: CESTAT, Statistical Bulletin

Table 4: Shares of CEFTA countries in foreign trade of individual CEFTA countries

	The shares of trade with CEFTA countries in total foreign trade of individual CEFTA countries					
	Exports			Imports		
	1996	1997	1998	1996	1997	1998
	Exports, imports total = 100,0 percentage shares					
Czech Republic	22,8	22,1	19,9	14,6	14,9	14,1
Hungary	7,4	7,3	8,9	6,9	6,5	6,9
Poland	6,4	6,7	7,2	6,0	6,3	6,3
Romania	3,6	4,1	4,4	4,7	5,7	8,8
Slovakia	42,1	41,0	31,8	29,7	29,1	25,0
Slovenia	5,7	5,7	6,5	6,8	7,4	7,2

Source: CESTAT, Statistical Bulletin

Table 5: Foreign trade of individual CEFTA countries with CEFTA as a whole

	Exports			Imports			Trade Balance			Import coverage by exports	
	1996	1997	1998	1996	1997	1998	1996	1997	1998	1996	1998
	USD billion (current prices)										
Czech Republic	5,00	5,03	5,25	4,04	4,06	4,06	0,96	0,97	1,19	124	129
Hungary	1,16	1,39	2,04	1,25	1,38	1,77	-0,09	0,01	0,27	93	115
Poland	1,56	1,74	2,03	2,23	2,65	2,97	-0,67	-0,91	-0,94	70	68
Romania	0,29	0,34	0,37	0,54	0,64	1,04	-0,25	-0,30	-0,67	54	35
Slovakia	3,72	3,38	3,40	3,31	2,99	3,24	0,41	0,39	0,16	112	105
Slovenia	0,47	0,48	0,59	0,64	0,69	0,73	-0,17	-0,21	-0,14	74	81

Source: CESTAT, Statistical Bulletin

Table 6: CR: Trade structure in imports from Poland 1993 – 1999 (in %)

	1993	1994	1995	1996	1997	1998	1999
SITC 0	3,55	4,69	5,32	5,62	7,93	10,02	11,63
SITC 1	0,34	0,17	0,03	0,05	0,04	0,07	0,12
SITC 2	12,21	6,82	5,96	4,98	3,69	3,91	3,30
SITC 3	24,44	24,56	22,44	21,08	17,87	11,75	10,37
SITC 4	0,00	0,01	0,13	0,16	0,09	0,14	0,07
SITC 5	13,04	15,23	13,78	12,47	12,23	11,84	11,01
SITC 6	24,36	23,43	24,16	23,86	27,00	31,31	30,94
SITC 7	14,71	14,70	17,03	20,51	19,69	18,59	17,93
SITC 8	7,34	10,40	11,15	11,23	11,46	12,37	14,61
SITC 9	0,01	0,00	0,00	0,04	0,00	0,00	0,00
SITC 0-9	100,00	100,00	100,00	100,00	100,00	100,00	100,00

Source: CzechTrade

Table 7: Gains / Losses in share between 1993 and 1999 in %

SITC 0	8,08
SITC 8	7,27
SITC 6	6,58
SITC 7	3,22
SITC 4	0,07
SITC 9	-0,01
SITC 1	-0,22
SITC 5	-2,03
SITC 2	-8,91
SITC 3	-14,07

Source: CzechTrade

Table 8: CR: Gains/Losses in Imports from Poland between 1993 and 1999 in SITC categories

	SITC Commodity Group	Changes of Share in Total Imports	Changes of share in relevant SITC commodity group
Food and live animals	0	8,08%	
Coffee, tea, cocoa, spices	07	1,98%	16,4%
Chocolate and cocoa products	073	1,04%	27,5%
Miscellaneous manufactured articles	8	7,27%	
Furniture and parts of it	82	5%	27%
Manufactured goods classified by material	6	6,58%	
Iron and steel	67	8%	25%
Machinery and transport equipment	7	3,22%	
Road vehicles, parts of it	78	3,4%	17%
Fuels, lubricants and related materials	3	-14,07%	
Coal, coke, briquettes	32	-13,7%	-30%
Non-edible crude materials	2	-8,91%	
Pulp and waste paper	25	-2,62%	-16%
Crude fertilizers, crude minerals	27	-4,5%	-6,83%

Source: CzechTrade

Table 9: CR: Trade structure in exports to Poland 1993 – 1999 in %

	1993	1994	1995	1996	1997	1998	1999
SITC 0	6,95	3,92	10,18	4,22	4,36	5,46	5,31
SITC 1	0,25	0,07	0,12	0,19	0,19	0,18	0,19
SITC 2	4,46	3,39	3,31	2,50	1,78	1,70	1,78
SITC 3	1,74	6,59	7,22	6,67	5,56	6,36	5,35
SITC 4	0,40	0,18	0,09	1,02	0,81	0,81	0,53
SITC 5	25,38	24,18	22,95	23,41	18,74	16,89	16,51
SITC 6	29,42	31,41	29,19	30,98	32,17	31,43	31,98
SITC 7	22,95	22,68	19,91	25,15	29,87	29,41	30,09
SITC 8	8,45	7,57	7,03	5,85	6,52	7,75	8,27
SITC 9	0,00	0,00	0,00	0,01	0,00	0,00	0,00
SITC 0-9	100,00	100,00	100,00	100,00	100,00	99,99	100,00

Source: CzechTrade

Table 10: Gains / Losses in share between 1993 – 1999 in %

SITC 7	7,14
SITC 3	3,61
SITC 6	2,56
SITC 4	0,13
SITC 9	0,00
SITC 1	-0,06
SITC 8	-0,18
SITC 0	-1,65
SITC 2	-2,68
SITC 5	-8,88

Source: CzechTrade

Table 11: CR: Gains/Losses in exports to Poland between 1993 and 1999 in SITC categories

	SITC Commodity Group	Changes of Share in Total Imports	Changes of share in relevant SITC commodity group
Machinery and transport equipment	7	7,14%	
Road vehicles, parts of it	78	6,74%	14,93%
Power generating machinery	71	2,73%	7,1%
Fuels, lubricants and related materials	3	2,61%	
Coal, coke, briquettes	32	1,98%	24,03%
Manufactured goods classified by material	6	2,56%	
Paper, paperboard, articles thereof	64	3,17%	9,64%
Chemicals and related products	5	-8,88%	
Organic chemicals	51	-3,24%	-4,04%
Dyeing, tanning and col. materials	53	-1,4%	-3,9%

Source: CzechTrade

Table 12: CR: Trade structure in imports from Hungary 1993 – 1999 in %

	1993	1994	1995	1996	1997	1998	1999
SITC 0	8,93	19,73	19,73	24,46	22,21	18,35	15,97
SITC 1	7,45	2,24	2,24	1,98	1,14	1,27	1,34
SITC 2	3,30	3,81	3,81	3,55	2,19	2,08	1,57
SITC 3	37,91	2,66	2,66	2,10	6,49	6,01	2,14
SITC 4	0,30	1,12	1,12	0,50	0,30	0,26	0,23
SITC 5	14,92	23,70	23,70	18,06	17,05	15,84	13,86
SITC 6	12,09	21,49	21,49	21,78	20,08	21,29	19,65
SITC 7	8,77	13,96	13,96	16,58	21,83	26,37	36,73
SITC 8	6,33	11,29	11,29	11,00	8,71	8,53	8,52
SITC 9	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SITC 0-9	100,00	100,00	100,00	100,00	100,00	100,00	100,00

Source: CzechTrade

Table 13: Gains / Losses in share between 1993 and 1999 in %

SITC 7	27,96
SITC 6	7,56
SITC 0	7,04
SITC 8	2,19
SITC 9	0,00
SITC 4	-0,07
SITC 5	-1,06
SITC 2	-1,73
SITC 1	-6,11
SITC 3	-35,77

Source: CzechTrade

Table 14: CR: Gains/Losses in imports from Hungary between 1993 and 1999 in SITC categories

	SITC Commodity Group	Changes of Share in Total Imports	Changes of share in relevant SITC commodity group
Machinery and transport equipment	7	27,96%	
Power generating machinery	71	20,43%	49,83%
Internal combust engines	713	20,1%	82,28%
Manufactured goods classified by material	6	7,65%	
Paper, paperboard, articles thereof	64	2,03%	3,54%
Manufactures of metal n.e.s.	69	2,83%	7,48%
Food and live animals	0	7,04%	
Vegetables and fruit	05	2,19%	5,83%
Fuels, lubricants and related materials	3	-35,77%	
Petroleum, petroleum products	33	-37,48%	-85,65%
Heavy petrol / bitum oils	334	-37,33%	-17,74%
Beverages and tobacco	1	-6,11%	
Tobacco and tobacco manufactures	12	-5,97%	-74,38%

Source: CzechTrade

Table 15: CR: Trade structure in exports to Hungary 1993 – 1999 in %

	1993	1994	1995	1996	1997	1998	1999
SITC 0	3,39	4,72	2,56	1,84	3,12	3,09	3,07
SITC 1	0,47	0,36	0,16	0,28	0,22	0,38	0,41
SITC 2	5,73	5,36	6,25	4,06	4,25	3,53	3,85
SITC 3	30,07	34,44	26,31	28,14	18,82	13,40	11,66
SITC 4	1,08	1,33	0,06	0,13	0,07	0,12	0,27
SITC 5	11,61	12,91	17,65	15,37	15,16	14,92	15,63
SITC 6	25,15	19,84	24,76	24,42	27,90	30,50	30,65
SITC 7	18,41	16,64	18,08	21,08	25,28	27,89	28,14
SITC 8	4,09	4,41	4,17	4,69	5,18	6,18	6,33
SITC 9	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SITC 0-9	100,00	100,00	100,00	100,00	100,00	100,01	100,00

Source: CzechTrade

Table 16: Gains / Losses in share between 1993 and 1999 in %

SITC 7	9,73
SITC 6	5,50
SITC 5	4,02
SITC 8	2,24
SITC 9	0,00
SITC 1	-0,06
SITC 0	-0,32
SITC 4	-0,81
SITC 2	-1,88
SITC 3	-18,41

Source: CzechTrade

Table 17: CR: Gains/Losses in exports to Hungary between 1993 and 1999 in SITC categories

	SITC Commodity Group	Changes of Share in Total Imports	Changes of share in relevant SITC commodity group
Machinery and transport equipment	7	9,73%	
Road vehicles, parts of it	78	3,85%	-4,32%
Power generating machinery	71	2,41%	7,1%
Manufactured goods classified by material	6	5,5%	
Paper, paperboard, articles thereof	64	2,6%	7,17%
Chemicals and related products	5	4,02%	
Oils, toilet and cleansing prep.	55	2,31%	9,11%
Fuels, lubricants and related products	3	-18,41%	
Coal, coke, briquettes	32	-14,36%	-7,74%

Source: CzechTrade

Table 18: CR: Trade structure in imports from Slovakia 1993 - 1999 in %

	1993	1994	1995	1996	1997	1998	1999
SITC 0	5,50	6,06	5,27	4,70	4,50	5,58	6,23
SITC 1	1,41	1,83	1,55	1,25	1,78	1,88	2,21
SITC 2	4,30	4,75	4,52	3,85	3,23	3,95	4,02
SITC 3	6,61	5,41	6,11	7,02	8,52	8,15	12,35
SITC 4	0,17	0,18	0,24	0,32	0,30	0,51	0,49
SITC 5	14,42	15,83	17,01	15,84	15,66	14,96	14,90
SITC 6	34,02	37,59	38,86	37,98	38,46	40,59	36,03
SITC 7	23,75	19,13	18,03	20,47	20,50	17,79	16,71
SITC 8	9,82	9,21	8,39	8,55	6,99	6,53	6,97
SITC 9	0,00	0,02	0,02	0,03	0,05	0,07	0,09
SITC 0-9	100,00	100,00	100,00	100,00	99,99	100,01	100,00

Source: CzechTrade

Table 19: Gains / Losses in share between 1993 and 1999 in %

SITC 3	5,74
SITC 6	2,01
SITC 1	0,80
SITC 0	0,73
SITC 5	0,48
SITC 4	0,32
SITC 9	0,09
SITC 2	-0,28
SITC 8	-2,85
SITC 7	-7,05

Source: CzechTrade

Table 20: CR: Gains/Losses in Imports from Slovakia between 1993 and 1999 in SITC categories

	SITC Commodity Group	Changes of Share in Total Imports	Changes of share in relevant SITC commodity group
Fuels, lubricants and related materials	3	5,74%	
Petroleum, petroleum products	33	4,96%	-4,39%
Electric current	35	0,62%	4,99%
Manufactured goods classified by material	6	2,01%	
Paper, paperboard, articles thereof	64	2,5%	6,46%
Non-metallic min. manufactures n.e.s.	66	1,72%	4,32%
Machinery and transport equipment	7	-7,05%	
Elec. machinery, app. and appliances	77	-2,41%	-3,36%
Miscellaneous manufactured articles	8	-2,85%	
Prof., scient. & contr. instruments	87	-0,92%	-6,96%

Source: CzechTrade

Table 21: CR: Trade structure in exports to Slovakia 1993 – 1999 in %

	1993	1994	1995	1996	1997	1998	1999
SITC 0	7,56	6,21	7,00	6,91	6,61	8,05	8,29
SITC 1	2,51	2,49	2,37	2,64	3,07	2,87	3,86
SITC 2	2,18	2,86	3,17	2,83	2,59	2,27	2,67
SITC 3	10,19	8,79	7,66	6,38	6,05	5,41	5,30
SITC 4	0,41	0,64	0,25	0,26	0,28	0,37	0,32
SITC 5	12,35	14,96	13,60	12,94	12,45	12,32	13,52
SITC 6	25,08	26,75	29,43	28,73	25,22	26,99	24,89
SITC 7	27,32	27,40	27,40	28,97	33,13	30,87	30,29
SITC 8	12,34	9,84	9,09	10,16	10,45	10,69	10,79
SITC 9	0,06	0,05	0,02	0,19	0,15	0,15	0,08
SITC 0-9	100,00	100,00	99,99	100,00	100,00	99,99	100,00

Source: CzechTrade

Table 22: Gains / Losses in share between 1993 and 1999 in %

SITC 7	2,97
SITC 1	1,35
SITC 5	1,17
SITC 0	0,73
SITC 2	0,49
SITC 9	0,02
SITC 4	-0,09
SITC 6	-0,19
SITC 8	-1,55
SITC 3	-4,90

Source: CzechTrade

Table 23: CR: Gains/Losses in exports to Slovakia between 1993 and 1999 in SITC categories

	SITC Commodity Group	Changes of Share in Total Imports	Changes of share in relevant SITC commodity group
Machinery and transport equipment	7	2,97%	
Road vehicles, parts of it	78	4,94%	13,55%
Other transport equipment	79	0,69%	1,95%
Beverages and tobacco	1	1,35%	
Tobacco and tobacco manufactures	12	1,67%	30,22%
Fuels, lubricants and related products	3	-4,9%	
Coal, coke, briquettes	32	-4,51%	-5,99%
Miscellaneous manufactured articles	8	-1,5%	
Apparel and clothing accessories	84	-1,11%	-7,3%

Source: CzechTrade

Table 24: FDI in CEFTA countries

	FDI (% of gross domestic investment)		% of GDP		FDI in mill. USD		Gross FDI (% of PPP GDP)	
	1980	1998	1980	1998	1990	1998	1988	1998
Bulgaria	-	22,2	-	3,3	4	401	0	1
Czech Republic	0	15,1	0	4,5	207	2554	-	2
Hungary	0	13,1	0	4	0	1936	0	2,3
Latvia	-	24,3	-	3,6	-	357	-	3,1
Lithuania	-	35,7	-	8,6	-	926	-	3,9
Poland	0,2	15,2	0	4	89	6365	0	2,5
Romania	-	30,1	-	5,3	0	2031	0	1,6
Slovak Republic	-	7	-	2,8	0	562	-	1,7
Slovenia	-	3,4	-	0,8	-	165	-	0,6

Source: World Development Indicators 2000, World Bank

Table 25: CR: FDI position in the Czech republic in 1993 – 1999 (USD million)

Year	Equity capital	Reinvested earnings	Other capital	Total
As to 1.1.1993	2889,0	-	-	2889,0
1993	3423,1	-	-	3423,1
1994	4546,8	-	-	4546,8
1995	7350,0	-	-	7350,0
1996	8572,4	-	-	8572,4
1997	7955,7	263,4	1014,7	9233,8
1998	11719,3	426,5	2155,4	14375,0
1999*	13750,7	634,9	1858,0	16246,2

Source: Czech National Bank

*preliminary data

Note: Equity capital contains also foreign investor's shares in subsidiaries and associates

Table 26: CR: FDI inward flows in 1993 - 1999 (USD million)

Year	Equity capital	Reinvested earnings
1993	653,5	-
1994	868,5	-
1995	2562,2	-
1996	1428,4	-
1997	1300,4	-
1998	2539,6	180,2
1999*	4877,0	231,2

Source: Czech National Bank

*preliminary data

Table 27: FDI inflows into CR in 1999 – breakdown by industry (preliminary data)

	mill. USD	%
Business and business services	1230,3	25,2
Financial intermediation	1217,2	25,0
Manufacture and distribution of electricity, gas and water	438,9	9,0
Food production	216,2	4,4
Manufacture of non-metal mineral products	170,3	3,5
Hotels and restaurants	162,9	3,3
Manufacture of vehicles	143,8	2,9
Real estate activities	128,2	2,6
Other	1169,2	24,0
Total	4877,0	100,0

Table 28: FDI inflows into CR in 1999 – territorial breakdown (preliminary data)

	mill. USD	%
Belgium	1235,9	25,3
Germany	781,1	16,0
Netherlands	729,4	15,0
Austria	630,9	12,9
USA	561,5	11,5
Switzerland	305,4	6,3
United Kingdom	168,8	3,5
France	162,2	3,3
Others	301,8	6,2
Total	4877,0	100,0